



2019

Annual report

adyen



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Management Report

What a difference a decade makes

At Adyen we build everything for the long term — products, partnerships, and teams. Always moving at speed, with our gaze pointed firmly forward. Allow me to take a look back, just this once, as 2019 was the keystone year of a decade that brought a lot of change for Adyen.

In 2010 we were a fledgling operation with a team of around a dozen. Then came our first successful partnership with an enterprise merchant, some key hires, some successful product launches, some less successful product launches, and thanks to our relentless execution: growth. Now, in 2020, Adyen is a global company with over 1200 people — and 80 nationalities — across more than 20 offices from São Paulo to Sydney. We learned a lot along the way, and we have a lot to be proud of, as the industry around us changed a lot too.

During the past decade, we saw the continued rise of ecommerce in an increasingly globalized world, an acceleration in innovation across the whole industry, and on the consumer end — still shifting shopper expectations to the point where brands can no longer afford to split their online and in-store activities. All of these trends create an opportunity for us to help our merchants adapt to this new reality. To be at the forefront of so much change is tremendously exciting.

Since 2011 we've been steadily growing the company — profitably — and now increasingly at scale. I'm proud to report that our long-term outlook has not changed; nor has our speed of execution. Our early success was due to us being able to marry engineering and sales. We have been able to keep that union intact throughout our growth trajectory. Keeping our culture has always been, and will continue to be, the focal point for us as a management team. Without our culture, we would not have seen the same level of success. At times, our bets didn't pan out, like when we tried our hand at POS shuttles (the images of which still haunt us), but our speed-based culture has always allowed us to pivot back into the right direction quickly.

I sense that some of our investors may have become accustomed to a certain predictability in our letters to shareholders and in our financial results — the unexciting reality of sustained profitable growth, one instance where boring is good. The reality, however, is that these results are the product of an incredibly disciplined team consistently executing on our strategy. This is not something we take for granted, and it doesn't come easily.

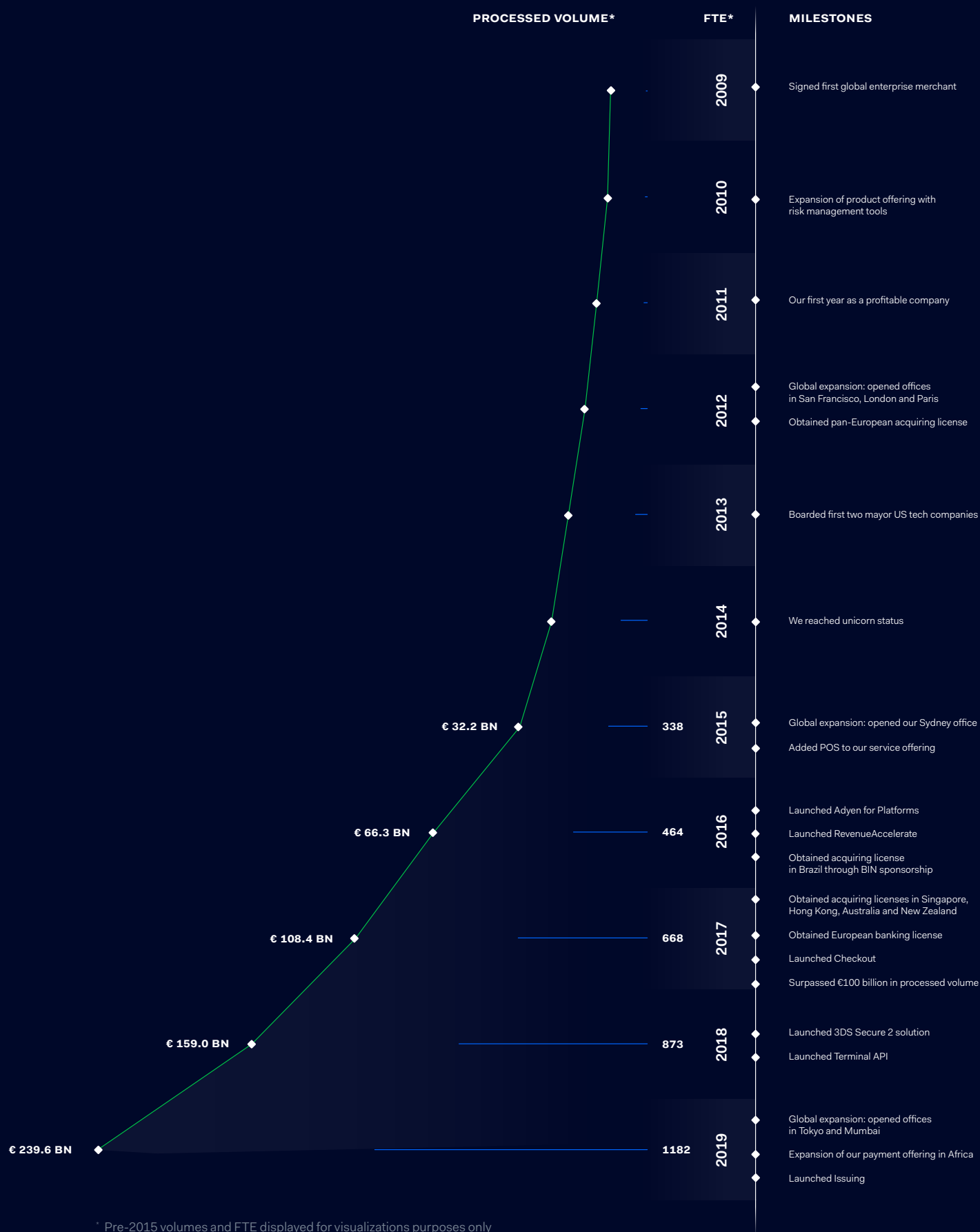
And 2019 was another year in which we delivered on our promise. We helped our merchants grow to new heights, processing €240 billion on their behalf. We were also able to onboard leading companies in new verticals, and opened new offices in Mumbai and Tokyo. As we continue to grow into new geographies and verticals on the back of merchant demand, we are well on our way to having the full strength of Adyen available across the globe, and in every sales channel.

I am writing this in March 2020. This new decade has gotten off to a turbulent start with the outbreak of COVID-19. We are seeing lockdowns in countries around the world, and changes are entering our way of life. We are working hard to help our merchants function in this new environment, with the best interest of our employees and society at large in mind. I remain confident in society's resilience during these challenging times.

With the team now 100 times larger than it was at the start of the last decade, I look forward to another decade of growing Adyen. We're all proud of what we've built together, and thank you for your continued support.



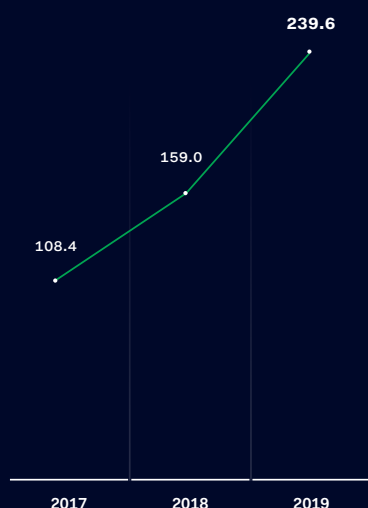
Pieter van der Does
CEO



* Pre-2015 volumes and FTE displayed for visualizations purposes only



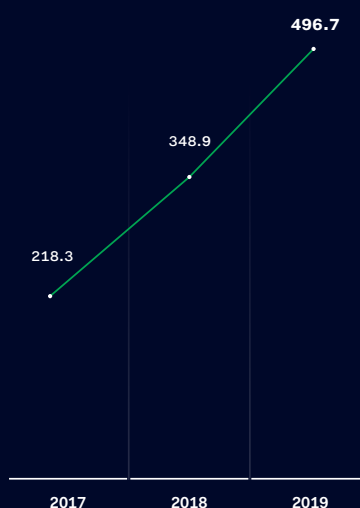
Highlights



Processed volume

↗ 51% YOY

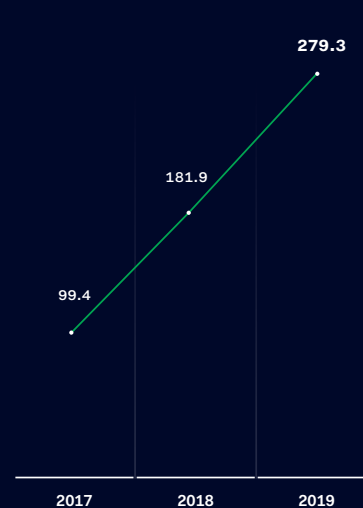
€239.6 BN



Net revenue

↗ 42% YOY

€496.7 MN



EBITDA

↗ 54% YOY

€279.3 MN



Innovation on the single platform

- » Ongoing expansion of existing product suite
- » Launch of Adyen Issuing
- » Turning regulatory shifts into opportunities



Spotting new avenues for growth

- » Successful expansion into quick-service restaurant vertical
- » Increased uptake of Adyen for Platforms
- » Continued global expansion on the back of merchant demand



Key contributions across growth pillars

- » Enterprise volume continues to be main driver
- » POS share continues to increase relatively
- » Ongoing investment in mid-market approach for the long-term



Sustained profitable growth at scale

- » Net revenue growth increasingly diversified regionally and across merchant base
- » Increased operating leverage due to low cost-base of single platform
- » Growth of team to 1182 FTE across more than 20 offices



Description of business activities

Adyen operates a global payments platform, integrating the full payments stack — gateway, risk management, processing, acquiring and settlement. The Adyen offering includes a common back-end infrastructure for authorizing payments across merchants' sales channels (i.e. online, mobile and in-store) as well as feature-rich APIs.

This payments platform is provided as a service to a range of globally-operating merchants across different verticals, connecting them directly to Visa, Mastercard, and many other payment methods, providing a high level of reliability, performance and data insights.

For this service of payments processing, Adyen earns processing and settlement fees (for gateway and acquiring services respectively), as well as some smaller fees related to products or functionalities that make businesses' lives easier. For a full breakdown of fees, please refer to the Financial Statements.

Figure 1

The Adyen value chain



Strategy

Central to our strategy are the needs of the businesses on our platform — our merchants. Most of our yearly growth (consistently 80%+ over the half-yearly periods since IPO) comes from the growth of merchants that were already on the platform when the period began. Ergo, we realize that our merchants' growth is our growth too.

Due to this reality, we are constantly focused on solving problems for our merchants around the world and across channels. This has resulted in a culture of bottom-up strategy setting by means of workstreams.

The Adyen organization is divided into workstreams, which are comprised of product, technical and commercial staff. These workstreams work with our merchants in a co-creative manner, and are thus able to efficiently prioritize. Company-wide strategy is set on the basis of these workstreams' objectives at a yearly basis, and almost subject to change, ensuring that we keep our speed and agility while we grow the team.

These workstreams work with merchants spread across the following growth pillars — all with distinct needs.

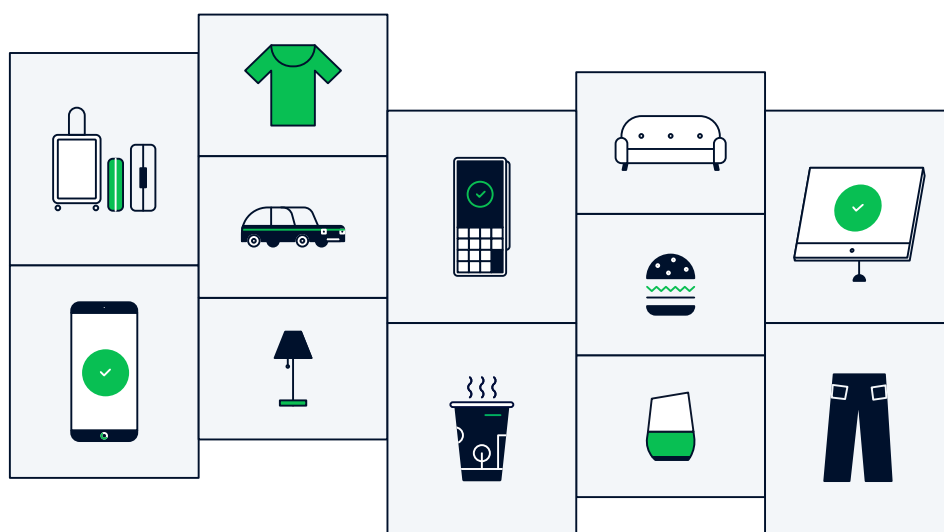
Enterprise

The Enterprise segment (e.g. large multinationals) is what Adyen was built for from day one. Helping these merchants grow, and solving their problems, is what we do best. The fact that our growth comes largely from existing merchants, paired with very low volume churn (<1% yearly since IPO), shows that we're successful in this space. An interesting new evolution in Enterprise is the rise of platform-based business models, allowing us to reach the long tail of the market through enterprise-level partnerships with platforms that themselves power tens of thousands of small businesses.

We see future growth in Enterprise coming from the following key drivers:

1. Growth through existing merchants. We aim to grow our business within the existing merchant base, through (i) our merchants' organic growth, (ii) a deepening of our product offering and (iii) an increase in our proportion of transaction volume with our current merchants (i.e. growth of wallet share), which often is achieved through an increase in geographies covered and/or by adding new channels for merchants.

2. New merchants: Adding new Enterprise merchants to our portfolio — across different verticals and geographies — is another avenue for growth. We have a dedicated sales force focused on landing new merchants in each of the geographies and verticals where we are present, both of which are constantly expanding.
3. Capitalizing on evolution in business models: We are able to be very quick to react to market developments due to the way our technology and teams are structured. This allows us to be out in front of market shifts when compared to our competitors. Examples include a trend toward stronger authentication on the consumer payment method end, where we were first to market with a 3DS 2 tool to solve for potential PSD2 friction, and the aforementioned rise of platform business models.



Unified Commerce

Shifting consumer behavior is driving merchants' need to present a single brand across all sales channels. In industries like retail and quick-service restaurants specifically, merchants cannot afford to be left behind. Our focus in unified commerce is currently on these industries. We believe our success herein is chiefly due to our:

1. Holistic view of payments on the single platform: The single platform has been built for unified commerce from day one, with all transactions, irrespective of channel, identified similarly in the merchant's system. This approach allows the collection of data that can deliver unique shopper insights and simultaneously helps to combat fraud. Our back-end infrastructure for processing and settling payments is the same across all channels and thus provides merchants with a unified overview of all shopper transactions.

2. **Uniform shopper journeys:** The single platform enables merchants to offer a uniform experience to shoppers across all sales channels. This allows merchants to markedly improve the quality of service to their shoppers, such as through one-click payments online or on a mobile for shoppers recognized from in-store visits, improved offer targeting and facilitation of home delivery. As these concepts enter the mainstream of retail, businesses are increasingly pushed to change their approach to shopper journeys to meet market demand. We are very well positioned to cater to these emerging needs.
3. **Increased focus on point-of-sale (POS):** Our POS offering, which was first launched in 2015, has grown significantly since launch. This is mainly due to the outdated infrastructure in the POS landscape still in place all over the globe. Because of this, merchants are seeing vast improvements in performance when implementing our technology. We now see that POS volume is growing at a quicker pace than online volume on the platform. In 2019, POS processed volume comprised 12% of total processed volume

Mid-market

Historically, we have been focused on the needs of Enterprise merchants. However, we believe that we are well-positioned to also grow the business with mid-market merchants, which we view as the next adjacent segment to enterprise, as a result of the following:

1. **Industry-leading functionality:** All merchants that use our platform gain access to the same performance and functionality as the world's largest businesses. This makes the platform attractive to both large domestic merchants and local merchants with international ambitions, allowing them to effectively future-proof their payments.
2. **Serving local heroes:** We've been able to establish a truly global footprint, with over 20 offices worldwide, which provide local presence, payment methods and expertise in key markets. This allows us to partner with ambitious businesses at a relatively early stage of their growth. Businesses that partner with us at an early stage will avoid being hampered by the complexity in business operations that so often accompanies growth.



Financial objectives

We have set the following financial objectives¹, which remain unchanged from our IPO prospectus.

Net revenue growth: We aim to continue to grow net revenue and achieve a CAGR between the mid-twenties and low-thirties in the medium term by executing our sales strategy.

EBITDA margin: We aim to improve EBITDA margin, and expect this margin to benefit from our operational leverage going forward and increase to levels above 55% in the long-term.

Capital expenditure: We aim to maintain a sustainable capital expenditure level of up to 5% of our net revenue.

¹ Adyen has not defined, and does not intend to define, "medium term" or "long-term". Adyen's medium-term and long-term financial objectives should not be read as forecasts, projections or expected results and should not be read as indicating that Adyen is targeting such metrics for any particular year, but are merely objectives that result from Adyen's pursuit of its strategy. Adyen's ability to meet its medium term and long-term objectives is based upon the assumption that Adyen will be successful in executing its strategy and, furthermore, depends on the accuracy of a number of assumptions involving factors that are significantly or entirely beyond Adyen's control and are subject to known and unknown risks, uncertainties and other factors that may result in Adyen being unable to achieve these objectives.



Figure 2

2019 FTE growth

Amsterdam

503 660

As of December 31, 2018 As of December 31, 2019

San Francisco

99 127

Singapore

52 78

London

49 63

São Paulo

47 56

New York

27 40

Paris

23 33

Berlin

23 32

Sydney

16 19

Stockholm

9 17

Madrid

6 11

Shanghai**São José****Milan****Brussels****Manchester****Mexico City****Melbourne****Tokyo****Toronto****Boston****Mumbai****Hong Kong**

Our people

We are a technology company redefining payments

To us, *winning is more important than ego* — we value people for their skills and what they bring to the company. We work with cross-functional teams and empower them to make their own decisions. We call these teams workstreams. We think function beats form, and our effort toward helping our merchants grow is singular.

How we work together is guided by the Adyen Formula. The Formula fosters speed, which we view as the foundation of our company. We think fast. We work fast. We launch fast. The eight principles that make up this Formula are not constant — but constantly evolving to keep pace with our merchants, our business and growth of the team. We're creating our own path, with a global team driving sustainable growth for our merchants.

The way we work is key to our success. It guarantees that we continue to make good choices to build an ethical business and it secures the integrity of our company culture. The Adyen Formula is key to how we recruit, grow and retain colleagues around the world. It underscores our foundational spirit, and ensures that we keep our focus on our merchants, on changing the payments landscape and on having fun while doing it.

The Adyen Formula

We build to **benefit all merchants** (not just one)

We **don't hide behind email**, instead we pick up the phone

We make **good choices** to build an ethical business and drive sustainable growth for our merchants

We **talk straight** without being rude

We **launch fast** and iterate

We include **different people** to sharpen our ideas

Winning is more important than ego; we work as a team — across cultures and time zones

We **create our own path** and won't be slowed down by “stewards”

Inclusion Policy

We want to change the payments industry and we know that the best ideas result from diverse ways of looking at everything. Different perspectives disrupt groupthink, challenge conventional wisdom, complacency, and safeguard what makes us innovative. At Adyen, people come from all walks of life and various backgrounds. More than 85 nationalities make up the Adyen team — working together in over 20 offices around the world.

We're here to help our merchants grow, because when they grow, we do too. To do this, we must reflect and understand the diversity that makes up our merchants and their shoppers.

We value people for their skills and what they bring to the company. Our workforce is beyond standard measurements and quotas. We treat each other equally regardless of gender, age, race, nationality and/or sexual orientation. Whether you have a religion or not, we respect each other. We value your skills, regardless of where they've been honed. At Adyen, inclusion means more than just acceptance.

To find a home for all people that contribute to our growth, we focus on three key areas of inclusion: Equal chance, Equal pay, and the Normal course of life.

Equal chance

We recognize there's always the possibility of unconscious biases playing a role in how choices are made. Therefore, we train our colleagues to recognize and understand what these might be and how we can avoid them playing a role in the business decisions that we make. This ensures that everyone has the same opportunity to join Adyen and to grow with us as we continue to change the payments industry with the best talent out there.

Equal pay

We value all perspectives, so we see no reason to reward one more than the other — same role, same pay. We're committed to ensuring equal pay, we make sure this is included in our annual audit so that we know we're always upholding this standard. 2019's results confirmed equal pay amongst genders, globally.

Normal course of life

There is no one-size-fits-all approach when dealing with life events such as starting a family or coping with those unfortunate times that we all inevitably face. We don't believe in strict and rigorous policies to guide these themes, but we do believe in helping people to navigate these moments. As everyone's life situation is different, we strive for flexibility.

We expect and encourage all colleagues to take these principles to heart in line with the Adyen Formula. All Adyen employees have access to persons of trust to discuss any matters or concerns related to inclusion.



Social responsibility

Since Adyen was founded in 2006, we have been working on helping our merchants grow by removing friction from the payment process. Due to this singular focus, and despite various initiatives that popped up along the way, we had never articulated a vision of our impact on society.

We have always been very clear about building for the long-term, and so a sustainable mindset is very much ingrained in our culture. In 2019, we began to increasingly shift our gaze from a pure merchant focus to a wider societal one.

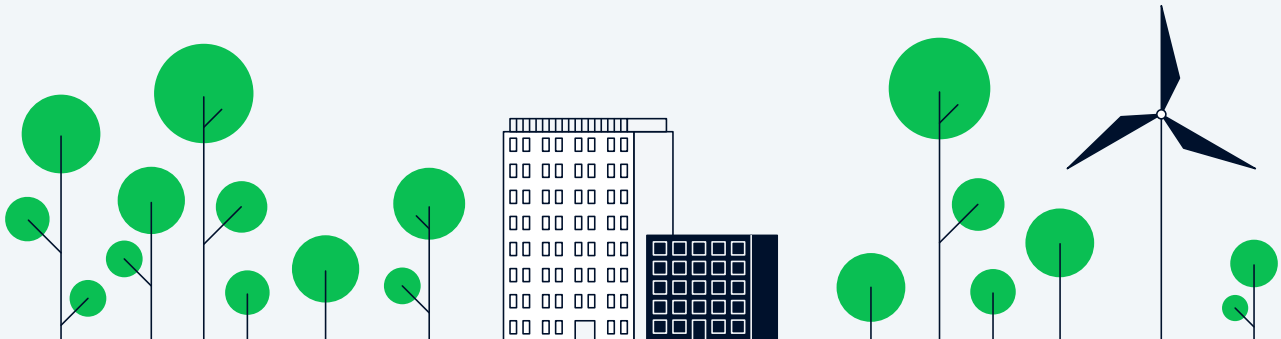
We believe that building a business should entail not negatively impacting planet or society. Moreover, we believe this should be a part of everyone's *business as usual*. That's why we made our first steps by offsetting all CO2 emissions, from all of our activities, since the foundation of Adyen. We've also implemented a program to empower our team around the world to donate their time and expertise to locally relevant initiatives. However, to us, these are the bare necessities. We believe we should do more, and contribute positively.

To investigate opportunities for positive contributions with a potential multiplier effect, we established an *Impact* team. The first opportunity for us to add value is in the space of donations, by removing friction from antiquated processes. In doing so, we are able to free up more money for charities and NGOs that are far more qualified to know where money should go to have the biggest impact. If we stick to what we're good at — using our technology to remove friction — we can really make a difference.

With the above in mind, the Adyen Impact, Local Initiatives and Footprint programs were brought to life. The following sections provide an overview of the progress made with our social responsibility programs so far. We look forward to further developing these in the years to come — and know there is much more to do.

The three programs (Adyen Impact, Footprint, Local Initiatives) that together make up our social responsibility plan are aligned with the United Nations' Sustainable Development Goals (SDGs). We acknowledge the importance of the SDGs as key metrics in the long-term prosperity of people and planet.





Adyen Impact

People want to do good. They want to donate to good causes. That's the central assumption of what we're solving for here. However, the donation space is full of friction, as the process of donating to good causes is complicated and current donation functionalities are stuck in the past.

Moreover, donor behavior is shifting rapidly and today's donors have very different expectations from those that supported good causes a decade ago. Friction in the donation landscape is not due to an unwillingness on the side of the donor — it is due to structural problems in the industry infrastructure. Problems for which we can solve with our technology and expertise.



Adyen Giving

The first product we built in line with this philosophy is Adyen Giving. Adyen Giving enables our merchants to accept donations in the checkout process — as a natural extension thereof. It facilitates donations to charities chosen by our merchants, transforming their shoppers' good intentions into additional revenue streams. Adyen Giving increases the pool of funds available to charities with the simplification of charitable donations for everyone in the chain — our merchants, their shoppers and good causes. To ensure that 100% of the donation goes to the beneficiary, we absorb the full cost of the Adyen Giving transaction, provided the chosen charity supports at least one of the United Nations' SDG.

“Our philosophy of making impact by leveraging our technology can be applied very widely — Adyen Giving is just the start.”

Ingo Uytdehaage, CFO

“The entrepreneurial spirit of our employees is a truly inspiring sight, initiatives have popped up across all offices.”

Pieter van der Does, Co-founder and CEO

Local Initiatives

Our employees were proactively engaging with their local communities already — e.g. by hosting weekly JavaScript tutoring sessions for refugees in Amsterdam, donating clothing and toiletries to the homeless in São Paulo and organizing a school supplies giveaway to kids from the less-privileged areas of San Francisco.

We decided to help them out. We offer our employees a framework and resources to make sure all initiatives can be successfully realized. This framework consists of guidelines to bring local projects to a success and highlights the importance of building with a team, solving issues that truly matter on a local scale and that we leverage what we're good at, by using the knowledge we have.



Footprint

We believe limiting environmental impact is part of everyone's license to operate in today's society.

Over the past year, we began a new chapter as it pertains to taking responsibility for our own environmental impact. We performed an organization-wide greenhouse gas (GHG) audit, which gave us a deep understanding of our footprint. We partnered with South Pole³ to provide expert guidance and conduct this GHG audit. Thanks to this partnership, we gained access to over a decade's worth of experience in creating a positive environmental impact.

To move forward, we looked at the footprint we left behind and compensated for all GHG emitted in our operations since foundation in 2006. We are thoroughly committed to reducing our GHG emissions in the years to come, and we realize that offsetting is just the start.

The results of the GHG audit can be found below. Our environmental footprint was calculated in accordance with the Greenhouse Gas Protocol and complies with South Pole's Climate Neutral label.

All material emission sources are covered. Scope 1 and 2 emissions are calculated using data from our offices across the world, reflecting how we heat and cool our offices along with the electricity we use. Scope 3 emissions are calculated based on mileage (air travel and ground transportation), data center energy use, hotel stay duration, spend on purchased goods, and outsourced activities. To push boundaries, we decided to extend Scope 3 to include the energy usage derived from our products: the transactions our merchants' shoppers carry out on POS terminals, online and mobile payments.



³ South Pole has calculated Adyen's GHG footprint for 2019 following the 'The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard - Revised Edition' and the complementary 'Corporate Value Chain (Scope 3) Accounting and Reporting Standard' procedures and principles.

“I'm very proud of now being able to call ourselves a climate neutral company.”

Mariette Swart, CLCO

Figure 3

Adyen's 2019 operational GHG emissions, measured in tCO₂e⁴

Scope 1	113.57 tCO ₂ e Scope 1 emissions are emissions from sources owned or controlled by us — such as refrigerants used to heat or cool our offices.
Scope 2	2826.81 tCO ₂ e Scope 2 emissions cover indirect emissions, such as purchased electricity for our buildings. To make it tangible: when charging a smartphone at one of our offices, these emissions tie into scope 2.
Scope 3	8080.97 tCO ₂ e These emissions stem from activities that are not directly owned or controlled by Adyen - think of air travel, hotel stays and data center energy consumption

⁴ The measure for our greenhouse gas emissions is tonnes of Carbon Dioxide Equivalents (tCO₂e) — covering the six greenhouse gases defined in the Kyoto Protocol by the United Nations Framework Convention on Climate Change. These six gases are carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).

We are now a climate-neutral company. Climate neutrality was achieved by investing in carbon compensation projects to compensate for our carbon footprint and reach net-zero emissions⁵.

These projects have a positive environmental impact and touch a wide range of the United Nations' SDGs. What we focused on specifically are the synergies these projects create between generating renewable energy and advancing socio-economic wellbeing for local communities. This, we believe, fosters true sustainability. Our GHG compensation investments resulted in the prevention of millions of tonnes of CO₂ being released into the atmosphere. Further, the projects support regional sustainable development and the independence of local communities.

⁵ Adyen has compensated its emissions through various emission reduction projects that are certified by either Gold Standard or VCS. For this, South Pole has issued a 'South Pole Climate Neutral label', which has stringent criteria concerning scopes, methodology and reduction efforts.





Kariba Reforestation and wildlife protection on the shores of Lake Kariba, Zimbabwe

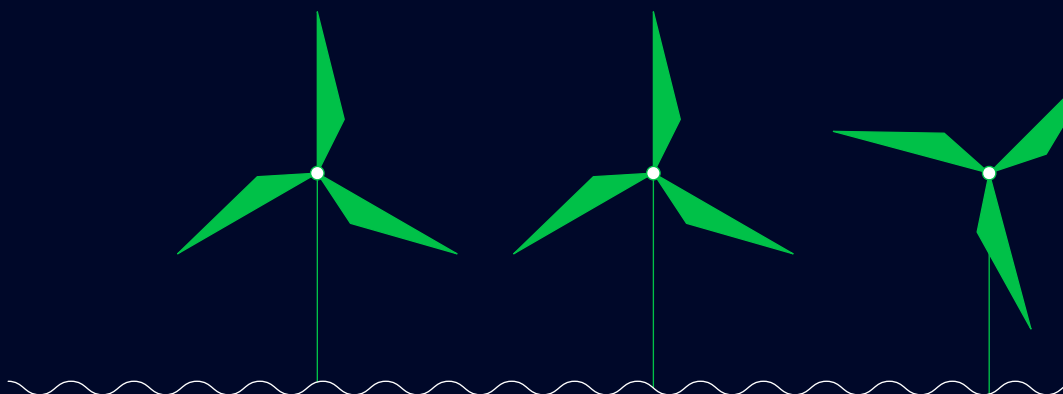
The Kariba project protects forest and wildlife in four national parks around the shores of the Zimbabwean Lake Kariba, conserving what is left of Zimbabwe's majestic forests after decades of political and economic turbulence. A biodiversity corridor that protects an expansive forest and numerous vulnerable and endangered species is constructed. The project also supports regional sustainable development and promotes the independence of local communities by providing healthcare, clean drinking water and education on project-related activities such as agricultural practice, beekeeping and borehole maintenance. The project further strives to improve gender equality, with over 40% of partakers in Kariba's educational trainings being female.



Jacundá Rainforest conservation and wildlife protection in Jacundá, Brazil

The Jacundá project conserves 35,000 hectares of the Amazon's native rainforest and established over 95,000 hectares of the Amazon as protected lands. Additionally, workshops on biodiversity monitoring enable local communities to establish a supply chain of non-timber products such as acai and Brazil nuts. This non-timber supply chain directly contributes to the prevention of CO2 being released into the atmosphere, by conserving over 95,000 hectares of native forest ecosystems that are not used for timber. With 130 residents working in the project and the organization of workshops on health and family planning, the project adds to the overall wellbeing and economic growth of the community of Jacundá.





Luz del Norte **Generating solar energy, Chile**

Reaping the benefits of Northern Chile's abundant sunshine, the Luz del Norte Solar Park generates solar energy and transmits it to the central Chilean energy grid, replacing fossil fuel-generated power with a clean alternative. Moreover, the Luz del Norte project creates over 350 jobs — thus improving local economic activity.



Mytrah **Wind energy in Rajasthan, Andhra Pradesh, Madhya Pradesh and Telangana, India**

The wind energy project Mytrah replaces fossil fuel-based electricity with wind energy generated on the Indian grid. The wind energy is generated across several wind farms and supports local communities by providing employment, access to clean drinking water and education. The Mytrah project also strives to improve gender equality by educating women and girls on gender rights and personal health.



Vietstar **Sustainable waste treatment, Cù Chi, Vietnam**

Sustainable waste treatment and composting avoid large scale methane emissions in the Vietstar waste treatment project. As a result of our investment, the disposal of 30,824 tCO₂e of organic waste was prevented and hundreds of jobs were created in operating the waste treatment plant. Moreover, the waste treatment and composting produces sustainable





Adyen Accelerator

A true highlight was the Adyen Accelerator program, a week-long program for European social enterprises that aimed to amplify the participants' positive impact on society and share lessons learned on Adyen's growth path. During this program, long-time Adyen employees shared their knowledge on how to successfully scale and develop a business. The participants were able to uncover learnings from the Adyen Formula and company culture, commercial successes, and how to thoughtfully scope development work. Highlighting the entrepreneurial spirit of our employees, organizing the Adyen Accelerator week was taken on by Adyen employees alongside their day-to-day jobs.





Compliance

The Compliance opportunity

Adyen is building for the long run. In order to build a sustainable future in a high-growth environment, a strong culture of integrous behavior is foundational. Adyen ensures that compliant conduct forms an integral part of everyday decision making by integrating a global compliance program into daily business activities and strategic planning.

In recognition of Adyen's evolving business, Adyen updated its definition of compliance risk in 2019 (hereafter referred to as Integrity Risk)⁶. Integrity risk is the risk of inappropriate behavior of employees and board members or third parties (merchants, suppliers, advisers) posing a current or future threat to Adyen and/or the proper functioning of the financial system, that can be attributed to Adyen or in which Adyen acts imputably. Inappropriate behavior generally refers to insufficient compliance with relevant rules or regulations, internal policies, and/or the Adyen Formula.

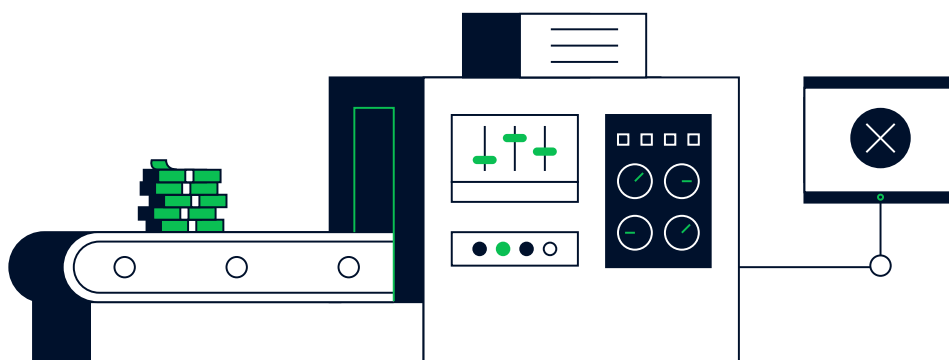
⁶ The updated definition of Integrity Risk also includes the related concept of conduct risk.

As a company operating within the financial services space, effectively managing integrity risk not only serves as Adyen's license to operate, it also maximizes opportunities in the market and enhances Adyen's competitive position by building trust.

High standards of compliance are upheld in relation to Adyen's activities, merchants and the transactions processed for merchants. This is achieved by each and every employee being encouraged to act as "the eyes and ears" of Adyen. The principles of joint responsibility are also reflected in the three-lines-of-defence model employed as part of Adyen's governance framework and is promoted openly by both tiers of the Board — tone starts at the top.

We make good choices to build an ethical business and drive sustainable growth for our merchants

Adyen Formula



Compliance and integrity

In connection with Integrity Risk, Adyen has identified a number of integrity-related topics as being core to Adyen maintaining control from a compliance standpoint⁷:

- Money laundering
- Terrorist financing
- Circumvention of sanctions legislation
- Corruption (bribery) and conflicts of interest
- Non-compliance with relevant laws and regulations
- Data privacy

To stay in control of the risks inherent within each integrity topic as Adyen continues to grow, Adyen has established a global compliance framework that consists of the following components: Integrity Risk identification, mitigation and oversight.

Integrity Risk identification

Laws, regulations, industry standards and best practices related to payments and or financial services are continually monitored to identify requirements relevant to Adyen's activities. Once identified, relevant requirements and mitigating measures are mapped and translated into principle-based policies and procedures.

⁷ Other Integrity Risk topics such as cyber-security and fraud are referenced in the Risk Management section of this report.

Adyen's policies and procedures set minimum standards for all its employees and give direction to activities in accordance with Adyen's objectives and the Adyen Formula. Such policies and procedures set out due diligence requirements with respect to both Adyen's merchants and partners in relation to (amongst others) risk of bribery, fraud, human rights violations and other socially unacceptable behaviors. In 2019, Adyen has continued to develop and refine principle-based policies and procedures, to combat misuse of the financial system and build a scalable solution to meet Adyen's obligations as a financial institution, with particular focus on anti-money laundering, counter terrorist financing and sanctions regulations as further described below in section "Regulatory environment, AML/CTF and sanctions regulation".

Integrity Risk mitigation

The Compliance Handbook (including the policies and procedures described above) promotes integrous and ethical conduct, and is communicated through introductory and annual refresher training sessions, as well as being available to all Adyen employees via an internal web-based tool. The Compliance Handbook is applicable to all Adyen employees.

With specific reference to Integrity Risks associated with Adyen's merchant base and the industries in which merchants operate, Adyen maintains a Prohibited and Restricted List in relation to prospective merchant business models. The Prohibited and Restricted List embeds relevant scheme rules, regulations and Adyen's risk appetite to accept merchants in specific industries, and was updated throughout 2019 to align with developments in scheme rules, regulations and emerging trends or industries.

To ensure new or amended control activities are appropriately implemented for new products, features or markets, a Product Approval and Review Process (PARP) is undertaken as part of launch preparations. The purpose of the PARP is to ensure relevant stakeholders can identify and assess potential risks for both Adyen and its merchants, and ensures mitigating actions are taken where relevant. In 2019, numerous PARPs were undertaken in connection with new products, new markets and expansion in existing markets, including by way of example, issuing.

Integrity Risk oversight

To ensure Adyen proactively considers Integrity Risks that may affect its business — including to account for evolution with respect to product offering, the markets in which Adyen operates, and the general growth as a business — a systematic integrity risk analysis (SIRA) is performed on an ongoing basis. Representatives from the business, together with the Compliance and Internal Control teams, identify and assess potential risk scenarios related to the Integrity Risk topics referred to in section “Compliance and integrity”.

From a compliance perspective, the SIRA 2019 focused on the following areas:

- Compliance with new and changing laws and regulations
- Adyen's company culture
- Accounting for regional specific requirements
- Data integrity and accuracy

In accordance with the three-lines-of-defence model⁸, teams within the second line of defense are mandated with an independent position from which they monitor and advise on the implementation of Integrity Risk controls within Adyen. This independent position is warranted by the power to investigate, challenge and escalate any concerns without influence from the business.

⁸ See page 38 for more information.

The Adyen Tax Philosophy

We strongly believe tax should follow the business, and not the other way around.

We pay our taxes in the countries wherein we have a taxable nexus, dependent on the laws of the respective countries. We operate a global, scaleable tax framework which aims to support the business in its growth, while simultaneously allowing us to be in control of our tax position.

We do not seek refuge in tax havens, and maintain an open relationship with all relevant tax authorities. For more information, please refer to the consolidated statement of cash flows in the Financial Statements.

Regulatory environment, AML/CTF and sanctions regulation

The global regulatory landscape for payment and financial services is varied and constantly changing. Adyen embraces regulation and is building for the long run. Regulation allows Adyen to continually improve the quality of processes, sharpen thinking and provide new product opportunities.

Throughout 2019, key focus areas for Adyen to maintain control and leverage regulation as an opportunity consisted of:

- Supporting Adyen's expanding global footprint from a regulatory perspective, including to identify new or changing obligations and implement appropriate controls, in relation to and without limitation:
 - North America and the United Kingdom in relation to preparations for proposed local authorizations
 - Asia Pacific — new payments and financial licenses or authorizations for Adyen's locally operating subsidiaries, owing to both regulatory change and/or expansion in the activities of such subsidiaries
 - Latin America — increasing regulatory requirements relating to expansion in the activities of locally operating subsidiaries.
- Continuing to focus on data security and protection through the strengthening of processes and controls to align with data protection regulation, both in Europe and globally.
- Investing in data-driven compliance technology to support scalable compliance efforts, with particular focus on the use of post-event transaction monitoring systems and machine learning to combat misuse of the financial system and meet Adyen's regulatory obligations arising out of anti-money laundering, counter terrorist financing and sanctions legislation.
- Taking advantage of opportunities created by the Second Payment Services Directive (PSD2) with particular focus on new Strong Customer Authentication (SCA) requirements to reduce fraud within the financial system.

Through the power of one single platform, Adyen is well placed to deal with increasing regulatory complexity. Adyen continues to take a proactive approach to building relationships with regulators and payment schemes, maintaining transparent and constructive interactions to build a sustainable business. Adyen is committed to maintaining and strengthening its global compliance framework to support sustainable business and drive growth for merchants.



Risk management

Adyen recognizes that risks are associated with achieving its strategy and business objectives. Managing these risks is an essential part of doing business. Adyen has adopted a uniform and systematic approach for managing risks. Adyen's integral risk management framework is based on the Enterprise Risk Management (ERM) model as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2017.

Risk governance

Adyen's governance sets the tone, reinforces the importance of, and establishes oversight responsibilities for risk management. Adyen has established a governance which is consistent with the size, complexity and risk profile of the company. The Management Board is responsible for the day-to-day management, which includes, among others, formulating Adyen's strategy and policies, setting and achieving Adyen's objectives, overseeing both the effectiveness of, and compliance with, risk management systems and controls, and taking prompt action to address any deficiencies. The Risk Committee plays a key role in supporting the Management Board with overseeing the effectiveness of Adyen's risk management. The Audit Committee supports the Supervisory Board with supervising and advising the Management Board regarding the effectiveness of Adyen's risk management. For more information on the governance, please refer to the section 'Governance' in this Annual Report.

Three-lines-of-defence

In line with the European Banking Authority (EBA) Guidelines on Internal Governance (EBA/GL/2017/11), Adyen has adopted the three-lines-of-defence model which reflects the segregation between operations (first line management), the risk management and compliance functions (second line), and the independent internal audit function (third line). During 2019, the second- and third-line functions have continued to add resources in line with the overall growth of the organization. Adyen has strengthened the second line by appointing a Chief Legal and Compliance Officer to the Management Board per January 1, 2020.

Strategy and objective setting

Risk management, strategy and objective-setting work together. Operational objectives put strategy into practice while serving as a basis for identifying, assessing and responding to risk. Adyen's risk appetite is established and aligned with its strategy. Adyen's strategy is described in the 'Strategy' section.

Risk appetite

Risk appetite is the amount of risk Adyen is willing to accept in pursuit of its objectives. It defines the level of risk at which appropriate actions are needed to reduce risk to a level that Adyen is willing to accept. A low risk appetite implies a low acceptable residual risk and therefore requires a stronger risk response and internal controls, whereas a higher risk appetite may allow for additional activity and less strong internal controls. Adyen's risk appetite is not static and may change over time. Changes in strategy and willingness to assume risks or external developments may result in an updated risk appetite, which is ultimately bound by Adyen's risk capacity. Adyen has translated its view on risk appetite into risk appetite statements, which set the overall tone for Adyen's approach to risk taking.

Adyen's overall risk appetite is best reflected in the objective of building an ethical and sustainable business for the long term, alongside the acceptance that the growth strategy may consume some amounts of capital investing in assets, people and processes, and the acknowledgement that competition could increase as Adyen seeks to increase market share, thereby potentially reducing growth opportunities.

Stress testing

Adyen uses stress testing to understand the impact of stress events on its overall risk profile. The stress scenarios are based on exceptional but plausible events with an adequate degree of severity. Adyen performs the tests in accordance with EBA guidelines on stress testing. The results from the stress tests are also used as an input for finetuning Adyen's risk appetite and risk limits as a feedback mechanism. In 2019, Adyen's Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP) showed that it has a high financial shock absorption capacity and high levels of capital and liquidity. More information on capital and liquidity can be found in the 2019 Transparency and Disclosure Report (Pillar 3), which can be found on www.adyen.com/ir.

Event identification and risk assessment

Adyen performs, at least annually, a top-down company-wide risk assessment. The purpose of this assessment is to assess principal risks in order to focus attention on the most important threats and opportunities. The top-down company-wide risk assessment is complemented by bottom-up risk assessments. The bottom-up assessments are done at a process level with the teams but also for specific areas, for example the systematic integrity risk analysis (SIRA). For a more detailed description of the principal risks, see the section "Risk Factors".

Control activities

As Adyen continues to execute its growth strategy, it is committed to maintaining its entrepreneurial company culture, which fosters innovation and talent. Alignment of authority and accountability is designed to encourage individual initiatives, within limits. Adyen uses COSO's Internal Control — Integrated Framework (2013) as a reference for its design, implementation and evaluation of control activities as part of a system of internal control.

The Adyen Way of Being In Control

We always **ask why** and are **critical**,
we don't just tick the box

We all make mistakes, we **seek help**
and **share** as soon as we find out

Your work impacts others, **involve them**

Always look for improvement, **automate**
processes continually & **challenge** the status quo

We evidence our work **at the source**, we don't
replicate it

The **formula** guides our behavior, policies
support it

If you see a problem, **act on it**

In 2019 Adyen introduced the Adyen Way of Being in Control — these seven values help employees understand how the Adyen culture can support internal control without creating bureaucracy. Policies and procedures ensure that employees understand their role in Adyen's risk and control systems. The effective application of even the best-designed control systems can be quickly compromised if the employees applying the systems are not adequately trained. Therefore, Adyen takes employee training seriously, and regards these trainings as an important tool to create awareness of the policies and procedures within the organization.

Important elements of Adyen's antifraud measures include supervision by the Management Board, Internal Audit, Compliance and the Audit Committee. Prevention of fraud starts with a SIRA to identify potential fraud risk scenarios. Further controls include the anti-fraud policy, employee background screening, process-specific fraud risk controls, system monitoring, auditing, process-specific fraud risk controls and a whistleblower policy. Whenever fraud is suspected or reported an internal investigation is conducted and corrective actions are taken.

Business continuity

Adyen has established business continuity management and recovery frameworks, describing the governance and response measures to support recovery in case of a major incident, disaster and capital or liquidity stress.

Review and revision

The Risk Committee monitors Adyen's risk profile against the set risk appetite, which is an ongoing and iterative process. Any material risk limit breach that places Adyen at risk of exceeding its risk appetite and, in particular, of putting at risk Adyen's financial health, is escalated promptly to the Management Board. Combinations of ongoing and separate evaluations are used to determine whether the components of internal control are present and functioning effectively. The ongoing evaluations are built into Adyen's business processes and provide timely information. The separate evaluations, including independent management testing by the second and third line, are conducted periodically and may vary in scope and frequency depending on the risks and effectiveness of the ongoing evaluations. Any identified deficiencies are reported to the Risk Committee along with relevant findings, recommendations and remediation action plans.

Reporting

The Risk Committee reports its observations and recommendations regarding risk management and internal control to the Management Board. The Management Board discusses the effectiveness of Adyen's risk management and internal control systems with the Audit Committee.

Effectiveness of risk management and internal control systems

Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR) require banks to have in place sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed. This is referred to as the Internal Capital Adequacy Assessment Process (ICAAP). Furthermore, banks must have robust strategies, policies and systems for the identification, measurement management and monitoring of funding positions in place, to ensure that institutions maintain adequate levels of liquidity buffers and adequate funding. This is referred to as the internal liquidity adequacy

assessment process (ILAAP). Banks may combine the ICAAP and ILAAP, which is generally referred to as the ICLAAP. The assessment should be in terms of both the risk exposure and the quality of management and controls employed to mitigate the impact of risks. The assessment should encompass the internal governance and controls. In compliance with the above and principle 1.2 of the Dutch Corporate Governance Code 2016, Adyen has implemented internal risk management and control systems to identify and manage risks associated with its strategy and activities. In 2019, no significant failures in the effectiveness of the internal risk management and control systems were identified.

Risk Factors

The Management Board has updated its company-wide risk assessment in 2019. This section provides a description of the principal risks that could potentially affect Adyen. While Adyen believes that the risks described below are the material risks concerning Adyen's business, they are not the only risks relating to Adyen. Other risks, facts or circumstances not presently known to Adyen, or that Adyen currently deem to be immaterial could, individually or cumulatively, prove to be important and could have a material adverse effect on Adyen's business, results of operations, financial condition and prospects.

Strategic and business risk

Adyen accepts that in order to achieve its growth strategy the company may consume some amounts of capital investing in assets, people and processes. As Adyen seeks to increase market share, it accepts that competition could increase thereby potentially reducing growth opportunities.

Reputational risk

Any negative publicity about Adyen, the quality and reliability of its products and services, changes to its products and services, its ability to effectively manage and resolve complaints, its privacy and security practices, litigation, regulatory activity and the experience of merchants and shoppers with its products or services could adversely affect its reputation and the confidence in and use of its products and services. Harm to Adyen's brand can arise from many sources, including failure by Adyen or its partners to satisfy expectations of service and quality; inadequate protection of sensitive information; compliance failures and claims; litigation and other claims; employee misconduct; rumors or false stories; and misconduct by its partners, service providers, or other counterparties. Adyen wants to build an ethical and sustainable business and therefore actively mitigates risks that could negatively affect the Adyen reputation or brand.

Competition

Adyen competes against a wide range of businesses, many of which are larger than Adyen, have a dominant position or offer other products and services to shoppers and merchants that Adyen does not offer. Some competitors have greater merchant bases, volume, scale, resources, and market share than Adyen, which may provide significant competitive advantages. Furthermore, Adyen is facing competitive pressure from non-traditional payments processors and other parties entering the digital payments industry, which may compete in one or more of the functions performed in processing merchant transactions. Increased competition could lead to a decreasing growth rate, market share and net revenues.

Disruptive innovation

Adyen expects that rapid and significant technological changes will continue to emerge and evolve. These potential changes may be superior to, cheaper than, impair or render obsolete the products and services Adyen offers. If Adyen is unable to provide enhancements and new features that achieve market acceptance or keep pace with rapid technological developments and evolving industry standards, its business could be adversely affected.

Access to card networks

The majority of the transactions processed on the Adyen platform go through international credit and debit card networks. In order to access these card networks to provide acquiring, processing and issuing services, Adyen must have the relevant geographically based operating licenses or memberships. In some markets where it is not feasible or not possible for Adyen to have a direct license with a card network, Adyen has a relationship with a local financial institution to act as a local sponsor for the license. Failure to comply with the card network rules or the deterioration in Adyen's relationships with the card networks for any other reason could also result in the restriction, suspension or termination of Adyen's licenses in various jurisdictions, or to act with sponsoring banks to use their licenses.

Concentration of sales

Some of Adyen's largest merchants provide significant contributions to its net revenue. Large merchants typically have arrangements with multiple payment service providers (primarily in order to mitigate against single-point-of-failure risk). Large merchants could terminate their contracts or shift business away, leading to lower processed volumes and net revenues.

Macroeconomic conditions

Uncertainty about global and regional economic events and conditions, including for example the economic impact from an uncontrolled spread of infectious diseases (e.g. COVID-19), may result in shoppers and merchants

postponing spending, which could have a material adverse impact on the demand for Adyen's products and services, including a reduction in the volume and size of transactions on its payments platform. The outbreak of COVID-19 has spread across many regions around the globe, impacting initially APAC, and subsequently Europe and North America. The pandemic has caused disruption to business and economic activities in many countries and industries. Although Adyen has taken measures it deems effective to ensure business as usual, such measures may not be sufficient to prevent disruptions. At the publication date of this report it is too early to tell what the impact of the COVID-19 crisis will be on our business.

Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. In particular, while Adyen is currently in discussions with the UK regulators to obtain appropriate regulatory permissions to continue its current activity in the UK post-Brexit and doesn't expect any operational disruptions for its merchants, Adyen could lose its ability for its EU operations to automatically passport into the UK market through the banking license of Adyen and its corresponding ability to work with Dutch regulators as the lead authority for various aspects of its UK operations.

Intellectual property rights

As substantially all of Adyen's intellectual property is developed in-house, the protection of such intellectual property, including Adyen's platforms, trademarks, copyrights, domain names, trade dress and trade secrets, is important to the success of its business. Adyen seeks to protect its intellectual property rights by relying on applicable laws and regulations, as well as a variety of administrative procedures. Adyen's intellectual property rights may be contested, circumvented, or found unenforceable or invalid and Adyen may not be able to prevent third-parties from infringing, diluting, or otherwise violating them. Any failure to adequately protect or enforce Adyen's intellectual property rights or significant costs incurred in doing so could diminish the value of its intangible assets.

As the number of products in the technology and payments industries increases and the functionality of these products further overlaps, Adyen may become subject to intellectual property infringement and other claims. The ultimate outcome of any allegation is often uncertain and, regardless of the outcome, any such claim, with or without merit, may be time-consuming, result in costly litigation, divert management's time and attention, and require Adyen to, among others, stop providing transaction processing and other payment-related services or redesign, stop selling its products or services, pay substantial amounts to satisfy judgments or settle claims or lawsuits, pay substantial royalty or licensing fees, or satisfy indemnification obligations that Adyen has with certain parties with whom Adyen has commercial relationships.

Operational risk

Adyen recognizes that operational risks are associated with achieving its business objectives. Operational risk concerns the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. In relation to Adyen's addition of card issuing to its offering, as announced in November 2019, the operational risks have been assessed as part of Adyen's product approval and review process (PARP), which applies to all new and existing products, and are covered in the risk factors described below.

Merchants' potential liability for shopper chargebacks

When shoppers claim that a merchant has not performed, issuing banks can file chargebacks. Adyen seeks to offset such chargebacks with the payouts to the merchant, but may not be able to succeed in full. While Adyen has implemented risk mitigation, including withholding funds from the payouts to its merchants, based on assumptions and estimates that Adyen believes are reasonable to cover such eventualities, the measures, including the withheld funds, may not be sufficient.

Availability of products and services

Adyen's systems and those of its third-party service providers, including data center facilities and communication networks, have experienced service interruptions and may experience significant service interruptions in the future. Frequent or persistent interruptions in Adyen's services could cause current or potential merchants to believe that its systems are unreliable, leading them to switch to a competitor or to avoid Adyen's products and services and could permanently harm Adyen's reputation and brand. Moreover, to the extent that any system failure or similar event results in damages to Adyen's merchants or their business partners, these merchants or partners could seek significant compensation or contractual penalties from Adyen for their losses, which, even if unsuccessful, could likely be time-consuming and costly for Adyen to address and divert management attention. Furthermore, frequent or persistent interruptions could lead to regulatory scrutiny, significant fines and penalties, and/or mandatory and costly changes to its business practices, and could ultimately cause Adyen to lose existing regulatory licenses or prevent or delay Adyen from obtaining additional regulatory licenses that Adyen needs to expand its business.

Information security risk

Adyen and its merchants, partners and others who use its services, obtain and process a large amount of sensitive data. Adyen's and its partners' IT systems may be vulnerable to physical and electronic breaches, computer viruses and other attacks by cyber-criminals, internet fraudsters, employees or others, which could lead to, amongst other things,

a leakage of merchants' data, damage related to incursions, destruction of documents, inability or delays in processing transactions and unauthorized transactions. Any real or perceived privacy breaches or improper use of, disclosure of, or access to such data could harm Adyen's reputation as a trusted brand in the handling and protection of this data. Although Adyen carries cyber liability insurance that it believes to be reasonable to cover such eventualities, such insurance may not be sufficient to cover all potential losses.

Data privacy

Adyen is subject to complex and evolving Dutch, European and other jurisdictions laws, rules, regulations, orders and directives (referred to as "privacy laws") relating to the collection, use, retention, security, processing and transfer of personally identifiable information about its merchants, their shoppers, third parties and others and their transactions in the countries where Adyen operates. Much of the personal data that Adyen processes, especially financial information, is regulated by multiple privacy laws and, in some cases, the privacy laws of multiple jurisdictions. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between or among Adyen and its subsidiaries. Any failure, or perceived failure, by Adyen to comply with its privacy policies or with any applicable privacy laws in one or more jurisdictions could result in proceedings or actions against Adyen by governmental entities or others, including class action privacy litigation in certain jurisdictions, significant fines, penalties, judgments and reputational damage.

Entrepreneurial culture

Adyen's entrepreneurial culture has been one of the primary drivers of its historical growth. As Adyen continues to grow, it may not be able to maintain its entrepreneurial culture, which fosters innovation and talent. If Adyen does not successfully manage its growth, and is not able to differentiate its business from those of its competitors, drive value for and retain merchants, or effectively align its resources with its goals and objectives, Adyen may not be able to compete effectively against its competitors, leading to declining growth and net revenues.

Talent

Adyen's future performance depends substantially on the continued services of key talent and its ability to attract, retain, and motivate such talent. The loss of the services of any of Adyen's key talent or Adyen's inability to attract highly qualified key talent may adversely affect its operations. Adyen has a low risk appetite for the loss of key talent.

Integrity risk

Integrity risk is the risk of inappropriate behavior of employees and board members or third parties (merchants, suppliers, advisers) posing a current or future threat to Adyen and/or the proper functioning of the financial system, that can be attributed to Adyen or in which Adyen acts imputable. Inappropriate behavior generally refers to insufficient compliance with relevant rules or regulations, internal policies, and/or the Adyen Formula. If Adyen (or a third party it does business with) fails to comply with laws and regulations, or expectations by the market or society of ethical business conduct, supervisory authorities may initiate legal and regulatory proceedings against Adyen. Integrity risk includes the regulatory compliance risk factor as described in the 2018 Annual Report.

Adyen has a low risk appetite for non-ethical behavior of its management, employees and third parties that could negatively affect Adyen's reputation or brand, lead to compliance breaches of laws or regulations, or endanger its future existence.

Although Adyen has policies and procedures that it believes are sufficient to comply with currently applicable anti-money laundering, anti-corruption, briber and sanctions rules and regulations, it cannot guarantee that such policies and procedures completely prevent situations of money laundering, terrorism financing or corruption, including actions by Adyen's employees, merchants, third parties, or other related persons for which Adyen might be held responsible. Such events may have severe consequences, including litigation, sanctions, administrative measures, fines, criminal penalties and reputational consequences.

Tax

The determination of Adyen's worldwide provision for income taxes, value-added taxes and other tax liabilities requires estimation and significant judgment. Like many other multinational corporations, Adyen is subject to tax in multiple tax jurisdictions. Adyen's determination of its tax liability is always subject to audit and review by applicable domestic and foreign tax authorities. Any adverse outcome of any such audit or review could have a negative effect on Adyen's business and the ultimate tax outcome may differ from the amounts recorded in its financial statements.

Financial reporting

Due to its inherent limitations, internal control over financial reporting can't provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Financial risks

Adyen has a limited appetite to incur losses from financial risks.

Credit risk in respect of counterparties, including other financial institutions

Credit risk can origin from the risk that a counterparty will not settle the full value of an obligation — neither when it becomes due, nor thereafter (default risk), or the risk of losses stemming from on- and off-balance sheet positions arising from concentrations in exposures to a counterparty or a group of connected counterparties (concentration risk).

Fluctuations in foreign currency exchange rates

The strengthening or weakening of the euro impacts the translation of Adyen's net revenues generated from its international operations that are denominated in foreign currencies into the euro. Additionally, in connection with providing its services in multiple currencies, Adyen generally sets its foreign exchange rates once per day. Adyen may face financial exposure if Adyen incorrectly sets its foreign exchange rates or as a result of fluctuations in foreign exchange rates between the times that Adyen sets them. Given that Adyen also holds some merchants' and own funds in non-euro currencies, its financial results are affected by the translation of these non-euro currencies into euro. While Adyen has measures in place intended to manage its foreign exchange risk, namely natural hedges and spot trades for any net open positions, no assurance can be given that fluctuations in foreign exchange rates will nevertheless have a significant impact on Adyen's results of operations. Adyen is exposed to foreign exchange risk on its assets and liabilities denominated in currencies other than the functional currency, including certain contract assets, its holding of Visa Inc. shares and the assets and liabilities of its subsidiaries. The majority of these assets to which Adyen is exposed to foreign currency risk are denominated in US dollar.

Price risk of financial instruments

Adyen's exposure to price risk of financial instruments at fair value arises from a holding of Visa Inc. shares and a derivative financial liability. Any movements in the underlying share prices could have a significant impact on Adyen's financial condition and results of operations. Adyen obtained the Visa Inc. shares as the result of its previous holding in Visa Europe, which subsequently was acquired by Visa Inc., which resulted in amongst others Adyen being issued shares of Visa Inc. as consideration for the acquisition.

Interest rate risk of cash and cash-equivalents

Adyen is exposed to interest rate risk in the banking book in relation to its high-quality liquid assets: cash held at central banks and government bonds.

Liquidity and funding risk

Liquidity risk is the risk that Adyen could not meet its short- to medium-term payment and collateral obligations without affecting daily operations. Funding risk is the risk that Adyen will not have stable sources of funding in the medium and long term, resulting in the current or prospective risk that it cannot meet its financial obligations, such as payments and collateral needs, as they fall due in the medium to long term, either at all or without increasing funding costs unacceptably. Adyen has no appetite for not being able to meet its payment and collateral obligations without affecting daily operations.

Secure financing on favorable terms

Adyen has funded its operations since inception primarily through equity financings. Adyen is currently able to generate sufficient cash to fund its ongoing operations, but there is no guarantee that Adyen will be able to continue doing so in the future. In the future, Adyen may require additional funding to respond to business opportunities or unforeseen circumstances and may decide to engage in equity or debt financings or enter into credit facilities for other reasons, and may not be able to secure any such debt or equity financing or refinancing on favorable terms in a timely manner, or at all. If Adyen is unable to obtain adequate financing or financing on terms satisfactory when it requires it, its ability to continue to grow or support its business and to respond to business challenges could be significantly limited.

Refer to Note 12 'Financial Risk Management' of the attached Financial Statements for more information.

Statement by the Management Board

The Management Board of Adyen is responsible for establishing and maintaining an adequate system for risk management and internal control. This system is designed to manage risks effectively and efficiently, to provide reasonable assurance that objectives can be met, that financial and non-financial reporting is reliable and that laws and regulations are complied with.

Internal control over financial reporting is an integral part of the risk management and control systems of Adyen. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with IFRS and IFRIC interpretations as endorsed by the European Union and in accordance with sub article 8 of article 362, Book 2 of the Dutch Civil Code. Internal control over financial reporting includes:

- Maintaining records that, in reasonable detail, accurately and fairly reflect our transactions
- Providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statement

Due to its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Management Board has performed a company-wide risk assessment and described the principal risks facing the company in relation to its risk appetite in the section 'Risk factors' of this annual report.

The Management Board has assessed the effectiveness of the design and operation of the risk management and control systems as of December 31, 2019. The results were shared with the Audit Committee and the Supervisory Board and discussed with the external auditor.

Based on the assessment and with reference to best practice provision 1.4.3 of the Dutch Corporate Governance Code 2016, the Management Board confirms that to the best of its knowledge and belief:

- This annual report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems
- The aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies
- Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis
- This annual report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of this report (reference is made to the section Risk Factors)

However, the risk management and internal control systems cannot provide absolute assurance that missing of objectives, misstatements, fraud or non-compliance with laws and regulations will not occur.

In accordance with Article 5:25c of the Financial Supervision Act, the Management Board confirms that to the best of its knowledge and belief:

- The financial statements of 2019 give a true and fair view of the assets, liabilities, financial position and profit or loss of the company
- The annual report 2019 gives a true and fair view of the position as at December 31, 2019, the development and performance during 2019 of Adyen, together with a description of the principal risks that Adyen faces.

Amsterdam, March 24, 2020

P.W. van der Does
CEO

A.D. Schuijff
CTO

R. Prins
CCO

I.J. Uytdehaage
CFO

K. Zaki
COO

M.B. Swart
CLCO

J.G. Wijn
CSRO



Governance

Corporate governance

A solid, transparent and seamless corporate governance structure is key to Adyen. It is consistent with the Adyen Formula and allows us to focus on growing our business. In setting up and maintaining our governance structure we are guided by Dutch statutory requirements, the Dutch Corporate Governance Code (the Code) and international best practices. As Adyen is operating globally, international developments are closely monitored.

Adyen's governance is reflected in its Articles of Association, the Management Board By-Laws, the Supervisory Board By-Laws, the Terms of Reference of our Supervisory Board committees and certain other internal policies and procedures. These documents are available on Adyen's website (www.adyen.com/ir).

Management structure

Adyen maintains a two-tier board structure consisting of a Management Board and a Supervisory Board, each of which have specific responsibilities. The Management Board is collectively responsible for the overall management, which includes, among other things, developing and executing Adyen's strategy and risk management policy and setting and achieving Adyen's objectives. The Supervisory Board oversees and advises the Management Board and guides its general development. Each board is accountable to the General Meeting for the performance of its duties.

Management Board

Composition, Powers and Function

In 2019, Adyen's Management Board is composed of the following members (the Managing Directors):

Name	Age	Nationality	Gender	Position	Member since	Term
Pieter Willem van der Does	50	Dutch	Male	CEO	July 6, 2007	June 2022
Arnout Diederik Schuijff	52	Dutch	Male	CTO	July 6, 2007	June 2022
Roelant Prins	44	Dutch	Male	CCO	September 9, 2009	June 2022
Ingo Jeroen Uytdehaage	46	Dutch	Male	CFO	June 1, 2011	June 2022
Samuel Graeme Halse	35	New Zealander	Male	COO	April 20, 2015	June 2022
Joannes Gerardus Wijn	50	Dutch	Male	CSRO	May 1, 2017	June 2022

Each Managing Director has duties related to the specific area of responsibilities and expertise. In performing their duties, the Managing Directors are required to be guided by the best interests of the company and the business connected thereto, taking into consideration the interests of the company's stakeholders. The Management Board By-Laws set out rules regarding the composition, responsibilities and objectives of the Management Board.

On December 6, 2019, two new Managing Directors have been appointed, effective per January 1, 2020. Mariëtte Swart took on the position of CLCO (Chief Legal and Compliance Officer), and Kamran Zaki has taken over the position of COO (Chief Operating Officer) from Samuel Halse, who left the company on March 1, 2020. Furthermore, as per May 31, 2020, Joop Wijn will step down as Chief Strategy and Risk Officer. Joop has been granted gardening leave as per February 27, 2020. More information on the Management Board can be found on our website (www.adyen.com/about).

Subject to certain statutory exceptions, the Management Board as a whole is authorized to represent the company. Two Managing Directors acting jointly are also authorized to represent the company. This reflects the four-eyes principle that Adyen operates across the organization — (at least) two Adyen Managing Directors must sign off on significant business decisions.

Appointment and dismissal

The Articles of Association provide that the Management Board shall consist of two or more members and that the Supervisory Board determines the exact number (more than two) of Managing Directors after consultation with the Management Board.

Managing Directors will be appointed for a maximum term of four years, after which they may be reappointed for another four years. The General Meeting appoints Managing Directors upon a nomination by the Supervisory Board in accordance with the Articles of Association. The Supervisory Board shall make one or more nominations to the General Meeting in case a Managing Director is to be appointed.

In the event that the Supervisory Board has made a nomination, the resolution of the General Meeting to appoint such nominee shall be adopted by an absolute majority of the votes cast. However, the General Meeting may at its discretion appoint a Managing Director other than upon the nomination of the Supervisory Board, provided that a proposal to appoint such other person has been put on the agenda of the relevant General Meeting. A resolution of the General Meeting to appoint a Managing Director other than in accordance with a nomination of the Supervisory Board, but in accordance with the agenda for such General Meeting, shall require a majority of two thirds of the votes cast representing more than half of the company's issued share capital.

Adyen is a licensed credit institution, which means that any appointment of a Managing Director must be approved by the Dutch Central Bank (the DNB). In connection with its approval procedure, DNB will test the proposed new Managing Director on integrity and suitability.

The General Meeting may at any time, at the proposal of the Supervisory Board, suspend or remove a Managing Director with a resolution adopted by an absolute majority of votes cast. Should the General Meeting wish to suspend or remove a Managing Director other than in accordance with a proposal of the Supervisory Board, such suspension or dismissal needs to be adopted by two thirds of the votes cast, representing more than half of the company's issued capital. The Supervisory Board may at all times suspend but not dismiss a Managing Director. A General Meeting must be held within three months after a suspension of a Managing Director has taken effect, in which meeting a resolution must be adopted to either terminate or extend the suspension, provided that in the case that such suspension is not terminated, the suspension does not last longer than three months in aggregate. The suspended Managing Director must be given the opportunity to account for his or her actions at that meeting. If neither such resolution is adopted nor the General Meeting has resolved to dismiss the Managing Director, the suspension will cease after the period of suspension has expired.

Supervisory Board

Composition, powers and function

Adyen's Supervisory Board is composed of the following members (the Supervisory Directors):

Name	Age	Nationality	Gender	Position	Member since	Term
Pieter Sipko Overmars	55	Dutch	Male	Chairman	January 20, 2017	January 2021
Delfin Rueda Arroyo	55	Spanish	Male	Member	January 20, 2017	January 2022
Jozef Aloysius Johannes van Beurden	59	Dutch	Male	Member	January 20, 2017	January 2024 *
Pamela Ann Joseph	61	American	Female	Member	May 21, 2019	May 2023

The Supervisory Board supervises the conduct and policies of the Management Board and the general course of affairs of the company and its business. The Supervisory Board also provides advice to the Management Board. In performing their duties, the Supervisory Directors are required to be guided by the interests of Adyen which includes the interests of the business connected thereto, taking into consideration the interests of the company's stakeholders. These interests are driven by Adyen's focus on long-term value creation and the way in which this is implemented in Adyen's strategy and culture. The Supervisory Board also has due regard for corporate social responsibility issues that are relevant to the company. The Supervisory Board By-Laws set out rules regarding the composition, responsibilities and objectives of the Supervisory Board.

* Joep van Beurden was reappointed for another four-year term at the Extraordinary General Meeting on January 14, 2020.

On May 21, 2019, Pamela Joseph was appointed as Supervisory Director. Following her appointment, she also became a member of the Nomination and Remuneration Committee and the Audit Committee. More information on her background can be found in the Supervisory Board Report below.

Appointment and dismissal

The Articles of Association provide that the Supervisory Board must consist of three or more individuals, with a maximum of five persons. The exact number of Supervisory Directors is to be determined by the Supervisory Board. Only natural persons may be appointed as Supervisory Director.

Supervisory Directors will be appointed for a maximum term of four years, after which they may be reappointed for another four years. Reappointment after eight years shall be motivated in the Supervisory Board Report. After this term, a Supervisory Director may once again be

reappointed for a term of two years, which can be extended for another two years. Supervisory Directors are appointed by the General Meeting upon a nomination of the Supervisory Board in accordance with the Articles of Association. The Supervisory Board shall make one or more nominations in case a Supervisory Director is to be appointed.

In the event that the Supervisory Board has made a nomination, the resolution of the General Meeting to appoint such nominee shall be adopted by an absolute majority of the votes cast. However, the General Meeting may at its discretion appoint a Supervisory Director other than upon the nomination of the Supervisory Board, provided that a proposal to appoint such other person has been put on the agenda of the relevant General Meeting. A resolution of the General Meeting to appoint a Supervisory Director other than in accordance with a nomination of the Supervisory Board, but in accordance with the agenda for such General Meeting, shall require a majority of two thirds of the votes cast representing more than half of the company's issued share capital. The Supervisory Board shall appoint one of its members as chairman and shall appoint one of its members as vice-chairman.

Any appointment of a Supervisory Director must be approved by DNB. In connection with its approval procedure, DNB will test the proposed new Supervisory Director on integrity and suitability.

The General Meeting may at any time, at the proposal of the Supervisory Board, suspend or remove a Supervisory Director with a resolution adopted by an absolute majority of votes cast. Should the General Meeting wish to suspend or remove a Supervisory Director other than in accordance with a proposal of the Supervisory Board, such suspension or dismissal needs to be adopted by two thirds of the votes cast, representing more than half of the Company's issued capital.

Supervisory Board committees

The Supervisory Board has appointed from among its members two permanent committees; a 'Nomination and Remuneration Committee' and an 'Audit Committee' (the Committees). Each of these Committees has a preparatory and/or advisory role to the Supervisory Board. The Committees report their findings to the Supervisory Board, which is ultimately responsible for all decision-making. Terms of Reference apply for each Committee, which can be found on our website (www.adyen.com/ir). All Supervisory Directors have a standing invitation to attend meetings of Committees of which they are not a member. The Supervisory Directors attend these meetings on a regular basis.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee drafts proposals for Adyen's remuneration policy. It proposes the remuneration of the individual Managing Directors and Supervisory Directors. It analyses developments of the Code and other applicable laws and regulations, and prepares proposals for the Supervisory Board on these subjects. It further advises the Supervisory Board on its duties regarding the selection and appointment of Managing Directors and Supervisory Directors. The Committee is also responsible for carrying out annual assessments of the individual Managing Directors and Supervisory Directors.

Where necessary, the Nomination and Remuneration Committee prepares proposals for (re) appointments and drafts the selection criteria for the (re)appointment of Managing Directors and Supervisory Directors.

The Nomination and Remuneration Committee meets as often as required for a proper functioning of the Committee. The meetings are scheduled semi-annually. The Nomination and Remuneration Committee consists of at least three Supervisory Directors. Members of the Nomination and Remuneration Committee are Joep van Beurden (Chairman), Piero Overmars and Pamela Joseph (per her appointment, taking over from Delfin Rueda Arroyo). Adyen's CEO, CFO and CSRO have a standing invitation for each Committee meeting. The company's HR Director also attends the meetings of the Nomination and Remuneration Committee.

Audit Committee

The Audit Committee supervises the provision of the company's financial information. The Audit Committee issues preliminary advice to the Supervisory Board regarding the approval of Adyen's interim and annual accounts.

It also advises the Supervisory Board on the nomination of the external auditor, who is appointed by the General Meeting. It is in regular contact with the internal audit function and the external auditor and monitors the auditor's independence.

In addition to advising the Management Board on tax matters and financing, it is also responsible for supervising compliance with relevant legislation and regulations.

The Audit Committee meets as often as required for a proper functioning of the Audit Committee. The meetings are held at least four times a year. The Audit Committee consists of at least three Supervisory Directors. Members of the Audit Committee are Delfin Rueda Arroyo (Chairman), Piero Overmars and Pamela Joseph (per her appointment, taking over from Joep van Beurden). Adyen's CEO, CFO and CSRO have a standing invitation for each Committee meeting. As of January 1, 2020, following her appointment, the CLCO will also have a standing invitation for each meeting of the Audit Committee. The company's internal auditor, as well as the external auditor also attend meetings of the Audit Committee.

General Meeting, shares and shareholders

General Meeting

Adyen holds a General Meeting of shareholders within six months of the end of the financial year. The agenda for this meeting includes (i) the adoption of the annual accounts, (ii) the content of the annual report, (iii) the policy of the company on additions to reserves and on distributions of profits (iv) any proposal to distribute profits (v) filling vacancies on the Management Board (vi) the release from liability of the members of the Management Board and the Supervisory Board for their performance during the financial year and (vii) any other proposals placed on the agenda by the Management Board.

The Annual General Meeting of 2019 was held on May 21, 2019. Aside from the topics of this meeting as listed above, Pamela Joseph was appointed as member of the Supervisory Board. The appointment of Pamela Joseph has taken the Supervisory Board profile and the equal opportunity policy into account.

General Meetings can be held as often as the Management Board or the Supervisory Board deem necessary. A General Meeting is also convened in case of a decision entailing a significant change in the identity or character of the company or its business. One or more shareholders representing at least the statutory threshold of 3% of the voting rights may request that the Management Board places items on the agenda of a General Meeting. Such a request must be honored by the Management Board provided that the request is received in writing at least 60 days before the date of such a meeting.

Our next annual General Meeting will be held on May 26, 2020 in Amsterdam, the Netherlands. More information is available on our website: www.adyen.com/ir.

Voting rights

Each share reflects one vote in the General Meeting. Subject to certain exceptions provided by Dutch law or the Articles of Association, resolutions of the General Meeting are passed by an absolute majority of votes cast. Votes can be cast at the General Meeting either in person or by proxy.

Amendment to the Articles of Association

The General Meeting may pass a resolution to amend the Articles of Association with an absolute majority of the votes cast. A proposal to amend the Articles must be made by the Management Board and must be approved by the Supervisory Board. When a proposal to amend the Articles of Association is made to the General Meeting, the intention to propose such resolution must be stated in the relevant notice convening the General Meeting.

Issue of shares

Shares can only be issued pursuant to a resolution of the General Meeting unless the General Meeting has designated this authority to the Management Board. During the Annual General Meeting held on May 21, 2019, the General Meeting granted the Management Board — subject to the Supervisory Board's approval — the authority to issue ordinary shares or to grant rights to subscribe for ordinary shares for a term of 18 months as of May 21, 2019 for up to 10% of the total number of shares issued at the time of the General Meeting for any purpose. Hence, within the aforementioned limit shares are issued by a decision of the Management Board. This decision must be approved by the Supervisory Board. Any issuance exceeding the aforementioned limit needs approval by the General Meeting.

In addition, the General Meeting granted the Management Board — subject to the Supervisory Board's approval — the authority to restrict or exclude applicable pre-emptive rights when issuing ordinary shares or granting rights to subscribe for ordinary shares for a term of 18 months as of May 21, 2019.

Repurchase of shares

Shares can only be repurchased by Adyen pursuant to a resolution of the General Meeting and subject to any required regulatory approvals. The General Meeting may designate the authority to repurchase shares to the Management Board. During the General Meeting held on May 21, 2019, the shareholders granted the Management Board — subject to the Supervisory Board's approval — the authority to acquire shares in the capital of the company, either through purchase on a stock exchange or otherwise. The authority applies for a term of 18 months as of May 21, 2019, under the following conditions: the repurchase (i) may constitute up to 10% of the total number of shares issued at the time of the General Meeting; (ii) provided

that the company will not hold more shares in stock than 10% of the issued share capital; and (iii) at a price not less than the nominal value of the shares and not higher than 110% of the opening price at Euronext Amsterdam at the date of the acquisition. Any repurchases exceeding these limits need approval by the General Meeting.

Substantial shareholdings

Shareholders owning 3% or more of the issued capital and/or voting rights of a listed company must report this to the Dutch Authority for the Financial Markets (AFM) as soon as the threshold is reached or exceeded. This reporting by shareholders can be found in the 'Register of substantial holdings and gross short positions' at www.afm.nl.

Report of the Supervisory Board

The Supervisory Board is pleased to present its report for 2019, which was again a very strong year for Adyen in many aspects. In 2019, the Adyen platform processed €240 billion, growing 51% year-on-year. On the product side, Adyen Issuing was launched, a business-to-business product enabling Adyen merchants to issue debit cards. Also, impactful merchant wins in quick-service restaurants (QSRs) were announced, and, in 2019, over 300 employees were added to the Adyen team.

This report includes a more specific description of the Supervisory Board's activities during the financial year 2019 and other relevant information on its functioning.

Composition

Adyen has established a two-tier board structure consisting of the Management Board and the Supervisory Board, as further explained in the section 'Governance'. The Supervisory Board functions as a separate corporate body and is fully independent from the Management Board. The composition of the Supervisory Board is such that members are able to act independently of one another, the Management Board and any particular interest and allows for properly carrying out all Supervisory Board tasks, including staffing of committees. The Supervisory Board is capable of assessing the broad outline of the overall policy of the company and of the most important risks incurred. The background, knowledge and expertise of each Supervisory Director adds to the board's effectiveness, enabling it to fulfil its duties in the company's best interest.

The Supervisory Board currently comprises of four members, Piero Overmars (Chairman), Delfin Rueda Arroyo, Joep van Beurden and Pamela Joseph.

Piero Overmars serves as a member of the Supervisory Boards of Amsterdam UMC and Dura Vermeer Groep NV. Previously, he served as a member of the Management Board of Randstad Beheer B.V. and was Chairman of the Supervisory Boards of Nutreco and SNS Reaal. He also served as President of the Nyenrode Foundation, following an extensive career at ABN Amro that culminated in a Board Member position. Piero Overmars holds an MBA from Nyenrode Business University.

Delfin Rueda Arroyo serves as CFO, interim CRO and Vice-Chair of the Executive Board and Management Board of NN Group. Previously, he was CFO and member of the Management Board of ING Insurance, following an extensive career at Andersen Consulting, UBS, JP Morgan and Atradius. Delfin Rueda Arroyo holds a master degree in Economic Analysis

and Quantitative Economics from the Complutense University of Madrid (Spain). He also holds an MBA from the Wharton School, University of Pennsylvania (USA).

Joep van Beurden is CEO and member of the Executive Board of Kendrion and member of the Supervisory Board of the Twente University of Technology (the Netherlands). Previously, he served as CEO of CSR Plc. (UK) and NexWave Inc. (France), following a career at Royal Dutch Shell, McKinsey, Philips and Canesta Inc. Joep van Beurden holds a degree in Applied Physics from Twente University of Technology.

Pamela Joseph is CEO and member of the Management Board of Clearent, and holds a non-executive position in the Boards of Paychex, Transunion and Spelman College. Previously, she served U.S. Bank corp. Payment Services as a Vice-Chairman, and prior to that Elavon as President and COO. She started her career at Wells Fargo Bank and VISA International. She holds a degree in Business Administration from the University of Illinois (USA).

Diversity

The Supervisory Board values and promotes diversity, both within the Supervisory Board and the Management Board, as within Adyen in general. Differences in amongst others background, nationality, age, race, and gender are vital to the business, enabling the Boards and the company to look at issues and opportunities differently and to respond to challenges in new ways. Diversity is a key driver for innovation and allows Adyen to attract and retain the most talented and smart people. This standpoint has also been imbedded in the Adyen Inclusion Policy.

Amongst other, the Supervisory Board aims for a balance in experience and affinity with the nature and culture of the business of Adyen and its subsidiaries in the composition of its Board. In adherence with the company's Inclusion Policy, Adyen announced in January 2020 that it will, with the help of an Executive Search Firm, start the search for a female fifth Supervisory Director.

Independence

Throughout the year, three Supervisory Directors were independent from the company within the meaning of Best Practice Provision 2.1.8 of the Code. One Supervisory Board member, Joep van Beurden, has acted as an advisor to the company in the years preceding his appointment (2017), and is therefore considered not to be independent within the meaning of Best Practice Provision 2.1.8 (iii) of the Code. The Supervisory Board is, as a body, independent as defined in the Code.

Supervisory Board meetings

In 2019, the Supervisory Board convened for five regular meetings at the offices of Adyen, in the months February, March, May, August and November. All three, and later in the year four, Supervisory Directors attended all of these meetings. The Management Board was also present. During these meetings the Supervisory Board held deep-dive sessions on specific topics relevant to Adyen's business, such as customer relations & NPS, relations with regulators & licenses, culture & HR, and ethical business & social responsibility. The Supervisory Board also discussed Adyen's strategy including its workstreams (later in the year redefined to solutions and workstreams) and completed trainings on data privacy, security and compliance.

The General Legal Counsel attended all Supervisory Board meetings and acted as the secretary of the Supervisory Board and its committees. The Chairman of the Supervisory Board met regularly during the year with the CEO and other Managing Directors to discuss the performance of the company and projects as part of executing the strategy. The Supervisory Directors also interacted individually and collectively with Managing Directors outside the formal Supervisory Board meetings.

In 2019, there were no conflicts of interest between Adyen and Managing Directors or Supervisory Directors.

During 2019, the Supervisory Board reflected on its performance and composition as well as that of its Committees. The Supervisory Board has discussed the results from the annual self-assessment without the Managing Directors being present. The performance of the Supervisory Board, the Nomination and Remuneration Committee and the Audit Committee has been assessed as being satisfactory. Following this conclusion of the self-assessment, the Supervisory Directors want to take a leading role in improving diversity within the Supervisory Board. The Nomination and Remuneration Committee has started the search for a female fifth Supervisory Director and is looking forward to enhance diversity even more within Adyen.

Committee reporting

The Supervisory Board has established two Committees, as further explained in the section 'Governance': The Audit Committee and the Nomination and Remuneration Committee. The main considerations and conclusions of each Committee were shared with the full Supervisory Board.

Audit Committee

The Supervisory Board has assigned certain tasks to the Audit Committee. The duties of the Audit Committee are described in the section 'Governance' of this Annual Report.

The Audit Committee consists of three members and is chaired by Delfin Rueda Arroyo. Its other members are Piero Overmars and Pamela Joseph (as of her appointment). The composition and number of members of the Audit Committee provide for sufficient capacity to carry out the supervisory functions. The members of the Audit Committee have the specific skills and experience required to properly carry out their duties. The external auditor attended all Audit Committee meetings held in 2019.

The Audit Committee convened for four regular meetings in 2019. All Committee members attended all meetings. The Audit Committee discussed the quarterly results and the financial statements. Further the Audit Committee discussed the overall internal control environment, reports from internal and external auditors, and reviewed the Annual Report and the H1 and H2 Shareholder Letter including the relevant press releases. The Audit Committee discussed other topics including compliance, governance, ICLAAP, risk, information security, legal, merchants' potential liability, and treasury. The members of the Audit Committee met with the internal and external auditors outside the Audit Committee meetings to ensure all relevant information was discussed. The Audit Committee evaluated the performance and remuneration of the external auditor.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of three members and is chaired by Joep van Beurden. Its other members are Piero Overmars and Pamela Joseph (as of her appointment). The composition and number of members of the Nomination and Remuneration Committee provide for sufficient capacity to carry out the supervisory functions. The members of the Nomination and Remuneration Committee have the specific skills and experience required to properly carry out their duties. The duties of the Nomination and Remuneration Committee are described in the section 'Governance' of this Annual Report.

The Nomination and Remuneration Committee convened twice in 2019. All Committee members attended all meetings. The Committee has reviewed the composition of the Supervisory Board and Management Board. The Nomination and Remuneration Committee monitored and analyzed developments of the Code and applicable laws and regulations in relation to remuneration policies, reviewed Adyen's Remuneration

Policy and its execution for compliance with the Code and the Dutch Act on the Remuneration Policies Financial Undertakings (Wet beloningsbeleid financiële ondernemingen, the “Act”) as implemented in the Dutch Financial Supervision Act (Wet op het financieel toezicht, the “FSA”). For more information on the Remuneration Policy please refer to the section Remuneration Report of this Annual Report.

The Nomination and Remuneration Committee leads the evaluation of the performance of the individual Managing Directors and Supervisory Directors. During the evaluation the Committee took note of the view of the Managing Directors' view on their own remuneration. The Committee drafted proposals to the Supervisory Board for the remuneration of the individual Managing Directors and Supervisory Directors. The Nomination and Remuneration Committee has drawn a plan for the succession of the Managing Directors and the Supervisory Directors.

Under supervision of the Nomination and Remuneration Committee Adyen's policies and procedures are updated with effect from 2020, to ensure compliance with the Shareholder Rights Directive II which has been implemented in the Netherlands as of December 1, 2019.

Financial statements

The Financial Statements for the year ended December 31, 2019, were prepared by the Management Board and approved by the Supervisory Board. The Report of the Independent Auditor, PricewaterhouseCoopers Accountants N.V. (PwC) is included in the Independent Auditor's Report in the 'Other Information' section of the Financial Statements.

The Supervisory Board recommends that the General Meeting adopts these Financial Statements.

Appreciation

The Supervisory Board would like to thank all Adyen employees for their contribution in realizing these achievements and for continuing to serve the interests of merchants, shareholders and other stakeholders of Adyen.

Compliance with the Dutch Corporate Governance Code

Adyen acknowledges the importance of good corporate governance. The company agrees with the general approach and with the majority of the provisions of the Dutch Corporate Governance Code (the Code). As such, it fully complies with the Code with the exception of:

Best practice provision 4.3.3 Dutch Corporate Governance Code, which provides that the general meeting of shareholders of a company not having statutory two-tier status may pass a resolution to cancel the binding nature of a nomination for the appointment of a member of the Management Board or of the Supervisory Board and/or a resolution to dismiss a member of the Management Board or of the Supervisory Board by an absolute majority of the votes cast. It may be provided that this majority should represent a given proportion of the issued capital, which proportion may not exceed one-third. However, Adyen applies a higher proportion of one-half, which follows from a previous arrangement with Adyen's shareholders.

Best practice provision 2.1.5 Dutch Corporate Governance Code, provides that the Supervisory Board should draw up a diversity policy for the composition of the Management Board and Supervisory Board. The policy should address the concrete targets relating to diversity. Adyen deviates from best practice provision 2.1.5 as no concrete targets were set on diversity. Adyen values diversity within its Management and Supervisory Board, and its wider organization, as also reflected in its Inclusion Policy. It will continue to actively steer on this matter. On December 6, 2019 Mariëtte Swart has been appointed as CLCO, effective per January 1, 2020. Furthermore, in the light of the Inclusion Policy, Adyen announced in January 2020 that it will start with the help of an Executive Search Firm the search for a female fifth Supervisory Director. As of 31 December 2019, female employees comprised 31.8% of the Adyen workforce.

Article 2:166 of the Dutch Civil Code, states that each of the Management Board and the Supervisory Board should consist of at least 30 per cent female and 30 per cent male members. Adyen currently does not reach these targets. Adyen applies an equal chance policy as part of its Inclusion Policy. Under this policy, Adyen undertakes to provide equal employment opportunity for all persons without regard to aspects including race, color, creed, religion, sex, sexual orientation, the presence of any sensory, mental, or physical disability. Adyen will continue to actively steer on this matter. Amongst other, Adyen will start the search for a fifth female Supervisory Director to be appointed in 2020.



Remuneration Report

Introduction

This remuneration report explains how the remuneration policy as approved by the General Meeting was put into practice in the past financial year (2019). Part of this is an overview of the remuneration awarded or due to individual Managing Directors.

Adyen remuneration policy

The remuneration policy of Adyen is available on the company's website. There have been no changes in the remuneration policy in 2019. As a result of the implementation of the Shareholders Rights Directive in Dutch legislation as of December 1, 2019, it will be proposed in the General Meeting of Shareholders of May 26, 2020 to adjust the remuneration policy to the new legislation. The remuneration report for the financial year 2020 will be in accordance with such new legislation.

Remuneration principles

The objective of Adyen's remuneration policy is to ensure that we recruit and retain the best talent worldwide. Adyen's remuneration policy is rooted in the Adyen Formula and is in full compliance with all relevant international and local legislation and regulations.

Our remuneration policy has the Adyen Formula at heart. The Adyen Formula consists of eight points on how we are successful to create long-term value for our merchants.

Our remuneration policy is consistent with, and promotes, sound and effective risk management and has always been aligned with our strategy to create long-term value for our merchants. As such, it does not contain incentives that exclusively benefit staff members themselves.

By retaining the remuneration principles set out in our remuneration policy, the remuneration is consistent with and promotes sound and effective risk management. As such, these remuneration principles to contribute to long-term value creation and discourage improper risk-taking.

Remuneration package

The size of an individual remuneration package is based on the scope of responsibilities, the employee's experience and performance, and the local market circumstances, which may differ from country to country.

The total remuneration of individual staff members, including the Managing and Supervisory Directors, is determined by taking into account the long-term strategy of Adyen and aimed at ensuring a sustainable and durable company for stakeholders.

The remuneration of the Management Board and Supervisory Board is reviewed annually and any adjustment of the remuneration will be in accordance with the remuneration policy. Remuneration decisions such as pay increases will take account of the individual Managing Directors delivering on specific areas of focus, including sustainability and the Adyen Formula, as well as company performance.

A remuneration package may consist of a base salary, share-related remuneration, pension entitlements and other emoluments. For certain employees a remuneration package may also include variable remuneration.

Adyen has the right pay mix in place to mitigate short-term orientation and contribute to the long-term performance of the company. This is specifically achieved by awarding staff members, including the Management Board, with (long-term) share-related remuneration. The purpose of the share-based payments is to put staff members in a financial ownership-like position where shares are concerned and for them to obtain an economic interest in the pursuit of Adyen's long-term objectives such as sustainable growth, development, profitability and financial success of Adyen.

Variable remuneration

Adyen observes the laws and regulations applicable to the company, which includes the remuneration regulations as provided in the Act on Remuneration policy Financial Undertakings (Wet beloningsbeleid financiële ondernemingen) and the EBA Guidelines on Sound Remuneration Policies (EBA Guidelines) (the Remuneration Regulations). Adyen's remuneration policy is in line with the Remuneration Regulations.

Certain employees may be rewarded with variable remuneration. Variable remuneration, if awarded, will at all times not exceed the fixed to variable remuneration ratios as provided in the Remuneration Regulations. In accordance with the Remuneration Regulations, variable remuneration

will be subject to hold back and claw back instruments. In the financial year 2019, no variable remuneration has been adjusted or clawed back in accordance with these instruments.

In the financial year 2019, Adyen has not rewarded any variable remuneration to the members of the Management Board or any other identified staff. Adyen does not award variable remuneration to the Supervisory Directors.

The total global company-wide amount of variable remuneration awarded over 2019 was EUR 16,661,986 (2018: EUR 8,106,461) compared to total staff expenses of EUR 122,446,852 (2018: EUR 87,083,459).

Identified staff

In 2019 there were 21 employees (2018: 18) identified as "Identified Staff" (staff that is considered to have a material impact on the risk profile of Adyen). None of these employees were entitled to a performance-related bonus in 2019. As such Adyen avoids short-term incentives and focus for all staff that is considered to have a material impact on our business, including the Managing Directors, thereby contributing to the long-term performance and value creation of the company.

Total annual remuneration

In 2019 there were nil employees with total annual remuneration (including employer pension contributions and any severance payments made) of EUR 1 million or more.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consist of three (3) members as determined by the Supervisory Board. The duties of the Nomination and Remuneration Committee are described in the section 'Governance' of this Annual Report.

The current remuneration policy was adopted at the shareholders meeting on April 17, 2018.

Remuneration for the Management Board

The remuneration policy that applies to the Managing Directors is in line with the remuneration policy that applies to all staff. Adyen's Management Board remuneration is consistent with and promotes a sound and effective risk management and is aligned with Adyen's strategy to create long-term value for its merchants. As such, the remuneration policy does not contain incentives that exclusively benefit Managing Directors themselves.

The remuneration of the Managing Directors is determined by the Supervisory Board with due observance of the remuneration policy as adopted by the General Meeting.

The Managing Directors do provide the Nomination and Remuneration Committee with their views with regard to the amount and structure of their own remuneration. In 2019 base salaries of the Managing Directors were increased with 8%, in line with the average salary increase of a staff member.

The Management Board's remuneration is compared to AEX companies. The Management Board remuneration is below the median of the benchmark. This discrepancy is accepted for the current Managing Directors. To attract future Managing Directors, the remuneration package for new Managing Directors may be adjusted to the market.

In line with the revised Dutch Corporate Governance Code, Adyen performed a scenario analysis and back-test on Management Board remuneration. All scenarios resulted in the same outcome as the remuneration of the Managing Directors is not linked to variable remuneration elements. The internal ratio of the Managing Directors' remuneration and that of a representative reference group was determined. For this ratio, Adyen deems most relevant the total direct compensation of the CEO compared to the average total direct compensation of all Adyen employees worldwide. For the CEO a ratio of 7:1 applies (2018: 7:1). For the other Managing Directors, a ratio of 5:1 applies (2018: 6:1).

The total remuneration received by the Management Board in 2019 amounted to EUR 2,855,909 (2018: EUR 3,208,804).

Remuneration Management Board

The total remuneration received by the Management Board in 2019 amounted to EUR 2,855,909 (2018: EUR 3,208,804).*

	2019	2018
Salaries and short-term employee benefits	2,594,385	2,962,042
Share-based payments	209,069	214,101
Post-employment benefits	52,455	32,661
Total	2,855,909	3,208,804

* As Adyen N.V. became a listed company in June 2018, management remuneration related to years 2018 and 2019 are disclosed in this report instead of five years required by Dutch Civil Code.

The table below provides an overview of the remuneration of each individual Managing Director for the financial year 2019 and 2018:

2019 (in EUR)	Base salary	Pension and social security contributions	Share-based compensation*	Variable income in cash	Total Remuneration 2019
Pieter van der Does	512,510	10,491	-	-	523,001
Arnout Schuijff***	250,602	10,491	-	-	261,093
Roelant Prins	416,510	10,491	-	-	427,001
Ingo Uytdehaage	482,510	10,491	-	-	493,001
Sam Halse****	419,743	-	-	-	419,743
Joop Wijn	512,510	10,491	209,069	-	732,070
Total	2,594,385	52,455	209,069	-	2,855,909

2018 (in EUR)	Base salary	Pension and social security contributions	Share-based compensation*	Variable income in cash **	Total Remuneration 2018
Pieter van der Does	512,305	7,426	-	85,000	604,731
Arnout Schuijff***	250,602	3,229	-	41,400	295,231
Roelant Prins	416,305	6,815	-	69,000	492,120
Ingo Uytdehaage	482,510	6,974	-	80,000	569,484
Sam Halse****	403,252	-	5,032	52,491	460,775
Joop Wijn	512,510	8,216	209,069	56,667	786,462
Total	2,577,484	32,661	214,101	384,558	3,208,804

* This amount equals the total expenses recognized by Adyen during the financial year in relation to share-based compensation, based on the vesting schedule for options granted and the fair value of the option at grant date, as further detailed in the Financial Statements.

** Variable income in cash relates to performance in the preceding calendar year (refer to 'Variable Remuneration').

*** Part-time percentage 60%.

**** This amount includes housing allowance, partly remunerated by Adyen N.V. and Adyen Inc. The intrinsic value of the options granted during 2019 is EUR 10,592,918.

Variable remuneration

As of 2018 and in line with (i) the Act on Remuneration Policies in Financial Enterprises (Wet beloningsbeleid financiële ondernemingen), and (ii) the Guidelines on Remuneration Policies and Practices as formally adopted on 10 December 2010 by the Committee of European Banking Supervisors, Adyen does not award variable remuneration to the Managing Directors. As the application of such rules and principles may include an assessment and interpretation of the remuneration restrictions, it cannot be excluded that a competent supervisory authority takes a different view on the correct application thereof in specific cases (although there is currently no indication that a competent supervisory authority will take such position).

Employee stock options awarded in previous years

The table below provides an overview of the options per December 31, 2019 that have been granted to Managing Directors as part of their share-based compensation:

2019	Grant date	Number of Options Vested	Number of Options Non-Vested	Number of Options expected to Vest
Pieter van der Does	-	-	-	-
Arnout Schuijff	-	-	-	-
Roelant Prins **	2014	48,266	-	-
Ingo Uytdehaage **	2014	80,632	-	-
Sam Halse **	2015	17,829	-	-
Joop Wijn * **	2017	20,154	6,719	6,719

2018	Grant date	Number of Options Vested	Number of Options Non-Vested	Number of Options expected to Vest
Pieter van der Does	-	-	-	-
Arnout Schuijff	-	-	-	-
Roelant Prins	2014	72,378	-	-
Ingo Uytdehaage	2014	120,632	-	-
Sam Halse	2014	24,072	-	-
	2015	24,727	-	-
Joop Wijn	2017	26,875	37,625	37,625

* Joop Wijn will leave Adyen as per May 31, 2020, hence the amount expected to vest is proportional to the period in which he still works for Adyen.

** See next page.

** The stock options held by Ingo Uytdehaage and Roelant Prins are due to expire 1 December 2021. Ingo Uytdehaage and Roelant Prins have instructed ABN Amro to gradually sell the remaining stock options in the period running from 1 July 2019 (i.e. after expiry of the Post-IPO Shareholders' lock-up period) until 1 December 2021. The stock options shall be sold on a monthly basis, in portions equally divided over the 3 (three) calendar years, with due observation of a 15% daily trading-cap. As per the instruction, the stock options shall be sold at any given market-price. Sam Halse and Joop Wijn have given similar instructions to ABN Amro, whereby Joop Wijn has instructed ABN Amro to also observe a minimum trading-price of EUR 480 per share. Upon each sale, appropriate notifications shall be made via the AFM register.

Share and Depositary Receipt holdings

The table below reflects the equity position directly or indirectly held by the Managing Directors as per December 31, 2019 and 2018:

	Shareholdings (aggregate number of Shares and/or Depositary Receipts)	
	2019	2018
Pieter van der Does	1,202,987	1,415,278
Arnout Schuijff	1,613,589	1,898,339
Roelant Prins	338,011	338,011
Ingo Uytdehaage	229,570	229,570
Sam Halse	-	-
Joop Wijn	2,156	2,156

No shareholdings were granted during the year ended 31 December, 2019.

Pension

As from January 2017, all Dutch Managing Directors participate in the Collective Defined Contribution (CDC) pension plan, with respect to their salary up to EUR 107,593 gross per year for 2019 (2018: EUR 105,075). On behalf of each Managing Director, Adyen pays a contribution of 4% of the pensionable salary — being 12 times the monthly fixed salary plus holiday pay up to the fiscally allowed maximum minus a deductible — for the accrual of old age pension benefits as well as the administration costs. If and as far as fiscally allowed, each Managing Director has the possibility to make additional contributions in order to accrue additional pension capital. Sam Halse participates in a 401k retirement plan in the US, for which Adyen provides an employer match of up to 2%.

Insurance

All Managing Directors are insured under an insurance policy taken out by Adyen against damages resulting from their conduct when acting in their capacities as directors.

All Dutch Managing Directors are insured for the risk of death and disability, for which Adyen pays the insurance premiums.

Service and Severance Agreements

All Managing Directors have entered into a service agreement (overeenkomst van opdracht) with Adyen N.V. effective as of the date of the listing of Adyen, whereby Sam Halse is currently assigned to Adyen Inc. The terms and conditions of these service agreements have been aligned with the Dutch Corporate Governance Code. The service agreements will be entered into for a term of 4 years.

The service agreements provide for a severance of one annual base salary if the Board Member is not re-appointed or otherwise terminated by Adyen (for any reason other than urgent cause within the meaning of article 7:678 of the Dutch Civil Code (dringende reden)), in accordance with the Dutch Corporate Governance Code.

Loans

No loans, advance payments and guarantees have been granted to or on behalf of the Managing Directors.

The below table shows the comparative remuneration and company performance over the last two reported financial years:

Annual change	2018 vs 2017	2019 vs 2018	Remark
Director's remuneration			
Pieter van der Does	122,409	(81,730)	*
Arnout Schuijff	57,708	(34,138)	*
Roelant Prins	84,437	(65,119)	*
Ingo Uytdehaage	91,523	(76,483)	*
Sam Halse	31,715	(41,032)	*
Joop Wijn	315,102	(54,392)	* **
Company Performance			
Net revenues	130,635	147,768	
EBITDA	82,546	97,377	
Average remuneration comparative on FTE basis (in EUR)			
Wages and Salaries / FTE	117.74	1,688.69	

* No variable component for 2019.

** Started May 1, 2017.

Remuneration Supervisory Board

The total remuneration received by the Supervisory Board in 2019 amounted to EUR 240,000 (2018: EUR 181,000). The table below provides an overview of the remuneration of each Supervisory Director for the financial year 2019. In addition to the remuneration, expenses incurred by the Supervisory Directors in the performance of their duties are reimbursed in full:

	2019	2018
Salaries and short-term employee benefits	240,000	176,000
Share-based payments	-	5,000
Total	240,000	181,000

The table below provides an overview of the remuneration of each Supervisory Director for the financial year 2019.

	2019			2018		
(in EUR)	Remuneration in cash	Share-based compensation	Total Remuneration	Remuneration in cash	Share-based compensation	Total Remuneration
Piero Overmars	80,000	-	80,000	67,500	3,958	71,458
Delfin Rueda Arroyo	60,000	-	60,000	60,000	-	60,000
Joep van Beurden	60,000	-	60,000	47,500	1,376	48,876
Pamela Joseph*	40,000	-	40,000	-	-	-
Total	240,000	-	240,000	175,500	5,334	180,834

* During the Annual General Meeting held on May 21, 2019, Pamela Joseph was appointed as a member of the Supervisory Board for a four-year term. The remuneration granted during the year is pro-rata, from May through December 2019.

Share-based compensation

The table below provides an overview of the aggregate number of Shares and/or Depositary Receipts per December 31, 2019 that have been granted to Supervisory Directors as part of their share-based compensation.

	Shareholdings (aggregate number of Shares and/or Depositary Receipts)	
	2019	2018
Piero Overmars	1,094	1,094
Delfin Rueda Arroyo	-	-
Joep van Beurden*	1,719	1,719
Pamela Joseph	-	-

* Options were granted in his role as an advisor to Adyen prior to becoming a member of the Supervisory Board, and also as part of remuneration in 2017 and 2018.

As the Supervisory Directors are not allowed to be remunerated via share-based compensation after the listing of Adyen in 2018, the annual remuneration per Supervisory Directors with unvested Options that expired as per June 1, 2018 was increased by €30,000 to €80,000 for Piero Overmars and by €20,000 to €60,000 for Joep van Beurden per year starting at that date.

Additionally, Piero Overmars and Joep van Beurden committed not to sell, transfer or otherwise dispose of any Shares and/or Depositary Receipts, during the term of their appointment.

Insurance

The Supervisory Directors of Adyen are insured under an insurance policy taken out by Adyen against damages resulting from their conduct when acting in their capacities as directors.

Loans

No loans, advance payments and guarantees have been granted to or on behalf of the Supervisory Directors.





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Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2019 and 2018

(all amounts in EUR thousands unless otherwise stated)

	Note	2019	2018
Revenue	2	2,656,774	1,652,948
Costs incurred from financial institutions	2	(2,143,548)	(1,295,006)
Cost of inventory	3	(16,545)	(9,029)
<i>Net revenue</i>		<i>496,681</i>	<i>348,913</i>
Wages and salaries	4	(100,450)	(72,716)
Social securities and pension costs	4	(21,997)	(14,367)
Amortization and depreciation	13, 14, 17	(22,326)	(8,736)
Other operating expenses	5	(95,113)	(80,024)
Other income		202	140
Income before interest income, interest expense and income taxes		256,997	173,210
Finance income		334	417
Finance expense	9, 17	(4,633)	(1,516)
Other financial results	6	4,560	(7,401)
Net finance income		261	(8,500)
<i>Income before income taxes</i>		<i>257,258</i>	<i>164,710</i>
Income taxes	7	(53,219)	(33,564)
Net income for the period		204,039	131,146
<i>Net income attributable to owners of Adyen N.V.</i>		<i>204,039</i>	<i>131,146</i>
<i>Other comprehensive income</i>			
Items that may be reclassified to profit or loss:			
Other currency translation adjustments		(81)	622
Other comprehensive income for the year		(81)	622
Total comprehensive income for the year (attributable to owners of Adyen N.V.)		203,958	131,768
Earnings per share (in EUR)			
- Net profit per share - Basic	24	6.86	4.45
- Net profit per share - Diluted	24	6.68	4.29

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at December 31, 2019 and 2018

(all amounts in EUR thousands unless otherwise stated)

	Note	2019	2018
Intangible assets	13	7,640	5,059
Plant and equipment	14	30,219	23,921
Right-of-use assets	17	59,695	-
Other financial assets at FVPL	11	44,088	30,378
Contract assets	11	140,000	140,791
Deferred tax assets	7	71,633	8,297
Total non-current assets		353,275	208,446
Inventories	3	7,020	7,864
Receivables from merchants and financial institutions	15	443,333	355,596
Trade and other receivables	15	46,927	42,334
Financial asset at amortized cost		-	4,418
Other financial assets at amortized cost	11	13,031	9,842
Cash and cash equivalents	9	1,745,388	1,231,916
Total current assets		2,255,699	1,651,970
Total assets		2,608,974	1,860,416
Share capital	8	301	296
Share premium	8	179,296	160,209
Treasury shares	8	-	(4,804)
Other reserves	8	129,230	69,472
Retained earnings	8	559,494	357,231
Total equity attributable to owners of Adyen N.V.		868,321	582,404
Derivative financial instrument	11	35,800	23,800
Deferred tax liabilities	7	26,214	23,777
Lease liability	17	50,903	-
Total non-current liabilities		112,917	47,577
Payable to merchants and financial institutions	16	1,521,377	1,186,861
Trade and other payables	16	88,105	32,495
Lease liability	17	10,791	-
Current income tax payables	7	7,463	10,715
Deferred revenue	11	-	364
Total current liabilities		1,627,736	1,230,435
Total liabilities and equity		2,608,974	1,860,416

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2019 and 2018
(all amounts in EUR thousands unless otherwise stated)

	Note	Share capital	Share premium	Treasury shares	Other reserves			Retained earnings	Total equity
					Legal reserves	Share-based payment reserve	Warrant reserve		
Balance - January 1, 2018		295	149,314	-	21,726 (20,061)	6,207	-	212,236	389,777
Adoption of IFRS 9 accounting policy								20,061	-
Restated total equity at the beginning of the financial year		295	149,314	-	1,665	6,207	-	232,297	389,777
Net income for the year								131,146	131,146
Currency translation adjustments					622			622	622
Total comprehensive income for the period		-	-	-	622	-	-	131,146	131,768
Adjustments:									-
Intangible assets					1,079			(1,079)	-
Other adjustments					3,217			(2,064)	1,153
					4,296			(3,143)	1,153
Transactions with owners in their capacity as owners:									
Reclassification of warrant (net of tax)							51,150		51,150
Statutory tax rate change							3,069	(3,069)	-
Repurchase of depositary receipts	8			(31,035)					(31,035)
Options exercised	4	1	973			(974)			-
Proceeds on issuing shares	4		5,200						5,200
Movement resulting from treasury shares	8		4,722	26,231					30,953
Share-based payments	4					3,438			3,438
		1	10,895	(4,804)	-	2,464	54,219	(3,069)	59,706
Balance - December 31, 2018		296	160,209	(4,804)	6,582	8,671	54,219	357,231	582,404

	Note	Share capital	Share premium	Treasury shares	Other reserves			Retained earnings	Total equity
					Legal reserves	Share-based payment reserve	Warrant reserve		
Balance - January 1, 2019		296	160,209	(4,804)	6,582	8,671	54,219	357,231	582,404
Net income for the year									
Currency translation adjustments					(81)			204,039	204,039
Total comprehensive income for the period		-	-	-	(81)	-	-	204,039	203,958
Adjustments:									-
Intangible assets					2,581			(2,581)	-
Other adjustments					13			(13)	-
		-	-	-	2,594	-	-	(2,594)	-
Transactions with owners in their capacity as owners:									
Statutory tax rate change							(818)	818	-
Deferred tax on share-based compensation	6		255			60,389			60,644
Repurchase of depositary receipts	8			(18,323)					(18,323)
Options exercised	4		4,346			(4,346)			-
Proceeds on issuing shares	4	5	15,332						15,337
Movement resulting from treasury shares	8		(846)	23,127					22,281
Share-based payments	4					2,020			2,020
		5	19,087	4,804	-	58,063	(818)	818	81,959
Balance - December 31, 2019		301	179,296	-	9,095	66,734	53,401	559,494	868,321

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended December 31, 2019 and 2018

(all amounts in EUR thousands unless otherwise stated)

	Note	2019	2018
Income before income taxes		257,258	164,710
<i>Adjustments for:</i>			
- Finance income		(334)	(417)
- Finance expenses		4,633	1,516
- Other financial results	6	(4,560)	7,401
- Depreciation of plant and equipment	14	9,022	7,048
- Amortization of intangible fixed assets	13	2,192	1,688
- Depreciation of right-of-use assets	17	11,112	-
- Share-based payments	4	3,125	3,537
- Financial assets at amortized cost		-	(170)
<i>Changes in working capital:</i>			
- Inventories	3	844	(3,847)
- Trade and other receivables	15	(4,593)	(16,767)
- Receivables from merchants and financial institutions	15	(87,737)	(174,877)
- Payables to merchants and financial institutions	16	334,516	469,556
- Trade and other payables	16	55,610	7,505
- Deferred revenue		(364)	364
- Redemption financial assets at amortized cost		4,418	-
- Contract assets	11	2,133	(60,512)
<i>Cash generated from operations</i>		<i>587,275</i>	<i>406,735</i>
Interest received		334	417
Interest paid		(4,633)	(1,516)
Income taxes paid	7	(53,521)	(21,631)
Net cash flows from operating activities		529,455	384,005
Purchases of financial assets at amortized cost	11	(10,073)	(9,607)
Redemption of financial assets at amortized cost	11	7,275	6,989
Purchases of plant and equipment	14	(15,186)	(11,041)
Capitalization of intangible assets	13	(4,773)	(2,769)
Net cash used in investing activities		(22,757)	(16,428)
Share premium paid by the shareholders	8	15,332	5,200
Sale of depositary receipts (treasury shares)	8	22,281	30,953
Repurchase of depositary receipts (treasury shares)	8	(18,323)	(31,035)
Lease payment	17	(9,932)	-
Net cash flows from financing activities		9,358	5,118
Net increase in cash, cash equivalents and bank overdrafts		516,056	372,695
Cash, cash equivalents and bank overdrafts at beginning of the year	9	1,231,916	862,930
Exchange gains/(losses) on cash, cash equivalents and bank overdrafts	9	(2,584)	(3,709)
Cash, cash equivalents and bank overdrafts at end of the period		1,745,388	1,231,916

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

General Information

Adyen N.V. (hereinafter 'Adyen') is a licensed Credit Institution by De Nederlandsche Bank (the Dutch Central Bank) and registered in the Netherlands under the company number 34259528. The Credit Institution license includes the ability to provide cross-border services in the EEA. Adyen shares are traded on Euronext Amsterdam, where the Company is part of the AEX Index.

1. Consolidation

Accounting policy – Consolidation

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated.

Subsidiaries are fully consolidated from the date on which Adyen acquires control. They are deconsolidated from the date that control ceases.

Adyen N.V. directly or indirectly owns 100% of the shares of, and therefore controls all entities included in these consolidated financial statements (refer to Note 28 for a full list of entities included in scope of consolidation of these financial statements).

Adyen has offices in the Netherlands, Brazil, Singapore, the United Kingdom, Canada, Australia, South Korea, Hong Kong, Mexico, China, New Zealand, Malaysia, India, Japan and the United States, with branches in Germany, France, and Sweden and representative offices in Belgium, Italy and Spain. The address of Adyen's N.V. registered office is Simon Carmiggeltstraat 6-50, 1011 DJ Amsterdam, the Netherlands.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as endorsed by the European Union (EU-IFRS) and in accordance with sub article 8 of article 362, Book 2 of the Dutch Civil Code.

All amounts in the notes to the consolidated financial statements are stated in thousands of EUR, unless otherwise stated.

Significant and critical accounting policies and new and amended standards Adopted by the Group

The table below provides an overview of what Significant, Critical and new accounting policies are and where they are included in these financial statements. It further provides an overview of how Significant and Critical accounting policies together with the new and amended standards are connected throughout the notes to these financial statements.

For the assessment whether a disclosure is relevant to users of these financial statements the following was considered: the amount in question is significant in size or nature, importance for understanding the results of Adyen or explaining the impact of significant changes in Adyen's business and whether judgement is involved.

	Accounting Policies		Significant Accounting Estimates or Judgments	New and Amended standards Adopted
What it is	Accounting policies considered relevant for understanding the financial statements, or required to be disclosed by law or IFRS		These accounting policies involve a higher degree of judgement or complexity. The estimates applied are more likely to be materially adjusted due to inaccurate estimates and or assumptions applied	In the 2019 Annual report Adyen applied IFRS 16 – Leases for the first time
	Provided per note to the financial statements. The notes are organized into the following sections:			Details of the overall impact of the first-time application on January 1, 2019 is disclosed in Note 20 'New standards adopted by Adyen'
	<u>Key disclosures</u> : provide a breakdown of individual line items in the financial statements that users of the financial statements consider most relevant;	<ul style="list-style-type: none"> 2. Revenue and Segment reporting 3. Inventory 4. Employee benefit expense (including share-based payments) 5. Other operating expenses 6. Other financial results 7. Income tax 	<ul style="list-style-type: none"> 2. Revenue - Principal versus agent for revenue out of settlement fees 7. Income tax – Recognition of deferred taxes related to share-based compensation 	The amendments to standards that apply from 1 January 2019 are primarily clarifications. Adyen has assessed that the implementation of such had no impact in its current accounting policies.
Where	<u>Capital, investment and financial risk management</u> : key information relating to Adyen's capital management, explanations regarding financial instruments and financial risk management;	<ul style="list-style-type: none"> 8. Capital management 9. Cash & Cash equivalents 10. CRR / CRD IV Capital 11. Financial instruments 12. Financial risk management 	11 – Financial instruments – fair valuation of financial liabilities	
	<u>Other</u> : information on items required to be disclosed to be compliant with EU-IFRS and other legal requirements.	Notes 13 – 23, 24–37		17 – Leases – initial recognition of Right-of-use assets and Lease liabilities as per January 1, 2019
				New – IFRS 16 – Leases, note 20 'New standards adopted by Adyen'

Key Disclosures

In relation to our strategy, as outlined in the Directors report, Adyen's management considers the following disclosures as key in understanding its financial performance or position.

2. Revenue and segment reporting

The Adyen platform integrates the full payments stack (gateway, risk management, processing, acquiring and settlement) with a common back-end infrastructure for authorizing. The company derives revenue from processing payments, payment specific services and sales of POS terminals.

Accounting policy – Revenue from contracts with customers (IFRS 15)

Adyen has the following sources of revenue from contracts with customers:

(I) Settlement fees: Fees paid by merchants, usually as percentage of the transaction value, where Adyen offers acquiring services. These fees are recognized as revenue when a payment transaction has been completed by means of settlement with a merchant. Settlement fees include interchange and payment network fees and other costs incurred from financial institutions passed on to merchants as well as a mark-up charged by Adyen for its acquiring services, as contractually agreed between each merchant and Adyen;

(II) Processing fees: Fixed fee per transaction paid by merchants for the use of Adyen's platform and recognized as revenue when transaction is initiated via the Adyen payment platform;

(III) Sales of goods: Adyen satisfies the performance obligations to deliver the ownership of the POS terminals and related accessories upon transfer of control of the terminal to the merchant. Adyen considers this performance obligation to be distinct from its payment services. As a result, the revenues for the sale of POS terminals and related accessories are recognized at that point in time;

(IV) Other services: Such as foreign exchange service fees, third party commission and terminal service fees, are recognized at point in time. Services transferred over time relate to the amortization of deferred revenue for services provided as part of the merchant contract (Note 11) and terminal services fees as part of the unified commerce offering.

The breakdown of revenue from contracts with customers per type of goods or service is as follows:

Types of goods or service	2019	2018
Settlement fees	2,372,579	1,444,123
Processing fees	176,140	132,783
Sales of goods	14,653	10,748
Other services	93,402	65,294
Total revenue from contracts with customers	2,656,774	1,652,948
Costs incurred from financial institutions	(2,143,548)	(1,295,006)
Cost of inventory	(16,545)	(9,029)
Net revenue	496,681	348,913

Net revenue

Revenue of Adyen contains scheme fees, interchange and mark-up for which Adyen acts as a principal. The Management Board monitors Net Revenue (net of interchange, scheme fees (costs incurred from financial institutions) and cost of inventory) as a performance indicator. Adyen considers net revenue to provide additional insight, together with total revenue, to its users to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. Net revenue is a non-IFRS measure; reference is made to paragraph 2.2. for further explanation on the non-IFRS measures reported by Adyen.

Key Judgement – Principal versus Agent for revenue out of settlement fees

An entity is acting as a principal when it has control associated with selling goods or rendering services.

Settlement fees – Adyen is the principal

For all the payment processing services Adyen provides to the merchants it retains the exposure to financial institutions and payment networks for the interchange and payment network fees, other costs incurred from financial institutions as well as a mark-up charged by Adyen. As such Adyen concluded it acts as Principal for the aforementioned fees and they are recognized based on this conclusion.

Revenue recognized point in time and over time.

All processing and settlement fees, together with the sales of goods are recognized as revenue when the services are rendered or the ownership of the goods is transferred ('goods and services transferred point in time'). In addition to the aforementioned revenues streams, Adyen provides other services to its merchants for which revenues are recognized over a period of time. To align the revenues with the related costs, part of Adyen's revenue is recognized when the services are rendered ('services transferred over time').

The breakdown of revenue from contracts with customers based on timing is as follows:

Timing of revenue recognition	2019	2018
Goods and services transferred at point in time	2,650,160	1,646,960
Services transferred over time	6,614	5,988
Total revenue from contracts with customers	2,656,774	1,652,948

Accounting policy – Contract assets (IFRS 15)

Recognition and measurement

If a fee or commission (a consideration) is not paid in connection with any distinct goods or services, it should be considered part of the total transaction price of a contract with a customer. As a result, this fee or commission should be deducted from revenue when revenue is recognized for providing the services to the customer. These considerations are recognized as contract assets in the balance sheet.

Impairments

For the non-monetary component of the contract asset impairments are recognized if the carrying amount is higher than the recoverable amount. The contract assets are amortized and booked to revenue on a pro rata basis in line with the fulfilment of the expected payment services performance obligation.

For the monetary part of the contract asset, Adyen applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, other financial assets measured at amortized cost and the contract asset.

Contract assets

Reference is made to Note 11 'Financial instruments' for further details on the accounting treatment of the contract asset and the derivative liability resulting from the merchant contract.

2.1. Segment reporting

Accounting policy – Segment Reporting (IFRS 8)

The overall disclosure principle of IFRS 8 is to provide sufficient information in the financial statements in order to enable users to evaluate the nature and financial effects of the business activities in which Adyen engages and the economic environments in which it operates.

The standard requires operating segments to be identified based on internal reporting that is regularly reviewed by the Chief Operating Decision Maker ("CODM"). The CODM assesses the allocation of resources and performance. Adyen has identified the Management Board as the CODM. Based on Adyen's business and operating model Adyen has a single operating and reporting segment namely: payment services.

The total revenue of Adyen contains scheme fees, interchange and mark-up. Net revenue is a non-IFRS measure; reference is made to paragraph 2.2. for further explanation on the non-IFRS measures reported by Adyen. The Management Board monitors Net Revenue (net of interchange, scheme fees and cost of inventory) as a performance indicator. As a result, Adyen considers net revenue to provide insight to its users to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

As a result of the entity wide disclosure requirements of IFRS 8 a geographical breakdown is provided.

The following table summarizes Adyen's geographical breakdown of its revenue, based on the billing location as requested by the merchant for the periods indicated:

Revenue - Geographical breakdown	2019	2018
Europe	1,445,069	928,561
North America	799,442	471,853
Latin America	201,240	111,980
Asia-Pacific	205,457	135,948
Rest of the World	5,566	4,606
Revenue	2,656,774	1,652,948

Large customers

For the year ended December 31, 2019, as measured by revenue, Adyen's top 10 merchants represent 33% of revenue (2018: 47%). In 2019 there were no single customers that on an individual level accounted for more than 10% of the total revenue (two customers for the year ended December 31, 2018).

In the event merchants stop processing, Adyen does not incur in additional costs, hence Net Revenue (net of interchange, scheme fees and cost of inventory) is the performance indicator used by the Management Board. Interchange, payment network fees and other costs incurred from financial institutions are passed on to Adyen's merchants based on expected costs from processing.

Adyen considers net revenue to provide additional insight, together with total revenue, to its users to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. For the year ended December 31, 2019, as measured by Net Revenue, Adyen's top 10 merchants represent 27% of Net Revenue (2018: 31%). There were no customers with individually more than 10% of the total net revenue (2018: nil).

Non-current assets

At December 31, 2019 EUR 254 million of the non-current assets were carried by Adyen N.V. (2018: EUR 199 million). Based on the location of the Adyen offices (as defined in Note 28) the following geographical breakdown of non-current assets is prepared:

Non-current asset - Geographical breakdown	2019	2018
Netherlands	254,330	199,134
Rest of the World	98,945	9,312
Non-current assets	353,275	208,446

2.2. Non-IFRS Financial Measures

Non-IFRS financial measures are disclosed in addition to the statement of comprehensive income, in order to provide relevant information to better understand underlying business performance of the company. Furthermore, Adyen has provided guidance on several of these non-IFRS measures. Adyen reports on the following additional financial measures that are directly derived from the statement of comprehensive income or statement of cash flows:

- **Net revenue:** Adyen management monitors Net revenue (Revenue net of interchange, scheme fees (Costs incurred from financial institutions) and cost of inventory) as a performance indicator.

The geographical breakdown of Net revenue is as follows (based on the billing location as requested by the merchant for the periods indicated):

Net revenue - Geographical breakdown	2019	2018
Europe	323,156	228,724
North America	74,600	49,589
Latin America	50,407	34,549
Asia-Pacific	46,646	34,713
Rest of the World	1,872	1,338
Net revenue	496,681	348,913

In 2019 net revenue was EUR 496,681, up 42.4% from 2018 (2018: EUR 348,913). The growth in net revenues was well balanced geographically – with a year-on-year growth across Europe (41.3%), North America (50.4 %), Latin America (45.9 %), Asia Pacific (34.4 %) and Rest of the world (39.9%).

- **EBITDA:** "Income before interest income, interest expense and income taxes" less 'amortization and depreciation' on the statement of comprehensive income. For this measure, it is important to highlight the impacts of IFRS 16 on depreciation should be excluded for comparison purposes (EUR 11,112 for the year ended December 31, 2019); and
- **EBITDA Margin:** EBITDA as a percentage of Net Revenue
- **Capex:** with capital expenditure consisting of the line items "Purchases of plant and equipment" and "Capitalization of intangible assets" on the consolidated statement of cash flows; and
- **Free Cash Flow:** EBITDA less "Purchases of plant and equipment" and "Capitalization of intangible assets" on the consolidated statement of cash flows

Selected non-IFRS financial measures	2019	2018
Income before interest income, interest expense and income taxes	256,997	173,210
Amortization and depreciation	22,326	8,736
EBITDA	279,323	181,946
Net revenue	496,681	348,913
EBITDA margin (%)	56%	52%
Purchases of plant and equipment	15,186	11,041
Capitalization of intangible assets	4,773	2,769
CapEx	19,959	13,810
EBITDA	279,323	181,946
CapEx	(19,959)	(13,810)
Free Cash Flow	259,364	168,136
Free cash flow	259,364	168,136
EBITDA	279,323	181,946
Free Cash Flow Conversion ratio (%)	93%	92%

3. Inventories

Accounting policy – Inventories

Inventories are measured at the lower of cost (list price of the asset) or Net Realizable Value (NRV – which Adyen defines as the re-sale price). The costs of finished goods comprise the purchase value of these goods based on the first-in, first-out method (FIFO). There are no inventories measured at fair value less cost to sell.

The carrying amount of inventories is recognized as an expense when the inventories are sold unless they form part of the cost of another asset.

The inventory relates to the point of sale terminals in connection with the roll out of the Unified Commerce strategy.

Inventory	2019	2018
As at January 1	7,864	4,017
Products for resale: Purchases during the year	16,221	13,989
Expense recognized in Operating expenses	(520)	(1,113)
Recognized as Cost of inventory during the year	(16,545)	(9,029)
Total as at December 31	7,020	7,864

In 2019, Adyen performed a re-assessment on inventory and determined the Net Realizable Value of its inventory was lower than Cost due to technological obsolescence of older point-of-sale equipment. Therefore, a write-off of EUR 520 (2018: EUR 1,113) was recognized under Miscellaneous operating expenses (also refer to Note 5 'Other operating expenses').

4. Employee benefit expense

The average number of fulltime equivalents during the year was approximately 1,028 FTE (2018: 770 FTE) with main expansions of our operations in the US and Asia Pacific. From those hired during 2019, 32.7% were in tech roles, 50.8% in commercial roles and 16.5 % in staff or supporting functions.

At the end of the reporting period the regional breakdown of FTE per office is as follows:

FTE per office	2019	2018
Amsterdam	660	503
San Francisco	126	99
Singapore	78	52
London	63	49
São Paulo	56	47
New York	41	27
Other	158	96
Total	1,182	873

4.1. Employee benefits

Accounting policy – Employee benefits (IAS 19)

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of payment, except when they are related to share based payments (refer to paragraph 4.3)

The employee benefit expense can be specified as follows:

Employee benefits	2019	2018
Salaries and wages	96,977	69,179
Share-based compensation	3,473	3,537
Total wages and salaries	100,450	72,716
Social securities	19,520	12,568
Pension costs - defined contribution plans	2,477	1,799
Total	21,997	14,367

The share-based compensation consists of both equity- and cash-settled compensation expenses. A specification of the expenses is presented in the following table:

Share-based compensation	2019	2018
Equity-settled	2,020	3,446
Cash-settled	1,453	91
Total	3,473	3,537

Refer to paragraph 4.3 for a detailed disclosure relating to the share-based compensation. Reference is made to Note 22 'Compensation for key management' for the remuneration of the Management Board and Supervisory Board.

4.2. Post-employment benefit obligations

Accounting policy – Post-employment benefit obligations (IAS 19)

The Adyen group companies operate various pension schemes. The entitlement of the employees under the company's pension plans are all classified as defined contribution plans.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

The expected contributions to the pension benefit plans for 2020 are EUR 3,688.

4.3. Share-based payments

Adyen considers its employees and culture as core to its growth. As part of the total remuneration package, Adyen has three types of share-based payments:

- I. Depositary receipts to directors and employees (granted until 2013);
- II. Equity settled option plan (granted until 2018);
- III. Cash-settled option plan (granted from 2018 onwards).

These plans are described in more detail below:

I. Depositary Receipts

Adyen has granted the possibility to purchase Depositary Receipts at fair market value to directors and to employees as part of their remuneration up to 2013. The underlying shares of the Adyen are held by an administration foundation that in turn issues the Depositary Receipts to the employees. Each Depositary Receipt issued represents the economic interest of one underlying STAK ("Stichting Administratie Kantoor Adyen N.V. ") share.

In 2019, no vesting period remained for any of the Depositary Receipts granted and thus there was no revised estimate of the number of Depositary Receipts expected to vest or relating income statement impact.

II. Equity Settled Options

Accounting policy – Equity Settled Options (IFRS 2)

Adyen has an option plan for directors and employees. Exercisable options provided participants the opportunity to exchange Depositary Receipts at a strike price. The exercise price of the granted options is equal to the market price of the shares at grant date. Options will vest over a period of four years. The vesting period starts on the grant date. 25% of the options will vest on the first anniversary of the grant date. The remaining 75% of the options will then vest monthly, in equal proportions at the end of each month, over the following 36 months. Options can be exercised at any time from the vesting date until the 8th anniversary of the grant date. Adyen has no legal or constructive obligation to repurchase or settle the options in cash.

The maximum aggregate number of Depositary Receipts in respect to which options shall be granted is 1,312,500. Of the outstanding options 270,700 (2018: 872,140) options are exercisable. No options were granted during the year ended 31, December 2019, the weighted average fair value of options granted in 2018, determined using the Black-Scholes valuation model, was EUR 65.42 per option. The weighted average remaining expected option life is 1.12 years.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

share options outstanding	2019		2018	
	Weighted average exercise price (in EUR) per share option	Number of options (thousands)	Weighted average exercise price (in EUR) per share option	Number of options (thousands)
At January 1	35.96	1,170	32.92	1,224
Granted	-	-	105.31	79
Forfeited	89.72	(8)	65.83	(21)
Exercised	29.76	(507)	46.12	(112)
Expired	-	-	-	-
At December 31	30.48	655	35.96	1,170

III. Cash-settled option plan (Phantom shares)

Accounting policy – Cash-Settled Options (IFRS 2)

Adyen has established a cash-settled options plan for newly hired directors and employees. The exercise price of the granted options is equal to the market price of the shares at grant date. Options will vest over a period of four years. The vesting period starts on the grant date. 25% of the options will vest on the first anniversary of the grant date. The remaining 75% of the options will then vest (25%) yearly until all are vested after 4 years.

Adyen recognizes a cost over the vesting period and a corresponding liability based on the price of the Ordinary Shares of Adyen. The liability is measured at fair value through profit and loss using the share price of Ordinary shares at balance sheet date with remeasurements on each reporting date. Changes in the fair value are recognized as "Share-based compensation expense".

The expense reflecting the recognition of the grant-date fair value of a cash-settled share-based payment to employees is presented as an employee expense.

In 2019 a total of 5,083 phantom shares (2018: 2,816) were granted, the share price at balance sheet date is EUR 731 per phantom share. The fair value of the liability recognized resulting from the phantom shares is EUR 1,197 (2018: EUR 91).

5. Other operating expenses

Accounting policy – Operating expenses

Operating expenses are recognized in the period when they occur.

The other operating expenses can be specified as follows:

Other operating expenses	2019	2018
Housing costs	2,716	9,959
Office costs	3,123	2,097
IT costs	11,662	9,589
Sales & marketing costs	32,276	21,320
Travel and other staff expenses	21,657	14,756
Advisory costs	12,738	13,534
Miscellaneous operating expenses	10,941	8,769
Total	95,113	80,024

Introduction of a new IFRS standard on Leases

Adyen has adopted IFRS 16 from January 1, 2019 using the modified retrospective approach. Therefore, comparative figures were not restated for the 2018 reporting period, in accordance with standards transitional provisions. Due to IFRS 16 implementation, amounts which were previously recognized as housing costs, are now recognized in depreciation and interests. For more details on new standard implementation refer to Note 20 'New standards adopted by Adyen'.

6. Other financial results

The other financial results can be broken down in the following categories including references to the relevant notes:

Other financial results	2019	2018
Exchange gains	3,047	3,931
Fair value re-measurement of (refer to Note 11- 'Financial Instruments')		
Derivative Liability	(12,000)	(16,500)
Financial instruments at Fair Value through Profit & Loss	13,710	5,302
Other	(197)	(134)
Total	4,560	(7,401)

6.1. Exchange gains

Accounting policy – Functional currency and foreign currency translation

The functional currency of Adyen N.V. is the Euro as the Euro area is the primary economic environment in which Adyen operates. The financial statements of entities that have a functional currency different from that of Adyen N.V. ("foreign operations") are translated into Euro's as follows:

- Assets, equity and liabilities – at the closing rate at the date of the statement of financial position;
- Income and expenses – at the average rate of the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates).

All resulting unrealized changes are recognized in other comprehensive income except otherwise stated.

Monetary items

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Monetary assets and liabilities denominated in foreign currencies are retranslated into Adyen's functional currency at the rates prevailing on the balance sheet date. Exchange rate differences 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 recognized in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary items

Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Non-monetary items are retranslated at the date fair value is determined. Exchange rate differences on non-monetary items measured at fair value through the revaluation reserve are included in the revaluation reserve in equity.

The majority of the Exchange gains relate to part of the contract asset in USD that is classified as a monetary item. Reference is made to Note 2 'Revenue and segment reporting' for more details on the contract asset. As at December 31, 2019, a gain of EUR 1,341 is recognized (2018: EUR 4,687) in "Other financial results".

6.2. Derivative liability

As part of the merchant contract referred to in Note 2 'Revenue and segment reporting', a derivative liability measured at fair value through profit and loss is recognized. The nature of this derivative liability is described in more detail in Note 11 'Financial instruments'. For 2019, EUR 12,000 (2018: EUR 16,500) is recognized in "Other financial results" due to the re-measurement of the fair value of the derivative liability.

6.3. Financial instrument at fair value through profit and loss

Adyen has classified and measured the convertible preferred Visa Inc. shares as a financial instrument at fair value through profit and loss. For 2019 the effect on other financial income is EUR 13,710 (2018: EUR 5,302).

7. Income tax

7.1. Income tax expense

Accounting policy – Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

The tax on Adyen's profit before tax differs from the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities. The effective tax rate of Adyen is 20.69% (2018: 20.38%) which differs from the statutory tax rate in the Netherlands of 25% (2018: 25%) as follows:

Effective tax calculation	2019	2018
Income before tax at statutory rate of 25%	257,258	164,710
Weighted average statutory tax rate	25%	25%
Weighted average statutory tax amount	64,315	41,178
<i>Tax effects of:</i>		
Innovation box (changes in tax rate)	(13,029)	(10,294)
Tax rate differences on foreign operations	(374)	599
Other deferred taxes	93	867
Other adjustments (such as prior year and non-deductible amounts)	2,214	1,215
Effective tax amount	53,219	33,564
Current income tax	2019	2018
Current income tax liabilities	7,463	10,715

7.2. Deferred Income taxes

Accounting policy – Deferred taxes

Deferred income taxes arise, in general, as a result of temporary differences between tax and commercial accounting treatment. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liabilities is settled. The applied rates are based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

In some tax jurisdictions, Adyen is granted tax deduction (i.e. an amount that is deductible in determining taxable profit) that relates to remuneration paid in share options of the entity. The amount of that tax deduction may differ from the related cumulative remuneration expense, and may arise in a later accounting period. In the event where tax deductions exceed the remuneration expense, Adyen recognizes a deferred tax position with impact directly in Equity.

The statutory tax rate in the Netherlands will be reduced from 25% in 2019 to 21.7% in 2021. This change was substantively enacted in the reporting period. As a result, Adyen remeasured the relevant deferred tax balances as per December 31, 2019 with the remeasurement accounted for in profit and loss and equity. For the deferred tax balances with a maturity after December 31, 2020 Adyen has used the new tax rates and the impact in profit and loss was EUR 12 and in equity EUR 818.

I. Deferred tax assets

In the deferred assets an amount of EUR 29,163 (as per December 31, 2018: EUR 553) recognized relates to net operating losses carried forward, the increase in this balance relates mainly to share-based compensation excess deduction taken in the US, which is explained later in this section. Further EUR 7,769 (as per December 31, 2018: EUR 4,879) of the deferred tax assets relates to the recognized derivative liability.

After the IPO, which took place in 2018, employees exercised an increased number of options. Adyen has assessed all jurisdictions in which it operates for possible corporate tax impact for the respective entities within Adyen to which such tax benefits pertain, that would arise from taxes paid by employees in these jurisdictions. Management's approach to paying taxes in countries in which it operates and generates profits were considered when determining whether these corporate deferred tax benefits are expected to be utilized in current and future fiscal years.

Significant accounting estimate - Deferred tax asset linked to windfall benefits

In the United States, during 2019 Adyen has proceeded with its assessment regarding the recognition of deferred tax asset on windfall benefits linked to the share-based compensation plan. Throughout the year new facts and circumstances became available, configuring a change in estimates and leading to the conclusion the Company is entitled of the tax benefit and will be able to realize the credit in upcoming years on a going concern basis, once the carryforward losses have no expiration date. For the exercised options, the deduction impacts the corporate income tax calculation, turning taxable profits into carryforward losses, the balance as per December 31, 2019 is EUR 28,380, this includes the impact of options exercised in 2018 (EUR 2,033) and 2019 (EUR 26,347). For the future tax deductions, related to options granted, vested however not exercised yet, Adyen has recognized a deferred tax asset in the amount of EUR 31,739, this portion is related only to Federal tax deductions. An amount of EUR 8,056 related to deferred State taxes were not recognized as of December 31, 2019, due to its finite carrying period.

As In addition to the United States, Adyen recognized a deferred tax asset in the United Kingdom of EUR 1,711 (2018: EUR 1,153) and a reduction of the current tax payable of EUR 52 (2018: EUR 71).

The full deferred tax asset related to future tax deductions and carryforward losses related to the share-based compensation excess deduction was recognized directly in equity in amount of EUR 60,119.

II. Deferred tax liability

The deferred tax liability consists mainly of the deferred tax on the Visa Inc. preferred stock of EUR 9,567 (2018: EUR 7,594) and the non-monetary part of the contract asset EUR 16,319 (2018: EUR 16,020).

The deferred taxes have a maturity date of more than 12 months and are presented as non-current on the Adyen balance sheet.

The below movement schedule includes the changes in deferred taxes with the respective impact in Equity and Profit and loss:

	Balance 1 January 2019	Recognized in income	Recognized in equity	Effects of foreign exchange	Balance 31 December 2019
Derivative financial instrument	4,879	2,890			7,769
Windfall tax benefit	1,153		32,029	(72)	33,110
Tax losses carried forward	553		28,615	(5)	29,163
Temporary differences	1,549	94		(380)	1,263
Other financial assets at FVPL	(7,594)	(1,973)			(9,567)
Contract asset	(16,020)	(299)			(16,319)
Net tax assets / (liabilities)	(15,480)	712	60,644	(457)	45,419

	Balance 1 January 2018	Recognized in income	Recognized in equity	Effects of foreign exchange	Balance 31 December 2018
Derivative financial instrument	-	21,929	(17,050)		4,879
Windfall tax benefit	-		1,153		1,153
Tax losses carried forward	583	(80)		50	553
Temporary differences	(489)	1,427		611	1,549
Other financial assets at FVPL	(3,597)	(3,997)			(7,594)
Contract asset	-	(16,020)			(16,020)
Net tax assets / (liabilities)	(3,503)	3,259	(15,897)	661	(15,480)

The breakdown between current and deferred income taxes for the year ended December 31, 2019 and 2018 is disclosed as per the below table:

Tax expense	2019	2018
Current income tax expense	53,931	36,823
Deferred income tax expense	(712)	(3,259)
Total	53,219	33,564

Capital management, financial instruments and financial risk management

8. Capital Management

Adyen's objective when managing capital is to safeguard its ability to continue as a going concern. Furthermore, Adyen ensures that it meets regulatory capital requirements at all times.

Accounting policy – Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction, net of tax, from the proceeds.

In 2019 507,056 (2018: 111,404) additional shares were issued. The majority of the additional issued shares were a result of exercises of options granted to employee. The paid up and called share capital increased to EUR 300,609 (2018: EUR 295,538) resulting in a total of 30,060,947 (2018: 29,553,891) ordinary shares (nominal value EUR 0.01 per share). The total number of authorized shares was 80,000,000 (2018: 80,000,000).

The total of distributable reserves amounts to EUR 535,052 (2018: EUR 381,786) when taking into account regulatory capital requirements. The legal reserves, in amount of EUR 43,616 (2018: 29,366) are considered non-distributable in accordance with Dutch Law, as presented in the Company Financial Statements (note 32). The legal reserve in the consolidated financial statements relate to specific IFRS reserves, whereas the legal reserves in the Company Financial Statements also contain the legal reserves as in accordance with Dutch Law as applicable to Adyen N.V. on a stand-alone basis.

Earnings are added to retained earnings reserve and the current dividend policy is not to pay dividends, as retained earnings are used to support and finance the growth strategy of the company.

Derivative financial instruments and Warrant reserve

During the year ended December 31, 2018 due to a change in circumstances resulting from the Initial Public Offering, Adyen reassessed the previous classification of the derivative financial liability and reclassified a component of the derivative financial liability as an equity instrument. As the applicable component of the derivative financial liability instrument will be convertible into a fixed number of ordinary shares for a fixed amount in the future, when certain contractual contingent events are achieved. The derivative financial liability was measured to fair value before being de-recognized and reclassified to equity as a separate component of equity (the warrant reserve). The fair value remeasurement until the reclassification date is recognized through profit and loss (other financial result). Equity instruments are not subsequently remeasured to fair value.

The first two tranches of the derivative liability resulting from the merchant contract are classified as warrant reserve in equity for the amount of EUR 53,401 (net of EUR 14,799 deferred tax assets). The remaining derivative liability balance as per end of December 2019 is EUR 35,800. Reference is made to Note 11 'Financial instruments' for further details on the accounting treatment of the contract asset and derivative liability financial instrument relating to the merchant contract.

*Treasury shares***Accounting policy – Purchase of Depositary Receipts (Treasury shares)**

A single Depositary Receipt can be exchanged for one Ordinary share in Adyen N.V. Depositary Receipts are classified as equity instruments under IFRS. A depositary receipt purchased by Adyen N.V. is accounted for as Treasury Shares. These purchase Depositary Receipts have not been cancelled and are recognized at cost (price paid to purchase a Depositary Receipt by Adyen N.V.) and reported within other reserves.

Following its IPO, Adyen has provided its employees the opportunity to partially monetize their vested options. For the year ended December 31, 2019 Adyen has repurchased a total number of 27,181 (2018: 59,875) Depositary Receipts for the total amount of EUR 18,323 (2018: EUR 31,035) previously presented as Treasury Shares. As at December 31, 2019 all Treasury Shares have been sold back to the market for a total amount of EUR 22,281 (2018: nil).

Accounting policy – Cash and cash equivalents

Adyen's cash and cash equivalents are measured at amortized cost and are included in current assets due to their short-term nature.

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Due to the short duration of the cash and cash equivalents (less than 3 months) the fair value approximates the carrying value.

9. Cash and Cash equivalents

As per December 31, 2019 EUR 1,005,265 (2018: EUR 731,551) represents cash held at central bank. During the year ended December 31, 2019 the cash held at central banks incurred in negative interests in the amount of EUR 2,428 (2018: EUR 1,182).

Adyen cash which is surplus to regulatory requirements, operational needs and which is not held at central bank is invested in interest bearing short-term deposits with financial institutions and is exposed to credit risk with these counterparties. Adyen actively manages concentration risk and it is Adyen's policy that all commercial banks where cash and cash equivalents are held have a credit rating A or higher. No defaults occurred during the year and management does not expect any losses from non-performance by these counterparties.

10. CRR/CRD IV Regulatory Capital

The following table displays the composition of regulatory capital as at December 31, 2019. The regulatory capital is based on the CRR/CRD IV scope of consolidation, which is the same as the IFRS scope of consolidation.

Own funds	2019	2018
EU-IFRS Equity as reported in consolidated balance sheet	868,321	582,404
Net profit not included in CET1 Capital (not yet eligible)	(204,039)	(131,146)
Warrant reserve	(53,401)	(54,219)
Regulatory adjustments		
Intangible assets	(7,640)	(5,059)
Deferred tax asset that rely on future profitability	(61,725)	(1,895)
Prudent valuation	(80)	(54)
Total as at December 31	541,436	390,031

11. Financial Instruments

Accounting policy – Financial instruments (IFRS 9)

Classification

Adyen classifies its financial assets in the following measurement categories, those to be measured:

- subsequently at fair value through profit or loss ('FVPL'), and
- at amortized cost.

The classification depends on the Adyen's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at FVPL, gains and losses will be recorded in profit or loss.

Measurement

At initial recognition, Adyen measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on Adyen's business model for managing the asset and the cash flow characteristics of the asset. Adyen measures its debt instruments as follows:

- Amortized cost: Held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income using the effective interest rate method.

Financial assets and liabilities at fair value through profit or loss

- Assets that do not meet the criteria for amortized cost or Fair value through Other Comprehensive Income ('FVOCI') are measured at FVPL. A gain or loss is subsequently measured at FVPL and gains or losses are recognized in profit or loss and presented net within other gains and losses for the period in which it arises.

Impairment

Adyen assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and contract assets, the group applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the assets.

Instruments in scope on the balance sheet of Adyen include: Cash and cash equivalents, Receivables from financial institutions, Trade receivables, other receivables and contract asset classified as monetary item. The expected credit loss model is to measure the pattern of improvement or deterioration in the credit quality of the debt instruments. The measurement basis consists of two categories

- Stage 1: Expected credit losses (12 months)
- Stage 2: Life time expected credit losses

The Adyen Treasury policy only allows exposures to financial institutions with sound credit quality rating and limits the exposure to a maximum amount. As a result, Adyen applies the low credit risk simplification, hence all assets are considered to be in stage 1 and a 12-month expected credit loss is applied.

For Trade and other receivables lifetime expected credit losses are applied. For these instruments operational simplifications can be applied, hence it eliminates the need to calculate a 12-month expected credit losses or to measure increases in credit risk for the instrument. For trade receivables the loss allowance should be measured at initial recognition, and throughout the total duration equal to lifetime expected credit losses.

All financial instruments on the balance sheet meet the requirements of the contractual cash flow and characteristics test. Furthermore, the classification is based on the business model test. As a result, the classification is consistent with how the business is managed and in line with risk management strategies and how this is reported to key management.

Financial assets impairment

During the year Adyen added EUR 1,828 (2018: EUR 1,335) to its accounts receivable provision based on the calculations from its IFRS 9 expected credit loss model for Accounts Receivable. Adyen did not recognize any other impairments on financial instruments during the reporting period (2018: nil), nor reversed any impairment losses.

Other financial assets at Amortized cost (Government Bonds)

Adyen has the intent and ability to hold the bonds to maturity and Adyen, therefore, applies a hold-to-collect business model. The fair value (level 1) of these debt instruments at amortized cost approximates the carrying value due to the short-term nature of the instruments.

Other financial assets at Fair Value Through Profit and Loss (Visa Inc. preferred shares)

Adyen has recognized and classified the convertible preferred Visa Inc. shares within the FVPL category. The fair value of the level 2 preferred stock in Visa Inc. is based on the fair value of Visa Inc. common stock multiplied by an initial conversion rate of preferred stock into common stock. The conversion rate of the preferred stock into an equivalent number of common stocks may fluctuate in the future. The Visa Inc. shares carry the right to receive discretionary dividend payments presented as Other Income in the income statement (EUR nil; 2018: EUR 140).

Contract asset

In 2018 Adyen signed a contract with a merchant for the provision of payment services that resulted in the initial recognition of contract assets of EUR 136,251. The contract was agreed upon by incurring and recognizing a derivative liability of EUR 75,500, a deferred revenue of EUR 4,050 and the payment of (net) EUR 56,701 upon signing of the contract. The contract asset is amortized and recognized as revenue, on a pro rata basis, in line with the fulfilment of the expected payments services performance obligation (refer to Note 2 'Revenue and segment reporting').

At initial recognition, Adyen has classified EUR 60,751 of the contract asset as a monetary item, denominated in USD, as Adyen has the right to receive a determinable amount of cash. The contract asset is in scope of impairment under IFRS 9, however, due to low credit risk, the expected credit loss on the contract asset is not significant. Refer to Note 6 'Other financial results' for the foreign exchange movement in the monetary part of the contract asset.

The carrying value of the contract asset at December 31, 2019 is EUR 140,000 (2018: EUR 140,791). The movement in the contract asset contains a foreign currency exchange gain of EUR 1,341 (2018: EUR 4,780) included in Note 6 'Other financial results', and the asset amortization in amount of EUR 2,132 (EUR 240). The contract asset is amortized in accordance with the merchant contract schedule and will be realized as volume is processed in line with ongoing business with the merchant.

Significant accounting estimate - Derivative liability

As part of the merchant contract previously mentioned, Adyen recognized a derivative liability measured at fair value through profit and loss, classified as a Level 2 fair value instrument.

The first two tranches of the derivative liability resulting from a merchant contract are classified as warrant reserve in equity in the amount of EUR 53,410 (net of EUR 14,799 deferred tax assets) after the IPO. The remaining derivative liability balance as per December 31, 2019 is EUR 35,800 (2018: EUR 23,800). The derivative liability valuation takes into consideration Adyen share price and management estimates, in line with the fulfilment of the of the payment services to be provided to the merchant, reference is made to Note 6 'Other financial results' for the recognition of the movement of the derivative liability.

Adyen carried out a sensitivity analysis of the derivative financial liability, and a 5% increase or decrease in the underlying Adyen share price would result in an increase or decrease of approximately EUR 2 million of the value of the derivative liability, all other circumstances considered to be equal.

12. Financial risk management

Adyen's activities expose it to a variety of financial risks. Risk management is the responsibility of Adyen's management. Adyen applies a risk aware but not overly risk-averse approach towards risk management. Adyen's Integrated Risk Management Framework (IRMF), which is based on COSO's Enterprise Risk Management (ERM) model, defines a uniform and systematic approach for managing risks across Adyen. The main sources of financial risk to Adyen are considered in the table below:

Source of risk and risk description	Risk mitigation	Remaining risk
Liquidity risk Liquidity risk is the risk that Adyen could not meet its short-term payment obligations.	<p>Adyen actively monitors its liquidity risk, however the majority of the balance sheet, excluding merchant funds, for both assets and liabilities has a maturity date of less than three months on an undiscounted contractual basis. The remaining balances with a different maturity date (as mentioned specifically in the notes of these financial statements) are not considered material, including lease liabilities after the adoption of IFRS 16 (refer to note 17).</p> <p>The balance sheet positions related to merchant fund flows are considered not to impose liquidity risk as these cash balances and related payables are interrelated from a liquidity perspective. Hence, the availability of the sales day payout product didn't increase liquidity risk. For the majority of its merchants Adyen only settles merchant payables after the cash is collected from the Card Schemes.</p> <p>Adyen holds liquidity buffers based on the Liquidity Coverage Ratio (LCR), accompanied by a survival period metric, to mitigate the residual risk. The survival period is set at six months.</p>	Minimal Due to the short-term character of Adyen's balance sheet the remaining liquidity risk is assessed as minimal.
Market risks <i>Foreign exchange risk</i> Adyen operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises on recognized assets and liabilities, principally trade and merchant flow related receivables and payables, and investments in foreign operations.	<p>Management actively manages the foreign exchange risk resulting in limited exposure to foreign exchange risks. This situation is evidenced by the absence of any significant results related to foreign exchange risk in the income statement. USD (with a net exposure balance of EUR 213 million) is the most significant non-functional currency in which financial assets as per December 31, 2019 are denominated. A 10% shock (positive or negative) would result in a EUR 21 million profit or loss in the 'Other Financial Result' in the Income Statement.</p> <p>The balance sheet positions related to merchant fund flows are not considered for the determination of foreign exchange risks. The merchant funds have a natural match in currencies between receivables and payables or a very short duration significantly reducing the foreign exchange risk.</p> <p>Adyen holds liquidity buffers in various currencies to ensure that it will be able to meet payment obligations to merchants, thereby mitigating liquidity risk arising from failed FX transactions.</p>	Minimal The resulting overall impact of an immediate 10% shock on all currencies excluding USD is minimal.
<i>Interest rate risk</i> Interest rate risk on financial instruments could arise from adverse movements in underlying interest rates.	Interest rate risk arising from maturity and tenor mismatches in assets and liabilities is limited and therefore considered not to be material to Adyen, as some assets are interest bearing whereas all liabilities are non-interest-bearing.	As a result of the nature of the products on the Adyen balance sheet the remaining

	<p>Because Adyen is not financed with external debt, no significant interest rate risk is present. Although significant liabilities towards merchants are present, these liabilities are non-interest bearing and are settled at short notice.</p> <p>The cash balances of Adyen are not significantly exposed to interest rate risk as this cash is used to settle the current liabilities towards the merchants at short notice. The nominal values of the bonds held-to-maturity are minimal compared to the total financial instruments on the Adyen balance sheet, are short-term in nature and are held-to-collect contractual cash flows leading to minimal interest rate risk.</p>	interest rate risk is considered to be minimal.
<p><i>Equity price risk</i></p> <p>The risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.</p>	<p>The group's exposure to equity securities price risk arises from investment in Visa Inc. shares, which are classified in the balance sheet as fair value through profit and loss. The exposure consists of potential financial losses due to movements in the share price of Visa Inc.</p> <p>Two tranches of the large merchant contract are classified in the balance sheet as a derivative financial liability. The exposure is affected by share price movements of Adyen shares.</p> <p>In addition, Adyen's Treasury policy does not allow purchasing additional equity positions (excluding treasury shares).</p>	The remaining equity price risk is considered limited as Adyen has no other equity instruments on its balance sheet.
<p>Credit risks</p>		
<p><i>Counterparty default risk</i></p> <p>The counterparty credit risk relates to receivables from financial institutions regarding settled payment transactions.</p> <p>A default of financial counterparties could have a negative impact on Adyen's financial results.</p>	<p>Adyen cash which is surplus to regulatory requirements and operational needs is invested in interest bearing short-term deposits with financial institutions and is exposed to credit risk with these counterparties. Adyen actively manages concentration risk and it is Adyen's policy that all commercial banks where cash and cash equivalents are held with a credit rating above investment grade rating or higher.</p> <p>The credit risk per financial institution is maximized to EUR 150 million or 25% of Adyen's eligible capital, whichever is the highest, provided that the financial institution has a minimum credit rating of P1/A1 from Moody's/S&P. For financial institutions with lower credit ratings the credit risk per financial institution is maximized to EUR 50 million.</p> <p>In order to decrease its exposure to one of its counterparties, Adyen has setup a collateral account in which Brazilian Government bonds were deposited by a partner financial institution. As per December 31, 2019 the total collateral was EUR 51,685 (BRL 233,486).</p> <p>Adyen has detailed the credit risk limits in the Credit Risk Policy and the Treasury Policy.</p> <p>No defaults occurred during the year and management does not expect any losses from non-performance by these counterparties.</p>	The remaining credit risk remains within Adyen's risk appetite.
<p><i>Concentration risk</i></p> <p>Risk of losses stemming from on- and off-balance sheet positions arising from concentrations in exposures to an issuer or a group of connected issuers.</p>	Adyen actively manages concentration risk by distributing its cash over bank accounts at multiple banks. If needed cash can be held at accounts with central banks. Adyen continues to monitor its merchant funds flows at partner banks, and that are not settled through accounts held at the central bank, to ensure compliance with the large exposure limit.	The remaining credit risk remains within Adyen's risk appetite.

Other disclosures

13. Intangible assets

Accounting policy – Intangible assets (IAS 36)

The intangible assets are stated at cost less accumulated amortization, and include internally generated software with finite useful lives. These assets are capitalized and subsequently amortized on a straight-line basis in the statement of income over the period with an estimated useful life of 5 years. Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The useful life is assessed on an annual basis.

Adyen's intangible assets relate to capitalized expenses relating to internally development of the Adyen payment platform.

Intangible assets	2019	2018
<i>Internally generated software</i>		
Accumulated amortization	(5,190)	(3,502)
Cost	10,249	7,480
Opening book value, January 1	5,059	3,978
Additions	4,773	2,769
Amortization for the year	(2,192)	(1,688)
Total as at December 31	7,640	5,059
Accumulated amortization	(7,382)	(5,190)
Cost	15,022	10,249

14. Plant and equipment

Accounting policy – Plant and equipment (IAS 16)

Plant and equipment are stated at cost less accumulated depreciation. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred. The major categories of Plant and equipment namely machinery and equipment are assessed to have a useful life of 5 years. Tangible fixed assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The useful life is assessed on an annual basis.

Plant and equipment	2019	2018
<i>Machinery and equipment</i>		
Accumulated depreciation	(16,493)	(10,378)
Cost	40,414	30,368
Opening book value, January 1	23,921	19,990
Additions	15,563	11,041
Disposals	(377)	-
Other changes (e.g. exchange differences)	134	(62)
Depreciation for the year	(9,022)	(7,048)
Total as at December 31	30,219	23,921
Accumulated depreciation	(25,368)	(16,493)
Cost	55,587	40,414

Adyen did not recognize a loss from impairment of neither plant nor equipment during the year (2018: nil), nor reversed any impairment losses.

15. Trade, other receivables, receivables from merchants and financial institutions

Accounting policy – Trade and other receivables

Trade receivables are amounts due from merchants for payment services performed. If collection is expected in less than one year they are classified as current assets. Trade and other receivables are classified as amortized cost, initially recognized at fair value and subsequently measured at amortized cost less impairments for expected credit losses. Due to the short duration of the receivables (average less than 3 months) the fair value approximates the carrying value.

15.1. Trade, other receivables, receivables from merchants and financial institutions

Trade, other receivables, receivables from merchants and financial institutions	2019	2018
Trade and other receivables	50,155	45,084
Less: Provision for expected credit losses	(3,228)	(2,750)
Trade receivables - Net	46,927	42,334
Receivables from Merchants and Financial Institutions	443,333	355,596
Total	490,260	397,930

Receivables from Financial institutions

Receivables from Financial institutions relates to balances due from Schemes and other financial institutions, regarding transactions processed which will be settled within a short-term.

Receivables from merchants

As part of Sales Day Payout, product made available in 2019, Adyen settles a full transactions sales day to merchants before the funds from financial institutions are fully received, therefore Adyen is entitled to a receivable from all merchants which have opted to use this form of settlement. The receivable relates to balances of merchants to be settled by Schemes, with an average duration of less than 3 months. As at December 31, 2019, the receivables from Sales Day Payout have a balance of EUR 36,619 (2018: nil).

Adyen assesses, on a forward-looking basis, the expected credit losses and concluded the impact of expected credit losses is not significant.

15.2. Impairments of financial assets at amortized cost

No financial assets are past due except for trade receivables. As disclosed in Note 11 'Financial instruments' Adyen applies the simplified approach to determine expected credit losses on trade receivables. As at December 31, 2019, trade receivables of EUR 22,653 (2018: EUR 7,708) were not past due, EUR 27,502 were past due (2018: EUR 29,706) of which EUR 13,144 less than 3 months (2018 EUR: 13,635) and EUR 3,228 impaired (2018: EUR 2,750). The average duration of the overdue trade receivables is 3 months (2018: 3 months). The addition to the provision for expected credit losses (impairment) for trade receivables in 2019 was EUR 1,828 (2018: EUR 1,335).

16. Trade and other payables

Accounting policy – Trade and other payables

Payables are obligations initially recognized at fair value and subsequently measured at amortized cost to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. Due to the very short duration of the payables (< 3 months) the fair value approximates the carrying value.

Trade and other payables	2019	2018
Payable to merchants and financial institutions	1,521,377	1,186,861
Trade payables	9,458	6,622
Taxes and social security	43,709	11,958
Accrued employee benefits	18,959	8,616
Accrued liabilities and other debts	14,783	5,208
Cash-settled option plan	1,196	91
Total	1,609,482	1,219,356

The payables to financial institutions relate to interchange and scheme fees payable and do not constitute borrowings.

Taxes and social security mainly related to VAT payables and wage taxes related to Adyen employees.

Adyen has recognized liabilities measured at fair value through profit and loss that are related to the cash-settled option plan (also refer to Note 4.3 'Share-based payments'). The total recognized liability at December 31, 2019 is EUR 1,196 (2018: EUR 91).

17. Leases

Adyen's leases relate to offices and data centers across locations where it operates, refer to note 20 for the impact of first adoption of IFRS 16 – Leases.

Accounting policy – Leases (IFRS 16)

Adyen assesses if a lease exists or a contract contains a lease at the contract inception date, concluding whether an asset is identifiable, and Adyen has control to direct its use and all economic benefits related. A right-of-use asset and a lease liability are recognized at the lease commencement date, which can differ from contract inception date.

The lease liability is initially measured by bringing to present value all future lease payments, discounted by an incremental borrowing rate, in case no interest rate is available for the contract.

At initial recognition, the right of use asset amounts to the initial lease liability. Right of use assets are tested for impairment whenever events or changes in circumstances indicates that the carrying amount may not be recoverable.

Short-term (less than 12 months) and small value lease contracts are expensed in income statement on a straight-line basis over the lease term.

All leases entered are related offices and data centers, being these based on fixed payment and term.

Right-of-use assets	2019
<i>Offices and data centers</i>	
Opening book value, January 1	62,625
Additions	8,712
Depreciation for the year	(11,112)
Other movements	(530)
Total as at December 31	59,695
Lease liability	2,019
Opening book value, January 1	62,625
Additions	8,712
Lease payments	(11,087)
Interest expense	1,155
Other movements	289
Total as at December 31	61,694

In 2019 Adyen recognized an amount of EUR 11,112 related to the depreciation of the right-of-use assets and EUR 1.155 related to interest on the lease liabilities in accordance with IFRS 16. For 2018, Adyen recognized an amount of EUR 9,959 related to housing costs in accordance with IAS 17.

As of December 31, 2019, the future minimum lease payments are as follows:

	Minimum future lease payments
2020	11,815
2021	10,520
2022	8,848
2023	8,003
2024	7,687
Thereafter:	18,926
Total	65,799

18. Other contingent assets, liabilities and commitments

Adyen has no contingent liabilities in respect to legal claims.

Adyen N.V. and Adyen International B.V. are a fiscal unity for income tax purposes. Under the Dutch Tax Collection Act, the members of the fiscal unity are jointly and severally liable for any taxes payable by the fiscal unity.

In the U.S., Adyen. holds licenses to operate as a money transmitter (or its equivalent), which, among other things, subjects Adyen to reporting requirements, bonding requirements, limitations on the investment of customer funds and inspection by state regulatory agencies.

Adyen has EUR 23,892 (as per December 31, 2018: EUR 18,777) of outstanding bank guarantees and letters of credit as per December 31, 2019. In addition, Adyen has an intra-day credit facility of EUR 274 million (as per December 31, 2018: EUR 100 million) which is not used as per December 31, 2019.

During 2019, Adyen has setup a collateral account in which Brazilian Government bonds were deposited by a partner financial institution, in order to decrease its exposure to this counterparty in Brazil. As per December 31, 2019 the total collateral was EUR 51,685 (BRL 233,486).

19. Related party transactions

In 2019 Adyen identified related party transactions that took place with Stichting Administratiekantoor Adyen, employees and Supervisory Directors. The transactions with Employees and STAK are related to option exercises, and the amounts due to Supervisory Board is related to services rendered throughout the year. The respective outstanding balances as per December 31, 2019 and 2018 are:

Related party transactions	31/12/2019	31/12/2018
Supervisory Board	(97)	(271)
Employees	18	1

The Management Board and Supervisory Board remuneration is disclosed in Note 21 'Compensation of key management'.

There were no other transactions with related parties during the year (2018: nil)

20. New standards adopted by Adyen

20.1. IFRS 16 - Leases

Adyen has adopted IFRS 16 from January 1, 2019 using the modified retrospective approach, by measuring assets at an amount equal to the lease liability. Therefore, comparative figures were not restated for the 2018 reporting period, in accordance with standards transitional provisions, with no exemptions. All reclassifications and adjustments arising from new rules were recognized on January 2019 opening balance sheet.

Adjustments recognized on adoption of IFRS 16

Due to IFRS 16 adoption, Adyen recognized right-of-use assets and lease liabilities with regard to lease agreements for data center space, server racks and offices, which were previously recognized as operating leases in accordance with IAS 17.

The lease liability measurement was calculated by bringing to present value all future lease payments, using an incremental borrowing rate as of January 1, 2019, in case no interest rate was available for the contract. The average incremental borrowing rate applied at the date of initial adoption was 1.8%.

The right-of-use assets related to the aforementioned agreements were measured in a prospective basis, as if new rules were applied to the date of standard implementation, adjusted by the amount of any prepayments related to the lease agreement as per December 31, 2018.

As a result of the new standard, the opening balances as per January 1, 2019 were affected as per below:

Impact IFRS 16	01/01/2019	31/12/2019
Right-of-use assets	62,625	59,695
Current lease liabilities	10,556	10,791
Non-current lease liabilities	52,069	50,903

The commitments disclosed in the 2018 financial statements included service costs, which are excluded from the initial adoption numbers as per January 1, 2019.

20.2 Other standards and interpretations

Effective from 1 January 2019, the group has adopted IFRIC 23 'Uncertainty over Income Tax Treatments', and to the extent relevant, all other IFRS standards, interpretations and amendments that were in issue and effective from 1 January 2019. IFRIC 23 'Uncertainty over Income Tax Treatments' is an interpretation which clarifies the accounting for income tax when it is unclear whether a tax authority will accept the income tax treatment as applied in income tax filings.

Adyen has taken into consideration the impacts of the interpretation when assessing the deferred tax asset position due to excess deduction in the US, refer to Note 7 'Income Taxes'. As a change in facts and circumstances led to taking the deduction on the 2018 tax filing, the position generated is no longer considered uncertain, hence no additional disclosure is deemed necessary in light of the applicability of IFRIC 23.

In addition to the above mentioned, no other uncertain tax positions were identified during the year ended December 31, 2019.

20.3 Standards not yet adopted

Adyen has assessed the standards to become effective in 2020, and onwards, to have no material impact in its financial statements.

21. Audit fees

21.1. Fees to the auditor

The following audit fees were expensed in the income statement in the reporting period:

The fees listed below relate to the procedures applied to Adyen and its consolidated group entities by accounting firms and external independent auditors as referred to in section 1(1) of the Audit Firms Supervision Act ("Wet toezicht accountantsorganisaties-Wta") as well as by the Dutch and foreign-based accounting firms. Including their tax services and advisory groups. These fees related to the audit of the 2019 financial statements, regardless of whether the work was performed during the financial year.

21.2. Summary of services rendered by the auditor, in addition to the audit of the financial statements

Our auditor, PwC Accountants, has rendered the following services to Adyen and its controlled entities during 2019 and 2018:

	2019			2018		
	PwC Accountants	Other PwC firms*	Total	PwC Accountants	Other PwC firms*	Total
Audit of financial statements	825	221	1,046	750	-	750
Other audit services	139	-	139	443	-	443
Tax services	-	7	7	-	13	13
Other non-audit services	-	-	-	-	133	133
Total	964	228	1,192	1,193	146	1,339

*Other PwC firms refer to PwC member firms outside of the Netherlands.

Other services than the Audit of the financial statements refer to services rendered outside of the European Union.

	2019	2018
Other audit services required by law or regulatory requirement		
Statutory audits of controlled entities	1,009	713
Audit of the regulatory returns to be submitted to the Dutch Central Bank	37	37
Other audit services		
Assurance engagement ISAE 3402 report	139	101
Assurance engagement NV COS 3850N report		342
Tax services		
Tax compliance services	7	13
Other non-audit services		
Consultancy	-	93
Human resources services	-	40
Total for the year	1,192	1,339

22. Compensation of key management

22.1. Remuneration Management Board

The total remuneration received by the Management Board in 2019 amounted to EUR 2,920 (2018: EUR 3,209).

	2019	2018
Salaries and short-term employee benefits	2,595	2,962
Share-based payments	209	214
Post-employment benefits	52	33
Total	2,856	3,209

Variable remuneration

As of 2018 and in line with (i) the Act on Remuneration Policies in Financial Enterprises (Wet beloningsbeleid financiële ondernemingen), and (ii) the Guidelines on Remuneration Policies and Practices as formally adopted on 10 December 2010 by the Committee of European Banking Supervisors, Adyen does not award variable remuneration to the Managing Directors. As the application of such rules and principles may include an assessment and interpretation of the remuneration restrictions, it cannot be excluded that a competent supervisory authority takes a different view on the correct application thereof in specific cases (although there is currently no indication that a competent supervisory authority will take such position).

Pension

As from January 2017, all Dutch members of the Management Board participate in the Collective Defined Contribution (CDC) pension plan, with respect to their salary up to EUR 107,593 gross per year for 2019 (2018: EUR 105,075). On behalf of each Managing Director Adyen pays a contribution of 4% of the pensionable salary - being 12 times the monthly fixed salary plus holiday pay up to the fiscally allowed maximum minus a deductible - for the accrual of old age pension benefits as well as the administration costs. If and as far as fiscally allowed, each Managing Director has the possibility to make additional contributions in order to accrue additional pension capital.

Sam Halse participates in a 401k retirement plan in the US, for which Adyen provides an employer match of up to 2%.

Insurance

All Managing Directors are insured under an insurance policy taken out by Adyen against damages resulting from their conduct when acting in their capacities as directors.

All Dutch Managing Directors are insured for the risk of death and disability, for which Adyen pays the insurance premiums.

Service and Severance Agreements

All Managing Directors have entered into a service agreement (overeenkomst van opdracht) with Adyen N.V. effective as of the date of the listing of Adyen, whereby Sam Halse is currently assigned to Adyen Inc.. The terms and conditions of these service agreements have been aligned with the Dutch Corporate Governance Code. The service agreements will be entered into for a term of 4 years.

The service agreements provide for a severance of one annual base salary if the Managing Director is not re-appointed or otherwise terminated by Adyen (for any reason other than urgent cause within the meaning of article 7:678 of the Dutch Civil Code (dringende reden)), in accordance with the Dutch Corporate Governance Code.

Loans

No loans, advance payments and guarantees have been granted to or on behalf of the Managing Directors.

22.2. Remuneration Supervisory Board

The total remuneration received by the Supervisory Board in 2019 amounted to EUR 240 (2018: EUR 181). The table below provides an overview of the remuneration of each Supervisory Director for the financial year 2019. In addition to the remuneration, expenses incurred by the Supervisory Directors in the performance of their duties are reimbursed in full:

	2019	2018
Salaries and short-term employee benefits	240	176
Share-based payments	-	5
Total	240	181

Insurance

The Supervisory Directors of Adyen are insured under an insurance policy taken out by Adyen against damages resulting from their conduct when acting in their capacities as directors.

Loans

No loans, advance payments and guarantees have been granted to or on behalf of the Supervisory Directors.

23. Country-by-country reporting

The following table provides an overview of total assets, total operating income, average number of FTEs, operating profit/(loss) before taxation and income tax expense. In addition, the following table shows the principal subsidiary and main activity for each country, including intercompany transactions. The full list of participating interests as referred to in Article 414, Book 2 of the Dutch Civil Code can be found in Note 28 'Investments in consolidated subsidiaries on equity method' of the company financial statements.

	Main activity	Total assets	Total operating income	Average FTE	Income before tax	Tax expense
<i>Country and Subsidiary</i>						
Netherlands - Adyen N.V. and Adyen International B.V.	Payment service provider	2,460,503	365,151	581	259,747	(52,282)
Adyen N.V., German branch	Sales office	3,566	4,825	28	499	(150)
Adyen N.V. Nordic fillial	Sales office	2,349	4,532	13	411	(87)
Adyen N.V., Sucursal en Espana branch	Sales office	1,747	1,613	9	171	(40)
Adyen N.V., France branch	Sales office	3,838	8,502	28	747	(260)
Adyen B.V., Belgian Representative Office	Sales office	177	537	3	58	(17)
Adyen N.V., Italy Representative Office	Sales office	664	359	3	27	(9)
Adyen Brazil Ltda	Sales office – local support	152,507	13,442	56	980	(1,426)
United States – Adyen Inc., Adyen Services Inc. And Adyen Nevada Inc.	Sales office – local support	102,541	60,033	148	6,164	2,064
Adyen Singapore PTE LTD.	Sales office – local support	34,809	13,774	65	2,397	(195)
Adyen UK Limited	Sales office	9,630	13,020	59	1,427	(337)

Adyen Hong Kong Limited	Sales office	8,102	683	1	391	(43)
Adyen Australia PTY Limited	Sales office – local support	28,294	6,450	20	815	(240)
Adyen Canada Ltd.	Sales office	4,404	340	2	211	(50)
Adyen India Technology Services Private Limited	Sales office	632	334	1	36	(8)
Adyen Korea Chusik Hoesa	Sales office	17	-	-	(13)	-
Adyen Mexico S.A. de C.V.	Sales office – local support	10,766	762	4	319	(66)
Adyen (China) Software Technology Co. Ltd.	Sales office	589	1,498	8	197	(48)
Adyen New Zealand Ltd.	Sales office	140	19	-	23	(7)
Adyen Malaysia Sdn. Bhd.	Sales office	2,264	40	-	8	(2)
Adyen Japan K.k	Sales office	112	446	2	47	(15)

24. Share information

Accounting policy – Earnings per share

Adyen presents basic and diluted earnings per share (EPS) data for its ordinary shares. The calculation of earnings per share is as follows:

- 1) Basic EPS: dividing the Net profit (or loss) attributable to shareholders by the weighted average number of outstanding ordinary shares outstanding during the period.
- 2) Diluted EPS: determined by adjusting the basic EPS for the effects of all dilutive potential ordinary shares which passed on contractual conditions (e.g. vesting), only related to share options, once as per December 31, 2019 none of the four warrant tranches vested.

Share information	2019	2018
Net profit attributable to ordinary shareholders	204,039	131,146
Weighted average number of ordinary shares for the period	29,732,937	29,486,625
Dilutive effect share options	794,693	1,117,459
Weighted average number of ordinary shares for diluted net profit for the period	30,527,630	30,604,084
1) Net profit per share – basic	6.86	4.45
2) Net profit per share – diluted	6.68	4.29

Company Financial Statements

Company Statement of Comprehensive Income

For the years ended December 31, 2019 and 2018

(all amounts in EUR thousands unless otherwise stated)

	Note	2019	2018
Revenue	25	2,293,656	1,490,675
Costs incurred from financial institutions	25	(1,896,242)	(1,211,293)
Cost of inventory	25	(15,009)	(9,029)
Net revenue		382,405	270,353
Wages and salaries	26	(54,628)	(39,414)
Social securities and pension costs	26	(12,541)	(8,769)
Amortization and depreciation		(14,727)	(7,306)
Other operating expenses	27	(58,968)	(51,329)
Other Income		196	127
Income before interest income, interest expense, income taxes and share of the profit or (-) loss of investments in subsidiaries		241,737	163,662
Finance income		326	272
Finance expense		(4,316)	(1,514)
Other financial results		6,853	(6,740)
Net finance income		2,863	(7,982)
Share of the profit or (-) loss of investments in subsidiaries		12,284	6,597
<i>Income before income taxes</i>		<i>256,884</i>	<i>162,277</i>
Income taxes		(52,845)	(31,131)
Net income for the period		204,039	131,146
<i>Other comprehensive income</i>			
Items that may be reclassified to profit or loss:			
Other currency translation adjustments		(81)	622
Other comprehensive income for the year		(81)	622
Total Comprehensive income for the year (attributable to owners of Adyen N.V.)		203,958	130,000

Company Balance Sheet

As at December 31, 2019 and 2018

(all amounts in EUR thousands unless otherwise stated; and before profit appropriation)

	Note	2019	2018
Intangible assets	13	7,640	5,059
Plant and equipment	28	23,482	18,139
Right-of-use assets	29	35,619	-
Other financial assets at FVPL	11, 20	44,088	30,378
Contract assets	2, 11	140,000	140,791
Deferred tax assets		7,769	4,879
Investments in consolidated subsidiaries on equity method	30	98,147	23,903
Total Non-current assets		356,745	223,149
Inventories		5,614	6,656
Receivables from financial institutions	31	299,618	277,066
Trade and other receivables	31	103,269	58,362
Financial asset at amortized cost		-	4,418
Other financial assets at amortized cost	11, 20	13,031	9,842
Cash and cash equivalents		1,603,580	1,146,916
Total Current assets		2,025,112	1,503,260
Total assets		2,381,857	1,726,409
Share capital	8	301	296
Share premium	8	179,296	160,209
Treasury shares	8	-	(4,804)
Legal reserves	8	43,616	29,366
Other reserves	8	120,135	62,890
Retained earnings	8	320,934	203,301
Profit current year		204,039	131,146
Total Equity attributable to owners of Adyen N.V.		868,321	582,404
Derivative financial instrument	8, 11	35,800	23,800
Deferred tax liabilities		25,886	23,615
Lease liability	20	31,120	-
Total Non-current liabilities		92,806	47,415
Payable to merchants and financial institutions	34	1,328,959	1,059,508
Trade and other payables	34	78,474	27,516
Lease liability	20	5,243	-
Current income tax payables		8,054	9,202
Deferred revenues	2	-	364
Total Current liabilities		1,420,730	1,096,590
Total liabilities and equity		2,381,857	1,726,409

Company Statement of Changes in Equity

For the years ended December 31, 2019 and 2018

(all amounts in EUR thousands unless otherwise stated)

	Note	Share capital	Share premium	Treasury shares	Other reserves				Retained earnings	Total equity
					Legal reserves	Share-based payment reserve	Warrant reserve			
Balance - January 1, 2018		295	149,314	-	21,726 (20,061)	6,207	-	212,236 20,061	389,777	
Adoption of IFRS 9 accounting policy									-	
Restated total equity at the beginning of the financial year		295	149,314	-	1,665	6,207	-	232,297	389,777	
Other adjustments					3,217			(2,064)	1,153	
Other financial assets at FVPL movement to legal reserve					22,784			(22,784)	-	
Intangible assets					1,079			(1,079)	-	
<i>Other comprehensive income/(expense)</i>										
Net income for the year					622			131,146	131,146	
Currency translation adjustments								622	622	
Total comprehensive income for the period		-	-	-	622	-	-	131,146	131,768	
<i>Transactions with owners in their capacity as owners:</i>										
Reclassification of warrant (net of tax)							51,150		51,150	
Statutory tax rate change							3,069	(3,069)	-	
Repurchase of Depository Receipts				(31,035)					(31,035)	
Options exercised	1		973			(974)			-	
Proceeds on issuing shares			5,200						5,200	
Movement resulting from Treasury shares			4,722	26,231					30,953	
Share-based payments						3,438			3,438	
Balance – December 31, 2018		296	160,209	(4,804)	29,366	8,671	54,219	334,447	582,404	

	Note	Share capital	Share premium	Treasury shares	Legal reserves	Other reserves			Total equity
						Share-based payment reserve	Warrant reserve	Retained earnings	
Balance - January 1, 2019		296	160,209	(4,804)	29,366	8,671	54,219	334,447	582,404
Net income for the year								204,039	204,039
Currency translation adjustments					(81)				(81)
Total comprehensive income for the period		-	-	-	(81)	-	-	204,039	203,958
<i>Adjustments:</i>									
Other financial assets at FVPL movement to legal reserve					11,737			(11,737)	-
Intangible assets					2,581			(2,581)	-
Other adjustments					13			(13)	-
		-	-	-	14,331	-	-	(14,331)	-
<i>Transactions with owners in their capacity as owners:</i>									
Statutory tax rate change							(818)	818	-
Deferred tax on share-based compensation	7		255			60,389			60,644
Repurchase of depositary receipts				(18,323)					(18,323)
Options exercised			4,346			(4,346)			-
Proceeds on issuing shares		5	15,332						15,337
Movement resulting from treasury shares			(846)	23,127					22,281
Share-based payments		5	19,087	4,804	-	2,020	(818)	818	2,020
		301	179,296	-	43,616	66,734	53,401	524,973	868,321
Balance - December 31, 2019									

Company Statement of Cash Flows

For the years ended December 31, 2019, 2018

(all amounts in EUR thousands unless otherwise stated)

	Note	2019	2018
Income before income taxes		256,884	162,277
<i>Adjustments for:</i>			
- Finance income		(326)	(272)
- Finance expenses		4,316	1,514
- Other financial results		(6,853)	6,740
- Depreciation of plant and equipment	28	6,974	5,604
- Amortization of intangible fixed assets	13	2,192	1,688
- Depreciation of right-of-use assets	29	5,561	-
- Share of the profit of investments in subsidiaries		(12,284)	
- Share-based payments		1,735	1,853
- Financial assets at amortized costs		-	(170)
<i>Changes in Working capital:</i>			
- Inventories		1,042	(2,639)
- Receivables from merchants and financial institutions	31	(22,552)	(134,064)
- Trade and other receivables	31	(44,907)	(39,371)
- Payables to merchants and financial institutions	34	269,451	398,632
- Trade and other payables	34	50,958	(2,608)
- Deferred revenue	2	(364)	364
- Redemption financial assets at amortized cost		4,418	
- Contract asset	2	2,133	(60,512)
<i>Cash generated from operations</i>		<i>518,378</i>	<i>339,036</i>
Interest received		326	272
Interest paid		(4,316)	(1,514)
Income taxes paid		(52,415)	(21,021)
Net cash flows from operating activities		461,973	316,773
Purchases of financial assets at amortized costs	11	(10,073)	(9,842)
Purchases of plant and equipment	28	(12,461)	(7,301)
Capitalization of intangible assets	13	(4,773)	(2,769)
Redemptions of financial assets at amortized costs	11	7,275	6,989
Net cash used in investing activities		(20,032)	(12,923)
Share premium paid by the shareholders	8	15,332	5,200
Sale of depositary receipts (treasury shares)	8	22,281	30,953
Repurchase of depositary receipts (treasury shares)	8	(18,323)	(31,035)
Lease payment	29	(5,481)	
Net cash flows from financing activities		13,809	5,118
Net increase in cash, cash equivalents and bank overdrafts		455,750	308,968
Cash, cash equivalents and bank overdrafts at beginning of the year		1,146,916	841,376
Exchange gains/(losses) on cash, cash equivalents and bank overdrafts		914	(3,428)
Cash, cash equivalents and bank overdrafts at end of the year		1,603,580	1,146,916

Notes to the Company financial statements

Basis of preparation

The company financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as endorsed by the European Union (EU-IFRS) and in accordance with sub article 8 of article 362, Book 2 of the Dutch Civil Code.

The principles in the company financial statements are the same as those stated for the consolidated financial statements unless stated otherwise.

25. Company - revenue

Types of goods or service	2019	2018
Settlement fees	2,050,267	1,295,160
Processing fees	143,190	124,724
Sales of goods	13,753	10,707
Other services	86,446	60,084
Total revenue from contracts with customers	2,293,656	1,490,675
Costs incurred from financial institutions	(1,896,242)	(1,211,293)
Costs of inventory	(15,009)	(9,029)
Net revenue	382,405	270,353

26. Company - Employee benefits

Employee benefits	2019	2018
Salaries and wages	52,892	37,561
Pension costs - defined contribution plans	1,626	1,344
Total wages and salaries	54,518	38,905
Share-based compensation	1,736	1,853
Social securities	10,915	7,425
Total social securities and pension costs	12,651	9,278

27. Company - Other operating expenses

Other operating expenses	2019	2018
Housing costs	2,423	6,514
Office costs	1,960	1,306
IT costs	9,990	7,698
Sales & marketing costs	12,963	8,557
Travel and other staff expenses	13,311	9,169
Advisory costs	10,259	11,570
Miscellaneous operating expenses	8,062	6,515
Total	58,968	51,329

28. Company - Plant and equipment

Plant and equipment	2019	2018
<i>Machinery and equipment</i>		
Accumulated depreciation	(13,013)	(7,409)
Cost	31,152	23,858
Opening book value, January 1	18,139	16,449
Additions	12,461	7,301
Disposals	(144)	(7)
Depreciation for the year	(6,974)	(5,604)
Total as at December 31	23,482	18,139
Accumulated depreciation	(19,759)	(13,013)
Cost	43,241	31,152

29. Company - Leases

Adyen's leases relate to offices and data centers across locations where it operates, refer to note 20 for the impact of first adoption of IFRS 16 – Leases.

Accounting policy – Leases (IFRS 16)

Adyen assesses if a lease exists or a contract contains a lease at the contract inception date, concluding whether an asset is identifiable, and Adyen has control to direct its use and all economic benefits related. A right-of-use asset and a lease liability are recognized at the lease commencement date, which can differ from contract inception date.

The lease liability is initially measured by bringing to present value all future lease payments, discounted by an incremental borrowing rate, in case no interest rate is available for the contract.

At initial recognition, the right of use asset amounts to the initial lease liability. Right of use assets are tested for impairment whenever events or changes in circumstances indicates that the carrying amount may not be recoverable.

Short-term (less than 12 months) and small value lease contracts are expensed in income statement on a straight-line basis over the lease term.

All leases entered are related offices and data centers, being these based on fixed payment and term.

Right-of-use assets	2019
<i>Offices and data centers</i>	
Opening book value, January 1	35,697
Additions	5,483
Depreciation for the year	(5,561)
Total as at December 31	35,619
Lease liability	2,019
Opening book value, January 1	35,697
Additions	5,483
Lease payments	(5,481)
Interest expense	664
Total as at December 31	36,363

In 2019 Adyen recognized an amount of EUR 5,561 related to the depreciation of the right-of-use assets and EUR 664 related to interest on the lease liabilities in accordance with IFRS 16. For 2018, Adyen recognized an amount of EUR 2,423 related to housing costs in accordance with IAS 17.

As of December 31, 2019, the future minimum lease payments are as follows:

	Minimum future lease payments
2020	5,856
2021	5,214
2022	4,478
2023	4,134
2024	4,134
Thereafter:	15,385
Total	39,201

30. Company - Investments in consolidated subsidiaries on equity method

Accounting policy – Investments in consolidated subsidiaries

Adyen's investment in consolidated subsidiaries is initially recorded at cost and subsequently accounted for using the equity method. Dividends received from the investees are recognized as a reduction in the carrying amount of the investment. Goodwill is currently not applicable.

Adyen's share of the results of the investees is reported in the income statement and its share of movements in other comprehensive income is recognized in other comprehensive income. Changes in Adyen's share of the net assets of the investees are recognized in the income statement as a gain or loss.

Investments are reviewed for impairment at least annually or whenever events or circumstances indicate that the carrying amount may not be recoverable.

Adyen N.V. - Subsidiaries

Name	Legal Seat	Ownership percentage
Adyen International B.V.	Amsterdam, The Netherlands	100%

Adyen N.V. - Branches

Name	Branch location
Adyen B.V., Sucursal en España	Madrid, Spain
Adyen B.V., German branch	Berlin, Germany
Adyen France	Paris, France
Adyen Nordic Bank Filial	Stockholm, Sweden

Adyen N.V. – Representative offices

Name	Branch location
Adyen B.V., Belgian Representative Office	Brussels, Belgium
Adyen Italy	Rome, Italy

Adyen International B.V. - Subsidiaries

Name	Legal Seat	Direct and indirect ownership percentage
Adyen Inc.	San Francisco, CA, USA	100%
Adyen Services Inc.	Dover, DE, USA	100%
Adyen Nevada Inc.	Las Vegas, NV, USA	100%
Adyen do Brazil Ltda	São Paulo, Brazil	100%
Adyen Singapore PTE. LTD.	Singapore, Singapore	100%
Adyen UK Limited	London, United Kingdom	100%
Adyen Hong Kong Limited	Hong Kong, Hong Kong SAR	100%
Adyen Australia PTY Limited	Sydney, Australia	100%
Adyen Canada Ltd.	Saint John, Canada	100%
Adyen Korea Chusik Hoesa	Seoul, Republic of Korea	100%
Adyen Mexico, S.A. de C.V.	Mexico City, Mexico	100%
Adyen Nordic AB	Stockholm, Sweden	100%
Adyen (China) Software Technology Co. Ltd.	Shanghai, China	100%
Adyen New Zealand Ltd.	Auckland, New Zealand	100%
Adyen Malaysia Sdn. Bhd	Kuala Lumpur, Malaysia	100%
Adyen Iberia SLU	Madrid, Spain	100%
Adyen GmbH	Berlin, Germany	100%
Adyen India Technology Services Private Limited	New Delhi, India	100%
Adyen Japan K.K.	Tokyo, Japan	100%

31. Company - Receivables

Receivables fall due in less than one year except deposits transferred to Financial Institutions.

Trade, other receivables, receivables from merchants and financial institutions	2019	2018
Trade and other receivables	106,376	60,992
Less: Provision for expected credit losses	(3,107)	(2,630)
Trade receivables - Net	103,269	58,362
Receivables from Merchants and Financial Institutions	299,618	277,066
Total	402,887	335,428

In 2019 EUR 66,441 (2018: EUR 14,000) related to receivables from Group Companies. Intercompany receivables and payables fall within the scope of IFRS 9 'Financial Instruments'. The outstanding amounts as per December 31, 2019 and 2018 relates to transactions linked to the usage of Adyen platform, which took place throughout the year, at arm's length conditions. Considering the maturity of the intercompany balances (less than 1 month) and the financial position of the group the credit risk is considered not significant. As a result, the impact of expected credit losses is not significant.

32. Shareholders' equity

Refer to the consolidated statement of changes in equity for the movements in shareholders' equity

The reserve for translation differences relates to all exchange rate differences arising from the translation of the net investment in foreign entities. The total of distributable reserves amounts to EUR 535,052 (2018: EUR

381,786) when taking into account regulatory capital requirements. The other reserves are restricted for distribution, being the Legal reserves, in amount of EUR 43,616 (2018: 29,366), legally non-distributable in accordance with Dutch Law.

33. Dividends paid

No dividend has been paid in the years presented.

34. Company - Current liabilities

Current liabilities	2019	2018
Payables to merchants and financial institutions	1,328,959	1,059,507
Trade payables	8,875	3,963
Taxes and social security	42,243	14,043
Accrued employee benefits	13,950	6,663
Accrued liabilities and other debts	12,716	2,796
Cash-settled liabilities	690	52
Total	1,407,433	1,087,024

All current liabilities fall due in less than one year. The fair value of the current liabilities approximates the book value due to its short-term character.

In 2019 and 2018, EUR nil relates to payables to Group Companies.

35. Directors' remuneration

For an overview of the directors' remuneration, reference is made to Note 22 'Compensation of key management' of the consolidated financial statements.

36. Audit fees

For an overview of the audit fees, reference is made to Note 21 'Audit fees' of the consolidated financial statements.

37. Contingencies and commitments

The company has no contingent liabilities in respect to legal claims.

Adyen has no contingent liabilities in respect to legal claims.

Adyen has EUR 23,892 (2018: EUR 14,709) of outstanding bank guarantees and letters of credit as per December 31, 2019. In addition, Adyen has an intra-day credit facility of EUR 272 million (2018: EUR 100 million) which is not used as per December 31, 2019.

Adyen N.V. and Adyen International B.V. are a fiscal unity for income tax purposes. Under the Dutch Tax Collection Act, the members of the fiscal unity are jointly and severally liable for any taxes payable by the fiscal unity.

Pursuant to the Collection of State Taxes Act, the company and its subsidiary are both severally and jointly liable for the tax payable by the combination.

38. Proposed profit appropriation

Awaiting the decision by the shareholders, management proposes the income for the year to be added to retained earnings in shareholder's equity.

39. Events after balance sheet date

Since January 2020, the COVID-19 outbreak has spread across many regions around the globe. The pandemic has caused disruption to business and economic activities in many sectors.

In connection with the developments of the virus outbreak, Management has decided to advise all Adyen employees to work from home. This decision has limited impact on business continuity, as our infrastructure is developed in order to allow remote connection with no access impact to the relevant systems and platforms.

Management estimates and judgments as per December 31, 2019 were based on macroeconomic forecast conditions at that time. Therefore, the impact on economic indicators will be considered at future reporting dates when assessing the downside economic scenarios affecting these estimates, such as expected credit losses under IFRS 9.

Shopper behavior may change due to current macroeconomic conditions driven by the virus outbreak, impacting the demand for our merchants' products and services and, consequently, may reduce volume and size of transactions on Adyen's payment platform. At the publication date of this report it is too early to tell what the impact of the COVID-19 crisis will be on our business.

Amsterdam, March 24, 2020

P.S. Overmars
Chairman Supervisory Board

D. Rueda Arroyo
Supervisory Director

J.A.J. van Beurden
Supervisory Director

P.A. Joseph
Supervisory Director

P.W. van der Does
CEO

I.J. Uytdehaage
CFO

A.D. Schuijff
CTO

R. Prins
CCO

K. Zaki
COO

M.B. Swart
CLCO

J. Wijn
CSRO

Other information

Country-by-Country reporting

Reference is made to 'Note 23 - Country-by-country reporting' for the list of existing branches and subsidiaries, the countries where these are located and their trade names.

Provisions in the Articles of Association relating to profit appropriation

The Articles of Association of Adyen provide that the appropriation of the net income for the year is decided upon at the Annual General Meeting of Shareholders.

For the preferred dividends the Annual General Meeting of Shareholders can elect to pay out the annual dividend on these shares or to add the dividend to the class reserve.

Independent auditor's report

Please refer to the next page.



Independent auditor's report

To: the general meeting and the supervisory board of Adyen N.V.

Report on the financial statements 2019

Our opinion

In our opinion, the financial statements of Adyen N.V. ('the Company') give a true and fair view of the financial position of the Company and the Group (the Company together with its subsidiaries) as at 31 December 2019, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2019 of Adyen N.V., Amsterdam. The financial statements include the consolidated financial statements of the Group and the company financial statements.

The financial statements comprise:

- the consolidated and company balance sheet as at 31 December 2019;
- the following statements for 2019: the consolidated and company statements of comprehensive income, changes in equity and cash flows; and
- the notes to the consolidated and company financial statements, comprising the significant accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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*PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, 1006 BJ Amsterdam, the Netherlands
T: +31 (0) 88 792 00 20, F: +31 (0) 88 792 96 40, www.pwc.nl*

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Independence

We are independent of Adyen N.V. in accordance with the European Union Regulation on specific requirements regarding statutory audits of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit approach

Overview and context

The Company is a payment service provider with a banking licence in the Netherlands and has been growing fast over the past years. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. The financial year was characterised by further growth of the merchant base of the Company, the introduction of Sales Day Payout (see disclosure note 15.1 in the financial statements as well as our key audit matter on IT General Controls) and the further development of the internal control framework to which we aligned our audit approach accordingly. Refer to the risk management section of the annual report.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the management board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In the section 'Significant estimates' of the financial statements the Company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in deferred tax assets we considered the recoverability assessment of the deferred tax assets as a key audit matter as set out in the section 'Key audit matters' of this report.

Furthermore, we identified IT general controls as a key audit matter since all revenue activities are processed on the payment platform operated by the Company. Other matters we consider that were key in our audit relate to revenue, as revenue growth is considered a key financial indicator for investors and other stakeholders of the Company as well as the classification and valuation of the derivative liabilities. The classification assessment and the fair value estimation of the derivative liabilities are complex accounting matters.

Another area of focus, that was no longer considered a key audit matter, was the fair value measurement of the share-based payments, because during 2019 no new equity settled options were granted to employees of the Group as a result of which the measurement is less complex. As in all of our audits, we also addressed the risk of management override of controls, including evaluating whether there was evidence of bias by the management board that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a payment service provider. We therefore included specialists in the areas of IT, current and deferred income tax, valuation of derivative financial instruments and forensic analysis in our team.



The outline of our audit approach was as follows:



Materiality

- Overall materiality: €10 million.

Audit scope

- We conducted audit work in three locations, being the Netherlands, United States of America and Brazil.
- Audit coverage: 100% of consolidated revenue, 98% of consolidated income before income taxes and 99% of consolidated assets.

Key audit matters

- IT general controls.
- Risk of overstatement in revenue recognition.
- Valuation of deferred tax assets.
- Valuation and classification of derivative liabilities.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€10 million (2018: €6.05 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used the lower of 5% of income before income taxes and €10 million.
Rationale for benchmark applied	<p>We used income before income taxes as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that income before income taxes is an important metric for the financial performance of the Company and is widely used within the industry. We agreed to cap the overall materiality at €10 million with the audit committee on 21 August 2019.</p> <p>The reason to cap the materiality is to make sure that the extent of our audit procedures is sufficient given the growth of the Group, for example in the area of testing procedures on revenue recognition.</p>
Component materiality	To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality.



We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the audit committee that we would report to them misstatements identified during our audit above €500 thousand (2018: €302 thousand) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Adyen N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Adyen N.V.

We tailored the scope of our audit to ensure that we, in aggregate, provide sufficient coverage of the financial statements for us to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the group engagement team and by each component auditor.

The group audit primarily focussed on the significant components in the Netherlands, the United States of America as well as Brazil.

We subjected those three components to audits of their complete financial information, as those components are individually financially significant to the Group. In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	100%
Total assets	99%
Income before income taxes	98%

None of the remaining components represented more than 1% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures and audit procedures on any remaining material balances to corroborate our assessment that there were no significant risks of material misstatements within those components.

For the Netherlands, the group engagement team performed the audit work. For the United States of America and Brazil, we used component auditors who are familiar with the local laws and regulations to perform audit work in these respective areas. We had extensive contact with our component auditors throughout the audit process to discuss (amongst others) the scoping, timing and outcomes of procedures to be performed. With respect to the audit of positions and transactions that are administered centrally in the Netherlands, we performed the audit procedures ourselves.

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we had obtained sufficient and appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.



We discussed with the component auditors of Brazil and the United States of America, amongst others, our risk analysis, materiality and scope of the work. We explained to the component audit teams the structure of the Group, the main developments that are relevant for the component auditors, the risks identified, the materiality levels to be applied and our global audit approach. We had individual calls with each of the in-scope component audit teams during the year including upon conclusion of their work. During these calls, we discussed the significant accounting and audit issues identified by the component auditors, the reports of the component auditors, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements. In the current year, the group audit team visited the component auditors in the United States of America.

The group engagement team performed the audit work on the group consolidation, financial statement disclosures and positions and transactions that are administered centrally in the Netherlands, such as cash and cash equivalents, receivables from financial institutions, payables to merchant and financial institutions, revenue and costs incurred from financial institutions as well as more complex areas such as derivative financial instruments and the recoverability of deferred tax assets.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comment or observation we made on the results of our procedures should be read in this context.

<i>Key audit matter</i>	<i>Our audit work and observations</i>
<p>IT general controls</p> <p>The design and operating effectiveness of IT general controls is of significance to the Group. The financial accounting and reporting of the Group is largely dependent on the payment platform, since the most significant line items in the balance sheet (cash and cash equivalents, receivable from financial institutions and payables to merchants) and the statement of comprehensive income (revenues and costs incurred from financial institutions) are recorded on the payment platform.</p>	<p>Our audit work included, amongst others, understanding, evaluating and testing, on a quarterly basis, the relevant IT general controls, with the assistance of our IT auditors, to the extent relevant for our audit. We specifically evaluated the design and operating effectiveness of the controls that were newly implemented with respect to Sales Day Payout. These comprised of the following key audit activities at the Group:</p>



Key audit matter

In particular, the adequate design and operating effectiveness of the payment platform and relevant IT general controls are of significant importance for the accurate and complete processing of occurred transactions. The Group further developed their internal control framework (for example in the area of Sales Day Payout).

Based on the above considerations, we considered IT general controls as a key audit matter in our audit.

Our audit work and observations

- Computer operations ensuring reliability of IT systems: we tested the design and operating effectiveness of controls which were implemented to ensure that back-up and recovery processes have been established by the Company and that local back-ups (per individual datacentre) were made and stored cross-datacentre. Our test results demonstrated that production data were replicated across the individual datacentres. Finally, we inspected that on an annual basis, the business continuity plan was tested for operating effectiveness of the Company by the IT audit team.
- Access management and segregation of duties over IT systems: we tested the design and operating effectiveness of controls, which were implemented to ensure that logical access to programmes and data was limited to authorised personnel. We verified that the Group implemented controls to ensure, amongst others, the complete and accurate processing of user rights of joiners, movers and leavers, the periodic review of user accounts, the review of database actions and limitation of administrator accounts throughout the application, database and network.
- Change management procedures for software and infrastructural changes: we tested the design and operating effectiveness of relevant controls, which were implemented to ensure that the development and maintenance of software was properly authorised, peer reviewed, approved (both manually and automated) and documented prior to implementation in the production environment and noted no exceptions.

We conclude that we could rely on the IT general controls of the Group for the purpose of our audit.

Risk of overstatement in revenue recognition Net revenue is disclosed in note 2 of the consolidated financial statements

The Group's services operate on the payment platform. Independent of whether payments are submitted online, by mobile or through point-of-sale terminals, there is one integrated platform on which customers are being served and transactions are being processed. As such, this key audit matter should be read and considered in conjunction with the key audit matter on IT general controls.

Our audit work included, amongst others, an evaluation of management's design and operating effectiveness of controls that mitigate the risk of overstatement of revenue recognition:

- standing data maintenance covering the accuracy of customer contracts;
- transaction handling relating to automated capturing and authorisation of payments;
- automated settlement for matching of bank statements and collecting and matching refunds and charge-backs;



Key audit matter

The revenues that the Group generated related to processing fees, settlement fees and fees for other services in connection with processed payments. For this purpose, the Company agreed with customers charge rates per transaction and by type of activity.

Revenue is recorded on the basis that the Company acts as a principal for all payment processing services it provides and therefore all revenues are reported on a total basis for both processing and settlement fees.

The Company recognised substantial growth in revenue over the previous years and had a focus on revenue growth. Revenue is therefore a key financial indicator on which the performance of management is measured by investors and other stakeholders in the Company. Based on these facts and circumstances, we considered the significant risk of overstatement in revenue recognition (relating to the risk of overstatement and occurrence of revenues) as a key audit matter in our audit.

Our audit work and observations

- payment pay-out process covering the automated generating, processing and authorisation of pay-out batches; and
- automated process over invoicing to customers.

Based on our audit procedures on these activities, we determined that we could rely on these controls for the purpose of our audit.

In addition to testing the operating effectiveness of these controls on revenue recognition and IT general controls as summarised in the separate key audit matter on IT general controls, we also performed substantive procedures:

- On a sample basis, we tested the accuracy of contractual rates captured in the payment system by comparing these to signed customer agreements.
- We evaluated and assessed recorded revenue against the requirements included in IFRS including management's assessment in which it concluded that for all its payment services it acts as a principal.
- We performed analytical procedures on the top 10 merchants on a monthly basis to assess the correlation between transaction volumes and recognised total revenue.
- We reconciled the recognised revenue in the financial statements to the payment service platform.
- We tested the manual reconciliation between the payment service platform and the financial statements.

We did not identify material exceptions and we found management's revenue recognition in the financial statements to be supported by the available evidence.

Valuation of deferred tax assets

The Company describes its accounting policies concerning deferred tax asset (DTA) recognition in note 7 of the consolidated financial statements.

The share-based payment options granted to employees in accordance with the equity-settled share-based payment plan (see note 4) are also granted to employees of Adyen's subsidiaries in the United States of America.

Management provided us with a breakdown of the taxable income by year and the composition of the carry-forward deferred tax asset relating to tax losses as well as the composition of the outstanding options at employee level as at balance sheet date. We performed detailed testing procedures on the breakdown received to verify the breakdown is accurate, complete and solely related to (partially) vested and outstanding options at employee level as at balance sheet date. We noted no exceptions.



Key audit matter

Employees who exercised these options earned gains as the share price was higher than the exercise price. Territory tax law provides facilities for incorporated entities in the United States of America to claim, as a deduction from its taxable income, the (employees') gain upon exercising their options, which is known as the 'tax windfall benefit'. Adyen Inc. incurred taxable losses which are the result of deduction of the tax windfall benefit in its tax declaration. The Company recorded two deferred tax assets in 2019 (see note 7) that directly relate to the tax windfall benefit with respect to:

- (1) Tax losses (relating to 2018 and 2019) resulting in a tax asset of €28.3 million. The position is recorded prospectively in the financial statements since management considers the 2018 tax loss to be the result of a change in accounting estimate in line with IAS 8.
- (2) The expected future tax windfall benefit of options that are (partially) vested as at balance sheet date, using the intrinsic option value, resulting in a tax asset of €31.7 million in accordance with IAS 12.68.

The deferred tax assets were recorded based on management's estimation that the expected taxable income is sufficient as well as the indefinite life of the carry-forward of the corresponding federal tax losses. The total unrecognised deferred tax assets amounted to €8.0 million and solely relate to the state taxes for which the Company expects that these will expire before utilisation.

Because of the magnitude and nature of the DTA we assessed the inherent risk to be significant and we determine this to be a key audit matter.

Given the significance of the deferred tax assets, the inherent level of uncertainty, the potential limitations in the recoverability of deferred tax assets and the significant management's judgement involved, we considered this a key audit matter for our audit.

Our audit work and observations

We used the work of our tax specialists to evaluate and test corporate tax positions taken by management.

We examined the deferred tax asset and assessed the recoverability through agreeing the forecasted future taxable income with approved business plans per entity. We assessed whether the underlying trends and assumptions in the forecasts used were consistent with those used in the impairment tests and found no inconsistencies. We have challenged the underlying assumptions and forecasted revenues and costs, ascertained inclusion of all required elements in the forecast and recalculated taxable income based on the applicable tax rules in the United States of America. As part of this, we assessed alternative scenario analyses of management using the low end of income forecasts to ascertain other reasonable assumptions would not lead to alternative conclusions.

We also assessed the past performance against business plans used by the Company to determine the ability of management to forecast future taxable income. In addition, we have considered the local expiry periods together with any applicable restrictions in recovery.

With the procedures performed above, we determined that the methodologies and assumptions used by the group to assess recoverability of deferred tax assets as at 31 December 2019 were reasonable.



Key audit matter

Valuation and classification of derivative liabilities

The warrants are disclosed in note 8 and 11 of the consolidated financial statements

During 2018, the Company entered into a contract with a merchant with the prospect that significant online sales volumes will be sent to the Company in the future for payment processing through the payment platform. The merchant is entitled to acquire a fixed number of shares in a series of four tranches for cash, at a specified price per share upon the terms and conditions in the agreement. The ability to exercise a tranche is linked to meeting significant milestones with respect to processed volume on a calendar year basis. This resulted in the recognition of (four) derivative liabilities of €23.8 million in accordance with EU-IFRS in 2018. Adyen reassessed the classification of the derivative financial liabilities and reclassified two derivative financial liabilities as equity instruments in accordance with IAS 32 in prior year.

As at 31 December 2019, the same two instruments are therefore recorded as equity (for an amount of €53.4 million). The remaining two instruments are recorded as financial liabilities for an amount of €35.8 million as these will be convertible into a fixed number of ordinary shares at an amount that will only be fixed in the future upon achievement of certain contractual contingent events.

The key assumptions, as applied by the Company's management expert, include the expected volatility of the Company's share price, the discount for the lack of marketability of the derivative instrument and the probabilities of specific performance targets being achieved. The revaluation as recorded in the income statement is solely related to the derivative liabilities as these equity instruments are not subsequently re-measured to fair value.

Given the related estimation uncertainty and complexity involved in determining the fair value, we determined this to be a key audit matter in our audit.

Our audit work and observations

We, with the assistance of our accounting specialists, have assessed the Company's accounting treatment of the warrant instruments as at balance sheet date, which includes the derivative liabilities as well as the equity instruments.

Also, with the assistance of our valuation expert, we performed independent procedures on the valuation performed by the Company's management expert on the tranche conditions. Our audit work included the following substantive audit procedures:

- Evaluating the valuation methodology applied by the Company's management expert.
- We evaluated the competence, capabilities, objectivity and work of management's independent valuator.
- Testing the completeness and adequacy of the valuation inputs applied by the Company's management expert that included, amongst others, the discount for the lack of marketability of the warrant instrument, the expected volatility of the Company's share price and the probability of achieving the performance targets specific to the various tranches, during the contractual life of the warrant instrument.
- Together with our valuation experts, we performed an independent assessment of the key assumption's contribution to the total fair value of the derivative liabilities and found the outcome to be reasonable.

We found that the assumptions used in the valuation of the derivative liabilities by the Company are reasonable when compared to relevant market data.

Based on our assessment, we concur with management that no facts and circumstances are available which would require changes in the classification of the financial instruments.



Emphasis of matter related to the uncertainty related to the effects of the COVID-19 virus

We draw attention to note 39 in the financial statements in which management has described the possible impact and consequences of the COVID-19 (corona) virus on the Company and the environment in which the Company operates as well as the measures taken and planned to deal with these events or circumstances. This note also indicates that uncertainties remain and that currently it is not reasonably possible to estimate the future impact. Our opinion is not modified in respect of this matter.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Management report;
- Governance;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 and the sections 2:135b and 2:145 subsection 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 and section 2:135b subsection 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the management report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code and the remuneration report in accordance with the sections 2:135b and 2:145 subsection 2 of the Dutch Civil Code.



Report on other legal and regulatory requirements

Our appointment

We were re-appointed as auditors of Adyen N.V. on 21 May 2019 during the shareholders' meeting. We were initially appointed as the external auditor during 2009. Furthermore, the Company became a public-interest entity ('PIE') during April 2017 after the Company obtained a banking licence. The audit of the 2019 financial statements therefore represents the third year of uninterrupted engagement appointment as external auditor of Adyen N.V.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 21 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the management board and the supervisory board for the financial statements

The management board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the management board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management board should prepare the financial statements using the going-concern basis of accounting unless the management board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The management board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. 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 but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.



Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 24 March 2020
PricewaterhouseCoopers Accountants N.V.

Original has been signed by R.E.H.M. van Adrichem RA



Appendix to our auditor's report on the financial statements 2019 of Adyen N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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 intentional override of internal control.
- Obtaining 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 Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Concluding on the appropriateness of the management board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the 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 and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.



We communicate with the supervisory board 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. In this respect, we also issue an additional report to the audit committee in accordance with article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.