H2 2018

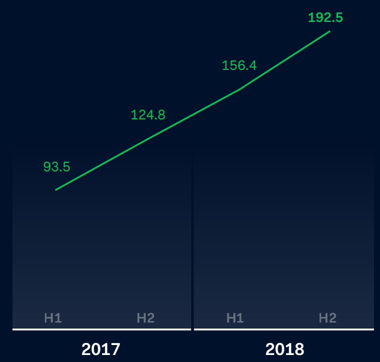
Shareholder letter

Highlights

Processed volume

H2
€89.0 BN
50% growth year-on-year

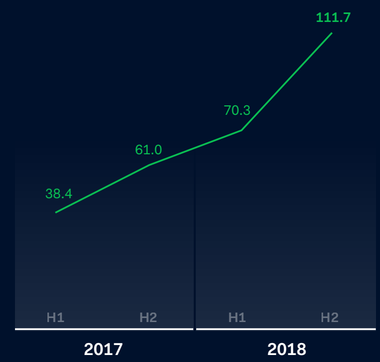
Full year
€159.0 BN
47% growth year-on-year



Net revenue

H2
€192.5 MN
54% growth year-on-year

Full year
€348.9 MN
60% growth year-on-year



EBITDA

H2
€111.7 MN
83% growth year-on-year
EBITDA margin 58%

Full year
€181.9 MN
83% growth year-on-year
EBITDA margin 52%

Robust expansion of Adyen's global footprint

» Built-out acquiring and unified commerce capabilities

» Substantial expansion of suite of local payment methods, including high-volume domestic card schemes

» Merchant-led geographic growth of the Adyen team

Strengthened unified commerce offering

» Expanded functionality on point-of-sale (POS) terminals

» Invested in POS operations and partnerships to enhance scalability on the back of increased merchant traction

» Extended core offering to include easy reconciliation feature (Sales Day Payout)

Accelerating innovation on the single platform

» Moved to weekly release cycles — revving up the pace of deployment of new updates on the platform

» First to market with in-house built 3DS 2.0 solution

» Risk product now available as standalone API

Sustained profitable growth

» Increased share of full-stack vs. gateway-only volume on platform as a reflection of our growing acquiring footprint

» Net revenue growth across all regions with > 100% year-on-year net revenue growth for North America and Asia-Pacific

» Slower operating expenses growth in H2 relative to H1 due to the phasing of some operating expenses spend categories

Robust expansion of Adyen's global footprint and sustained profitable growth

Dear shareholders, February 27, 2019

We saw strong profitable growth in the second half of 2018, largely due to the continued growth of enterprise merchants on our platform.

The continued build-out of the Adyen acquiring footprint has enabled us to offer our end-to-end payment solution (full-stack) in more geographies around the world. Adding Canada to the countries in which we are able to offer full-stack and unified commerce is one example of this, having already added Singapore, Hong Kong, Australia and New Zealand in the first half of the year.

We believe the end-to-end solution unlocks the full strength of the Adyen platform, and consequently delivers the most value to our merchants. So we're happy to see that the share of full-stack volume increased to 70% of total volume for the full year 2018, compared to 61% for the full year 2017. This reflects the merchant mix that powered our growth in 2018, and our growing acquiring footprint.

The fundamentals behind our historic growth also held true for full year 2018. Volume churn remained at <1% and the vast majority of growth came from our existing enterprise merchants. Additionally, we are seeing increased traction in the unified commerce segment, as well as positive first signs in mid-market, the next adjacent segment to enterprise. For both of these relatively new segments, this comes on the back of increased focus and investment in sales and marketing, partnerships and product optimization.

The success of our unified commerce offering and its subsequent increased volume share has resulted in some seasonal tailwinds for the business — especially in the retail vertical — during the end-of-year shopping cycle. We saw increased traction from our existing POS merchants, and are proud to now be working with several new merchants as of the second half of the year, including Farfetch, Gap, H&M and Mulberry.

When it comes to offering the highest service levels to merchants globally, supporting high-volume local payment methods and card schemes is critical to optimizing authorization rates and improving shopper engagement. As we have continued our global expansion, we have added Interac debit in Canada and Vipps in Norway to our platform, among a wide range of other local payment methods.

Total processed volume increased to €89.0 billion in H2 2018, up 50% year-on-year. Net revenue totaled €192.5 million, up 54% year-on-year, driven by the above-mentioned increased share of full-stack volume, which comes at better net revenue economics.

We have continued to successfully grow our team. Of those hired in the second half of 2018, over 50% were in locations outside of our Amsterdam HQ. These hires were made to reinforce our geographic expansion and local merchant support, predominantly in North America and Asia-Pacific. We added 105 FTE in the second half of 2018.

While we continued to invest in headcount, overall operating expenses were down 5% vs. H1 2018. The decrease was primarily due to the phasing of some spend categories, including pay-out of employee benefits and marketing campaigns. H1 2018 operating expenses also included additional spend in housing costs due to the expansion of our Amsterdam office, as well as IPO-related costs.

In the second half of 2018, EBITDA totaled €111.7 million, up 83% year-on-year, with an EBITDA margin of 58% in H2 2018 vs. 49% in H2 2017.

Free cash flow (EBITDA-CapEx) was €105.4 million for the second half of 2018, up 104% year-on-year. This resulted in free cash flow conversion of 94% for the period, vs. 85% in H2 2017. Net income was €83.0 million, up 90% from H2 2017.

Strengthened unified commerce offering

The paradigm shift in the retail landscape, driven among other factors by the digitalization of the industry, coupled with the seasonal trends in the second half and the increasing strength and geographic reach of our unified commerce offering, has resulted in the continuing growth of our POS business.

Growth is coming from our more established verticals, like retail, but also increasingly from new verticals, such as quick-service restaurants and hospitality. Across these verticals, the common denominator is the increasing need for a channel-agnostic approach to payments amid shifting shopper behavior and expectations. This is the approach that our single platform was built for.

We further expanded our local payment method offering on our POS terminals in the second half of the year, to now include high-volume domestic card schemes (e.g. Carte Bancaire in France). On the technical end, we built out product features in order to better support our merchants in specific verticals — hospitality and quick-service restaurants — such as seamless tipping and pay-at-table flows.

Following the success in the unified commerce space, we invested significantly in our POS operations in the second half of the year, to ensure the scalability of this growth pillar going forward. This includes partnerships, warehousing and logistics optimizations. Additionally, we engaged in new partnerships (e.g. Oracle) to help support our growth in specific verticals.

We launched a number of improvements to our product suite, including Sales Day Payout, to help merchants — especially in the retail segment. This product facilitates an easier reconciliation and faster payout (made possible by our banking license in Europe), irrespective of settlement times from different payment methods.

POS volume growth in the second half of the year came from both new POS-only and unified commerce (POS and ecommerce) merchants, as well as previously ecommerce-only merchants on our platform extending into unified commerce. Platform share of POS volume (% of total volume) was up to €10.0 billion in the second half of the 2018, up 86% year-on-year and accounting for 11% of total volume on the platform.

Accelerating innovation on the single platform

As a technology company aiming to redefine the payments industry, we continually build new products to help our merchants grow.

Speed is key to our ability to keep improving our platform. Consequently, we've been driving towards an acceleration of our release cycle and have now been able to bring it down to weekly. This means that there is a continuous flow of new functionality on the platform — reflecting the rapid pace of innovation we are able to provide to our merchants.

We were also first to market in launching our 3D Secure 2.0 (3DS 2.0) solution in the second half of the year. This in-house built solution allows for the authentication of transactions without intervention from the shopper, an industry-first. The solution is based on EMVCo's 3DS 2.0 protocols and enables shoppers to use biometrics such as fingerprint recognition, voice recognition or facial scans, as well as SMS-delivered two-factor authentication. Compared to EMVCo's 1.0 iteration of 3DS, this removes a significant amount of friction for the shopper (leading to higher conversion) — especially on mobile. We view this as another step toward delivering an increasingly seamless payment experience. This proposition has allowed us to position ourselves as a leading player to help merchants prepare for PSD2 mandates going live in Europe in September 2019, with other regions to follow.

Due to continued investment in machine learning algorithms, we saw the strength of our RevenueProtect toolkit grow such that we decided to build a standalone API for it. This allows merchants that are not on the Adyen platform to use our leading risk tool — optimizing authorization rates while combating fraud.

Investing in the Adyen team

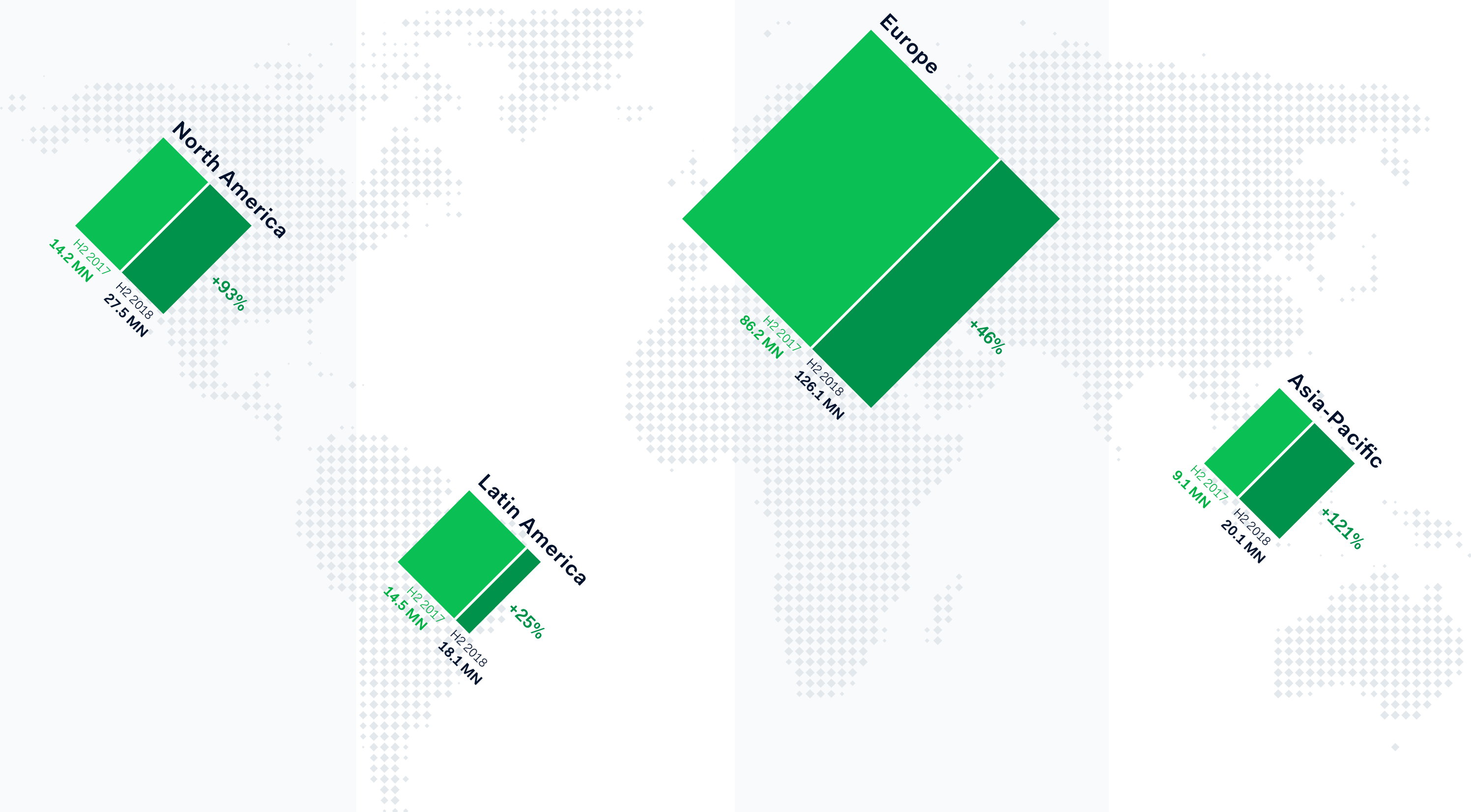
We view keeping our culture as business critical while we continue to invest in growth. We added 105 FTE in the second half of 2018.

Of the those hired in the second half of the year, 50% were in tech roles, 40% in commercial roles, and 10% supporting functions. As of end of year 2018, the Adyen team comprised 41% tech, 40% commercial and 19% supporting functions. The total FTE count is 873, up 31% year-on-year.

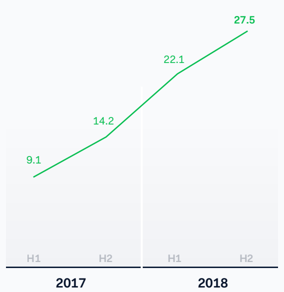
Senior management has continued to invest significant time and energy into our rigorous hiring process, ensuring that every new Adyen employee meets at least one board member prior to joining.

Graph Adyen's full year 2018 FTE growth (873 FTE in 2018 and 668 FTE in 2017)

Visualization Adyen's net revenue in key regions (by billing address in EUR millions) in H2 2017 and H2 2018

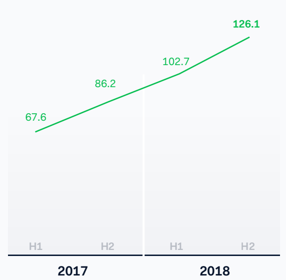


North America

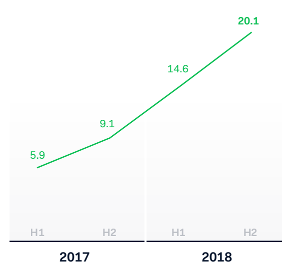


Latin America

Europe



Asia-Pacific



Graphs Adyen's net revenue in key regions (by billing address in EUR millions) from H1 2017 to H2 2018

Discussion of financial results

Acceleration of volume growth

We processed €89.0 billion on our platform in the second half of 2018, demonstrating continued growth at scale. This is up 50% year-on-year. Full year 2018 volume was €159.0 billion, up 47% year-on-year. Settled volume (i.e. full-stack including acquiring) increased from 61% for full year 2017 to 70% for full year 2018. This was due to us adding acquiring capabilities in Asia-Pacific and Canada this year as well as POS volume (where we are always the acquirer).

Second half POS volume accounted for €10.0 billion, equivalent to 11% of total volume, up 86% year-on-year.

Net revenue growth across regions

Net revenue was €192.5 million in the second half of 2018, up 54% year-on-year.

Year-on-year growth of net revenue was well diversified across regions, with Asia-Pacific (121%), North America (93%), Europe (46%) and Latin America (25%) all contributing. Europe remains the largest net revenue driver with 65% of total net revenues, down from 69% in H2 2017. Full year 2018 net revenue was €348.9 million, up 60% year-on-year.*

* On a constant currency basis, FY 2018 revenue of €1,652.9m would have been approximately 3% higher than reported. Please refer to Note 1 of Interim Condensed Consolidated Financial statements for further detail on revenue breakdown.

Investments in growth

Total operating expenses were €85.5 million in the second half of 2018, up 28% year-on-year, and representing 44% of H2 2018 net revenue. Total operating expenses for full year 2018 were €175.8 million, up 41% year-on-year from 2017.

Employee benefits were €43.5 million in the second half of the year, in line with €43.6 million in the first half, as the cost of increased headcount was offset by the impact of phasing of variable pay.

Other operating expenses amounted to €37.3 million in the second half of 2018, down from €42.7 million in the first half. This delta was partly due to lower housing costs, which were negatively impacted by additional spend on our Amsterdam office. Sales and marketing expenses were €9.9 million in the second half of 2018, up 32% year-on-year, and down from €11.4 million in the first half — as the majority of investments in increased brand awareness were made in the first half of the year. Further, there were some IPO-related costs in H1 2018.

EBITDA growth aided by operating expenses phasing

In the second half of 2018, we generated an EBITDA of €111.7 million, up 83% year-on-year. Full year 2018 EBITDA totaled €181.9 million, up 83% year-on-year.

EBITDA margin increased from 45% in the first half of 2018 to 58% in the second half, due to continued strong net revenue growth and operating expenses impacted by phasing of some spend categories. Full year 2018 EBITDA margin was 52%.

Strong net income growth

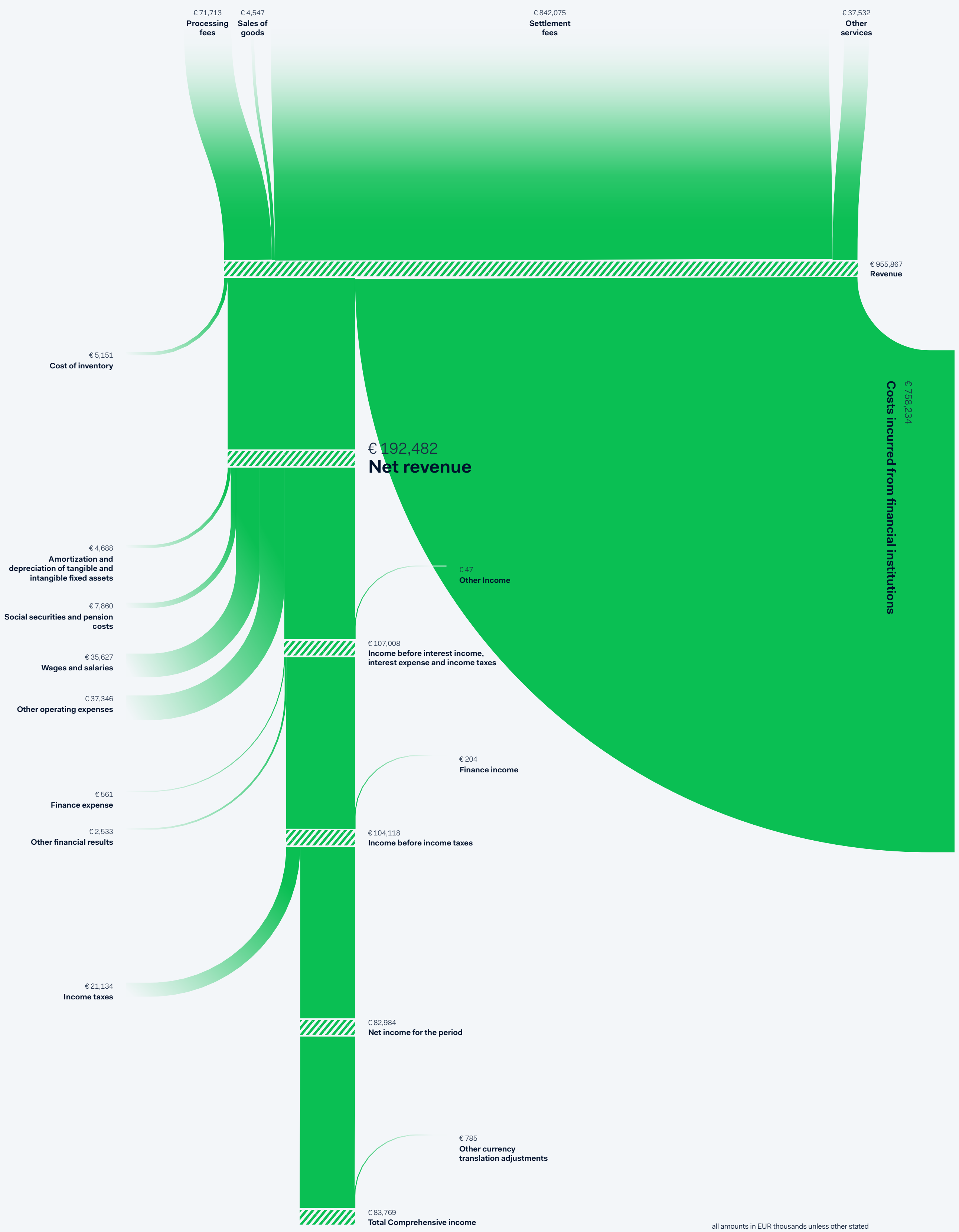
Net income for the second half of 2018 was €83.0 million, up from €48.2 million in the first half of the year, and up 90% year-on-year.

Full year 2018 net income was up 84% from 2017, and totaled €131.1 million.

High free cash flow conversion

Free cash flow was €105.4 million in the second half of 2018, up from €62.7 million in the first half. Full year 2018 free cash flow was €168.1 million, up 90% year-on-year.

Free cash flow conversion ratio ((EBITDA-CapEx)/EBITDA) was 94% for the second half of the year, and 92% for full year 2018.



Financial objectives*

We have set the following financial objectives, 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.

Earnings call and webcast

We will host our earnings call at 15.00 CET (09.00 ET) today (February 27) to discuss these results.

To listen to a live audio webcast, please visit our Investor Relations page at adyen.com/ir, where you can find a link. A recording will be available on the website following the call.

As an addendum to this letter, please find attached our H2 2018 financial results and three one-page updates on our growth pillars (Enterprise, Unified Commerce, Mid-market).

Sincerely,

Pieter van der Does
CEO

Ingo Uytdehaage
CFO

*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.

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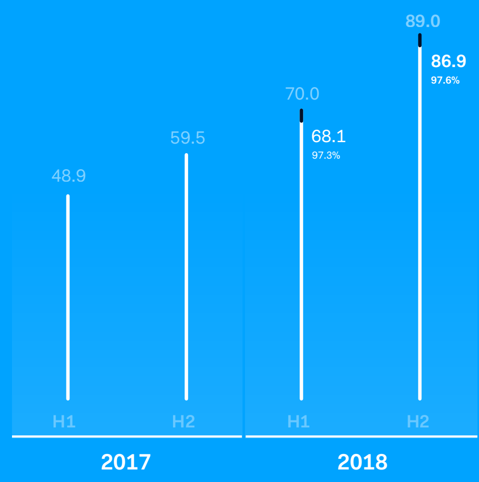
Enterprise

This segment has historically been our key growth driver, and we saw a continuation of this in the second half of 2018



Enterprise volume evolution, including share of total processed volume on the platform (%) in EUR billions. Note that 2017 numbers represent total processed volume

We continue to win new merchants, and volume from existing merchants, as a result of the high service levels facilitated by our single global platform — built with the complex needs of multinational enterprise merchants in mind

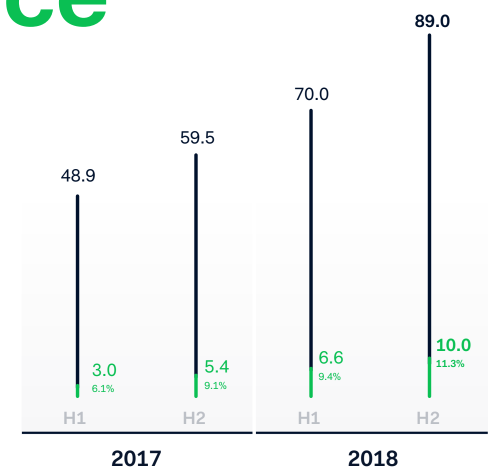
Sustained diversification in merchant base and in geographic spread of net revenue growth (notably North America and Asia-Pacific)

Continued investment in the growth of the Adyen team. Of those hired in the second half, over 50% were outside of our Amsterdam HQ. Ensuring that our merchants are optimally supported locally around the world

Ongoing improvements of platform functionality and product suite, now powered by a weekly release cycle

Unified commerce

We continue to see strong growth in this space due to the strength of our offering, and are now expanding into new verticals



POS volume evolution, including share of total processed volume on the platform (%) in EUR billions

Strength of offering resulting in increased traction and share of total volume on platform, further supported by seasonal trends in second half of the year

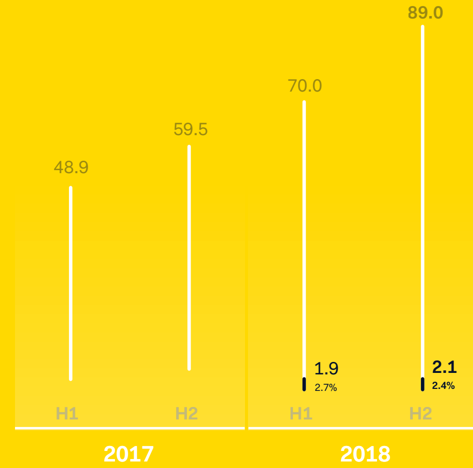
Increasing momentum in new verticals, such as quick-service restaurants and hospitality verticals, adding to existing verticals such as retail

Significant investment in POS operations, vertical-specific partnerships and POS logistics to further support our merchants' growth

We launched Sales Day Payout as an extension of our core product offering, aiming to allow for an easier reconciliation process — especially helpful in the retail segment

Mid-market

We are seeing some good early signs in the mid-market, which we view as the next-adjacent segment to enterprise



Mid-market volume evolution, including share of total processed volume on the platform (%) in EUR billions. Please note that in 2017 we did not differentiate mid-market volume

We invested significantly in our mid-market operations in the second half of the year, notably in the establishment of a customer success team, which is focused on scaling up merchants, and the development of mid-market-specific marketing plans

All accounts (platform-wide, not just mid-market) were moved to our new customer area, which features intuitive UX, and contains a range of actionable data insights. We also simplified and sped up onboarding to the Adyen platform

Launched 'Plugins & Partnerships' workstream, extending our existing partnerships strategy with major ecommerce platforms (e.g. Magento, SAP, Salesforce)

Continued investment in mid-market-specific sales teams, albeit at relatively small scale, primarily in continental Europe and in the UK

VANMOOF

alexanderwang

bugaboo

ARTIS

RICHARD MILLE

LUMENE

Interim Condensed Consolidated Financial Statements
H2 2018 Adyen N.V.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended December 31, 2018 and December 31, 2017
(all amounts in EUR thousands unless otherwise stated)

	Note	H2 2018	H2 2017
Revenue	1	955,867	570,072
Costs incurred from financial institutions	1	(758,234)	(435,010)
Cost of inventory	3	(5,151)	(10,294)
Net revenue		*192,482*	*124,768*
Wages and salaries	2	(35,627)	(30,172)
Social securities and pension costs	2	(7,860)	(4,667)
Amortization and depreciation of tangible and intangible fixed assets		(4,688)	(3,209)
Other operating expenses	4	(37,346)	(28,924)
Other Income		47	42
Income before interest income, interest expense and income taxes		107,008	57,838
Finance income		204	456
Finance expense		(561)	(675)
Other financial results	5	(2,533)	(972)
Net finance income		(2,890)	(1,191)
Income before income taxes		*104,118*	*56,647*
Income taxes	6	(21,134)	(12,948)
Net income for the period		82,984	43,699
Net income attributable to Owners of Adyen N.V.		82,984	43,699
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Gains on re-measuring of fair value through other comprehensive income financial assets		-	3,318
Deferred income tax relating to this item		-	405
Other currency translation adjustments		785	(1,495)
Currency translation adjustments subsidiaries		-	97
Other comprehensive income for the period		785	2,325
Total Comprehensive income for the period (attributable to owners of Adyen N.V.)		83,769	46,025
Earnings per share (in EUR)			
- Net Profit per share - basic	12	2.81	
- Net profit per share - diluted	12	2.71	

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

Condensed Consolidated Balance Sheet

For the periods ending December 31, 2018 and December 31, 2017
(all amounts in EUR thousands unless otherwise stated)

	Note	2018	2017
Intangible assets		5,059	3,978
Plant and equipment	11	23,921	19,990
Other financial at assets FVPL	10, 13	30,378	25,076
Contract assets	1, 10	140,791	-
Financial asset at amortized cost	10, 13	-	4,248
Deferred tax assets	6	8,297	1,627
Total Non-current assets		**208,446**	**54,919**
Inventories	3	7,864	4,017
Receivables from financial institutions	10, 13	355,596	180,719
Trade and other receivables	10, 13	42,334	25,567
Current income tax receivables	6	-	2,061
Financial asset at amortized cost	10, 13	4,418	-
Other financial assets at amortized cost	10, 13	9,842	6,989
Cash and cash equivalents	8	1,231,916	862,930
Total Current assets		**1,651,970**	**1,082,283**
Total assets		**1,860,416**	**1,137,202**
Share capital	7	296	295
Share premium	7	160,209	149,314
Treasury shares	2	(4,804)	-
Other reserves		69,472	27,933
Retained earnings	7	357,231	212,236
Total Equity attributable to owners of Adyen N.V.		**582,404**	**389,777**
Derivative financial instrument	7, 10	23,800	-
Deferred tax liabilities	6	23,777	5,130
Total Non-current liabilities		**47,577**	**5,130**
Payable to merchants and financial institutions	10, 13	1,186,861	717,305
Trade and other payables	10, 13	32,495	24,990
Current income tax payables	6	10,715	-
Deferred revenue	1	364	-
Total Current liabilities		**1,230,435**	**742,295**
Total liabilities and equity		**1,860,416**	**1,137,202**

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

Condensed Consolidated Statement of Changes in Equity

For the periods ending December 31, 2018 and December 31, 2017
(all amounts in EUR thousands unless otherwise stated)

	Note	Share capital	Share premium	Treasury shares	Other legal reserves	Share-based payment reserve	Warrant reserve	Retained earnings	Total equity
Balance - January 1, 2017		**294**	**148,331**	**-**	**20,793**	**4,913**	**-**	**140,631**	**314,962**
Other adjustments								321	321
Intangible assets					23			(23)	-
Other comprehensive income/ (expense)									
Net income for the year	1							71,307	71,307
Re-measurement available-for-sale financial asset					4,053				4,053
Other currency translation adjustments					(2,064)				(2,064)
Currency translation adjustments subsidiaries					(1,080)				(1,080)
Total comprehensive income for the period		**-**	**-**	**-**	**910**	**-**	**-**	**71,307**	**72,217**
Transactions with owners in their capacity as owners:									
Proceeds on issuing shares	2	1	983						984
Share-based payments	2					1,294			1,294
Balance – December 31, 2017		295	149,314	-	21,726	6,207	-	212,236	389,777

	Note	Share capital	Share premium	Treasury shares	Other legal reserves	Share-based payment reserve	Warrant reserve	Retained earnings	Total equity
Balance - January 1, 2018		**295**	**149,314**	**-**	**21,726**	**6,207**	**-**	**212,236**	**389,777**
Adoption of IFRS 9 accounting policy	13				(20,061)			20,061	-
Restated total equity at the beginning of the financial year		**295**	**149,314**	**-**	**1,665**	**6,207**	**-**	**232,297**	**389,777**
Reclassification of warrant (net of tax)	7, 10						51,150		51,150
Statutory tax rate change	6						3,069	(3,069)	-
Other adjustments					3,217			(2,064)	1,153
Intangible assets					1,079			(1,079)	-
Other comprehensive income/(expense)									
Net income for the year								131,146	131,146
Currency translation adjustments					622				622
Total comprehensive income for the period		**-**	**-**	**-**	**622**	**-**	**-**	**131,146**	**131,768**
Transactions with owners in their capacity as owners:									
Repurchase of Depositary Receipts	2			(31,035)					(31,035)
Options exercised	2	1	973			(974)			-
Proceeds on issuing shares	2		5,200						5,200
Movement resulting from Treasury shares	2		4,722	26,231					30,953
Share-based payments	2					3,438			3,438
Balance – December 31, 2018		296	160,209	(4,804)	6,582	8,671	54,219	357,231	582,404

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

Condensed Consolidated Statement of Cash Flows

For the six months ended December 31, 2018 and December 31, 2017
(all amounts in EUR thousands unless otherwise stated)

	Note	H2 2018	H2 2017
Income before income taxes		104,118	56,647
Adjustments for:			
- Finance income		(204)	(456)
- Finance expenses		561	675
- Other financial results	5	2,533	972
- Depreciation of plant and equipment		3,800	2,550
- Amortization of intangible fixed assets		888	661
- Share-based payments	2	2,408	638
- Financial assets at amortized cost	10	(170)	(168)
Changes in Working capital:			
- Inventories	3	(1,060)	1,734
- Trade and other receivables		(61)	(7,929)
- Receivables from financial institutions		(166,510)	539,075
- Payables to merchants and financial institutions		367,361	(449,747)
- Trade and other payables		(6,751)	7,187
- Deferred revenue	1	(1,967)	-
- Contract assets	1	239	-
Cash generated from operations		*305,185*	*151,838*
Interest received		204	456
Interest paid		(1,661)	(675)
Income taxes paid		(14,931)	(10,494)
Net cash flows from operating activities		**288,797**	**141,125**
Purchases of financial assets at amortized cost	10	(2,026)	371
Purchases of plant and equipment	11	(4,879)	(8,800)
Capitalization of intangible assets		(1,415)	(492)
Redemption of financial assets at amortized cost	10	-	84
Net cash used in investing activities		**(8,320)**	**(8,837)**
Share premium paid by shareholders	2	5,200	45
Other movements resulting from depositary receipts (treasury shares)	2	26,922	-
Repurchase of depositary receipts (treasury shares)	2	(21,182)	-
Net cash flows from financing activities		**10,940**	**45**
Net increase in cash, cash equivalents and bank overdrafts		291,417	132,333
Cash, cash equivalents and bank overdrafts at beginning of the period	8	943,127	729,819
Exchange gains/(losses) on cash, cash equivalents and bank overdrafts		(2,638)	778
Cash, cash equivalents and bank overdrafts at end of the period		1,231,916	862,930

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

Notes to the Condensed Interim 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 N.V. directly or indirectly owns 100% of the shares of its subsidiaries, and therefore controls all entities included in these interim condensed consolidated financial statements. At June 13, 2018 Adyen has offered and was admitted to trading and listing of existing ordinary shares in the capital of Adyen on Euronext Amsterdam. To facilitate this listing on Euronext Amsterdam, Adyen changed its legal structure in the Netherlands from a B.V. (Besloten Vennootschap – private company with limited liability) to an N.V. (Naamloze Vennootschap – public limited company).

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

Basis of preparation

Adyen applies the option of publishing condensed group financial statements under IAS 34 – *Interim Financial Reporting*. The interim condensed consolidated financial statements for the six months ended December 31, 2018 have been prepared in accordance with IAS 34. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Adyen annual consolidated financial statements as at December 31, 2017.

Significant accounting policies

Significant and other accounting policies that summarize the measurement basis used and are relevant to understanding the financial statements are provided throughout the notes to the interim condensed financial statements.

Critical judgements and estimates

Critical 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. The areas involving significant estimates or judgments are:

- Principal versus agent for revenue out of settlement fees– refer to Note 1 'Revenue and segment reporting'
- Recognition of deferred taxes related to share-based compensation – refer to Note 6 'Income taxes'
- Fair valuation of financial liabilities at fair value – refer to Note 10 'Financial instruments'

New Standards Adopted by Adyen

The accounting policies and methods of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Adyen annual consolidated financial statements for the year ended December 31, 2017.

Adyen has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. As required by IAS 34, the nature and effect of these changes are disclosed in the referenced notes. Adyen applied the following standards for the first time:

- IFRS 15 – *Revenue from Contracts with Customers* (refer to Note 1 'Revenue and segment reporting'); and
- IFRS 9 – *Financial Instruments* that require restatement of previous financial statements (refer to Note 10 'Financial instruments').

The qualitative impact assessment of the first-time application on January 1, 2018 of these standards is disclosed in Note 13 'New standards adopted by Adyen'.

Key Disclosures

1. Revenue and segment reporting

Adyen has applied IFRS 15 – *Revenue from contracts with customers* for the first time from January 1, 2018. The impact as per January 1, 2018 of the initial application of IFRS 15 was not significant[1].

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 commissions and terminal service fees are recognized at point in time or over time depending on the service rendered.

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

Types of goods or service	H2 2018	H2 2017
Settlement fees	842,075	488,106
Processing fees	71,713	54,103
Sales of goods	4,547	8,767
Other services	37,532	19,096
Total revenue from contracts with customers	**955,867**	**570,072**
Costs incurred from financial institutions	(758,234)	(435,010)
Costs of inventory	(5,151)	(10,294)
Net revenue	**192,482**	**124,768**

Key Judgement – Principal versus Agent for revenue out of settlement fees
An entity is acting as a principal when it has exposure to the significant risks and rewards associated with selling goods or rendering services.

Settlement fees – Adyen is the principal
Interchange and payment network fees, other costs incurred from financial institutions as well as a mark-up charged by Adyen for its acquiring services is recognized based on the conclusion that Adyen acts as a principal for all the payment processing services it provides to the merchants.

[1] Reference is made to Note 13 'New standards adopted by Adyen'

Net revenue
Revenue of Adyen contains scheme fees, interchange and mark-up for which Adyen acts as a principal. However, the Management Board monitors Net Revenue (net of interchange, scheme fees and cost of inventory) as performance indicator. As a result, Adyen considers net revenue 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 1.2. for further explanation on the non-IFRS measures reported by Adyen.

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'). To align the revenues with the related costs, part of Adyen's revenue is recognized when the services are rendered over a period time ('services transferred over time'). In 2018 the services transferred over time relate to the amortization of deferred revenue for services provided as part of the merchant contract described below and terminal services fees as part of the unified commerce offering.

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

Timing of revenue recognition	H2 2018	H2 2017
Goods and services transferred at point in time	952,311	570,072
Services transferred over time	3,556	-
Total revenue from contracts with customers	**955,867**	**570,072**

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.

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 (refer to note 10 'Financial Instruments).

Contract assets
In the first quarter of 2018 Adyen signed a contract with a customer (as defined in IFRS 15) for the provision of payment services that resulted in the initial recognition of contract assets of EUR 136 million, a derivative liability of EUR 75.5 million and a deferred revenue of EUR 4 million 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.

Adyen has classified EUR 65 million of the contract asset as a monetary item (refer to Note 5 'Other financial results') as Adyen has the right to receive a determinable amount of cash. The monetary part of the contract asset is in scope of impairment under IFRS 9. However, the expected credit loss on the contract asset is not significant. Reference is made to Note 10 'Financial instruments' for further details on the accounting treatment of the derivative liability resulting from the merchant contract.

1.1. Segment reporting

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	H2 2018	H2 2017
Europe	529,491	335,498
North America	283,217	145,985
Latin America	62,015	46,058
Asia-Pacific	78,706	38,856
Rest of the World	2,439	3,675
Revenue	955,867	570,072

1.2. Non-IFRS Financial Measures

Non-IFRS financial measures are disclosed in addition to the statement of comprehensive income to provide additional 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 from contracts with customers less 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	H2 2018	H2 2017
Europe	126,057	86,194
North America	27,491	14,247
Latin America	18,084	14,480
Asia-Pacific	20,073	9,103
Rest of the World	776	744
Net revenue	192,482	124,768

For the six months ended December 31, 2018, net revenue was EUR 192.5 million, up 54.3% from 2017 (2017: EUR 124.8 million). The year-on-year growth in net revenues shows the following geographical spread across Europe (46.2%), North America (93.0%), Latin America (24.9%) and Asia Pacific (120.5%).

- EBITDA: "Income before interest income, interest expense and income taxes" less 'amortization and depreciation of tangible fixed and intangible fixed assets' on the statement of comprehensive income;
- EBITDA Margin: EBITDA as a percentage of Net Revenue;
- Capex: 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	H2 2018	H2 2017
Income before interest income, interest expense and income taxes	107,008	57,838
Amortization and depreciation of tangible and intangible fixed assets	4,688	3,209
EBITDA	111,696	61,047
Net revenue	192,482	124,768
EBITDA Margin (%)	58%	49%
Purchases of plant and equipment	4,879	8,800
Capitalization of intangible assets	1,415	492
Capex	6,294	9,292
EBITDA	111,696	61,047
Capex	(6,294)	(9,292)
Free Cash Flow	105,402	51,755
Free cash flow	105,402	51,755
EBITDA	111,696	61,047
Free Cash Flow Conversion ratio (%)	94%	85%

2. Employee benefits

2.1. Employee benefits

The regional breakdown of FTE per office as per December 31, 2018 is as follows:

FTE per office	2018	2017
Amsterdam	503	396
San Francisco	99	80
Singapore	52	33
London	49	33
São Paolo	47	41
Other	123	85
Total	873	668

The employee benefit expense can be specified as follows:

Employee benefits	H2 2018	H2 2017
Salaries and wages	33,219	29,535
Share based compensation	2,408	638
Total wages and salaries	35,627	30,173
Social securities	6,820	4,052
Pension costs - defined contribution plans	1,040	614
Total social securities and pension costs	7,860	4,666

As part of its share-based payments plan initiated in Q3 2018, Adyen recognized a cash-settled liability for the cash-settled option plan. Fair value movements of the liability related to employee benefits are recognized in the share-based compensation expense (refer to paragraph 2.2 below).

2.2. Share-based payments

The share-based compensation expense can be specified as follows:

Share-based compensation	H2 2018	H2 2017
Equity-settled	2,317	638
Cash-settled	91	-
Total	**2,408**	**638**

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 depository 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.

In 2018 Adyen has provided its employees the opportunity to partially monetize their vested options. During the last six months of 2018, Adyen has repurchased Depositary Receipts for a total amount of EUR 21,182. For the full year Adyen has repurchased a total number of 59,875 (2017: nil) Depositary Receipts for the total amount of EUR 31,035 (2017: nil) presented as Treasury Shares.

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
III. Cash settled option plan

The nature, accounting policies and key parameters of the (I.) Depositary Receipts plan and (II.) Equity settled option plan are described in more detail in the 2017 consolidated financial statements. The (III.) Cash settled option plan established in second half of 2018 is described below:

III. Cash settled option plan

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 share 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 will be recognized under "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.

During the reporting period 2,816 phantom shares (2017: nil) were granted and nil (2017: nil) phantom shares are exercisable as per December 31, 2018. The share price at balance sheet date is EUR 475.05 per phantom share. The fair value of the liability recognized resulting from the phantom shares is EUR 91 (2017: nil) the cost related to this liability is fully recognized in wages and salaries presented in the Income statement.

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.

For the six months ended December 31, 2018 Adyen performed a re-assessment on inventory and determined the Net Realizable Value of part of its inventory was lower than Cost due to technological obsolescence. Therefore, a write-off of EUR 288 was recognized under Other operating expenses (as disclosed in Note 4 'Other operating expenses').

4. Other operating expenses

The other operating expenses can be specified as follows:

Other operating expenses	H2 2018	H2 2017
Housing costs	4,306	2,801
Office costs	1,039	898
IT costs	5,044	3,467
Sales & Marketing costs	9,947	7,551
Travel and other staff expenses	7,808	5,463
Advisory Costs	6,343	5,810
Miscellaneous operating expenses	2,859	2,934
Total	**37,346**	**28,924**

Operating leases
In the second quarter of 2018, Adyen signed an agreement to extend the lease of its corporate headquarters office building. As per December 31, 2018 Adyen has the following lease commitments:

Lease commitments	2018	2017
Less than 1 year	10,706	5,397
Between 1 and 5 years	35,518	15,059
More than 5 years	26,515	6,126
Total	**72,739**	**26,582**

Introduction of a new IFRS standard on Leases
The impact of the IFRS 16 – *Leases* accounting standard that has been issued but is not yet effective will affect the accounting for Adyen's operating leases relating to data center space, server racks and offices. This will result in the separate recognition of a EUR 67 million right of use asset and a similar related liability upon the adoption of this standard when it becomes effective on January 1, 2019. Adyen intends to apply the Leases standard prospectively from January 1, 2019.

Adyen expects no material impact in net profit after tax as a result of the new standard adoption. Result indicators such as EBITDA are expected to increase by approximately EUR 10.7 million in 2019, as operating lease payments were previously included in this measure, and the right-of-use assets depreciation and interest on lease liability are excluded from the calculation. The increase in the depreciation expense for 2019 is expected to be EUR 9.8 million.

5. Other financial results

The other financial results can be broken down in the following categories:

Other financial results	H2 2018	H2 2017
Exchange gains	(1,435)	(972)
Fair value re-measurement of:		
Derivative Liability (refer to note 10 - 'Financial Instruments')	(1,600)	-
Financial instrument at Fair Value through Profit & loss (note 10 - 'Financial Instruments')	422	-
Other	80	-
Total	**(2,533)**	**(972)**

6. Income taxes

6.1. 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 for the period 6 months ended December 31, 2018 is 20.30% (2017: 22.86%) which differs from the statutory tax rate in the Netherlands of 25% (2017: 25%) as follows:

Effective tax calculation	H2 2018	H2 2017
Income before tax at statutory rate of 25%	104,118	56,647
Weighted average statutory tax rate	25%	25%
Weighted average statutory tax amount	**26,030**	**14,162**
Tax effects of:		
Innovation box (changes in tax rate)	(7,323)	(3,159)
Tax rate differences on foreign operations	1,108	(1,780)
Derivative liability	400	-
Deferred tax on derivative liability	(400)	-
Other deferred taxes	81	-
Other adjustments (such as non-deductible)	1,239	3,725
Effective tax amount	21,134	12,948

Current income tax	2018	2017
Current income tax liabilities	10,715	-
Current income tax assets	-	2,061

6.2. Deferred taxes

Accounting policy – Deferred taxes
Deferred incomes 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.

Where the amount of any tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, the current or deferred tax associated with the excess is recognized directly in Other Reserves.

Changes in tax rate
The statutory tax rate in the Netherlands will be reduced in yearly steps from 25% in 2019 to 20.5% 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, 2018 with the remeasurement accounted for in profit and loss. For the deferred tax balances with a maturity after December 31, 2019 Adyen has used the new tax rates.

I. Deferred tax assets
In the deferred assets an amount of EUR 553 (2017: EUR 170) is recognized relating to net operating losses carryforward. Further EUR 4,879 of the deferred tax assets relate to the recognized derivative liability in 2018. Refer to Note 7 'Capital Management' for a more detailed disclosure of the derivative liability.

During the period 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.

As a result of this assessment, Adyen recognized a deferred tax asset in the United Kingdom of EUR 1,153 (2017: nil) and a reduction of the current tax payable of EUR 71 (2017: nil).

In the United States, Adyen currently assessed and assumes that it should not recognize the deferred tax asset under IFRS since it is not probable that the deferred tax asset will be realized for this tax benefit, based on existing tax agreements with the United States tax authority. As a result, a deferred tax asset has not been recognized in the consolidated financial statements. Based on the current assumptions the tax asset not recognized, amounts to approximately EUR 39 million (2017: nil) for the period. It is management's approach to pay taxes in countries in which it operates.

Adyen will reassess the possible recognition of the deferred tax asset in the United States at each reporting period and will consider all facts and circumstances then available.

II. Deferred tax liability
The deferred tax liability consists mainly of the deferred tax on the Visa Inc. preferred stock of EUR 7,594 (2017: EUR 5,015) and contract asset EUR 16,020 (2017: nil).

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

Tax expense	H2 2018	H2 2017
Current income tax expense	21,454	12,543
Deferred income tax expense	(320)	405
Total	21,134	12,948

III. Deferred tax recognized directly in equity
Adyen has recognized a deferred tax amount of EUR 17,050 (2017: nil) directly into the warrant reserve as a result of an adoption of an accounting policy of the derivative financial instrument. Refer to Note 7 'Capital Management' for a more detailed disclosure of this accounting policy adoption. As a result of the change in statutory tax rates during the period as described above Adyen remeasured the deferred tax amount in the warrant reserve resulting in a reclassification of EUR 3,069 (2017: nil) to retained earnings at December 31, 2018.

Capital management and financial instruments

7. 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.

	2018	2017
Share capital	296	295
Share premium	160,209	149,314
Total	**160,505**	**149,609**

During the six months ended December 31, 2018 31,798 additional shares were issued as a result of exercises of options. The number of outstanding shares is 29,553,166 ordinary shares (as of December 31, 2017: 29,442,487) (nominal value EUR 0.01 per share). The total of distributable reserves amounts to 381,786 (December 31, 2017: 361,550), the other reserves are restricted for distribution. The number of shares issued is according to the trade date.

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

Adoption of accounting policy – Derivative Financial Instrument
Due to a change in circumstances resulting from the Initial Public Offering, Adyen reassessed the 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.

Part of the derivative financial liability is prospectively de-recognized and the new equity instruments are recognized at fair value in equity (warrant reserve).

Derivative financial instrument
The first two tranches of the derivative liability resulting from a merchant contract were reclassified in H1 2018, from derivative liability to warrant reserve in equity for the amount of EUR 51,150 (net of EUR 17,050 deferred taxes). The remaining derivative liability balance as per end of December 31, 2018 is EUR 23,800. Reference is made to Note 10 'Financial instruments' for further details on the accounting treatment of the financial instrument relating to the merchant contract.

8. Cash and cash equivalents

As per December 31, 2018 EUR 731 million (December 31, 2017: EUR 295 million) represents cash held at central banks.

9. CRR/CRD IV Regulatory Capital

The following table show the calculation of regulatory capital as at December 31, 2018. 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	**2018**	**2017**
EU-IFRS Equity as reported in consolidated balance sheet	582,404	389,777
Net profit not *included in CET1 Capital (not yet eligible)*	(131,146)	(71,307)
Warrant reserve	(54,219)	-
Regulatory adjustments		
Intangible assets	(5,059)	(3,182)
Unrealized gains measured at fair value	-	(3,549)
Deferred tax asset that rely on future profitability	(1,341)	
Prudent valuation	(54)	(25)
Own funds as per December 31	**390,585**	**311,714**

10. Financial Instruments

Accounting policy – Financial instruments (IFRS 9)

Classification
From January 1, 2018, Adyen classifies its financial assets between 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 they arise.

Impairment
From January 1, 2018, 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, Adyen 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 and hence all assets are considered to be in stage 1 and a 12-month expected credit loss is applied.

As the average duration of the instruments in scope for impairment calculation is below 10 days, no forward-looking elements are included in the expected credit loss assessment.

During the period Adyen added EUR 107 (2017: EUR 1,500) to its accounts receivable provision based on the calculations from its IFRS 9 expected credit loss model for Accounts Receivables. Adyen did not recognize any other impairments on financial instruments during the six months ended December 31, 2018 (during the six months ended December 31, 2017: nil), nor reversed any impairment losses.

Other financial assets at Amortized cost (Government bonds; Hold to collect)
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. Due to the low credit risk on the bonds, the expected credit losses (impairment) on the bonds is not significant.

Other financial assets at Fair Value Through Profit or 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 47; 2017: EUR 42).

Contract asset
Adyen has classified EUR 65 million of the contract asset, resulting from the merchant contract referred to in Note 1 'Revenue and segment reporting', as a monetary item and is in scope of impairment under IFRS 9. However, due to the low credit risk, the expected credit losses (impairment) on the contract asset is not significant.

Derivative Liability
As part of the merchant contract referred to in Note 1 'Revenue and segment reporting' Adyen recognized a derivative liability measured at fair value through profit and loss. As of the signing of the contract 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. Each tranche is equal to 1.25% of the Adyen's fully diluted issued and outstanding share capital as at January 31, 2018.

Due to the IPO of Adyen, the accounting treatment of the derivative liability relating to the merchant contract has changed in several aspects. As a consequence of the change in circumstances, the first two tranches of the derivative liability were de-recognized in H1 2018, and classified as equity instruments for a total value of EUR 51,150 (net of EUR 17,050 deferred taxes). The last two tranches of the derivative liability that remain after this change, continue to be measured at Fair Value through Profit & Loss for an amount of EUR 1,600 for the period. Reference is also made to Note 7 'Capital Management' for the accounting treatment of the reclassification.

In accordance with IFRS 13 the fair value of the derivative liability at inception of the contract was determined based on Level 3 inputs as per March 31, 2018. Due to the IPO previously unobservable inputs became observable (being the underlying Adyen share price) and therefore the remaining part of the derivative liability is classified as a Level 2 fair value instrument as per December 31, 2018.

Adyen carried out a sensitivity analysis with regard to the remaining two tranches of the derivative financial liability. A 5% increase or decrease in the underlying Adyen share price would result in an increase or decrease of approximately EUR 1 million of the value of the derivative liability, all other circumstances considered to be equal.

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.

Other disclosures

11. Plant and equipment

Purchases in plant and equipment for the six months ended December 31, 2018 amounted to EUR 4,879. Adyen did not recognize a loss from impairment of neither plant nor equipment during the six months ended December 31, 2018 (2017: nil), nor did Adyen reverse any impairment losses.

12. Share information

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 in the case of Adyen only relates to share options.

Share information	H2 2018
Net Income attributable to ordinary shareholders	82,984
Weighted average number of ordinary shares for the period	29,486,625
Dilutive effect share options	1,117,459
Weighted average number of ordinary shares for diluted net profit for the period	30,604,084
1) Net profit per share – basic	2.81
2) Net profit per share - diluted	2.71

13. New standards adopted by Adyen

13.1. IFRS 15 – Revenue from contracts with customers
IFRS 15 has no financial impact upon adoption on January 1, 2018. For the impact assessment Adyen has assessed its current merchant contracts and did not identify performance obligations other than the obligations as already used to recognize payments revenue.

Given the nature of Adyen's business model the revised notion of control and resulting revenue recognition date does not impact the recognition policy applied by Adyen. The change from risk and rewards to control does not affect the agent principal assessment. Adyen is still considered as the principal in the revenue streams resulting in revenue being recognized on a gross basis.

13.2. IFRS 9 – Financial Instruments
IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets.

Adyen adopted IFRS 9 without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at December 31, 2017, but are recognized in the opening balance sheet on January 1, 2018 as shown in the table below for the financial assets held by Adyen as per January 1, 2018:

	31.12.2017 IAS 39		1.1.2018 IFRS 9			31.12.2018 IFRS 9
	Classification	Carrying amount	Business model	Classification	Carrying amount	Carrying amount
Financial assets						
Visa Inc. deferred consideration	Loans and receivables	4,248	Hold-To-Collect	Amortized cost	4,248	4,418
Visa Inc. preferred shares	Available-For-Sale	25,076	Not applicable	FVPL	25,076	30,378
Government Bonds	Held-To-Maturity	6,989	Hold-To-Collect	Amortized cost	6,989	9,842
Receivables	Loans and receivables	206,286	Hold-To-Collect	Amortized cost	206,286	397,930
Cash and cash equivalents	Loans and receivables	862,930	Hold-To-Collect	Amortized cost	862,930	1,231,916
Total financial assets		**1,105,529**			**1,105,529**	**1,674,484**

Classification and measurement

Visa preferred shares - previously classified as available-for-sale
As a result of the IFRS 9 implementation Adyen classifies the Visa preferred shares at FVPL. Related fair value gains of EUR 20,061 were transferred from the other comprehensive income reserve to retained earnings on January 1, 2018.

Government bonds - previously classified as held to maturity
As a licensed credit institution Adyen has to comply with liquidity requirements in both its functional currency and other significant currencies defined under CRR/CRD IV. These significant currencies are based on the eligible liabilities in scope of regulatory liquidity requirements (LCR Delegated Act). In order to comply with these liquidity requirements Adyen has, in the course of 2017, purchased US and UK treasury bonds denominated in USD and GBP, respectively. Both bonds matured in March 2018. In March 2018 Adyen purchased two new bonds with similar characteristics to ensure continuous compliance. The bonds purchased in March 2018 also mature within one year and are therefore presented as short-term in the balance sheet.

Adyen intends to hold the bonds to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no significant difference between the previous carrying amount and the revised carrying amount of the bonds as per January 2018, until they matured in March 2018.

Other financial instruments: Cash and cash equivalents, trade receivables and other short-term receivables
Classification and measurement of cash and cash equivalents, trade receivables and other short-term receivables remains unchanged; these are measured at amortized cost.

The presentation in the statement of financial position of the other financial assets as per December 31, 2018 can be reconciled as follows:

Breakdown of Other Financial Assets in the Balance sheet			01.01.2018	31.12.2017
Available -for sale financial asset	Visa Inc. preferred shares	IAS 39	-	25,076
Financial instrument at Fair value through P&L	Visa Inc. preferred shares	IFRS 9	25,076	-
Investments held-to-maturity	Government Bonds	IAS 39	-	6,989
Financial assets at amortized cost	Government Bonds	IFRS 9	6,989	-

Impairment
All financial instruments except for instruments classified as FVPL are in scope of IFRS 9 impairments. The instruments in scope for IFRS 9 impairments on the Adyen Balance sheet are described below:

Government bonds
For the bonds the low credit risk simplification will be applied, and hence all bonds are considered to be in stage 1 and a 12-month expected credit loss is applied.

The government bond financial instruments on the balance sheet as per January 1, 2018 and December 31, 2018 had a high credit rating and as per December 31, 2018 a duration less than 1 year. The resulting expected credit losses on these bonds are not significant.

Trade receivables
For trade receivables, to measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

Other financial instruments: Cash and cash equivalents and other short-term receivables
Due to the nature of the Adyen business model the average duration of the instruments in scope for impairment calculation is below 10 days the resulting expected credit losses on these instruments have no financial impact. Due to the low financial impact the impact forward-looking elements are included in the expected credit loss assessments but also considered to have no financial impact.

Hedge accounting
Adyen does not apply Hedge Accounting and therefore IFRS 9 Hedge Accounting is out of scope.

14. Related party transactions

During period, Adyen identified related party transactions that took place at arm's length with Stichting Administratiekantoor Adyen, employees (balance as per December 31, 2018: 1 receivable) and Supervisory Board members (balance as per December 31, 2018: 271 payable) relating to the exercise of options (during the six months ended December 31, 2017: nil).

There were no other transactions with related parties during the six months ended December 31, 2018 (during the six months ended December 31, 2017: nil).

15. Contingencies 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 Inc. to reporting requirements, bonding requirements, limitations on the investment of customer funds and inspection by state regulatory agencies.

Adyen has EUR 18,777 (2017: EUR 5,015) of outstanding bank guarantees and letters of credit as per December 31, 2018. In addition, Adyen has an intra-day credit facility of EUR 100 million (2017: EUR 100 million) which is not used as per December 31, 2018.

16. Events after the balance sheet date

There are no events after the reporting period.

17. Other information

The Interim Condensed Consolidated Financial Statements of Adyen N.V. for the six months ended December 31, 2018 have been prepared in accordance with IAS 34 – *Interim Financial Reporting.*

The Interim Condensed Consolidated Financial Statements and other information included from page 1 to 41 are unaudited.

Statement by the Management board

As is required by section 5.25d of the Dutch Financial Supervision Act (Wet op het financieel toezicht) we state that according to the best of our knowledge:

1. The interim consolidated financial statements present a true and fair view of the consolidated assets, liabilities, financial position and the profit or loss of Adyen N.V.; and
2. The interim consolidated financial statements provide a true and fair view of the information required pursuant to article 5.25d paragraph 8 and 9 of the Dutch Financial Supervision Act (Wet op het financieel toezicht).

Amsterdam, February 27, 2019

Pieter van der Does
CEO

Ingo Uytdehaage
CFO