2018

Annual report

adyen

Directors Report

2018 was a memorable year for Adyen. We saw strong growth while we continued to invest for the future.

We're glad to see that several significant brands chose us as their growth partner for the future. We also focused intently on the growth of the merchants already on our platform. The latter group made up a significant portion of the €51 billion processed volume we added on top of our 2017 figures, now totaling €159 billion. Volume churn was <1%, stable from 2017, and a proof point of the strength of our relationships and our speed of innovation.

This speed is facilitated by the continuous improvement of our single platform. In 2018, we increased the interval of our release cycle to a weekly cadence, allowing us to further rev up our pace of innovation. A pace that has resulted in a wide range of incremental improvements to the platform, delivering on our promise of 'providing a membership to ongoing innovation'. Our merchant demand-driven approach to product development has also resulted in a number of product launches in the last year. Examples include the 3DS 2.0 solution we built in house and the standalone API for RevenueProtect. This speed of deployment is critical to our ability to continue to redefine the payments industry.

On the other end of the platform equation we added a number of acquiring licenses (e.g. Singapore, Australia, Canada), allowing us to provide the full strength of our single platform in more markets around the world. This full-stack (i.e. gateway through acquiring) delivers the greatest benefit to our merchants, resulting in higher authorization rates. Another key to boosting merchants' revenue is our sustained investment in key local payment methods and domestic card schemes around the world. As the single platform becomes increasingly global, we're able to power more growth for our merchants. Our increasingly global footprint is already reflected in our 2018 growth numbers, which we're very happy to see.

On a macro level, commerce continued its relentless transformation. This leads to an increased need – especially in the retail vertical – to cater to shifting shopper behaviors and demand. Shoppers' expectations now include the presentation of a single brand, whether online or offline, in a true convergence of sales channels. On the back end, many merchants in the retail space still struggle with this new reality. To solve for this, we focused on alleviating pressures on the retailers' operations, enriching the functionality on the payment terminal and on removing friction from the shopper journey in this space. The success of our relatively nascent unified commerce offering is a testament to the strong execution of our strategy. We're very excited to see where this space is headed in the next few years.

We added 205 FTE to the global Adyen team, which now totals 873 FTE as of end of year 2018. As a management team, we view keeping our culture as business critical. We continue to invest significant time in the hiring process, with at least one board member seeing every single new joiner before they're hired. Some of those hired were the last joiners of Adyen as a private company, as we went public in June of last year. I'd like to finish this note in echoing what I wrote at the time:

Eleven years ago, we processed our first transaction. Today, we're a global player in a growing space. And we're setting our own course. I'm proud of being able to work with the talented team we have – and to be building Adyen together. I'm sure we will look back at this in the future – still – and realize that this was only the beginning.

Pieter van der Does, CEO

The Adyen DNA

We are a technology company redefining payments.
We work together with over 870 people spread across 17 offices around the world.

To us, "winning is more important than ego" – we value people for their skills and what they bring to the company, not for their titles. We work with cross-functional teams and empower them to make their own decisions. We call these workstreams. We think function beats form, and our effort toward our goal of helping our merchants grow is singular.

How we work together is guided by the Adyen Formula. These eight principles are not constant – but constantly evolving to keep pace with our merchants, our business and growth of the team. The Formula ensures speed, which we view as the foundation of our company. We think fast. We work fast. We launch fast. Our merchants' demands shape our development, and we never stop – that is our job. We're creating our own path, with a global team driving sustainable growth.

The way we work is crucial 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.

Highlights

Processed volume	Net revenue	EBITDA
2017	2017	2017
€108.4 BN	€218.3 MN	€99.4 MN
2018	2018	2018
€159.0 BN	**€348.9 MN**	**€181.9 MN**
47% growth year-on-year	60% growth year-on-year	83% growth year-on-year

Significant momentum in growth pillars

» Key merchant wins in enterprise segment
» Unified commerce offering strengthened — now 11% of total volume
» Investment in mid-market team, product improvement and operations

Adyen's strengthened global footprint

» Expansion of acquiring to several new regions – full-stack now 70% of total volume
» Unified commerce offering now available in more markets
» Addition of key local payment methods and domestic card schemes to platform

Accelerating innovation on the single platform

» Ongoing incremental innovation boosted by weekly release cycle
» First to market with real-time account updater and 3DS 2.0 products
» Launched Terminal API to further boost unified commerce offering

Singular focus on merchant growth and building the business

» Adyen team grew in a measured manner across the globe – now in 18 offices
» IPO in June proved not to be a distraction, even providing some marketing value

Strategy

We operate in an agile manner, guided by the Adyen Formula and the ever-evolving needs of merchants. These principles – to help merchants grow, to change the payments landscape, and to have fun while doing it – allow us to be a growth partner to the merchants that we work with. We aim to be at the forefront when it comes to developing new functionality as business models evolve.

The above allows us to be well-positioned to grow our business and increase scale over the coming years, with growth opportunities mostly centered on the following three strategic pillars:

1. Enterprise
2. Unified commerce
3. Mid-market

Continued Focus on Enterprise Merchants

We have grown our business primarily by solving payments-related issues for global enterprise merchants. We still see significant potential for upside in this category along the following avenues:

- **Deepening relationships with existing merchant base**: we aim to grow our business within the existing merchant base, which includes some of the largest multinational merchants. This increase is expected to come through a combination of sources, including (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, which often is achieved through an increase in geographies covered and/or by adding new channels for merchants.
- **New merchants**: Acquiring new enterprise-level merchants across different verticals and geographies. We have a dedicated sales force focused on acquiring new globally operating enterprise-level merchants in each of the geographies and industries where we are present, and we are constantly looking to enter new market segments.
- **Capitalizing on evolution in business models**: As our platform is able to quickly respond to changing merchant needs, we are agile and well-positioned to benefit from shifting business models.

Increasing the Unified Commerce footprint

The retail industry is rapidly evolving, with merchants realizing that their ability to connect with shoppers across channels can have a significant impact on their businesses. Online and mobile retailers are increasingly establishing a physical presence and brick-and-mortar retailers are increasingly pursuing an online and mobile strategy. Increasingly, merchants aim to build various types of sales and distribution models across sales channels.

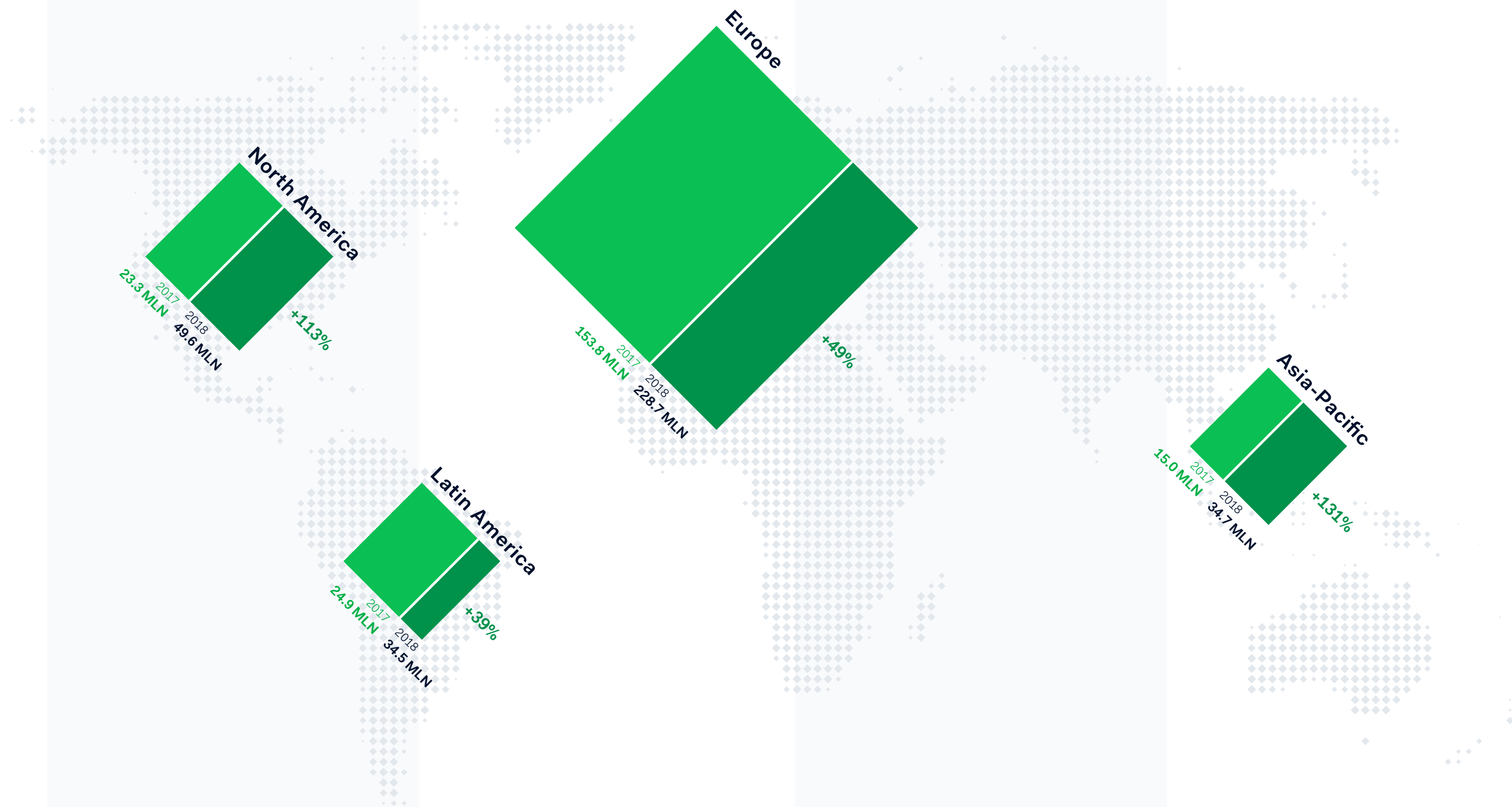
We believe we are well-positioned to capitalize on this paradigm shift in retail as a result of the following:

- Holistic view of payments on the single platform: Our 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.

- Uniform shopper journeys: The single platform enables merchants to offer a uniform experience across channels, whether for shoppers in-store, online or on a mobile device. 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.

- Increased focus on POS (point-of-sale): Our POS offering, which was first launched in 2015, has grown significantly since launch. We know see that POS volume is growing at a quicker pace than online volume on the platform. In 2018, POS processed volume was at EUR 16.6 billion, comprising 10% of total volume. This is up from 8.4 billion and 8% respectively for 2017.

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



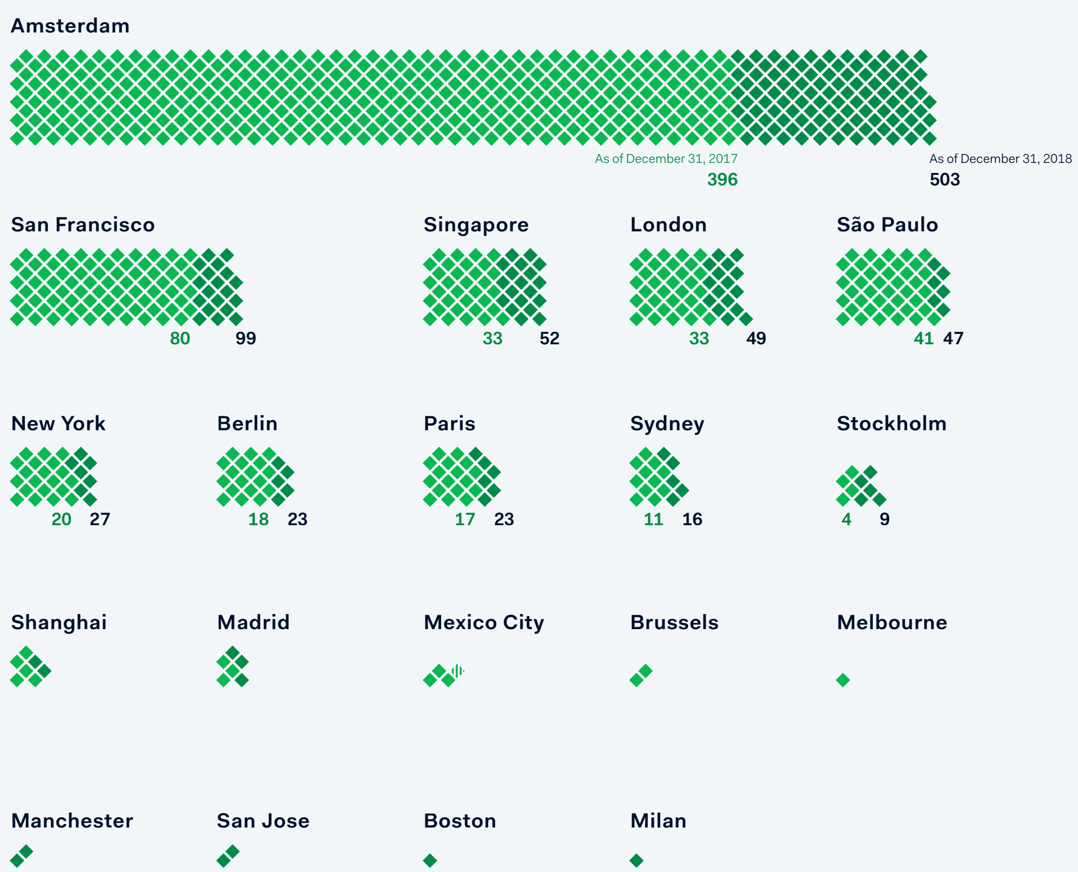
North America Latin America Europe Asia-Pacific

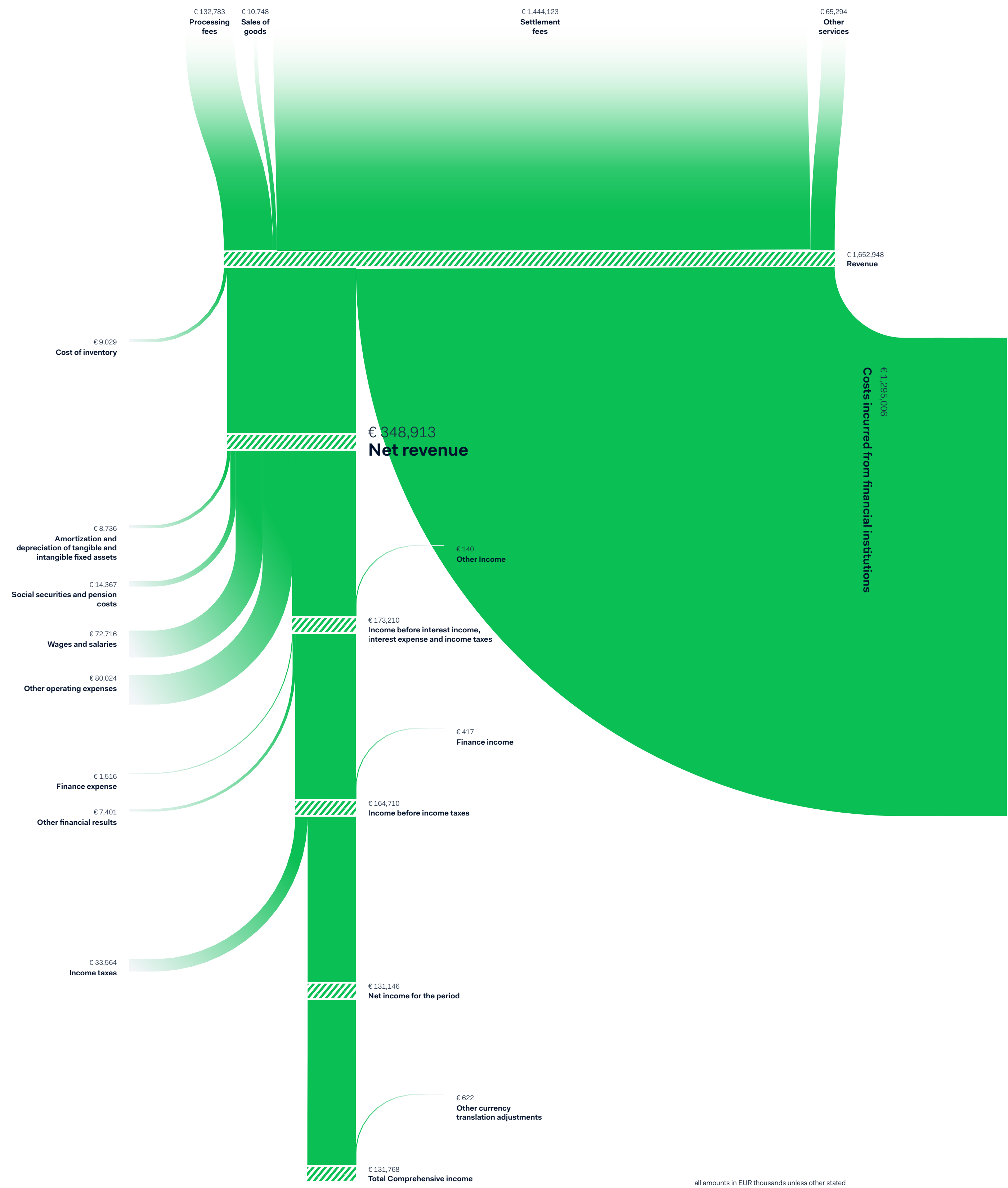
Expansion into the next adjacent segment: Mid-market

Historically, we have been focused on the needs of large multinational 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:

- Industry-leading functionality: All merchants that use our platform gain access to the same performance and functionality as the world's largest multinational companies. This makes the platform attractive to both large domestic merchants and local merchants with international ambitions, allowing them to effectively future-proof their payments.
- Serving local heroes: Over the last 11 years, we've been able to establish a truly global footprint, with 18 offices worldwide, which provide local presence, payment methods and expertise in key markets. This allows us to focus on further serving local mid-market merchants.

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





all amounts in EUR thousands unless other stated

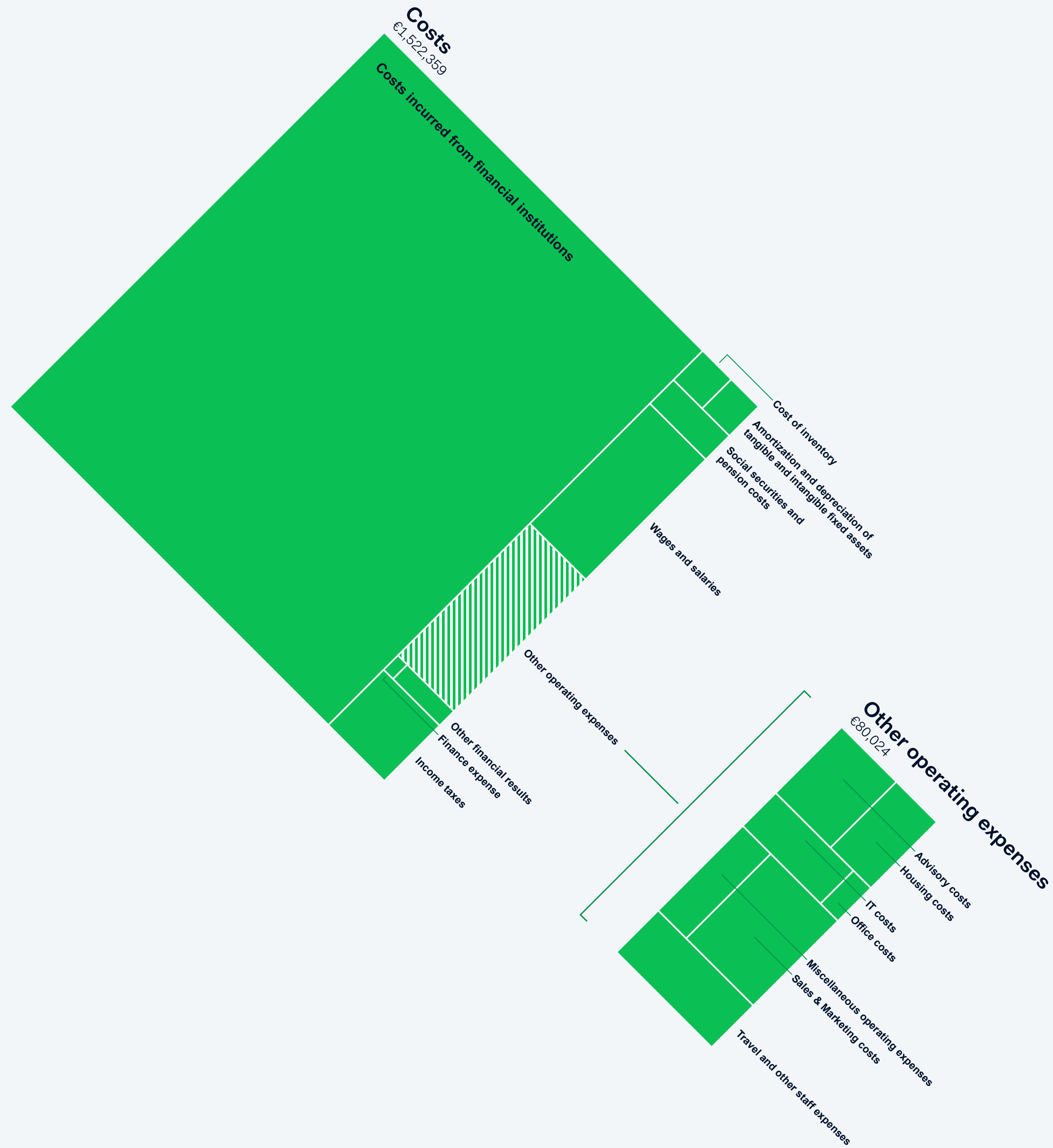
Financial Objectives

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.

Description of Business Activities

The Adyen platform integrates the full payments stack (gateway, risk management, processing, acquiring and settlement) with a common back-end infrastructure for authorizing payments across merchants' sales channels as well as offering feature-rich APIs. This integrated platform allows for the delivery of products and services on a global scale with local capabilities, directly connecting merchants to Visa, Mastercard and many other payment methods, and across sales channels, including its merchants' online, mobile and POS channels, while providing a high level of reliability, security, performance and data insights.



Governance

General

Adyen's governance is reflected in certain internal rules and regulations, including our Articles of Association (statuten), the Management Board By-Laws, the Supervisory Board By-Laws and the Terms of Reference of our Supervisory Board committees. The Articles of Association in the governing Dutch language and in an unofficial English translation thereof are available on Adyen's website (adyen.com/ir), together with the Management Board By-Laws and the Supervisory Board By-Laws.

Management Structure

Adyen maintains a two-tier board structure consisting of a Management Board (raad van bestuur) and a Supervisory Board (raad van commissarissen). The Management Board is collectively responsible for the day-to-day management, which includes, among other things, formulating Adyen's strategy and setting and achieving Adyen's objectives. The Supervisory Board supervises and advises the Management Board. Each board is accountable to the General Meeting for the performance of its duties.

Management Board

Composition, Powers and Function.

Adyen's Management Board is composed of the following members:

Name	Age	Nationality	Gender	Position	Member since	Term
Pieter Willem van der Does	49	Dutch	Male	CEO	6 July 2007	13 June 2022
Arnout Diederik Schuijff	51	Dutch	Male	CTO	6 July 2007	13 June 2022
Roelant Prins	43	Dutch	Male	CCO	9 September 2009	13 June 2022
Ingo Jeroen Uytdehaage	45	Dutch	Male	CFO	1 June 2011	13 June 2022
Samuel Graeme Halse	34	New Zealander	Male	COO	20 April 2015	13 June 2022
Joannes Gerardus Wijn	49	Dutch	Male	CSRO	1 May 2017	13 June 2022

The Management Board is responsible for the management of the Group's operations, subject to the supervision by the Supervisory Board. The Management Board's responsibilities include, but are not limited to, defining and attaining Adyen's objectives, determining Adyen's strategy and risk management policy, and the day-to-day management of Adyen's operations. The Management Board may perform all acts necessary or useful for achieving Adyen's objectives, with the exception of those acts that are prohibited by law or by the Articles of Association.

Pursuant to the Management Board By-Laws, the members of the Management Board (the "Managing Directors") will divide their tasks among themselves in mutual consultation. In performing their duties, the Managing Directors are required to be guided by the best interests of the Company and the business connected thereto.

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 of 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.

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. 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 DNB. In connection with its approval procedure, DNB will test the proposed new Managing Director on integrity (betrouwbaarheid) and suitability (geschiktheid).

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:

Name	Age	Nationality	Gender	Position	Member since	Term
Pieter Sipko Overmars	54	Dutch	Male	Chairman	20 January 2017	20 January 2021
Delfin Rueda Arroyo	54	Spanish	Male	Member	20 January 2017	20 January 2022
Jozef Aloysius Johannes van Beurden	58	Dutch	Male	Member	20 January 2017	20 January 2020

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 members of the Supervisory Board (the "Supervisory Directors") are required to be guided by the interests of the Company which includes the interests of the business connected with it. These interests are driven by Adyen's focus on long-term value creation and the way in which this is implemented in the Company's strategy and culture.

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 to be determined by the Supervisory Board. Only natural persons may be appointed as Supervisory Director.

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. 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 (betrouwbaarheid) and suitability (geschiktheid).

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'. 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.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee drafts proposals for the Company's remuneration policy. It proposes the remuneration of the individual Managing Directors and Supervisory Directors. It analyses developments of the Dutch Corporate Governance 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 Nomination and Remuneration Committee. The meetings are scheduled semi-annually. The Nomination and Remuneration Committee consists of at least three Supervisory Directors. The Company'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 the Company'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, as much as possible, scheduled for a year in advance. The Audit Committee consists of at least three Supervisory Directors. The Company's CEO, CFO and CSRO have a standing invitation for each Committee meeting. 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.

General Meetings can also 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 place 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 21, 2019 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 General Meeting held on April 17, 2018, 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 up to and including December 15, 2019 for: (i) up to 10% of the total number of shares issued at the time of the General Meeting for any purposes; plus (ii) up to an additional 10% of the total number of shares issued at the time of the General Meeting in connection with (a) capital requirements or regulatory requirements or (b) in connection with mergers, acquisitions and strategic alliances. Hence, within the aforementioned limits shares are issued by a decision of the Management Board. This decision must be approved by the Supervisory Board. Any issuance exceeding the aforementioned limits 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 up to and including December 15, 2019.

Repurchase of Shares

Shares can only be repurchased by the Company pursuant to a resolution of the General Meeting unless the General Meeting has designated this authority to the Management Board. During the General Meeting held on April, 17 2018, 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 period of 18 months starting from June 14, 2018, 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.

Major Shareholders

The following shareholders filed their interests in the capital of the company exceeding 3% to be included in the AFM's register of substantial holdings, www.afm.nl (data as of 31 December 2018).

Shareholder	Number of Ordinary Shares	% of issued and outstanding Ordinary Shares
Pentavest S.à.r.l.	4,363,826	14.8%
Stichting Administratiekantoor Adyen	3,951,713	13.4%
General Atlantic Everest B.V.	2,800,013	9.5%
Ossa Investments Pte Ld	2,395,471	8.1%
Sintentis B.V.	1,505,553	5.1%
DIA Holding B.V.	392,786	1.3%
Spreng B.V.	1,415,278	4.8%
Ark B Holdings B.V.	1,368,836	4.6%
Adinvest AG	1,305,004	4.4%
Partners in Equity III B.V.	1,281,981	4.4%
Capital Group International Inc.	1,200,821	4.1%
Bridford Music LLC	1,026,481	3.5%
FMR LLC	870,239	3.0%
Iconiq Strategic Partners II, L.P.	392,065	1.3%
Iconic Strategic Partners II-B, L.P.	306,915	1.0%
Iconic Strategic Partners II Co-invest, L.P.	569,445	1.9%

For further detail on individual shareholdings please refer to the AFM's register.

Shareholders' Agreement

On April 17, 2018, the Company and certain shareholders (holding more than 2.5% of the shares immediately following completion of the Offering) entered into a shareholders' agreement, which governs the relationship between the Company and said shareholders. When limited to the material elements only, the shareholders' agreement provides that:

- the shareholders that are a party to the shareholders' agreement may only sell shares in accordance with certain agreed procedures, including but not limited to, being bound by a conditional tag-along right;

- the Company may be required to provide reasonable assistance in case of an offering by shareholders that adhere to pre-determined qualifications and thresholds;

- certain shareholders that are a party to the shareholders' agreement have entered into a 12-month post IPO settlement lock-up in respect of certain shares held by them;

- the shareholders that are a party to the shareholders' agreement have agreed not to sell, directly or indirectly, any shares to any third parties that have been identified as 'Restricted Acquirers' therein; and

- certain shareholders that are a party to the shareholders' agreement have agreed with Adyen to comply with certain non-compete obligations in respect of business activities undertaken, and investments made, by such shareholder.

The Shareholders' Agreement shall terminate on June 15, 2019.

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. As such, it fully complies with the Dutch Corporate Governance 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 (structuurregime) 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.

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.

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. Under this policy, Adyen undertakes to provide equal employment opportunity for all persons without regard to aspects including race, color, creed, religion, gender, sexual orientation, the presence of any sensory, mental, or physical disability.

The below is a description of how Adyen operates with inclusion in mind in its business practices.

Inclusion Policy

We want to change the payments industry and we know 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. New insights stem from the collaboration amongst the 60+ nationalities we have working at our 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 transcends acceptance.

The one area where we don't accept diversity is in the application of the Adyen Formula. The Formula unites us, and empowers people to make decisions and to keep the speed. It's a call upon every individual employee to hold themselves accountable for the way they work.

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 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. This year'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.

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 company-wide 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 and complexity of the organization and the risk profile of the company. For more information on the estblished governance, please refer to the section 'Governance' in this Annual Report.

Three-lines-of-defence

In line with the EBA Guidelines on Internal Governance 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).

Adyen believes that a strong culture serves as a safety net to guide people in making good decisions. Therefore, it promotes and safeguards the key elements of the company culture through the Adyen Formula: team work, good choices, empowerment, and individual responsibility to protect Adyen's brand and reputation. It is crucially important that the Management Board leads by example in this respect. The manner in which they fulfil their role largely determines the culture of Adyen as a whole.

Governance under operational instability, capital or liquidity stress

Adyen has established Business Continuity Management (BCM) and Recovery frameworks, which describe the governance and response measures to support recovery in case of a major incident, disaster, and capital or liquidity stress to return to a business-as-usual state. In 2018 Adyen performed a crisis simulation exercise to test its BCM and Recovery frameworks.

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 objectives and strategy are 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 less strong internal controls. Adyen's risk appetite is not static and may change over time in line with changing capabilities for managing risk. Furthermore, Adyen does not consider the process of developing strategy and risk appetite to be linear, with one always preceding the other. Adyen develops strategy and risk appetite in parallel, where each is refined throughout the strategy-setting process. Changes in strategy and objectives and willingness to assume risks result in an updated risk appetite, which is ultimately bound by Adyen's risk capacity. Adyen has translated its view of the risk appetite into risk appetite statements for communication to its stakeholders. The risk appetite statements set the overall tone for Adyen's approach to risk taking. The risk appetite statements for 2018 were approved by the Management Board and Supervisory Board.

Adyen's risk appetite can be summarized as follows:

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

Adyen recognizes that operational risks are associated with achieving its business objectives. Adyen wants to build an ethical and sustainable business and has therefore established policies, procedures and systems that actively mitigate risks that could negatively affect the Adyen reputation or brand, lead to compliance breaches of laws or regulations, or endanger the future existence of Adyen.

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

Stress testing

Adyen uses stress testing to understand the impact of stress events on its overall risk profile. It is based on exceptional but plausible events with an adequate degree of severity. Stress testing is performed in accordance with EBA guidelines on stress testing. The results from stress tests are also used as an input for fine-tuning Adyen's risk appetite, risk capacity and risk limits as a feedback mechanism. In 2018 Adyen performed its Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP) including stress testing. The assessment results showed that Adyen has a high financial shock absorption capacity and adequate levels of capital and liquidity. More information on Capital and Liquidity can be found in the 2018 Transparency and Disclosure Report (Pillar 3), which can be found on adyen.com/ir.

Event identification and risk assessment

Adyen performs a top-down company-wide risk assessment on an annual basis or in more frequent intervals, which includes the identification of key risks that could potentially affect its strategy and business objectives. The purpose hereof is to assess how big the risks are, both individually and collectively, in order to focus attention on the most important threats and opportunities. Based on EBA guidelines, the key risks are categorized as follows:

- Strategic and business risk
- Operational risk
- Financial risk (including credit risk, market risk, liquidity and funding risk)

Reputational risk is not categorized separately as Adyen considers it a risk that can arise from all other risk categories. For a more detailed description of the company-wide risks as identified and assessed by Adyen, 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. Adyen has pushed authority downward to bring decision-making closer to the employees, through its culture and through the organization of the company in 'work streams'. 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. In 2018 Adyen implemented a systematic assessment of the design and operating effectiveness of its control framework, including independent management testing, as basis for the in-control statement in this Annual Report.

The Adyen Formula

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

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

We **launch fast** and iterate

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

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

We **talk straight** without being rude

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

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

Review and revision

By reviewing its performance, Adyen evaluates how well the risk management components are functioning over time. The Risk Committee plays a key role in supporting the Management Board with overseeing the effectiveness of Adyen's risk management. It carries out this role by monitoring Adyen's risk profile against the 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 if 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, 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.

Information and communication

Adyen communicates its strategy, objectives, key risks and risk appetite through various channels including webcasts, town hall meetings, risk appetite statements and Adyen's annual report. Policies and procedures ensure that employees understand their role in Adyen's risk management, as well as how individual control activities relate to the work of others. 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 training of employees seriously and views it as an important tool to create awareness of the policies and procedures within the organization.

Reporting

The Risk Committee and the Compliance Committee report to the Management Board at least quarterly their observations, recommendations and deliberations on findings regarding compliance, risk management and internal control. The Management Board reports to the Audit Committee on the effectiveness of Adyen's risk management and internal control systems during the quarterly Audit Committee meetings.

Effectiveness of risk management and internal control systems

CRD IV and 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 in place robust strategies, policies and systems for the identification, measurement management and monitoring of funding positions, so as 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 the 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 designed, implemented, maintains and monitors internal risk management and control systems, to identify and manage risks associated with its strategy and activities. In 2018 no significant failures in the effectiveness of the internal risk management and control systems were identified.

The Adyen Integral Risk Management Framework

Strategic and Business risk

- Reputational risk
- Competition
- Enhancements and new features
- Access to card networks
- Concentration of sales
- Macro-economic conditions

Operational risk

- Merchants'potential liability
- Availability of products and services
- Information security
- Entrepreneurial culture
- Talent
- Regulatory compliance
- Intellectual property rights
- Tax

Financial risk

- Credit risk
- Market risk
- Liquidity and funding risk

Risk Factors

The Management Board has updated its company-wide risk assessment in 2018. This section provides a description of the principal risks that could potentially affect Adyen.

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; and that competition could increase as Adyen seeks to increase market share, thereby potentially reducing growth opportunities. Adyen has implemented qualitative measures to mitigate the risk that its course of business could be impaired due to the nature of its business model.

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; rumours or false stories; and misconduct by its partners, service providers, or other counterparties.

Competition

Adyen competes against a wide range of businesses, many of which are larger than Adyen, have a dominant and secure position, or offer other products and services to shoppers and merchants, which 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 lower growth, market share and net revenues.

Enhancements and new features

Adyen expects 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 that keep pace with rapid technological developments and evolving industry standards could adversely affect its business.

Access to card networks

The majority of the transactions processed by Adyen are through international credit and debit card networks. In order to access the card networks to provide acquiring and processing services, Adyen, must have the relevant geographically based operating licenses or memberships. In some markets where it is not feasible or possible for Adyen to have a direct acquiring 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 to acquire payment transactions in various jurisdictions, or to act with sponsoring banks to use their acquiring 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 risks such as downtime, delayed response time or default by a payment service provider). Adyen's contracts could be terminated by its large merchants or its large merchants could shift business away, leading to lower processed volumes and revenues.

Macro-economic conditions

Uncertainty about global and regional economic events and conditions may result in shoppers and merchants postponing spending, which could have a material adverse impact on demand for Adyen's products and services, including a reduction in the volume and size of transactions on its payments platform. 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, 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.

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. Adyen has therefore implemented an internal control framework that is designed to manage the risks effectively and efficiently and to provide reasonable assurance that objectives can be met.

Merchants' potential liability for shopper chargebacks

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

Availability of products and services

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

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 Adyen believes to be reasonable to cover such eventualities, such insurance may not be sufficient to cover all potential losses.

Entrepreneurial culture

As Adyen grows, it may not be able to maintain its entrepreneurial company 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 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.

Regulatory compliance

Adyen and its local businesses do not only need to comply with the local laws and regulations, but also with certain laws and regulations with worldwide application, including the EU's Payment Services Directive (PSD2) and directive on data protection (GDPR). The laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity or unclear application to the business of non-traditional market participants such as Adyen. As a result, their application in practice may evolve over time as new guidance is provided by supervisory authorities and the interpretation of requirements by supervisory authorities and courts may be further clarified over time. If Adyen's efforts to comply with laws, regulations and standards differ from the activities intended by regulatory bodies or supervisory authorities due to ambiguities related to their interpretation, application and practice, supervisory authorities may initiate legal and regulatory proceedings against Adyen.

Although Adyen has policies and procedures that it believes are sufficient to comply with currently applicable anti-money laundering, anti-corruption and sanctions rules and regulations, it cannot guarantee that such policies and procedures completely prevent situations of money laundering or corruption, including actions by Adyen's employees, agents, merchants, third-party suppliers 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.

Intellectual property rights

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 increasingly 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 other things, 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.

Tax

The determination of Adyen's worldwide provision for income taxes, value-added taxes and other tax liabilities requires estimation and significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. 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 risks

Adyen identified the following 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 the 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 favourable 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 to do 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.

In 2018 the residual risk for the identified financial risks is assessed to be minimal. Refer to Note 12 ‘Financial Risk Management’ of the attached Consolidated Financial Statements for more information.

Compliance

The compliance opportunity

Adyen makes good choices to build an ethical business and drive sustainable growth for Merchants. Integrating a strong compliance program into daily business activities and strategic planning helps Adyen to ensure that compliant conduct forms an integral part of everyday behavior and decision making. Effectively managing compliance not only serves as Adyen's license to operate, it also maximizes Adyen's 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, Adyen's merchants and the transactions Adyen processes.

This is achieved by each and every employee being empowered to act as "the eyes and ears" of Adyen in accordance with the Adyen formula. This principle of joint responsibility is reflected in the three lines of defense model employed as part of Adyen's governance framework, and is promoted openly by both tiers of the Board — tone starts at the top.

Compliance and Integrity

Maintaining an integral culture is a key aspect of compliance at Adyen. The following integrity related topics are identified as key to Adyen maintaining control and reflect the principal compliance risks for Adyen namely, the regulatory environment within which Adyen operates and obligations arising from anti-money laundering, counter terrorist-financing and sanctions regulation (AML/CFT):

- Client Related Integrity, including (without limitation): AML/CFT, merchant engagement or transactions with sanctioned countries, merchant business model/industry vis-à-vis risk appetite of Adyen and/or Card Networks.

- Regulatory and Financial Services Related Integrity, including (without limitation): global regulatory and compliance obligations arising from local laws and regulations as business activity develops globally.

- Personal Related Integrity, including (without limitation): breach of the Adyen Formula, market abuse and conflicts of interest arising from outside position/interests.

- Organizational Related Integrity, including (without limitation): outsourcing, agreed sector/industry standards and anti-trust and competition law.

To stay in control of the risks inherent within each integrity topic, and maintain compliance with relevant obligations arising out of those topics, Adyen undertakes a continual process of identification, implementation, assessment and monitoring.

Identification and Implementation

Laws, regulations, industry standards and best practice related to payments and or financial services are continually monitored to identify requirements relevant to Adyen's activities.

Once identified, relevant requirements are translated into principle based-policies and procedures. Such policies and procedures set minimum standards for all employees at Adyen, and give direction to activities in accordance with Adyen's objectives and the Adyen Formula. With reference to client related integrity, 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.

Policies and Procedures are maintained in the Compliance Handbook communicated through introductory and annual refresher training sessions, this also remains available to all Adyen employees via an internal web-based tool. The Compliance Handbook is applicable to all employees of Adyen worldwide (save for circumstances where specific local procedures are required), and as such ensures a consistent compliance approach by the entire organization.

Assessment

In order to monitor and mitigate the risks inherent within these integrity related topics, an annual Systematic Integrity Risk Assessment (SIRA) is performed in relation to the services provided by Adyen. The aim of SIRA is to achieve and maintain an integer culture, whereby all Adyen offices are aware of integrity risks and act accordingly.

From a compliance perspective, SIRA 2018 was focused on the following areas:

- Maintenance of Adyen company culture.
- Ensure data integrity and accuracy.
- Ensure compliance with new and changing laws and regulations.

Adyen has also implemented a Product Approval and Review Process (PARP). The PARP assists to ensure appropriate product oversight and governance arrangements relating to the payment services offered by Adyen. Led by the relevant first line business sponsor, the PARP is applied to new and existing products, activities or markets. This ensures relevant internal stakeholders of Adyen have an opportunity to identify and assess potential risks for both Adyen and its merchants, and ensures mitigating actions are taken where relevant.

Monitoring and Mitigation

In accordance with the three lines of defense model, teams within the second line of defense are mandated with an independent position from which to monitor and advise on the implementation of the minimum standards within Adyen. This independent position is warranted by (without limitation), the power to investigate, challenge and escalate any concerns without influence from the business.

Further detail on Adyen's compliance program with regard to the principle compliance risks for Adyen is set out below, including reference to key focus areas for 2018.

Regulatory Environment and AML/CFT and Sanctions Regulation

The global regulatory landscape for payment and financial services is varied, and is 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 provides new product opportunities.

Throughout 2018, key focus areas for Adyen to leverage regulation as an opportunity, and maintain control with respect to principal compliance risks for Adyen as identified above, included:

- Focus on data security and protection through the implementation of processes and controls in relation to the European General Data Protection Regulation.

- Investment in compliance technology to combat misuse of the financial system. Adyen has continued to build a scalable solution to meet obligations arising out of AML, CFT and Sanctions regulation, with a particular focus on machine learning to real time and post-event monitoring of Merchants and transactions.

- Taking advantage of opportunities created by the Second Payment Services Directive and the introduction of new and alternative payment methods.

Throughout 2018, Adyen has also been monitoring the unfolding developments in relation to the UK's upcoming withdrawal from the European Union. Adyen is actively preparing for all scenarios to ensure continued provision of payment, and related, services to Adyen's UK Merchants.

Adyen takes a pro-active approach to building relationships with

Regulators and Payment Schemes, maintaining transparent and constructive interactions to build a sustainable business.

Through the power of the single platform, Adyen is well placed to deal with increasing regulatory complexity.

Adyen is committed to maintaining and strengthening its global compliance framework to support sustainable business and drive growth for Merchants.

Corporate Social Responsibility

For the past 11 years, Adyen has been built as a purpose-driven company based on clear foundational principles as captured in the Adyen formula. From the start, the focus has been on building the company with a long-term horizon. Growth of the team is measured, no short-term guidance is given to the market, and investment and innovation target the long-term. In that sense, sustainability – in the truest sense of the word – has always been key to Adyen's decision-making.

Adyen strives to make good choices to build an ethical business and drive sustainable growth for its merchants, articulated in the Adyen formula. The Company has a facilitating role, and its CSR focus is on adding value through its core activity of payment processing.

The Company has been and is singularly focused on redefining the industry and on powering growth for merchants. A natural extension of this approach in the CSR space is to remove transactional friction from the charitable giving process. In order to put this into action, Adyen is launching a new extension of its core payment offering: Adyen Giving.

For merchants and their shoppers, operational inertia, opacity and technical difficulties are often limiting factors to good intentions. Adyen Giving removes these limitations and enables these intentions by offering a frictionless addition to the shopper flow, post-transaction, wherein a charitable donation (merchant's choice) can be inserted post-completion. This additional transaction is processed by Adyen at no additional cost, and for the shopper it's a single click.

This extension of the core offering is planned to be launched in Q2 2019 with the Dutch Rijksmuseum.

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 statements

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 31 December 2018. 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; and
- 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 section Risk Factors in the Risk Management chapter).

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 2018 give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- The annual report 2018 gives a true and fair view of the position as at 31 December 2018, the development and performance during 2018 of Adyen, together with a description of the principal risks that Adyen faces.

Amsterdam, 26 March 2019

P.W. van der Does
CEO

A.D. Schuijff
CTO

R. Prins
CCO

I.J. Uytdehaage
CFO

S.G. Halse
COO

J.G. Wijn
CSRO

Supervisory board report

Adyen has established a two-tier board structure consisting of the Management Board and the Supervisory Board, as further explained in the chapter 'Governance'. The Supervisory Board supervises the conduct and policies of the Management Board and the general course of affairs of Adyen and its operations. The Supervisory Board also provides advice to the Management Board. In performing its duties, the Supervisory Directors are required to be guided by the interests of Adyen and its operations, taking into consideration the interests of Adyen's stakeholders and 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 currently consists of three members, Piero Overmars (Chairman), Delfin Rueda and Joep van Beurden.

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

Mr. Rueda serves as CFO and member 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. Mr. Rueda holds a 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).

Mr. van Beurden is CEO and member of the Executive Board of Kendrion. 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. Mr. van Beurden holds a degree in Applied Physics from Twente University of Technology (Netherlands).

The profile of the Supervisory Board is such that it is capable of assessing the broad outline of the overall policy of the Company and of the most important risks incurred. The composition of the Supervisory Board is such that the members are able to act critically and 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 aims for a balance in age, experience and affinity with the nature and culture of the business of Adyen and its subsidiaries. This report includes a more specific description of the Supervisory Board's activities during the financial year 2018 and other relevant information on its functioning.

Independence

Throughout the year, the three Supervisory Directors were independent from the company within the meaning of the Dutch Corporate Governance Code.

Supervisory Board meetings

In 2018, the Supervisory Board convened for four regular meetings at the offices of Adyen. The three members attended all of these meetings. During these meetings the Supervisory Board held deep dive session on specific topics relevant to Adyen's business and discussed Adyen's strategy including its workstreams. The General Legal Counsel attends all Supervisory Board meetings and is the secretary of the Supervisory Board and its committees. Furthermore, the Supervisory Board attended the Management Board and Shareholder Meetings prior to the IPO. The Chairman of the Supervisory Board met regularly during the year with the CEO to discuss the performance of the company and projects as part executing the strategy. The Supervisory Board members also interacted individually and collectively with Management Board members outside the formal Supervisory Board meetings.

During 2018, 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.

Committee reporting

The Supervisory Board has established two Committees, as further explained in the chapter '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 Mr. Rueda. Its other members are Mr. Overmars and Mr. van Beurden. 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 2018.

The Audit Committee convened for four regular meetings in 2018. 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 shareholder letter including the relevant press releases. The Audit Committee discussed other topics including compliance, governance, ICLAAP, 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 Mr. van Beurden. Its other members are Mr. Rueda and Mr. Overmars. 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.

Since the establishment of the Nomination and Remuneration Committee, the Committee convened once in 2018. The Committee has reviewed the composition of the Supervisory Board and Management Board. The Nomination and Remuneration Committee monitored and analyzed developments of the Dutch Corporate Governance Code and applicable laws and regulations in relation to remuneration policies, reviewed Adyen's Remuneration Policy and its execution for compliance with the Dutch Corporate Governance 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 lead the evaluation of the performance of the individual members of the Managing Directors and Supervisory Board. 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 members of the Management Board and Supervisory Board. The Nomination and Remuneration Committee has drawn a plan for the succession of the Managing Directors and the Supervisory Directors.

Financial statements

The Financial Statements for the year ended December 31, 2018, 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 AGM 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.

Remuneration Report

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

Adyen Remuneration Policy

We have a global remuneration policy which applies to all our staff worldwide, including our Managing Directors. The objective of our remuneration policy is to recruit and retain the best talent worldwide.

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 customers. As such, our remuneration policy does not contain incentives that exclusively benefit staff members themselves.

Remuneration Principles

Size

The size of a 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.

Remuneration Package

A remuneration package may consist of a base salary and share related remuneration. For certain employees a remuneration package may also include variable income

Variable remuneration

Adyen's Remuneration Policy is in line with the (i) WBFO (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 (EBA guidelines).

The Dutch Law WBFO sets various requirements, especially with respect to variable remuneration. These requirements include requirements for mandatory holdback and claw back provisions, variable remuneration caps, specials conditions linked to sign-on, severance payments and the requirement that variable remuneration must be based for at least 50% on non-financial performance criteria. Adyen applies all these criteria.

In principle, Adyen will restrict variable income to 20% of the base pay. In respect of certain key employees exceptions may apply. Variable income will however never exceed 100% of fixed remuneration. Moreover, the total of variable pay will not exceed 20% of the total base salary.

The total amount of variable remuneration awarded over 2018 was EUR 8,106,461, compared to total staff expenses of EUR 87,083,000.

Identified staff

In 2018 there were 16 employees identified as Identified staff (staff that is considered to have a material impact on the risk profile of Adyen). None of these employees was entitled to a performance related bonus in 2018. As such Adyen provides strong incentives for long-term value creation for all staff, including Managing Directors, that is considered to have a material impact on our business.

Total annual remuneration

In 2018 there were nil employees to whom total annual remuneration (Including employer pension contributions and any severance payments made) of EUR 1 million or more was awarded.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consist of three (3) Supervisory Directors 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 and remuneration of the Managing Directors was adopted at the shareholder meeting on April 17, 2018.

Remuneration for the Management Board

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

The remuneration of the Managing Directors is determined by the Supervisory Board and approved by the General Meeting, 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.

The Management Board's remuneration is compared to AEX, AMX and AScX 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 on Board remuneration. All scenarios resulted in the same outcome as the remuneration of the Managing Directors is not linked to variable pay 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. For the other Managing Directors a ratio of 6:1 applies.

The total remuneration received by the Management Board in 2018 amounted to EUR 3,208,804. For the overview of the remuneration of Managing Director for the financial year 2018 refer to Note 21 'Compensation of Key Management' of the attached Consolidated Financial Statements.

Financial Statements

Consolidated Financial Statements

Significant Developments in the Current Reporting Period

In 2018 Adyen decided to pursue an Initial public offering to give our existing shareholders a path to liquidity while providing Adyen the opportunity to continue to grow as an independent company. During the period Adyen has offered and was admitted to trading and listing of existing ordinary shares in the capital of Adyen on Euronext Amsterdam on June 13, 2018. 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).

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2018 and 2017

(all amounts in EUR thousands unless otherwise stated)

	Note	2018	2017
Revenue	2	1,652,948	1,012,440
Costs incurred from financial institutions	2	(1,295,006)	(781,502)
Cost of inventory	3	(9,029)	(12,660)
Net revenue		*348,913*	*218,278*
Wages and salaries	4	(72,716)	(55,562)
Social securities and pension costs	4	(14,367)	(9,188)
Amortization and depreciation of tangible and intangible fixed assets	13, 14	(8,736)	(5,935)
Other operating expenses	5	(80,024)	(54,199)
Other Income	11	140	71
Income before interest income, interest expense and income taxes		**173,210**	**93,465**
Finance income		417	541
Finance expense		(1,516)	(775)
Other financial results	6	(7,401)	(1,007)
Net finance income		**(8,500)**	**(1,241)**
Income before income taxes		*164,710*	*92,224*
Income taxes	7	(33,564)	(20,917)
Net income for the period		131,146	71,307
Net income attributable to Owners of Adyen N.V.		131,146	71,307
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		-	5,471
Deferred income tax relating to this item		-	(1,418)
Other currency translation adjustments		622	(2,064)
Currency translation adjustments subsidiaries		-	(1,080)
Other comprehensive income for the period		622	910
Total Comprehensive income for the period (attributable to owners of Adyen N.V.)		131,768	72,217
Earnings per share (in EUR)			
- Net Profit per share - basic	23	4.45	2.42
- Net profit per share - diluted	23	4.29	2.33

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

Consolidated Balance Sheet

As at December 31, 2018 and 2017
(all amounts in EUR thousands unless otherwise stated)

	Note	2018	2017
Intangible assets	13	5,059	3,978
Plant and equipment	14	23,921	19,990
Other financial assets at FVPL	11, 19	30,378	25,076
Contract assets	2, 11	140,791	-
Financial asset at amortized cost	11, 19	-	4,248
Deferred tax assets	7	8,297	1,627
Total Non-current assets		**208,446**	**54,919**
Inventories	3	7,864	4,017
Receivables from financial institutions	15	355,596	180,719
Trade and other receivables	11, 15	42,334	25,567
Current income tax receivables	7	-	2,061
Financial asset at amortized cost	11, 19	4,418	-
Other financial assets at amortized cost	11, 19	9,842	6,989
Cash and cash equivalents	9	1,231,916	862,930
Total Current assets		**1,651,970**	**1,082,283**
Total assets		**1,860,416**	**1,137,202**
Share capital	8	296	295
Share premium	8	160,209	149,314
Treasury shares	4, 8	(4,804)	-
Other reserves		69,472	27,933
Retained earnings	8	357,231	212,236
Total Equity attributable to owners of Adyen N.V.		**582,404**	**389,777**
Derivative financial instrument	8, 11	23,800	-
Deferred tax liabilities	7	23,777	5,130
Total Non-current liabilities		**47,577**	**5,130**
Payable to merchants and financial institutions	16	1,186,861	717,305
Trade and other payables	16	32,495	24,990
Current income tax payables	7	10,715	-
Deferred revenue	2	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 consolidated financial statements.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2018 and 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	8	294	148,331	-	20,793	4,913	-	140,631	314,962
Other adjustments								321	321
Intangible assets	13				23			(23)	-
Other comprehensive income/ (expense)									
Net income for the year	2							71,307	71,307
Re-measurement available-for-sale financial asset	11				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	4	1	983						984
Share-based payments	4					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	8	295	149,314	-	21,726	6,207	-	212,236	389,777
Adoption of IFRS 9 accounting policy	19				(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
Other adjustments					3,217			(2,064)	1,153
Intangible assets	13				1,079			(1,079)	-
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:									
Reclassification of warrant (net of tax)	8, 11						51,150		51,150
Statutory tax rate change	7						3,069	(3,069)	-
Repurchase of Depositary Receipts	4			(31,035)					(31,035)
Options exercised	4	1	973			(974)			-
Proceeds on issuing shares	4		5,200						5,200
Movement resulting from Treasury shares	4		4,722	26,231					30,953
Share-based payments	4					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 consolidated financial statements.

Consolidated Statement of Cash Flows

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

	Note	2018	2017
Income before income taxes		164,710	92,224
Adjustments for:			
- Finance income		(417)	(541)
- Finance expenses		1,516	775
- Other financial results	6	7,401	1,007
- Depreciation of plant and equipment	14	7,048	4,615
- Amortization of intangible fixed assets	13	1,688	1,321
- Share-based payments	4	3,537	1,277
- Financial assets at amortized cost	11	(170)	(168)
Changes in Working capital:			
- Inventories	3	(3,847)	(771)
- Trade and other receivables	15	(16,767)	(13,912)
- Receivables from financial institutions	15	(174,877)	456,032
- Payables to merchants and financial institutions	16	469,556	(309,738)
- Trade and other payables	16	7,505	10,275
- Deferred revenue	2	364	-
- Contract assets	2	(60,512)	-
Cash generated from operations		*406,735*	*242,396*
Interest received		417	541
Interest paid		(1,516)	(775)
Income taxes paid	7	(21,631)	(41,550)
Net cash flows from operating activities		**384,005**	**200,612**
Purchases of financial assets at amortized cost	11	(9,607)	(6,989)
Purchases of plant and equipment	14	(11,041)	(9,685)
Capitalization of intangible assets	13	(2,769)	(1,344)
Redemption of financial assets at amortized cost	11	6,989	-
Net cash used in investing activities		**(16,428)**	**(18,018)**
Share premium paid by shareholders	4	5,200	984
Other movements resulting from depositary receipts (treasury shares)	4	30,953	-
Repurchase of depositary receipts (treasury shares)	4	(31,035)	-
Net cash flows from financing activities		**5,118**	**984**
Net increase in cash, cash equivalents and bank overdrafts		372,695	183,578
Cash, cash equivalents and bank overdrafts at beginning of the year	9	862,930	680,067
Exchange gains/(losses) on cash, cash equivalents and bank overdrafts	6	(3,709)	(715)
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 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.

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 'Investments in consolidated subsidiaries on equity method' for a full list of entities included in scope of consolidation of these financial statements).

Adyen has operations in the Netherlands, Brazil, Singapore, UK, Canada, Australia, South Korea, Hong Kong, Mexico, China, New Zealand, Malaysia, India, Japan and the United States, with branches in Germany, France, Spain and Sweden and representative offices in Belgium and Italy. The address of Adyen's N.V. registered office is Simon Carmiggeltstraat 6 -50, 5th floor, 1011DJ 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 Adyen

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 polices 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.

	Significant Accounting Policies		Critical Accounting Policies	New and Amended standards Adopted
What it is	Significant accounting policies are 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 2018 Annual report Adyen applied these new and amended IFRS for the first time
Where	Provided per note to the financial statements. The notes are organized into the following sections:			The overall impact of the first-time application on January 1, 2018 is limited. Refer to Note 19 'New standards adopted by Adyen'' for more details.
	<u>Key disclosures</u>: provide a breakdown of individual line items in the financial statements that users of the financial statements consider most relevant;	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	2. Revenue - Principal versus agent for revenue out of settlement fees 7. Income tax – Recognition of deferred taxes related to share-based compensation	New – IFRS 15 – *Revenue from Contracts with customers* Amended – IFRS 2 – *Share based payments*
	<u>Capital, investment and financial risk management</u>: key information relating to Adyen's capital management, explanations regarding financial instruments and financial risk management;	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 at fair value	New - IFRS 9 – *Financial Instruments*
	<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		

Key Disclosures

In relation to our strategy as outlined in the Strategy segment of the Annual Report, Adyen's users of the financial statements considers the following disclosures as key in understanding its financial performance or position.

2. 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[3]:

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 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	2018	2017
Settlement fees	1,444,123	872,340
Processing fees	132,783	93,466
Sales of goods	10,748	10,551
Other services	65,294	36,083
Total revenue from contracts with customers	1,652,948	1,012,440
Costs incurred from financial institutions	(1,295,006)	(781,502)
Costs of inventory	(9,029)	(12,660)
Net revenue	348,913	218,278

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, payment network fees and other costs incurred from financial institutions are passed on to Adyen's merchants based on expected costs. These costs 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.

[3] Reference is made to Note 19 '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 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. 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.

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 delivered 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 delivered over time'). In 2018 the services delivered 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	2018	2017
Goods and services delivered at point in time	1,646,960	1,012,440
Services delivered over time	5,988	-
Total revenue from contracts with customers	1,652,948	1,012,440

Contract assets

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.

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. The contract was agreed upon by incurring and recognizing a derivative liability of EUR 75.5 million, the payment of (net) EUR 56.5 million and recognizing a deferred revenue of EUR 4 million upon signing of the contract. The contract asset will be 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, denominated in USD (refer to Note 6 'Other financial results'), as Adyen has the right to receive a determinable amount of cash. Consequently, the carrying value of the contract asset increased to EUR 140.8 million following the foreign currency exchange gain of EUR 4.8 million (refer to Note 6 'Other financial results'). The monetary part of 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. Reference is made to Note 11 'Financial instruments' for further details on the accounting treatment of 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.

IFRS 8 (Operating Segments) 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 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	2018	2017
Europe	928,561	600,171
North America	471,853	258,990
Latin America	111,980	79,751
Asia-Pacific	135,948	67,339
Rest of the World	4,606	6,189
Revenue	1,652,948	1,012,440

Large customers
For the year ended December 31, 2018, as measured by revenue, Adyen's top 10 merchants represent 47% of revenue (2017: 53%). In 2018 Adyen had two customers that on an individual level accounted for more than 10% of the total revenue. Revenue of Adyen contains scheme fees, interchange and mark-up. The Management Board monitors and relies on Net Revenue (net of interchange, scheme fees and cost of inventory) as a performance indicator. 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 no longer incurs costs from merchants that stop processing and therefore Net Revenue is the performance indicator used by management. 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. For the year ended December 31, 2018, as measured by Net Revenue, Adyen's top 10 merchants represent 31% of Net Revenue (2017: 33%). Both customers with individually more than 10% of total revenue had a net revenue of less than 10% of the total net revenue.

2.2. 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	2018	2017
Europe	228,724	153,764
North America	49,589	23,315
Latin America	34,549	24,870
Asia-Pacific	34,713	15,036
Rest of the World	1,338	1,293
Net revenue	348,913	218,278

In 2018, net revenue was EUR 348.9 million, up 59.8% from 2017 (2017: EUR 218.3 million). The year-on-year growth in net revenues shows the following geographical spread across Europe (48.8%), North America (112.7%), Latin America (38.9%) and Asia Pacific (130.9%).

- 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; 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	2018	2017
Income before interest income, interest expense and income taxes	173,210	93,465
Amortization and depreciation of tangible and intangible fixed assets	8,736	5,935
EBITDA	181,946	99,400
Net revenue	348,913	218,278
EBITDA Margin (%)	52%	46%
Purchases of plant and equipment	11,041	9,685
Capitalization of intangible assets	2,769	1,344
Capex	13,810	11,029
EBITDA	181,946	99,400
Capex	(13,810)	(11,029)
Free Cash Flow	168,136	88,371
Free cash flow	168,136	88,371
EBITDA	181,946	99,400
Free Cash Flow Conversion ratio (%)	92%	89%

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 (based on the nature of the 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	2018	2017
As at 1 January	4,017	3,246
Products for resale: Purchases during the year	14,031	13,431
Expense recognized in Operating expenses	(1,113)	-
Recognized as an expense during the year	(9,029)	(12,660)
Total December 31	7,864	4,017

As a result of the continued rollout of the Unified commerce solution (described in the Strategy section), Adyen classified part of the expense of inventory as operating expenses. These expenses of EUR 1,113 (2017: nil) are 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 771 FTE (2017: 668) with main expansions of our operations in the US and Asia Pacific. From those hired during 2018, 41,2% were in tech roles, 40,2% in commercial roles and 18,6% in staff or supporting functions.

The regional breakdown of FTE per office as per the end of the reporting period 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

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	2018	2017
Salaries and wages	69,179	54,285
Share based compensation	3,537	1,277
Total wages and salaries	72,716	55,562
Social securities	12,568	7,960
Pension costs - defined contribution plans	1,799	1,228
Total social securities and pension costs	14,367	9,188

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 4.3 below).

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	2018	2017
Equity-settled	3,446	1,277
Cash-settled	91	-
Total	3,537	1,277

Refer to paragraph 4.3 for a detailed disclosure relating to the share-based compensation. Reference is made to Note 21 'Compensation for key management' for the remuneration of the Management Board and Supervisory Board.

4.2. Post-employment benefit obligations

Accounting policy – Post-employment 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, Adyen pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Adyen 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 plan for 2019 are EUR 2,900.

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;
III. Cash-settled option plan (as from Q3 2018).

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 2018, 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 give the opportunity to acquire Depositary Receipts. 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 Depository Receipts in respect to which options shall be granted is 1,312,500. Of the outstanding options 872,140 (2017: 838,787) options are exercisable. The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was EUR 65.42 (2017: EUR 10.05) 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	2018		2017	
	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)
Outstanding at January 1	32.92	1,224	22.21	1,017
Granted	105.31	79	84.51	219
Forfeited	65.83	(21)	66.39	(11)
Exercised	46.12	(112)	66.50	(1)
Expired	-	-	-	-
Outstanding at December 31	**35.96**	**1,170**	**32.92**	**1,224**

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. For the 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.

The following significant inputs to the model were used:

Period of grants	Grant	2018	2017
Q1	Number of instruments granted	65,900	86,850
	Weighted average exercise price (in EUR)	105.93	75.69
	Range of annual risk-free interest rate	0.005% till 0.243%	-0.338% till -0.099%
	Weighted average share price at the date of grant	123.98	49.81
Q2	Number of instruments granted	12,900	84,400
	Weighted average exercise price (in EUR)	105.93	81.75
	Range of annual risk-free interest rate	0.066% till 0.131%	-0.228% till -0.187%
	Weighted average share price at the date of grant	209.39	66.75
Q3	Number of instruments granted	-	26,200
	Weighted average exercise price (in EUR)	-	105.18
	Range of annual risk-free interest rate	-	-0.163% till -0.028%
	Weighted average share price at the date of grant	-	82.30
Q4	Number of instruments granted	-	21,300
	Weighted average exercise price (in EUR)	-	105.93
	Range of annual risk-free interest rate	-	-0.153% till -0.095%
	Weighted average share price at the date of grant	-	96.43
	Expected volatility (%)	40%	25%
	Expected dividends (dividend yield)	Nil	Nil

The volatility measured at the standard deviation on continuously compounded share returns is based on statistical analysis of daily share prices over the last six years. No additional options were granted during Q3 and Q4, 2018.

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 will be recognized "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.

III. Cash-settled option plan
In 2018, 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.

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	2018	2017
Housing costs	9,959	5,057
Office costs	2,097	1,996
IT costs	9,589	6,348
Sales & Marketing costs	21,320	14,753
Travel and other staff expenses	14,756	10,176
Advisory Costs	13,534	10,757
Miscellaneous operating expenses	8,769	5,112
Total	**80,024**	**54,199**

5.1. Operating leases:

Accounting policy – Operating leases
Adyen leases offices and data center space in various countries expiring within one to ten years. The leases have varying terms and renewal rights. On renewal, the terms of the leases are renegotiated. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

In the second quarter of 2018, Adyen signed an agreement to extend the lease of its corporate headquarters office building. In 2018 lease rentals amounting to EUR 6,028 (2017: EUR 3,877) relating to these operating leases are included in the income statement. 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**

No contingent rent payments were made during the year.

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 is 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.

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	2018	2017
Exchange gains / (loss)	3,931	(1,007)
Fair value re-measurement of:		
Derivative Liability (Note 8)	(16,500)	-
Financial instrument at Fair Value through Profit & loss (Note 11)	5,302	-
Other	(134)	-
Total	**(7,401)**	**(1,007)**

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.

6.1. Exchange gains
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, 2018, a gain of EUR 4,687 is recognized (2017: nil) 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 2018, EUR 16,500 (2017: nil) 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 2018 the effect on other financial income is EUR 5,302 (2017: nil, as this was measured at Fair value through OCI under IAS 39) – Reference is made to Note 11 'Financial Instruments' for further detail.

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 20.38% (2017: 22.40%) which differs from the statutory tax rate in the Netherlands of 25% (2017: 25%) as follows:

Effective tax calculation	2018	2017
Income before tax at statutory rate of 25%	164,710	92,224
Weighted average statutory tax rate	25%	25%
Weighted average statutory tax amount	**41,178**	**23,056**
Tax effects of:		
Innovation box (changes in tax rate)	(10,294)	(5,143)
Tax rate differences on foreign operations	599	(1,096)
Derivative liability	4,125	-
Deferred tax on derivative liability	(4,125)	-
Other deferred taxes	867	-
Other adjustments (such as non-deductible)	1,215	4,100
Effective tax amount	**33,564**	**20,917**

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

7.2. 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 deduct) exceeds the amount of the related cumulative remuneration expense, the current or deferred tax associated with the excess is recognized directly in Share Premium.

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 4,879 (2017: nil) relates to the recognized derivative liability in 2018. Refer to Note 8 'Capital Management' for a more detailed disclosure of the derivative liability. Of the remaining deferred tax assets an amount of EUR 553 (2017: EUR 170) relates to the carry forward of net operating losses in Brazil (EUR 466) and the US (EUR 67).

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	2018	2017
Current income tax expense	36,823	21,520
Deferred income tax expense	(3,259)	(603)
Total	33,564	20,917

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 8 '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, 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 2018 111,404 (2017: 58,640) additional shares were issued. The majority of the additional issued shares were a result of exercises of employee options. The paid up and called share capital increased to EUR 296 (2017: EUR 295) resulting in a total of 29,553,891 (2017: 29,442,487) ordinary shares (nominal value EUR 0.01 per share). The total number of authorized shares was 80,000,000 (2017: 30,683,036).

Adyen's dividend policy is to not pay dividends, as retained earnings are used to support and finance the growth strategy.

Derivative financial instrument

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.

In the first six months of 2018, part of the derivative financial liability is prospectively de-recognized and the new equity instruments are recognized at fair value in equity (warrant reserve).

The first two tranches of the derivative liability resulting from a merchant contract are reclassified from derivative liability to warrant reserve in equity for the amount of EUR 51,150 (net of EUR 17,050 deferred tax assets). The remaining derivative liability balance as per end of December 2018 is EUR 23,800. Reference is made to Note 11 'Financial instruments' for further details on the accounting treatment of the derivative liability financial instrument relating to the merchant contract.

9. Cash and Cash equivalents

Accounting policy – Cash and cash equivalents
Adyen's cash and cash equivalents are classified as held to collect 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 (level 3) approximates the carrying value.

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

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, 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
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	(1,895)	-
Prudent valuation	(54)	(25)
Own funds as per December 31	**521,177**	**383,021**

11. Financial Instruments

Accounting policy – Financial instruments (IFRS 9)

Classification
From January 1, 2018, 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 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 1,335 (2017: nil) to its accounts receivable impairment 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 year (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 given and Adyen therefore applies a hold-to-collect business model based on Adyen's minimal residual liquidity risk (reference is made to Note 12 'Financial Risk Management'). Therefore a hold-to-collect business model is applicable. 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 and Loss (Visa Inc. preferred shares)
Adyen has recognized and classified the convertible preferred Visa Inc. shares within the designated 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 140; 2017: EUR 71).

Contract asset
Adyen has classified EUR 65 million of the contract asset as a monetary item (refer to Note 6 'Other financial results') 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 2 '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 and classified as equity instruments for a total fair value of EUR 68,200 (EUR 51,150 net of taxes) at the IPO date of 12 June 2018. 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 23,800 as per December 31, 2018. The total fair value remeasurement on the derivative liability amounts to EUR 16,500 (refer to Note 6 'Other financial results'). Reference is also made to Note 8 'Capital Management' for the accounting treatment of the reclassification. None of the tranches vested at 31 December 2018.

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.

Refer to Note 19 'New standards adopted by Adyen' for the impact assessment of the implementation of IFRS 9 on the financial assets held by Adyen as per January 1, 2018.

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	Risk mitigation	Remaining risk
Liquidity		Minimal
Liquidity risk is the risk that Adyen could not meet its short-term payment obligations.	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 3 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. 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. For the majority of its merchants Adyen only settles merchant payables after the cash is collected from the Card Schemes.	Due to the short-term character of Adyen's balance sheet the remaining liquidity risk is assessed as minimal.
Market risks		Minimal
Foreign exchange		
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.	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 balance of EUR 122 million) is the most significant non-functional currency in which financial assets as per December 31, 2018 are denominated. A 10% shock (positive or negative) would result in a EUR 12 million profit or loss in the Other Financial Result in the Income Statement. The balance sheet positions related to merchant fund flows are not taken into account 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.	The resulting overall impact of an immediate 10% shock on all currencies excluding USD is therefore minimal.
Interest rate		
Interest rate risk on financial instruments could arise from adverse movements in underlying interest rates.	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. 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.	As a result of the nature of the products on the Adyen balance sheet the remaining interest rate risk is considered to be minimal.
Price risk		
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.	Adyen'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.	The remaining equity price risk is considered limited as Adyen has no other equity

	In addition: Adyen's Treasury policy does not allow purchasing additional equity positions (excluding treasury shares). The remaining 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. Adyen performs a sensitivity analysis assess the potential financial losses due to movements in the share price.	instruments on its balance sheet.
Credit risk		Minimal
The counterparty credit risk relates to receivables from financial institutions regarding settled payment transactions. A default of financial counterparties could have a negative impact on Adyen's financial results.	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 have a credit rating A or higher. For all significant bin accounts and receivables from financial institutions and contract assets, all credit ratings are A or higher. No defaults occurred during the year and management does not expect any losses from non-performance by these counterparties.	The remaining credit risk remains within Adyen's risk appetite.

Other disclosures

13. Intangible assets

Accounting policy – Intangible assets (IAS 38)
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	2018	2017
Internally generated software		
Opening net book value, January 1	3,978	3,955
Additions	2,769	1,344
Amortization for the year	(1,688)	(1,321)
Closing net book value December 31	**5,059**	**3,978**
Accumulated amortization	(5,190)	(3,504)
Cost	10,249	7,481

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	2018	2017
Machinery and equipment		
Opening net book value, January 1	19,990	15,084
Additions	11,041	9,685
Other changes (e.g. exchange differences)	(62)	(164)
Depreciation for the year	(7,048)	(4,615)
Closing net book value December 31	**23,921**	**19,990**
Accumulated depreciation	(16,492)	(10,378)
Cost	40,414	30,368

Adyen did not recognize a loss from impairment of neither plant nor equipment during the year (2017: nil), nor reversed any impairment losses.

15. Trade, other receivables, receivables from financial institutions

Accounting policy – Trade and other receivables
Trade receivables are amounts due from customers 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 (level 3) approximates the carrying value.

15.1. Trade, other receivables, receivables from financial institutions

Trade, other receivables and receivables from financial institutions	2018	2017
Trade and other receivables	45,084	26,967
Less: impairment provision	(2,750)	(1,400)
Trade receivables – net	42,334	25,567
Financial institutions	355,596	180,719
Total	397,930	206,286

15.2. Impairments of current assets

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, 2018, trade receivables of EUR 6,186 (2017: EUR 14,783) were not past due, EUR 26,761 were past due (2017: EUR 10,634) (of which EUR 13,635 less than 3 months) and EUR 1,335 impaired (2017: EUR 583). The movement in the impairment is included in miscellaneous operating expenses. The average duration of the overdue trade receivables is 3 months (2017: 2 months). The movement in the impairment provision is included in miscellaneous operating expenses.

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 (level 3) approximates the carrying value.

Trade and other payables	2018	2017
Payable to merchants and financial institutions	1,186,861	717,295
Trade payables	6,622	3,519
Taxes and social security	11,958	11,454
Accrued employees benefits	8,616	8,213
Accrued liabilities and other debts	5,208	1,804
Cash-settled liabilities	91	-
Total	1,219,356	742,285

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

Adyen has recognized a 'Cash settled liability' measured at fair value through profit and loss that is related to the cash-settled option plan (also refer to Note 4.3 'Share-based payments'). The total recognized liability at December 31, 2018 is EUR 91 (2017: nil).

17. 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 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.

18. Related party transactions

In 2018 Adyen identified related party transactions with Stichting Administratiekantroor Adyen, employees and Supervisory Board members relating to the exercise of options (2017: nil).

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 (2017: nil)

19. New standards adopted by Adyen

19.1. Newly adopted standards

19.1.1. 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 Inc. preferred shares - previously classified as available-for-sale

As a result of the IFRS 9 implementation Adyen classifies the Visa Inc. preferred shares at FVPL. Related fair value gains of EUR 20,061 (net of tax) 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 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			31.12.2018	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	30,378	25,076	-
Investments held-to-maturity	Government Bonds	IAS 39	-	-	6,989
Financial assets at amortized cost	Government Bonds	IFRS 9	9,842	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 is applied, all bonds are considered to be in stage 1 as a result, 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 resulted in no significant financial impact.

Hedge accounting

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

Accounting policy – Financial instruments (IAS 39)

Since Adyen has adopted IFRS 9 - *Financial Instruments* from January 1, 2018 onwards, the comparative figures in the impact assessment were presented in accordance with IAS 39. The following accounting policies were applicable for the 2017 figures:

Financial instruments: Available for Sale

Adyen has recognized and classified the convertible preferred Visa shares within the available-for-sale financial instrument asset category. The fair value of the 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. On this basis the Visa shares are presented as a level 2 asset. The conversion rate of the preferred stock into an equivalent number of common stock can fluctuate in the future.

Financial instruments: held-to-maturity

Adyen has the positive intent and ability to hold the bonds to maturity and they are therefore designated as held-to-maturity assets and measured at amortized cost. The fair value (level 1) of the asset held-to-maturity approximates the carrying value due to the short-term nature of the instruments. Interest income on these debt securities is recognized in the income statement on an effective interest method.

Impairments of financial instruments

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

19.1.2. IFRS 15 – Revenue from contracts with customers

IFRS 15 had 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.

19.1.3. IFRS 2 – Share-based payments
In June 2016, the IASB issued narrow-scope amendments to IFRS 2 – *Share-based payments*. Refer to Note 4.3 'Share-based payments' for Adyen's assessment on the implementation of this standard. The Standard relates to all transactions between Adyen and counterparties (i.e. employees) for which Adyen will exchange equity instruments.

IFRS 2 identifies the following steps in accounting for share-based payments:
- Classify share-based payment;
- Identify and understand any conditions; and
- Recognize and measure share-based payments.

19.2. Standards not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2018 reporting periods and have not been early adopted by Adyen.

19.2.1. IFRS 16 Leases
Issued in January 2016, this standard includes a new approach to lease accounting that requires a lessee to recognize assets and liabilities for the rights and obligations created by leases. At this stage, Adyen does not intend to adopt the standard before its effective date. Based on the current operational lease portfolio in scope of the standard the Adyen estimates 67 million to be recognized as Right-of-Use Asset with related liability.

20. Audit fees

20.1. 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 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 2018 financial statements, regardless of whether the work was performed during the financial year.

20.2. Summary of services rendered by the auditor
Our auditor, PwC Accountants, has rendered, for the period to which our statutory audit relates, in addition to the audit of the statutory financial statements the following services to Adyen and its controlled entities:

	2018			2017		
	PwC Accountants	Other PwC firms*	Total	PwC Accountants	Other PwC firms*	Total
Audit of financial statements	750	-	750	452	-	452
Other audit services	443	-	443	116	-	116
Tax services	-	13	13	-	100	100
Other non-audit services	-	133	133	-	55	55
Total	**1,193**	**146**	**1,339**	**568**	**155**	**723**

*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 before Adyen became a Public Interest Entity in April 2017. The other services provided after April 2017 relate to services rendered outside of the European Union.

	2018	2017
Other audit services required by law or regulatory requirement		
Statutory audits of controlled entities	713	417
Audit of the regulatory returns to be submitted to the Dutch Central Bank	37	35
Other audit services		
Assurance engagement ISAE 3402 report	101	116
Assurance engagement NV COS 3850N report	342	-
Tax services		
Tax compliance services	13	100
Other non-audit services		
Consultancy	93	-
Human resources services	40	55
Total for the year	**1,339**	**723**

21. Compensation of key management

21.1. Remuneration Management Board
The total remuneration received by the Management Board in 2018 amounted to EUR 3,209 (2017: EUR 2,375).

	2018	2017
Salaries and short-term employee benefits	2,962	2,136
Share-based payments	214	235
Post-employment benefits	33	4
Total	**3,209**	**2,375**

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

(in EUR)	Base salary	Pension and social security contributions	Share-based compensation*	Variable income in cash **	Total Remuneration
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' below)*
**** Part-time percentage 60%.*
*****This amount includes housing allowance.*

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, 2018 that have been granted to Managing Directors as part of their share-based compensation:

	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

**This number assumes that the relevant person does not leave Adyen before the date that all such options have vested.*

The stock options held by Mr. Uytdehaage and Mr. Prins are due to expire 1 December 2021. Mr. Uytdehaage and Mr. 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. Mr. Halse and Mr. Wijn have given similar instructions to ABN Amro. 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, 2018:

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

** Held in the form of Depositary Receipts.*
*** Held through the use of a personal holding company, Spreng B.V.*
**** Held through the use of two holding companies, Sintentis B.V. and Dia Holding B.V.*

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 105.075 gross per year for 2018. On behalf of each Board member 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 Board member 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 can provide 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 Mr. 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.

21.2. Remuneration Supervisory Board

The total remuneration received by the Supervisory Board in 2018 amounted to EUR 181 (2017: EUR 151). The table below provides an overview of the remuneration of each Supervisory Director for the financial year 2018. In addition to the remuneration, expenses incurred by the Supervisory Directors in the performance of their duties are reimbursed in full:

	2018	2017
Salaries and short-term employee benefits	176	140
Share-based payments	5	11
Post-employment benefits	-	-
Total	**181**	**151**

The table below provides an overview of the EUR remuneration of each Supervisory Director for the financial year 2018. In addition to the remuneration, expenses incurred by the members of the Supervisory Board in the performance of their duties are reimbursed in full.

	Remuneration in cash	Share-based compensation	Total Remuneration
Piero Overmars	67,500	3,958	71,458
Delfin Rueda Arroyo	60,000	-	60,000
Joep van Beurden	47,500	1,376	48,876
Total	**175,500**	**5,334**	**180,834**

Share-based compensation

The table below provides an overview of the aggregate number of Shares and/or Depositary Receipts per December 1st 2018 that have been granted to Supervisory Directors as part of their share-based compensation. The non-vested Options held by Mr. Piero Overmars and Mr. Joep van Beurden have expired as per 1 June 2018.

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

** Options were granted in his role as an advisor to Adyen prior to becoming a member of the Supervisory Board.*

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

Additionally, Mr. Piero Overmars and Mr. 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.

22. 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. All amounts are stated in EUR. In addition, the following table shows the principal subsidiary and main activity for each country. 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
Country and Subsidiary						
Netherlands - Adyen N.V. and Adyen International B.V.	Payment service provider	1,731,883,733	257,854,173	450	166,492,319	(30,685,857)
Adyen N.V., German branch	Sales office	907,382	3,408,430	21	581,371	(146,724)
Adyen N.V. Nordic fillial	Sales office	1,095,370	2,745,377	7	794,823	(172,676)
Adyen N.V., Sucursal en Espana branch	Sales office	760,994	1,144,826	5	421,368	(105,291)
Adyen N.V., France branch	Sales office	1,192,331	4,525,587	20	577,044	(193,245)
Adyen B.V., Belgian Representative Office	Sales office	225,914	550,639	2	138,006	(44,699)
Adyen N.V., Italy Representative Office	Sales office	118,616	123,368	1	115,583	(32,363)
Adyen Brazil Ltda	Sales office – local support	80,002,222	10,475,163	45	754,927	(453,675)
United States – Adyen Inc., Adyen Services Inc. And Adyen Nevada Inc.	Sales office – local support	14,289,883	41,833,706	114	4,501,978	(1,357,975)
Adyen Singapore PTE LTD.	Sales office – local support	18,752,038	9,302,514	43	1,146,588	(128,286)
Adyen UK Limited	Sales office	5,934,795	10,680,082	42	1,903,394	(269,715)
Adyen Hong Kong Limited	Sales office	12,464,875	4,994	1	55,519	(65)
Adyen Australia PTY Limited	Sales office – local support	20,715,102	4,377,708	15	437,182	(128,310)
Adyen Canada Ltd.	Sales office	11,223,603	38,739	0	16,976	(522)
Adyen India Technology Services Private Limited	Sales office	1,411	(21)	0	(5,538)	-
Adyen Korea Chusik Hoesa	Sales office	598	-	0	(9,556)	-
Adyen Mexico S.A. de C.V.	Sales office – local support	6,917,832	497,509	4	218,057	(88,840)
Adyen (China) Software Technology Co. Ltd.	Sales office	177,991	852,289	6	59,255	(5,042)
Adyen New Zealand Ltd.	Sales office	1,732,748	8,308	0	(897)	(511)
Adyen Malaysia Sdn. Bhd.	Sales office	(17,967)	22,671	0	8,832	(458)

23. 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 conditions), which in the case of Adyen only relates to share options.

Share information	2018	2017
Net income attributable to ordinary shareholders	131,146	71,307
Weighted average number of ordinary shares for the period	29,486,625	29,409,096
Dilutive effect share options	1,117,459	1,162,761
Weighted average number of ordinary shares for diluted net profit for the period	30,604,084	30,571,857
1) Net profit per share – basic	4.45	2.42
2) Net profit per share - diluted	4.29	2.33

Company Financial Statements

Company Statement of Comprehensive Income

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

	Note	2018	2017
Revenue	24	1,490,675	938,913
Costs incurred from financial institutions	24	(1,211,293)	(764,620)
Cost of inventory	3	(9,029)	(12,660)
Net revenue		*270,353*	*161,633*
Wages and salaries	25	(39,414)	(29,581)
Social securities and pension costs	25	(8,769)	(4,713)
Amortization and depreciation of tangible and intangible fixed assets	27	(7,306)	(4,876)
Other operating expenses	26	(51,329)	(33,606)
Other Income		127	55
Income before interest income, interest expense, income taxes and share of the profit or (-) loss of investments in subsidiaries		**163,662**	**88,912**
Finance income		272	476
Finance expense		(1,514)	(775)
Other financial results		(6,740)	(1,157)
Net finance income		**(7,982)**	**(1,456)**
Share of the profit or (-) loss of investments in subsidiaries		6,597	3,773
Income before income taxes		*162,277*	*91,229*
Income taxes		(31,131)	(19,922)
Net income for the period		131,146	71,307
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		-	5,471
Deferred income tax relating to this item		-	(1,418)
Other currency translation adjustments		622	(2,064)
Currency translation adjustments subsidiaries		-	(1,080)
Other comprehensive income for the year		622	910
Total Comprehensive income for the year (attributable to owners of Adyen N.V.)		131,768	72,217
Earnings per share (in EUR)			
- Net Profit per share - basic	23	4.45	2.42
- Net profit per share - diluted	23	4.29	2.33

Company Balance Sheet

As at December 31, 2018 and 2017
(all amounts in EUR thousands unless otherwise stated; and before profit appropriation)

	Note	2018	2017
Intangible assets	13	5,059	3,978
Plant and equipment	27	18,139	16,449
Other financial assets at FVPL	11, 19	30,378	25,076
Contract assets	2, 11	140,791	-
Financial asset at amortized cost	11, 19	-	4,248
Deferred tax assets	7	4,879	186
Investments in consolidated subsidiaries on equity method	28	23,903	14,520
Total Non-current assets		**223,149**	**64,457**
Inventories	3	6,656	4,017
Receivables from financial institutions	29	277,066	143,002
Trade and other receivables	29	58,362	18,991
Current income tax receivables		-	1,744
Financial asset at amortized cost	11, 19	4,418	-
Other financial assets at amortized cost	11, 19	9,842	6,989
Cash and cash equivalents	9	1,146,916	841,376
Total Current assets		**1,503,260**	**1,016,119**
Total assets		**1,726,409**	**1,080,576**
Share capital	30	296	295
Share premium	30	160,209	149,314
Treasury shares	30	(4,804)	-
Other reserves	30	92,256	27,933
Retained earnings	30	203,301	140,019
Profit current year		131,146	72,217
Total Equity attributable to owners of Adyen N.V.		**582,404**	**389,777**
Derivative financial instrument	8, 11	23,800	-
Deferred tax liabilities	7	23,615	5,015
Total Non-current liabilities		**47,415**	**5,015**
Payable to merchants and financial institutions	32	1,059,508	660,876
Trade and other payables		27,516	24,908
Current income tax payables	7	9,202	-
Deferred revenue	2	364	-
Total Current liabilities		**1,096,590**	**685,784**
Total liabilities and equity		**1,726,409**	**1,080,576**

Company Statement of Changes in Equity

For the years ended December 31, 2018 and 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	8	294	148,331	-	20,793	4,913	-	140,631	314,962
Other adjustments								321	321
Intangible assets	13				23			(23)	-
Other comprehensive income/ (expense)									
Net income for the year	2							71,307	71,307
Re-measurement available-for-sale financial asset	11				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	4	1	983						984
Share-based payments	4					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	8	295	149,314	-	21,726	6,207	-	212,236	389,777
Adoption of IFRS 9 accounting policy	19				(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
Other adjustments					3,217			(2,064)	1,153
Other financial assets at FVPL movement to legal reserve					22,784			(22,784)	-
Intangible assets	13				1,079			(1,079)	-
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:									
Reclassification of warrant (net of tax)	8, 11						51,150		51,150
Statutory tax rate change	7						3,069	(3,069)	-
Repurchase of Depositary Receipts	4			(31,035)					(31,035)
Options exercised	4	1	973			(974)			-
Proceeds on issuing shares	4		5,200						5,200
Movement resulting from Treasury shares	4		4,722	26,231					30,953
Share-based payments	4					3,438			3,438
Balance – December 31, 2018		296	160,209	(4,804)	29,366	8,671	54,219	334,447	582,404

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

Company Statement of changes in Cash Flow

As at December 31, 2018 and 2017
(all amounts in EUR thousands unless otherwise stated)

	Note	2018	2017
Income before income taxes		**163,662**	**88,912**
Adjustments for:			
- Finance income		(272)	(476)
- Finance expenses		1,514	775
- Other financial results		6,740	1,157
- Depreciation of plant and equipment	27	5,604	3,555
- Amortization of intangible fixed assets		1,688	1,321
- Share-based payments		1,853	827
- Financial assets at amortized costs		(170)	(168)
Changes in Working capital:			
- Inventories		(2,639)	(771)
- Trade and other receivables	29	(39,371)	22,511
- Receivables from financial institutions	29	(134,064)	466,668
- Payables to merchants and financial institutions	32	398,632	(399,438)
- Trade and other payables	32	(2,608)	12,231
- Deferred revenue	2	364	-
- Contract asset	2	(60,512)	-
Cash generated from operations		*340,421*	*197,104*
Interest received		272	476
Interest paid		(1,514)	(775)
Income taxes paid		(21,021)	(39,752)
Net cash flows from operating activities		**318,158**	**157,053**
Merger of Adyen Foundation	28	-	438,995
Purchases of financial assets at amortized costs	11	(9,842)	(6,989)
Purchases of plant and equipment	27	(7,301)	(8,998)
Capitalization of intangible assets		(2,769)	(1,344)
Redemptions of financial assets at amortized costs	11	6,989	-
Net cash used in investing activities		**(12,923)**	**421,664**
Share premium paid by shareholders	4	5,200	984
Other movements resulting from depositary receipts (treasury shares)	4	30,953	-
Repurchase of depositary receipts (treasury shares)	4	(31,035)	-
Net cash flows from financing activities		**5,118**	**984**
Net increase in cash, cash equivalents and bank overdrafts		**310,353**	**579,701**
Cash, cash equivalents and bank overdrafts at beginning of the year		841,376	264,539
Exchange gains/(losses) on cash, cash equivalents and bank overdrafts		(4,813)	(2,864)
Cash, cash equivalents and bank overdrafts at end of the year		**1,146,916**	**841,376**

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.

24. Company - revenue

Types of goods or service	2018	2017
Settlement fees	1,295,160	798,815
Processing fees	124,724	93,466
Sales of goods	10,707	10,551
Other services	60,084	36,081
Total revenue from contracts with customers	**1,490,675**	**938,913**
Costs incurred from financial institutions	(1,211,293)	(764,620)
Costs of inventory	(9,029)	(12,660)
Net revenue	**270,353**	**161,633**

25. Company - Employee benefits

Employee benefits	2018	2017
Salaries and wages	37,561	28,754
Pension costs – defined contribution plans	1,344	928
Total wages and salaries	**38,905**	**29,682**
Share based compensation	1,853	827
Social securities	7,425	3,785
Total social securities and pension costs	**9,278**	**4,612**

26. Company - Other operating expenses

Other operating expenses	2018	2017
Housing costs	6,514	1,748
Office costs	1,306	762
IT costs	7,698	4,876
Sales & marketing costs	8,557	6,895
Travel and other staff expenses	9,169	6,015
Advisory costs	11,570	8,646
Insurances	-	867
Miscellaneous operating expenses	6,515	3,797
Total	**51,329**	**33,606**

27. Company - Plant and equipment

Plant and equipment	2018	2017
Machinery and equipment		
Opening net book value January 1	16,449	11,006
Additions	7,301	8,998
Disposals	(7)	-
Depreciation for the year	(5,604)	(3,555)
Closing net book value December 31	**18,139**	**16,449**
Accumulated depreciation	(13,013)	(8,400)
Cost	31,152	24,849

28. 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 obtained a banking license in April 2017. As part of the transition from the payment service provider license to the banking license Adyen merged Adyen Client Management Foundation Stichting (hereinafter: Foundation) into the Adyen group (hereinafter: Adyen) in July 2017. The assets and liabilities recognized in July 2017, as a result of the merger are as follows:

	2017
Cash and cash equivalents	438,995
Receivables from financial institutions	609,319
Payables to merchants and financial institutions	(1,048,314)
Total consideration paid	**-**

Accounting policy – Common control transactions
The above described transaction between Adyen N.V. and the Foundation were business combinations under common control as all entities were 100% owned and controlled by Adyen N.V. before and after the time of the business combinations, and therefore accounted for against carrying value.

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 N.V., Sucursal en España	Madrid, Spain
Adyen N.V., German branch	Berlin, Germany
Adyen France	Paris, France
Adyen Nordic Bank Fillial	Stockholm, Sweden

Adyen N.V. – Representative offices

Name	Branch location
Adyen N.V., Belgian Representative Office	Brussels, Belgium
Adyen N.V., Italian Representative Office	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 [1)]	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%

[1)] In 2016 Adyen do Brazil Ltda and Adyen Servicos Pagamento Ltda were merged

There are no investments with losses that equal or exceed the Adyen's investment.

29. Company - Receivables

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

Receivables	2018	2017
Trade and other receivables	60,992	20,391
Less: impairment provision	(2,630)	(1,400)
Trade receivables – net	**58,362**	**18,991**
Financial institutions	277,066	143,002
Total	**335,429**	**161,993**

In 2018 EUR 14,000 (2017: EUR 0) related to receivables from Group Companies. Intercompany receivables and payables fall within the scope of IFRS 9 'Financial Instruments'. Considering the maturity of the intercompany balances (less than 1 month) and the financial position of Adyen the credit risk is considered not significant. As a result, the impact of expected credit losses is not significant.

30. Shareholders' equity

Distributable reserves	2018	2017
Share premium	160,209	149,314
Retained earnings	334,447	212,236
Treasury shares	(4,804)	-
Total	**489,852**	**361,845**

Pursuant to Dutch law, limitations exist relating to the distribution of equity attributable to equity holders. Such limitations relate to legal reserves required by Dutch law such as reserves relating to intangible assets and revaluation of fair value instruments. The total distributable reserves at December 31, 2018, amounted to EUR 489,852 (2017: EUR 361,845). Dutch law also requires that in determining the amount for distribution, the company's ability to continue to pay its debt must be taken into account.

31. Dividends paid

No dividend has been paid in the years presented.

32. Company - Current liabilities

Current liabilities	2018	2017
Payable to merchants and financial institutions	1,059,507	660,876
Trade payables	3,963	4,737
Taxes and social security	14,043	9,635
Accrued employees benefits	6,663	6,166
Accrued liabilities and other debts	2,796	4,369
Cash-settled liabilities	51	-
Total	**1,087,023**	**685,783**

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 2018 EUR 0 relates to payables to Group Companies (2017: EUR 3,342) there are no contractual repayment terms.

33. Directors' remuneration

For an overview of the directors' remuneration, reference is made to Note 21 'Compensation of key management' of the consolidated financial statements.

34. Audit fees

For an overview of the audit fees, reference is made to Note 20 'Audit fees' of the consolidated financial statements.

35. 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.

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.

36. 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.

37. Events after balance sheet date

There are no events after the reporting period.

Amsterdam, 26 March 2019

P.S. Overmars Chairman Supervisory Board	**D. Rueda Arroyo** Supervisory Board member	**J.A.J. van Beurden** Supervisory Board member
P.W. van der Does CEO	**A.D. Schuijff** CTO	**R. Prins** CCO
I.J. Uytdehaage CFO	**S.G. Halse** COO	**J.G. Wijn** CSRO

Other information

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

We refer to the next page.

Independent auditor's report

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

Report on the financial statements 2018

Our opinion

In our opinion, Adyen N.V.'s financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, 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 2018 of Adyen N.V., Amsterdam ('the Company'). The financial statements include the consolidated financial statements of Adyen N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The financial statements comprise:

- the consolidated and company balance sheet as at 31 December 2018;
- the following statements for 2018: the consolidated and company statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been 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. Our responsibilities under those standards are further described 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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Independence

We are independent of Adyen N.V. in accordance with the European Regulation on specific requirements regarding statutory audit 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 – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

The Company is a payment service provider with a banking licence in the Netherlands and has been fast growing 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 the fact that the Company listed on the Euronext stock exchange and continued to grow their merchant base coupled with the implementation of an internal control framework to which we aligned our audit approach accordingly. Refer to the risk management section of the annual report.

All revenue activities are processed on the payment platform operated by the Company. Therefore, the design and operating effectiveness of the IT general controls are significant to the Company and to our audit. We refer to the section 'Key Audit Matters' in this respect.

Revenue growth is considered as a key financial indicator for investors and other stakeholders of the Company. The Company maintained continuous revenue growth from the prior period. Consequently we have determined the risk of revenue overstatement to be a key audit matter.

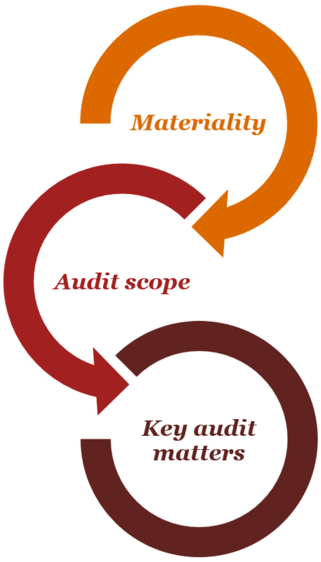
During the year, the Company entered into a contract with a new significant merchant with the prospect that significant online sales volumes will be send to the Company in the future for payments processing through the payment platform. Due to the complex nature in the fair value estimation of this warrant instrument that resulted in the accounting of both a contract asset and a derivative liability, we determined this to be a key audit matter.

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 board of directors made important judgements. In paragraph "Critical accounting policies" of the financial statements the Company describes the areas of judgment in applying accounting policies and the key areas of estimation uncertainty. Given the estimation uncertainty and the related higher risks of material misstatement in the fair value measurement of the share-based payments, we determined this to be a key audit matter.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management 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, valuation of share-based payments, forensic experts and the valuation of derivative financial instruments in our team.

The outline of our audit approach was as follows:



Materiality

- Overall materiality: € 6.05 million.

Audit scope

- We conducted audit work in 3 locations, being the Netherlands, United States of America and Brazil.
- A site visit was conducted to the United States of America operations.
- Audit coverage: 100% of consolidated revenue, 98% of consolidated profit before tax and 99% of consolidated assets.

Key audit matters

- IT general controls
- Risk of overstatement in revenue recognition
- Valuation of share-based payments
- Valuation and accounting of derivative liability

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 judgment, 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	€ 6.05 million (2017: € 4,5 million)
Basis for determining materiality	We used our professional judgment to determine overall materiality. As a basis for our judgment, we used 5% of profit before tax.
Rationale for benchmark applied	We used profit before tax 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 profit before tax is an important metric for the financial performance of the company and is widely used within the industry.

Component materiality	To each component in our audit scope we have allocated, based on our judgement, materiality that is less than our overall group materiality. The range of materiality allocated across components was between € 1.2 million and € 6.049 million. Certain components were audited to a local statutory audit materiality that was also 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 supervisory board that we would report to them misstatements identified during our audit above € 302,000 (2017: € 225,000) 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 performed sufficient work 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 the component level by the group engagement team and by each component auditor.

The group audit primarily focussed on the significant components: the Netherlands, United States of America and Brazil (of which the Netherlands is the most significant component).

All three significant components above were subject 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:

Revenues	100%
Total assets	99%
Profit before tax	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 the audit work.

Where the work was performed by component auditors we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained 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, 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.
The group engagement team visits the component teams and local management on a rotational basis. In the current year, the group audit team visited the United States component.

The group consolidation, financial statement disclosures, and a number of items such as the valuation of share-based payments and the valuation of the derivative liability were audited by the group engagement team at the head office.

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 that were 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. The prior year key audit matter that dealt with the de-recognition of receivables from financial institutions and related payables to merchants was a one-off event that occurred in the prior period that only resulted in a prospective accounting treatment, consequently this matter is not a recurring key audit matter in the current year audit. For the current financial year, we included a key audit matter relating to the valuation and accounting of the derivative liability given the estimation and complexity involved in determining the fair value. The remaining key audit matters are related to the overall operations and strategy of the organisation, therefore recurring in nature.

The key audit matters were addressed 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 comments or observations we make on the results of our procedures should be read in this context.

Key audit matter	***How our audit addressed the matter***
IT general controls 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	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. These comprised of the following key audit activities at the Group: • Computer operations ensuring reliability of IT systems: we tested the design and operating effectiveness of controls implemented to ensure

Key audit matter	*How our audit addressed the matter*
from financial institutions) are recorded on the payment platform. 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. Based on the above considerations, we considered IT general controls as a key audit matter in our audit.	that backup and recovery processes have been established by the Company that local back up's (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 programs and data was limited to authorised personnel. These controls were implemented 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. We found that we could rely on the IT general controls of the Group for the purpose of our audit.
Risk of overstatement in revenue recognition *Refer to note 2 in the consolidated financial statements* The Group's services operate on the payment platform. Independent of whether payments are submitted online, 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. The revenues that the Group generated related to processing fees, settlement fees and fees for other services in connection with processed payments. For	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	*How our audit addressed the matter*
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.	• 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 over 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 it to signed customer agreements; • We evaluated and assessed recorded revenue against the requirements included in EU-IFRS including management's assessment in which it concluded that for all its payment services it acts as a principal; • Substantive 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; and • We tested the manual reconciliation between the payment service platform and the financial statements. The audit procedures carried out by us, did not identify material exceptions.
Valuation of share-based payments *Refer to note 4 in the consolidated financial statements* The Company had a stock option plan under which directors and employees were awarded stock options. This stock option plan qualified as share based payments under IFRS. In 2018, the Company also established a cash-settled share based payment plan to provide newly hired employees an opportunity to participate in this new scheme that is based on the underlying ordinary shares of the Company. In addition, the Company also established another equity-settled share based plan with the purpose to pay annual increases to employees.	Our audit work included, amongst others, an evaluation of management's process design and operating effectiveness of controls that cover the granting and valuation process for share-based payments and the governance over the valuation process. The control we have tested pertained to the approval of stock options granted to employees. Based on these audit procedures, we determined that we could rely on these controls for the purpose of our audit. Furthermore, we have performed the following audit procedures:

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td>The recognition and measurement of granted options was measured at fair value. The fair value of granted options was calculated based on a Black Scholes model in which for each granted option the fair value was determined.

The Company determined the total enterprise valuation based on an average of three years discounted cash flows using a weighted average cost of capital. On this basis, the grant date fair values of option grants were calculated which includes the expected volatility. In particular, the expected volatility required significant judgment from management since it was based on statistical analysis of share prices of listed peer companies of the Company over the last six years. The Company made use of a third party vendor to assist them in the valuation process of granted options.

This resulted in a share-based compensation expense for 2018 amounting €3.5 million.

Given the related estimation uncertainty and complexity involved in determining the fair value of share-based payments that resulted in a higher risk of material misstatement, we determined this to be a key audit matter in our audit.</td><td>Tested the option administration by reconciling on a sample basis the number of options, exercise prices, grant dates and vesting periods to underlying documents such as the stock option plans and individual grants to employees;
We evaluated the competence, capabilities, objectivity and work of management's independent valuator.
With the assistance of our valuation specialists, we tested the total enterprise valuation based on an average of three years discounted cash flows using a weighted average cost of capital. In doing so, we evaluated the methodology applied by the Company to perform the valuation.
In addition, we tested the grant date fair values of option grants made during 2018 including the expected volatility through a benchmark analysis. This benchmark analysis comprised of an independent assessment of historical volatilities of peer companies of the Company.
We validated the weighted average cost of capital by comparing this against relevant market data; and
We have assessed the disclosures of share-based payments against the requirements of IFRS.
We found the assumptions used in the Company's valuation of share based payments and the outcome thereof to fall within an acceptable range, when compared to relevant market data.</td></tr>
<tr><td>Valuation and accounting of derivative liability
Refer to note 2, 8 and 11 in the consolidated financial statements:
During 2018, the Company entered into a contract with a new significant merchant with the prospect that significant online sales volumes will be send to the Company in the future for payments processing through the payment platform.

As of the conclusion 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. One tranche is equal to 1.25%</td><td>We, with the assistance of our accounting specialists, have assessed the Company's accounting treatment due to the new change in circumstances and are in agreement with the Company's accounting treatment of the warrant instrument, which includes the derivative liability component.

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.</td></tr>
</table>

Key audit matter	How our audit addressed the matter
of the Adyen's fully diluted issued and outstanding share capital as at January 31, 2018. 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. This resulted in the 31 December 2018 balances of a contract asset of €141 million in accordance with IFRS 15 and a derivative liability of €23.8 million in accordance with IFRS. As a result of the IPO of Adyen, that constitutes a change in circumstances, the accounting treatment of the merchant contract was changed by management. Due to this change in circumstances,, the Company reassessed the classification of the derivative financial liability and reclassified a component of the derivative financial liability as an equity instrument in accordance with IAS 32. This is due to the applicable component of the warrant instrument that will be convertible into a fixed number of ordinary shares at a fixed amount of €240 a common ordinary share in the future when certain contractual contingent events are achieved for each respective tranche. 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 re-measurement until the reclassification date was recognized in profit and loss. These equity instruments are not subsequently re-measured to fair value. Given the related estimation uncertainty and complexity involved in determining the fair value that results in a higher risk of material misstatement, we determined this to be a key audit matter in our audit.	• 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 liability and found the outcome to be reasonable. We found that the assumptions used in the valuation of the derivative liability and the warrant instrument by the Company fell within an acceptable range when compared to relevant market data.

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:

- the governance report;
- the risk management report;
- the compliance report;
- the statement by management board;
- the supervisory board report;
- the remuneration report; and
- 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 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 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.

Management is responsible for the preparation of the other information, including the report of the board of directors' and the other information in accordance with Part 9 of Book 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 13 April 2018 during the shareholders meeting by the supervisory board. We were initially appointed as the external auditor of Adyen B.V. during 2009 and has been renewed annually by the shareholders . Furthermore, the Company became a Public Interest Entity ('PIE') during April 2017 after the Company obtained a banking licence representing a total period of uninterrupted engagement appointment of 2 years.

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 22 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of management and the supervisory board for the financial statements

Management 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 management 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, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going-concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management 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 audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all 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, 26 March 2019
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 2018 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 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. 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 management.
- Concluding on the appropriateness of management'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 company's 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.