

Klarna's global growth soars in 2018

Relentless focus on superior shopping experience continues to drive strong preference for Klarna amongst merchants and consumers

April 29, 2019 - Today, Klarna Bank AB (publ) ("Klarna"), one of the leading global payment providers, has released its annual financial report for 2018. With the tremendous amount of opportunities ahead for the company, the strong financial performance and momentum gained in 2018 with a 36% increase in sales volumes to USD 29bn¹ (SEK 252bn), and a 31% increase in total net operating revenues to USD 627m (SEK 5,451m) will provide a solid foundation for continued growth.

Klarna's offering continues to resonate with consumers, merchants and partners across all markets as demand grows steadily. Klarna is now partnering with over 130,000 merchants across verticals, with over 25,000 newly added in 2018 and existing partnerships both deepening and expanding across markets. There is now an average of 1 million transactions a day running on the platform. Equally, the consumer base continues to grow rapidly, Klarna welcomed almost 26 million new consumers during the last year, but most importantly, they are highly engaged as preference and loyalty builds, with many markets seeing an average of over 70% of consumers make multiple repeat transactions.

"Klarna's trajectory is the result of continuous innovation, putting consumers, merchants and products first, and always staying true to our core belief of the value we add are the solutions we bring. Our relentless focus on the experience stretching beyond the actual transaction has differentiated us in the market, we know consumers and merchants will not settle for average and at Klarna neither do we."

"We naturally set out big ambitions for 2018 and we are pleased with the financial performance of strong year on year growth in both volumes and revenues, now partnering with over 130,000 merchants across geographies and welcoming 26 million new consumers over the year. Klarna does not dwell too much on past achievements, our focus is on the new opportunities and challenges ahead but it's clear we have built strong momentum and the strategic investments made in 2018 are already proving a solid platform for driving desired future growth and scale." says Sebastian Siemiatkowski, CEO and Co-founder.

Highlights 2018:

- Year over year growth in total sales volumes was 36% to USD 29bn (SEK 252bn)
- Total operating revenues increased 31% to USD 627m (SEK 5,451m)
- Operating income amounted to USD 18.5m (SEK 161m)
- Net income for the year amounted to USD 12m (SEK 105m)
- 25,398 new merchant partners², overall total now 130,000
- 26 million new consumers used Klarna over the year

¹Klarna's results are reported in SEK. To arrive at USD values, the average exchange rate for the full-year 2018 as published by Sweden's central bank has been used, i.e. 1 USD equals approximately 8.7 SEK

²This figure has been corrected compared to the Annual financial statement release 2018, published on February 28, 2019.

Focus on growth

- At the beginning of 2018, Klarna made a strategic decision to significantly increase investments in line with the core focus on driving future growth. Investments in people, global scalable systems and products were made to further strengthen capabilities, optimising the offering as well as to support future business objectives in new verticals and geographies. Over the course of 2018, an entire overhaul of the operating model across the entire company was implemented, where norms on structure were challenged to find a way to be smarter, faster and closer to consumers. This will support the pace and parallelity of product development and scaling. In line with the new operating model, we continue to focus on our efforts to make Klarna even more metrics driven right across the board and with an overarching focus on consumer and merchant satisfaction.
- Throughout all of this, the focus has been on establishing a platform to drive future growth tied to a relentless commitment to consumers and merchants in delivering best in class services. While revenues continue to increase steadily, this decision on investments has resulted in a lower net profitability for the year but an acceleration from these investments is already starting to be realised and this will continue at pace.

Merchants

- Klarna's merchant base continues to grow and develop at a pace, with now over 130k merchant partners across verticals. The value which our products bring can be seen in the increased conversion rates, order value, number of new and repeat users and overall preference for our merchants. The merchant pipeline is strong for 2019 with a multiple large scale integrations with global brands ongoing.
- Global enterprise retailers and service providers across existing and new verticals continue to choose Klarna, recent examples include IKEA, Expedia Group, Ticketmaster, Sonos, Sephora, H&M and their Brands (COS, & Other Stories, Arket, Monki, Weekday and Afound) marketplace Etsy, adding to existing global merchant base including Adidas, Zara, Nike, Lenovo, ASOS, Arcadia Group, Wish, Sephora, GymShark, Expedia, Lufthansa, SAS, Spotify and Turkish Airlines.
- Today's consumers are empowered and their expectations are high. They now demand a personalised, flexible and intuitive shopping experience that not only meets their individual needs before and at the checkout but increasingly in a post-purchase service. This means merchants need to offer the ability to shop anytime, anywhere, on any device but also more importantly keep consumers engaged throughout the shopping journey in order to attract and build loyalty. If merchants don't meet these demands, consumers will simply move on to one that does.
- Investments in value added services for our merchants have increased significantly, with a focus on enabling them to offer an even more personalised shopping experience throughout the journey in order to continue to compete effectively, build preference and drive loyalty. Furthermore, a new merchant portal was launched including tools that provide our merchants with additional insights on their current customer base.
- Recently launched SME focused services have already shown good traction. Since early autumn 2018, almost 21,000 merchants across markets have signed up through the new automated and simplified SME onboarding tool. Boost, our SME merchant lending product that democratises and simplifies access to capital, has also been well received and strong demand from our merchant base, overall it is proving a great addition to our toolbox that helps SMEs accelerate growth and unlock potential.

Products

- Investments in innovating and further optimising the current core product offering and 'Klarna everywhere' concept continues and the returns are already evident. A new offering 'Pay later in 3 or 4' in the UK and the US respectively and soon to be live across other markets. With this product, Klarna is responding to a generational shift away from traditional credit cards and revolving credit to alternative financing and for some segments towards reliance on debit cards is accelerating, consumers can increase their purchasing power and flexibility on debit without the hassle of a long-term commitment but most importantly no interest or fees.

- The Klarna card has now launched in Sweden and most recently Germany to resounding consumer enthusiasm and now close to 100,000 cards issued in Sweden alone in the first months. In Sweden, both Apple and Google Pay functionality is enabled and advancing the ability to use Klarna across all relevant touchpoints.
- The Klarna app is now live across markets, where a host of services are now continuously being made available, including shipping tracking, instant refunds, images of items purchased and increasingly financial overview services amongst a host of services. The app aims to empower consumers to take control over their personal finances, as well as allowing them to shop using Klarna's payment methods also at merchants not yet directly connected to Klarna through our 'Shopping in-app' browser.
- As the Klarna brand has grown in stature in inspiring ways, so too has the 'Klarna everywhere' proposition with ever growing relevant touchpoints with consumers. This includes Klarna instore and offline continue to build momentum and more than 6,500 physical stores are live with Klarna instore.
- The Klarna checkout offering has also evolved, new innovations such as shipping support now added alongside new geographies including the Netherlands and Denmark.

Markets

The performance of core Klarna markets continues to develop, while the market leading position in the Nordics was maintained across verticals, the momentum in UK, DACH, BNL and the US markets has been robust, most of whom are at over 100% volume growth year on year and ever improving margins. Klarna's consumer base continues to expand, with the addition of over 26 million consumers during the year, but most importantly they are highly engaged and average usage and spend is increasing.

- **The UK** is making significant gains, where it is now acknowledged that Klarna has established the 'Pay Later' category and de-facto market leader but also driving strong preference amongst consumers, which high frequency of repeat users who are now actively requesting merchants to onboard Klarna as it is the top payment method. Now thousands of new consumers are choosing Klarna Pay later each week users at merchants including Topshop, Samsung, Schuh, JD sports, Missguided, BeautyBay, Fragrance Shop, Asos and Swoon Editions and GAME. Strong consumer engagement and high levels of repeat users creating much desired loyalty for merchants. The fashion and beauty verticals are particularly strong with new additions In The Style, Moss Bros and Cult Beauty, but also in verticals such as sport, leisure with Gymshark. The acquisition of Close Brothers Retail Finance (CBRF) will significantly strengthen Klarna's position in the UK market for retail financing and will enable accelerated growth and expansion of the consumer offering.
- The **DACH region** is now our largest market and performing very well with strong volume across all payment methods and a 47% revenue growth in 2018. We are very well positioned to further capitalise on the enormous potential and online and offline addressable market in the region. We have broadened out into new verticals such as leisure and entertainment for example on Cinemaxx but also in supporting consumers in their daily lives like on the toll highway road with tickets on ASFiNAG, the Austrian state highway company. We have further increased our presence in the fashion and beauty market with the go lives of Sephora, Stylebop and Escada.
- In the **Nordic markets**, we maintain our leading position across verticals, growing with our existing merchant base. Merchants such as SkiStar, the leading operator of European alpine destinations, online grocery store chain MatHem.se, consumer electronics retailer Elgiganten and women's fashion brand NA-KD, have all chosen to strengthen the relationship with us by offering a wider range of our products in new channels or by entering new markets together with us. We have also added new merchants such as Svenssons i Lammhult, the leading Swedish furniture chain.
- In **the US**, we have had a continued healthy trajectory of merchant acquisition and expansion of current relationships, as well as steadily increasing the consumer base now at over 3.4 million consumers. The pipeline for the year ahead is strong and much foundational work during 2018. The 'Pay later in 4' product was launched in autumn proving immediately popular with consumers and merchants such as Daniel Wellington and Storets. We have also expanded our relationships with

Lenovo and Rancourt to their payments offering and entered new verticals with the addition of DISH Network, allowing their technicians to offer upgraded solutions to their customers during in-home appointments.

- In **the Netherlands**, the number of active Pay later users have grown with 61% and we have increased our market presence and now live with new merchants such as sports apparel company O'Neill, Intergamma group, V&D and vanHaren.

Partners

- Klarna has significantly increased focus on partners as high growth distribution channel to efficiently extend our reach and the merchant base. During 2018 period we have initiated several new and extended existing partnerships with key players across markets.
 - Further deepening global partnership with Shopify through Shopify Payments in Germany, allowing SME merchants to automatically enable Klarna payment methods, and Shopify Plus Partner Program in Germany, the UK and the US, focusing on high-growth and high-volume merchants.
 - Partnering with Mollie in the Netherlands, Germany, Austria and Finland reaching more than 55,000 SME and Enterprise merchants.
 - New partnership with Wirecard covering Germany, Austria, the Nordics and the Netherlands as a first step. The partnership will expand to additional countries, such as the US and the UK.
 - Extended partnership with ACI Worldwide, across 10 markets, including the US and UK.
 - Integration with Magento Commerce as a Core Bundled Extension in the latest release of its flagship commerce platform, which simplifies the on-boarding process for merchants.
 - Partnership with MyOnlineStore, the most popular e-commerce platform in the Netherlands with over 40,000 online merchants.

The annual reports of Klarna Bank AB (publ) and Klarna Holding AB are available in English and Swedish at www.klarna.com. The annual results were made public with the Klarna year-end report on February 28. The annual reports have been approved by the AGM on April 25, and will be filed with Bolagsverket in Sweden within 30 days after the AGM.

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About Klarna

Klarna is leading global payments providers and fully licensed bank, which wants to revolutionise the payment experience for shoppers and merchants alike. Founded in Stockholm, Sweden, in 2005, we give online consumers the option to pay now, pay later or over time – offering a simple, safe and smooth checkout experience. Klarna now works with 130,000 merchants. Klarna has 2,500 employees and is active in 14 countries. Klarna is backed by investors such as Sequoia Capital, Bestseller Group, Atomico, VISA and Permira.

This information is information that Klarna Bank AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and the Swedish Securities Markets Act (2007:528). The information was submitted for publication, through the agency of the contact person set out above, at 08.00 CET on April 29, 2019.