

Danske Lønsystemer A/S

Engholm Parkvej 8
3450 Allerød

CVR no. 15 61 14 72

Annual report for the period 1 January 2017 – 31 May 2018

The annual report was presented and approved at the
Company's annual general meeting on

14 November 2018

Peter Granild Colsted
chairman



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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Danske Lønssystemer A/S for the financial period 1 January 2017 – 31 May 2018.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 May 2018 and of the results of the Company's operations for the financial period 1 January 2017 – 31 May 2018.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

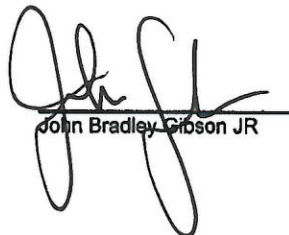
We recommend that the annual report be approved at the annual general meeting.

Allerød, 14 November 2018
Executive Board:


Peter Granild Colsted

Board of Directors:


Efrain Rivera
Chairman


John Bradley Gibson JR


Stephanie Lynn Schaeffer



Independent auditor's report

To the shareholder of Danske Lønssystemer A/S

Opinion

We have audited the financial statements of Danske Lønssystemer A/S for the financial period 1 January 2017 – 31 May 2018 comprising income statement, balance sheet and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 May 2018 and of the results of the Company's operations for the financial period 1 January 2017 – 31 May 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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 override of internal control.



Independent auditor's report

- obtain 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.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events 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. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance 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.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 14 November 2018

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

Henrik O. Larsen
State Authorised
Public Accountant
mne15839

Naja Bjørk Olsen
State Authorised
Public Accountant
mne41387

Danske Lønssystemer A/S
Annual report 2017/18
CVR no. 15 61 14 72

Management's review

Company details

Danske Lønssystemer A/S
Engholm Parkvej 8
3450 Allerød

Telephone: 48166060
Website: www.danskelonssystemer.dk
E-mail: info@danlon.dk

CVR no.: 15 61 14 72
Established: 8 November 1991
Registered office: Allerød
Financial period: 1 January 2017 – 31 May 2018

Board of Directors

Efrain Rivera, Chairman
John Bradley Gibson JR
Stephanie Lynn Schaeffer

Executive Board

Peter Granild Colsted

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
DK-2100 Copenhagen

Annual general meeting

The annual general meeting will be held on 14 November 2018.

Management's review

Operating review

Principal activities

The Company develops, markets and supports internet-based software and systems for the development and management of human resources and payroll. The Company's products are mainly sold in Denmark, Germany, Norway and Sweden.

Significant events

During the financial year, the Group ownership changed to Paychex Inc., a company registered in the United States of America.

Special risks

The Company is not exposed to any special risks.

Environmental matters

The Company's products do not have a negative environmental impact.

Outlook for the coming year

The Company expects activity growth and a revenue of approximately DKK 90 million in the new financial year for the Lessor products.

Research and development activities

During the financial year, the Company conducted development activities for existing and new products. Costs associated with development activities are recognised directly in the income statement and expensed.

Intellectual capital

It is important that the Company has the necessary intellectual capital resources. Importance is placed by Management on attracting, developing and maintaining qualified employees.

Events after the balance sheet date

There have been no events after the balance sheet date that have a significant impact on the assessment of the annual report.

Financial statements 1 January 2017 - 31 May 2018

Income statement

DKK'000	Note	1/1 2017 - 31/5 2018	1/1 - 31/12 2016
Gross profit		78,056	44,116
Staff costs	2	-15,518	-11,470
Depreciation, amortisation and impairment		-11,281	-885
Operating profit		51,257	31,761
Financial income		18	1
Financial expenses	3	-135	-57
Profit before tax		51,140	31,705
Tax on profit/loss for the year	4	-13,322	-6,974
Profit for the year		<u>37,818</u>	<u>24,731</u>
Proposed profit appropriation			
Extraordinary dividends paid		14,000	33,000
Proposed dividends for the year		0	6,000
Retained earnings		<u>23,818</u>	<u>-14,269</u>
		<u>37,818</u>	<u>24,731</u>

Financial statements 1 January 2017 - 31 May 2018

Balance sheet

DKK'000	Note	31/5 2018	31/12 2016
ASSETS			
Fixed assets			
Property, plant and equipment			
Land and buildings		6,074	16,847
Fixtures and fittings, tools and equipment		<u>664</u>	<u>727</u>
		6,738	17,574
Total fixed assets		<u>6,738</u>	<u>17,574</u>
Current assets			
Receivables			
Trade receivables		5,285	4,956
Receivables from group entities		50	2,825
Prepayments		<u>1,086</u>	<u>62</u>
		6,421	7,843
Cash at bank and in hand		<u>39,856</u>	<u>10</u>
Total current assets		<u>46,277</u>	<u>7,853</u>
TOTAL ASSETS		<u>53,015</u>	<u>25,427</u>

Financial statements 1 January 2017 - 31 May 2018

Balance sheet

DKK'000	Note	31/5 2018	31/12 2016
EQUITY AND LIABILITIES			
Equity			
Contributed capital	5	600	600
Retained earnings		24,538	722
Proposed dividends for the financial year		0	6,000
Total equity		<u>25,138</u>	<u>7,322</u>
Provisions			
Provisions for deferred tax		53	41
Total provisions		<u>53</u>	<u>41</u>
Liabilities other than provisions			
Current liabilities other than provisions			
Prepayments received from customers		943	397
Trade payables		1,122	872
Payables to group entities		8,927	10,663
Corporation tax		13,310	1,798
Other payables		3,522	4,334
		<u>27,824</u>	<u>18,064</u>
Total liabilities other than provisions		<u>27,824</u>	<u>18,064</u>
TOTAL EQUITY AND LIABILITIES		<u>53,015</u>	<u>25,427</u>
Contractual obligations, contingencies, etc.	6		
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Financial statements 1 January 2017 - 31 May 2018

Notes

1 Accounting policies

The annual report of Danske Lønssystemer A/S for 2017/18 has been prepared in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act with opt-in from higher reporting classes.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Income statement

Revenue

Revenue from the sale of services, is recognised on a straight-line basis in the income statement as the services are provided.

Gross Profit

Pursuant to Section 32 of the Danish Financial Statements Act, the Company has decided only to disclose gross profit.

Other external costs

Other external costs comprise distribution costs and costs related to sales, sales campaigns, administration, office premises, operating leases, software for own usage, etc.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance, pension and other social security costs, etc., to the Company's employees, excluding reimbursements from public authorities.

Financial income and expenses

Financial income and expenses comprise interest income and expense.

Tax on profit/loss for the year

Tax for the year comprises current corporation tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Financial statements 1 January 2017 - 31 May 2018

Notes

1 Accounting policies (continued)

Balance sheet

Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Buildings	33 years
Fixtures and fittings, tools and equipment	4-10 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Land is not depreciated.

Fixed assets under construction are recognised and measured at cost at the balance sheet date. Upon entry into service, the cost is transferred to the relevant group of property, plant and equipment.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as equity investments in group entities and associates is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

Financial statements 1 January 2017 - 31 May 2018

Notes

1 Accounting policies (continued)

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Receivables with no objective indication of individual impairment are assessed for objective indication of impairment on a portfolio basis. The portfolios are primarily based on the debtors' registered offices and credit rating in accordance with the Company's credit risk management policy. The objective indicators used in relation to portfolios are determined on the basis of historical loss experience.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of forecast cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less which are easily convertible into cash and which are subject to only an insignificant risk of changes in value.

Equity

Dividends

The expected dividends payment for the year is disclosed as a separate item under equity.

Liabilities other than provisions

Financial liabilities are recognised at cost at the date of borrowing, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Finance lease obligation comprise the capitalised residual lease obligation of finance leases.

Other liabilities are measured at net realisable value.

Financial statements 1 January 2017 - 31 May 2018

Notes

1 Accounting policies (continued)

Deferred Income

Deferred income comprises advance invoicing regarding income in subsequent years.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill non-deductible for tax purposes and on office premises and other items where the temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

2 Staff costs

DKK'000	1/1 2017 – 31/5 2018	1/1 – 31/12 2016
Wages and salaries	14,041	10,285
Pensions	1,288	1,112
Other social security costs	90	73
Other staff costs	99	0
	<u>15,518</u>	<u>11,470</u>
Average number of full-time employees	<u>19</u>	<u>22</u>

3 Financial expenses

Interest expense to group entities	0	1
Other financial costs	135	56
	<u>135</u>	<u>57</u>

Financial statements 1 January 2017 - 31 May 2018

Notes

4 Tax on profit for the year

DKK'000	1/1 2017 - 31/5 2018	1/1 - 31/12 2016
Current tax for the year	13,310	6,973
Deferred tax for the year	12	3
Adjustment of tax concerning previous years	0	-2
	<u>13,322</u>	<u>6,974</u>

5 Equity

DKK'000	Contributed capital	Retained earnings	Proposed extraordinary dividends	Proposed dividends for the financial year	Total
Equity at 1 January 2017	600	720	0	6,000	7,320
Distributed dividends	0	0	0	-6,000	-6,000
Extraordinary dividend during the year	0	-14,000	14,000	0	0
Transferred over the profit appropriation	0	37,818	-14,000	0	23,818
Equity at 31 May 2018	<u>600</u>	<u>24,538</u>	<u>0</u>	<u>0</u>	<u>25,138</u>

6 Contractual obligations, contingencies, etc.

Contingent liabilities

The Group's Danish entities are jointly and severally liable for tax on the Group's jointly taxed income and for certain withholding taxes such as dividend tax and royalty tax. Any subsequent corrections of the taxable income subject to joint taxation or withholding taxes on dividends, etc. may entail an increase in the entities' liability. The Group as a whole is not liable to any other parties.

7 Related party disclosures

Ownership

The following shareholders are registered in the Company's register of shareholders as holding a minimum of 5% of the votes or a minimum of 5% of the contributed capital:

ipayroll Holding ApS, Cvr-no. 32 94 66 58, Engholm Parkvej 8, 3450 Allerød