

Danske Lønssystemer A/S

Engholm Parkvej 8
3450 Allerød
Denmark

CVR no. 15 61 14 72

Annual report 2021/22

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

13 December 2022

Henrik Møller

Chairman of the annual general meeting

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Danske Lønssystemer A/S
Annual report 2021/22
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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 year 1 June 2021 – 31 May 2022.

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 2022 and of the results of the Company's operations for the financial year 1 June 2021 – 31 May 2022.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the results for the year and of the Company's financial position.

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

Allerød, 13 December 2022
Executive Board:

Henrik Basso Reichsthaler
Møller
CEO

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 year 1 June 2021 – 31 May 2022 comprising income statement, balance sheet, statement of changes in equity 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 2022 and of the results of the Company's operations for the financial year 1 June 2021 – 31 May 2022 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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, 13 December 2022

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

Kim Schmidt
State Authorised
Public Accountant
mne34552

Ilhan Dogan
State Authorised
Public Accountant
mne47842

Danske Lønssystemer A/S
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Management's review

Company details

Danske Lønssystemer A/S
Engholm Parkvej 8
3450 Allerød
Denmark

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 year: 1 June – 31 May

Board of Directors

Efrain Rivera, Chairman
John Bradley Gibson JR
Stephanie Lynn Schaeffer

Executive Board

Henrik Basso Reichsthaler Møller, CEO

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
DK-2100 København Ø
CVR no. 25 57 81 98

Management's review

Financial highlights

DKK'000	2021/22	2020/21	2019/20	2018/19	2017/18
Key figures					
Gross profit/loss	67,475	62,619	65,470	67,058	78,056
Profit/loss before financial income and expenses	34,211	38,335	43,719	47,415	51,257
Profit/loss from financial income and expenses	-388	-720	-489	-541	-117
Profit/loss for the year	11,656	29,832	33,797	43,358	37,818
Balance sheet					
Total assets	169,687	164,621	130,672	96,853	53,015
Equity	143,778	132,122	102,290	68,495	25,138
Investment in property, plant and equipment	0	0	0	0	0
Ratios					
Return on invested capital	0.23%	0.32%	0.51%	1.09%	12.44%
Current ratio	636.60%	479.08%	460.10%	342.56%	166.32%
Return on equity	8.45%	25.45%	39.58%	92.61%	233.01%
Employees					
Average number of full-time employees	42	38	33	29	19

The financial ratios have been calculated as follows:

Return on invested capital $\frac{\text{Operating profit/loss} \times 100}{\text{Average invested capital}}$

Current ratio $\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$

Return on equity $\frac{\text{Profit/loss from ordinary activities after tax} \times 100}{\text{Average equity}}$

Management's review

Operating review

Principal activities

The company develops, markets and supports software and systems for the development and management of human resources and payroll. The company's products are mainly sold in Denmark.

Development in activities and financial position

The Company's income statement for 2021/22 shows a profit of DKK 11,656 thousand as against DKK 29,832 thousand in 2020/21. Equity in the Company's balance sheet at 31 May 2022 stood at DKK 143,778 thousand as against DKK 132,122 thousand at 31 May 2021. The financial performance is in line with management's expectation. The decrease in the profit is driven primarily by write down of loan to German subsidiary.

A reclassification for 2020/21 of TDKK 7,783 has been made between current corporation tax liabilities to non-current tax liabilities.

Significant events

There have been no significant events during the year.

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

The company expects activity growth and a revenue of approximately DKK 127 million in the new financial year for its 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 recognized 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 June – 31 May

Income statement

DKK'000	Note	2021/22	2020/21
Gross profit		67,475	62,619
Staff costs	2	-28,619	-24,354
Depreciation, amortisation and impairment losses		<u>-4,645</u>	<u>70</u>
Operating profit		34,211	38,335
Other financial income		0	6
Other financial expenses	3	<u>-14,456</u>	<u>-726</u>
Profit before tax		19,755	37,615
Tax on profit for the year	4	<u>-8,099</u>	<u>-7,783</u>
Profit for the year	5	<u><u>11,656</u></u>	<u><u>29,832</u></u>

Financial statements 1 June – 31 May

Balance sheet

DKK'000	Note	31/5 2022	31/5 2021
ASSETS			
Fixed assets			
Intangible assets	6		
Software		<u>4,751</u>	<u>8,925</u>
Property, plant and equipment	7		
Fixtures and fittings, tools and equipment		<u>0</u>	<u>0</u>
Total fixed assets		<u>4,751</u>	<u>8,925</u>
Current assets			
Receivables			
Trade receivables		9,849	8,557
Receivables from group entities		137,324	117,015
Other receivables		3,328	372
Deferred tax asset	8	258	895
Prepayments	9	<u>2,378</u>	<u>389</u>
		<u>153,137</u>	<u>127,228</u>
Cash at bank and in hand		<u>11,799</u>	<u>28,468</u>
Total current assets		<u>164,936</u>	<u>155,696</u>
TOTAL ASSETS		<u><u>169,687</u></u>	<u><u>164,621</u></u>

Financial statements 1 June – 31 May

Balance sheet

DKK'000	Note	31/5 2022	31/5 2021
EQUITY AND LIABILITIES			
Equity			
Contributed capital		600	600
Retained earnings		143,178	131,522
Total equity		<u>143,778</u>	<u>132,122</u>
Liabilities			
Non-current liabilities			
Corporation tax		8,099	7,783
Other payables		150	0
		<u>8,249</u>	<u>7,783</u>
Current liabilities			
Prepayments received from customers		86	205
Trade payables		1,097	1,733
Payables to group entities		6,280	3,463
Corporation tax		7,277	13,816
Other payables		2,920	5,499
		<u>17,660</u>	<u>24,716</u>
Total liabilities		<u>25,909</u>	<u>32,499</u>
TOTAL EQUITY AND LIABILITIES		<u>169,687</u>	<u>164,621</u>
Contractual obligations, contingencies, etc.	10		
Related party disclosures	11		

Financial statements 1 June – 31 May

Statement of changes in equity

DKK'000	Contributed capital	Retained earnings	Total
Equity at 1 June 2021	600	131,522	132,122
Transferred over the profit appropriation	0	11,656	11,656
Equity at 31 May 2022	600	143,178	143,778

Financial statements 1 June – 31 May

Notes

1 Accounting policies

The annual report of Danske Lønssystemer A/S for 2021/22 has been prepared in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

The accounting policies applied remain unchanged from last year. However, a reclassification for 2020/21 of TDKK 7,783 has been made between current corporation tax liabilities to non-current tax liabilities.

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the cash flow statement in the consolidated financial statements of Paychex Inc, 911 Panorama Trail South, Rochester, New York 14625-2396.

Foreign currency translation

The Company's reporting currency is DKK, every other currency is considered as foreign exchange.

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Gross profit

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

Revenue

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

Financial statements 1 June – 31 May

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1 Accounting policies (continued)

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, excluding reimbursements from public authorities.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit/loss for the year

The Company is subject to the Danish rules on compulsory joint taxation of the Group's Danish subsidiaries. The subsidiaries are included in the joint taxation from the date when they are included in the consolidated financial statements and up to the date when they are excluded from the consolidation.

On payment of joint taxation contributions, current Danish corporation tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have used the losses to reduce their own taxable profit.

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.

Balance sheet

Intangible assets

Intangible assets are measured at cost less accumulated amortization and impairment.

Amortization of the following intangible assets is provided on a straight-line basis over the expected useful lives of the assets.

The expected useful lives are as follows:

Software	4 years
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Gains or losses on the disposal of intangible assets are determined as the difference between the selling price less selling costs and the carrying amount at the disposal date, and are recognized in the income statement as other operating income or other operating costs, respectively.

Financial statements 1 June – 31 May

Notes

1 Accounting policies (continued)

Property, plant and equipment

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:

Fixtures and fittings, tools and equipment	4-10 years
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The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

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 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.

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.

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.

Financial statements 1 June – 31 May

Notes

1 Accounting policies (continued)

Prepayments

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

Cash at bank and in hand

Cash at bank and in hand comprise cash and bank deposits.

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.

Liabilities

Other liabilities are measured at amortised cost.

Prepayments received from customers

Prepayments received from customers comprises advance invoicing regarding income in subsequent years.

Financial statements 1 June – 31 May

Notes

DKK'000	<u>2021/22</u>	<u>2020/21</u>
2 Staff costs		
Wages and salaries	25,297	21,398
Pensions	2,920	2,690
Other social security costs	<u>402</u>	<u>266</u>
	<u>28,619</u>	<u>24,354</u>
Average number of full-time employees	<u>42</u>	<u>38</u>
Pursuant to section 98b(3) of the Danish Financial Statements Act, the Company have not disclosed information about remuneration of the Management.		
3 Other financial expenses		
Impairment on receivables from group entities	14,068	0
Other financial costs	358	725
Exchange losses	<u>30</u>	<u>1</u>
	<u>14,456</u>	<u>726</u>
4 Tax on profit for the year		
Current tax for the year	8,099	8,734
Adjustment of deferred tax concerning previous years	<u>0</u>	<u>-951</u>
	<u>8,099</u>	<u>7,783</u>
5 Proposed profit appropriation		
Retained earnings	<u>11,656</u>	<u>29,832</u>
	<u>11,656</u>	<u>29,832</u>
6 Intangible assets		
DKK'000		<u>Software</u>
Cost at 1 June 2021		8,925
Additions for the year		<u>471</u>
Cost at 31 May 2022		<u>9,396</u>
Amortisation and impairment losses at 1 June 2021		0
Amortisation for the year		<u>-4,645</u>
Amortisation and impairment losses at 31 May 2022		<u>-4,645</u>
Carrying amount at 31 May 2022		<u>4,751</u>

Financial statements 1 June – 31 May

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7 Property, plant and equipment

DKK'000	Fixtures and fittings, tools and equipment
Cost at 1 June 2021	211
Cost at 31 May 2022	211
Depreciation and impairment losses at 1 June 2021	-211
Depreciation and impairment losses at 31 May 2022	-211
Carrying amount at 31 May 2022	0

8 Deferred tax assets

DKK'000	31/5 2022	31/5 2021
Deferred tax at 1 January	895	-56
Deferred tax adjustment for the year in the income statement	-637	951
	258	895

9 Prepayments

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

10 Contractual obligations, contingencies, etc.

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.

Financial statements 1 June – 31 May

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11 Related party disclosures

Danske Lønssystemer A/S' related parties comprise the following:

Control

Lessor Group ApS, Engholm Parkvej 8, 3450 Allerød.

Lessor Group ApS holds the majority of the contributed capital in the Company.

Danske Lønssystemer A/S is part of the consolidated financial statements of Paychex, Inc., 911 Panorama Trail S. 14625 New York, USA, which is the smallest and largest group, in which the Company is included as a subsidiary.

The consolidated financial statements of Paychex, Inc. can be obtained by contacting the Company at the address above.

Related party transactions

	Group	Parent Company
	<u>2021/22</u>	<u>2021/22</u>
DKK'000		
Management fee expenses	0	20,088,965
Support fee expenses	13,763,992	0
General administrative expenses	<u>4,230,725</u>	<u>0</u>
	<u>17,994,717</u>	<u>20,088,965</u>