

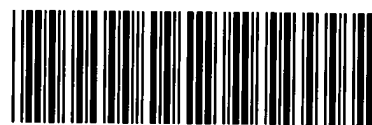
SSP Midco 2 Limited

Company number: 09346040

Annual Report and Financial Statements

**For the 18 months ended 30 September
2019**

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SSP Midco 2 Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

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SSP Midco 2 Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019 OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S Lathrope
J Sadler
C Pennington
D Alderson
C Hurley

COMPANY SECRETARY

R Forrest (resigned 30 September 2020)
N Forrest (appointed 1 October 2020)

REGISTERED OFFICE

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D Mill
Dean Clough
Halifax
West Yorkshire
HX3 5AX

BANKERS

Barclays Bank plc
PO Box 190
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Leeds
LS1 5WU

SOLICITORS

Squire Patton Boggs (UK) LLP
Trinity Court
16 John Dalton Street
Manchester
M60 8HS

AUDITOR

Deloitte LLP
Statutory Auditor
1 City Square
Leeds
LS1 2AL

STRATEGIC REPORT

We present our annual report and the audited financial statements for the 18 months ended 30 September 2019.

The Strategic Report and Directors' Report have been prepared for the Group as a whole and therefore give greater emphasis to those matters which are significant to SSP Midco 2 Limited and its subsidiary undertakings when viewed as a whole.

During the period the Company made revisions to its accounting reference period, and here presents financial statements for the 18 month period to 30 September 2019 versus comparators shown for the 12 months to 31 March 2018. As such, the current 18 month period results are not directly comparable to the prior 12 month period. This enabled key funding issues in the Group to be addressed, as described in the Going Concern note within the Directors' Report. Directors note that the registered accounting reference date is 29 September, although these financial statements are drawn up to 30 September 2019 as allowed under the provisions of the Companies Act.

This Strategic Report is intended to provide a summary of the development, performance and financial position of the Group for 2019. It provides details of the main trends and factors underlying the results which are likely to affect future performance and describes the Group's business and its key objectives, strategies, values and resources, together with the main risks and uncertainties it faces.

PRINCIPAL ACTIVITY

The Group is a major supplier of specialist software solutions and electronic transaction services to brokers and insurers in the General Insurance industry.

OWNERSHIP AND FINANCING

The Company is owned and controlled by Lloyds Development Capital, Scottish Equity Partners and management.

STRATEGY AND OBJECTIVES

The Company is committed to the following key long-term objectives:

- To supply market leading broker and insurer software solutions through a consolidated product set on a single SSP Digital Insurance Platform;
- To complete the development and launch of our new SSP Broking platform, providing class leading capability across commercial and personal lines for brokers;
- To establish IQH as the market leading product in risk selection and pricing for both insurer and broker channels; and
- To complete the extensive overhaul of our data centres and transition fully to a secure, stable and easily scalable Cloud-based infrastructure.

STRATEGIC REVIEW

In the 18 months ended 30 September 2019 the Group delivered Adjusted EBITDA¹ of £29.6m (year ended 31 March 2018: £22.4m). Revenues for the 18 months to 30 September 2019 amounted to £111.8m (year ended 31 March 2018: £85.3m). The Adjusted EBITDA margin achieved in the period amounted to 26.5% (2018: 26.3%) of revenues. It is noted that, whilst revenues and EBITDA show an increase in absolute terms, this reflects the 18 month period and, on an annualised basis, there would be a reduction.

¹ Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation and impairment, acquisition expenses on business combinations, power outage costs, and reorganisation costs and non-recurring costs. These include redundancy costs including payments made during the notice period, costs incurred from running existing and cloud hosting, as well as other costs treated as exceptional in the management accounts.

STRATEGIC REPORT (continued)

STRATEGIC REVIEW (continued)

	18 months to 30 Sept 2019 £'000	Year to 31 Mar 2018 £'000
Operating (loss)	(70,910)	(22,135)
Depreciation (note 5)	9,112	3,655
Goodwill impairment (note 5)	67,196	25,000
Intangible asset amortisation / impairment (note 5)	21,076	13,632
Reorganisation and non-recurring costs (note 5)	2,973	1,948
Power outage costs	201	344
Adjusted EBITDA	<u>29,648</u>	<u>22,444</u>

Total recurring revenues² in the 18 months to 30 September 2019 were £79.0m (year ended 31 March 2018: £59.5m) being 70.7% (2018 69.8%) of total revenues. The Group reported an after tax loss for the 18 months to 30 September 2019 of £114.4m (year ended 31 March 2018: £38.3m), after deduction of £18.8m (2018: £10.7m) in relation to accrued interest on loans due to SSP Topco Limited and an impairment charge of £67.2m (2018: £25.0m) against the carrying value of goodwill (see note 12 to the consolidated financial statements). The Group's net liabilities at 30 September 2019 amounted to £180.2m (31 March 2018: £65.7m).

The directors do not recommend the payment of a dividend on the Ordinary shares either in the year or subsequently (2018: £nil).

In the 18 months to 30 September 2019, the Group invested £11.7m (year ended 31 March 2018: £8.8m) on research and development associated with new products of which £10.9m (2018: £7.4m) was taken to intangible assets and included within development costs (see note 13 to the consolidated financial statements).

In April 2018 the directors entered into negotiations with its banks and investors to reset banking covenants and to provide further funds during a period of significant investment in products and infrastructure. On 27 November 2018 an agreement was reached with the banks to reset covenants until the end of the loan term, with a further option to roll some interest payments. Details of the facility are included below within the going concern disclosures and within note 20.

FUTURE PROSPECTS

As detailed in the going concern section of the Directors' Report, the Group is very pleased to report that it has exchanged contracts on the sale of the entire share capital of SSP Midco 2 Limited and its subsidiary undertakings to Volaris Group UK Holdco Ltd. Completion of this transaction is expected in January 2021 or shortly thereafter following Regulatory approval. This new structure will significantly reduce the debt and interest burden on the Group, provide financial security and allow the Group to progress its investments in market leading products and a move to a robust and secure Cloud based platform. It will also allow the Group to benefit from Volaris's in-depth expertise of growing software businesses through their long-term, "buy and hold" approach. If the proposed sale does not complete, the Directors of the Group will be required to find an alternative way to restructure the debt of the business if it is to be able to meet its liabilities as they fall due.

The Covid-19 pandemic has resulted in the SSP Group adopting remote working across its sites. This has had little impact on the efficiency and effectiveness of the workforce or on the service provided by SSP Group to its customer base. The Directors would like to express their thanks to all SSP staff for their commitment and understanding during this difficult period. We have seen however that transaction levels across the whole market have reduced and that some capital projects have been deferred. The impact of Covid-19 in these areas has been incorporated into the Group forecasts used for going concern purposes.

² Recurring revenues are defined as subscription and transaction revenues.

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The key risks to which the business is exposed are summarised as follows:

- **Economic risk:** general economic environment influencing the willingness of customers to commit to investment in IT solutions. In mitigation, the SSP SaaS platforms will offer these customers a cost effective alternative to high capital cost projects;
- **Industry risk:** failure to anticipate or react to changes in the industry model such as the consolidation of major customers and insurers moving pricing and rating onto their own systems. This is mitigated by constant engagement with the wider insurance sector through industry events and research and the ongoing development of SSP products to ensure that the business provides up to date and market leading capabilities to its customers;
- **Industry risk:** competitors developing their products and targeting market share, mitigated by a clear and comprehensive product development roadmap in all areas including a consolidation of existing capabilities into a new SSP Digital Insurance Platform;
- **Finance risk:** breach of banking covenants before the plan to drive revenue and profit growth is fully completed. Subsequent to 30 September 2019 banking covenants were breached and the Group has worked closely with its banking partners to manage this risk and to also ensure that sufficient cash is available to allow the Group to continue its investment and restructuring programme;
- **Finance risk:** the availability of sufficient working capital to allow the Group to continue its investment and restructuring programme. The Group is working closely with its investors and banks to ensure access to adequate funding;
- **Finance risk:** interest rate movements impacting Group bank debt. This is mitigated by the use of financial instruments such as interest rate swaps;
- **Finance risk:** credit risk attached to trade receivables, mitigated by credit checks on new customers. Management considers the balance sheet value of trade receivables reflects the recoverable amount;
- **Capability risk:** failure to retain key skilled resources in an increasingly competitive market leading to reputation damage through compromise on quality and the timeliness of delivery. This is mitigated by the investment in HR initiatives, incentive plans and the development of the working environment; and
- **Infrastructure risk:** damage to revenue and reputation through service failure or a security breach. In mitigation, SSP has continued to invest heavily in its managed service infrastructure to ensure the hosting environment, data security procedures and disaster recovery plan are as robust as possible. The Company has also signed a contract with a leading international group to transition to a Cloud-based infrastructure.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a number of potential financial risks including cash flow risk, credit risk, liquidity risk, currency risk and interest rate risk. The use of financial derivatives to manage these risks is approved by the Board of Directors. The Group does not use derivative financial instruments for speculative purposes.

CASH FLOW / INTEREST RATE RISK

The Group's activities expose it to the financial risks of changes in interest rates. The Group uses interest rate contracts to hedge these exposures. The latest contract expired in June 2019 and although a new contract has not been executed at the time of signing these accounts, the directors are monitoring this risk closely.

STRATEGIC REPORT (continued)

CREDIT RISK

The Group's principal financial assets are bank balances and cash, trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

LIQUIDITY RISK

The Group held cash of £4.0m at 30 September 2019 (31 March 2018: £7.4m) as well as an undrawn revolving credit facility of £nil (2018: £8.0m). There is a risk that there will be insufficient cash in the short term to cover financing commitments and to fund ongoing operations and future developments, mitigated by an ongoing focus on working capital management, whilst working closely with the Group's investors and lenders to complete the transaction referred to above, where contracts have already been exchanged.

CURRENCY RISK

The Group undertakes activities in a number of territories and certain transactions are denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are monitored on an on-going basis with the option of placing forward contracts.

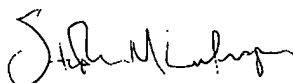
BREXIT RISK

Although the Group continues to monitor the UK's implementation of Brexit, based on the latest available information at the time of signing these financial statements, we do not believe that Brexit will substantially impact the Group's operations.

SUPPLIER PAYMENT POLICY

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment. The Group's creditor days at 30 September 2019 are 120 days (31 March 2018: 152 days).

Approved by the Board of Directors
and signed on behalf of the Board



S Lathrope
Director
28 December 2020

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Group together with the financial statements and auditor's report for the period ended 30 September 2019.

In accordance with section 414C(11) the Company has elected to present information in respect of future developments of the business, research and development activities and the Company's use of financial instruments in the Strategic Report rather than the Directors' Report.

The directors who served throughout the year and subsequently were as follows, except as noted:

S Lathrope
J Sadler
C Pennington (appointed 4 September 2018)
D Alderson
A Davison (resigned 11 December 2020)
C Hurley
L Walker (resigned 31 May 2018)
S Cargill (resigned 2 May 2018)

RESULTS AND DIVIDENDS

The loss in the year after tax amounted to £114.4m (2018: £38.3m). The directors do not recommend the payment of a dividend on the Ordinary shares either in the year or subsequently (2018: £nil).

Details of the issued share capital are shown in note 24.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The Group contributed £3,000 (2018: £4,000) to charities. Contributions were to the Group's nominated charities, African Revival and The Princes Trust, and other community causes local to the Group's offices. There were no political contributions in the year.

DISABLED EMPLOYEES

We genuinely believe that diversity makes us stronger as a team. Therefore applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. We have a diversity working party and partnerships with a number of external organisations to enhance the working environment for all employees.

EMPLOYEE CONSULTATION

The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, monthly business updates, bi-monthly engagement surveys and Company newsletters. Employee representatives are consulted on a wide range of matters affecting their current and future interests.

INTERNAL CONTROL

The directors are responsible for ensuring that the Group maintains a system of internal controls to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. The directors have continued to review the effectiveness of the Group's financial and non-financial controls including consideration of a report from the external auditor on matters identified in the course of its statutory audit work. On the basis that such a system can only provide reasonable but not absolute assurance against material misstatement or loss and that it relates only to the needs of the business at the time, the system as a whole was found by the directors at the time of approving the financial statements to be appropriate to the size of the business.

DIRECTORS' REPORT (continued)

GOING CONCERN

In April 2018, the directors entered into negotiations with its Group lenders and investors to reset banking covenants and to provide further funds to support the business during a period of significant investment in its products and infrastructure. On 27 November 2018, an agreement was reached with the banks to reset covenants until the end of the loan term with a further option to roll some interest payments. The revolving facility was reset to £6.0m. The investors provided a further £7.6m of funds and management £0.3m of funds through the issue of additional loan notes.

In August 2019, when reviewing forecasts the Directors noted a risk that the Group would breach its revised banking covenants and also experience liquidity issues. It was also noted that the B1/B2 facilities and RCF facility were set to expire in June 2021 and May 2021 respectively.

As a result, the Directors entered into negotiations with its investors and lenders to find a solution to these issues.

To assist with liquidity during this period the lenders deferred interest and loan repayments on the B1 facility from March 2020 and on the B2 facility from December 2019. Lenders also provided forbearance letters in respect of the breach of EBITDA covenants at certain quarters during 2020.

At the date of signing these accounts the Group has exchanged contracts on the sale of the entire share capital of SSP Midco 2 Limited and its subsidiary undertakings by SSP Topco Limited to Volaris Group UK Holdco Limited. Completion of the transaction is expected in January 2021 or shortly thereafter following receipt of FCA approval.

Subject to the transaction completing, proceeds from the sale of shares and from the issue of £65m of loan notes by SSP Midco 2 Limited will be used to repay the RCF facility and accrued interest held in SSP Limited and to part pay the B1/B2 facility and accrued interest held in SSP Midco 1 Limited. The remaining bank debt will be written off by the lenders.

The loan notes, which will be guaranteed by Constellation Software Inc, the ultimate parent company of Volaris Group UK Holdco Limited, incur cash interest of 1% and accrue interest at 4.75% with principal and accrued interest repayable after 7 years

Forecasts indicate that this reduced interest burden will allow the Group to pay its liabilities as they fall due for at least 12 months from the date of signing these accounts.

Constellation Software Inc is a publicly traded group of vertical market software companies generating revenues of USD 3,490 million and cash flows from operations of USD 708 million in the year to 31 December 2019. Constellation Software Inc operates a "buy and hold" philosophy, with the intention of running businesses as going concerns over the long term.

The forecasts referred to above cover the period to March 2025, were prepared to support the transaction process and have been subject to third party review throughout the process. An initial version submitted to banks and potential investors in November 2019 has been used as the basis for impairment calculations as detailed in note 12 to these financial statements. These forecasts were later adjusted to reflect the impact of the Covid-19 pandemic on the Group, and it is these later forecasts that supported the transaction, adjusted for future loan note interest and an updated opening cash position, that form the basis of the going concern assessment (see Future Prospects section of Strategic Report).

The Directors have highlighted that, as the transaction has not completed at the date of signing these financial statements, material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and meet its liabilities as they fall due. However, as a result of the exchange of contracts on the above transaction, these financial statements have been prepared on a going concern basis. As such, in these financial statements, no adjustments have been made to reflect any write down in the value of assets that would be required should the Group be unable to continue as a going concern. If the transaction is not completed and an alternative funding agreement is not reached with lenders, the business will not be able to meet its liabilities as they fall due and the value of assets including investments and intercompany receivables may not be realisable.

DIRECTORS' REPORT (continued)

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

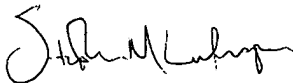
- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



S Lathrope
Director
28 December 2020

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing the Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSP MIDCO 2 LIMITED

Independent auditor's report to the members of SSP Midco 2 Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of SSP Midco 2 Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2019 and of the group's loss for the 18 month period then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flow; and
- the related notes 1 to 28 of the Group and 1 to 11 of the parent company.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that if the proposed sale of the entity does not complete post signing, it could create the need for additional funding that is as yet not committed. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Independent auditor's report to the members of SSP Midco 2 Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, 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 other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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, the directors are responsible for assessing the group's and the parent 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 unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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, 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 (UK) will always detect a material misstatement when it exists. Misstatements can 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 taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent auditor's report to the members of SSP Midco 2 Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Matthew Hughes BSc (Hons) ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

28 December 2020

SSP Midco 2 Limited

CONSOLIDATED INCOME STATEMENT 18 months ended 30 September 2019

	Note	18 months to 30 Sept 2019 £'000	Year to 31 Mar 2018 £'000
Revenue	4	111,773	85,273
Cost of sales		(66,803)	(52,322)
Gross profit		<u>44,970</u>	<u>32,951</u>
Operating expenses			
– administration expenses		(24,635)	(14,506)
– goodwill impairment	5	(67,196)	(25,000)
– intangible asset amortisation / impairment	5	(21,076)	(13,632)
– reorganisation and non-recurring costs	5	(2,973)	(1,948)
Total operating expenses		<u>(115,880)</u>	<u>(55,086)</u>
Operating loss		<u>(70,910)</u>	<u>(22,135)</u>
Investment revenue	8	39	91
Other gains and losses	9	(195)	1,460
Finance costs	10	(42,539)	(21,469)
Loss before taxation		<u>(113,605)</u>	<u>(42,053)</u>
Taxation	11	(833)	3,777
Loss for the year transferred from reserves		<u>(114,438)</u>	<u>(38,276)</u>

Revenue and operating profit are all derived from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
18 months ended 30 September 2019

	18 months to 30 Sept 2019 £'000	Year to 31 Mar 2018 £'000
Items that may subsequently be reclassified to the consolidated income statement		
Exchange differences on translation of foreign operations	(468)	(636)
Loss for the year	<u>(114,438)</u>	<u>(38,276)</u>
Total comprehensive expense for the year	<u><u>(114,906)</u></u>	<u><u>(38,912)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2019

	Note	30 Sept 2019 £'000	31 Mar 2018 £'000
Non-current assets			
Goodwill	12	22,818	90,014
Other intangible assets	13	78,050	88,261
Property, plant & equipment	14	5,313	10,413
Right of use assets	14	7,286	-
Deferred tax asset	11	2,981	4,455
		<u>116,448</u>	<u>193,143</u>
Current assets			
Inventories	16	1	63
Trade and receivables	17	13,483	17,861
Contract assets	4	8,347	5,270
Derivative financial instruments	23	-	158
Corporation tax		124	-
Cash and cash equivalents	18	4,033	7,361
		<u>25,988</u>	<u>30,713</u>
Total current assets		25,988	30,713
Current liabilities			
Trade and other payables	19	158,270	141,041
Contract liabilities	4	4,832	6,816
Corporation tax		-	19
Borrowings	20	2,536	504
Lease liabilities	21	2,353	323
		<u>167,991</u>	<u>148,703</u>
Total current liabilities		167,991	148,703
Net current liabilities		(142,003)	(117,990)
Non-current liabilities			
Borrowings	20	138,420	127,360
Lease liabilities	21	5,891	336
Provisions	22	463	531
Deferred tax liabilities	11	9,836	12,599
		<u>154,610</u>	<u>140,826</u>
Total non-current liabilities		154,610	140,826
Net liabilities		(180,165)	(65,673)
Equity			
Share capital	24	198	198
Translation reserve	25	(105)	363
Retained losses	25	(180,258)	(66,234)
		<u>(180,165)</u>	<u>(65,673)</u>
Equity attributable to the owners of the Company		(180,165)	(65,673)

These financial statements were approved by the Board of Directors and authorised for issue on 28 December 2020. They were signed on its behalf by:



C Pennington
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
18 months ended 30 September 2019

Equity attributable to equity holders of the Company

	Note	Share capital £'000	Translation reserve £'000	Retained losses £'000	Total £'000
At 1 April 2017		198	999	(27,958)	(26,761)
Loss for the year		-	-	(38,276)	(38,276)
Other comprehensive expense		-	(636)	-	(636)
Total comprehensive income/(expense) for the year		-	(636)	(38,276)	(38,912)
At 31 March 2018		198	363	(66,234)	(65,673)
Opening reserves adjustment					
- IFRS 9		-	-	(69)	(69)
- IFRS 15		-	-	483	483
- IFRS 16		-	-	-	-
Adjusted balance at 1 April 2018		198	363	(65,820)	(65,259)
Loss for the year		-	-	(114,438)	(114,438)
Other comprehensive expense		-	(468)	-	(468)
Total comprehensive expense for the year		-	(468)	(114,438)	(114,906)
At 30 September 2019		198	(105)	(180,258)	(180,165)

SSP Midco 2 Limited

CONSOLIDATED STATEMENT OF CASH FLOWS 18 months ended 30 September 2019

		18 months to 30 Sept 2019 £'000	Year to 31 Mar 2018 £'000
	Note		
Net cash flows from operating activities	26	2,792	9,491
Investing activities			
Purchases of property, plant and equipment		(555)	(3,619)
Sale of property, plant and equipment		5	-
Purchase of intangible assets		(15)	(1,131)
Expenditure on product and infrastructure development		(10,896)	(7,407)
Net cash used in investing activities		<u>(11,461)</u>	<u>(12,157)</u>
Financing activities			
Repayment of bank loans		(1,300)	(1,328)
Banking reset fees		(396)	-
Issue of bank loans		4,000	2,000
Issue of loan by parent undertaking		7,825	-
Repayment of lease liabilities		(4,774)	(345)
Net cash from financing activities		<u>5,355</u>	<u>327</u>
Net decrease in cash and cash equivalents		(3,314)	(2,339)
Cash and cash equivalents at beginning of period		7,361	10,160
Effect of foreign exchange rate changes		(14)	(460)
Cash and cash equivalents at end of period	18	<u>4,033</u>	<u>7,361</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
18 months ended 30 September 2019

1. GENERAL INFORMATION

SSP Midco 2 Limited is a private company Limited by shares and is incorporated in England, United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the Strategic Report on page 2.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. This is also the currency that these financial statements are presented in. Foreign operations are consolidated in accordance with the policies set out in note 2.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared under the historical cost convention as modified by financial instruments recognised at fair value.

New accounting standards adopted by the Group

There have been significant changes to IFRSs that impact the Group's financial statements

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

IFRS 9 Financial Instruments

IFRS 15 Revenue from contracts with Customers

Annual Improvements to IFRSs 2014-2016 Cycle

Amendments to IFRS 4 Insurance Contracts

Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration

Amendments to IAS 40 Transfer of Investment Property

Amendment to IFRS 2 Share-Based Payments

With the exception of the adoption of IFRS 9 and IFRS 15, the adoption of the above standards and interpretations has not led to any changes to the Group's accounting policies nor had any other material impact on the financial position of the Group. The impact of the adoption of IFRS 9 and IFRS 15 is detailed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements the following new and revised IFRSs that have been issued but are only mandatorily effective for accounting periods that begin on or after 1 January 2019:

IFRS 16 Leases

Prepayment Features with Negative Compensation – Amendments to IFRS 9

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28

Annual improvements to IFRS Standards 2015 – 2017 Cycle

IFRIC 23 Uncertainty over Income Tax Treatments

The directors have decided to early adopt IFRS 16 in these financial statements and the impact is detailed below. The directors do not expect that the adoption of the other Standards listed above will have a material impact on the financial statements of the Group in future periods.

Impact of adoption of new standards

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: *Recognition and Measurement*. This standard is effective for periods commencing on or after 1 January 2018 and therefore has been implemented with effect from 1 April 2018. The Group has elected to adopt the modified transition approach and has therefore adjusted opening retained earnings for the impact of IFRS 9 on the opening bad debt provision and has not restated the prior period comparatives.

The standard introduces new requirements for:

- the classification and measurement of financial assets and financial liabilities;
- the impairment of financial assets; and
- general hedge accounting

For the Group there is no impact on the classification of financial assets and liabilities. In relation to the debt modification in the year however, the Group must adjust the carrying amount for the original debt by the net present value of changes to the future contractual cash flows immediately through the income statement. This adjusted carrying amount is then amortised over the remaining term of the modified debt using the original effective interest rate. The impact on the income statement and the balance sheet for the 18 months ended 30 September 2019 is to increase both finance costs and borrowings by £3,836,000.

IFRS 9 establishes a new approach for the impairment of loans and receivables using an expected loss model that focuses on the risk that a loan will default rather than whether a loan has been incurred. The impact on the income statement for the 18 months ended 30 September 2019 is to increase bad debt expense by £142,000. Opening reserves at 1 April 2018 fall by £69,000 and bad debt provision at 30 September 2019 increases by £211,000.

The Group had two derivative financial instruments as at 1 April 2018, both of which expired in the period. There is no impact from the adoption of IFRS 9 in respect of these.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations. This standard is effective for periods commencing on or after 1 January 2018 and therefore has been implemented with effect from 1 April 2018. The Group has elected to adopt the modified retrospective approach without restatement of comparatives.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact of adoption of new standards (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from the following major sources:

Sale of software licenses with support services (Support revenue), business and technical consultancy services (Professional services revenue) and fees for transactions processed on behalf of customers (Transaction revenue).

A comprehensive review of live contracts has been undertaken in the year, covering all revenue streams and product types. The directors have concluded that:

- There are no contracts during the year where professional services and support revenues should be treated as a single performance obligation. As a result, Professional services revenue is recognised on a stage of completion basis and Support revenue is recognised over the term of the contract;
- There are no contracts during the year, other than for perpetual and unsupported contracts, where the licence element should be recognised as a separate performance obligation to the support element;
- There are no contracts in the year with a significant financing component requiring recognition. A number of contracts do include long term payment plans with interest already applied;
- As there is no recent history of regular service credits there is no requirement to treat any element of the transaction price as variable in this respect;
- There are no instances of contract modifications being outside of the provisions of IFRS 15; and
- The element of staff commissions relating to the support element of a contract should be recognised over that term.

The application of IFRS 15 has not had a significant impact on the financial position or performance of the Group other than the spreading of commissions over the term of the contract that they relate to and the spreading of a settlement over related performance obligations rather than upfront recognition. This has resulted in an increase in admin expenses in the period of £50,000 along with a decrease in revenue of £391,000. Opening reserves at 1 April 2018 increase by £483,000 and prepayments and deferred income at 30 September 2019 increase by £433,000 and £391,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact of adoption of new standards (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The Group's accounting policy for the recognition of revenue for its different revenue streams is disclosed in detail below.

IFRS 16 Leases

IFRS 16 replaces IAS 17 'Leases' and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet). The Group has elected not to recognise right of use assets and lease liabilities for short term leases and leases of low value assets, and lease payments associated with these assets will be recognised as an expense on a straight-line basis. Right of use assets recognised by the Group comprise property, motor vehicles and equipment.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. Group internal rates of return are 6% for property and 7.7% for plant and machinery. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected because operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognised an asset and a related finance lease liability for the lease arrangement, the directors do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

For transition purposes the Group has decided to apply the modified retrospective approach. Following this method, the Group has not restated any prior year comparative figures, but has chosen to measure the initial right of use asset at an amount equal to the lease liability as at 1 April 2018 (adjusted for any rent prepayments, accruals or lease incentives as at 1 April 2018) for all lease contracts except those previously classified as finance lease under IAS 17.

There is a significant impact on the balance sheet as at 31 March 2018 and on the income statement for the 18 months ended 30 September 2019. At 31 March 2018 a right of use asset of £9,552,000 and a lease liability of £10,129,000 are created. EBITDA in the year has increased by £4,258,000 as operating lease costs reduced. Depreciation has increased by £3,688,000 and interest expense has increased by £949,000

Loss for the year has increased by £379,000.

The reconciliation between operating lease commitments disclosed in the consolidated annual accounts of the Group as at 31 March 2018, and the lease liabilities recognised at 1 April 2018, in the consolidated statement of financial position at that date is the following:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact of adoption of new standards (continued)

IFRS 16 Leases

	2018
	Number
	£'000
Operating lease commitments at 31 March 2018 as disclosed in the Group's consolidated financial statements	9,724
Effect of discounting	(613)
	<hr/>
Discounted using the Group's incremental borrowing rates at 31 March 2018	9,111
Finance lease liabilities recognised at 31 March 2018	687
Residual value guarantees	(424)
Recognition exemption for short-term leases and leases of low value	(10)
Data centre charges not included in operating lease commitments at 31 March 2018	1,453
	<hr/>
	<u>10,817</u>

Going concern

In April 2018, the directors entered into negotiations with its Group lenders and investors to reset banking covenants and to provide further funds to support the business during a period of significant investment in its products and infrastructure. On 27 November 2018, an agreement was reached with the banks to reset covenants until the end of the loan term with a further option to roll some interest payments. The revolving facility was reset to £6.0m. The investors provided a further £7.6m of funds and management £0.3m of funds through the issue of additional loan notes.

In August 2019, when reviewing forecasts the Directors noted a risk that the Group would breach its revised banking covenants and also experience liquidity issues. It was also noted that the B1/B2 facilities and RCF facility were set to expire in June 2021 and May 2021 respectively.

As a result, the Directors entered into negotiations with its investors and lenders to find a solution to these issues.

To assist with liquidity during this period the lenders deferred interest and loan repayments on the B1 facility from March 2020 and on the B2 facility from December 2019. Lenders also provided forbearance letters in respect of the breach of EBITDA covenants at certain quarters during 2020.

At the date of signing these accounts the Group has exchanged contracts on the sale of the entire share capital of SSP Midco 2 Limited and its subsidiary undertakings by SSP Topco Limited to Volaris Group UK Holdco Limited. Completion of the transaction is expected in January 2021 or shortly thereafter following receipt of FCA approval.

Subject to the transaction completing, proceeds from the sale of shares and from the issue of £65m of loan notes by SSP Midco 2 Limited will be used to repay the RCF facility and accrued interest held in SSP Limited and to part pay the B1/B2 facility and accrued interest held in SSP Midco 1 Limited. The remaining bank debt will be written off by the lenders.

The loan notes, which will be guaranteed by Constellation Software Inc, the ultimate parent company of Volaris Group UK Holdco Limited, incur cash interest of 1% and accrue interest at 4.75% with principal and accrued interest repayable after 7 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)

Forecasts indicate that this reduced interest burden will allow the Group to pay its liabilities as they fall due for at least 12 months from the date of signing of these accounts.

Constellation Software Inc is a publicly traded group of vertical market software companies generating revenues of USD 3,490 million and cash flows from operations of USD 708 million in the year to 31 December 2019. Constellation Software Inc operates a "buy and hold" philosophy, with the intention of running businesses as going concerns over the long term.

The forecasts referred to above cover the period to March 2025, were prepared to support the transaction process and have been subject to third party review throughout the process. An initial version submitted to banks and potential investors in November 2019 has been used as the basis for impairment calculations as detailed in note 12 to these financial statements. These forecasts were later adjusted to reflect the impact of the Covid-19 pandemic on the Group, and it is these later forecasts that supported the transaction, adjusted for future loan note interest and an updated opening cash position, that form the basis of the going concern assessment (see Future Prospects section of Strategic Report).

The Directors have highlighted that, as the transaction has not completed at the date of signing these financial statements, material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and meet its liabilities as they fall due. However, as a result of the exchange of contracts on the above transaction, these financial statements have been prepared on a going concern basis. As such, in these financial statements, no adjustments have been made to reflect any write down in the value of assets that would be required should the Group be unable to continue as a going concern. If the transaction is not completed and an alternative funding agreement is not reached with lenders, the business will not be able to meet its liabilities as they fall due and the value of assets including investments and intercompany receivables may not be realisable.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 September 2019. Control is achieved where the Company has power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal Groups) that are classified as held for resale in accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

exceeds the cost of the business combination, the excess is recognised immediately in the consolidated income statement.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the purchase consideration over the Group's interest in the fair value of the identifiable assets and liabilities acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently where there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Revenue recognition

The Group derives its revenues principally from the sale of software licenses with support services (Support revenue), business and technical consultancy services (Professional services revenue) and fees for transactions processed on behalf of its customers (Transaction revenue).

Revenue in respect of goods and services supplied in the normal course of business is measured at the fair value of consideration received or receivable, net of discounts, VAT and other sales related taxes.

The Group has applied IFRS 15 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 (applicable before 1 April 2018) are disclosed separately below. The impact of the adoption of IFRS 15 is disclosed earlier in this note under the impact of adoption of new standards.

The Group recognises revenue to depict the transfer of promised good and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the 5 step approach under IFRS 15 described above is applied to each individual contract.

Software licence and support contracts

It is not Group policy to sell licence and support separately although perpetual licences are sometimes sold where unsupported access on legacy systems is required.

Licence and support revenues are recognised as a single performance obligation over the term of the contract on a right to use basis.

Where the contract also includes hosting services, these are recognised on a right to use basis.

Unsupported perpetual licences are recognised on a right to access basis from when the licence is made available.

Where the contract includes initial or set up fees these fees are recognised over the contract term where the customer does not place any value on this set up activity in isolation of continuing services.

Where contracts include provisions for service credits, the transaction price is amended to reflect any history of regular credits arising.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Professional services contracts

Professional services are recognised as distinct from licence and support.

Where the Group has an enforceable right to payment for performance, revenue is recognised on a stage of completion basis.

Expected losses on contracts are recognised immediately.

Contract modifications – settlement agreements

Where there are no further obligations on the Group, revenue is recognised on the earlier of signature of the settlement agreement or when receipt of payments is highly probable. Where there are ongoing Group obligations the provisions of IFRS 15 contract modifications are applied.

Significant financial component in contracts

Where there is a significant financial component, revenue is recognised at an amount that reflects the price the customer would have paid in cash when or as the service was transferred. A practical expedient is applied where the finance period is less than one year.

Transaction revenue

Transaction revenue is recognised as transactions are created and the Group has an enforceable right to payment.

Practical expedient

The Group applies the practical expedient allowed under IFRS15 and does not disclose information about remaining performance obligations where the original expected duration is one year or less.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is provided so as to write-off the cost or valuation of assets over their estimated useful lives, using the straight-line method.

The useful lives used to calculate depreciation are as follows:

Plant and equipment	3 – 10 years
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Right of use assets are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Intangible assets

Separately identifiable intangible assets that are acquired in a business combination are recognised at their fair value at the date of acquisition, and subsequently amortised over their expected useful lives, using the straight-line method. Intangible assets and related average useful economic lives are as follows:

Technology-related (core technology and specific in-house software)	10 years
Marketing-related (product brands)	10 years
Customer-related (customer contracts and customer relationships)	10 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Third party software licenses

Third party software licenses are measured initially at purchase cost and amortised on a straight line basis over their estimated useful lives. The average useful economic life of third party software licenses is 3 years.

Internal software research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on software development is capitalised only if the expenditure relates to a separately identifiable asset, it is probable that incremental future economic benefits will flow, the technical and commercial feasibility of the asset has been established, and the costs incurred in developing it can be measured reliably. Amortisation of capitalised software development expenditure is not recognised until the product is brought into use. Amortisation is charged on a straight line basis over the estimated useful life of the product. The average useful economic life of capitalised software development expenditure is 10 years.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs include those incurred in bringing each product to its present location and condition. Net realisable value is based on an estimate of selling price less further costs expected to be incurred to completion and disposal and stock is accounted for on a first in first out ("FIFO") basis.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

The individual financial statements of each Group Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group Company are expressed in pounds sterling, which is the functional currency of the Parent Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expense in the period in which the operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Retirement benefit costs

The Group operates defined contribution retirement benefit schemes for eligible employees. Contributions are charged as an expense to the income statement as they become payable in accordance with scheme rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. The details of accounting policies under IAS 17 are disclosed separately below and the impact of changes is disclosed earlier in this note under the impact of adoption of new standards

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset. The asset should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

Right of use assets are included in property, plant and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Lease payments include fixed and variable payments, amounts expected to be paid under a residual value guarantee and lease payments in an optional renewal period if the Group is reasonably certain to exercise that option.

Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications or changes in estimates around residual value guarantees or renewal options. When the lease liability is remeasured, a corresponding adjustment is made to the right of use asset or is recorded in profit and loss if the carrying value of the right of use asset has been reduced to zero.

Lease liabilities split between current and non-current are set out in note 21.

Operating profit

Operating profit is stated after charging reorganisation and non-recurring costs and acquisition expenses but before investment revenues and finance costs.

Financial instruments

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

Classification and subsequent measurement

Financial assets

Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets (30 September 2019 £nil, 31 Mar 2018 £94,000)

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances with banks.

Subsequent measurement and gains and losses

Financial assets at FVTPL – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost – these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent they meet the following two conditions:

They include no contractual obligations on the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

Where the instrument may or will be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or it is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Financial liabilities are recognised as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Impairment

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (ie the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured at 12-month ECL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available within undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rate risk, notably through interest rate collar and interest rate swap arrangements. Further details of derivative financial instruments are disclosed in note 23 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently measured at their fair value at each balance sheet date. The fair value of the Group's interest rate collar and interest rate swap derivative financial instruments is based upon the present value of future estimated cash flows discounted based upon applicable yield curves derived from quoted interest rates. The Group does not adopt hedge accounting and changes in the fair value of derivative financial instruments are recognised in the income statement as they arise. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Vendor loan

The Group's financial liabilities at 31 March 2018 include a vendor loan (containing an embedded derivative) in relation to the acquisition of SSP Asia Pacific Pty Limited by Holdgrove Limited on 30 May 2008. Amounts repayable under the terms of the loan agreement are contingent upon the future revenue performance of the Group's Select product until 30 May 2018. The amount of the vendor loan is measured at its fair value, which is based upon the present value of future estimated cash flows discounted at a rate of 2.7%. Future estimated cash flows are based on management's estimate of the future revenue performance of the Select product. This is measured at fair value through profit or loss. As the loan agreement terminated at 30 May 2018 there is no financial liability relating to the vendor loan at 30 September 2019.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered relevant. Actual results may differ from these estimates.

The critical judgements that have been made and the key sources of estimation uncertainty that have the most significant effect on the amounts recognised in the consolidated financial statements are set out below.

Critical accounting judgements

Revenue recognition (Note 2)

Where the supply of goods and services to a customer includes multiple elements comprising more than one of software licenses, installation, consultancy, support, training, service and maintenance elements, the directors make judgements as to the amount and timing of revenue recognition by reference to the specific customer contract, the nature of services rendered, delivery of services and the Group's accounting policies in relation to revenue recognition.

Impairment of goodwill (Note 12)

The Group assesses annually whether goodwill has suffered any impairment. Impairment testing requires assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows using cash flow projections which have been discounted at an appropriate rate. Assumptions have to be made in respect of highly uncertain matters including management expectations of growth in EBITDA, timing and quantum of capital expenditure, long term growth rates and the selection of discount rates. Goodwill totals £22.8m (2018: £90.0m) following an impairment charge of £67.2m in the 18 month period to 30 September 2019 (year to 31 March 2018: £25.0m) which was identified during the Group impairment review.

Going concern (Note 2)

As set out note 2, the Directors' assessment that the transaction to sell the business will complete and provide liquidity headroom to the business is a key in determining whether these financial statements should be prepared on a going concern basis. The directors consider the application of the going concern basis of preparation to the financial statements to be a key area of uncertainty.

Key sources of estimation uncertainty

Recoverability of other intangible assets (Note 13)

The directors have considered the recoverability of the Group's internally generated intangible assets, comprising capitalised development expenditure in connection with its core products, and its other intangible assets, comprising core technology and specific in-house software, product brands, customer contracts and customer relationships, based on value-in-use calculations that require the use of estimates. In particular, the directors have made judgements as to anticipated revenues from the core products having regard to their technical and commercial progress. The directors also have to estimate the useful economic life of intangible assets. Intangible assets total £78.1m (2018: £88.3m) with an impairment charge of £0.2m (2018: £0.4m) made in the 18 months to 30 September 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Taxation (Note 11)

The directors use their judgement in determining the extent to which deferred tax assets should be recognised. To the extent that such assets are recognised, they are only carried in the consolidated statement of financial position when it is considered probable that they will be recovered. This requires an assessment of the expected future profits of relevant Group businesses.

Provisions and contingent liabilities (Note 22)

The directors use their judgement and the judgement of legal advisors in measuring and recognising provisions and the exposure to contingent liabilities relating to pending litigation or other outstanding claims subject to negotiated settlement. Provisions total £463,000 at 30 September 2019 (31 March 2018: £531,000).

4. REVENUE

The Group's revenue is derived entirely from the provision of software and services to its customers, with the exception of investment revenue disclosed at note 8 to the consolidated financial statements.

Revenue from contracts with customers:

By geographical area	18 months to Sept 2019 £'000	Year to Mar 2018 £'000
United Kingdom	85,066	70,205
Africa	9,757	3,630
Asia Pacific	13,040	9,424
Other	3,910	2,014
	111,773	85,273
By revenue stream	18 months to Sept 2019 £'000	Year to Mar 2018 £'000
Revenue from contracts with customers:		
Professional services	32,731	25,742
Support	54,158	37,294
Transactions	24,884	22,237
	111,773	85,273
Timing of transfer of goods or services	18 months to Sept 2019 £'000	Year to Mar 2018 £'000
Products and services transferred at a point in time	32,731	25,742
Products and services transferred over time	79,042	59,531
	111,773	85,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

4. REVENUE (continued)

The following table provides information about opening and closing receivables, contract assets and contract liabilities from contracts with customers

	30 Sept 19	31 Mar 18
	£'000	
Timing of transfer of goods or services		
Trade receivables	7,733	9,223
Contract assets	8,347	5,270
Contract liabilities	(4,832)	(6,816)

Contract assets primarily relate to the rights to consideration for work completed but not billed at the reporting date. Balances are provided for in full where it is anticipated that invoices will not be issued. It is anticipated that all unprovided amounts will be invoiced within 12 months.

Contract assets are transferred to receivables when rights become unconditional.

Contract assets also include amounts in relation to payment plans agreed with customers. Contract balances include £5,007,000 (2018: £3,358,000) in relation to payment plans agreed with customers. Amounts due in more than one year are £2,039,000 (2018: £2,256,000).

Contract liabilities relate to advance consideration received from customers, primarily in relation to annual support contracts.

Movement in the expected credit loss provision:

	£'000
Balance at 31 March 2018	1,890
Provision utilised	(1,422)
Additional provision	705
	<hr/>
Balance at 30 September 2019	<u>1,173</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

5. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	18 months to Sept 2019 £'000	Year to Mar 2018 £'000
Depreciation of property, plant and equipment		
- owned plant and equipment	4,957	3,345
- finance leased assets	464	310
- right of use assets	3,691	-
Goodwill impairment (note 12)	67,196	25,000
Amortisation (excluding development costs)	17,344	11,694
Operating lease rentals		
- land and buildings	-	2,036
- plant and equipment	-	586
- short term and low value leases (exempt under IFRS 16)	10	-
Cost of inventories recognised as an expense	12	78
Impairment loss recognised on trade receivables	(707)	419
Staff costs (note 7)	58,836	40,703
Research and development costs:		
- current year expenditure	5,465	4,860
- amortisation of development costs	3,498	1,555
- impairment of development costs	234	383
Net foreign exchange losses	318	155
Re-organisation and non-recurring costs	2,973	1,948

Re-organisation costs include redundancy costs, including payments to affected personnel made during the notice period, costs incurred from running existing and cloud hosting, as well as other costs treated as exceptional in the management accounts.

6. AUDITOR'S REMUNERATION

The analysis of auditor's remuneration is as follows:

	Continuing operations 18 months to Sept 2019 £'000	Year to Mar 2018 £'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	17	17
Fees payable to the Company's auditor and their associates for other services to the Group		
- The audit of the Company's subsidiaries pursuant to legislation	432	190
Total audit fees	449	207
- Audit related assurance services	-	3
- Other services	202	-
- Tax services	124	32
- Other taxation advisory services	167	101
Total non-audit fees	493	136

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

7. STAFF COSTS

The average monthly number of employees (including executive directors) was as follows:

	18 months to Sept 2019 £'000	Year to Mar 2018 £'000
Production	710	687
Administration	72	86
	<u>782</u>	<u>773</u>

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	51,468	35,408
Social security costs	4,358	3,198
Other pension costs	3,010	2,097
	<u>58,836</u>	<u>40,703</u>

The Group operates defined contribution retirement benefit schemes for eligible employees. Contributions of £3,010,000 (2018: £2,097,000) are charged as an expense to the income statement as they become payable in accordance with scheme rules. At 30 September 2019, contributions of £203,000 (2018: £nil) due in respect of the current reporting period had not been paid over to the schemes.

Five (2018: five) of the directors were remunerated by the Group during the year. The aggregate remuneration of these directors for the year was £1,739,000 including £281,000 compensation for loss of office (2018: £1,646,000) and that of the highest paid director was £734,000 (2018: £476,000). Pension contributions of £14,000 (2018: £25,000) were paid in respect of two directors. Pension contributions were not paid in respect of the highest paid director. Three (2018: three) directors are remunerated by Lloyds Development Capital and one by Scottish Equity Partners, and their costs for their services are reflected within the fees disclosed in note 27 to the financial statements.

8. INVESTMENT REVENUE

	18 months to Sept 2019 £'000	Year to Mar 2018 £'000
Bank interest receivable	<u>39</u>	<u>91</u>

9. OTHER GAINS AND LOSSES

	18 months to Sept 2019 £'000	Year to Mar 2018 £'000
Movement in the fair value of other loans	(131)	848
Movement in the fair value of financial derivative instruments – interest rate collar and interest rate swap	<u>(64)</u>	<u>612</u>
	<u>(195)</u>	<u>1,460</u>

A loss of £0.1m (2018: gain of £0.8m) from the movement in the fair value of the other loans has been taken to the income statement as set out in note 23.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

10. FINANCE COSTS

	18 months to Sept 2019 £'000	Year to Mar 2018 £'000
Interest on bank loans	17,554	9,882
IFRS 9 transitional adjustment (note 2)	3,836	-
Interest on lease liabilities	976	38
Interest on intercompany loans	18,805	10,724
Amortisation of debt issue costs	1,368	825
	<u>42,539</u>	<u>21,469</u>

11. TAXATION

The Group tax charge recognised in the income statement comprises:

	18 months to Sept 2019 £'000	Year to Mar 2018 £'000
Corporation tax		
- current year UK corporation tax	(274)	(184)
- current year overseas corporation tax	(1,714)	(652)
- prior year UK corporation tax	(170)	-
- prior year overseas corporation tax	14	-
	<u>(2,144)</u>	<u>(836)</u>
Total corporation tax	(2,144)	(836)
Deferred tax		
- current year deferred tax	1,290	4,613
- prior year deferred tax	21	-
	<u>1,311</u>	<u>4,613</u>
Total deferred tax	1,311	4,613
Total tax on loss on ordinary activities	<u>(833)</u>	<u>3,777</u>

Corporation tax is calculated at 19% (2018: 19%) of the estimated assessable loss for the year. The charge for the year can be reconciled to the loss per the income statement as follows:

	2019	%	2018	%
Loss on ordinary activities before taxation	<u>(113,605)</u>		<u>(42,053)</u>	
Tax using the UK corporation tax rate	(21,585)		(7,990)	
Expenses not deductible for tax purposes	19,456		14,494	
Impact of different overseas tax rates	(589)		(206)	
Prior year adjustments	1,885		-	
Recognition of tax losses	-		(2,521)	
	<u>(833)</u>		<u>3,777</u>	
Total tax in income statement	(833)	0.7%	3,777	9.0%

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current reporting period. Deferred tax assets and liabilities are only offset in relation to balances within the same tax jurisdiction and where there is a legally enforceable right of offset and there is an intention to settle the balances net:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

11. TAXATION (continued)

	Intangible assets £'000	Other £'000	Total £'000
At 31 March 2018	12,599	(4,455)	8,144
Exchange differences	-	22	22
Credit to income	(2,763)	1,452	(1,311)
At 30 September 2019	<u>9,836</u>	<u>(2,981)</u>	<u>6,855</u>

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2019 £'000	2018 £'000
Deferred tax assets	(2,981)	(4,455)
Deferred tax liabilities	<u>9,836</u>	<u>12,599</u>
	<u>6,855</u>	<u>8,144</u>

Deferred tax assets recognised in the year in relation to tax attributes are in respect of the Group's operations in the UK, South Africa, Australia and India. The amount of the deferred tax assets recognised reflects management's estimate of the likely profitability of those operations in the foreseeable future. Recognition of these deferred tax assets has arisen following developments in those operations that have rendered them profitable and that suggest their profitability will be sustained for the foreseeable future.

At the balance sheet date, no deferred tax asset has been recognised in respect of tax attributes amounting to £39.8m (2018: £34.7m), as well as interest disallowed in the period of £12.6m (FY18: £nil) under the corporate interest restrictions, because it is not probable that these assets will be recovered in the foreseeable future.

The Finance Bill 2016 included provisions to reduce the main rate of corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the cut in the rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As this has not been enacted by the balance sheet date, balances as at 30 September 2019 continue to be measured at 17%. The amended tax rate would cause an immaterial change in the deferred tax asset/liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

12. GOODWILL

	Total £'000
Cost	
At 1 April 2018 and at 30 September 2019	115,014
Accumulated impairment losses	
At 1 April 2018	25,000
Impairment	67,196
At 30 September 2019	92,196
Net book value	
At 31 September 2019	22,818
At 31 March 2018	90,014

Goodwill and intangible assets are tested for impairment annually at the balance sheet date or more frequently if there are indications that goodwill might be impaired. The recoverable amount as at 30 September 2019 was measured on the basis of the value in use of the cash generating unit. Following a review of the sensitivities applied by directors, an impairment of £67.2m (2018: £25.0m) was made against goodwill.

The key assumptions used in the value in use calculation were future revenue projections, the impact of Brexit, the continued availability and effectiveness of skilled resources to maintain the competitive position of the cash generating unit's products and services and the discount rate. The 5 year plan approved by the board in November 2019 has been used. This plan shows a reduction in both turnover and operating profit in the year ended 30 September 2020 compared to the year ended 30 September 2019. This reflects the transitional phase the business is going through as well as FY19 being bolstered by a number of revenue one offs and cost saving measures.

A 14% sensitivity has then been applied to the revenue growth assumptions in this plan. As a result, FY21, FY22, FY23 and FY24 show annual revenue growth of 8%, 11%, 9% and 8% respectively. The operating profit margin increases from 14% in FY21 to 24% as the benefits of transformation projects are realised as well as the impact of large implementation projects completing and beginning to feed through into higher subscription and transaction revenue. For the purposes of testing for impairment a 2.0% (2018: 2.0%) growth in cash flows into perpetuity is assumed beyond this five year period. This is considered by the directors to be the long term growth rate for the sector. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money for the Group. In respect of the other assumptions, external data and management's best estimates are applied. The pre-tax discount rate applied was 15.0% (2018: 15.0%).

Sensitivities have been performed on the discount rate, and growth into perpetuity for the Group's CGU to highlight the impact of changes in market conditions/assumptions. Reducing growth into perpetuity to 1.5% would lead to an additional impairment of £3,057,000 and increasing the discount factor by 0.5% to 15.5% would result in an additional impairment of £4,681,000.

As set out in the going concern section of the directors' report, at the date of signing these financial statements the Group has exchanged contracts on the sale of the entire share capital of SSP Midco 2 Limited to Volaris Group UK Holdco Limited. Whilst the sale of the business has not completed this is expected to happen in January 2021. A post balance sheet event like this, should it happen, would represent a non-adjusting event. If the sale of SSP Midco 2 Limited does take place it would be a market based fair value sale of the business. The consideration received for the sale of SSP Midco 2 Limited may or may not be less than the net present value of future cash flows used by the directors in their assessment of goodwill impairment as at 30 September 2019 and therefore the associated value would need to be considered when completing future impairment reviews

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

13. OTHER INTANGIBLE ASSETS

	Tech- nology related £'000	Brand related £'000	Customer related £'000	Third- party software £'000	Develop- ment costs £'000	Total £'000
Cost						
At 1 April 2017	70,620	8,454	27,537	2,782	8,139	117,532
Exchange	-	-	-	2	-	2
Additions	-	-	-	1,131	7,407	8,538
At 31 March 2018	70,620	8,454	27,537	3,915	15,546	126,072
Exchange	-	-	-	(46)	-	(46)
Additions	-	-	-	15	10,896	10,911
At 30 September 2019	70,620	8,454	27,537	3,884	26,442	136,937
Amortisation						
At 1 April 2017	15,744	1,692	4,232	1,357	1,154	24,179
Charge for the year	7,872	845	2,116	861	1,555	13,249
Impairment	-	-	-	-	383	383
At 31 March 2018	23,616	2,537	6,348	2,218	3,092	37,811
Charge for the period	11,808	1,267	3,174	1,095	3,498	20,842
Impairment	-	-	-	-	234	234
At 30 September 2019	35,424	3,804	9,522	3,313	6,824	58,887
Net book value						
At 30 September 2019	35,196	4,650	18,015	571	19,618	78,050
At 31 March 2018	47,004	5,917	21,189	1,697	12,454	88,261

Included within the net book value of capitalised development costs above are internally generated development costs with a net book value of £16,420,000 (2018: £10,499,000). Internally generated additions to development costs amounted to £9,100,000 (2018: £5,524,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) 18 months ended 30 September 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Owned Assets Plant and equipment £'000	Right of use Assets Property £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 April 2017	14,526	-	-	14,526
Exchange differences	(133)	-	-	(133)
Additions	3,619	-	-	3,619
Disposals	(116)	-	-	(116)
At 31 March 2018	17,896	-	-	17,896
Right of use assets arising on transition to IFRS 16	(2,168)	9,013	2,707	9,552
Exchange differences	68	-	25	93
Additions	555	870	366	1,791
Disposals	(173)	-	-	(173)
At 30 September 2019	16,178	9,883	3,098	29,159
Accumulated depreciation				
At 1 April 2017	3,984	-	-	3,984
Exchange differences	(40)	-	-	(40)
Charge for the year	3,655	-	-	3,655
Disposals	(116)	-	-	(116)
At 31 March 2018	7,483	-	-	7,483
Right of use assets arising on transition to IFRS 16	(1,523)	-	1,523	-
Exchange differences	33	-	17	50
Charge for the year	4,957	3,257	898	9,112
Disposals	(85)	-	-	(85)
At 30 September 2019	10,865	3,257	2,438	16,560
Net book value				
At 30 September 2019	5,313	6,626	660	12,599
At 31 March 2018	10,413	-	-	10,413

Assets previously classed as finance lease assets with a cost and accumulated depreciation at 31 March 2018 of £2,168,000 and £1,523,000 respectively have been reclassified as Right of Use assets on transition to IFRS 16

The Group's borrowings are secured against the owned assets of the Group.

15. SUBSIDIARIES

A list of the investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given in note 6 to the Company's financial statements on page 57.

SSP Midco 2 Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) 18 months ended 30 September 2019

16. INVENTORIES

	30 September 2019 £'000	31 March 2018 £'000
Goods held for resale	1	63

There is no material difference between the balance sheet value of inventories and their replacement cost.

17. TRADE AND OTHER RECEIVABLES

	30 September 2019 £'000	31 March 2018 £'000
Amount receivable for the sale of products and services	8,855	11,710
Expected credit loss provision	(1,122)	(2,487)
Trade receivables	7,733	9,223
Prepayments	2,824	2,500
Other debtors and accrued income	2,926	6,138
	13,483	17,861

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The average credit period taken on trade receivables is 45 days (2018: 39 days). No interest is charged on overdue amounts. An allowance has been made for estimated irrecoverable amounts from trade receivables comprising specific amounts, the recovery of which are considered doubtful, and general provision for overdue amounts which may become irrecoverable, determined by reference to past default experience. Of the trade receivables balance at 30 September 2019 £0.7m (2018: £0.8m) is due from Towergate. There are no other customers who represent more than 5% of the total balance of trade receivables. In the year to 31 March 2018 £0.7m was due from RAC Financial Services Ltd, £0.6m was due from Legal & General Group and £0.4m was due from Direct Line Group (DLG).

Movement in expected credit loss provision:

	30 September 2019 £'000	31 March 2018 £'000
Balance at 31 March 2018	2,487	2,729
Impairment losses recognised	(707)	563
Amounts written off as uncollectible	(658)	(805)
Balance at 30 September 2019	1,122	2,487

Included in the Group's trade receivables balance are debtors with a carrying amount of £2,904,000 (2018: £3,739,000) which are past due at the reporting date and for which no allowance has been made as there has not been a significant change in credit quality and the amounts are considered recoverable. The Group does not hold any collateral over these balances. The average period overdue of these receivables is 79 days (2018: 59 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

17. TRADE AND OTHER RECEIVABLES (continued)

Ageing of trade receivables past due but not impaired:

	30 September 2019 £'000	31 March 2018 £'000
0 - 30 days	1,162	2,560
31 - 60 days	774	744
61 - 90 days	389	265
More than 90 days	579	170
Total	<u>2,904</u>	<u>3,739</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the expected credit loss provision are individually impaired receivables with a balance of £1,122,000 (2018: £2,487,000). The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of expected recoveries. The Group does not hold any collateral over these balances.

Ageing of impaired trade receivables:

	2019 £'000	2018 £'000
0 – 30 days	7	137
30 – 60 days	16	32
60 – 90 days	-	34
90 – 120 days	46	415
More than 120 days	1,053	1,869
Total	<u>1,122</u>	<u>2,487</u>

The directors consider that the carrying amount of trade and other receivables approximates to their fair value, as unprovided debts are expected to be recovered in full in the next 12 months.

Following the adoption of IFRS 15 on 1 April 2018, prepayments include £433,000 in relation to contract fulfilment costs. The table below details the movement on contract fulfilment costs in the year.

	30 September 2019 £'000
Opening adjustment on 1 April 2018	483
Additions in year	368
Utilised in year	(418)
Balance at 30 September 2019	<u>433</u>

SSP Midco 2 Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) 18 months ended 30 September 2019

18. CASH AND CASH EQUIVALENTS

	30 September 2019 £'000	31 March 2018 £'000
Cash and cash equivalents	4,033	7,361

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

19. TRADE AND OTHER PAYABLES

	30 September 2019 £'000	31 March 2018 £'000
Trade payables	4,003	8,408
Other taxation and social security	1,810	2,199
Accruals and deferred income	7,454	11,540
Amounts due to group undertakings	145,003	118,894
	158,270	141,041

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken on trade purchases is 120 days (2018: 152 days).

The directors consider that the carrying amount of trade payables approximates to their fair value and these balances are held at amortised cost.

Contract balances represent revenue billed to customers which relates to subsequent accounting periods.

20. BORROWINGS

	30 September 2019 £'000	31 March 2018 £'000
Secured borrowing at amortised cost		
Bank loans	140,956	127,864
	140,956	127,864
Total borrowings		
Amount due for settlement within 12 months	2,536	504
Amount due for settlement after 12 months	138,420	127,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

20. BORROWINGS (continued)

Bank loans

Bank loans of £142,622,000 (2018: £130,502,000) are shown net of loan arrangement fees of £1,666,000 (2018: £2,638,000).

As disclosed in Note 2, the Group has adopted IFRS 9 from 1 April 2018. As a result, bank loans at 30 September 2019 also include £3,836,000 debt modification adjustment in relation to an agreement reached with the banks on 27 November 2018.

On 27 November 2018 an agreement was reached with the banks on a covenant reset with the intention of providing adequate headroom until the end of the loan term, a loan repayment holiday on the B2 facility and an option to roll some interest payments. At 30 September 2019, the Group had drawn down term loans facilities of £132.8m (2018: £128.5m) net of repayments made and had drawn a revolving credit facility of £6.0m (2018: £2.0m). The Group also had available a further £nil (2018: £8.0m) undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The principal features of the facilities are as follows:

Term Loan Facility B1	£60.5m	Seven year term with quarterly repayments of 0.25 per cent commencing 30 September 2014 and the final repayment in June 2021. Interest is charged at LIBOR plus 4.25 per cent per annum. Following the banking reset an exit fee of 2% is payable on the B1 facility
Term Loan Facility B2	£66.7m	Seven year term with quarterly repayments of 0.25 per cent commencing on 30 June 2015 and the final repayment in June 2021. Interest is charged at LIBOR plus 9.5 per cent per annum. Following the banking reset 30% of B2 interest can be rolled for 12 months at 13% and between 30% and 60% at 14.5%. An additional 2.5% interest charge is rolled and not payable until end of term. Rolled interest at 30 September 2019 was £5.6m
Drawn Revolving Credit Facility	£6.0m	Repayable on the last day of each interest period. Interest on this facility is charged at LIBOR plus 3.75 per cent per annum. The facility is repayable in May 2021.

A portion of the interest on these facilities is hedged by way of an Interest Rate Swap derivative financial instrument that expired on 30 June 2019. This swap instrument had a contract rate of 0.894 per cent per annum. At 31 March 2018 this financial instrument related to borrowings of £64,337,608 and the valuation of this financial instrument gave an asset of £63,986.

All bank loans are denominated in sterling. The carrying amount of the Group's borrowings approximates to their fair value. The Group's bank borrowings are secured against the assets of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

21. LEASE OBLIGATIONS

As disclosed in Note 2, the Group has adopted IFRS 16 from 1 April 2018. As a result, finance lease liabilities are now classified as lease liabilities. Lease liabilities also include liabilities in relation to leases previously classified as operating leases.

Obligations under leases

	Minimum lease payments	
	30 September 2019 £'000	31 March 2018 £'000
Amounts payable under leases		
Within one year	2,957	344
In the second to fifth years inclusive	5,933	343
Over five years	884	-
	<hr/>	<hr/>
	9,774	687
	<hr/>	<hr/>
Less: future finance charges	(1,530)	(28)
	<hr/>	<hr/>
Present value of lease obligations	8,244	659
	<hr/>	<hr/>

	Present value of minimum lease payments	
	30 September 2019 £'000	31 March 2018 £'000
Amounts payable under leases		
Within one year	2,353	323
In the second to fifth years inclusive	5,061	336
Over five years	830	-
	<hr/>	<hr/>
Present value of lease obligations	8,244	659
	<hr/>	<hr/>

Movement in lease liabilities

At 1 April 2018	10,817
Exchange	318
Interest	937
Lease payments	(4,720)
Additions in period	892
	<hr/>
Present value of lease obligations	8,244
	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

22. PROVISIONS

	Leasehold dilapidations £'000	Legal provision £'000	Total £'000
At 31 March 2018	280	251	531
Increase in provision	183	-	183
Utilisation of provision	-	(251)	(251)
At 30 September 2019	<u>463</u>	<u>-</u>	<u>463</u>

The leasehold dilapidations provision relates to contractual obligations to reinstate leasehold properties to their original state of repair. This provision is calculated by reference to the expired portion of individual lease agreements where such a clause exists in the lease contract.

During the previous financial year, a settlement was reached on an outstanding legal dispute with £251,000 being paid in March 2018 and the final £251,000 in April 2018. The remaining provision of £998,000 was released to the consolidated income statement in the previous financial year.

23. FINANCIAL INSTRUMENTS

Significant accounting policies

On 1 April 2018 the Group adopted IFRS 9 'Financial Instruments'. Details of the impact of IFRS 9 are disclosed in note 2 to the financial statements along with details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument.

There is no impact on the categorisation of financial instruments

The interest rate swap derivative expired on 30 June 2019 and no swap derivatives were in place at 30 September 2019. The financial instrument amounts to an asset of £64,000 at 31 March 2018 and was categorised at Level 2. The vendor loan in relation to the acquisition of SSP Asia Pacific Pty Limited, amounting to a liability of £nil at 30 September 2019 (2018: asset of £94,000), is categorised at Level 3.

The agreement relating to the vendor loan financial instrument expired on 30 May 2018 with a final payment due to the vendor of £36,000.

All other financial instruments are categorised at level 1.

Capital risk management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the balance between debt and equity. The capital structure of the Group consists of debt, which includes loan notes as set out in note 20, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

Gearing

The Group's management reviews the capital structure periodically and, in doing so, considers the cost of capital and the risks associated with each class of capital.

Debt is defined as long and short-term borrowings, as detailed in note 20. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

23. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk management

The Group's activities expose it to a number of risks that include market risk (including currency risk and interest rate risk), credit risk, liquidity risk and cash flow risk.

The Group seeks to manage the effects of these risks through application of policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, and the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are monitored on an on-going basis.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities	Assets	Liabilities	Assets
	2019	2019	2018	2018
	£'000	£'000	£'000	£'000
Euro	-	193	20	509
Rand	546	2,536	745	2,469
New Zealand Dollar	182	1,458	361	1,849
Australian Dollar	1,526	4,811	1,487	1,467
Indian Rupee	975	1,592	604	916
US Dollar	521	382	510	797

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies. This sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity when sterling strengthens by 10%. For a 10% weakening in sterling there would be an equal and opposite impact on the profit and other equity.

	Impact on	Impact on	Impact on	Impact on
	profit or	equity	profit or	equity
	loss	2019	loss	2018
	2019	£'000	2018	£'000
	£'000		£'000	
Euro	(26)	12	(17)	(18)
Rand	55	(200)	17	(143)
New Zealand Dollar	(25)	(68)	(10)	(98)
Australian Dollar	(144)	(94)	(208)	210
Indian Rupee	(69)	24	(56)	34
US Dollar	(37)	48	(6)	(15)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 months ended 30 September 2019

23. FINANCIAL INSTRUMENTS (continued)

Interest rate risk management

The Group's activities expose it to the financial risks of changes in interest rates. The Group uses interest rate collar and interest rate swap arrangements to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes. The use of derivative financial instruments is governed by the Group's treasury policies as approved by the board of directors which determines the principles for the Group's use of financial instruments. The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate swap contracts

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

Outstanding receive floating pay fixed contracts	Average contract fixed		Notional principal value		Fair value	
	interest rate					
	2019	2018	2019	2018	2019	2018
	%	%	£'000	£'000	£'000	£'000
Within one year	-	0.894	-	64,338	-	64

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Company's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

The sensitivity analyses below have been determined based on the exposure to interest rates of financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole period. A 0.5% increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's loss for the period would correspondingly decrease/increase by £671,000 (2018: £333,000). The Group's sensitivity to interest rates reflects the effect of the interest rate swap assuming no significant impact of the effect of changes in interest rates on the fair value of interest rate swap.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. This is influenced by information supplied by independent rating agencies where available and if not available the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit worthiness of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed periodically.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics and notes no significant increases in credit

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 months ended 30 September 2019

23. FINANCIAL INSTRUMENTS (continued)

Credit risk management (continued)

risk of financial instruments in the year. The Group defines counterparties as having similar characteristics if they are connected entities. Concentration of credit did not exceed 5% of gross monetary assets at any time during the period. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium, and long-term funding and liquidity management requirements, which are reviewed monthly. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Banking covenants are also monitored as a breach could result in facilities becoming immediately repayable.

At 30 September 2019 the Group had available £nil (31 March 2018: £8.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The following table details the Group's contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows having regard to interest rates at the reporting date.

	Weighted average effective interest rate %	Less than 1 month £'000	1 to 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
2019							
Trade payables	-	4,003	-	-	-	-	4,003
Bank loans	9.3%	514	1,774	9,236	156,268	-	167,792
Loan notes	10.0%	1,174	2,310	11,336	77,382	106,510	198,712
Lease liabilities	6% / 7.7%	217	521	2,217	5,933	884	9,772
		<u>5,908</u>	<u>4,605</u>	<u>22,789</u>	<u>239,583</u>	<u>107,394</u>	<u>380,279</u>

	Weighted average effective interest rate %	Less than 1 month £'000	1 to 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
2018							
Trade payables	-	8,408	-	-	-	-	8,408
Bank loans	7.7%	851	2,034	8,646	149,190	-	160,721
Loan notes	10.0%	919	1,870	8,578	58,032	125,351	194,750
Other loans	2.7%	-	36	-	-	-	36
Finance leases	4.0%	-	86	258	343	-	687
		<u>10,178</u>	<u>4,026</u>	<u>17,482</u>	<u>207,565</u>	<u>125,351</u>	<u>364,602</u>

The Group has no non-derivative financial assets except for trade receivables, disclosed at note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

23. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management (continued)

Fair value of financial assets and financial liabilities that are not measured at fair value (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	Carrying amount		Fair value	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Financial liabilities				
Bank loans at LIBOR plus margin	142,622	130,502	142,018	123,592

The fair value is a level 2 fair value measurement using discounted cash flow taking into account credit risk.

24. SHARE CAPITAL

	30 September 2019 £'000	31 March 2018 £'000
Authorised		
197,798 (2018: 197,798) Ordinary shares	198	198
Called-up, allotted and fully paid		
197,798 (2018: 197,798) Ordinary shares	198	198

25. RESERVES

The movement in reserves is detailed in the Consolidated Statement of Changes in Equity.

The translation reserve shows exchange differences relating to the translation of the net assets of the Group's foreign subsidiaries from their functional currency in Sterling.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

26. NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of loss for the year to net cash from operating activities

	18 months to September 2019 £'000	Year to March 2018 £'000
Loss for the year	(114,438)	(38,276)
Adjustments for:		
Investment revenue	(39)	(91)
Finance costs	42,539	21,469
Income tax expense	833	(3,777)
Goodwill and intangible asset impairment	67,430	25,000
Amortisation of intangible assets	20,842	13,632
Depreciation of property, plant and equipment	9,112	3,655
Loss on disposal of assets	83	-
Other gains and losses	195	(1,460)
Operating cash flows before movements in working capital	26,557	20,152
Decrease / (increase) in inventories	62	(32)
Decrease in receivables	1,412	3,695
(Increase) in payables	(11,411)	(2,647)
Decrease in provisions	(164)	(1,004)
Cash generated by operations	16,456	20,164
Income taxes paid	(1,729)	(882)
Interest received	39	91
Interest paid	(11,970)	(9,882)
Net cash from operating activities	2,796	9,491

b) Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	At 31 March 2018 £'000	Cash flow £'000	Other non cash changes £'000	At 30 September 2019 £'000
Lease liabilities	(659)	4,774	(12,359)	(8,244)
Bank loans	(127,864)	(2,700)	(10,392)	(140,956)
Other loans	94	-	(94)	-
Total liabilities from financing activities	(128,429)	2,074	(22,845)	(149,200)

The cash flows from bank loans and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the cash flow statement.

Other non-cash changes of £(22.8)m (2018: £nil) include an IFRS 9 debt modification adjustment to bank loans of £3.8m (2018: £nil), an interest accrual on bank loans of £5.6m (2018: £nil) and an adjustment on early adoption of IFRS 16 of £12.4m (2018: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
18 months ended 30 September 2019

27. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

In the 18 months to September 2019 the Group were invoiced £180,000 (2018: £120,000) by Lloyds Development Capital and £65,000 (2018: £40,000) by Scottish Equity Partners. Both parties hold share capital and loan notes in the ultimate parent company. These payments were in relation to the services of their employees who are also directors of the Company.

Loans to joint venture

Historically there were loans due to the Group from its joint venture of £79,000. These loans are not interest bearing and at 30 September 2019 and 31 March 2018 had been impaired to £nil.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2019 £'000	2018 £'000
Short-term employee benefits	1,724	1,787
Post-employment benefits	14	25
	<u>1,738</u>	<u>1,812</u>

Loans from investors

Loan notes held by Lloyds Development Capital, Scottish Equity Partners and management are disclosed in Note 20.

Loans from key management personnel

At 30 September 2019 the directors, who are the key management personnel of the Group, held C loan notes of £133,000 (31 March 2018: £1,987,000) and G loan notes of £300,000 (31 March 2018: £nil). Accrued interest at 30 September 2019 on the C loan notes amounted to £72,000 (31 March 2018: £814,000) and on the G loans £47,000 (31 March 2018 £nil).

28. EVENTS AFTER THE BALANCE SHEET DATE

As detailed in the going concern section of the Directors Report, post the balance sheet date the Group has been involved in a transaction process. At the date of signing these financial statements contracts have been exchanged on a deal where SSP Topco Limited sells the entire share capital of SSP Midco 2 Limited and its subsidiary undertakings to new investors. It is anticipated that completion of the deal will be formalised in January 2021 or shortly thereafter.

The Covid-19 pandemic led SSP group to adopt remote working across all its UK and International sites. To date, the business has experienced little impact on efficiency and effectiveness from remote working and the Directors expect this to continue should offices need to remain closed into 2021. The impact of Covid-19 on trading is detailed in the Strategic Report.

In September 2020, HMRC issued a ruling that contract settlements that were previously outside the scope of VAT may now be treated as consideration for a taxable supply for VAT purposes. HMRC further noted that this change should be applied retrospectively to settlements within the previous four years. SSP understands that this is currently being queried by professional services firms, amongst others; however, should this continue to apply then it may give rise to VAT exposures that directors believe would not be recoverable.

STATEMENT OF COMPANY FINANCIAL POSITION
As at 30 September 2019

		30 September 2019 £'000	31 March 2018 £'000
	Note		
NON-CURRENT ASSETS			
Investments in subsidiaries	6	-	-
CURRENT ASSETS			
Trade and other receivables	7	106,363	111,287
TOTAL ASSETS		<u>106,363</u>	<u>111,287</u>
CURRENT LIABILITIES			
Trade and other payables	8	137,311	118,968
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(30,948)</u>	<u>(7,681)</u>
NET LIABILITIES		<u>(30,948)</u>	<u>(7,681)</u>
EQUITY			
Share capital	10	198	198
Retained earnings		(31,146)	(7,879)
TOTAL SHAREHOLDERS' DEFICIT		<u>(30,948)</u>	<u>(7,681)</u>

As permitted by section 408(3) of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. The Company made a loss of £23,267,000 (2018: profit of £640,000).

These financial statements were approved by the Board of Directors on 28 December 2020.

Signed on behalf of the Board of Directors



C Pennington
Director

The accompanying notes are an integral part of this Company balance sheet.

COMPANY STATEMENT OF CHANGES IN EQUITY
18 months ended 30 September 2019

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 April 2017	198	(7,239)	(7,041)
Loss for the year	-	(640)	(640)
Total comprehensive expense for the year	-	(640)	(640)
At 31 March 2018	198	(7,879)	(7,681)
Loss for the year	-	(23,267)	(23,267)
Total comprehensive expense for the year	-	(23,267)	(23,267)
At 30 September 2019	198	(31,146)	(30,948)

NOTES TO THE COMPANY FINANCIAL STATEMENTS
18 months ended 30 September 2019

1. GENERAL INFORMATION

SSP Midco 2 Limited (the Company) is a private Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The Company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to the Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting period beginning on or after 1 January 2016.

2. ACCOUNTING POLICIES

Basis of accounting

The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS 101) 'Reduced Disclosure Framework' issued by the Financial Reporting Council. Accordingly, in the year ended 31 March 2017 the Company has adopted FRS 101 and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices. These financial statements have been prepared in accordance with FRS 101.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

The principal accounting policies adopted are summarised below. They have all been applied consistently throughout the current period.

Revenue

Turnover relates to the provision of management services to Group companies in the normal course of business and is measured at the fair value of consideration received or receivable, net of discounts, VAT and other sales related taxes. The whole of turnover derives from the Company's principal activities within the United Kingdom.

Investments

Investments in subsidiaries are shown at cost less provision for impairment.

Going concern

The financial statements have been prepared on a going concern basis. The directors have considered the appropriateness of the going concern basis as set out in the Directors' Report on page 6.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)
Year ended 31 March 2019

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 2 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors consider the impairment of investments to be the key area of judgement and uncertainty. They assess annually whether any investment has suffered any impairment based on value-in-use calculations that require the use of estimates. No impairment was identified in the year.

4. STAFF COSTS

The Company had no employees other than the directors. The remuneration received by the directors is disclosed in note 7 to the consolidated financial statements.

5. PROFIT OF PARENT COMPANY

As permitted by section 408(3) of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. The Company made a loss of £23,267,000 (2018: £640,000).

The auditor's remuneration for audit and other services is disclosed in note 6 to the consolidated financial statements.

6. FIXED ASSET INVESTMENTS

	30 September 2019 £'000	31 March 2018 £'000
Subsidiary undertakings		
Cost and net book value	<u>-</u>	<u>-</u>

At 30 September 2019 the Group held directly or indirectly 100% of the allotted share capital of all its subsidiary undertakings.

SSP Midco 2 Limited

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued) Year ended 31 March 2019

6. FIXED ASSET INVESTMENTS (continued)

	Country of Registration	Nature of business
SSP Midco 1 Limited	England & Wales	Holding Company
SSP Bidco Limited	England & Wales	Holding Company
SSP Holdings Limited	England & Wales	Holding Company
SSP Limited	England & Wales	Software house
SSP (Africa) Holdings Pty Limited	South Africa	Holding Company
Software Solutions Partners Africa (Proprietary) Limited	South Africa	Software house
SSP Sirius Solutions Limited	England & Wales	Holding Company
SSP Sirius Limited	England & Wales	Dormant
Sirius Financial Systems Group Limited	England & Wales	Dormant
SSP (India) Private Limited	India	Software development
SSP (USA) Inc	USA	Software house
SSP (New Zealand) Limited	New Zealand	Software house
SSP (Asia Pacific) Pty Limited	Australia	Software house
Key Choice Insurance Marketing Limited	England & Wales	Dormant
Key Choice Underwriting Limited	England & Wales	Dormant
Holdgrove Limited	England & Wales	Holding Company
Sectornet Limited	England & Wales	Dormant
Mediquote Health Solutions Limited	England & Wales	Dormant
Policy Master Group Limited	England & Wales	Dormant

All of the above subsidiary undertakings are included within the SSP Midco 2 Limited consolidated financial statements.

A subsidiary of the Company (SSP (Africa) Holdings (Proprietary) Limited holds a 25% stake in the entire share capital of Friedshelf 1027 (Proprietary) Limited t/a The Insurance Webgate Company (incorporated in South Africa). The Company has one class of shares and the registered office is 405 Cliffe Avenue, Waterkloof Ridge Ext 2, 0181, South Africa.

The registered office of the companies registered in England & Wales is Fourth Floor D Mill, Dean Clough, Halifax, HX3 5AX.

The registered office of the companies registered in South Africa is Sandown Mews, Ground Floor West Building, 88 Stella Road, Sandton, Johannesburg, 2196.

The registered office of SSP (New Zealand) Limited is Level 6, 205 Queen Street, Auckland.

The registered office of SSP (USA) Inc is 6465 Greenwood Plaza Blvd, Suite 170, Centennial, Co 80111.

The registered office of SSP (India) Private Limited is 4th Floor, Block A-2, DLF World Tech Park, DLF IT SEZ Silokhera, Sector 30, Gurugram, Haryana, 122002.

The registered office of SSP (Asia Pacific) Pty Limited is Level 3, 293 Camberwell Road, Camberwell, Vic 3124.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)
Year ended 31 March 2019

7. TRADE AND OTHER RECEIVABLES

	30 September 2019 £'000	31 March 2018 £'000
Amounts owed by Group undertakings	<u>106,363</u>	<u>111,287</u>

Amounts owed from Group undertakings are repayable on demand and held at amortised cost.

8. TRADE AND OTHER PAYABLES

	30 September 2019 £'000	31 March 2018 £'000
Other taxation and social security	44	74
Amounts due to Group undertakings	<u>137,267</u>	<u>118,894</u>
	<u>137,311</u>	<u>118,968</u>

Amounts owed to Group undertakings are repayable on demand and held at amortised cost.

9. SHARE CAPITAL

	30 September 2019 £'000	31 March 2018 £'000
Authorised		
197,797 (2018: 197,797) Ordinary shares	<u>198</u>	<u>198</u>
Called-up, allotted and fully paid		
197,797 (2018: 197,797) Ordinary shares	<u>198</u>	<u>198</u>

10. RELATED PARTY TRANSACTIONS

The Company is taking advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose details of related party transactions with other wholly owned Group companies.

Other related party transactions are disclosed in Note 27 of the consolidated financial statements.

11. ULTIMATE PARENT COMPANY

At the reporting date, the Company has been included in the consolidated financial statements of SSP Topco Limited which is the largest Group that prepares consolidated financial statements that include the financial statements of the Company. Copies of those financial statements will be available at the registered address: Fourth Floor D Mill, Dean Clough, Halifax, HX3 5AX.