

Vocalink Holdings Limited

Annual Report and Financial Statements 31 December 2018

Registered number 06119036

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Strategic Report for the year ended 31 December 2018

The Directors present the Strategic Report of Vocalink Holdings Limited (the 'Company') and of the Vocalink Holdings Group (the 'Group') for the year ended 31 December 2018.

Principal activity

The principal activity of the Company is that of a holding company.

The Group designs, builds and operates bank account based payment services and related services in the UK and overseas.

The principal activities of the Company and the Group have not changed during the year and no significant changes are expected in the forthcoming year.

Change in accounting policy IFRS 15 - Revenue from Contracts with Customers ('IFRS 15')

On 1 January 2018 the Group adopted IFRS 15, the new accounting standard for revenue recognition which replaces the former standard IAS 18 Revenue ('IAS 18'). As a result of the adoption of this standard using the modified retrospective basis, prior year balances were not restated, however the opening balances in the Consolidated Statement of Financial Position have been adjusted for contracts with customers that were in progress on the date of transition, 1 January 2018. Further information regarding the impact on adoption of IFRS 15 is set out below and in notes 1, 2 and 23.

Review of business and future outlook

2018 was Vocalink's first full year as a member of the Mastercard Group and Vocalink adopted Mastercard's strategy of growing existing customer relationships, diversifying with new customers and geographies and building new businesses. Protecting and enhancing Vocalink's UK business remains a cornerstone of this strategy, with UK managed service operations continuing to deliver a key source of revenue allowing Vocalink to continue investment in maintaining the resilience and quality of the national infrastructure that it operates. International provision of real time payments continued to grow, with strong volume growth in Thailand and the United States launch of real time payments, both powered by Vocalink software. Development commenced on a managed service offering for real time payments, working with customers in Latin America, Asia Pacific and Europe.

Development of consumer payment applications focused on extending customer reach for Pay by Bank App in the UK as additional banks joined the service and product investment to ensure that these and other payments innovations can be adopted in markets around the world. In December 2018, the Mule Insights Tactical Solution (MITS), which is underpinned by Vocalink's Anti-Money Laundering Insights solution, was launched in partnership with Pay.UK. This overall strategy of expansion requires a high level of cash investment, reflected in both capital investment and increased operating costs experienced during 2018.

The Group results are set out in the Consolidated Statement of Comprehensive Income on page 12 and the Consolidated Statement of Financial Position is set out on page 13.

Operating performance

Revenue from contracts with customers in the financial year ended 31 December 2018 was £194.8m (2017: £214.9m IAS 18). On a consistent basis, with the current year remeasured on an IAS 18 basis in line with 2017, revenue was £193.0m (2017: £214.9m); a decrease of £21.9m. This was principally due to 2017 revenues including implementation and software development fees which were not repeated in 2018. The increased focus on provision of managed services together with the revised revenue recognition policy (see below) is expected to result in revenues from major projects to develop payment systems being recognised over the contract lives starting from the date the service becomes operational, rather than during the development phase.

Strategic Report (continued)

Review of business and future outlook (continued)

The operating loss of £28.6m (2017: loss £14.6m) was after charging restructuring, intangible asset impairment and other non-recurring costs relating to the integration of Vocalink into the Mastercard Group of £12.1m (2017: £28.7m). As set out in note 3, after adjusting for these non-recurring costs, operating costs increased by £10.5m to £211.3m (2017: £200.8m). This increase was mainly due to increased investment in product and market development to achieve the Group's strategic priorities.

The loss before taxation for the financial year ended 31 December 2018 was £31.0m (2017: loss £17.5m) driven from the investments made in the year. The loss after taxation was £24.4m (2017: loss £19.5m).

Net assets as reported in the Consolidated Statement of Financial Position were £37.5m (2017: £68.8m); the reduction mainly as a result of operating expenditure referred to above and net remeasurement losses from the defined benefit scheme of £7.0m (2017: net remeasurement gains of £14.8m).

The net movement in cash in the year ended 31 December 2018 was an outflow of £22.1m (2017: inflow £35.9m), with cash balances at the reporting date of £49.5m (2017: £71.6m). The movement in the year comprised an outflow from operating activities of £18.3m (2017: cash inflow of £0.2m), capital investments, largely consistent with the prior year at £53.8m (2017: £54.3m), offset by loan finance of £50.0m received from Mastercard Payment Gateway Services Limited (2017: £90.0m). Since the reporting date a further loan of £140.0m has been agreed and funded by Mastercard Payment Gateway Services Limited, further details of which are set out in note 25.

Impact of adoption of IFRS 15 Revenue from Contracts with Customers

The principal impact of IFRS 15 is in the timing of recognition of revenue from software development, implementation services and onboarding of new customers. The related performance obligations are generally not distinct from the payment service and therefore revenue is deferred and recognised over the life of the customer contract, commencing on the date that the payment service is operational, whereas formerly it was recognised as the services were delivered.

A further impact is in the reclassification of assets arising from consideration paid to certain customer entities of £10.5m, formerly classified as intangible assets in the Consolidated Statement of Financial Position, which are now held as prepayments since the adoption of the new standard.

Revenue in the year ended 31 December 2018 included £6.5m of implementation and development revenue released from deferred income held in the opening Consolidated Statement of Financial Position. The balance of deferred income represented revenue formerly recognised in 2017 under IAS 18, which was deferred in the opening Consolidated Statement of Financial Position on adoption of IFRS 15.

Revenue from implementation and development services delivered in the year ended 31 December 2018 was also deferred in the Consolidated Statement of Financial Position. The net impact of IFRS 15 was to increase revenue recognised in the year by £1.8m.

The timing of the recognition of the related costs was also revised to follow the pattern of revenue recognition, with the net impact in the year ended 31 December 2018 being a reduction in operating costs of £4.9m. See note 23 for the full details of the transition.

Key performance indicators

The Group measures and monitors a number of key performance indicators, the most important of which are revenue and operating profit, as detailed above. This includes financial and operational tracking of key strategic business cases. Another key area of performance monitoring by Management is the review of service performance by the Group in servicing its customer contracts.

Strategic Report (continued)

Financing and investment

The Group continued its programme of investment in existing and new products and markets. Operating costs include business development and research and development expenditure of £17.6m (2017: £16.9m), charged to the Consolidated Statement of Comprehensive Income in relation to new products and services. Investment continued in relation both tangible and intangible asset development, with capital expenditure in the year totalling £53.8m (2017: £54.3m), which included the capitalisation of staff costs of £15.2m (2017: £13.1m); further information is contained in note 3.

The deficit on the Group's Final Salary Pension Scheme, closed to new entrants and future accruals, decreased by £5.4m to £19.2m (2017: £24.6m). This was attributable to a change in market conditions resulting in a negative return on the investment of Scheme assets, partly offset by a change in the financial assumptions resulting in a higher discount rate. Employer contributions, under a deficit reduction programme, were maintained at £14.6m per annum (2017: £14.6m).

Principal risks and uncertainties

Vocalink adopts an enterprise-wide risk management approach to identify, assess, measure, manage and report across a wide range of business and operational risks in accordance with the Group's risk appetite. An annual programme of independent key controls testing is performed to ensure the design and operation of key controls remains effective. Significant opportunities continue to arise in the payments market and we continue to monitor and focus on the risks presented in the following areas: Business Resilience, Recovery and Resolution, Concentration, Cyber Security, Delivery and Change Management, Regulation and Sanctions, Reputation and Brexit.

Business Resilience, Recovery and Resolution Risk

Vocalink provides systemically important infrastructure services to a number of UK payment systems: Bacs, Faster Payments, ICS (now part of Pay.UK) and Link and Bankgirot (Sweden) and is diversifying through managed software and payment services in strategic markets. These require a high level of service dependability and uninterrupted provision of services to customers, supported by robust incident, change and problem management procedures and tested recovery plans. Vocalink places great importance on effective operational risk management practices governed through a Three Lines of Defence model. This is demonstrated through continued investment in technology, tools and people and is subject to external certifications where appropriate, ensuring that service impacting issues are understood and learned from in a continuous improvement model.

Concentration Risk

The foundation of the Vocalink business is the processing of payment transactions for the UK payment schemes: Bacs, Faster Payments, ICS and Link. The retention of the processing arrangements for these services is a key strategic objective for Vocalink. Vocalink continues to leverage its capability, expertise and brand credentials to develop new UK and International commercial opportunities and further reduce the concentration risk for the underlying core services.

Cyber Security Risk

Within the Financial sector the risk landscape for cyber-based attacks is changing, with a continued rise in attacks from nation states, hacktivists and criminal threat actors who are becoming more sophisticated and diverse. Vocalink's capability to identify, protect and respond to such threats is paramount to a proactive defence and to the continued stability of UK and International payments infrastructures. Therefore, the active management of cyber security risk is a key priority. Vocalink works closely with customers, government and the wider payment industry to understand and evaluate the nature of these threats, enabling the business to steer strategic and tactical risk decisions in line with the constantly evolving threat landscape. Vocalink continues to ensure it has the capability to counter such threats through mature and robust layered defences, analysis and monitoring and close alignment with Industry and International security standards. This diligence provides increased resilience in defending the business and our customers against potential damaging incidents.

Strategic Report (continued)

Principal risks and uncertainties (continued)

Delivery and Change Management Risk

Vocalink recognises that successful execution of the Group's strategic objectives requires robust project and change governance, to ensure the successful delivery and management of projects. This is particularly important where change activities impact the payments infrastructures operated by Vocalink, or relate to large strategic programmes aimed at expanding the Vocalink business and providing new services to the global payments industry.

Regulation and Sanctions Risk

Vocalink operates within a regulated environment. As a critical service provider to several payment systems, under regulatory supervision, promoting competition, innovation and resilience remain key areas of business and operational risk focus. On 24 April 2018 HM Treasury made an amended Recognition Order specifying Vocalink Limited for the purposes of Part 5 of the Banking Act 2009, thereby bringing the Company under the formal supervision of the Bank of England. Whilst the requirements of the business are becoming clearer under the supervisory regime, further understanding of the longer term impact is required. On 28 January 2019, the Bank of England wrote to the Company setting out the Bank's expectations for 2019. The Bank's focus for supervision for Vocalink during 2019 will cover the following areas: management and governance; risk management and controls; business model risk; and operational resilience and security. Internationally, financial regulation and nationalistic views for data integrity processes are expected to increase, presenting Vocalink with an opportunity to proactively align itself with its stakeholders.

Brexit Risk

Vocalink is a UK based processor, does not process any payments within the EU (excluding UK), has no Passporting requirements and is not directly regulated in any EU jurisdiction outside the UK. Following the Brexit referendum Vocalink has been assessing possible risks to the business and developing mitigating actions.

A Brexit Steering Committee was introduced with executive sponsorship and representatives of key business areas. This Committee identified product and business areas deemed in scope for further analysis through reference to corporate risk information and significant liaison with external professional advisors. Analysis was also conducted to focus on the risks to Vocalink in the event of a 'no deal' Brexit scenario crystallising, and to assess existing contingency arrangements; this focussed on the core UK business in assessing the impact on a 'no deal' Brexit, in particular any impacts on our continuing ability to maintain operational payment processing services. Specific areas of consideration have included trade and financial services, contracts, use of data, infrastructure and human resources.

As such, Vocalink continues to monitor progress of Brexit negotiations and assess possible impacts, through the following key activities: continued liaison with key suppliers to identify any key goods and components which are imported from EU and take appropriate mitigating action; ongoing assessment of HR appointments for succession planning, for both key Technical and Executive roles; and continued review of contracts in order to include standard clauses and appropriate provisions. The increasing possibility of a 'no deal' scenario materialising may affect the Group's risk profile by introducing potentially significant new uncertainties and instability in financial markets and the wider economy. These uncertainties are not expected to have a material adverse effect on business operations in the short term but risks continue to be monitored and assessed given the changing political situation and ongoing negotiations.

Reputational Risk

The effective and ongoing management of potential reputational impacts across integrity security, service, and supplier and compliance risks remains an area of key importance and focus within Vocalink with specific attention placed upon the prevention of negative publicity, litigation, or loss of existing or new client business.

On behalf of the Board



Paul Stoddart
CHIEF EXECUTIVE OFFICER
28 March 2019

Directors' Report for the year ended 31 December 2018

The Directors present their report and the audited financial statements of the Group and the Company for the year ended 31 December 2018.

Directors

The following directors held office during the year and up to the date of the report:

David Yates (Chairman)
Paul Stoddart (Chief Executive Officer)
Mark Barnett
Ajay Bhalla
Sir Edward John Gieve
Marion King
Edward McLaughlin
Michael Miebach
Daniel Meredith-Jones

Secretary

Jackie Panayi

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Dividend

The Directors do not recommend payment of a dividend (2017: £nil).

Financial risk management

The Group has limited exposure to financial risk as all material financial instruments are with companies within the group headed by Mastercard Incorporated, its ultimate parent company.

Employees

Details on the number of persons employed and their gross remunerations are contained in note 5 to the financial statements.

The Group is committed to employee involvement as it believes its business objectives are best achieved if the Group's staff understand and support the group strategy. Staff members are kept informed of performance through briefing meetings, supplemented by a range of internal communications. Executives regularly visit business locations to discuss matters of current interest with staff and the Group's financial performance is presented and explained to staff during the year.

Directors' Report (continued)

Equal opportunities

The Group's policy is not to discriminate against anyone, on any grounds. Staff members who consider themselves to have a disability are under no obligation to inform their employer of this, however, we are fully aware of, and comply with, our obligations in accordance with the relevant provisions of the Equality Act 2010. Training is available and provided to all levels of staff, and investment in employee development is a priority. Within this policy, the Group gives full consideration to applications for employment from disabled persons where a disabled person can adequately fulfil the requirements of the job. Where existing employees become disabled it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions.

Research and development

The Group capitalises research and development expenditure that meets the criteria specified in IAS 38 Intangible Assets.

Future developments

The nature of the business is not expected to change going forward, see details included within the Strategic Report.

Political contributions

Neither the Company nor any of its subsidiaries made any disclosable political donations or incurred any disclosable political expenditure during the year (2017: none).

Going concern

Group

We have performed a detailed going concern assessment for the Group, considering liquidity of cash reserves and future forecast cash flows of the Group, sensitised for a reasonably probable set of downside assumptions and potential mitigating factors.

We have specifically considered these alongside our declining cash balance and losses for the year ended 31 December 2018, in conjunction with funding available from Mastercard companies and our availability of liquidity. In January 2019, a further five year loan of £140.0m was drawn down from Mastercard Payment Gateway Services Limited to enable Vocalink to maintain financial resilience whilst continuing to fund strategic investments.

As set out in the Directors' Report, the Group has assessed Brexit risk under the direction of its Brexit Steering Committee. The Group is a UK based processor, does not process any payments from within the EU (excluding UK), has no passporting requirements and is not directly regulated in any EU jurisdiction outside of the UK. The increasing possibility of a 'no deal' scenario materialising may affect the Company's risk profile by introducing potentially significant new uncertainties and instability in financial markets and the wider economy. These uncertainties are not expected to have a material adverse effect on business operations in the short term but risks continue to be monitored and assessed given the changing political situation and ongoing negotiations.

In preparing the consolidated financial statements, the Directors have taken into account all information that could reasonably be expected to be available for at the least the following 12 months and beyond from the date of signing the financial statements.

After taking account of all the above factors and reflecting the finance available and drawn down by the Group and its ongoing cash requirements, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis.

Directors' Report (continued)

Going concern (continued)

Company

The Directors of its subsidiary companies have advised, in writing to the Company that they do not intend to demand repayment of amounts due from the Company until at least 30 June 2020.

Whilst the Company does not trade, based on these written assurances and after making enquiries, the Directors confirm that they have a reasonable expectation that the Company has adequate capital resources to continue in operational existence for the foreseeable future. The Directors consider that it is appropriate to prepare the financial statements on a going concern basis.

Events after the reporting date

In January 2019 Mastercard Payment Gateway Services Limited provided an additional unsecured, long term loan of £140.0m to Vocalink Limited, the operating company. The loan was fully funded in cash on 24 January 2019; it is repayable no later than 24 January 2024 with an interest rate of 3.41%.


On 14 March 2019 Vocalink Limited signed an extension of its contract with Bacs Payment Services Limited extending from December 2020 with a minimum term ending November 2023.

There were no other events subsequent to the reporting date that require disclosure.

Independent auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

By order of the Board


Jackie Ranayi
Company Secretary

1 Angel Lane
London
EC4R 3AB

28 March 2019

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the Financial Statements (the "Annual Report") in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

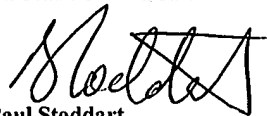
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

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

On behalf of the Board



Paul Stoddart
Director
28 March 2019

Independent Auditors' Report to the members of Vocalink Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, Vocalink Holdings Limited's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's loss and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2018; the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated and Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

Independent Auditors' Report to the members of Vocalink Holdings Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 auditors' report.

Independent Auditors' Report to the members of Vocalink Holdings Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Gemma Clark

Gemma Clark (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

29 March 2019

**Consolidated Statement of Comprehensive Income
for year ended 31 December 2018**

	Notes	2018 £m	2017 £m
Revenue	2	<u>194.8</u>	<u>214.9</u>
Staff costs	3,5	(96.4)	(92.1)
Depreciation, amortisation and impairment	3,8,9	(39.7)	(27.5)
Other expenses	3	(87.3)	(109.9)
Total expenses		<u>(223.4)</u>	<u>(229.5)</u>
Operating loss		(28.6)	(14.6)
Finance income	4	0.6	1.1
Finance costs	4	(3.0)	(4.0)
Loss before taxation		<u>(31.0)</u>	<u>(17.5)</u>
Taxation	7	6.6	(2.0)
Loss for the year		<u>(24.4)</u>	<u>(19.5)</u>
Loss is attributable to:			
Majority shareholder		(22.6)	(18.0)
Non-controlling interests		(1.8)	(1.5)
		<u>(24.4)</u>	<u>(19.5)</u>
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Remeasurement (losses)/gains on defined benefit pension	14	(8.4)	17.8
Deferred tax related to (losses)/gains on defined benefit pension	7	1.4	(3.0)
Total other comprehensive (expense)/income		<u>(7.0)</u>	<u>14.8</u>
Total comprehensive expense for the year		<u>(31.4)</u>	<u>(4.7)</u>
Total comprehensive expense is attributable to:			
Majority shareholder		(29.0)	(4.3)
Non-controlling interests		(2.4)	(0.4)
		<u>(31.4)</u>	<u>(4.7)</u>

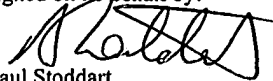
The notes on pages 18 to 63 form an integral part of these financial statements.

**Consolidated Statement of Financial Position
as at 31 December 2018**

	Notes	2018 £m	2017 £m
Non-current assets			
Property, plant and equipment	8	78.7	75.0
Intangible assets	9	67.7	64.5
Deferred tax assets	10	7.7	7.1
Trade and other receivables	11	26.0	3.4
Contract fulfilment assets	2,11	26.0	-
Total non-current assets		206.1	150.0
Current assets			
Trade and other receivables	11	57.4	67.7
Amounts due from group undertakings	11	3.1	-
Contract fulfilment assets	2,11	9.6	-
Cash and cash equivalents	12	49.5	71.6
Total current assets		119.6	139.3
Total assets		325.7	289.3
Current liabilities			
Trade and other payables	13	59.0	69.2
Amounts due to group undertakings	13	5.3	1.2
Deferred income	13	19.1	5.8
Provisions	15	7.5	3.8
Total current liabilities		90.9	80.0
Non-current liabilities			
Other payables	13	1.2	4.9
Amounts due to group undertakings	13	140.0	90.0
Deferred income	13	22.9	9.6
Provisions for other liabilities and charges	15	14.0	11.4
Pension liabilities	14	19.2	24.6
Total non-current liabilities		197.3	140.5
Total liabilities		288.2	220.5
Net assets		37.5	68.8
Equity			
Share capital	16	133.4	133.4
Share premium		14.6	14.6
Reserves		(63.4)	(63.4)
Accumulated losses		(47.1)	(15.8)
Total equity		37.5	68.8

The notes on pages 18 to 63 form an integral part of these financial statements.

These financial statements on pages 12 to 63 were approved by the board of directors on 28 March 2019 and were signed on its behalf by:


Paul Stoddart
CHIEF EXECUTIVE OFFICER

Company registered number: 06119036

Consolidated Statement of Changes in Equity for year ended 31 December 2018

	Share capital £m	Share premium £m	Other reserves £m	Accumulated losses £m	Total equity £m
Balance at 31 December 2017 (as previously published)	133.4	14.6	(63.4)	(15.8)	68.8
Impact of adoption of IFRS 15 (note 23)	-	-	-	0.1	0.1
Restated total equity as at 1 January 2018	133.4	14.6	(63.4)	(15.7)	68.9
Total comprehensive expense for the year					
Loss for the year	-	-	-	(24.4)	(24.4)
Other comprehensive expense					
Remeasurement losses on defined benefit pension	-	-	-	(8.4)	(8.4)
Deferred tax related to losses on defined benefit pension	-	-	-	1.4	1.4
Total comprehensive expense for the year	-	-	-	(31.4)	(31.4)
Balance at 31 December 2018	133.4	14.6	(63.4)	(47.1)	37.5

	Share capital £m	Share premium £m	Other reserves £m	Accumulated losses £m	Total equity £m
Balance at 1 January 2017	133.4	14.6	(63.4)	(11.1)	73.5
Total comprehensive expense for the year					
Loss for the year	-	-	-	(19.5)	(19.5)
Other comprehensive income					
Remeasurement losses on defined benefit pension	-	-	-	17.8	17.8
Deferred tax related to losses on defined benefit pension	-	-	-	(3.0)	(3.0)
Total comprehensive expense for the year	-	-	-	(4.7)	(4.7)
Balance at 31 December 2017	133.4	14.6	(63.4)	(15.8)	68.8

The notes on pages 18 to 63 form an integral part of these financial statements.

Consolidated Cash Flow Statement for year ended 31 December 2018

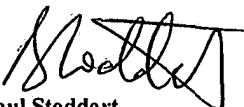
	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Loss for the year		(24.4)	(19.5)
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment	8,9	39.7	27.5
Financial income	4	(0.5)	(0.4)
Financial expense	4	3.1	4.0
Taxation	7	(7.9)	(7.6)
Non cash pension adjustment	14	0.6	-
(Increase)/decrease in trade, group and other receivables		(4.9)	3.1
Increase in contract fulfilment assets	2,23	(35.6)	-
Increase/(decrease) in trade and other payables		3.1	(1.5)
Increase in deferred income	2,23	26.6	-
Increase in provisions and employee benefits		1.0	11.4
Pension scheme contributions		(14.9)	(14.8)
Interest paid		(2.6)	(2.4)
Interest received		0.6	0.4
Tax paid		(2.2)	-
Net cash (used in)/raised from operating activities		(18.3)	0.2
Cash flows from investing activities			
Acquisition of property, plant, and equipment	8	(23.3)	(22.5)
Acquisition of other intangible assets	9	(30.5)	(31.8)
Net cash used in investing activities		(53.8)	(54.3)
Cash flows from financing activities			
Funds received from group undertakings	13	50.0	90.0
Net cash raised from financing activities		50.0	90.0
Net (decrease)/increase in cash and cash equivalents		(22.1)	35.9
Cash and cash equivalents at 1 January		71.6	35.7
Cash and cash equivalents at 31 December	12	49.5	71.6

**Company Statement of Financial Position
at 31 December 2018**

	Notes	2018 £m	2017 £m
Non-current assets			
Investments	22	163.8	163.8
Total non-current assets		<u>163.8</u>	<u>163.8</u>
Current assets			
Amounts due from group undertakings	11	0.5	0.5
Cash and cash equivalents		-	-
Total current assets		<u>0.5</u>	<u>0.5</u>
Total assets		<u>164.3</u>	<u>164.3</u>
Current liabilities			
Amounts due to group undertakings	13	(0.1)	-
Non-current liabilities			
Amounts due to group undertakings	13	(13.3)	(13.2)
Total non-current liabilities		<u>(13.3)</u>	<u>(13.2)</u>
Total liabilities		<u>(13.4)</u>	<u>(13.2)</u>
Net assets		<u>150.9</u>	<u>151.1</u>
Equity			
Called up share capital	16	133.4	133.4
Share premium account		14.6	14.6
Other reserves		12.2	12.2
Accumulated losses		(9.3)	(9.1)
Total equity		<u>150.9</u>	<u>151.1</u>

The notes on pages 18 to 63 form an integral part of these financial statements.

These financial statements on pages 12 to 63 were approved by the board of directors on 28 March 2019 and were signed on its behalf by:


Paul Stoddart
CHIEF EXECUTIVE OFFICER

Registered company number: 06119036

**Company Statement of Changes in Equity
for year ended 31 December 2018**

	Share capital £m	Share premium £m	Other reserves £m	Accumulated losses £m	Total equity £m
Balance at 1 January 2018	133.4	14.6	12.2	(9.1)	151.1
Comprehensive expense for the year					
Loss for the financial year	-	-	-	(0.2)	(0.2)
Total comprehensive expense for the year	-	-	-	(0.2)	(0.2)
Balance at 31 December 2018	133.4	14.6	12.2	(9.3)	150.9

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings/ (Accumulated Losses) £m	Total equity £m
Balance at 1 January 2017	133.4	14.6	12.2	1.4	161.6
Comprehensive expense for the year					
Loss for the financial year	-	-	-	(10.5)	(10.5)
Total comprehensive expense for the year	-	-	-	(10.5)	(10.5)
Balance at 31 December 2017	133.4	14.6	12.2	(9.1)	151.1

The notes on pages 18 to 63 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

1.1 General information

Vocalink Holdings Limited ('the Company') and its subsidiaries (together 'the Group') are all private limited liability companies, limited by shares and incorporated and domiciled in England and Wales, within the United Kingdom. The Company's registered office is 1, Angel Lane, London, EC4R 3AB, United Kingdom.

Mastercard Incorporated is the owner of 92.4% of the issued share capital of the Company, through its subsidiary Mastercard UK Holdco Limited. Mastercard Incorporated is the ultimate parent undertaking of the Company.

1.2 Basis of preparation

In 2017, the Company prepared its financial statements in accordance with the Companies Act 2006, as applicable to companies using Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Company took advantage of the exemption under Section 401 of the Companies Act 2006 not to prepare consolidated financial statements. This framework is available to companies that are preparing their financial statements on an unconsolidated basis.

Following an agreement between the shareholders of the Company to prepare the financial statements on a consolidated basis in respect of the year ended 31 December 2018, the Company is not eligible to adopt the FRS 101 framework and therefore these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). Prior year balances and disclosures have also been presented on a consolidated basis within these financial statements.

The consolidated financial statements incorporate the financial statements of the Company and all entities controlled by the Company (its subsidiaries) to 31 December each year. Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement and cash flow statement.

Historical cost convention

The consolidated and Company financial statements have been prepared under the historical cost convention and in accordance with the accounting policies set out below which, unless otherwise stated, have been applied consistently to all periods presented in these financial statements. The Group does not currently have any assets or liabilities which are required to be held at fair value, other than defined benefit scheme assets.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time in its annual reporting period commencing 1 January 2018:

IFRS 9 Financial Instruments ('IFRS 9')

The adoption of IFRS 9 resulted in new criteria being applied in the measurement and disclosure of financial instruments. After a review of these requirements, management concluded that there are no impacts arising from IFRS 9 within the current reporting period and therefore no adjustments or disclosures are required.

IFRS 15 Revenue from Contracts with Customers ('IFRS 15')

On 1 January 2018, the Group adopted the new accounting standard for revenue recognition - IFRS 15, following the modified retrospective basis. As a result of using the modified retrospective basis, prior year balances were not restated, however the opening balances in the Consolidated Statement of Financial Position have been adjusted for contracts with customers that were in progress on the date of transition - 1 January 2018.

IFRS 15 sets out the requirements for recognising revenue from contracts with customers. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a stand-alone selling price basis, based on five-step model. The Group completed a transition exercise, under which its contracts were subject to review by reference to the rules set out in the five-step model. This exercise showed that, for many contracts and revenue streams, the impact on revenue recognition was not material. An exception was in the pattern of revenue recognition for development and implementation services, which are generally deferred and recognised over the life of the contract, whereas formerly on an IAS 18 basis, they were recognised as the services were delivered, measured on a percentage of completion basis.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.2 Basis of preparation (continued)

IFRS 15 Revenue from Contracts with Customers ('IFRS 15') (continued)

A further impact was that intangible assets with a value of £10.5m on 1 January 2018 were reclassified to prepayments. Further details of the basis for this change in classification are contained in notes 1.10 and 1.15. Additional information on the impact of adoption of IFRS 15 is set out in note 23.

1.3 Going concern

We have performed a detailed going concern assessment for the Group, considering liquidity of cash reserves and future forecast cash flows of the Group, sensitised for a reasonably probable set of downside assumptions and potential mitigating factors.

We have specifically considered these alongside our declining cash balance and losses for the year ended 31 December 2018, in conjunction with funding available from Mastercard companies and our availability of liquidity. In January 2019, a further five year loan of £140.0m was drawn down from Mastercard Payment Gateway Services Limited to enable Vocalink to maintain financial resilience whilst continuing to fund strategic investments.

As set out in Directors' Report, the Group has assessed Brexit risk under the direction of its Brexit Steering Committee. The Group is a UK based processor, does not process any payments from within the EU (excluding UK), has no passporting requirements and is not directly regulated in any EU jurisdiction outside of the UK. The increasing possibility of a 'no deal' scenario materialising may affect the Company's risk profile by introducing potentially significant new uncertainties and instability in financial markets and the wider economy. These uncertainties are not expected to have a material adverse effect on business operations in the short term but risks continue to be monitored and assessed given the changing political situation and ongoing negotiations.

In preparing the consolidated financial statements, the Directors have taken into account all information that could reasonably be expected to be available for at the least the following 12 months and beyond from the date of signing the financial statements.

After taking account of all the above factors and reflecting the finance available and drawn down by the Group and its ongoing cash requirements, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis.

Company

The Directors of its subsidiary companies have advised, in writing to the Company that they do not intend to demand repayment of amounts due from the Company until at least 30 June 2020.

Whilst the Company does not trade, based on these written assurances and after making enquiries, the Directors confirm that they have a reasonable expectation that the Company has adequate capital resources to continue in operational existence for the foreseeable future. The Directors consider that it is appropriate to prepare the financial statements on a going concern basis.

1.4 Revenue from contracts with customers

In 2018 the Group adopted the new revenue standard IFRS 15 Revenue from Contracts with Customers, which took effect on 1 January 2018. It followed the modified retrospective approach under which prior year balances are not restated. The policies that applied in the prior year are reported within this note.

The Group derives all its revenue from contracts with customers. Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue recognition is based on a five-step model which requires, for each customer contract, that the transaction price is apportioned to the separate performance obligations set out in the contract on a relative standalone selling price basis, and recognised as revenue at the point at which control of goods or services is transferred to the customer.

In determining the transaction price, variable revenue is included in the transaction price where it is highly probable that it will be realised. Revenue is taken into account where it is expected to be collectible.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.4 Revenue from contracts with customers (continued)

The Group often enters into transactions with customers that include multiple performance obligations, such as payment transactions processing, licences, software development, implementation services and support services. Revenue is recognised in respect of a performance obligation when it is both distinct from other performance obligations in the contract and the performance obligation has been fully satisfied. Criteria applied in assessing whether a performance obligation is distinct include determining whether a) it is separately identifiable within the contract, and b) whether the customer can benefit from the service either on its own, or in combination with other readily available resources.

For many of the Group's contracts, implementation services are customised and therefore the customer is not able to benefit from them until the payment service is operational. Such revenue is therefore combined with revenue from other performance obligations in the contract and deferred in the Consolidated Statement of Financial Position.

Revenue is recognised over time, over the life of the operational phase of the contract, commencing on the date on which the payment service is operational.

The Group generates revenue as follows:

- Transaction services
- Subscriptions, licence and maintenance fees
- Development, implementation and consultancy fees

Transaction based revenue

Charges for the Group's payment processing and connectivity services are recognised over time, accounted for in the same period in which the related transactions occur, excluding VAT.

Subscriptions, licence and maintenance fees

The Group grants its customers licences to use its software, typically on a fixed term basis. Depending on the terms of the customer contracts, licences are accounted for either on a right to access or right to use basis. Fees from sales of right to access software are recognised over time, whereas right to use sales are recognised at a point in time. Where significant customisation of software is required and the customer is unable to benefit from it either on its own or in combination with readily available resources, licence sales are accounted for over time. Such fees are combined with other revenue within the customer contract and recognised evenly over time from the date that the payment service is operational.

Where the rights and control over the software pass to the customer and the customer can benefit from the software on its own or in combination with readily available resources, the licence sale is accounted for at a point in time.

Maintenance fees provide customers with rights to software upgrades, enhancements and help desk access during a defined support period. Revenue associated with maintenance is recognised evenly over time over the operational period of the contract.

Development, implementation and consultancy fees

Revenue is generated from software development, implementation and consultancy fees. The services are typically invoiced on a time and materials or fixed price basis. They are provided as part of a contract which comprises multiple performance obligations. If the performance obligation relating to the software development, implementation or consultancy service is distinct from other performance obligations in the contract, then revenue is recognised when the control over service provided is transferred to the customer. Where it is not distinct, revenue from these services is combined with revenue from other performance obligations in the contract and recognised evenly over time from the date that the payment service is operational.

Where the outcome of a long term contract cannot be measured reliably, contract revenue is recognised to the extent of contract costs incurred, when it is probable that such costs will be recovered. Where it is probable that total contract costs by reference to estimated costs to completion will exceed contract revenue, the expected loss is recognised as an expense at the point that this is foreseen.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.4 Revenue from contracts with customers (continued)

Costs to fulfil a contract

Costs which relate to unfulfilled performance obligations at the reporting date are deferred as contract fulfilment assets in the Consolidated Statement of Financial Position. The assets are released to the Consolidated Statement of Comprehensive Income consistent with the pattern of recognition of revenue, on a straight-line basis over the term of the relevant customer contract, commencing on the date on which the payment service is operational.

At the reporting date, management undertakes an impairment review, comparing the carrying value of the assets with the total consideration that the Group expects to receive from the customer, less any costs to be incurred in delivering the services as specified in the contract.

Practical expedients IFRS 15

Existence of a financing component:

The Group has adopted the practical expedient to not adjust the consideration receivable under a contract for the effect of a significant financing component if the Group expects, at contract inception, that the period between when the entity transfers a promised service to a customer and when the customer pays for that service will be less than one year.

1.4.1 Prior year revenue recognition policy - 2017

Revenue in 2017 was recognised in accordance with *IAS 18 Revenue*. In determining the amount of revenue to be recognised, management exercised judgement, and also adopted estimates in reaching certain conclusions. Management considered guidance from industry common practice in forming estimates. The prior year policy is set out below:

The Group often enters into transactions with customers that include multiple elements, such as licence, software development, implementation and maintenance revenues. The revenues from these arrangements are generally accounted for separately. The factors that are considered in determining whether the revenue should be accounted for separately include the nature of the services, the existence of the fair value for the separable elements, the timing of payments and the acceptance criteria on the recoverability of the licence fee.

Transaction services

Charges for the Group's automated money transmission, transaction switching and connectivity services are recognised in the month of processing, excluding VAT.

Subscriptions, licence and maintenance fees

Revenue associated with maintenance elements of long term contracts is recognised in line with the contract term. Where the outcome of a long term contract cannot be measured reliably, contract revenue is recognised to the extent of contract costs incurred, when it is probable that such costs will be recovered. Where it is probable that total contract costs by reference to estimated costs to completion will exceed contract revenue, the expected loss is recognised as an expense at the point that this is foreseen. The maintenance fee provides customers with rights to software upgrades, enhancements and help desk access during a defined support period.

The Group grants its customers licenses to use its software. The fee can either be for customer specific code, where the rights and ownership of the code pass to the customer or right to use the software product.

Certain criteria must be met before revenue is recognised:

- Arrangement existence is evidenced,
- Delivery to the customer has occurred,
- Risk and rewards of ownership have been transferred from the Group to the customer,
- Revenue, and associated costs, can be measured reliably, and
- Collection from the customer is deemed probable.

Where significant vendor performance obligations exist, revenue recognition is deferred until the obligation has been satisfied. No revenue is recognised for multiple deliveries or multiple element products if an element remains undelivered and is essential to the functionality of the elements already delivered.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.4 Revenue from contracts with customers (continued)

1.4.1 Prior year revenue recognition policy – 2017 (continued)

Development, implementation and consultancy fees

Revenue is generated from software development, implementation and consultancy fees. These elements are typically on a time and materials or fixed price basis. A percentage of completion approach is adopted to account for development and implementation services. This involves a comparison of the costs incurred to date with the total costs of the contract.

1.5 Foreign currency translation

The Group's financial statements are presented in pounds sterling, which is the Group's functional currency. All significant contracts are currently denominated and settled in pounds sterling, thereby mitigating foreign exchange risk. Other than certain costs from overseas suppliers, there are no transactions in currencies other than the entity's functional currency.

1.6 Classification of financial instruments issued by the Group

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

- (a) they include no contractual obligations upon the Group 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 Group; and
- (b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.7 Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

As at the reporting date the Group had £140m (2017: £90m) drawn under two five-year loan facilities from a group undertaking, Mastercard Payment Gateway Services Limited. The facilities were fully drawn at the reporting date. The loans are unsecured and may be repaid at any time up to the maturity dates of 28 June 2022 and 23 May 2023. Interest is charged at a fixed rate of interest and is cash settled in December of each year.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, commencing on the date the asset is available for use. Land, both leasehold and freehold, is not depreciated. The estimated useful lives are as follows:

- freehold buildings 50 years
- leasehold buildings over the remaining period of the lease
- plant and equipment 4 to 20 years
- computers and ancillary equipment 3 to 7 years
- fixtures and fittings 3 to 10 years

Useful lives are reviewed at each reporting date and adjusted prospectively, if appropriate indicators of impairment exist.

1.9 Intangible assets

Research and development expenditure

Expenditure on research activities is recognised as an expense as incurred.

Expenditure on development activities is capitalised if:

- the product or process is technically and commercially feasible;
- the Group intends to complete the development;
- the Group has the technical ability and sufficient resources to complete the development;
- future economic benefits from the development are probable; and
- the Group can reliably measure the expenditure attributable to the development.

Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct employee salary and benefits, direct technical contractor expenses. Other development expenditure is recognised in the income statement as an expense as incurred.

Software and development assets

Capitalised development expenditure is recorded under the cost model and is stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. The amortisation period for these assets is three to five years.

Asset lives for assets supporting specific customer contracts are primarily determined by the duration of the respective customer contract, with due consideration given to the period over which it is estimated that the developed software will continue to be in use and economically viable, without significant redevelopment.

Assets utilised in serving multiple customers are grouped together according to the relevant payment product. Asset lives for payment products are typically relatively long, being five to ten years. Nevertheless, reflecting the ongoing investment required to maintain such products, Group policy is that asset lives for amortisation purposes do not exceed five years. Subject to the constraints of this policy, asset lives are determined by reference to the useful economic life of the payment product within the markets in which it operates.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.9 Intangible assets (continued)

Impairment testing

The carrying values of assets are tested for impairment whenever there are events or circumstances that indicate that their carrying amount may not be recoverable. Impairment testing is carried out for groups of assets, which, in combination, form cash generating units ('CGUs'). CGUs are the smallest identifiable group of assets that generate cash flows that are largely independent of cash flows arising from other assets. Vocalink CGUs comprise groups of intangible and tangible assets that are closely related, and which, in combination, form the systems supporting specific Vocalink payment products or customer contracts.

For testing purposes, the fair value of an asset is calculated using the present value of estimated net future cash flows arising from the relevant CGU. Cash flows are based on the most recent budgets or forecasts approved by management and reflect reasonable and supportable assumptions by reference to the range of economic conditions that will exist over the period of the budget or forecast. Where cash flows are extended beyond the period covered by the most recent budget or forecast, they are extrapolated using a steady or declining growth rate, unless an increasing rate can be justified.

If the carrying amount of the asset exceeds its fair value, an impairment is immediately recorded.

1.10 Prepaid incentives

In the development and launch of its mobile payment product Pay by Bank app ('PbBa'), the Group makes payments to issuing banks and other participants as part of agreements reached in bringing the product to market.

Revenues generated are earned as transactions are processed and settled between a Merchant and Customer within the Faster Payments ecosystem. This ecosystem is comprised of issuing banks (Customer's bank), Acquiring banks (Merchant's bank) and Vocalink (as a Payment Network Service Provider) all fulfilling individual obligations in settlement of funds from a given transaction.

In prior years, incentives payments were capitalised as intangible assets and amortised on a straight-line basis, commencing on the date that the asset is available and brought into use. On adoption of IFRS 15, incentive payments are now deferred as prepayments and released net against revenue as the associated ongoing revenues are recognised from transactions processed, which continues until the prepayment is reduced to zero.

Intangible assets with a carrying value of £10.5m were reclassified as at 1 January 2018, as disclosed in note 23, as part of the adoption of IFRS 15. The key judgements in arriving at this policy are outlined further in note 1.15.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.11 Employee benefits

Pension obligations

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group operates one defined benefit plan in the UK which provides both pensions and retirement and death benefits to members. The plan closed to future accrual to new benefits on 31 July 2013, although members who remain in the Group's employment retain a link to their final salary.

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and taking account of the expected rate of cash commutation by members. The future benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in the income statement.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based employee remuneration

Long term incentive plan

Prior to the acquisition by Mastercard Incorporated, the Group operated a long term incentive plan (LTIP) for Executives and certain employees. Under IFRS 2, this was deemed a cash settled share based payment scheme.

The amount payable to the employee was recognised as an expense with a corresponding provision recognised in liabilities. The fair value was initially measured at the grant date and spread over the period during which the employee became unconditionally entitled to payment. The scheme was valued using an option pricing approach, specifically, the Monte Carlo Simulation approach, taking into consideration the terms and conditions upon which the scheme was created. During the year the awards under this scheme were accounted for in the income statement.

The LTIP scheme involved participants being entitled to a cash bonus which vested if certain earn out criteria were met in 2018. That element of the LTIP is accounted for under IAS 19 Employee Benefits, as the benefits are not equity settled. Cash bonuses estimated to be payable to participants are estimated and charged to the income statement over the period in which the bonuses are accruing.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.11 Employee benefits (continued)

Share-based employee remuneration (continued)

Mastercard share-based payment plans

The Group participates in two share-based compensation plans operated by Mastercard Incorporated, a restricted stock unit scheme under which units are awarded ('RSUs') and a non-qualified stock option scheme ('Options'). The awards are granted by Mastercard Incorporated and the Group has no obligation to settle the awards. The fair value of the employee services received in exchange for the grant of the awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the awards granted.

Restricted stock units

A restricted stock unit (RSU) award is denominated in common Mastercard Incorporated shares that will be settled either by delivery of common shares or the payment of cash based upon the value of a specified number of common shares. Mastercard Incorporated grants RSUs periodically to employees in accordance with the RSU agreement.

Mastercard Incorporated's RSUs are time-based awards that typically vest at the end of a three year requisite service period (cliff vesting). These awards are conditional upon the employee's continued employment with the Mastercard Group as of the vesting date.

The fair value of RSUs is determined and fixed on the grant date based on the Mastercard Incorporated stock price, adjusted for the exclusion of dividend equivalents.

Non-qualified stock options

A non-qualified stock option ('Option') entitles the participant to receive common shares upon exercise of such options. The remuneration committee may provide for grant or vesting options conditional upon the performance of services, the achievement of performance goals or the execution of, and/or compliance with, a non-competition or non-solicitation agreement, or any combination of the above. The exercise price per share for an award shall not be less than the fair market value per share as of the grant date. The option period fixed by the committee for any award shall be no longer than ten years from the option's grant date. The standard rate at which an option shall be exercisable shall be twenty five percent on each of the first four anniversaries of the grant.

Mastercard Incorporated estimates the fair value of its non-qualified stock options awards using a Black-Scholes valuation model.

Recognition of share-based employee remuneration in the Consolidated Statement of Comprehensive Income

At the end of each reporting period, the Group revises its estimates of the number of units and options that are expected to vest, based on any market and non-market vesting conditions.

The total expense of the above schemes is recognised on a straight line basis over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. The related share-based compensation expenses are recorded in staff costs.

1.12 Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.13 Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Operating lease payments

Payments made under operating leases are recognised in the Consolidated Statement of Comprehensive Income on an accruals basis over the term of the lease. Lease incentives received are recognised in the Consolidated Statement of Comprehensive Income as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term on an effective interest rate basis.

Financing income and expenses

Financing expenses comprise interest payable, finance leases recognised in the Consolidated Statement of Comprehensive Income using the effective interest method and unwinding of the discount on provisions. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested.

Interest income and interest payable is recognised in the Consolidated Statement of Comprehensive Income as it accrues, using the effective interest method. Dividend income is recognised in the Consolidated Statement of Comprehensive Income on the date that the entity's right to receive payments is established.

1.14 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. The deferred tax asset balances attributable to carried forward losses are expected to be recoverable against future taxable profits (as projected in the latest operating plan) within two years. The deferred tax assets have not been discounted.

Deferred tax assets have been calculated at 17% (2017: 17%), being the rate substantively enacted at the reporting date.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.15 Critical accounting judgements and key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Revenue recognition

Revenue recognition under IFRS 15 for the current year ended 31 December 2018

Management exercises judgements which impact the amount and timing of revenue recognised from contracts with its customers. In particular, the timing of recognition of revenue is dependent on the timing of the satisfaction of the respective performance obligations in a contract. There are also judgements regarding the total amount of revenue that is to be recognised and how it is allocated to each of the performance obligations.

Customer contracts are typically long term payment services contracts, with a duration of 3 to 5 years. Contracts with customers comprise multiple deliverables, and depending on the nature of the contract, include a combination of services for implementation and onboarding, software development, software licences, transaction processing and customer support services.

Payment services

The service most commonly provided is a hosted or managed service, with payment transaction processing delivered from systems owned and operated by the Group. The customer benefits from the services when the transaction service is operational, which is fulfilled as a single performance obligation, the payment processing service. Revenue from the various components of the contract are combined and recognised evenly over time, commencing on the date that the service becomes operational. For software under development and testing, management exercises judgement regarding the date on which service is fully operational, meeting the criteria for revenue to be recognised.

Sales of software licences

As part of a multiple service contract, the Group sells software through fixed term and perpetual licences. On an annual basis over the term of the licence, maintenance releases are provided, together with support services. As the customers' requirements are specialised and vary according to the regulatory environment, the software is typically customised and a service of integration is provided which is not readily available. The customer is unable to benefit from the software until the customisation is complete. As the performance obligations are not distinct, licence fees and development revenues are combined and recognised in line with progress of the customisation and development of the software.

Management is required to assess whether the customer has a right to access or right to use the customised software. If the customer has the right to access the software, the sale is accounted for over time, whereas if the customer has the right to use it, revenue is recognised at a point in time. Determining factors relate to the degree to which the customer has control over the software, whether it is expected to change in functionality over time and whether the performance obligations in the contract for maintenance and support of the software are distinct from the licence.

Consultancy services

Consultancy services are provided from time to time, typically in support of the customer's own requirements in respect of implementation. Management exercises judgement regarding whether the services are distinct from other performance obligations in the customer contract. Where they are distinct, revenue is typically recognised over time, as the consultancy services are delivered.

Determining and allocating the transaction price

Management exercises judgement in the recognition of variable consideration. It most commonly arises in relation to volumes of transactions processed above a volume threshold in the contract. Such revenues are accounted for over time, as the transactions are processed and therefore variable elements are not recognised unless it is highly probable they will be delivered.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.15 Critical accounting judgements and key sources of estimation uncertainty (continued)

Revenue recognition (continued)

Determining and allocating the transaction price (continued)

In certain contracts payment for services is deferred beyond the period over which they are delivered. If in the view of management the impact is material, an adjustment is made for the time value of money, whereby an amount is transferred from revenue to finance income.

In allocating the transaction price to performance obligations, there is not generally a significant judgement required, as most contracts comprise a single performance obligation.

Timing of satisfaction of performance obligations related to timing of payments from contracts with customers

Charges for payment service levied and paid for on a monthly basis as the performance obligation is satisfied. Other services, such as implementation, consultancy and development services, are typically levied in line with the value of the performance obligations satisfied as measured by reference to milestones set out in the customer contract.

Revenue recognition under IAS 18 for the prior year ended 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for products and/or services delivered in the normal course of business. As stated in note 1.4, revenues on certain elements of long term contracts are calculated using the percentage of completion method. This method quantifies revenue to be recognised by reference to the value of the work performed to date as a proportion of the total contract value. Management exercises judgement in assessing whether criteria will be met and in estimating the value of the work performed and therefore, the corresponding revenue to be recognised or deferred, typically depending on whether a critical milestone has been achieved. For discounts, management bases the estimates upon past experience.

In the year ended 31 December 2017 the Group delivered services under significant long term contracts under which the Group was developing and implementing new payment systems. Management has considered each contract for its individual components and the point at which each component is expected to be delivered. Management applied this information and assessed revenue recognition, after allowing for contingency provisions against contract specific risks, which are typically included in the early stages of contracts. This resulted in revenue of £26.1m being recognised in 2017.

Incentive payments

As referenced in note 1.10, judgements have been made in order to arrive at the mobile payment PbBa revenue accounting policy as a prepayment and not an intangible under IFRS 15. A key judgement relates to the treatment of incentives paid as part of this process. It is management's view that the incentive payments offered to issuing banks and other strategic partners meet the definition of payments made to customers under IFRS 15 and should be capitalised as a prepayment and then released net against revenue as the associated ongoing revenues are recognised. In determining who the customer is within the payment ecosystem, it is management's view that all parties who participate in the settlement of the transaction meet this definition. This conclusion is drawn on the fact there is no one party who exerts sole control over the transaction settlement process and all parties are signed up to a mutual agreement whereby each has to perform specific roles for the process to function.

Direct taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided in full on timing differences that exist at the reporting date and that result in an obligation to pay more tax, or a right to pay less tax in the future. The deferred tax is measured at the rate expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that are enacted or substantively enacted at the reporting date, 17% (2017: 17%). Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the Group's financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets are not discounted.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.15 Critical accounting judgements and key sources of estimation uncertainty (continued)

Indirect taxation

The recovery of input VAT is subject to a partial exemption calculation. VAT returns are submitted quarterly and the final position regarding VAT recovered is agreed on an annual basis. As at the reporting date management exercised judgement in estimating the provision for input VAT that may not be recovered in respect of the financial year.

Contingent liabilities and provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the likelihood of an outflow of resources is less than probable, but more than remote, or a reliable estimate is not determinable, the matter is disclosed as a contingency provided that the obligation or the legal claim is material.

Provisions are measured at management's best estimate, at the end of the reporting period, of the expenditure required to settle the obligation, and are discounted to present value where the effect is material. From time to time, parts of provisions may also be reversed due to a better than expected outcome in the related activities in terms of cash outflow.

Onerous contracts are recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

A contingent liability is a possible obligation whose existence will be confirmed only the occurrence of a future event or a present obligation that is uncertain as regards the amount. Where there is a possibility of an outflow of economic benefits the Group discloses an estimate of the financial effect and any uncertainties relating to it, unless the probability the liability arising is considered to be remote.

Retirement benefit obligations

The Group operates a defined benefit pension scheme for which actuarial valuations are carried out as determined by the trustees at yearly intervals.

The pension cost under IAS 19 is assessed in accordance with directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on information supplied to the actuary, supplemented by discussions between the actuary and management. It is required to form judgements in relation to market conditions, including the discount rate and future inflation. Discussions also include a review of the profile of scheme members, including their life expectancy, entitlement and choices regarding future benefits and options, including cash commutation. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in assumptions and future funding obligations are set out in note 14 of the financial statements.

In October 2018, a UK court judgement was issued resulting in the requirement to equalise for the effects of unequal Guaranteed Minimum Pensions ('GMPs'). This has resulted in an increase in the defined benefit obligation of the scheme, with an additional liability of £0.6m; the full amount was charged to the Consolidated Statement of Comprehensive Income in the year.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.15 Critical accounting judgements and key sources of estimation uncertainty (continued)

Capitalisation of development expenditure and useful economic lives

Capitalisation of development activities occurs if the product or process is technically and commercially feasible and the Group intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development.

Management exercises key judgements in assessing the useful life of the assets. These are established at the time each development commences and are regularly reviewed for appropriateness.

Estimates and assumptions are based on the estimated useful life and expected future economic benefits generated by products that are the result of its development activities.

Payment systems require a long term and significant investment of time and resources. They are developed with the quality and resilience necessary to support the national payment system infrastructure. Both the Group and the participating banks undertake significant system design, development and implementation, followed by rigorous testing undertaken prior to service go-live. Both parties have an economic interest in retaining the software in use over the medium to long term. This has been shown to apply historically and is expected to continue. Economic useful lives of assets are therefore longer than is typical for technology products.

Impairment testing of intangible assets

The carrying values of assets are tested for impairment whenever there are events or circumstances that indicate that their carrying amount may not be recoverable. For testing purposes, assets are grouped with other identifiable assets into cash generating units ('CGUs'). CGUs are typically in the form of assets used for either specific payment products or, where they are wholly dedicated to a specific customer contract, to the respective contract.

For testing purposes, the fair value of the asset is calculated using the present value of estimated net future cash flows arising over the remaining useful life of the asset and compared to the carrying value of the asset. If the carrying amount of the asset exceeds its fair value, an impairment is immediately recorded.

In evaluating the cash flows used in testing for impairment, management exercises judgement in determining the assumptions supporting the cash flows, ensuring that they are reasonable and relevant. Where cash flows are extended beyond the period covered by the most recent budget, they are extrapolated using a steady or declining growth rate, unless an increasing rate can be justified.

As at the reporting date, intangible assets with a net book value of £67.7m (2017: £64.5m) were held on the Consolidated Statement of Financial Position. During the year an impairment of £3.9m (2017: £nil) was recorded, further details are contained in note 9. As set out above, in reviewing these assets for impairment, management has exercised judgement regarding the future economic benefits to be generated as they are utilised or brought into use.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.16 Adopted IFRS not yet applied

The following adopted IFRS has been issued but have not been applied in these financial statements. Details are provided below:

Pronouncement	Latest effective date	Nature of change
IFRS 16 Leases	1/1/2019	<p>IFRS 16 will result in almost all leases being recognised in the Consolidated Statement of Financial Position by lessees, as the distinction between operating and finance leases is removed. Under the new standard an asset (the right to use the leased item) and financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.</p> <p>The Group has carried out a review of all of its material leases and has estimated the impact of IFRS 16 on its Consolidated Statement of Financial Position. This included an assessment of whether certain options to terminate the leases will be exercised, or the leases will continue over their full term.</p> <p>As at the reporting date, the Group had non-cancellable operating lease commitments of £14.9m, see note 18. Whilst management's review is in progress, as at the date of signing of these financial statements, the Group expects on adoption of IFRS 16 to recognise right-of-use assets in the range of approximately £21m-£23m and lease liabilities in the range of approximately £22m-£24m, with a charge to the Consolidated Statement of Comprehensive Income of approximately £3m in the financial year ended 31 December 2019.</p> <p>The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.</p>

All the amendments to accounting standards and pronouncements applicable to the Group effective for accounting periods beginning after 31 December 2018 listed below are not expected to have a material impact:

- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- Annual Improvements 2014-2016 cycle
- Transfers to Investment Property – Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRS Standards 2015-2017 Cycle

Notes to the financial statements (continued)

2 Revenue from contracts with customers

All revenue arises from contracts with the Group's customers.

Revenue typically arises under long term contracts with a term of 3 to 5 years and revenue is recognised over time, as transactions are processed or support services provided.

Contracts with customers comprise multiple deliverables, including implementation and onboarding, software development, licence fees, payment processing and customer support services. The services provided are specialised in nature and the business operates in different regulatory environments. Therefore, in implementing contracts with new customers the Group provides customisation and integration services. The performance obligations for the implementation and development services are generally not distinct from the payment transaction service. Revenues from the various performance obligations are therefore usually combined and recognised over time from the date on which the respective payment service is operational.

2 (a) Disaggregation of revenue

2 (a) (i) Nature of service provided

In the following table revenue is disaggregated by the nature of the service provided.

	2018 £m	2017* £m
Services provided		
Transaction services	149.5	144.7
Maintenance and subscriptions	25.5	18.3
Development, implementation and consultancy fees	18.6	51.9
	<hr/>	<hr/>
	193.6	214.9
Recharges to other Mastercard group undertakings	1.2	-
	<hr/>	<hr/>
Total revenue	194.8	214.9
	<hr/>	<hr/>

* The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

Recharges to Mastercard group undertakings comprise payment technology development and maintenance services, as provided for in the relevant service level agreements.

2 (a) (ii) Timing of transfer of services provided

Payment services are generally transferred over time, as transactions are processed or support and maintenance services are provided. Revenue is recognised over time as the payment or service is provided. In the financial year ended 31 December 2018 £192.5m, representing 98% of revenue, related to services transferred over time; with £2.3m from the sale of a software licence recognised at a point in time.

2 (a) (iii) Timing of satisfaction of performance obligations in comparison with timing of payments

Charges for payment services are levied and paid for on a monthly basis as the performance obligation is satisfied. Other services, such implementation, consultancy and development services, are typically levied in line with the value of the performance obligations satisfied as measured by reference to milestones set out in the customer contract.

Notes to the financial statements (continued)

2 Revenue (continued)

2 (b) Contract balances

Contract assets comprise receivables from customers and assets relating to the fulfilment of customer contracts. The Group's trade receivables and accrued income solely relate to revenue from contracts with customers. Fulfilment assets relate to the satisfaction of future performance obligations contained within customer contracts, further details of which are set out in 2 (e) below.

Contract liabilities comprise deferred income; the Group's deferred income balances solely relate to revenue from contracts with its customers.

The Group recognised the cumulative effect of initially applying IFRS 15 as an adjustment to opening balances as at 1 January 2018.

The following table summarises the opening and closing receivables, contract fulfilment assets and contract liabilities from contracts with customers:

	Notes	31 December 2018 £m	1 January 2018* £m
Contract assets			
Trade receivables	11	18.9	14.4
Accrued income		17.1	18.5
Assets relating to costs to fulfil a contract – current	2(e),23	9.6	6.5
Assets relating to costs to fulfil a contract – non-current	2(e),23	26.0	24.2
Total contract assets		71.6	63.6
Contract liabilities – deferred income			
Deferred income – current	13,23	19.1	12.3
Deferred income – non-current	13,23	22.9	20.2
Total contract liabilities		42.0	32.5

* As adjusted on adoption of IFRS 15

2 (c) Significant changes in contract assets and liabilities during the year are as follows:

Movements in contract assets and liabilities in the year were driven by transactions entered into by the Group within the normal course of business.

Contract assets increased by £8.0m to £71.6m over the year, principally due to an increase in trade receivables of £4.5m. This increase was partly attributable to amounts invoiced in December 2018 on reaching milestones in a contract and the later settlement of key customer account balances which remained outstanding as at the reporting date, as compared to the prior year.

Contract liabilities increased by £9.5m to £42.0m due to further implementation and development services delivered in the year for which revenues were deferred under IFRS 15.

Notes to the financial statements (continued)

2 Revenue (continued)

2 (d) Revenue recognised in relation to deferred income

Contract liabilities comprise deferred income. The Group's deferred income balances solely relate to revenue from contracts with customers.

The following table shows how much revenue recognised in the current reporting period relates to carried-forward deferred income and how much relates to performance obligations that were satisfied in a prior year.

	2018 £m	2017 £m
Revenue recognised that was included in the opening deferred income	9.1	-
Revenue recognised from performance obligations satisfied in previous periods	-	-
	<u>9.1</u>	<u>-</u>

In adopting IFRS 15, the Group recognised deferred income of £17.1m in respect of performance obligations partly completed in prior years in relation to developing and implementing payment systems. During the year revenue of £6.5m was recognised from deferred income carried on the opening Consolidated Statement of Financial Position on adoption of IFRS 15. In addition, a further £2.6m was recognised on other contracts for which deferred income was carried on the opening Consolidated Statement of Financial Position, including the Faster Payments contract.

2 (e) Contract fulfilment assets

	2018 £m
Assets recognised on the date of adoption 1 January 2018 (note 23)	30.7
Additions during the year	13.4
Utilised during the year	(8.5)
Contract fulfilment assets carried forward as at 31 December 2018	<u>35.6</u>

In adopting IFRS 15, on 1 January 2018, the Group recognised assets of £30.7m in relation to costs incurred in developing and implementing payment systems in prior years classified as short-term assets of £6.5m and long-term assets of £24.2m. These costs had previously been expensed as incurred. Additions comprise costs incurred in completing or progressing the development and implementation of software during the year.

The assets are released to the Statement of Comprehensive Income consistent with the pattern of recognition of the related revenue. As revenue is typically recognised evenly over the life of the customer contract, assets are also released on a straight-line basis over the term of the relevant customer contract from the date on which the payment service is operational. At the reporting date management undertook an impairment review, comparing the carrying value of the assets with the total consideration that the Group expects to receive from the customer, less any costs to be incurred in delivering the services as specified in the contract.

At 31 December 2018, the Group recognised assets of £35.6m in relation to these costs, of which £9.6m was short term and £26.0m was long term.

2 (f) Costs of obtaining new contracts

There were no material incremental costs incurred in the year in obtaining new contracts, such as sales commissions, and therefore any costs were written off as incurred.

Notes to the financial statements (continued)

2 Revenue (continued)

2 (g) Unsatisfied performance obligations in long-term contracts

The aggregate amount of the transaction price allocated to long term payment contracts that are partially or fully unsatisfied as at the reporting date that the Group expects to receive in future years is £371.2m (2017: as permitted under the transitional provisions in IFRS 15, the prior year is not disclosed).

The amount disclosed includes revenue committed to be received from customers up to the earliest date on which the customer has an option to terminate the customer contract. It does not include variable consideration which is constrained under the terms of the contract.

The Group is not applying the practical expedient whereby contracts with an expected duration of less than one year are excluded.

As at 31 December 2018 the Group expects to recognise revenue from customer contracts, including key material contracts with Bacs, Faster Payments and Link schemes over the forthcoming financial years, as set out in the table below:

	2019		2020		2021		2022 and thereafter	
	%	£m	%	£m	%	£m	%	£m
Transaction price	41.2	152.8	37.3	138.4	13.5	50.1	8.0	29.9

As reported in note 25, events after the reporting date, on 14 March 2019 the Bacs contract was extended to November 2023.

2 (h) Existence of a financing component

The Group has adopted the practical expedient to not adjust the consideration receivable under a contract for the effect of a significant financing component if the Group expects, at contract inception, that the period between when the entity transfers a promised service to a customer and when the customer pays for that service will be less than one year.

Notes to the financial statements (continued)

3 Expenses and auditors' remuneration

Included in the Consolidated Statement of Comprehensive Income are the following:

	2018 £m	2017 £m
Staff costs (note 5)	96.4	92.1
Other people related expenses	30.1	41.2
Maintenance, support and other costs	21.7	22.1
Research & product development	17.6	16.9
Other acquisition costs	-	8.0
Rent and associated costs	5.6	5.2
Legal, professional and consultancy	3.8	16.5
Depreciation (note 8)	22.9	20.3
Amortisation (note 9)	12.9	7.2
Impairment (note 9)	3.9	-
Fulfilment release (note 2)	8.5	-
	<u>223.4</u>	<u>229.5</u>

Non-recurring costs included in expenses above:

	2018 £m	2017 £m
Staff costs – including restructuring costs	8.2	7.6
Maintenance, support and other costs	-	0.1
Other acquisition costs	-	8.0
Legal, professional and consultancy	-	13.0
Impairment of intangible assets	3.9	-
	<u>12.1</u>	<u>28.7</u>
Total expenses less non-recurring costs	<u>211.3</u>	<u>200.8</u>

Non-recurring costs related to the acquisition of Vocalink, the integration of the business into the Mastercard Group and the impairment of intangible assets. Acquisition costs comprised professional advisors' fees, redundancy and restructuring costs and transaction bonuses. Further details of the intangible asset impairment of £3.9m (2017: £nil) are contained in note 9.

In the year staff costs of £15.2m (2017: £13.1m) were capitalised within internally developed intangible assets and in preparing computers and ancillary equipment for use within tangible assets. Staff costs charged to the Consolidated Statement of Comprehensive Income, as shown above, are net of the capitalised costs. The full costs of permanent staff are disclosed in note 5.

Auditors' remuneration:

The fees paid to PricewaterhouseCoopers LLP as auditors for the year were:

	2018 £m	2017 £m
Audit of the financial statements	0.3	0.2
Taxation compliance and advisory services	0.1	0.3
Services relating to information technology	0.1	-
Pension advisory services	-	0.1
Other services	-	-
	<u>0.5</u>	<u>0.6</u>

Notes to the financial statements (continued)

4 Net finance costs

	2018 £m	2017 £m
<i>Finance income</i>		
Interest receivable	0.6	1.1
	<u>0.6</u>	<u>1.1</u>
<i>Finance costs</i>		
Pension scheme interest (note 14)	(0.5)	(1.4)
Other finance costs	(2.5)	(2.6)
	<u>(3.0)</u>	<u>(4.0)</u>
Net finance costs	<u>(2.4)</u>	<u>(2.9)</u>

5 Staff costs

The monthly average number of persons (including Directors) employed by the Group during the year was as follows:

	Number of employees	
	2018 No.	2017 No.
Operations	656	688
Sales and product development	189	102
Administration	121	172
	<u>966</u>	<u>962</u>

The aggregate payroll costs of these persons were as follows:

	2018 £m	2017 £m
Wages and salaries	93.5	86.9
Social security costs	8.2	8.6
Other pension costs (note 14)	7.5	5.5
Share based payment expense (note 14)	2.4	4.2
	<u>111.6</u>	<u>105.2</u>

Restructuring costs of £8.2m (2017: £7.5m) are included in wages and salaries and share based payment expense.

Staff costs of £15.2m (2017: £13.1m) included above were capitalised within internally developed intangible assets and in preparing computers and ancillary equipment for use within tangible assets.

Shared based payment expenses comprise amounts paid and accrued under Vocalink's long term incentive plan ('LTIP') and charges related to the Mastercard Incorporated equity plans. Further details are contained in note 14.

Notes to the financial statements (continued)

6 Directors' remuneration

Included within wages and salaries expense are amounts related to compensation for the Directors of the Group which were as follows:

	2018 £m	2017 £m
Directors' remuneration	1.1	4.9
Amounts receivable under long term incentive plan (note 14)	0.5	9.7
Amounts receivable under other performance related scheme	1.0	1.6
Group contributions to money purchase pension plans	-	-
	<u>2.6</u>	<u>16.2</u>

The amounts paid to the highest paid director as follows:

	£m	£m
Directors' remuneration	0.5	1.6
Amounts receivable under long term incentive plan (note 14)	0.3	7.5
Amounts receivable under other performance related scheme	0.5	1.6
	<u>1.3</u>	<u>10.7</u>

The acquisition by Mastercard Incorporated gave rise to a number of resignations and new appointments to the Board of Directors of the Company during the year ended 31 December 2017. The newly appointed Directors did not receive any identifiable emoluments in respect of their services to the Company (2017: £nil). The emoluments of the Directors are paid by another entity in the Mastercard Group, which makes no recharge to the Company. The directors are undertaking executive duties on a number of fellow Mastercard subsidiaries, and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries.

Total directors' remuneration due to be paid after more than one year is £nil (2017: £0.3m).

In respect of the long term incentive plan, the highest paid director received cash settlements of £2.4m (2017: £3.9m) under the first payment award and £1.6m (2017: £nil) under the second payment award. No further amounts are receivable.

In regard of the Mastercard Incorporated equity scheme no share options were exercised by the director during the year (2017: none).

Notes to the financial statements (continued)

7 Taxation

Recognised in the Consolidated Statement of Comprehensive Income

	2018 £m	2017 £m
<i>Current tax credit</i>		
Current year	-	-
Adjustments for prior years	1.3	(0.9)
Amounts received from group undertakings for group relief	(8.6)	-
Current tax credit	(7.3)	(0.9)
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	0.6	0.2
Adjustment for prior periods	(2.2)	0.4
Defined benefit pension scheme	2.3	2.3
Deferred tax expense	0.7	2.9
Total tax (credit)/expense	(6.6)	2.0

Income tax recognised in other comprehensive income

Deferred tax related to remeasurement of the defined benefit pension scheme	(1.4)	3.0
	(1.4)	3.0

Reconciliation of standard tax rate

Loss for the year	(24.4)	(19.5)
Total tax (credit)/expense	(6.6)	2.0
Loss before taxation	(31.0)	(17.5)
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	(5.9)	(3.4)
Expenses not deductible for tax purposes	0.4	3.0
Differences between current and deferred tax rates applicable	(0.3)	(0.2)
Adjustment for prior years	(0.8)	0.4
Amounts surrendered to other group companies for nil consideration	-	2.2
Total tax (credit)/expense	(6.6)	2.0

A standard rate of tax of 19% has been used for the year ended 31 December 2018 (2017: 19.25%). Reductions in the UK corporation tax rate from 19% to 18% (effective 1 April 2020) were enacted in 2015 and a further reduction to 17% (effective 1 April 2020) was substantively enacted during 2017.

In the current year, the Mastercard Group revised its policy in relation to tax losses surrendered to other group companies and consideration is now given for such transfers. A prior year credit has also been recognised in relation to such amounts transferred in 2017.

Notes to the financial statements (continued)

8 Property, plant and equipment

	Freehold land and buildings £m	Leasehold land and buildings £m	Plant and equipment £m	Computers & ancillary equipment £m	Fixtures & fittings £m	Total 2017 £m
Cost						
Balance at 1 January 2017	9.1	19.0	22.1	181.7	5.6	237.5
Additions	-	1.0	1.3	19.8	0.4	22.5
Disposals	-	-	-	(0.7)	-	(0.7)
	<u>9.1</u>	<u>20.0</u>	<u>23.4</u>	<u>200.8</u>	<u>6.0</u>	<u>259.3</u>
Accumulated depreciation						
Balance at 1 January 2017	5.2	16.5	18.2	121.6	3.2	164.7
Depreciation charge for the year	0.5	0.7	0.6	18.1	0.4	20.3
Disposals	-	-	-	(0.7)	-	(0.7)
	<u>5.7</u>	<u>17.2</u>	<u>18.8</u>	<u>139.0</u>	<u>3.6</u>	<u>184.3</u>
Net book value						
At 31 December 2016	<u>3.9</u>	<u>2.5</u>	<u>3.9</u>	<u>60.1</u>	<u>2.4</u>	<u>72.8</u>
At 31 December 2017	<u>3.4</u>	<u>2.8</u>	<u>4.6</u>	<u>61.8</u>	<u>2.4</u>	<u>75.0</u>

Notes to the financial statements (continued)

8 Property, plant and equipment (continued)

	Freehold land and buildings £m	Leasehold land and buildings £m	Plant and equipment £m	Computers & ancillary equipment £m	Fixtures & fittings £m	Total 2018 £m
Cost						
Balance at 1 January 2018	9.1	20.0	23.4	200.8	6.0	259.3
Additions	-	3.3	-	23.2	0.1	26.6
Balance at 31 December 2018	9.1	23.3	23.4	224.0	6.1	285.9
Accumulated depreciation						
Balance at 1 January 2018	5.7	17.2	18.8	139.0	3.6	184.3
Depreciation charge for the year	0.8	0.9	0.7	19.3	1.2	22.9
Balance at 31 December 2018	6.5	18.1	19.5	158.3	4.8	207.2
Net book value						
At 31 December 2017	3.4	2.8	4.6	61.8	2.4	75.0
At 31 December 2018	2.6	5.2	3.9	65.7	1.3	78.7

Total additions in the year of £26.6m (2017: £22.5m) principally relate to Computers and Ancillary Equipment £23.2m, of which £6.0m was invested in shared infrastructure projects. Internal time in preparing infrastructure and other assets for use is capitalised with the physical assets and depreciated over the economic useful life of the combined assets.

Leasehold land and building additions of £3.3m relate to an immaterial change in accounting for dilapidations to align with Mastercard Group policy during the year end 31 December 2018, whereby a tangible asset was created based on the present value of the liabilities estimated to fall due at the end of the leases. Accumulated depreciation was recorded from the lease inception resulting in an addition of £3.3m and the dilapidation provision was increased by the same value. The impact on the Statement of Comprehensive Income is a reclassification of the annual expense from 'other expenses' to 'depreciation'.

In 2018, £3.7m (2017: £7.7m) of people related resources were capitalised within Computers and Ancillary Equipment; this includes staff costs and third party contractor expenses.

Depreciation is charged over the shorter of the useful economic life of the asset and related customer contracts. The depreciation of tangible assets commences when the asset is complete and available for use. Included in assets held as at 31 December 2018, are assets with a carrying value of £25.5m (2017: £22.5m) which were being prepared for use and therefore were not depreciated during the year.

Notes to the financial statements (continued)

9 Intangible assets

	£m
Cost	
Balance at 1 January 2017	174.1
Additions – internally developed	22.6
Additions – externally purchased	9.2
Balance at 31 December 2017	<u>205.9</u>
Balance at 1 January 2018	205.9
Reclassified on adoption of IFRS 15 (note 11)	(10.5)
Balance at 1 January 2018 restated	<u>195.4</u>
Additions – internally developed	27.6
Additions – externally purchased	2.9
Balance at 31 December 2018	<u>225.9</u>
Accumulated amortisation	
Balance at 1 January 2017	134.2
Amortisation for the year	7.2
Balance at 31 December 2017	<u>141.4</u>
Balance at 1 January 2018	141.4
Amortisation for the year	12.9
Impairment	3.9
Balance at 31 December 2018	<u>158.2</u>
Net book value	
At 31 December 2017	<u>64.5</u>
At 31 December 2018	<u>67.7</u>

Additions in the year

Additions in the year totalled £30.5m (2017: £31.8m), of which £1.4m related to internally developed assets supporting the Bacs payment platform (2017: £2.5m). Other investments included the development of the technology supporting the Immediate Payments Service (IPS) product of £13.5m (2017: £9.6m) and PbBa technology of £10.6m (2017: £4.8m).

In 2018, £27.6m (2017: £19.3m) of people related resources were capitalised; this includes staff costs and third party contractor expenses.

Reclassification of assets on adoption of IFRS 15

On adoption of IFRS 15, PbBa assets on the Statement of Financial Position on 1 January 2018 with a net book value of £10.5m were reclassified from intangible assets to prepayments. Further information is provided in notes 1.10 and 23.

Notes to the financial statements (continued)

9 Intangible assets (continued)

Carrying value of assets by product

Assets with a carrying value of £67.7m (2017: £64.5m prior to reclassification) comprise software and other assets utilised in delivering payment services to customers.

As at 31 December 2018, UK payment scheme assets comprise Faster Payments £5.2m (2017: £7.7m), BACs £7.0m (2017: £8.2m) and ICS automated cheque clearing product £2.9m (2017: £3.7m). These assets are utilised in support of specific these long term customer contracts for the Vocalink core payment platforms.

Other product assets which are developed and used in serving multiple customers include IPS software of £22.4m (2017: £14.9m), PbBa assets with a net book value of £16.5m (2017: £16.5m prior to reclassification of £10.5m to prepayments), assets supporting gateway, analytics and access services of £5.4m (2017: £4.8m).

In addition, there are shared infrastructure assets of £8.3m (2017: £8.7m), comprising shared software and infrastructure.

Impairment review

Following an impairment review, a provision of £3.9m was recognised in relation to software under development in support of the IPS product. This followed a change in the Group's strategy regarding the technical design of the product, following the integration to Mastercard.

In reviewing these assets for impairment, management has exercised judgement regarding the future economic benefits to be generated as they are utilised.

Amortisation

Asset lives for assets supporting specific customer contracts are primarily determined by the duration of the respective customer contract, with due consideration given to the period over which it is estimated that of the developed software will continue to be in use and economically viable, without significant redevelopment. Amortisation periods end between 2019 and 2023.

Assets utilised in serving multiple customers are grouped together according to the relevant payment product. Product lives for payment products are typically relatively long, being five to ten years. Nevertheless, reflecting the ongoing investment required to maintain such products, Group policy is that asset lives for amortisation purposes do not exceed five years. Subject to the constraints of this policy, asset lives are determined by reference to the useful economic life of the payment product within the markets in which it operates. Amortisation periods end between 2019 and 2024.

Assets with a carrying value of £35.4m (2017: £14.2m) were under development and therefore were not amortised during the year.

Notes to the financial statements (continued)

10 Deferred tax assets

Recognised deferred tax asset

Deferred tax assets are attributable to the following:

	31 December 2018 £m	31 December 2017 £m
Property, plant and equipment	2.9	1.5
Provisions	1.5	1.4
Tax losses carried forward	-	-
Defined benefit pension scheme (note 14)	3.3	4.2
	<u>7.7</u>	<u>7.1</u>

Movement in deferred tax during the year

	1 January 2018 £m	Recognised in income £m	Recognised in OCI £m	31 December 2018 £m
Property, plant and equipment	1.5	1.4	-	2.9
Provisions	1.4	0.1	-	1.5
Tax losses carried forward	-	-	-	-
Defined benefit pension scheme	4.2	(2.3)	1.4	3.3
	<u>7.1</u>	<u>(0.8)</u>	<u>1.4</u>	<u>7.7</u>

Movement in deferred tax during the prior year

	1 January 2017 £m	Recognised in income £m	Recognised in OCI £m	31 December 2017 £m
Property, plant and equipment	1.3	0.2	-	1.5
Provisions	2.0	(0.6)	-	1.4
Tax losses carried forward	0.2	(0.2)	-	-
Defined benefit pension scheme	9.5	(2.3)	(3.0)	4.2
	<u>13.0</u>	<u>(2.9)</u>	<u>(3.0)</u>	<u>7.1</u>

The Group has concluded that the deferred assets will be recoverable. The Group is expected to generate taxable income in the foreseeable future or alternatively the losses may be transferred to other UK Mastercard entities as group relief in exchange for consideration. The losses may also be carried forward indefinitely and have no expiry date.

Reductions in the UK corporation tax rate from 19% to 18% (effective 1 April 2020) were enacted in 2015 and a further reduction to 17% (effective 1 April 2020) was substantively enacted during 2017. This will reduce the Group's future current tax charge accordingly. The deferred tax assets at 31 December 2018 have been calculated on the lowest future substantively enacted rates.

Notes to the financial statements (continued)

11 Trade and other receivables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Current				
Trade receivables	18.9	14.4	-	-
Other receivables	6.5	3.7	-	-
Prepayments and accrued income	32.0	49.6	-	-
	<u>57.4</u>	<u>67.7</u>	<u>-</u>	<u>-</u>
Trade and other receivables	57.4	67.7	-	-
Amounts due from group undertakings	3.1	-	0.5	0.5
Contract fulfilment assets	9.6	-	-	-
	<u>70.1</u>	<u>67.7</u>	<u>0.5</u>	<u>0.5</u>
Non-current				
Other receivables	-	3.4	-	-
Prepaid incentives (note 23)	26.0	-	-	-
Contract fulfilment assets	26.0	-	-	-
	<u>52.0</u>	<u>3.4</u>	<u>-</u>	<u>-</u>

Amounts due to the Group and Company from group undertakings are classified as current and are unsecured. They are non-interest bearing and are repayable on demand.

Contract assets comprise receivables from customers and assets relating to the fulfilment of customer contracts; a full analysis is provided in note 2 (b).

On adoption of IFRS 15 on 1 January 2018, £10.5m of assets relating to payments to customer entities in bringing the PbBa product to market, previously accounted for within intangibles were reclassified to prepaid incentives. During the year, further incentive payments of £15.5m increased the total at the reporting date to £26.0m. Further details are contained in notes 1.10 and 23.

12 Cash and cash equivalents

	2018 £m	2017 £m
Cash and cash equivalents	49.5	71.6
	<u>49.5</u>	<u>71.6</u>

Notes to the financial statements (continued)

13 a) Trade and other payables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Current				
Trade payables	7.0	2.8	-	-
Accruals	41.2	53.8	-	-
Employee benefits	2.4	-	-	-
Tax payable	1.4	3.5	-	-
Other taxation and social security	3.7	6.3	-	-
Other payables	3.3	2.8	-	-
	<u>59.0</u>	<u>69.2</u>	<u>-</u>	<u>-</u>
Amounts due to group undertakings	5.3	1.2	0.1	-
Deferred income	19.1	5.8	-	-
	<u>83.4</u>	<u>76.2</u>	<u>0.1</u>	<u>-</u>
Non-current				
Employee benefits	-	3.8	-	-
Other payables	1.2	1.1	-	-
Amounts due to group undertakings	140.0	90.0	13.3	13.2
Deferred income	22.9	9.6	-	-
	<u>164.1</u>	<u>104.5</u>	<u>13.3</u>	<u>13.2</u>

Amounts due by the Group to group undertakings classified as current are unsecured, non-interest bearing and are repayable on demand.

Amounts due by the Group to group undertakings classified as non-current comprise two five-year loans from Mastercard Payment Gateway Services Limited with a total value of £140.0m (2017: £90m), bearing interest in the range of 2.08% to 2.81%. The first loan of £90.0m is repayable no later than 28 June 2022 and the second loan of £50.0m is repayable no later than 23 May 2023; both loans are unsecured.

13 b) Deferred income

The movements in the current and non-current deferred income were:

	2018 £m
As at 1 January 2018	15.4
Opening adjustments as per IFRS 15 (note 23)	17.1
Recognised as revenue in period	(15.8)
Deferred in year	25.3
	<u>42.0</u>
As at 31 December 2018	<u>42.0</u>

The Group's deferred income balances solely relate to revenue from contracts with customers. Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business in the period. On adoption of IFRS 15 £17.1m was credited to deferred income, of which £10.6m was classified as non-current.

Notes to the financial statements (continued)

14 Employee benefits

a) Post retirement benefits

The Group operates two independent pension schemes. The Group's defined contribution scheme is open to new members and during the year ended 31 December 2018 the Company contributed £7.5m (2017: £5.5m) to the scheme.

The Group also operates a defined benefit scheme which provides both pensions in retirement and death benefits to members. Pension benefits are related to the members' final salary at retirement and their length of service.

b) Defined benefit pension scheme

The Group's defined benefit scheme closed to new entrants and future accruals on 31 July 2013, although employed members retain a limited link to their final salary. Contributions to the scheme for the year ending 31 December 2019 are expected to be approximately £14.6m (2018: £14.6m). As part of the 2015 triennial revaluation the Group has agreed with the pension scheme trustees that these deficit reduction contributions of £14.6m per annum will be continued until March 2020.

The major assumptions used by the actuary were (in nominal terms):

	2018	2017
Discount rate	2.85%	2.65%
RPI inflation	3.20%	3.20%
CPI inflation	2.20%	2.20%
Salary inflation	3.85%	3.85%
Pension increases in payment (CPI, max 3%)	2.20%	2.20%
Pension increases in payment (RPI, max 4%)	2.65%	2.65%
Pension increases in payment (RPI, max 5%)	2.95%	2.95%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

Age	Males	Females
65	22.9 years	23.9 years
65 in 20 years	23.9 years	25.1 years

The major assumption sensitivities are considered to be to be discount rate, inflation and life expectancy. The approximate effects of movements in the main assumptions at 31 December 2018 are shown in the table below, detailing the impact on scheme liabilities:

	2018	2017
Discount rate +/- 0.5% pa	+/- 9%	+/- 10%
Inflation assumptions +/- 0.5% pa	+/- 5%	+/- 6%
Life expectancy +/- 1 year	+/- 4%	+/- 3%

The inflation sensitivity shown above includes the impact of corresponding changes to future increases to pensions in payment and in deferment assumptions.

The sensitivities shown reflect the duration of the scheme liabilities of approximately 18 years based on our understanding of the Scheme's membership and liability profile.

Results under IAS 19 can change dramatically depending on market conditions. Changing markets in conjunction with discount rate fluctuations will lead to volatility in the funded status of the pension plan. To a lesser extent, changes in market conditions will lead to some movement in the IAS 19 pension expense in the Statement of Comprehensive Income.

Notes to the financial statements (continued)

14 Employee benefits (continued)

b) Defined benefit pension scheme (continued)

The assumptions used in determining the valuation of the scheme have been set with reference to yields available on government bonds and appropriate risk margins.

The assets in the scheme were:

	2018		2017	
	£m	%	£m	%
Liability-driven investments/Government bonds	74.7	26.6	72.9	25.3
Diversified growth funds	69.4	24.7	67.7	23.5
Equities	(2.0)	(0.7)	0.6	0.2
Other – see below	89.0	31.7	78.6	27.3
Cash	12.0	4.3	20.9	7.3
Property	-	-	8.7	3.0
Absolute return funds	34.0	12.1	34.5	12.0
Insured pensioners	3.7	1.3	4.0	1.4
Total	280.8	100	287.9	100

Other assets comprise multi asset funds, illiquid credit and trend following managed futures fund.

Reconciliation of funded status to Statement of Financial Position

	2018	2017
	£m	£m
Fair value of scheme assets	280.8	287.9
Present value of scheme liabilities	(300.0)	(312.5)
Deficit in the scheme	(19.2)	(24.6)
Related deferred tax asset (note 10)	3.3	4.2
Net pension deficit	(15.9)	(20.4)

Analysis of the amount charged to the income statement

	2018	2017
	£m	£m
Interest cost on the defined benefit obligations	8.1	9.0
Interest income on plan assets	(7.6)	(7.6)
Total net interest charge (note 4)	0.5	1.4

Notes to the financial statements (continued)

14 Employee benefits (continued)

b) Defined benefit pension scheme (continued)

Remeasurement of the net defined liability in Other Comprehensive Income

	2018 £m	2017 £m
Actuarial gain on defined benefit obligations arising from changes in financial assumptions	8.4	9.0
Actuarial (loss)/gain on defined benefit obligation arising from changes in demographic assumptions	(0.3)	2.9
Total actuarial gain on liability	8.1	11.9
Return on plan assets excluding amounts included in net interest cost	(16.2)	6.2
Remeasurement of the defined liability in OCI	(8.1)	18.1
Investment management fees met by the Group	(0.3)	(0.3)
Net impact of the defined liability in OCI	(8.4)	17.8

Reconciliation of net defined liability:

	2018 £m	2017 £m
Net defined liability at beginning of year	(24.6)	(55.9)
Net interest charges	(0.5)	(1.4)
Past service cost: scheme amendments	(0.6)	-
Remeasurement of the net defined liability in OCI	(8.1)	18.1
<u>Employer contributions</u>	<u>14.6</u>	<u>14.6</u>
Net defined liability at the end of year	(19.2)	(24.6)

Notes to the financial statements (continued)

14 Employee benefits (continued)

b) Defined benefit pension scheme (continued)

Movements in the present value of defined benefit obligations were as follows:

	2018 £m	2017 £m
Obligations at start of year	312.5	327.6
Interest cost	8.1	9.0
Past service cost: scheme amendments	0.6	-
Actuarial gain on defined benefit obligations arising from changes in financial assumptions	(8.4)	(9.0)
Actuarial loss/(gain) on obligations arising from changes in demographic assumptions	0.3	(2.9)
Benefits paid	(13.1)	(12.2)
Net defined liability at end of year	300.0	312.5

Movements in the fair value of scheme assets were as follows:

	2018 £m	2017 £m
Assets at start of year	287.9	271.7
Interest income on plan assets	7.6	7.6
Return on plan assets excluding amounts included in interest income on plan assets	(16.2)	6.2
Employer contributions	14.6	14.6
Benefits paid	(13.1)	(12.2)
Assets at end of year	280.8	287.9

Regulatory framework for pension schemes in the UK

The Pensions Regulator is established by UK Pensions Law and has significant powers in respect of ensuring the protection of UK pension plan members. The Regulator's key objectives are:

- To monitor pension scheme plan operation and funding
- Promote good governance
- To protect pension scheme members' benefits.

The Pension Protection Fund was set up to rescue defined benefit plans where the sponsoring employer fails. It is funded mainly from an annual levy on defined benefit plans.

Every three years a defined benefit pension plan must undertake a full valuation of its assets and liabilities with agreement of the valuation to be reached within fifteen months of the effective date of the full valuation. The outcome will determine how much contributions a sponsoring employer will need to pay in the future. Where there is a funding deficit the sponsoring employer is required to make these contributions. The last triennial valuation for the scheme took place in April 2015, the April 2018 valuation is currently being finalised.

Notes to the financial statements (continued)

14 Employee benefits (continued)

c) Share-based payments

Long term incentive plan (LTIP)

The Group operates a LTIP for Executives and certain employees. Under IFRS 2, this was deemed a cash settled share based payment scheme.

The scheme rules stated where there was a change in control event the scheme would vest. Each participant's award vests and is paid in two parts:

- first payment award based on equity value as at transaction date; and
- second payment award based on an earn-out agreement, dependent on cumulative revenue performance from January 2014 to December 2018.

The second payment award involving a participant being entitled to a cash bonus which vests if certain earn out criteria are met is accounted under IAS 19: Employee Benefits as the benefits are not equity settled, based on the probability of achieving any future earn out agreements.

Following the acquisition by Mastercard Incorporated, the first award vested, resulting in a cash settlement of £4.5m in 2017 and £7.4m in 2018.

Payments under the second award are conditional on certain revenue targets being realised. Amounts accrued at the reporting date for the second award total £2.4m.

Mastercard Incorporated equity schemes

Certain employees of the Group have been granted awards under two equity schemes operated by Mastercard Incorporated.

(i) Restricted Stock Unit ('RSU') scheme

RSUs are denominated in Common Shares and are settled either by the delivery of Common Shares or the payment of cash based upon the value of a specified number of Common Shares. Mastercard Incorporated grants RSUs periodically to employees in accordance with the Restricted Stock Unit Agreement.

Mastercard Incorporated's RSUs are time-based awards that typically vest at the end of a one to three year requisite service period. These awards are conditional upon the Employee's continued employment with the Company as of the Vesting Date. There are no market conditions applicable to the awards.

RSU movements during the year:

There were 32,494 RSUs as at 1 January 2018, brought forward from previous periods. On 1 March 2018, 15,984 Mastercard Incorporated RSUs were awarded with a further 6,751 on 1 June 2018 and 1,600 on 2 April 2018. A total of 13,015 RSUs were forfeited during the year and 2,181 RSUs were exercised. The remaining movements related to transfers in and out. There were 54,039 RSUs outstanding at the reporting date. Outstanding awards vest between January 2019 and June 2021, typically vesting three years after grant date.

Notes to the financial statements (continued)

14 Employee benefits (continued)

c) Share-based payments (continued)

(i) Restricted Stock Unit ('RSU') scheme (continued)

Due to the nature of these awards, they are exercised at the point of vesting and for nil consideration. Details of the RSUs outstanding as at 31 December 2018 and their vest dates, are as follows:

Vest date	RSUs outstanding (no.)	Grant date market value per RSU US \$	Remaining contract life Years
28 February 2019	5,009	87.89	0.16
27 April 2019	14,757	114.60	0.23
28 April 2019	2,181	114.62	0.32
30 September 2019	387	99.55	0.75
28 February 2020	4,694	109.79	1.16
28 April 2020	2,182	114.62	1.33
28 February 2021	16,478	170.69	2.16
31 March 2021	1,600	168.80	2.25
1 June 2021	6,751	192.59	2.42
Total RSUs outstanding	54,039		

For the shares vested during the period, the weighted-average share price at the exercise date was \$114.62.

(ii) Non-qualifying Stock Options 'Options' scheme

Mastercard Incorporated periodically grants options to employees as determined by the remuneration committee. Options entitle the equity scheme participant to receive Mastercard Incorporated common shares upon the exercise of the option. The grant or vesting of the awards may be conditional upon various criteria being met, as determined by the committee. The conditions include the employee's continued employment with the Company as of the Vesting Date. The option period for an award is fixed by Mastercard's remuneration committee and shall be no longer than ten years from the Option's grant date. The standard rate at which an option shall be exercisable is twenty five percent of the award on each of the first four anniversaries of the grant.

The exercise price per share for an award shall not be less than the fair market value per share as of the grant date.

Stock option movements during the year:

There were nil options brought forward. During the year 3,056 options were transferred in from another Mastercard group company. There were 3,056 options outstanding at the reporting date, with a weighted average exercise price of \$173.49, a weighted average remaining vesting life of 1.67 and an expiration date of 1 March 2028.

Share based payments charged to the Consolidated Statement of Comprehensive Income in the year comprise the following:

	2018 £m	2017 £m
LTIP scheme	0.6	3.1
Mastercard Incorporated equity schemes	1.8	1.1
	<u>2.4</u>	<u>4.2</u>

When share based instruments vest, where applicable, amounts settled are included within Directors' Emoluments. In the financial year £6.5m (2017: £3.9m) was cash settled in the form of payments to participants under the LTIP scheme, including £4.0m (2017: £3.9m) to the highest paid director, which is disclosed in note 6.

Notes to the financial statements (continued)

15 Provisions

	Contract restructure provision £m	Reorganisation provision £m	Other provisions £m	Total £m
Balance at 1 January 2018	4.0	0.8	10.4	15.2
Provisions made during the year	-	1.1	6.3	7.4
Provisions used during the year	-	-	(0.7)	(0.7)
Provisions reversed during the year	-	-	(0.5)	(0.5)
Unwinding of discounted amount	0.1	-	-	0.1
Balance at 31 December 2018	4.1	1.9	15.5	21.5
Non-current	1.3	-	12.7	14.0
Current	2.8	1.9	2.8	7.5
	4.1	1.9	15.5	21.5

	Contract restructure provision £m	Reorganisation provision £m	Other provisions £m	Total £m
Balance at 1 January 2017	3.7	0.4	3.5	7.6
Provisions made during the year	1.1	3.6	7.2	11.9
Provisions used during the year	(0.9)	(2.3)	(0.3)	(3.5)
Provisions reversed during the year	-	(0.9)	-	(0.9)
Unwinding of discounted amount	0.1	-	-	0.1
Balance at 31 December 2017	4.0	0.8	10.4	15.2
Non-current	2.1	-	9.3	11.4
Current	1.9	0.8	1.1	3.8
	4.0	0.8	10.4	15.2

The Group recognises a provision for the present obligation resulting from a past event when it is probable that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably. Most provisions are expected to be utilised within one year, except for one onerous contract (within 3 years) and contract termination provisions and dilapidations (within 12 years).

Contract restructure provisions relate to onerous contracts, which are recognised as a provision on the date on which the contract is confirmed to be onerous. The amount recognised is the excess of the unavoidable costs of the contract over any expected economic benefits arising from the contract. The current provision of £4.1m relates to customer contracts in Europe and the Far East and is expected to be fully utilised by 2021 (2017: £4.0m).

Reorganisation provisions of £1.9m (2017: £0.8m) are only recognised when the restructure has been communicated and is sufficiently imminent to mean it is not likely that any significant changes will be made.

Other provisions include transition costs relating to the potential termination of a customer contract of £6.8m (2017: £6.6m), a provision for input VAT of £2.8m (2017: £nil) and provisions for dilapidations and other lease exit costs of £5.9m (2017: £2.7m).

Notes to the financial statements (continued)

15 Provisions (continued)

Provisions of £3.3m made during the year relate to an immaterial change in accounting for dilapidations to align with Mastercard Group policy during the year end 31 December 2018, whereby a tangible asset was created based on the present value of the liabilities estimated to fall due at the end of the leases. Accumulated depreciation was recorded from the lease inception resulting in an addition of £3.3m and the dilapidation provision was increased by the same value. The impact on the Statement of Comprehensive Income is a reclassification of the annual expense from 'other expenses' to 'depreciation'.

16 Share capital

	2018 £m	2017 £m
<i>Share capital</i>		
Authorised		
190,698,425 (2017: 190,698,425) ordinary shares of £1 each	<u>190.7</u>	<u>190.7</u>
Allotted called up and fully paid		
133,354,643 (2017: 133,354,643) ordinary shares of £1 each at 31 December	<u>133.4</u>	<u>133.4</u>

Shareholders (ordinary shares):

	2018 % Holding	2017 % Holding
Mastercard Group		
Mastercard UK Holdco Limited	92.41	92.41
	92.41	92.41
Lloyds Banking Group		
Lloyds Bank plc	2.51	2.51
Bank of Scotland plc	1.43	1.43
	1.08	1.08
The Royal Bank of Scotland Group		
Royal Bank of Scotland plc	2.14	2.14
National Westminster Bank plc	1.23	1.23
Coutts & Co.	0.91	0.91
	0.003	0.003
Others shareholders		
Barclays Unquoted Investments Limited (previously Barclays Bank plc)*	1.52	1.52
Santander Equity Investments Limited (previously Santander)*	0.78	0.78
Nationwide Building Society	0.43	0.43
Coventry Building Society	0.07	0.07
Yorkshire Building Society	0.07	0.07
Bristol & West plc	0.07	0.07
	100.00	100.00

* As a result of ring-fencing obligations the shares have transferred to the a newly specified entity within the bank

Notes to the financial statements (continued)

17 Financial instruments

17 (a) Fair values of financial instruments

Fair values

The following financial assets and financial liabilities not carried at fair value through the Consolidated Statement of Comprehensive Income are deemed to have a carrying value which is a close approximation to their fair value due to their short nature or being repayable on demand:

	Carrying amount 2018 £m	Fair value 2018 £m	Carrying amount 2017 £m	Fair value 2017 £m
Cash and cash equivalents (note 12)	49.5	49.5	71.6	71.6
Trade and other receivables (note 11)	60.5	60.5	67.7	67.7
Trade and other payables (note 13)	(64.3)	(64.3)	(70.4)	(70.4)
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial instruments	45.7	45.7	68.9	68.9
	<hr/>	<hr/>	<hr/>	<hr/>

17 (b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The carrying amount of financial assets represents the Group's maximum exposure, which at the reporting date, was as follows:

Exposure to credit risk

	2018 £m	2017 £m
Cash	49.5	71.6
Trade and other receivables	60.5	67.7
	<hr/>	<hr/>
	110.0	139.3
	<hr/>	<hr/>

Notes to the financial statements (continued)

17 Financial instruments (continued)

17 (c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

2018					
Carrying amount £m	Contractual cash flows £m	1 year or less £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m
Non-derivative financial liabilities					
Trade and other payables	205.5	-	64.3	0.3	140.9
	205.5	-	64.3	0.3	140.9

2017					
Carrying amount £m	Contractual cash flows £m	1 year or less £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m
Non-derivative financial liabilities					
Trade and other payables	165.3	-	70.4	3.8	90.0
	165.3	-	70.4	3.8	90.0

17 (d) Market risk – Interest rate risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Cash and cash equivalents are held as at-call deposits. They are readily accessible and receive floating rate interest

Notes to the financial statements (continued)

18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018	2017
	£m	£m
Not later than 1 year	3.9	4.0
Later than 1 year and not later than 5 years	10.5	12.7
In more than 5 years	0.5	2.1
	<u>14.9</u>	<u>18.8</u>

Operating lease rentals principally relate to property leases. Rentals relating to equipment leases included above are £50k payable within one year and £148k in second to fifth years inclusive.

19 Commitments

Capital commitments

During the year ended 31 December 2018, the Group entered into contracts to purchase property, plant and equipment with commitments at the reporting date of £2.4m (2017: £0.3m). These commitments are expected to be settled in the following financial year.

Notes to the financial statements (continued)

20 Related parties

Identity of related parties with which the Group has transacted

The Group's related parties are its shareholders who have significant influence over the decision making process of the Group arising from representation on the Board of Directors (see note 16) and the defined benefit scheme (Group contributions are disclosed in note 14 (b)).

The following transactions with related parties were in the normal course of business and on substantially the same terms as unrelated parties. The transactions did not involve more than the normal risk of repayment or present other unfavourable features. Services supplied comprised the provision of central payment processing infrastructure, principally through the Bacs, Faster Payments and Link Schemes.

	2018 £m	2017 £m
Revenue: services supplied to related parties:		
- Lloyds Banking plc	29.2	29.3
- The Royal Bank of Scotland plc	34.7	37.3
- Nationwide Building Society	5.0	5.9
- Barclays Unquoted Investments Limited	27.4	29.5
- Santander Equity Investments Limited	8.5	9.3
- Mastercard Europe S.A.	1.2	-
Amounts receivable from related parties:		
- Lloyds Banking Group	1.0	0.1
- The Royal Bank of Scotland Group	0.6	0.3
- Nationwide Building Society	0.1	0.4
- Barclays Unquoted Investments Limited	4.0	1.3
- Santander Equity Investments Limited	0.3	0.3
Loans from Mastercard Payment Gateway Services Limited:		
Beginning of the year	90.2	-
Loans advanced	50.0	90.0
Interest charged	2.7	1.0
Interest paid	(2.6)	(0.8)
End of year	140.3	90.2

Key management personnel

	2018 £m	2017 £m
Short-term employee benefits	1.8	2.3
Post-employment benefits	-	-
Long-term benefits	-	0.4
Share-based payments	0.3	0.2
	2.1	2.9

Notes to the financial statements (continued)

21 Immediate and ultimate holding company

The Company's immediate parent undertaking is Mastercard UK Holdco Limited, incorporated and domiciled in England and Wales within the United Kingdom.

The Company's ultimate parent undertaking and controlling party is Mastercard Incorporated, a company incorporated and domiciled in the United States of America.

Mastercard Incorporated is the parent of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2018. The consolidated financial statements of Mastercard Incorporated are available from its registered office at 2000 Purchase Street, Purchase, New York, United States of America.

22 Investments

The Company has the following investments in subsidiaries all of which are incorporated in the United Kingdom:

	Principal activities	Class of shares held	Ownership 2018	Ownership 2017
Vocalink Limited	Payment services	Ordinary	100%	100%
IPCO 2012 Limited	Intellectual Property Management	Ordinary	100%	100%
Vocalink Interchange Network Limited *	Dormant	Ordinary	100%	100%
Voca Limited *	Dormant	Ordinary	100%	100%

The Consolidated Statement of Financial Position carrying value of investments of £163.8m largely comprises the Company's investment in Vocalink Limited (2017: £163.8m). The Directors believe that the carrying value of the investments is supported by their underlying net assets.

*Dormant entities exempt from the requirement of the Companies Act 2006 relating to the preparation of their individual financial statements in respect of their year ended 31 December 2017.

The registered office of Vocalink Limited and IPCO 2012 Limited is 1 Angel Lane, London, EC4R 3AB. The registered office of the other subsidiaries is Drake House, Homestead Road, Rickmansworth, WD3 1FX.

Notes to the financial statements (continued)

23 Changes in accounting policies

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions of IFRS 15 the new rules have been adopted on a modified retrospective basis with the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings. See note 1 for further details on the impact of the change in accounting policy.

Under the modified retrospective approach no restatement of prior period numbers is required. The cumulative effect of adopting IFRS 15 is presented in retained earnings in the opening Consolidated Statement of Financial Position on 1 January 2018, an analysis of which is contained in 23.2 below.

23.1 Restatement of current year financial statements on an IAS 18 basis

Consolidated Statement of Comprehensive Income	Notes	2018			2017	
		IFRS 15 £m	Opening adjustments £m	In year adjustments £m	IAS 18 £m	IAS 18 £m
Revenue from contracts with customers	a)	194.8	-	(1.8)	193.0	214.9
Operating expenses	b)	(223.4)	-	(4.9)	(228.3)	(229.5)
Consolidated Statement of Financial Position						
Non-current assets						
Tangible assets		78.7	(0.3)	-	78.4	75.0
Intangible assets	c)	67.7	10.6	16.6	93.7	64.5
Contract fulfilment assets	b)	26.0	(24.2)	(1.8)	-	-
Prepaid incentives	c)	26.0	(10.6)	(16.6)	-	-
Current assets						
Trade and accrued income	a)	36.0	13.8	(10.7)	39.1	46.7
Contract fulfilment assets	b)	9.6	(6.6)	(3.1)	-	-
Current liabilities						
Deferred income	a)	(19.1)	6.6	-	(12.6)	(5.8)
Non-current liabilities						
Deferred income	a)	(22.9)	10.6	8.9	(3.4)	(9.6)
Total of adjustments			(0.1)	0		

a) Revenue, accrued income and deferred income balances

Revenue in respect of implementation and development services provided in prior years in relation to customer contracts in progress as at the date of adoption of IFRS 15 (1 January 2018) totalled £30.9m, £13.8m of which has been removed from accrued income as at 1 January 2018 and £17.1m has been recognised as deferred income; £10.6m of deferred income was classified as non-current.

Revenue deferred in the respect of implementation and development services provided in the year was £4.7m; on an IAS 18 basis such revenue would have been recognised in 2018.

An amount of £6.5m of revenue recognised during the year ended 31 December 2018 was released from the balance of £17.1m of deferred income referred to above, as credited to the opening Consolidated Statement of Financial Position on adoption of IFRS 15.

The net impact of these changes was to increase revenue recognised in the year ended 31 December 2018 by £1.8m, as compared to the IAS 18 basis. Further details are contained in note 2.

Notes to the financial statements (continued)

23 Changes in accounting policies (continued)

23.1 Restatement of current year financial statements on an IAS 18 basis (continued)

b) Operating costs and contract fulfilment assets

Operating costs of £30.7m relating to implementation and development services provided on customer contracts that were in progress on the date of adoption of IFRS 15, were debited to contract fulfilment assets in the opening Consolidated Statement of Financial Position, of which £24.2m was classified as non-current.

Costs of £13.4m incurred during the year in fulfilling customer contracts were deferred within contract fulfilment assets. A release of £8.5m was charged to the Consolidated Statement of Comprehensive Income in relation to revenue recognised from operational payment contracts.

The net impact of these adjustments in the Consolidated Statement of Comprehensive Income in the year ended 31 December 2018 was to reduce operating expenditure by £4.9m, as compared to the IAS 18 basis.

The total adjustments to contract fulfilment assets in the Consolidated Statement of Financial Position as at the reporting date is an increase of £35.6m, as compared to the IAS 18 basis.

c) Reclassification of intangible assets

Prior to the adoption of IFRS 15, payments to customers in bringing the PbBa product to market were capitalised as intangible assets and amortised over their useful economic lives. Reflecting the provisions of IFRS 15 for accounting for consideration payable to customer entities, assets of £10.5m were reclassified to prepayments on 1 January 2018. Further payments in 2018 of £15.5m were also accounted for within prepayments, bringing the total reclassification of these assets from intangible assets to prepayments to £26.0m as at the reporting date. Further details of the basis for this change in classification are contained in note 1.

23.2 The impact on the Group's retained earnings as at 1 January 2018 is as follows:

	£m
Opening retained earnings (as previously published)	(15.8)
Impact of adoption of IFRS 15:	
Recognition of asset for costs to fulfil customer contracts	30.7
Restatement of deferred income for implementation and development services	(17.1)
Restatement of accrued income for implementation and development services	(13.8)
Asset lives of tangible assets restated	0.3
	<hr/>
Net movement in year	0.1
	<hr/>
Retained earnings as at 1 January 2018 (restated)	(15.7)
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Notes to the financial statements (continued)

24 Contingent liabilities

From time to time, the Group is engaged in litigation in the ordinary course of business. The Group carries professional indemnity insurance. There are no material contingent liabilities requiring disclosure.

25 Events after the reporting date

In January 2019 Mastercard Payment Gateway Services Limited provided an additional unsecured, long term loan of £140.0m to Vocalink Limited, the operating company. The loan was fully funded in cash on 24 January 2019, it is repayable no later than 24 January 2024 with an interest rate of 3.41%.

On 14 March 2019 Vocalink Limited signed an extension of its contract with Bacs Payment Services Limited extending from December 2020 with a minimum term ending November 2023.

There were no other events subsequent to the reporting date that require disclosure.