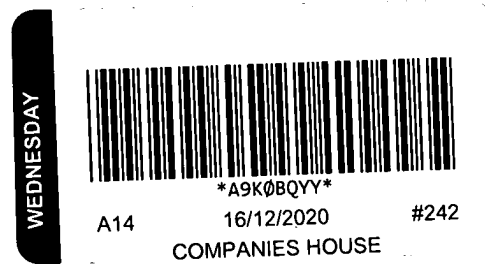


Company Registration No. 07956446

Blackhawk Network (Europe) Limited

Consolidated Financial Statements

for the year ended 28 December 2019



Blackhawk Network (Europe) Limited

Report and financial statements for the year ended 28 December 2019

Contents	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	4
Statement of directors' responsibilities	6
Independent auditor's report	7
Consolidated Statement of Comprehensive Income	10
Consolidated Statement of Financial Position	11
Company Statement of Financial Position	12
Consolidated Statement of Changes in Equity	13
Company Statement of Changes in Equity	14
Consolidated Statement of Cash Flows	15
Company Statement of Cash Flows	16
Notes to the financial statements	17

Blackhawk Network (Europe) Limited

Report and financial statements for the year ended 28 December 2019

Officers and professional advisers

Directors

Kirsten Richesson
Matthew Howe
Patrick Gurney

Secretary

Michelle Wainhouse

Registered Office

Westside
London Road
Hemel Hempstead
Hertfordshire
HP3 9TD

Auditor

BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU

Blackhawk Network (Europe) Limited

Strategic report

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activities

The principal activity of Blackhawk Network (Europe) Limited (the “Company”) is the marketing, activation and sale of physical and electronic gift cards through its distribution channels in the UK, Europe and the Nordics. Additionally the Company sells Employee Engagement and Recognition Platforms to enable greater performance, retention and productivity in an organisation’s workforce.

Principal risks and uncertainties

Our ability to maintain and grow our business depends on a number of factors, many of which are outside our control. These factors include:

- Our operating revenues may decline if we or Blackhawk Network, Inc. lose one or more of our top retail distribution partners, or if we fail to maintain existing relationships with our retail distribution partners or fail to attract new retail distribution partners to our network, or if the financial performance of our retail distribution partners’ businesses declines.
- The Blackhawk Network Group relies on its content providers for its product and service offerings, and the loss of one or more of our top content providers or a decline in demand for their products, or our failure to maintain existing arrangements with certain content providers or to attract new content providers to its network, could have a material adverse effect on our business.
- The Company is dependent on the efficient and uninterrupted operation of Blackhawk Network Inc’s transaction processing systems, including its computer network systems and data centres, and if such systems are disrupted, our business, results of operations and financial condition could be materially and adversely affected. A data security breach could expose the Company to costly government enforcement actions, liability and protracted and costly litigation, and could adversely affect our reputation and operating revenues.
- Failure to keep pace with the rapid technological developments in our industry and the greater electronic payments industry may materially and adversely affect our business, results of operations and financial condition.
- Due to the nature of the Group’s business and the assets and liabilities contained within the Company’s statement of comprehensive income, the main financial risk the Directors consider relevant is credit risk. This is mitigated by the Group’s credit control policies.
- Blackhawk Network (UK) Limited is authorised by the Financial Conduct Authority under the Electronic Money Regulations 2011 (registration number is 900023) for the issuing of electronic money. If we fail to maintain this authorisation it could have an adverse effect on our business. Subsequent to year end Blackhawk Network (UK) Limited transferred its VISA license to issue E money products to another group company as disclosed in note 21.
- Brexit may have an adverse effect on our business, mainly in the supply chain for our network. Our partners may incur additional costs for cross border supply of items such as the gift card plastic and carrier, particularly in the event of a ‘no-deal’ scenario.
- The Company has assessed its exposure to risks arising from the COVID-19 pandemic during 2020. As part of these considerations, the company’s directors have assessed the threat this could have on the solvency of key trading partners. Through frequent and regular credit checks completed on all key trading partners, the Directors have gained assurance that the risk the pandemic could pose to major trading areas in the business is low, with no major dependency identified on any one partner.
- Whilst the trading results of the Company have been reduced during 2020 by the global pandemic and will most likely continue to be effected into 2021 the Directors are confident the Group has sufficient resources and group support to continue trading for at least 12 months from the date of this report.

Blackhawk Network (Europe) Limited

Strategic report

Results and financial position

The Group profit for the year ended 28 December 2019, after taxation, amounted to £2,133,000 (2018: £728,000).


Group net current assets increased by £1,511,000 with a general increase in debtors due to increased revenue.

Key performance indicators

The following are our key performance indicators. Turnover is generated by the commission received from our card partners.

	2019	2018
Turnover (£000)	61,191	55,805
Gross profit % of turnover	18.0%	16.4%
Operating profit % of turnover	3.4%	1.5%

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


P Gurney
Director

Blackhawk Network (Europe) Limited

Directors' Report

The Directors present their report and the audited financial statements of the Group for the fiscal year ended 28 December 2019. Fiscal years 2019 and 2018 each consisted of 52 weeks and ended on 28 December 2019 and 29 December 2018 respectively. All reference to years represents fiscal years, unless otherwise noted.

Details of activities and principal risks and uncertainties can be found in the Strategic Report on page 2 and form part of this report by cross-reference.

Dividends

The directors do not recommend the payment of a dividend of £nil (2018: £nil).

Qualifying third party indemnity provisions

The Group has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report. The maximum liability guaranteed on behalf of directors is approximately £50 million. This is a group-wide indemnity provision that benefits all directors of all companies within the Blackhawk group.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group will continue to trade profitably for the foreseeable future. The directors are satisfied with the financial position as reported at 28 December 2019. Accordingly, they continue to adopt the going concern basis in preparing these financial statements. Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in note 1 of the financial statements.

Directors

The directors who served throughout the year and subsequently are as stated below:

Kirsten Richesson
Matthew Howe
Patrick Gurney

Financial risk management and objectives

The Group's activities expose it to a number of risks including credit risk, liquidity risk and cash flow risk. The Group does not use financial derivatives to manage these risks. The measures in place and associated considerations are set out below.

Credit risk

The Group's principal financial assets are cash, trade debtors and amounts owed by group undertakings. Credit risk is primarily attributable to cash at bank and trade debtors. The Group seeks to minimise exposure on trade debtors by issuing regular invoices, enforcing credit terms and acting as agent only on the majority of its contracts.

The credit risk on cash balances is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Liquidity and cash flow risk

In order to maintain liquidity and ensure that sufficient funds are available for ongoing operations, cash with respect to cardholder funds is entirely ring-fenced in separate bank accounts and not used to fund day to day operations. The Group itself does not have any external debt finance.

Blackhawk Network (Europe) Limited

Directors' Report (continued)

Future developments

Blackhawk Network (Europe) Limited will continue to expand its distribution networks through grocery, convenience, speciality and online channels. It continues to expand its product portfolio to include newly launched third party branded gift cards, prepaid cards and other category specific Own Content cards.

On 6 August 2020, Blackhawk Network (Europe) Limited acquired the entire share capital of Intelligent Card Solutions Limited for a consideration of £3.8m. The total consideration was made up of amounts paid in cash. Intelligent Card Solutions Ltd is a company that delivers prepaid card and gift-card based loyalty, reward and benefits programmes to help organisations increase the value of their relationships with customers, members and employees.

On 24 August 2020 Blackhawk Network (UK) Ltd transferred its Visa license to issue E Money products to another group company. During the remaining months of 2020 it also intends to transfer its Mastercard license and its employees to other group companies.

On 2 October 2020, Blackhawk Network (Europe) Limited sold the trade and assets of the Employee Recognition business trading as Achievers to a fellow group company for a cash consideration of £21.7m.

Statement as to Disclosure of Information to Auditors

Each of the persons who is a director at the date of approval of this annual report confirms that:

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

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



P Gurney
Director

Blackhawk Network (Europe) Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

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

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

Independent auditor's report to the members of Blackhawk Network (Europe) Limited

Opinion

We have audited the financial statements of Blackhawk Network (Europe) Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 28 December 2019 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of changes in equity, the consolidated and company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice), and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- 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 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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent auditor's report to the members of Blackhawk Network (Europe) Limited (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent auditor's report to the members of Blackhawk Network (Europe) Limited (continued)

Use of our report

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



Mark Ayres (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
Date 11/12/2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Blackhawk Network (Europe) Limited

Consolidated Statement of Comprehensive Income For the year ended 28 December 2019

		Continuing	Discontinued	Total	Continuing	Discontinued	Total
	Notes	2019 £000	2019 £000	2019 £000	2018 £000	2018 £000	2018 £000 (restated)
Turnover	2	60,334	893	61,227	54,089	1,716	55,805
Cost of sales		(50,018)	(176)	(50,194)	(45,229)	(1,414)	(46,643)
Gross profit		10,316	717	11,033	8,860	302	9,162
Administrative expenses				(8,953)			(8,307)
Operating profit	3			2,080			855
Fair value gain on investments	10			689			340
Interest payable	4			(96)			(109)
Profit before tax				2,673			1,086
Tax on profit	7			(540)			(358)
Profit for the year				2,133			728

There has been no other comprehensive income in the current or previous year.

The notes on pages 17 to 32 form part of these financial statements.

Blackhawk Network (Europe) Limited

Consolidated Statement of Financial Position As at 28 December 2019

	Note	2019 £'000	2018 £'000 (restated)
Non-current assets			
Deferred tax	7	64	56
Intangible assets	8	-	50
Tangible assets	9	18	43
Investments	10	2,536	1,847
		<u>2,618</u>	<u>1,996</u>
Current assets			
Stocks - finished goods		128	26
Debtors	11	99,654	87,768
Cash at bank and in hand	12	41,941	39,186
		<u>141,723</u>	<u>126,980</u>
Creditors: amounts falling due within one year	13	<u>(134,836)</u>	<u>(121,604)</u>
Net current assets		<u>6,887</u>	<u>5,376</u>
Net assets		<u>9,505</u>	<u>7,372</u>
Capital and reserves			
Share capital	15	-	-
Capital contribution		324	324
Retained earnings		9,181	7,048
		<u>9,505</u>	<u>7,372</u>
Shareholders' funds		<u>9,505</u>	<u>7,372</u>

The financial statements of Blackhawk Network (Europe) Limited, registered number 07956446, were approved by the Board of Directors on *7 Dec 2020*

Signed on behalf of the Board of Directors


P Gurney
Director

The notes on pages 17 to 32 form part of these financial statements.

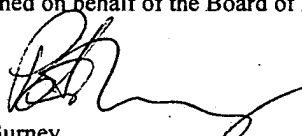
Blackhawk Network (Europe) Limited

Company Statement of Financial Position As at 28 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Deferred tax	7	42	50
Tangible assets	9	4	10
		<u>46</u>	<u>60</u>
Current assets			
Stocks - finished goods		128	6
Debtors	11	97,066	84,642
Cash at bank and in hand	12	13,305	9,722
		<u>110,499</u>	<u>94,370</u>
Creditors: amounts falling due within one year	13	<u>(106,748)</u>	<u>(91,841)</u>
Net current assets		<u>3,751</u>	<u>2,529</u>
Net assets		<u>3,797</u>	<u>2,589</u>
Capital and reserves			
Share capital	15	-	-
Capital contribution		324	324
Retained earnings		3,473	2,265
		<u>3,797</u>	<u>2,589</u>
Shareholders' funds		<u>3,797</u>	<u>2,589</u>
Net profit of the year		<u>1,208</u>	<u>602</u>

The financial statements of Blackhawk Network (Europe) Limited, registered number 07956446, were approved by the Board of Directors on *7 Dec 2020*

Signed on behalf of the Board of Directors


P Gurney
Director

The notes on pages 17 to 32 form part of these financial statements.

Blackhawk Network (Europe) Limited

Consolidated Statement of Changes in Equity As at 28 December 2019

	Share capital £'000	Capital contribution £'000	Retained earnings £'000	Total £'000
At 1 January 2018 (restated)	-	324	6,320	6,644
Profit for the financial year (restated)	-	-	728	728
At 29 December 2018 (restated)	-	324	7,048	7,372
Profit for the financial year	-	-	2,133	2,133
At 28 December 2019	-	324	9,181	9,505

The notes on pages 17 to 32 form part of these financial statements.

Blackhawk Network (Europe) Limited

Company Statement of Changes in Equity As at 28 December 2019

	Share capital £'000	Capital contribution £'000	Retained earnings £'000	Total £'000
At 1 January 2018	-	324	1,663	1,987
Profit for the financial year	-	-	602	602
At 29 December 2018	-	324	2,265	2,589
Profit for the financial year	-	-	1,208	1,208
At 28 December 2019	-	324	3,473	3,797

The notes on pages 17 to 32 form part of these financial statements.

Blackhawk Network (Europe) Limited

Consolidated Statement of Cash Flows Year ended 28 December 2019

	2019 £000	2018 £000 (restated)
Operating activities		
Profit before tax	2,673	1,086
Adjustments for:		
Tangible asset depreciation	28	309
Intangible asset amortisation	50	19
Fair value gain on investments	(689)	(340)
Loss on disposal of tangible fixed assets	-	3
Change in receivables	(12,066)	(21,370)
Change in payables	8,609	20,725
Change in stock	(102)	337
Interest payable	96	109
Taxation	(548)	(208)
Cash flows from operating activities	(1,949)	670
Investing Activities		
Acquisition of tangible fixed assets	(3)	(26)
Acquisition of intangible fixed assets	-	(15)
Receipt of deferred consideration	180	-
Cash flow from investment activities	177	(41)
Financing Activities		
Interest paid	(145)	(81)
Advances of loans	5,000	-
Repayment of loans	(328)	(1,338)
Cash flow from financing activities	4,527	(1,419)
Increase/(decrease) in cash balances in the year	2,755	(790)
Net cash balance at beginning of year	39,186	39,976
Net cash balance at end of year	41,941	39,186

Blackhawk Network (Europe) Limited

Company Statement of Cash Flows Year ended 28 December 2019

	2019	2018
	£000	£000
Operating activities		
Profit before tax	1,494	838
Adjustments for:		
Tangible asset depreciation	9	10
Change in receivables	(12,465)	(20,886)
Change in payables	10,284	18,695
Change in stock	(122)	132
Interest paid	96	109
Taxation	(237)	(362)
Cash flow from operating activities	(941)	(1,464)
Investing Activities		
Acquisition of tangible fixed assets	(3)	(8)
Cash flow from investment activities	(3)	(8)
Financing Activities		
Interest paid	(145)	(81)
Advances of loans	5,000	-
Repayment of loans	(328)	(1,338)
Cash flow from financing activities	4,527	(1,419)
Increase/(decrease) in cash balances in the year	3,583	(2,891)
Net cash balance at beginning of year	9,722	12,613
Net cash balance at end of year	13,305	9,722

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

1. Accounting policies

Statement of Compliance

The Group's financial statements have been prepared under the historical cost convention and in compliance with Financial Reporting Standard 102 ("FRS 102") issued by the Financial Reporting Council as it applies to the financial statements for the year ended 28 December 2019.

General information and basis of accounting

Blackhawk Network (Europe) Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act. The Company is registered in England and Wales and the address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on page 2.

Consolidation

The consolidated financial statements incorporate the results, assets and liabilities of the Company and entities controlled by the Company (the "Group") as stated in note 10. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

Going concern

The Group has assessed its exposure to risks arising from the COVID-19 pandemic and the threat this could have on the solvency of key trading partners. Through frequent and regular credit checks completed on all key trading partners, the Directors have gained assurance that the risk the pandemic could pose to the results of the business is low, with no major dependency identified on any one partner.

Whilst the trading income of the Group has been reduced during 2020 by the global pandemic and will most likely continue to be effected into 2021, the Group is in a strong position with operating cash reserves at the end of September 2020 in excess of £18 million.

The Group is in a Cost Plus Transfer Pricing Agreement with its Parent and therefore does not expect to book losses or suffer a negative cash flow at any time in the foreseeable future. However, as a precaution, the Directors have prepared profit and cash flow forecasts and conducted stress tests to establish the funding requirements should the Group need to operate as a stand alone business. Based on the Transfer Pricing arrangement and these forecasts the Directors are confident the Group has sufficient resources to continue trading for at least 12 months from the date of this report.

Intangible fixed assets

Software development costs and licenses are stated at cost less accumulated amortisation. Amortisation is calculated to write off software development costs in equal annual instalments over its estimated useful life of 5 years. Licences are amortised on a straight-line basis over the licence period.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements	length of lease
Computer equipment	3 years
Fixtures and fittings	between 5 and 10 years

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

1. Accounting policies (continued)

Financial instruments

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the Group's statement of comprehensive income when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial assets and liabilities are initially recorded at transaction price, including transaction costs, unless the arrangement constitutes a financing transaction. The Group's financial assets and liabilities are payable or receivable within one year and are subsequently measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of any impairment.

Financial assets are de-recognised only where the contractual rights to the cash flows from the asset expire or are settled; or if the Group transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity; or the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Investments

Investments in subsidiaries are measured at cost less impairment. Listed investments are recorded at fair value, with changes to the fair value being recorded through profit or loss.

Turnover

Blackhawk Network (Europe) Limited's turnover represents the gross commissions received from the sale of gift cards through the Group's network of distribution partners, revenue from promotional and marketing activities and income received from its parent under transfer pricing arrangements.

Blackhawk Network (UK) Limited's turnover represents revenues received from the customers, through its distribution partners, for the sale of prepaid debit cards.

Stock – finished goods

Stock of display materials and gift cards are valued at the lower of cost and net realisable value. Cost is calculated using the first in first out method (FIFO). Provision is made for obsolete, slow-moving or defective items where appropriate.

Share-based payments

Share-based payments, including grants of share options, restricted shares, restricted share units and performance share units are accounted for as compensation based on the fair value of the award at the grant date and amortise the grant date fair value to expense over the requisite service period, which is generally the vesting period.

The fair value of restricted shares, restricted share units and performance share units is determined as the grant date fair value of Blackhawk Network Holdings, Inc. shares and determine the fair value of share options and share appreciation rights using a Black-Scholes option pricing model. The Black-Scholes option pricing model incorporates certain assumptions, such as the risk-free interest rate, expected volatility, expected dividend yield and the expected life of options in order to arrive at a fair value estimate. Share-based employee compensation expense is classified in administrative expenses.

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

1. Accounting policies (continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

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

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

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

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

Foreign currencies

The functional currency of the Company is Pound Sterling ("£").

The Company and Group financial statements are also presented in Pound Sterling.

Transactions during the year in foreign currencies have been translated at rates ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies at the reporting date have been translated at the rate ruling on that date. All resulting exchange differences are dealt with in the statement of comprehensive income.

Assets and liabilities of the entities having functional currency other than the group functional currency are translated into equivalent Pound Sterling at exchange rates ruling at the reporting date. Revenues and expenses are translated at average exchange rates for the year, which approximates the exchange rates at the dates of transactions.

Pensions

The Group operates a defined contribution scheme. The pension costs charged in the financial statements represent the contribution payable by the Group during the period. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Leases

All leases are regarded as operating leases and the payments made under them are charged to profit or loss on a straight-line basis over the term of the lease.

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

1. Accounting policies (continued)

Critical accounting policies and key sources of estimation uncertainty

The key assumptions concerning the future and any other key source 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 described below.

Stock – finished goods

Provision is made for obsolete, slow-moving or defective items where appropriate. The estimated provision takes into account current sales volumes and expected future volumes, which is inherently uncertain as it is dependent on consumer behaviour and the popularity in the marketplace for the products we supply. In addition provision is made for the cost of secure destruction of card stock where appropriate.

Trade debtors

Trade debtors are presented net of a provision for doubtful debt. All debt that is 60 days or more past due is provided for except where there are promises to pay in place. A degree of uncertainty is inherent within the application of this policy since a promise to pay does not guarantee payment.

2. Turnover

Turnover represents the income earned from the sale of gift cards, from the issuance of prepaid debit cards and the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due.

A geographical analysis of turnover is as follows:

	2019	2018
	£'000	£'000
United Kingdom	44,694	39,308
Rest of European Union and Nordics	16,279	15,548
Income from US parent	254	949
	<u>61,227</u>	<u>55,805</u>

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

3. Operating profit

Operating profit is stated after charging/(crediting):

	2019	2018
	£'000	£'000
Depreciation of tangible fixed assets	28	309
Amortisation of intangible assets	50	19
Loss on disposal of tangible fixed assets	-	3
(Reversal of bad debt provision)/bad debt expense	(7)	229
Cost of stock recognised as an expense	42	133
Provision for slow moving, obsolete and secure destruction of card stock	7	397
Net foreign exchange loss/(gain)	277	(100)
Operating lease rental	-	7
Fees payable to the Group's auditor for the audit of the Company's annual financial statements	36	36
Fees payable to the Group's auditor for the audit of the subsidiary	25	25

4. Interest payable

	2019	2018
	£'000	£'000
Interest on loan owed to Hawk Incentives Trust Company Limited	96	109

Interest on the loan from Hawk Incentives Trust Company Limited accrues at LIBOR +1.25% p.a.

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

5. Directors' remuneration

Remuneration received by the directors of the Group for their services to the Group is detailed below:

	2019	2018
	£'000	£'000
Emoluments	613	598
Contribution to money purchase pension scheme	18	25
Charge for share based payments	172	912
	<u>803</u>	<u>1,535</u>

Remuneration of the highest paid director:

	£'000	£'000
Emoluments	437	428
Contribution to money purchase pension scheme	11	20
Charge for share based payments	151	882
	<u>599</u>	<u>1,330</u>

The highest paid director exercised share options in the current and preceding year and received or was entitled to receive shares in Blackhawk Network Holdings, Inc. in respect of qualifying services under a long-term incentive scheme.

	2019	2018
	No.	No.
The number of directors who:		
Received or were entitled to receive shares under long-term incentive schemes	2	2
Exercised share options	2	2
Accrued retirement benefits under a money purchase scheme	<u>2</u>	<u>2</u>

6. Pension costs

The Group operates a defined contribution pension scheme in respect of the directors and staff. The scheme and its assets are held by independent managers. The pension charge represents contributions due from the Group and amounted to £187,000 (2018: £107,000).

The pension liability outstanding at 28 December 2019 amounts to £28,000 (2019: £19,000).

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

7. Tax on profit

The tax charge comprises:

	2019 £'000	2018 £'000 (restated)
Current tax		
UK corporation tax at 19% (2018: 19%)	523	224
Adjustments in respect of prior periods	25	89
Total current tax charge	<u>548</u>	<u>313</u>
Deferred tax		
Origination and reversal of timing differences	(10)	50
Effect of tax rate change on opening balance	2	-
Adjustments in respect of prior periods	-	(5)
Total deferred tax (credit)/ charge	<u>(8)</u>	<u>45</u>
Total tax charge	<u><u>540</u></u>	<u><u>358</u></u>
<i>Reconciliation of tax charge</i>		
	2019 £'000	2018 £'000 (restated)
Profit before tax	<u>2,673</u>	<u>1,086</u>
Tax on profit on at standard UK corporation tax rate of 19% (2018: 19%)	508	206
Effects of:		
Income not taxable	(95)	(65)
Expenses not deductible for tax purposes	100	132
Difference in tax rates	2	(5)
Adjustments in respect of prior periods	25	89
Tax charge	<u><u>540</u></u>	<u><u>358</u></u>

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

7. Tax on profit (continued)

	2019 £'000	2018 £'000
GROUP		
Deferred tax		
Accelerated capital allowances	7	3
Short term timing differences	57	53
Total deferred tax asset	<u>64</u>	<u>56</u>
Deferred tax balance brought forward	56	101
Deferred tax credited/(charged) in the statement of comprehensive income for the year	8	(45)
Asset at end of year	<u><u>64</u></u>	<u><u>56</u></u>
COMPANY		
Deferred tax		
Short term timing differences	42	50
Total deferred tax asset	<u>42</u>	<u>50</u>

Deferred tax has been provided at a rate of 17%.

8. Intangible fixed assets

GROUP	Software development £000	Licenses £000	Total £000
Cost			
At 29 December 2018 and 28 December 2019	<u>57</u>	<u>42</u>	<u>99</u>
Amortisation			
At 30 December 2018	19	30	49
Charge for the year	38	12	50
At 28 December 2019	<u>57</u>	<u>42</u>	<u>99</u>
Net book value			
At 28 December 2019	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
At 29 December 2018	<u><u>38</u></u>	<u><u>12</u></u>	<u><u>50</u></u>

The amortisation charge for the year is included within administrative expenses. The company held no intangible assets during the year.

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

9. Tangible fixed assets

GROUP	Leasehold improvements £000	Computer equipment £000	Fixtures and Fittings £000	Total £000
Cost				
At 30 December 2018	-	428	-	428
Additions	-	3	-	3
At 28 December 2019	-	431	-	431
Amortisation				
At 30 December 2018	-	385	-	385
Charge for the year	-	28	-	28
At 28 December 2019	-	413	-	413
Net book value				
At 28 December 2019	-	18	-	18

Following the decision to re-locate the Blackhawk Network (UK) offices in 2018, the company shortened the useful economic lives of assets affected by the relocation decision to reflect the date of the office relocation in March 2018.

GROUP	Leasehold improvements £000	Computer equipment £000	Fixtures and Fittings £000	Total £000
Cost				
At 1 January 2018 - unaudited	411	402	100	913
Additions	-	26	-	26
Disposals	(411)	-	(100)	(511)
At 29 December 2018	-	428	-	428
Amortisation				
At 1 January 2018 – unaudited	244	281	59	584
Charge for the year	164	104	41	309
Disposals	(408)	-	(100)	(508)
At 29 December 2018	-	385	-	385
Net book value				
At 29 December 2018	-	43	-	43

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

9. Tangible fixed assets (continued)

COMPANY	2019 £'000	2018 £'000
Computer equipment		
Cost		
30 December	27	19
Additions	3	8
28 December / 29 December	<u>30</u>	<u>27</u>
Depreciation		
30 December	17	7
Charge for the year	9	10
28 December / 29 December	<u>26</u>	<u>17</u>
Net book value		
At 28 December / 29 December	<u>4</u>	<u>10</u>

10. Investments

GROUP

	As at 28 Dec 2019 £000	As at 29 Dec 2018 (restated) £000
Fair value of preference shares		
Brought forward	1,847	1,507
Increase in fair value	689	340
Carried forward	<u>2,536</u>	<u>1,847</u>

During 2016 the Group received income, a deferred cash consideration and preference shares due to the sale of Visa Europe to Visa Inc. The Group was a shareholder of Visa Europe due to its Visa membership through Blackhawk Network (UK) Limited, and therefore benefitted from the proceeds of the sale.

In 2019 Blackhawk Network (UK) Limited received further deferred cash consideration of £180,000.

COMPANY

The undertakings in which the company's interest at the year end is 20% or more are as follows:

Name:	Registered address	Shareholding
Blackhawk Network (UK) Limited	Westside, London Road, Hertfordshire, United Kingdom, HP3 9TD	100%

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

11. Debtors

	2019 £'000	2018 £'000 (restated)
GROUP		
Trade debtors	85,525	75,287
Amounts owed by group undertakings	9,328	7,669
Deferred consideration	-	180
Other debtors	4,469	4,200
Prepayments and accrued income	332	432
	<u>99,654</u>	<u>87,768</u>

Included within other debtors is £220,000 (2018: £200,000) due to the Group from a former director who served during the year. The balance is unsecured, interest free and repayable on demand.

	2019 £'000	2018 £'000
COMPANY		
Trade debtors	85,524	75,246
Amounts owed by group undertakings	8,536	6,680
Other debtors	2,770	2,346
Prepayments and accrued income	236	329
Corporation tax	-	41
	<u>97,066</u>	<u>84,642</u>

12. Cash at bank and in hand

	2019 £'000	2018 £'000
GROUP		
Current accounts	20,938	8,558
Operationally ring-fenced accounts	1,591	1,272
Restricted cash in respect to customer accounts	19,412	29,356
	<u>41,941</u>	<u>39,186</u>

Cash at bank and in hand includes amounts held in separately designated bank accounts in order to meet the liabilities falling due under the various client programmes, with such amounts presented as operationally ring-fenced accounts.

Restricted cash in respect to customer accounts represents amounts held in safeguarded bank accounts, which represent funds held on behalf of consumers. In compliance with the safeguarding provisions within the Financial Conduct Authority Electronic Money Regulations 2011, the Group is required to safeguard 'relevant funds' from the Group's operating funds immediately upon receipt. The safeguarded bank accounts are held with the Group's principal bankers and are segregated from operating funds.

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

12. Cash at bank and in hand (continued)

Company	2019 £'000	2018 £'000
Current accounts	11,714	8,450
Operationally ring-fenced accounts	1,591	1,272
	<u>13,305</u>	<u>9,722</u>

13. Creditors: amounts falling due within one year

GROUP	2019 £'000	2018 £'000
Trade creditors	53,607	54,319
Interest payable on loan	30	79
Money held on behalf of clients	19,728	22,802
Amounts owed to group undertakings	28,312	21,869
Other taxes and social security costs	731	524
Accruals and deferred income	22,394	16,649
Loans payable to group companies	10,034	5,362
	<u>134,836</u>	<u>121,604</u>

Included within the loans payable to group companies for Group and Company is £5,000,000 (2018: £nil) owed to Cyclescheme Limited. The balance is unsecured, bears interest at a rate of 2.5% per annum on the balance of the loan and is repayable in full on 24 January 2020.

Also included within the loans payable to group companies for Group and Company is £5,034,000 (2019: £5,352,000) owed to Hawk Incentives Trust Company Limited. Interest is accrued at a variable rate of LIBOR +1.25% per annum on the balance of the loan. The termination date of the loan is 25 July 2022, and is payable on demand, on or before termination date. The balance is unsecured.

COMPANY	2019 £'000	2018 £'000
Trade creditors	53,592	54,312
Interest payable on loan	30	79
Amounts payable to group companies	20,440	-
Other taxes and social security costs	731	524
Accruals and deferred income	21,921	16,195
Loan payable to group companies	10,034	5,362
	<u>106,748</u>	<u>91,841</u>

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

14. Staff costs

The average monthly number of employees including executive directors was:

	2019 No.	2018 No.
Sales	37	33
Administration	16	10
	<u>53</u>	<u>43</u>

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	5,613	2,990
Social security costs	617	359
Pension costs	187	107
Charge for share based payments	535	1,057
	<u>6,952</u>	<u>4,513</u>

15. Share capital

	2019 £	2018 £
Called up, allotted and fully paid		
1 ordinary share of £1	<u>1</u>	<u>1</u>

The Company has one class of ordinary share which carries no right to fixed income.

16. Related party transactions

The Group has taken advantage of the exemption under FRS 102 33.7 "Related Party Disclosures" from disclosing transactions with related parties that are wholly owned subsidiaries of the Blackhawk Network Holdings, Inc. group.

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

17. Share-based payments

Certain of the Group's directors and employees are participants in the 2013 Equity Incentive Plan of Blackhawk Network Inc. Under the terms of the 2013 Plan, Blackhawk Network Inc. may issue share options, share appreciation rights, restricted share awards, restricted share units, performance share units and other incentive awards. Grants received by employees and directors of the Group comprise restricted share awards, which are equity-settled in shares of Blackhawk Network Inc. Such awards vest over a 4 year period, with one quarter vesting in each year, subject to continued employment. The Group reimburses Blackhawk Network Inc. for the cost of such share-based payments.

On the acquisition of Blackhawk Holdings Inc. all restricted share units granted prior to October 2016 were paid out. Any restricted share units after this date were converted to cash grants over the original vesting period.

Certain of the Group's directors and employees are participants in the 2018 Stock Incentive Plan of Blackhawk Network Inc. Under the terms of the 2018 Plan, Blackhawk Network Inc. may issue share options to eligible employees as a combination of Time-Vesting Post-Merger Options and Performance-Vesting Post-Merger Options. Grants received allow each grantee to purchase units of shares of the Class B common stock. The Time-Vesting Post-Merger Options vest and become exercisable over a four-year term based on continued service requirements. The vesting of Performance-Vesting Post-Merger Options is subject to achieving or exceeding pre-defined annual EBITDA targets for each of the fiscal years ended 2018 through 2022. Upon achievement of these specified targets each year, 20% of these options shall vest and become exercisable. If the targets are not satisfied in one fiscal year, the options shall vest in the next subsequent fiscal year if that year's targets are satisfied.

The charge for the share based payments per scheme is as follows:

	2019 £'000	2018 £'000
2013 Equity Incentive Plan – restricted share awards	274	543
2013 Equity Incentive Plan – cash grants	-	391
2018 Stock incentive Plan	261	123
	<u>535</u>	<u>1,057</u>

Details of the Stock Incentive Plan are as follows:

	Number of options	Weighted average exercise price (\$)
Outstanding as at 30 December 2018	405,957	10.00
Granted in year	104,543	10.89
Exercised, cancelled or forfeited in year	-	-
	<u>510,500</u>	<u>10.21</u>
Outstanding as at 28 December 2019	510,500	10.21

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

17. Share-based payments (continued)

The inputs to the Black Scholes pricing model are as follows: -

	2019	2018
Expected volatility	40%	35%
Expected life (years)	6.10 – 6.25	6.10 – 6.25
Risk free rate	1.5 - 2.6%	2.9%

18. Prior year adjustment

During 2016, Blackhawk Network (UK) Limited, as a shareholder of Visa Europe due to its Visa membership, benefitted from the proceeds of the sale of Visa Europe to Visa Inc. As part of the transaction, Blackhawk Network (UK) Limited also received preference shares and a deferred consideration.

No value for the preference shares or deferred consideration had previously been recorded within the subsidiary. Following a review of the circumstances surrounding potential adjustments against the preference share conversion ratio, management have changed their assessment of whether it was appropriate to record a value for the preference shares and deferred consideration. Management now consider that it would have been reasonable to consider the preference share adjustments to the preference share ratio as being immaterial and therefore the preference shares and deferred consideration should have been recorded at fair value.

An investment asset of £1,847,000, deferred consideration asset of £180,000 and retained earnings of £2,027,000 have been restated in the 29 December 2018 balance sheet comparatives.

The fair value gain on the investments of £340,000 has been restated in the statement of comprehensive income comparatives, being the increase in investment fair value from £1,507,000 at 31 December 2017 to £1,847,000 at 29 December 2018.

The retained earnings of the Group has been restated by £1,687,000 at 31 December 2017 and by £2,027,000 in the statement of changes in equity comparatives.

19. Profit and Loss of Parent Company

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The consolidated income statement includes a profit of £1,208,000 (2018: £602,000) relating to the parent company.

20. Parent company and controlling party

At 28 December 2019 the parent company was Blackhawk Network Holdings, Inc. incorporated in the USA. Blackhawk Network Holdings, Inc is majority owned by investment funds affiliated with Silver Lake Partners and investment funds affiliated with P2 Capital Partners. There is no individual who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, owns 25% or more of the equity interests of BHN Holdings, Inc.

Blackhawk Network (Europe) Limited

Notes to the Financial Statements Year ended 28 December 2019

21. Subsequent events

On 11 March 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic.

The group is monitoring the business closely and the impact of unfolding events in order to respond swiftly to any consequential implications on business.

On 6 August 2020, Blackhawk Network (Europe) Limited acquired the entire share capital of Intelligent Card Solutions Limited for a consideration of £3.8m. The total consideration was made up of amounts paid in cash.

On 24 August 2020 Blackhawk Network (UK) Ltd transferred its Visa license to issue E Money products to another group company.

On 2 October 2020, Blackhawk Network (Europe) Limited sold the trade and assets of the Employee Recognition business trading as “Achievers” to a fellow group company for a cash consideration of £22.9m.