

**Paragon Customer
Communications (London) Limited
(formerly DST Output (London)
Limited)**

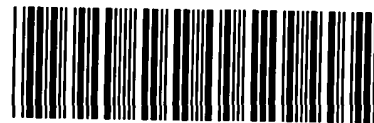
Report and Financial Statements

Year Ended

31 December 2016

Company Number 02788181

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Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Company Information

Directors	P J Crean L T Salmon J E C Walters
Company secretary	R J Cahill
Registered number	02788181
Registered office	Lower Ground Floor Park House 16/18 Finsbury Circuit London EC2M 7EB
Independent auditors	PricewaterhouseCoopers LLP The Atrium 1 Harefield Road Uxbridge Middlesex UB8 1EX
Bankers	Lloyds Bank plc 25 Gresham Street London E2CV 7HN

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

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Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Strategic Report For the Year Ended 31 December 2016

The directors present their strategic report of Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited) for the year ended 31 December 2016.

Business review

The results for the company show a profit before taxation of £14.0 million (2015 - £13.4 million profit) and turnover of £94.2 million (2015 - £98.0 million). The directors have not proposed or paid a dividend in the current year (2015 - £Nil).

Key performance indicators

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited) is a wholly owned subsidiary of Paragon Customer Communications Limited (formerly DST Output Limited) (the "group"). Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited) is managed by the directors in accordance with the strategies of its parent company, Paragon Customer Communications Limited (formerly DST Output Limited). For this reason, the directors believe that further key performance indicators for the company are not necessary or appropriate to understand the development, performance or position of the business. These strategies and key performance indicators are discussed in the group strategic report of the company's parent which does not form part of this report.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of Paragon Customer Communications Limited (formerly DST Output Limited), which include those of the company, are discussed in Paragon Customer Communications Limited's (formerly DST Output Limited) group strategic report.

Environmental matters

The company recognises the importance of their environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities. The company operates in accordance with ISO 14001 and is FSC accredited. Initiatives aimed at minimising the company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption.

Impact of the UK deciding to leave the European Union

The directors have considered the impact of the UK deciding to leave the European Union on 23 June 2016 and does not believe it will have a significant impact on the entity subsequent to the year end.

This report was approved by the board on 27 September 2017 and signed on its behalf by.



J E C Walters
Director

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Directors' Report For the Year Ended 31 December 2016

The directors present their report and the audited financial statements for the year ended 31 December 2016.

Principal activity

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited) provides a range of services in the process of data, printing, mailing, distribution and the distribution of information via the internet.

Dividends

The profit for the year, after taxation, amounted to £11.2 million (2015 - £10.9 million).

Dividends are disclosed in the strategic report.

Sale of Output UK Business

On the 14 June 2016 DSTI Systems Inc. announced to the market that it was pursuing the divestiture of its U.K. Customer Communications business, the DST Output Limited Group.

The divestiture was completed on 4 May 2017, the entire UK Customer Communications business was sold to Grenadier Holdings PLC (Company Registration Number 03591693) and now registered as Paragon Customer Communications Limited.

Directors

The following directors held office during the year and up to the date of signing these financial statements:

P J Crean (appointment 4 May 2017)
L T Salmon (appointment 4 May 2017)
J E C Walters (appointment 16 June 2017)
G Givens (resigned 4 May 2017)

Going concern

The directors have considered the company's current and future prospects and its availability of financing, and are satisfied that the company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Directors' Report (continued) For the Year Ended 31 December 2016

Financial risk management

Price risk

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of continually managing exposure to commodity price risk exceeds any significant potential benefit. The risk is mitigated due to the ongoing centralisation of the company procurement team and also certain inputs being rechargeable directly to clients. The directors of the company will revisit the appropriateness of this policy should the company's operations change in size and nature. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

Credit risk

The company is exposed to customer credit risk through continuing uncertainty in the economy. The company has implemented policies that require appropriate credit checks on potential customers before work is undertaken. Additionally any significant increases in activity on existing clients will result in a reassessment of their credit risk.

Liquidity risk

The company actively maintains debt finance through intercompany funding through the support of its parent company. These measures are designed to ensure the company has sufficient available funds for operations and planned expansions.

Interest rate risk

The company has no interest bearing assets and liabilities. All intercompany liabilities are interest free and currently deemed low risk. The directors will revisit the appropriateness of this policy should the market change significantly.

Foreign currency risk

The majority of the company's customers and suppliers are in the United Kingdom. The foreign currency exposure arising from this small proportion of foreign currency customers and suppliers is deemed low risk by the directors. The directors of the company will revisit the appropriateness of this policy should the company's operations change in size or nature.

Investment in new equipment

To ensure that the company continues to deliver the quality and speed of service that our customers require, the company will continue to keep abreast and to invest in new technology to meet their requirements.

Research and development activities

The directors regard the investment in research and development as integral to the continuing success of the business and ensuring that we remain in the forefront in our industry.

Employee consultation

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters that affect them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Directors' Report (continued) For the Year Ended 31 December 2016

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to other employees.

Strategy and future developments

The company will continue to focus on the implementation of a strong and stable platform to focus on its strategy of being a business partner to our customers by working alongside them to deliver cost effective and efficient client communication platforms and solutions.

Future developments will include the extension of the service offering of DST to include greater presence in the analysis and processing of data which in turn drives multichannel communication. Also considered of great importance is to develop new communication management solutions, which will meet the growing customer requirement in the UK for the manufacturers of output to be able to offer alternative solutions to traditional print management companies.

Directors' responsibilities statement

The directors are responsible for preparing the strategic report, the 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)". Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that 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, including FRS 102 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Directors' Report (continued) For the Year Ended 31 December 2016

Directors' indemnity

Paragon Customer Communications Limited (formerly DST Output Limited) maintains liability insurance for the directors of Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited). For the purpose of the Companies Act 2006, Paragon Customer Communications Limited (formerly DST Output Limited) provides indemnity insurance for the directors and secretary of Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited) for the qualifying third party provisions. The indemnity insurance was in place for the whole period up to the date the financial statements were approved.

Statement of disclosure of information to auditors

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as they are aware, there is no relevant audit information of which the company's auditors are unaware, and
- they have taken all the steps that ought to have been taken as directors in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on *27 September 2017* and signed on its behalf.



J E C Walters
Director

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Independent Auditors' Report to the Members of Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Report on the financial statements

Our opinion

In our opinion Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)'s financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Report and Financial Statements (the "annual report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year ended:
the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on matter prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the strategic report and the directors' report. We have nothing to report in this respect.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Independent Auditors' Report to the Members of Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the directors' responsibilities statement, set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Independent Auditors' Report to the Members of Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

What an audit of financial statements involves (continued)

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the strategic report and directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



Sarah Quinn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge

Date: 27 September 2017

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Statement of Comprehensive Income For the Year Ended 31 December 2016

	Note	2016 £000	2015 £000
Turnover	4	94,221	98,002
Cost of sales		(67,800)	(72,907)
Gross profit		26,421	25,095
Distribution costs		(232)	(1,239)
Administrative expenses		(12,373)	(11,077)
Operating profit	5	13,816	12,779
Income from other fixed asset investments	8	200	600
Profit before taxation		14,016	13,379
Tax on profit	9	(2,814)	(2,495)
Profit for the financial year		11,202	10,884

There was no other comprehensive income in 2016 or 2015.

All amounts relate to continuing operations.

The notes on pages 14 to 31 form part of these financial statements.

**Paragon Customer Communications (London) Limited (formerly DST
Output (London) Limited)**
Registered number:02788181

**Statement of Financial Position
As at 31 December 2016**


	Note	2016 £000	2015 £000
Fixed assets			
Intangible assets	10	193	356
Tangible assets	11	3,052	4,655
		<u>3,245</u>	<u>5,011</u>
Current assets			
Stocks	13	1,602	1,508
Debtors	14	30,353	22,156
Cash at bank and in hand	15	1	2
		<u>31,956</u>	<u>23,666</u>
Creditors: amounts falling due within one year	16	(14,097)	(19,363)
Net current assets		<u>17,859</u>	<u>4,303</u>
Total assets less current liabilities		<u>21,104</u>	<u>9,314</u>
Creditors: amounts falling due after more than one year	17	(549)	(178)
Provisions for liabilities			
Other provisions	19	(1,649)	(1,465)
Net assets		<u><u>18,906</u></u>	<u><u>7,671</u></u>

**Paragon Customer Communications (London) Limited (formerly DST
Output (London) Limited)**
Registered number:02788181

Statement of Financial Position (continued)
As at 31 December 2016

	Note	2016 £000	2015 £000
Capital and reserves			
Called up share capital	20	30	30
Capital redemption reserve		8	8
Capital contribution reserve		92	59
Merger reserve		831	831
Profit and loss account		17,945	6,743
Total equity		<u>18,906</u>	<u>7,671</u>

The financial statements on pages 9 to 31 were approved and authorised for issue by the board of directors and were signed on its behalf by



J E C Walters
Director

Date: 27 September 2017

The notes on pages 14 to 31 form part of these financial statements.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Statement of Changes in Equity For the year ended 31 December 2016

	Called up share capital	Capital redemption reserve	Capital contribution reserve	Merger reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000	£000
At 1 January 2016	30	8	59	831	6,743	7,671
Comprehensive income for the year						
Profit for the financial year	-	-	-	-	11,202	11,202
Total comprehensive income for the year	-	-	-	-	11,202	11,202
Contributions by and distributions to owners						
Capital contribution in respect of stock incentive plan	-	-	33	-	-	33
Total transactions with owners	-	-	33	-	-	33
At 31 December 2016	30	8	92	831	17,945	18,906

The notes on pages 14 to 31 form part of these financial statements.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Statement of Changes in Equity For the year ended 31 December 2015

	Called up share capital £000	Capital redemption reserve £000	Capital contribution reserve £000	Merger reserve £000	Profit and loss account £000	Total equity £000
At 1 January 2015	30	8	29	831	(4,141)	(3,243)
Comprehensive income for the year						
Profit for the financial year	-	-	-	-	10,884	10,884
Total comprehensive income for the year	-	-	-	-	10,884	10,884
Contributions by and distributions to owners						
Capital contribution in respect of stock incentive plan	-	-	30	-	-	30
Total transactions with owners	-	-	30	-	-	30
At 31 December 2015	30	8	59	831	6,743	7,671

The notes on pages 14 to 31 form part of these financial statements.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

1. General information

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited) is a company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the contents page and the nature of the company's operations and its principal activities are set out in the director's report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

Accounting policies have been applied consistently, other than where new policies have been adopted.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of DST Systems, Inc. as at 31 December 2016 and these financial statements may be obtained from 333 West 11th Street, Kansas City, MO 64105, USA.

2.3 Consolidation

The company is a wholly owned subsidiary of Paragon Customer Communications Limited (formerly DST Output Limited), a company incorporated in England and Wales. The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as the company and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of Paragon Customer Communications Limited (formerly DST Output Limited).

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.4 Turnover

Turnover represents amounts receivable for goods and services net of VAT and discounts.

Print-mail

Turnover is recognised based upon the number of packages or items printed and delivered to or mailed on behalf of clients at the point of dispatch.

Services

Development and consulting services are provided on a time and material basis. The revenue is recognised as the service provided. Turnover provided under a fixed price contract is recognised on a percentage of completion basis.

Deferred income on contracts

Deferred income represents items billed in advance for periods up to 12 months or items which do not yet fulfil the turnover recognition criteria.

2.5 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a 3-5 years useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years.

2.6 Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the costs of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

The estimated useful lives range as follows:

Short term leasehold property	- shorter of the remaining lease period or 10 years
Plant & machinery	- 4 - 7 years
Motor vehicles	- 3 - 5 years
Fixtures & fittings	- 3 - 5 years
Computer equipment	- 2 - 3 years

2.7 Impairment

The company performs impairment reviews in respect of tangible fixed assets where events or change in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised when the receivable amount of an asset, which is higher of its net realisable value and its value in use, is less than its carrying amount.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.8 Capital risk management

Capital risk is monitored by the Paragon Customer Communications Limited (formerly DST Output Limited) group management. The groups's objectives when managing capital are to safeguard its ability to continue as a going concern and maintain an optimal capital structure to minimise the cost of capital. This is undertaken through changes made to the underlying debt structures within the group and, where appropriate, issuing shares.

2.9 Operating leases: the company as lessee

Rentals paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

2.10 Investments

Investments held as fixed assets are shown at costs less provision for impairment.

2.11 Stocks and work in progress

Stock comprising raw materials, consumables and work in progress are valued at the lower of cost and net realisable value, after the allowance for obsolete and slow moving items. Provision is made where necessary for obsolete and slow moving and defective stocks. Work in progress is valued on the basis of direct costs based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

2.12 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amount payable by the company to the fund in respect of the year.

2.13 Government grants

Grants towards capital expenditure are released to the statement of comprehensive income over the expected useful life of the assets.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.14 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Nonmonetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income'.

2.15 Reverse lease premium

Amounts received as an incentive to enter into operating leases are capitalised and amortised through the statement of comprehensive income on a straight line basis over the lease period.

2.16 Provisions

Provisions are recognised where the company is deemed to have a legal or constructive obligation, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Provisions for dilapidations represent the estimated cost of repairs required under all current property rentals prior to the end of the lease term.

Provision for onerous leases relates to vacant properties held by the company under operating leases. The provision recognised represents the least cost of exiting by contract offset by any benefits expected to be received under it.

Any provision for impairment of trade debtors is established where there is evidence that the company will not be able to collect all amounts due. The provision is determined by reference to previous experience of collectability relevant to the specific customer.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.17 Share based payments

The company's employees participated in a restricted stock plan operated by DST Systems Inc., the former ultimate parent company during the financial year. All share based payments were equity settled and were measured at the market value at the date of the grant. The market value determined at the grant date is expensed on a straight line basis over the vesting period, based on the company's estimate of the number of options that will eventually vest. The number of shares that will vest is based on the number of shares granted less the company's estimate of the proportion of the grants that will lapse between the grant and the vesting of the stock.

Share options vest and generally become fully exercisable over 3 years of continued employment, vesting in one third increments on each anniversary from the grant date. The company recognises expense on a straight-line basis over the requisite service period for the entire award.

The Black-Scholes option valuation model is used in estimating the fair values of options granted. In addition, option valuation models require the use of assumptions, including expected stock price volatility which are arrived at by observations of historical volatility trends, generally over a three year period. In determining the expected life of option grants, a simplified method is applied, which uses the weighted average of the vesting period and the contractual term of each option granted. The risk free interest rates used are based on actual US Government zero-coupon rates for bonds matching the expected term of the option as of the option grant date.

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit and loss account over the remaining vesting period.

The restricted stock plan is no longer operational under the new ownership of Paragon Customer Communications Limited's group.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.18 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.19 Reserves

The company's reserves are as follows:

- Called up share capital represents the nominal value of the shares issued.
- The share premium account includes the premium on issue of equity shares, net of any issue costs.
- The capital redemption reserve contains the nominal value of own shares that have been acquired by the company and cancelled.
- The capital contribution reserve contains movement in equity settled share based payments.
- The merger reserve represents the fair value of the excess of the nominal value of the ordinary shares issued in an acquisition.
- The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements the directors have made the following judgements:

- Determine whether leases entered into by the company either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the company's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset.

Other key sources of estimation uncertainty

- Tangible assets (see note 11)

Tangible fixed assets, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- Contract accounting

The company applies its policies on turnover and contracts when recognising revenue and profit on partially completed contracts. The application of this policy requires judgements to be made in respect of the total expected costs to complete and the profit margin achievable on each contract. The company has in place established internal review processes to ensure that the evaluation of costs and revenues is based upon appropriate estimates.

- Impairment of trade receivables (see note 14)

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience.

4. Turnover

Analysis of turnover by country of destination:

	2016 £000	2015 £000
United Kingdom	91,823	94,189
Rest of Europe	1,471	1,707
Rest of the world	927	2,106
	<u>94,221</u>	<u>98,002</u>

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

5. Operating profit

The operating profit is stated after charging/(crediting):

	2016 £000	2015 £000
Depreciation of tangible fixed assets	2,136	1,778
Amortisation of intangible assets	169	167
Fees payable to the company's auditors and its associates for the audit of the company's annual financial statements	154	154
Other operating lease rentals:		
- plant and machinery	1,414	1,644
- other operating leases	2,059	1,843
Reversal of impairment charge on intergroup loans	-	(1,970)
	<u> </u>	<u> </u>

6. Employees

Staff costs were as follows:

	2016 £000	2015 £000
Wages and salaries	19,042	20,025
Social security costs	1,781	1,857
Cost of defined contribution pension scheme	183	203
	<u>21,006</u>	<u>22,085</u>

The average monthly number of employees, excluding the directors, during the year was as follows:

	2016 No.	2015 No.
Administrative Staff	161	164
Sales	-	11
Operations Staff	530	538
	<u>691</u>	<u>713</u>

7. Directors' remuneration

The director was remunerated through other DST Group companies and no recharges were made as it was not possible to determine the proportion of the director's work that was performed for the company.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

8. Income from other fixed asset investments

	2016 £000	2015 £000
Dividends received from joint ventures and associates	200	600

9. Tax on profit

	2016 £000	2015 £000
Current tax		
Current tax on income for the year	2,663	2,045
Current tax adjustments in respect of prior years	186	(136)
Total current tax	2,849	1,909
Deferred tax		
Origination and reversal of timing differences	231	282
Prior year adjustments	(334)	139
Affect of change in tax rates	68	165
Total deferred tax	(35)	586
Tax on profit	2,814	2,495

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

9. Tax on profit (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2015 - lower than) the standard rate of corporation tax in the UK of 20% (2015 - 20.25%). The differences are explained below:

	2016 £000	2015 £000
Profit before tax	<u>14,016</u>	<u>13,379</u>
Profit multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.25%)	2,803	2,709
Effects of:		
Non-taxable dividend income	(40)	(520)
Expenses non deductible for tax	142	144
Adjustments to tax charge in respect of prior periods	(148)	3
Effect of tax rate reduction on deferred tax	68	165
Relief for share based payments	(11)	(6)
Total tax charge for the year	<u><u>2,814</u></u>	<u><u>2,495</u></u>

Factors that may affect future tax charges

Legislation has been enacted to reduce the main UK corporation tax rate from 20% to 19% effective from 1 April 2017. A further reduction to 17% has also been enacted and will be effective from 1 April 2020. The deferred tax balances have been re-measured at these rates as appropriate.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

10. Intangible assets

	Software £000
Cost	
At 1 January 2016	2,042
Additions	6
	<hr/>
At 31 December 2016	2,048
	<hr/>
Amortisation	
At 1 January 2016	1,686
Charge for the year	169
	<hr/>
At 31 December 2016	1,855
	<hr/>
Net book value	
At 31 December 2016	193
	<hr/> <hr/>
At 31 December 2015	356
	<hr/> <hr/>

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

11. Tangible assets

	S/Term Leasehold Property £000	Plant & machinery £000	Motor vehicles £000	Fixtures & fittings £000	Computer equipment £000	Total £000
Cost or valuation						
At 1 January 2016	6,224	13,955	527	1,073	1,657	23,436
Additions	23	297	-	317	58	695
Disposals	-	(3,483)	(99)	-	-	(3,582)
At 31 December 2016	<u>6,247</u>	<u>10,769</u>	<u>428</u>	<u>1,390</u>	<u>1,715</u>	<u>20,549</u>
Depreciation						
At 1 January 2016	4,729	11,226	448	917	1,461	18,781
Charge for the year	699	1,141	32	124	140	2,136
Disposals	-	(3,321)	(99)	-	-	(3,420)
At 31 December 2016	<u>5,428</u>	<u>9,046</u>	<u>381</u>	<u>1,041</u>	<u>1,601</u>	<u>17,497</u>
Net book value						
At 31 December 2016	<u>819</u>	<u>1,723</u>	<u>47</u>	<u>349</u>	<u>114</u>	<u>3,052</u>
At 31 December 2015	<u>1,495</u>	<u>2,729</u>	<u>79</u>	<u>156</u>	<u>196</u>	<u>4,655</u>

The IBM Hunkeler Module Unit and Ricoh IP5000 Machine were disposed of during the financial year and replaced with upgraded facilities under operating lease contracts. Profit on disposal of the assets amounted to £424,700.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

12. Investments

The company holds share capital in the following companies:

Company	Country of incorporation	Shares held	Class %	Registered address	Nature of business
Participating interests					
Joint ventures					
dsi Billing Services Limited	England and Wales	Ordinary shares	50	Evolution House, Choats Road, Dagenham, Essex, RM9 6B	Billing & service providers
Associates					
European Direct Mail Specialists Services	England and Wales	Ordinary shares	50	5 White Oak Square, Swanley, Kent, BR8 7AG	Mailing & delivery
Response Handling Centre Limited	England and Wales	Ordinary shares	34	5 White Oak Square, Swanley, Kent, BR8 7AG	Administration Support

Total investments amounted to less than £1,000.

13. Stocks

	2016 £000	2015 £000
Raw materials	830	784
Work in progress	772	724
	1,602	1,508

The replacement cost of raw materials and consumables is not materially different from the amounts above.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

14. Debtors: Amounts falling due within one year

	2016 £000	2015 £000
Trade debtors	13,220	16,803
Amounts owed by group undertakings	11,797	318
Amounts owed by joint ventures and associated undertakings	97	176
Other debtors	216	11
Deferred tax asset (note 18)	1,547	1,512
Prepayments and accrued income	3,476	3,336
	<u>30,353</u>	<u>22,156</u>

Amounts owed by parent and fellow subsidiary undertakings are unsecured, repayable on demand and do not bear any interest.

The impairment loss recognised in the company profit or loss for the year in respect of bad and doubtful trade debtors was £51,000 (2015 - £6,000).

15. Cash at bank and in hand

	2016 £000	2015 £000
Cash at bank and in hand	<u>1</u>	<u>2</u>

16. Creditors: Amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	2,149	1,819
Amounts owed to group undertakings	4,923	10,229
Amounts owed to joint ventures	4	-
Taxation and social security	2,021	1,995
Capital grant	70	84
Other creditors	542	415
Accruals and deferred income	4,388	4,821
	<u>14,097</u>	<u>19,363</u>

Amounts owed to parent and fellow subsidiary undertakings are unsecured, repayable on demand and do not bear any interest.

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

17. Creditors: Amounts falling due after more than one year

	2016 £000	2015 £000
Capital grants	-	70
Accruals and deferred income	549	108
	<u>549</u>	<u>178</u>

18. Deferred tax asset

	2016 £000	2015 £000
At beginning of year	1,512	2,098
Charged to the profit or loss	35	(586)
At end of year	<u>1,547</u>	<u>1,512</u>

The deferred tax asset is made up as follows:

	2016 £000	2015 £000
Accelerated capital allowances	1,537	1,502
Short term timing differences	10	10
	<u>1,547</u>	<u>1,512</u>

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

19 Other provisions

	Dilapidation provision £000
At 1 January 2016	1,465
Charge in the financial year	184
At 31 December 2016	1,649

Dilapidation

Provision for dilapidations represents the estimated cost of repairs required under all current property rentals prior to the end of the lease term.

20. Called up share capital

	2016 £000	2015 £000
Authorised, allotted, called up and fully paid		
29,906 (2015 - 29,906) Ordinary shares of £1 each	<u>30</u>	<u>30</u>

21. Contingent liabilities

The company is a participant in a group banking arrangement in relation to dsicmm Group Limited under which the company has issued an unlimited guarantee to the bank, under the terms of a fixed and floating charge, to support this group facility.

22. Share based payments

The company's Stock Incentive Plan includes restricted stock units (RSUs) which entitle the holder to receive one share of common stock for each unit when the units vest. RSUs are issued to certain key employees at fair market value at the date of grant as remuneration. RSUs vest in three years provided that the employee remains with the company and are payable in the common stock of DST Systems, Inc. upon vesting.

The total charge for the year relating to share based remuneration was £33,261 (2015 - £30,223), all of which relates to equity-settled share based payment transactions.

23. Pension commitments

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable to the schemes and amounted to £183,000 (2015 - £203,000).

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

24. Commitments under operating lease

At 31 December 2016 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Expiry date:		
Not later than 1 year	3,958	3,397
Later than 1 year and not later than 5 years	11,351	3,198
Later than 5 years	6,458	-
	21,767	6,595

The company had no other off balance sheet arrangement.

25. Related party transactions

The company has taken advantage of the exemption, under FRS 33.1 (a), from disclosing related party transactions as they are all with other companies that are wholly owned by Paragon Customer Communications Limited (formerly DST Output Limited).

The related party transactions undertaken in the year are as follows:

Joint ventures and associates

	2016 £000	2015 £000
dsi Billing Services		
Sales	1,057	1,154
Purchases	(56)	(112)
Management credit/(charges)	37	(37)
Dividend received	200	600
	1,238	1,605

European Direct Mailing Services Limited

Sales	238	375
Management credit/(charges)	9	(25)

Response Handling Centre Limited

Management credit/(charges)	3	(20)

Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)

Notes to the Financial Statements For the Year Ended 31 December 2016

Related party transactions (continued)

	2016 £000	2015 £000
The following balances were owed to/ (owed by) the company at the year end:		
dsi Billing Services Limited - owed to	56	47
dsi Billing Services Limited - owed by	(4)	-
European Direct Mailing Services Limited	42	129
	<u>94</u>	<u>176</u>

26. Ultimate parent undertaking and controlling party

The immediate parent undertaking is dsicmm Group Limited, a company incorporated in England and Wales.

Paragon Customer Communications Limited (formerly DST Output Limited) is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of Paragon Customer Communications Limited (formerly DST Output Limited) can be obtained from Evolution House, Choats Road, Dagenham, Essex, RM9 6BF.

The ultimate parent undertaking and controlling party is DST Systems, Inc., a company incorporated in the United States of America up until 3 May 2017. Subsequent to acquisition by Grenadier Holdings PLC on the 4 May 2017, the ultimate parent undertaking and controlling party is Paragon Group Limited, a company incorporated in the United Kingdom.

27. Post balance sheet event

On the 14 June 2016 DSTI Systems Inc. announced to the market that it was pursuing the divestiture of its U.K. Customer Communications business, the DST Output Limited Group.

The divestiture was completed on 4 May 2017, the entire UK Customer Communications business was sold to Grenadier Holdings PLC (Company Registration Number 03591693) and now registered as Paragon Customer Communications Limited.