Company Registration No. 04155659

Hawk Incentives Limited

(Formerly The Grass Roots Group UK Limited)

Financial Statements for the year ended

29 December 2018

Hawk Incentives Limited (Formerly The Grass Roots Group UK Limited)

Report and financial statements for the year ended 29 December 2018

Contents

Hawk Incentives Limited (Formerly The Grass Roots Group UK Limited)

Report and financial statements for the year ended 29 December 2018

Officers and professional advisers

Directors

P Gurney
M Howe
K Richesson

Secretary

M Wainhouse

Registered Office

Westside
London Road
Hemel Hempstead
Hertfordshire
HP3 9TD

Auditor

BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU

Hawk Incentives Limited (Formerly The Grass Roots Group UK 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 the Company is the provision of employee, customer and channel engagement programmes and promotions. These services help our clients engage with their employees, channel partners, customers and prospects, to improve their business performance.

Principal risks and uncertainties

The Company's business does not expose it to any risks other than those associated with normal commercial trading. The Hawk Incentives group, of which the Company is a part, performs a comprehensive review of risks each year across all businesses in the Group. Each business leader is involved in the review and tasked with identification of risks, actions to mitigate and implementing plans to address risks. The top three risks specific to the Company are identified below:

- Failure of our infrastructure may result in non-delivery of agreed services to clients resulting in loss of business, reputational damage and potential legal claims. The Company invests heavily in its IT infrastructure and employees to ensure this risk is mitigated.
- As part of the trading activities the Company receives money on behalf of clients. The directors recognise that there are specific obligations when dealing money on behalf of third parties.
- Brexit may have an adverse impact on our business, mainly in the supply chain for our network, particularly in the event of a 'no-deal' scenario. The business is in discussions with HMRC to understand these risks and consider alternative supply arrangements.

Business Review

Turnover decreased by 3% to £32.1 million; this was due to a continued shift in sales mix towards product sales and away from managed services, where some programs came to an end. Gross profit decreased by 0.5% to £26.1 million and gross profit margin increased by 2% to 81%, also due to the change in mix. As part of this shift in focus, the business has invested in new staff and restructuring initiatives in 2018. In addition, administrative expenses in 2017 benefitted from a one off release of dilapidations provisions when we exited a number of leasehold properties and consolidated offices. The combined impact of these factors led to a 25% increase in administrative expenses in 2018 over 2017, and, as a consequence, operating profit decreased from £7.9 million to £3.1m. The directors believe that the implementation of these changes will position the business well for growth in future years.

Shareholder's funds have increased by £2.9 million to £22.0 million which represents the profit in the year. Debtors have decreased by approximately £13.7 million, due to a combination of better working capital management and lower sales volumes, the latter of which also to a reduction in creditors of £8.7 million. Consequently, cash increased by £5.1 million.

Key performance indicators

The following are our financial Key Performance Indicators.

	Year ended 29 Dec 2018	Year ended 31 Dec 2017
Turnover (£000's)	32,096	33,233
Gross profit % of turnover	81%	79%
Profit before tax % of turnover	10%	24%

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

P Gurney
Director

Date 18 October 2019

Directors' report

The Directors present their report and the audited financial statements of the Company for the fiscal year ended 29 December 2018. Fiscal years 2018 and 2017 each consisted of 52 weeks and ended on 29 December 2018 and 31 December 2017 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.

Results and dividends

The profit for the year, after taxation, amounted to £2.9 million (2017: £6.6 million).

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

Directors

The directors who served in the year are as stated below:

K Richesson	
M Howe	
P Gurney	
J Kenny	Resigned 7 August 2018
I Digby	Resigned 16 April 2018

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Research and development activities

Investing in research and development programs delivers product innovation within Hawk Incentives Limited. Expenditure in 2018 on research and development amounted to £0.3 million (2017: £0.1 million). This is in line with expectations.

Change of name

On 2 May 2018, the Company changed its name from Grass Roots Group UK Limited to Hawk Incentives Limited.

Future developments

The Company and the entire Blackhawk Network group of which it is a part were acquired in June 2018 by Silver Lake and P2 Capital. Silver Lake and P2 Capital's experience will complement Blackhawk's and will help our distribution partners and content partners transform into digital-focused omni-channel organisations going forward.

Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due.

The Company's principal financial assets are cash, trade debtors and balances due from other group companies. In order to manage third party credit risk the Company sets limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

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

Hawk Incentives Limited (Formerly The Grass Roots Group UK Limited)

Directors' report

Employee involvement

The team remains as committed and enthusiastic as always. Hawk Incentives Limited's profile allows it to attract and hire some of the best talent in the market place. The board of directors are committed to invest time and resources in our most valuable asset, our people.

The Company is ever mindful of the importance and value of its employees and ensures that employees are informed and involved regarding matters affecting them as employees and on the various factors affecting the performance of the Company.

Disabled employees

We strive to be a genuinely equal opportunities employer, judging applicants solely based on what they can contribute to our Company and how we can help them achieve their full potential. The same philosophy underpins their subsequent advancement and promotion. Consequently, we are able to promote the causes of disability and diversity to clients on the basis of solid experience rather than empty rhetoric. In the event of staff becoming disabled every effort is made to ensure that their employment with the Company continues and disabled applicants are welcome.

Modern Slavery Act

Blackhawk Network, of which the Company is a part, has published a Modern Slavery and Human Trafficking Statement on its UK corporate website www.blackhawknetworkeurope.com, in line with legislative requirements, and which applies to the Company.

Qualifying third party indemnity provisions

The Company 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 Companies Act 2006. Such qualifying third party indemnity provisions remain in force as at the date of approving the directors' report. The maximum liability covered 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.

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

Date 18 October 2019

Registered Company number: 04155659

Hawk Incentives Limited (Formerly The Grass Roots Group UK 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 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 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.

Independent auditor's report to the members of Hawk Incentives Limited

Opinion

We have audited the financial statements of Hawk Incentives Limited ("the Company") for the year ended 29 December 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity 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 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 29 December 2018 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.

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 Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard.

Independent auditor's report to the members of Hawk Incentives Limited (Continued)

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 Company 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the 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 Hawk Incentives 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

Mark Ayres (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
Date 22 October 2019

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

Hawk Incentives Limited (Formerly The Grass Roots Group UK Limited)

Statement of Comprehensive Income

For the year ended 29 December 2018

	Notes	2018 £000	2017 £000
Turnover	3	32.096	33.233
Cost of sales		(5.981)	(6.980)
Gross profit		**26,115**	**26,253**
Administrative expenses		(22.990)	(18.366)
Operating profit	4	**3,125**	**7,887**
Interest receivable	7	199	140
Profit before tax		**3,324**	**8,027**
Taxation	8	(390)	(1.383)
Profit for the year		**2,934**	**6,644**

All amounts relate to continuing operations.

There was no other comprehensive income for 2018 (2017: £nil).

The notes on pages 12 to 26 form part of these financial statements.

Hawk Incentives Limited (Formerly The Grass Roots Group UK Limited)

Statement of Financial Position
As at 29 December 2018

	Notes	As at 29 Dec 2018 £000	As at 31 Dec 2017 £000
Fixed assets			
Intangible assets	9	2,271	1,108
Tangible assets	10	2,806	1,219
Deferred tax asset	15	236	251
		5,313	2,578
Current assets			
Stock	11	1,467	1,307
Debtors	12	41,920	55,650
Cash at bank and in hand		43,733	38,664
		87,120	95,621
Creditors: amounts falling due within one year	13	(70,423)	(79,123)
Net current assets		16,697	16,498
Net assets		22,010	19,076
Capital and reserves			
Share capital	17	50	50
Retained earnings		21,960	19,026
Shareholders' funds		22,010	19,076

The financial statements were approved and authorised by the Board of Directors and signed on its behalf on 18 October 2019.

Signed on behalf of the Board of Directors

P Gurney
Director

Registered Company number 04155659

The notes on pages 12 to 26 form part of these financial statements.

Hawk Incentives Limited (Formerly The Grass Roots Group UK Limited)

Statement of Changes in Equity
As at 29 December 2018

	Share capital £000	Retained Earnings £000	Total £000
At 31 December 2016	50	12,382	12,432
Profit for the financial year	-	6,644	6,644
At 31 December 2017	50	19,026	19,076
Profit for the financial year	-	2,934	2,934
At 29 December 2018	50	21,960	22,010

The notes on pages 12 to 26 form part of these financial statements.

Hawk Incentives Limited (Formerly The Grass Roots Group UK Limited)

Notes to the financial statements

Year ended 29 December 2018

1. Accounting policies

1.1 Basis of preparation of financial statements

Hawk Incentives Limited is a private Company limited by shares incorporated in the United Kingdom under the Companies Act 2006. 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.

The Company's financial statements have been prepared under the historical cost convention and in compliance with Financial Reporting Standard 101 ("FRS 101") issued by the Financial Reporting Council, as it applies to the financial statements for the year ended 29 December 2018. The Company meets the definition of a qualifying entity under FRS 100 "Application of Financial Reporting Requirements" issued by the Financial Reporting Council and has therefore elected to prepare its financial statements in accordance with FRS 101 "Reduced Disclosure Framework". The parent of the group in whose consolidated financial statements the Company's financial statements are included is Hawk Incentives Holding Limited and its financial statements are readily available as set out in note 21.

1.2 Financial reporting standard 101 – reduced disclosure exemptions

The Company has taken advantage of the following disclosure exceptions under FRS 101:

- the requirements of paragraph 45(b) and 46-52 of IFRS 2 Share Based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
    - paragraph 79(a)(iv) of IAS 1;
    - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
    - paragraph 118(e) of IAS 38 Intangible Assets.
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

1.3 Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and there are no subsequent events which alter this view. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

1. **Accounting policies (continued)**

1.4 **Revenue**

Revenue is recognised to the extent that the Company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Revenue from reward and communication schemes is recorded across the period of the campaign. Revenue from the sales of goods and vouchers is recognised on dispatch of the goods and vouchers.

1.5 **Intangible fixed 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.

Software is amortised on a straight-line basis over a useful economic life of 36 months.

1.6 **Research and development**

Under IAS 38, research and development costs can be recognised as an intangible asset only if the following criteria are met:

- it is probable that future economic benefits from the asset will flow to the entity; and
- the cost of the asset can be reliably measured.

When it is not possible to demonstrate if a product or service at the research stage will generate any probable future economic benefit. IAs 38 states that all expenditure incurred at the research stage should be written off to profit of loss when incurred, and will never be capitalised as an intangible asset.

However under IAS 38, an intangible asset from development must be capitalised only if it can be demonstrated that all of the following criteria are met:

- the technical feasibility of completing the intangible asset (so that it will be available for use or sale);
- intention to complete and use or sell the asset;
- ability to use or sell the asset;
- existence of a marker or, if to be used internally, the usefulness of the asset;
- availability of adequate technical, financial, and other resources to complete the asset; and
- the cost of the asset can measured reliably.

Where all these criteria are met, the Company will capitalise development costs as an intangible asset, which will be amortised over its useful life.

1.7 **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:

Plant and machinery	3 years
Motor vehicles	4 years
Fixtures and fittings	5 years

1. Accounting policies (continued)

1.8 Stock

Vouchers and e-vouchers for resale are valued at the lower of cost and net realisable value. Cost is calculated using the first in first out method (FIFO). Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal.

1.9 Work in progress

Amounts recoverable on contracts are valued at cost, which includes outlay incurred on behalf of clients on incomplete assignments. Provision is made for irrecoverable costs where appropriate.

1.10 Foreign currency translation

The functional currency of the Company is considered to be Pounds Sterling because this is the currency of the primary economic environment in which the Company operates.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into sterling at the rates of exchange prevailing at that date. Transactions in foreign currencies are recorded at the date of the transactions. All exchange differences are taken to profit or loss.

1.11 Operating 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.

1.12 Pensions

The Company operates a defined contribution scheme. The pension costs charged in the financial statements represent the contribution payable by the Company 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.

1.13 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.

1.14 Financial instruments

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company 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 Company 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 Company'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.

1. Accounting policies (continued)

1.14 Financial instruments (continued)

Financial assets are de-recognised only where the contractual rights to the cash flows from the asset expire or are settled; or if the Company transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity; or the Company, 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.

1.15 Unredeemed Bonusbond and Supercheques

Bonusbonds and Supercheques are reward products issued by the Company. Bonusbonds are multi-store vouchers that can be spent at a variety of retailers and Supercheques are a choice product which the holder can redeem for a gift card or voucher of their choice.

Unredeemed Bonusbonds are stated in the statement of financial position at the face value of Bonusbonds outstanding, less an estimate of discount payable by retailers on redemption.

Unredeemed Supercheques are stated in the statement of financial position at the face value of the cheques outstanding.

Unredeemed Bonusbonds and Supercheques are held on the statement of financial position until their expiry date.

1.16 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 Company'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, and is accounted for using the balance sheet liability method. 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 Company 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.

1.17 New standards effective

The Company applied IFRS 9 Financial Instruments and IFRS 15 Revenue Contracts with Customers for the first time for the year ended 29 December 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are described in note 22.

2. Critical accounting policies and key sources of estimation uncertainty

In application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Critical judgements in applying the Company's accounting policies

Presentation of revenue

A number of the Company's revenue streams involve the sale of third party products and content. The presentation of revenue as gross or net is dependent on the judgement of whether the Company is acting as the principal or agent in the transaction, and the judgement is based on a number of considerations under FRS 101.

Each individual consideration can lead to a different conclusion on whether the Company is acting as principal or agent and a degree of judgement is therefore involved as whether, on balance, it is appropriate to present these revenue streams as gross or net.

Key sources of estimation uncertainty

Recoverability of internally generated intangible assets

During the year, management reconsidered the recoverability of its intangible asset portfolio which is included in the statement of comprehensive position at £2,271,000. Based on estimated future cashflows from the products concerned, management believes that the carrying value will be recovered in full, and this situation will be monitored closely.

Expected credit losses

The Company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade debtors and contract assets. To measure expected credit losses on a collective basis, trade debtors and contract assets are grouped based on similar credit risk and ageing. The contract assets have similar risk characteristics to the trade debtors for similar types of contracts.

The expected loss rates are based on the Company's historical credit losses. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers.

3. Turnover

	Year ended 29 Dec 2018 £000	Year ended 31 Dec 2017 £000
Product sales	14,834	12,095
Services rendered	17,262	21,138
	32,096	33,233

The total turnover of the Company for the year has been derived from customers based in the United Kingdom.

Hawk Incentives Limited (Formerly The Grass Roots Group UK Limited)

Notes to the financial statements

Year ended 29 December 2018

4. Operating Profit

Operating profit is stated after charging/(crediting):

	2018 £000	2017 £000
Research and development charged as an expense	273	124
Depreciation of tangible assets	693	300
Amortisation of intangible assets (included in administrative expenses)	686	269
Exchange differences	(11)	64
Defined contribution pension cost	537	489
Bad debt expense recovery	(126)	(141)
Operating lease rentals		
- Plant and machinery	-	21
- land and buildings	908	328
Fees payable to the Company's auditor for the audit of the Company's annual accounts	20	22

5. Employees

Staff costs, including directors' remuneration were as follows:

	2018 £000	2017 £000
Wages and salaries	12,296	11,982
Social security costs	1,464	1,319
Costs of defined contribution pension scheme	537	489
	14,297	13,790

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

	2018 No.	2017 No.
Business development	13	35
Customer services and operations	138	83
Functional specialist	144	146
Relationship manager	72	89
	367	353

6. Directors remuneration

	2018 £000	2017 £000
Directors' emoluments	80	133
Company contributions to defined contribution pension scheme	2	12
	82	145

The number of directors who exercised share options and received shares was nil (2017: 4). During the year retirement benefits were accruing to 3 directors (2017: 6) in respect of defined contribution pension schemes.

The remuneration for directors paid by the Company is shown above. In addition:

- Remuneration for certain directors has been borne by related companies: Hawk Incentives Holdings Limited, Blackhawk (UK) Limited and Blackhawk Network Netherlands B.V. These directors are also directors of other Blackhawk group companies in the UK and Europe. The total remuneration for their services was £600,000 (2017: £923,000). It is not practicable to allocate their remuneration between these companies.

- The remaining directors received remuneration from other group companies in respect of their services to Blackhawk Network Holdings Inc. group companies as a whole and received no remuneration for their services as directors of the Company as they are non-executives.

7. Interest receivable

	2018 £000	2017 £000
Bank interest receivable	199	140

8. Taxation

	2018 £000	2017 £000
The tax charge comprises:		
Current tax		
UK corporation tax at 19% (2017: 19.25%)	741	1,524
Adjustments in respect of prior periods	(366)	(47)
Total current tax charge	375	1,477
Deferred tax		
Origination and reversal of timing differences	6	(105)
Effect of tax rate change on opening balance	(1)	12
Adjustment in respect of prior periods	10	(1)
Total deferred tax charge/(credit)	15	(94)
Total tax charge	390	1,383

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax as follows:

	2018 £000	2017 £000
Profit before taxation	3,224	8,027
Tax on profit at standard UK corporation tax rate of 19% (2017: 19.25%)	632	1,545
Effects of:		
Expenses not deductible for tax purposes	115	7
Adjustments to tax charge in respect of previous periods	(356)	(48)
Difference in tax rates	(1)	12
Group relief claimed for nil consideration	-	(133)
Total tax charge	390	1,383

9. Intangible fixed assets

	Purchased software £000	Internally developed software £000	Total £000
Cost			
At 1 January 2018	1,939	1,231	3,170
Additions	31	1,818	1,849
Disposals	(1,848)	-	(1,848)
At 29 December 2018	122	3,049	3,171
Amortisation			
At 1 January 2018	1,844	218	2,062
Charge for the year	100	586	686
Disposals	(1,848)	-	(1,848)
At 29 December 2018	96	804	900
Net book value			
At 29 December 2018	26	2,245	2,271
At 31 December 2017	95	1,013	1,108

10. Tangible fixed assets

	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
Cost				
At 1 January 2018	1,654	62	1,926	3,642
Additions	472	-	1,808	2,280
Disposals	-	(33)	(1,126)	(1,159)
At 29 December 2018	2,126	29	2,608	4,763
Amortisation				
At 1 January 2018	1,282	61	1,080	2,423
Charge for the year	344	1	348	693
Disposals	-	(33)	(1,126)	(1,159)
At 29 December 2018	1,626	29	302	1,957
Net book value				
At 29 December 2018	500	-	2,306	2,806
At 31 December 2017	372	1	846	1,219

11. Stock

	2018 £000	2017 £000
Vouchers held for sale	1,465	1,307
Amounts recoverable on contracts	2	-
	1,467	1,307

The total amount recognised as an expense in the year ended 29 December 2018 was respect to items fulfilled from inventory was £4.6m (2017: £5.6m).

12. Debtors

	2018 £000	2017 £000
Trade debtors	13,288	18,093
Amounts owed by group undertakings	26,339	33,738
Other debtors	307	1,867
Prepayments and accrued income	1,986	1,952
	41,920	55,650

The amounts owed by group undertakings are unsecured, repayable on demand and non-interest bearing.

All debtor balances are due within a year of 29 December 2018. None of those debtors has been subject to a significant increase in credit risk since initial recognition and, consequently, no expected credit losses have been recognised.

13. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	5,222	3,286
Amounts owed to group undertakings	1,441	-
Other taxation and social security	1,191	1,445
Other creditors	42,277	40,273
Accruals and deferred income	20,292	34,119
	70,423	79,123

The amounts owed to group undertakings are unsecured, repayable on demand and non-interest bearing.

Hawk Incentives Limited (Formerly The Grass Roots Group UK Limited)

Notes to the financial statements

Year ended 29 December 2018

14. Share-based payments

Certain of the Company'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.

15. Deferred tax

	2018 £000	2017 £000
Accelerated capital allowances	220	148
Short term timing differences	16	77
Share options	-	26
Total deferred tax asset	236	251
Movement in deferred tax:		
Asset at start of year	251	157
Deferred tax (credited)/charged in the statement of comprehensive income for the year	(15)	94
Asset at end of year	236	251

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

16. Financial instruments

	2018 £000	2017 £000
Financial assets		
Financial assets that are debt instruments measured at amortised cost	83,667	92,362

	2018 £000	2017 £000
Financial liabilities		
Financial liabilities measured at amortised cost	50,131	45,004

17. Share capital and reserves

	2018 £'000	2017 £'000
Called up, allotted and fully paid		
50,000 ordinary shares of £1 each	50	50

The Company has one class of ordinary shares, which carry no right to fixed income.

The retained earnings reserve represents cumulative profits or losses.

18. Commitments under operating leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings	
	2018 £'000	2017 £'000
- within one year	1,082	1,066
- between two and five years	4,328	3,746
- after more than five years	6,493	6,555
	11,903	11,367

Hawk Incentives Limited (Formerly The Grass Roots Group UK Limited)

Notes to the financial statements

Year ended 29 December 2018

19. Related party transactions

The Company has taken advantage of the exemption from disclosing transactions with related parties that are wholly owned subsidiaries of the BHN Holdings, Inc. group.

There were no other related party transactions during the year.

20. Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £537,000 (2017: £489,000). There were contributions payable to the fund at the reporting date of £283,000 (2017: £144,000).

21. Parent company and controlling party

The immediate parent company and controlling entity is Hawk Incentives Holdings Limited. Hawk Incentives Holding Limited is the smallest group that Hawk Incentives Limited is consolidated into and is incorporated in the UK. Copies of Hawk Incentives Holdings Limited financial statements are available to the public at Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

At 1 January 2018 the ultimate parent company was Blackhawk Network Holdings, Inc. incorporated in the USA.

On 15 June 2018, Blackhawk Network Holdings, Inc. became a wholly owned subsidiary of BHN Holdings, Inc. which is incorporated in the USA. On 15 June 2018, BHN Holdings Inc. became 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.

22. Changes in accounting policies

New standards impacting the Company that were adopted in the annual financial statements for the year ended 29 December 2018, and which have given rise to changes in the Company's accounting policies are:

- IFRS 9 Financial Instruments ("IFRS 9"); and
- IFRS 15 Revenue from Contracts with Customers ("IFRS 15").

Both standards had a transition date of 1 January 2018. Details of the impact these two standards have had are given below:

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Previously, the Company's approach was to include the impairment of trade and other receivables in administration expenses. There has been no impairment charge recognised in 2018 or 2017.

22. Changes in accounting policies (continued)

IFRS 9 Financial Instruments

The "incurred losses" model for calculating risk provisioning and impairments under IAS 39 is replaced by a forward-looking model under IFRS 9 based on "expected credit losses". Financial assets that are not overdue are also subject to an impairment charge. The new impairment model should be applied to financial assets that are measured at amortised cost or at fair value through other comprehensive income, as well as to contract assets in accordance with IFRS 15.

A financial asset is deemed to be in default if it has not been possible to collect the contractual payments and it is assumed that they cannot be recovered. There are two approaches for applying the new impairment model. The general approach involves creating a risk provision for the 12-month expected credit losses (level 1) or for the lifetime expected credit losses (levels 2 and 3). Assignment to the levels is based on whether the credit risk for the financial instrument has significantly increased since first-time recognition (level 2) or whether the financial assets became credit-impaired (level 3). The simplified approach should be applied to trade accounts receivable or contract assets under IFRS 15 that do not contain any significant financing components. With the simplified approach, changes in the credit risk are not tracked, and a risk provision is always recognised for the lifetime expected credit losses (levels 2 and 3).

The Company uses the simplified approach for trade accounts receivable and contract assets at 29 December 2018. The probability of default takes into consideration financial and non-financial information about customers. The consideration is forward-looking and verified using historical credit losses. Trade accounts receivable are assumed to be credit-impaired if it is unlikely that the customer will fulfil its obligations or if trade accounts receivable are more than 90 days overdue. To measure the expected credit losses from these receivables, maturity structures, credit standing and historical defaults are considered, while taking into account predicted future economic conditions.

The general approach is used by the Company for cash and cash equivalents and other financial assets that fall within the scope of application for impairments under IFRS 9. Due to the short-term nature of these balances, the expected credit losses are low and are therefore not recognised. The difference between the amount of the loss allowances for other financial assets as at 29 December 2018 under IAS 39 and the amount of the loss allowances for other financial assets as at 1 January 2018 under IFRS 9 is immaterial.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Company has adopted the modified retrospective method from 1 January 2018.

In applying the standard there has been an increase in disclosure in relation to the nature, amount, timing and uncertainty of revenue, balances and cash flows arising from contracts with customers. As a result of the increased disclosure requirements the Company has disaggregated (and thus reclassified) certain revenue, receivable and payable amounts reported in the prior year financial statements.

Since application of IFRS 15 has not resulted in any material effects, no cumulative adjustment amounts had to be recognised in equity as at 1 January 2018. The application of IFRS 15 rather than IAS 18 has also not resulted in any material changes to the amount of revenue in the current reporting period.

22. Changes in accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

The Company has taken the practical expedient not to disclose quantitative information about unsatisfied or partially satisfied performance obligations, as the original expected duration of the underlying contract is less than one year.

Reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129 of IFRS 15 Revenue Contracts with Customers.