

**PARAGON CUSTOMER  
COMMUNICATIONS INTERNATIONAL  
LIMITED (formerly RR Donnelley UK Limited)**

**Annual report and financial statements  
for the eighteen months ended 30 June 2020**

**Registered number: 06711794**



**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly  
RR Donnelley UK Limited)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS 30 JUNE 2020**

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**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly  
RR Donnelley UK Limited)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS 30 JUNE 2020**

**OFFICERS AND PROFESSIONAL ADVISERS**

**Directors**

P J Crean (appointed 25 October 2019)  
J S Farmer  
M S Gordon  
L T Salmon (appointed 25 October 2019)  
S A Shine (appointed 25 October 2019)  
J E C Walters (appointed 25 October 2019)

**Company Secretary**

J Dally

**Registered office**

Lower Ground Floor  
Park House  
16/18 Finsbury Circus  
London  
England  
EC2M 7EB

**Bankers**

National Westminster Bank PLC  
92 High Street  
Huntingdon  
Cambridgeshire PE29 3DT

**Solicitors**

Eversheds Sutherland  
Kett House  
Station Road  
Cambridge CB1 2JY

DLA Piper LLP  
3 Noble Street  
London  
EC2V 7EE

**Auditor**

Grant Thornton UK LLP  
Chartered Accountants and Statutory Auditors  
30 Finsbury Square  
London  
EC2A 1AG

# **PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

## **STRATEGIC REPORT**

The directors, in preparing this strategic report, have complied with Section 414C of the Companies Act 2006. The directors present this Strategic report and the audited financial statements for the eighteen months ended 30 June 2020.

### **Change of particulars**

On 25 October 2019 the Company was acquired by Paragon Customer Communications Limited, a company registered in England and Wales. The Company changed its name from RR Donnelley UK Limited to Paragon Customer Communications International Limited on 29 October 2019. The Company has changed its accounting reference date from 31 December to 30 June to conform with the other members of the Paragon group. Consequently the financial statements presented here are for a period of eighteen months to 30 June 2020, while the comparative figures cover the twelve months to 31 December 2018.

### **Business review and future developments**

Paragon Customer Communications International Limited is a company registered in England and Wales under the Companies Act, and limited by shares. The principal activities of the Company are the provision of brand communication services including marketing services, customer management and business support services.

The Company was acquired by the Paragon group on 25 October 2019, and has been on a path of integration with the group throughout the remainder of the period. The acquisition of the Company has resulted in sales opportunities in the wider Paragon group and allowed us to identify synergies and cost reduction programmes from being part of a large group.

The Company's products and services complement the Paragon service offering.

The Company took advantage of the grants available under the government's Coronavirus Job Retention Scheme during the year. The contribution from this is shown in note 10.

The company has subsidiary undertakings that exist outside of the United Kingdom.

### **Key performance indicators**

Management uses a range of performance measures to monitor and manage the business. KPIs measure past performance and provide information to manage the business. Turnover and operating profit indicate the volume of work and its profitability. KPIs for the period are shown in the table below, along with prior year comparatives. As detailed in the Directors' Report on page 4, the current financial statements are for a period of eighteen months. For comparative purposes the prior year figures have been grossed up to eighteen months where appropriate for the calculation of percentage change figures in this table.

	<b>18 Months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>	<b>Change %</b>
Turnover	214,914	163,835	(12.5%)
Gross profit	17,052	13,652	(16.7%)
Gross margin	7.9%	8.3%	(0.4%)
Underlying operating (loss)/profit	(4,389)	1,676	(274.6%)
Underlying EBITDA	1,847	6,704	(81.6%)

The decrease in sales of 12.5% is attributable to £21.7 contracts lost during the period, £6.8m related to Covid-19, and £2.3m of other volume reductions. The 81.6% reduction in underlying EBITDA comprises £3.2m gross margin reduction, £5.5m management charges from the new parent company, less £0.5m savings in other costs.

### **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. Initiatives aimed at minimising the company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption.

# PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)

## STRATEGIC REPORT (continued)

### Section 172 statement

The Companies Act 2006 (CA2006) sets out a number of general duties which directors owe to the company. New legislation has been introduced to help shareholders better understand how directors have discharged their duty to promote the success of the company, while having regard to the matters set out in section 172(1)(a) to (f) of the CA2006 (s172 factors). In 2020 the directors continued to exercise all their duties, while having regard to these and other factors as they reviewed and considered proposals from senior management and governed the company.

The directors consider that the statement focuses on those risks and opportunities that were of strategic importance to Paragon Customer Communications International and is consistent with the size and complexity of the company. In the performance of its duty to promote the success of the company, the board of directors has regard to a number of matters, including listening to and considering the views of key stakeholders to build trust and ensure it fully understands the potential impacts of the decisions it makes for our stakeholders, the environment and the communities in which we operate. Engagement with the company's main stakeholder groups, including our people, customers and suppliers, at all levels of the organisation and across the Paragon Customer Communications International business is summarised below.

	People	Customers	Suppliers
<b>Key Facts</b>	1,300+ employees in the UK	Mainly UK based with significant clients within Europe and the US	Diversified supplier base from small contractors to FTSE100 groups
<b>Why we engage</b>	Our people are at the core of our business. We aim to build a trusting, respectful and inclusive culture so every individual feels highly engaged and can be their best. We want our people to feel their human rights are respected and they are treated with dignity. We are committed to creating opportunities for growth and to a continuous learning culture.	Our customers are experts in the products they buy and sell, as well as in the experiences they create and deliver. We work with a wide range of customers: big and small, on-trade and off, digital and e-commerce. Our passion is to ensure we nurture mutually beneficial relationships that deliver joint value and the best outcome for all our consumers	Our suppliers and agencies are experts in the wide range of goods and services we require to create and market our brands. By working with them, we not only deliver high-quality products marketed responsibly, but improve our collective impact, ensuring sustainable supply chains, reducing our environmental impact and making positive contributions to society.
<b>How we engage</b>	<ul style="list-style-type: none"> <li>– Prioritisation of health, safety and wellbeing</li> <li>– Investment in learning opportunities for employee growth and development</li> <li>– The promotion of inclusion and diversity</li> </ul>	<ul style="list-style-type: none"> <li>– A portfolio of leading brands that meets evolving consumer preferences</li> <li>– Identification of opportunities that offer profitable growth</li> <li>– Insights into consumer behaviour and trends</li> <li>– Trusted product quality</li> </ul>	<ul style="list-style-type: none"> <li>– Developing strong, mutually beneficial partnerships</li> <li>– Collaborating to realise innovation</li> <li>– Fair contract and payment terms</li> <li>– Consistent performance measurement</li> <li>– Joint risk assessment and mitigation</li> </ul>

### How our directors considers stakeholders in decision making

**People** – The directors recognise the importance of effective engagement with Paragon's employees and wider workforce, including contractors and temporary staff. The directors engage directly with local management and other employees during site and trade visits. This year the directors have placed a large focus on consideration of the health, safety and well-being of the group's workforce when making decisions during the Covid-19 pandemic.

**Customers** – The directors engage with customers, primarily through the Chief Executive, who provides information about key customers in his regular report to the Board. Understanding the importance to customers of maintaining a broad portfolio with consumer offerings at a variety of price points and categories, the Board regularly reviews both innovation and inorganic opportunities to enhance its portfolio.

**Suppliers** – The Chief Executive provides the Board with information about key suppliers as and when relevant to Board discussions, including when approval is required for material contracts with suppliers. During the year, the Board reviewed and approved several critical procurement agreements.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly  
RR Donnelley UK Limited)**

**STRATEGIC REPORT (continued)**

**Principal risks and uncertainties**

The principal risks and uncertainties faced by the Company are as follows:

*Technological change* - Due to the rapid pace of technological innovation and change, there is a risk that the systems used by the Company to satisfy the demands of its customers could be superseded earlier than originally anticipated. The Company manages this risk through continued investment in new technology so as to provide enhanced and uninterrupted services to its customers.

*Data security* - The Company processes personal and sensitive data on behalf of its customers. Any loss, or breach of confidentiality of this data could result in financial loss to the Company, and damage to its reputation. The Company manages this risk through continued investment in IT systems and security, and the monitoring and control of the use of client data.

*Sources of revenue* - A considerable proportion of the Company's revenue is derived from a comparatively small number of customers. This poses the risk that the loss of one or more of these customers could have a material effect on the Company's sales and profitability. In the current period the Company's top five customers accounted for 45% (2018 - 39%) of turnover. The Company maintains close commercial relationships with key customers, and continually monitors and seeks to enhance the services that it provides.

*Talent management* - The Company considers employees to be a key resource. There is a risk in not retaining and motivating the best people. The Company has training development and performance management and reward programmes to retain and motivate its employees.

*Coronavirus* - In relation to the Coronavirus (COVID-19) pandemic, the directors assess the situation across key markets and the potential risk to the operation of the business daily. The impact on revenue caused by the pandemic is noted in the Key Performance Indicators above, although not insignificant, this has not materially affected the business and its ongoing trading performance. The Company has taken advantage of grants available under the government furlough scheme and there has been no other unmanageable impact on the customers, or employees of the Company. The directors have taken all necessary measures as advised by the NHS, WHO, the UK government and equivalent local authorities across our offices, including promoting hygiene standards and providing facilities to enable this, and firmly insisting that all employees work from home where possible. The Company and overall Paragon Group have vital activities within the communication and financial sectors and were consequently given "key worker status" during this outbreak. The Company has maintained a sufficient level of trading activity during the crisis. At the date of signing the financial statements the directors do not consider there to be a threat to the overall business in the case of Coronavirus-related closures and lockdowns, or the Company (through the support of the overall Paragon Group) having access to sufficient working capital. The directors believe that appropriate strategies have been developed to ensure the Company can continue to reduce and manage the impacts of the adverse developments which could otherwise affect the Company's ability to continue trading.

*Brexit* - There is much uncertainty about how the Brexit process will unfold. The Company, as with any UK business that trades in the European Union, is closely monitoring the Brexit negotiations. It has established a Brexit Steering Committee made up of senior cross functional representatives, which is tasked to ascertain the risks associated with different Brexit outcomes, to ensure that the impact on the Company's business is minimised and managed and that services to clients can continue without interruption. The key focus areas of the committee are: privacy and data security; impact on labour, both existing and new; supplier continuity; foreign exchange, taxes and tariffs. The Company is also engaging with its clients to establish the potential impact of different Brexit outcomes on their business requirements, and how the Company's services may be adapted to meet those changing requirements.

Approved by the Board of Directors on 2 February 2021 and signed on its behalf by



J E C Walters  
Director  
Lower Ground Floor  
Park House  
16/18 Finsbury Circus  
London  
EC2M 7EB

# **PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

## **DIRECTORS' REPORT**

The directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report for the eighteen months ended 30 June 2020.

### **Going concern**

The Directors have reviewed the company's budgets and forecasts for the next 12 months from the date of this report, its liquid resources (including support available from its ultimate parent company), medium term plans, and the impact of the outbreak of the Coronavirus disease. The Paragon Group have also performed a downside scenario analysis which, while considered highly unlikely, demonstrates that the Group will have sufficient cash resources for a period of at least one year. Given the fact that the Group has vital activities within the communication and financial sectors and was consequently given the "key worker status" during this outbreak, the Group feel confident that the support outlined by the various governments, such as tax deferral schemes and state aid/loan guarantee schemes can also be utilised, to assist in keeping its trading activities running at a sustainable level. The above statement do not protect the business from events that are out of its control and could potentially deeply change the outcome of its future activities. Nonetheless, the Directors have, at the date of signing of the accounts, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing these financial statements.

### **Future developments and events after the balance sheet date**

Details of future developments can be found in the strategic report on page 2 and form part of this report by cross-reference.

No events have occurred after the balance sheet date that require disclosure in these financial statements.

### **Financial risk management**

Treasury management including currency and interest rate hedging is undertaken as part of the overall risk management strategy of the Paragon Group Limited group. The Company's borrowings are predominantly with other group companies and there is currently no interest rate hedging, and no hedge accounting has been adopted.

The main foreign currency in which the Company transacts is Euros. The Company has assets and liabilities which are denominated in Euros. The Company uses natural hedging by holding foreign currency assets to offset the foreign currency risk of the net assets and liabilities and associated interest. The directors consider this to be the Company's only material exposure to currency risk, but will continue to monitor the risk in the future.

Competitive pressure in the UK is a continuing risk for the Company. The Company manages this risk by providing added value services and by maintaining strong relationships with its customers.

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. This risk is managed through day to day monitoring of future cash flow requirements to ensure that the Company has sufficient resources to repay all future amounts outstanding.

The Company is exposed to customer credit risk through continuing uncertainty in the economy. The group 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. The group uses a debt factoring agreement (including insurance) which minimises the exposure to credit risk.

### **Research and development**

The Company incurs development costs on the implementation of new contracts. These are capitalised as an intangible asset in the balance sheet and amortised on a straight line basis over the life of the contract to which they relate.

### **Dividends**

The Company paid total dividends of 42.8 pence per ordinary share for the period ended 30 June 2020 (2018 - 17.5p), comprising dividends of 40.26 pence per ordinary share paid prior to the Company's acquisition by Paragon Customer Communications Limited, and dividends of 2.54 pence per ordinary share paid after acquisition.

# **PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

## **DIRECTORS' REPORT (continued)**

### **Directors**

The directors who served throughout the period and to the date of this report, except where noted, were as follows:

J S Farmer

M S Gordon

K T Woor      resigned 25 October 2019

P J Crean      appointed 25 October 2019

L T Salmon    appointed 25 October 2019

S A Shine      appointed 25 October 2019

J E C Walters   appointed 25 October 2019

### **Charitable and political donations**

Charitable donations amounting to £5,350 were made during the period to the following causes: Medical research and support £1,750, Schools and educational charities £250, Local youth and sporting groups £3,000, Animal charities £350.

(In 2018 donations amounting to £4,800 were made during the year to the following causes: Medical research and support £2,600, Children's charities £350, Local youth and sporting groups £750, Veterans' support £500, Animal charities £600.)

There were no political donations (2018 - £nil).

### **Payments to suppliers**

The Company does not operate a standard code in respect of payment to suppliers. The Company agrees terms and conditions of business with its suppliers, including payment terms, taking account of any applicable legal requirements. The Company's payment policy is for the suppliers to be paid in accordance with these terms.

### **Employee involvement**

The Company has a policy of providing employees with information through its 'Snippets' newsletter. In addition, regular meetings are held between management and employees to allow a free flow of information and ideas. Senior employees participate directly in the success of the business through the Company's bonus scheme.

### **Employment of disabled persons**

The Company's policy regarding the employment of disabled persons is that full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

### **Environmental policy**

The Company ensures that, in satisfying its customers' requirements, both the goods and services supplied and its own housekeeping comply with legislation and best practice. It will continually review its environmental performance across the range of its activities.



**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly  
RR Donnelley UK Limited)**

**DIRECTORS' REPORT (continued)**

**Auditor**

Grant Thornton UK LLP was appointed as auditor for the period ended 30 June 2020.

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Approved by the Board of Directors on 2 February 2021 and signed on its behalf by



J E C Walters  
Director  
Lower Ground Floor  
Park House,  
16/18 Finsbury Circus  
London  
EC2M 7EB

# **PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the Strategic Report and 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, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 and 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;

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.

The directors confirm that:

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

To the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED**

## **Report on the audit of the financial statements**

### **Opinion**

We have audited the financial statements of Paragon Customer Communications International Limited (the 'company') for the period from 1 January 2019 to 30 June 2020, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, and 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 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (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 30 June 2020 and of its loss for the period 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.

### **The impact of macro-economic uncertainties on our audit**

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

### **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.

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (continued)**

## **Other information**

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

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

We have nothing to report in this regard.

## **Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the strategic report and 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.

## **Matter on which we are required to report under the Companies Act 2006**

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 or the directors' report.

## **Matters on which we are required to report by exception**

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 for the financial statements**

As explained more fully in the directors' responsibilities statement set out on page 7, 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.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (continued)**

## **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: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **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.



**Paul Naylor**  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
**London**

4 February 2021

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**PROFIT AND LOSS ACCOUNT**

**Eighteen months ended 30 June 2020**

	Note	Before goodwill amortisation and non-underlying items 18 months to 30 June 2020 £'000	Goodwill amortisation and non-underlying items Note 13 18 months to 30 June 2020 £'000	Total 18 months to 30 June 2020 £'000	Before goodwill amortisation and non-underlying items Year to 31 December 2018 £'000	Goodwill amortisation and non-underlying items Note 13 Year to 31 December 2018 £'000	Total Year to 31 December 2018 £'000
<b>Turnover</b>	4	214,914	-	214,914	163,835	-	163,835
<b>Cost of sales</b>		(197,862)	-	(197,862)	(150,183)	-	(150,183)
<b>Gross profit</b>		17,052	-	17,052	13,652	-	13,652
<b>Selling and distribution costs</b>		(686)	-	(686)	(941)	-	(941)
<b>Administrative expenses</b>	13	(20,755)	(8,306)	(29,061)	(11,035)	(5,089)	(16,124)
<b>Operating (loss)/ profit</b>		(4,389)	(8,306)	(12,695)	1,676	(5,089)	(3,413)
<b>Income from investment in subsidiaries</b>	8	9,568	-	9,568	7,036	-	7,036
<b>Interest receivable and similar income</b>	8	231	-	231	33	-	33
<b>Interest payable and similar expenses</b>	9	(757)	(33)	(790)	(408)	-	(408)
<b>Government grant</b>	10	314	-	314	-	-	-
<b>Profit/(loss) before taxation</b>	12	4,967	(8,339)	(3,372)	2,214	(5,089)	(2,875)
<b>Tax on profit/(loss)</b>	11	(307)	987	680	(285)	568	283
<b>Profit/(loss) for the financial period/year</b>		<u>4,660</u>	<u>(7,352)</u>	<u>(2,692)</u>	<u>1,929</u>	<u>(4,521)</u>	<u>(2,592)</u>

All activities derive from continuing operations.

The notes on pages 16 to 49 form part of these Financial Statements.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly  
RR Donnelley UK Limited)**

**STATEMENT OF COMPREHENSIVE INCOME**  
**Eighteen months ended 30 June 2020**

	<b>Note</b>	<b>18 Months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Loss for the financial period/year</b>		<u>(2,692)</u>	<u>(2,592)</u>
<b>Items that will not be reclassified subsequently to profit and loss</b>			
Remeasurement of net defined benefit asset: current period/year	26	(7,355)	3,052
Tax relating to components of other comprehensive income: current period/year	11	1,251	(519)
<b>Other comprehensive (loss)/income</b>		<u>(6,104)</u>	<u>2,533</u>
<b>Total comprehensive losses relating to the year</b>		<u><u>(8,796)</u></u>	<u><u>(59)</u></u>

The notes on pages 16 to 49 form part of these Financial Statements.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly  
RR Donnelley UK Limited)**

**BALANCE SHEET**  
**As at 30 June 2020**

	Note	30 June 2020 £'000	31 December 2018 £'000
<b>Non-Current assets</b>			
<b>Fixed assets</b>			
Intangible assets	15	9,251	14,063
Tangible assets	16	5,542	7,758
Investments	17	22,840	27,529
<b>Debtors due after more than one year</b>	19	234	37,336
<b>Deferred tax due after more than one year</b>	20	5,487	-
		<u>43,354</u>	<u>86,686</u>
<b>Current assets</b>			
Stocks	18	2,004	2,140
Debtors due within one year	19	39,957	38,633
Cash at bank and in hand	21	8,837	11,624
		<u>50,798</u>	<u>52,397</u>
<b>Creditors: amounts falling due within one year</b>	22	<u>(40,553)</u>	<u>(33,032)</u>
<b>Net current assets</b>		<u>10,245</u>	<u>19,365</u>
<b>Total assets less current liabilities</b>		53,599	106,051
<b>Creditors: amounts falling due after more than one year</b>	22	(13,337)	(12,196)
<b>Provisions for liabilities</b>	24	<u>(1,985)</u>	<u>(2,459)</u>
<b>Net assets</b>		<u>38,277</u>	<u>91,396</u>
<b>Capital and reserves</b>			
Called up share capital	27	40,000	40,000
Profit and loss account		<u>(1,723)</u>	<u>51,396</u>
<b>Shareholders' funds</b>		<u>38,277</u>	<u>91,396</u>

The notes on pages 16 to 49 form part of these Financial Statements.

The financial statements of Paragon Customer Communications International Limited, registered number 06711794, were approved by the board of directors and authorised for issue on 2 February 2021, and signed on its behalf by:



J E C Walters  
Director



**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED**  
**(formerly RR Donnelley UK Limited)**

**STATEMENT OF CHANGES IN EQUITY**  
**Eighteen months ended 30 June 2020**

	<b>Called-up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>At 1 January 2018</b>	67,061	31,217	98,278
Loss for the financial year	-	(2,592)	(2,592)
Remeasurement of net defined benefit asset	-	3,052	3,052
Tax relating to items of other comprehensive income	-	(519)	(519)
<b>Total comprehensive loss</b>	-	(59)	(59)
Reduction of share capital (Note 27)	(27,061)	27,061	-
Dividends paid on equity shares (Note 14)	-	(7,000)	(7,000)
Credit to equity for equity settled share-based payment	-	177	177
<b>At 31 December 2018</b>	40,000	51,396	91,396
Loss for the financial period	-	(2,692)	(2,692)
Remeasurement of net defined benefit asset	-	(7,355)	(7,355)
Tax relating to items of other comprehensive income	-	1,251	1,251
<b>Total comprehensive loss</b>	-	(8,796)	(8,796)
Dividends paid on equity shares (Note 14)	-	(17,122)	(17,122)
Distribution of net pension scheme assets (Note 26)	-	(32,772)	(32,772)
Deferred tax relating to pension scheme asset distribution	-	5,571	5,571
<b>At 30 June 2020</b>	<u>40,000</u>	<u>(1,723)</u>	<u>38,277</u>

The notes on pages 16 to 49 form part of these Financial Statements.

# **PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Eighteen months ended 30 June 2020**

### **1. GENERAL INFORMATION**

Paragon Customer Communications International Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The company was acquired by Paragon Customer Communications Limited on 25 October 2019, and changed its name from RR Donnelley UK Limited on 29 October 2019. 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 has changed its accounting reference date from 31 December to 30 June to conform with the other members of the Paragon group. Consequently the financial statements presented here are for a period of eighteen months to 30 June 2020, while the comparative figures cover the twelve months to 31 December 2018.

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

These financial statements are separate financial statements. The Company is exempt from preparation and delivery of consolidated financial statements because it is included in the group accounts of Paragon Group Limited. The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements are shown in note 31.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **a. Basis of accounting**

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. These financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit or loss.

Paragon Customer Communications International Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken in relation to share-based payments, related party transactions, financial instruments, and the preparation of a cash flow statement.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

#### **b. Going concern**

The Directors have reviewed the company's budgets and forecasts for the next 12 months from the date of this report, its liquid resources (including support available from its ultimate parent company), medium term plans, and the impact of the outbreak of the Coronavirus disease. The Paragon Group have also performed a downside scenario analysis which, while considered highly unlikely, demonstrates that the Group will have sufficient cash resources for a period of at least one year. Given the fact that the Group has vital activities within the communication and financial sectors and was consequently given the "key worker status" during this outbreak, the Group feel confident that the support outlined by the various governments, such as tax deferral schemes and state aid/loan guarantee schemes can also be utilised, to assist in keeping its trading activities running at a sustainable level. The above statement do not protect the business from events that are out of its control and could potentially deeply change the outcome of its future activities. Nonetheless, the Directors have, at the date of signing of the accounts, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing these financial statements.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Eighteen months ended 30 June 2020**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c. Investments in subsidiaries**

Investments in subsidiaries are held as fixed assets and stated at cost less provision for any impairment in value

**d. Associates**

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over these policies. Investments in associates are accounted for at cost less, where appropriate, provisions for impairment.

**e. Revenue recognition**

The Company recognises revenue as principal when it is exposed to all significant benefits and risks associated with the selling price; assumption of credit risk; performance of part of the services or modification to goods supplied and discretion in supplier selection.

*Transactional print and mail* - The Company recognises revenue upon shipment to the customer and the transfer of title and risk of loss. Contracts generally specify F.O.B. shipping point terms.

*Design and print management* - The Company recognises revenue upon shipment to the customer and the transfer of title and risk of loss. Contracts generally specify F.O.B. shipping point terms. Under agreements with certain customers, custom products may be stored by the Company for future delivery. In these situations, the Company receives a logistics and warehouse management fee for the services it provides. In certain of these cases, delivery and billing schedules are outlined in the customer agreement and product turnover is recognised when manufacturing is complete, title and risk of loss transfer to the customer and there is reasonable assurance as to collectability. Because the majority of products are customized, product returns are not significant; however, the Company accrues for the estimated amount of customer credits at the time of sale. Billings for third-party shipping and handling costs are included in net turnover and related costs are included in cost of sales.

*Inbound document management* - Revenue from services is recognised as the services are delivered to the customers. Where payments are received from customers in advance of services provided, the amounts are recorded as Deferred Income and included as part of Creditors due within one year.

**f. Non-underlying items**

The Company presents separately, in the profit and loss account, certain material items which, due to their nature and expected infrequency, merit separate presentation to facilitate better understanding of the Company's financial performance.

**g. Leased Assets**

At inception the company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

*Finance leased assets*

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the company's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**g. Leased Assets( continued)**

*Operating leased assets*

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

*Lease incentives*

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present value of minimum lease payments.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

**h. Foreign currencies**

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Other exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of these assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting).

**i. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**j. Employment benefits**

The Company operated four pension schemes in the United Kingdom during the year. One had both a defined benefit element and a defined contribution element; two comprised a defined benefit element only; the other one comprised a defined contribution element only. The first three of these four schemes were transferred out of the Company on 22 October 2019.

Regular contributions have been made to one of the defined benefit schemes by the Company since October 2002, and to another of the defined benefit schemes since October 2016. In the current year regular contributions were made at the rate of £296,663 per month from January to May 2019, and £288,333 per month from June to October 2019, with an additional one-off contribution of £29,204. (2018 - £296,663 per month, with an additional one-off contribution of £28,979. A further one-off contribution of £536,052 was received during the prior year from a former employee benefit trust). The amount funded was in excess of the actuarially calculated liability and this surplus was recognised in the Group's accounts.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j. Employment benefits (continued)**

The other defined benefit only scheme was established on 1 February 2006. No contributions were made in either the current or prior years as the scheme was curtailed on 30 June 2010. The amount funded was in excess of the actuarially calculated liability and this surplus was recognised in the Group's accounts.

For the defined benefit element of the combined schemes the amounts charged to operating profit were the current service costs and gains and losses on curtailments. They were included as part of staff costs. Past service costs were recognised immediately in the profit and loss account if the benefits had vested. If the benefits had not vested immediately, the costs were recognised over the period until vesting occurs. The interest cost and the expected return on the assets were included in administrative expenses in the profit and loss account. Actuarial gains and losses and gains and losses on settlements were recognised immediately in other comprehensive income.

Defined benefit schemes were funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets were measured at fair value and liabilities were measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations were obtained at least triennially and updated at each balance sheet date.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits was the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid were shown as either accruals or prepayments in the balance sheet.

**k. Government grants**

The receipt of funds from government grants is recognised in profit or loss in the same period in which the expense to which it relates is incurred.

**l. Taxation**

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

***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account 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 balance sheet date.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

***Deferred tax***

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 other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**l. Taxation (continued)**

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

***Current tax and deferred tax for the year***

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**m. Tangible fixed assets**

Tangible fixed assets are stated at cost (or deemed cost) less depreciation and any provision for impairment. Depreciation is provided to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Short leasehold land and buildings	Over the lease term
Plant and machinery	Over 5 to 15 years
Office equipment	Over 3 to 10 years

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and condition expected at the end of its useful life.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

A tangible fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**n. Intangible fixed assets**

***Goodwill***

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised over the directors' estimate of its useful economic life. However, the directors consider 10 years as a reasonable maximum for the estimated life of goodwill on new acquisitions. Existing goodwill has less than 10 years life remaining at current amortisation rates.

***Development costs***

The Company incurs development costs on the implementation of new contracts. These are capitalised as an intangible asset in the balance sheet and amortised on a straight line basis over the life of the contract to which they relate. When all costs for a contract are fully amortised they are removed from intangible assets as a disposal.

**o. Impairment of tangible and intangible assets**

At each balance sheet date, the Company reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication at the end of the reporting period that the asset may be impaired.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**o. Impairment of tangible and intangible assets (continued)**

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

**p. Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. Cost is calculated using the FIFO (first-in, first-out) method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

**q. Financial instruments**

*i. Financial assets*

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated party without imposing additional restrictions.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**q. Financial instruments (continued)**

*ii. Financial liabilities*

Basic financial liabilities, including trade and other payables, bank loans, and loans from fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

*ii. Financial liabilities (continued)*

Fees paid for the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest rate method.

Derivatives, including interest rate swaps and forward exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate.

The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

*iii. Offsetting*

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**r. Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**s. Share-based payment**

RR Donnelley & Sons Company, the ultimate parent undertaking of the Company prior to its acquisition by Paragon Customer Communications Limited on 25 October 2019, issued equity-settled and cash-settled share-based payments to certain employees of the Company. Share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on RR Donnelley & Sons Company's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.



**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Eighteen months ended 30 June 2020**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**s. Share based payment (continued)**

No formal valuation model is used to value the awards. Fair value is determined as the market price of the shares at the date of grant, plus the net present value of expected future dividends. This is felt to be the most appropriate method of valuation.

**t. Dividends**

On 30 June 2020 the company paid a dividend of £1,017,565 to Paragon Customer Communications Limited, having previously paid a dividend of £6,301,651 to RRD Holdings BV on 24 October 2019. At the date of issuing the dividend the directors considered the distributable reserves position. However, subsequent to this an adjustment was identified and reflected in the final numbers. Following this change, the distributable reserves were found to be insufficient to cover the dividend issues of £1,017,565 and £6,301,651, and thus did not comply with the requirements of the Companies Act 2006.

The directors have considered the potential impact of this breach and conclude that due to the nature of the dividend being an intercompany transaction, it has no material impact on the group, its key stakeholders and on the ultimate parent company to distribute dividends to its shareholders. The directors will assess the impact and adjust the level of dividends in the year ending 30 June 2021 to the extent that the distributable reserves position will be sufficient to cover the dividend payment.

**3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In applying the Company's accounting policies, which are described in note 2, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**a. Critical judgements in applying the Company's accounting policies**

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

**i. Revenue recognition**

Revenue relating to development costs incurred on contract implementation is recovered in one of two ways, there may be explicitly determined revenues in the contract to cover these costs or the recovery may be built into the charge for goods and services provided during the term of the contract. Where the revenue is explicitly determined in the contract both the costs and revenue are expensed over the life of the contract to which they relate. Where the development costs are recovered through the selling price this method relies on estimates of total expected contract revenues to ensure the development costs can be fully recovered. Development costs recovered through the selling price are also expensed over the life of the contract to which they relate, but to the extent that the recovery of these costs is uncertain the costs are written off.

**ii. Business combinations**

Upon acquisition of another entity the Group evaluates intangibles arising using methodologies recognised under FRS102 Section 19 Business Combinations and Goodwill. Judgement is required as to which intangibles meet the recognition criteria of separable, or non-separable intangible assets arising from contractual or other legal rights, where the fair value can be measured reliably. Intangibles arising are assessed for indicators of impairment annually. Additional information is included in note 15.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

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

**b. Key sources of estimation uncertainty**

*i. Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £8,081,000. No impairment loss was recognised during the year (2018 - £nil).

*ii. Useful economic lives of property, plant and equipment*

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 16 for the carrying amount of the property, plant and equipment and note 2.m for the useful economic lives for each class of assets.

**4. TURNOVER**

Revenue disclosed in the profit and loss account is analysed as follows;

	<b>18 Months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
Sale of goods	128,660	100,451
Provision of services	86,254	63,384
<b>Sales revenue</b>	<b>214,914</b>	<b>163,835</b>
Investment and interest income (note 8)	9,799	7,069
Government grant (note 10)	314	-
<b>Total revenue</b>	<b>225,027</b>	<b>170,904</b>

An analysis of the Company's turnover by class of business and region is set out below:

	<b>18 Months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Turnover by business class:</b>		
Transactional print and mail	98,503	66,091
Inbound document management	59,545	45,241
Design and print management	56,866	52,503
	<b>214,914</b>	<b>163,835</b>
<b>Turnover by region:</b>		
United Kingdom	193,469	149,526
European Union	11,962	8,400
Rest of World	9,483	5,909
	<b>214,914</b>	<b>163,835</b>

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**5. AUDITOR'S REMUNERATION**

Fees payable to Grant Thornton UK LLP and their associates for the audit of the Company's annual accounts were £232,500.

Fees payable to Deloitte LLP for the audit of the Company's annual accounts for the prior year were £250,000.

There were no fees payable to Grant Thornton UK LLP and their associates for non-audit services to the Company in the period.

There were no fees payable to Deloitte LLP and their associates for non-audit services to the Company in the prior year.

**6. STAFF COSTS**

	<b>18 months to 30 June 2020 No</b>	<b>Year to 31 December 2018 No</b>
<b>The average monthly number of employees (including executive directors) was:</b>		
Sales and marketing	3	6
Production and distribution	1,175	1,189
Administration	137	228
	<u>1,315</u>	<u>1,423</u>
	<b>18 months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Their aggregate remuneration comprised:</b>		
Wages and salaries	72,211	49,351
Social security costs	5,495	4,104
Other pension costs	2,835	2,472
Share based payments (Note 25)	(60)	360
Social security costs related to share based payments	(6)	38
	<u>80,475</u>	<u>56,325</u>

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**7. DIRECTORS' REMUNERATION AND TRANSACTIONS**

The remuneration of those directors employed directly by the Company, analysed under the headings required by company law is set out below:

<b>Directors' remuneration</b>	<b>18 months to 30 June 2020</b>	<b>Year to 31 December 2018</b>
Emoluments	1,442,890	770,696
Money purchase pension contributions	84,492	44,686
	<u>1,527,382</u>	<u>815,382</u>
The amounts in respect of the highest paid director are as follows:		
Emoluments	<u>945,918</u>	<u>418,034</u>
Company contributions paid to money purchase pension schemes in respect of highest paid director	<u>-</u>	<u>-</u>
	<b>No</b>	<b>No</b>
Number of directors who:		
Are members of money purchase pension schemes.	3	3
Exercised options on shares in the ultimate parent company	<u>-</u>	<u>-</u>

No directors were members of defined benefit pension schemes in the current or previous years.

**8. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>18 months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Interest receivable:</b>		
Bank deposits	35	30
Interest from group companies	158	-
Other financial assets measured at amortised cost	<u>-</u>	<u>3</u>
Total interest receivable	193	33
<b>Dividends received:</b>		
Dividends received from subsidiary companies	9,568	7,036
<b>Other income:</b>		
Research and Development Expenditure Credit	<u>38</u>	<u>-</u>
	<u>9,799</u>	<u>7,069</u>

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Eighteen months ended 30 June 2020**

**9. INTEREST PAYABLE AND SIMILAR EXPENSES**

	18 months to 30 June 2020 £'000	Year to 31 December 2018 £'000
Interest payable on bank overdrafts and loans	-	7
Interest payable to group companies	519	308
Interest payable on factoring	192	-
Interest on obligations under finance leases	46	93
Interest on dilapidations provision	33	-
	<u>790</u>	<u>408</u>
Total interest payable	<u>790</u>	<u>408</u>

**10. GOVERNMENT GRANT**

During the financial period the Company received government assistance relating to the wages and salaries costs of employees furloughed under the Coronavirus Job Retention Scheme. Grants received have been recognised using the accrual model in accordance with FRS 102 paragraph 24.5, and amount to £313,848 (2018 - £nil).

**11. TAX ON LOSS**

	18 months to 30 June 2020 £'000	Year to 31 December 2018 £'000
<b>Current tax</b>		
United Kingdom corporation tax	(483)	(434)
Adjustment in respect of prior years	-	(187)
<b>Total current tax</b>	<u>(483)</u>	<u>(621)</u>
<b>Deferred tax</b>		
Adjustment in respect of prior years	579	206
Timing differences, origination and reversal	(1,025)	132
Effect of changes in tax rate	249	-
<b>Total deferred tax (see note 20)</b>	<u>(197)</u>	<u>338</u>
<b>Total tax on loss</b>	<u>(680)</u>	<u>(283)</u>
<b>Total current and deferred tax relating to:</b>		
items of other comprehensive income	(1,251)	519
pension scheme asset distribution	(5,571)	-
	<u>(7,502)</u>	<u>236</u>

The standard rate of tax applied to reported loss is 19% (2018 - 19%).

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

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**11. TAX ON LOSS (continued)**

	<b>18 months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Loss before tax</b>	<b>(3,372)</b>	<b>(2,875)</b>
<b>Tax on loss at standard rate of 19% (2018 - 19%)</b>	<b>(641)</b>	<b>(546)</b>
<b>Effects of:</b>		
Expenses not deductible for tax purposes	145	76
Capital allowances in excess of depreciation	(297)	(348)
Income not taxable in determining taxable profit	(2,060)	(1,337)
Impairment of investment in subsidiary	468	1,163
Amortisation and impairment of goodwill	598	398
Pension contributions	(791)	(682)
Short term timing differences	3	(125)
Loss not recognised	2,092	967
Adjustments to tax charge in respect of previous periods	-	(187)
Current period deferred tax	(197)	338
<b>Tax expense for the period/year</b>	<b>(680)</b>	<b>(283)</b>

At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. A further reduction to 17% for the year starting 1 April 2020 was announced at Budget 2016.

At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

In addition to the amount charged to profit or loss, the following amounts relating to tax have been recognised in other comprehensive income:

	<b>18 months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Deferred tax:</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Fair value gain/(loss) arising on pension scheme	(1,251)	519
<b>Total income tax recognised in other comprehensive income</b>	<b>(1,251)</b>	<b>519</b>

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**12. LOSS FOR THE FINANCIAL PERIOD**

	<b>18 months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Loss for the financial period is stated after charging/(crediting) :</b>		
Amortisation of goodwill	3,145	2,097
Amortisation of development costs	1,845	1,603
Depreciation of tangible fixed assets	4,391	3,425
Gain on disposal of tangible fixed assets	(5)	(127)
Gain on disposal of investments	(1,218)	-
Government grants	(314)	-
Cost of stock recognised as an expense	80,620	67,043
Staff costs (Note 6)	80,475	56,325
Operating lease rentals		
Plant and machinery	1,290	1,085
Land and buildings	2,288	2,167
Foreign exchange loss	142	27

Amortisation of goodwill is included in administrative expenses.

Amortisation of development costs is included in cost of sales.

**13. NON-UNDERLYING ITEMS**

	<b>18 months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Recognised in arriving at operating loss:</b>		
Redundancy costs	1,580	2,294
Reorganisation costs	960	698
Amortisation of dilapidations	213	-
Dilapidations interest	33	-
Impairment of investments	2,408	-
Amortisation of goodwill (Note 15)	3,145	2,097
<b>Total of goodwill and non-underlying items</b>	<b>8,339</b>	<b>5,089</b>

Redundancy and reorganisation costs result from the rationalisation of trading activities. These costs are considered to be non-recurring.

**14. DIVIDENDS ON EQUITY SHARES**

	<b>18 months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the 18 months ended 30 June 2020 of 42.8p (2018 - 17.5p) per ordinary share.	17,122	7,000

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Eighteen months ended 30 June 2020**

**15. INTANGIBLE FIXED ASSETS**

	<b>Development costs £'000</b>	<b>Goodwill arising on acquisitions £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2019	6,550	43,919	50,469
Additions	178	-	178
Disposals	(2,385)	-	(2,385)
<b>At 30 June 2020</b>	<b>4,343</b>	<b>43,919</b>	<b>48,262</b>
<b>Amortisation</b>			
At 1 January 2019	3,713	29,153	32,866
Accumulated impairment	-	3,540	3,540
<b>Total amortisation at 1 January 2019</b>	<b>3,713</b>	<b>32,693</b>	<b>36,406</b>
Amortisation for the period	1,845	3,145	4,990
Disposals	(2,385)	-	(2,385)
<b>At 30 June 2020</b>	<b>3,173</b>	<b>35,838</b>	<b>39,011</b>
<b>Net book value</b>			
At 30 June 2020	1,170	8,081	9,251
At 31 December 2018	2,837	11,226	14,063

Development costs have been capitalised in accordance with FRS 102 Section 18 Intangible Assets Other Than Goodwill.

Development costs are amortised on a straight line basis over the life of the contract to which they relate.

Remaining net costs at the balance sheet date will be amortised as follows:

	<b>Cost £'000</b>
<b>Length of contract over which the cost is amortised:</b>	
1 year	87
2 years	963
3 years	120
	<b>1,170</b>



**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**16. TANGIBLE FIXED ASSETS**

	Short leasehold land and buildings £'000	Plant and machinery £'000	Office equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2019	980	17,862	20,835	39,677
Additions	1,373	316	565	2,254
Disposals	(24)	(1,501)	(226)	(1,751)
Transfer	-	79	(903)	(824)
<b>At 30 June 2020</b>	<b>2,329</b>	<b>16,756</b>	<b>20,271</b>	<b>39,356</b>
<b>Depreciation</b>				
At 1 January 2019	928	12,896	18,095	31,919
Charge for the period	251	1,764	2,376	4,391
Disposals	(24)	(1,424)	(224)	(1,672)
Transfer	-	1,389	(2,213)	(824)
<b>At 30 June 2020</b>	<b>1,155</b>	<b>14,625</b>	<b>18,034</b>	<b>33,814</b>
<b>Net book value</b>				
<b>At 30 June 2020</b>	<b>1,174</b>	<b>2,131</b>	<b>2,237</b>	<b>5,542</b>
At 31 December 2018	52	4,966	2,740	7,758

**17. INVESTMENTS HELD AS FIXED ASSETS**

Company	Shares in subsidiary undertakings £'000
<b>Cost</b>	
At 1 January 2019	38,601
Disposals	(15,761)
<b>At 30 June 2020</b>	<b>22,840</b>
<b>Provision for impairment</b>	
At 1 January 2019	11,072
Written back on disposals	(11,072)
<b>At 30 June 2020</b>	<b>-</b>
<b>Net book value</b>	
<b>At 30 June 2020</b>	<b>22,840</b>
At 31 December 2018	27,529

Cost of investments represents cost of shares in group companies.

Details of the Company's subsidiary undertakings at 30 June 2020 are as follows:

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Eighteen months ended 30 June 2020**

**17. INVESTMENTS HELD AS FIXED ASSETS (Continued)**

Company name and registered office	Principal activity	Country of incorporation	Class of shares held	Holding
<b>PCC International Germany GmbH (formerly RR Donnelley Germany GmbH)</b> Fritz Vomfelde Stasse 34, Dusseldorf, Germany, 40547	Document management services	Germany	Common	100%
<b>Paragon Customer Communications Ireland Limited (formerly RR Donnelley Ireland Limited)</b> Unit 6B, Westgate Business Park, Ballymount, Dublin 24, Ireland	Document management services	Republic of Ireland	Ordinary	100%
<b>PCC Poland Sp zoo (formerly RR Donnelley Polska Sp zoo)</b> 56C Al Jerozolimskie, Warsaw, Poland	Outsourced processing	Poland	Common	100%
<b>Paragon Customer Communications Italy S.r.l. (formerly RR Donnelley Italy S.r.l.)</b> 14 Via Roncaglia, Milano, Italy, 20146	Document management services	Italy	Common	100%
<b>Paragon Customer Communications Spain S.L. (formerly RR Donnelley Spain S.L.)</b> Calle General Palanca 3, Madrid, Spain	Document management services	Spain	Common	100%
<b>Critical Mail Continuity Services Limited</b> Tower Close, Huntingdon, Cambridgeshire, PE29 7YD	Disaster recovery	England & Wales	Ordinary	100%
<b>PCC GDS Limited (formerly RRD GDS Limited)</b> Tower Close, Huntingdon, Cambridgeshire, PE29 7YD	Dormant	England & Wales	Ordinary	100%

All of the companies listed above are held directly by Paragon Customer Communications International Limited. The Company faces no significant restrictions on the ability of subsidiaries to transfer funds to the parent company in the form of cash dividends or to repay loans.

Prior to its acquisition by Paragon Customer Communications Limited the Company sold its shareholdings in RR Donnelley UK Directory Limited and BPO Holdings Limited to RRD Holdings BV. The investment in each company had been fully written down at the time of the sale, and they were each sold for a nominal sum. RR Donnelley UK Directory Limited was sold on 6 June 2019, and BPO Holdings Limited on 11 September 2019.

After acquisition the Company sold its shareholding in PCC International France SAS (formerly RR Donnelley France SAS) on 25 June 2020 to Arcania SAS, a fellow Paragon group company, for a consideration of £3,443,000, realising a gain of £1,218,000.

**18. STOCKS**

	30 June 2020 £'000	31 December 2018 £'000
Raw materials and consumables	1,372	958
Work in progress	317	295
Finished goods and goods for resale	315	887
	<u>2,004</u>	<u>2,140</u>

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

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**19. DEBTORS**

	30 June 2020 £'000	31 December 2018 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	9,570	28,712
Amounts owed by group undertakings	23,599	920
Other taxes	483	568
Other debtors	1,277	691
Accrued income	1,912	3,172
Prepayments	3,116	4,570
	<u>39,957</u>	<u>38,633</u>
<b>Amounts falling due after more than one year:</b>		
Defined benefit pension asset (Note 26)	-	37,029
Prepayments	234	307
	<u>234</u>	<u>37,336</u>
<b>Total debtors</b>	<u>40,191</u>	<u>75,969</u>

Intercompany debtors are companies with the same ultimate parent company as the Company. Balances, with the exception of intercompany loans, are interest free and payable within 30 days. Intercompany loans are interest bearing and repayable on demand.

**20. DEFERRED TAX DUE AFTER MORE THAN ONE YEAR**

	30 June 2020 £'000	31 December 2018 £'000
Liability at 1 January 2019	(1,532)	(675)
Credited/(charged) to profit and loss account	197	(338)
Credited/(charged) to other comprehensive income	1,251	(519)
Credited to equity	5,571	-
Liability at 31 December 2018	<u>-</u>	<u>1,532</u>
Asset at 30 June 2020	<u>5,487</u>	<u>-</u>

	30 June 2020 £'000	31 December 2018 £'000
<b>The deferred tax asset/(provision) arises from:</b>		
Capital allowances in deficit of depreciation	2,413	2,699
Deferred tax arising in relation to retirement benefit surpluses	-	(6,295)
Losses carried forward	2,712	1,310
Short term timing differences	362	754
	<u>5,487</u>	<u>(1,532)</u>

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**21. CASH AT BANK AND IN HAND**

	30 June 2020 £'000	31 December 2018 £'000
Cash at bank and in hand	8,837	11,624

Cash and cash equivalents comprise cash held by the Company and short term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximate their fair value. Included are restricted cash balances arising from the Company factoring facility of £1,593,000 (2018: £nil).

**22. CREDITORS**

	30 June 2020 £'000	31 December 2018 £'000
<b>Amounts falling due within one year:</b>		
Obligations under finance leases	197	146
Trade creditors	9,638	11,679
Amounts owed to group undertakings	10,393	4,555
Other taxes and social security	9,005	3,930
Deferred income	867	1,741
Accruals	10,453	10,981
	<u>40,553</u>	<u>33,032</u>
<b>Amounts falling due after more than one year:</b>		
Obligations under finance leases	54	313
Loans from subsidiary companies (Note 23)	13,032	11,344
Deferred income	85	408
Accruals	166	131
	<u>13,337</u>	<u>12,196</u>

**23. BORROWINGS**

	30 June 2020 £'000	31 December 2018 £'000
Falling due between two and five years:		
Loans from subsidiary companies	13,032	11,344

Loans from subsidiary companies bear interest at 2% above LIBOR for Sterling denominated loans, and 2% above EURIBOR for Euro denominated loans.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**24. PROVISIONS FOR LIABILITIES**

	Onerous lease provision £'000	Dilapidations provision £'000	Redundancy provision £'000	ACP provision £'000	Deferred tax £,000	Total £'000
Provisions at 1 January 2019	62	-	656	209	1,532	2,459
Charged/(credited) to profit and loss account	960	1,406	1,580	-	(197)	3,749
Credited to other comprehensive income	-	-	-	-	(1,251)	(1,251)
Credited to equity	-	-	-	-	(5,571)	(5,571)
Deferred tax asset at 30 June 2020	-	-	-	-	5,487	5,487
Utilisation of provision	(898)	-	(1,970)	(20)	-	(2,888)
At 30 June 2020	124	1,406	266	189	-	1,985

The lease provision represents amounts provided for rent exposure on premises vacated as part of the rationalisation of business operations. These provisions are expected to be utilised during the year to 30 June 2021.

The dilapidations provision represents amounts expected to be paid after the expiry dates of the Company's property leases, the last of which expires in 2026.

The redundancy provision relates to the rationalisation of trading activities and is expected to be released over six years.

The ACP (Annual Compensation Payments) provision represents amounts due to former employees of RR Donnelley Print & Media Services Limited, which have been calculated in accordance with the terms of their employment contract at that time based on their expected remaining lives. The remaining provision is expected to be released over the shorter of their remaining lives or 24 years from the balance sheet date.

**25. SHARE BASED PAYMENTS**

RR Donnelley & Sons Company, the ultimate parent undertaking of the Company prior to its acquisition by Paragon Customer Communications Limited on 25 October 2019 had three share schemes for certain employees. The employees' participation in the schemes ended on the date of acquisition.

**I) Equity-settled share awards**

Once awards are granted, shares are issued to employees for free after the vesting period. Share awards issued on 29 February 2016 vest in full after three years. Total share awards issued on 3 March 2017 were 19,328 of which 13,643 vest in three equal tranches after one, two and three years. The remaining 5,685 vest in full after two years and are performance related, the final award being between 0% and 150% of the shares, based on performance metrics at 31 December 2018.

Awards are forfeited if the employee leaves the Group before the awards vest.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**25. SHARE BASED PAYMENTS (continued)**

Details of the share awards during the period are as follows:

	2020		2018	
	Number of share grants	Weighted average share price £	Number of share grants	Weighted average share price £
Outstanding at beginning of period	27,229	12.45	47,964	12.63
Vested during the period	(12,479)	11.82	(13,327)	12.80
Forfeit during the period	(14,750)	12.98	(7,408)	12.97
Outstanding at the end of the period	-	-	27,229	12.45

No awards were granted in the current period or previous year.

No formal valuation model is used to value the awards. The fair value of the awards is determined as the market price of the shares at the date of grant, plus the net present value of expected future dividends, and is expensed over the vesting period. This is felt to be the most appropriate method of valuation.

The estimated fair value of the awards granted by the Company during the period was £nil (2018 - £nil).

The Company recognised total expenses of £21,000 (2018 - £196,000) related to equity-settled share awards during the period.

**II) Equity-settled share options**

Options previously issued by the former parent company RR Donnelley and Sons Co. are exercisable at a price equal to the estimated fair value of the former parent company's shares at the date of grant. Options vested in four equal tranches after one, two, three and four years. Options are forfeited if the employee leaves the Group before the options vest. Unexercised options expire ten years after the date of grant.

Details of the share options during the period are as follows:

	2020		2018	
	Number of share grants	Weighted average share price £	Number of share grants	Weighted average share price £
Outstanding at beginning of period	3,750	8.35	6,750	8.35
Forfeit during the period	-	-	(3,000)	8.35
Outstanding at the end of the period	3,750	8.35	3,750	8.35

No awards were granted during the current period or the previous year.

No formal valuation model is used to value the awards. The fair value of the awards is determined as the market price of the shares at the date of grant, plus the net present value of expected future dividends, and is expensed over the vesting period. This is felt to be the most appropriate method of valuation.

The number of share options exercisable as at 30 June 2020 amounts to 3,750 (2018 - 3,750).

The estimated fair value of the awards granted by the Company during the period was £nil (2018 - £nil).

The Company recognised total expenses of £nil (2018 - £nil) related to equity-settled share options during the period.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**25. SHARE BASED PAYMENTS (continued)**

**III) Cash-settled share awards**

The Company issued share appreciation rights (SARs) to certain employees that require the Company to pay the intrinsic value of the SARs to the employee at the date of exercise. No formal valuation model is used to value the awards. The fair value of the awards is determined as the market price of the shares at the date of grant, plus the net present value of expected future dividends, and is expensed over the vesting period. This is felt to be the most appropriate method of valuation.

The Company recognised a total credit of £87,000 during the period (2018 – expense £202,000). The carrying value of the associated liability was £nil at 30 June 2020 (2018 - £202,000).

**26. RETIREMENT BENEFIT SCHEMES**

Until 22 October 2019 the Company operated several defined benefit pension schemes for which a summary table has been provided as follows:

**SUMMARY OF PENSION COMMITMENT**

	I)	II)	III)	30 June 2020 Total £'000	31 December 2018 Total £'000
	£'000	£'000	£'000	£'000	£'000
<b>Net pension asset</b>					
Fair value of scheme assets	-	-	-	-	200,692
Present value of scheme liabilities	-	-	-	-	(163,663)
<b>Net pension asset</b>	-	-	-	-	37,029

	I)	II)	III)	18 months to 30 June 2020 Total £'000	Year to 31 December 2018 Total £'000
	£'000	£'000	£'000	£'000	£'000
<b>Movement in the scheme surplus during the period</b>					
<b>Surplus in the scheme at beginning of period</b>	10,783	1,479	24,767	37,029	29,938
Return on assets excluding interest income	(4,988)	(356)	-	(5,344)	(8,187)
Contributions paid	42	-	2,912	2,954	4,125
Net finance income	249	33	564	846	719
Scheme administrative costs	(207)	(104)	(391)	(702)	(555)
Actuarial (loss)/gain	(1,930)	(81)	-	(2,011)	11,239
Loss on curtailments	-	-	-	-	(212)
Past service cost	-	-	-	-	(38)
Settlements	(3,949)	(971)	(27,852)	(32,772)	-
<b>Net movements</b>	(10,783)	(1,479)	(24,767)	(37,029)	7,091
<b>Surplus in the scheme at end of period</b>	-	-	-	-	37,029

In addition, the Group contributes to employees' own personal pension arrangements at rates varying between 4.8% and 10% of pensionable earnings.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Eighteen months ended 30 June 2020**

**26. RETIREMENT BENEFIT SCHEMES (continued)**

**1) e-doc Group Pension Scheme, which comprised two elements:**

A defined benefit element for the pension liabilities accrued up to 31 July 2000 of employees formerly employed by RR Donnelley Print & Media Services Limited who were previously employed by Her Majesty's Stationery Office; and a defined contribution element for other former employees of RR Donnelley Print & Media Services Limited, and for the pension liabilities accrued since 1 August 2000 of employees in service with the Company on 31 July 2000.

Prior to its acquisition by Paragon Group Limited the Company was the sole sponsoring employer of the e-doc Group Pension Scheme. On 22 October 2019 (the "Transaction Date") RR Donnelley UK Directory Limited became a sponsoring employer of the scheme prior to the Company ceasing to be a sponsoring employer. As a result the Company was fully discharged from any further liability to the e-doc Group Pension Scheme. The Company also relinquished any future claim to benefit from any surplus remaining in the scheme.

Except where stated otherwise, the remainder of section I) of this FRS 102 pensions note relates only to the defined benefit element of the Scheme.

The Company is not expected to pay any further contributions to the scheme.

The most recent formal actuarial valuation of the scheme was as at 31 December 2015. The values of the liabilities at the reporting date and the Transaction Date have been estimated by a qualified actuary by updating the results of the actuarial valuation as at 31 December 2015. The major assumptions used by the actuary were (in nominal terms):

		<b>30 June 2020</b>	<b>31 December 2018</b>
		<b>% per annum</b>	<b>% per annum</b>
Future price inflation assumed		1.90	2.2
Rate of increase in payment of pensions		1.90	2.2
Assumed discount rate on liabilities		1.90	2.8
Rate of increase for deferred pensioners		1.90	2.2
		<b>Years</b>	<b>Years</b>
Assumed life expectancies on retirement at age 65 are:			
Retiring today	Males	21.8	21.8
	Females	23.7	23.7
Retiring in 20 years' time	Males	22.8	22.8
	Females	24.9	24.9

The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not be borne out in practice.



**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Eighteen months ended 30 June 2020**

**26. RETIREMENT BENEFIT SCHEMES (continued)**

The assumptions used in determining the overall expected return on the assets of the Scheme have been set having regard to yields available on government bonds, corporate bonds and bank base rates, incorporating appropriate risk margins where appropriate. The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	30 June 2020	31 December 2018
	Fair value £'000	Fair value £'000
Equities	-	81
Fixed Interest	-	977
Index Linked Gilts	-	22,642
Cash	-	2,220
Other	-	273
	<hr/>	<hr/>
Total fair value of assets	-	26,193
	<hr/>	<hr/>
Expected rate of return per annum	-	2.8%

The Scheme does not hold any ordinary shares issued or property occupied by Paragon Customer Communications International Limited.

	30 June 2020 £'000	31 December 2018 £'000	31 December 2017 £'000	31 December 2016 £'000	31 December 2015 £'000
Fair value of assets	-	26,193	26,658	25,859	20,820
Present value of funded obligations	-	(15,410)	(16,083)	(16,422)	(12,996)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net pension asset in plan	-	10,783	10,575	9,437	7,824
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

	18 months to 30 June 2020 £'000	Year to 31 December 2018 £'000
<b>Movement in surplus in the scheme during the period</b>		
Surplus in the scheme at beginning of period	10,783	10,575
Return on assets excluding interest income	(4,988)	(1,170)
Contributions	42	636
Net finance income	249	260
Scheme administrative costs	(207)	(142)
Actuarial (loss)/gain	(1,930)	662
Past service cost	-	(38)
Transfer to RR Donnelley UK Directory Limited	(3,949)	-
	<hr/>	<hr/>
Surplus in the scheme at end of period	-	10,783
	<hr/>	<hr/>

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**26. RETIREMENT BENEFIT SCHEMES (continued)**

	<b>18 months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Changes in the present value of the Scheme liabilities</b>		
Liabilities at beginning of period	15,410	16,083
Interest cost	354	381
Actuarial loss/(gain)	1,930	(662)
Benefits paid	(448)	(430)
Past service cost	-	38
Transfer to RR Donnelley UK Directory Limited	(17,246)	-
Liabilities at end of period	-	15,410

	<b>18 months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Changes in the fair value of the Scheme assets</b>		
Fair value of assets at beginning of period	26,193	26,658
Interest income on scheme assets	603	641
Return on assets excluding interest income	(4,988)	(1,170)
Contributions by employer	42	636
Benefits paid	(448)	(430)
Scheme administrative costs	(207)	(142)
Transfer to RR Donnelley UK Directory Limited	(21,195)	-
Fair value of scheme assets at end of period	-	26,193

The Company is not expected to pay any further contributions to the Scheme.

	<b>18 months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Amount recognised in the profit and loss account in respect of the scheme</b>		
Net finance income	249	260
Scheme administrative costs	(207)	(142)
Past service cost	-	(38)
Settlements	(3,949)	-
	(3,907)	80

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**26. RETIREMENT BENEFIT SCHEMES (continued)**

Remeasurements of the net defined benefit asset to be shown in other comprehensive income

	18 months to 30 June 2020 £'000	Year to 31 December 2018 £'000
Actuarial (losses)/gains on the liabilities	(1,930)	662
Return on assets, excluding interest income	(4,988)	(1,170)
Recognised in other comprehensive income	<u>(6,918)</u>	<u>(508)</u>

**II) RR Donnelley Passport Pension Scheme**, a defined benefit scheme established in the UK with effect from 1 February 2006.

Prior to its acquisition by Paragon Group Limited the Company was the sole sponsoring employer of the RR Donnelley Passport Pension Scheme. On 22 October 2019 (the "Transaction Date") RR Donnelley UK Directory Limited became a sponsoring employer of the scheme prior to the Company ceasing to be a sponsoring employer. As a result the Company was fully discharged from any further liability to the RR Donnelley Passport Pension Scheme. The Company also relinquished any future claim to benefit from any surplus remaining in the scheme.

The Company made no contributions to the scheme for the current or prior year. All of the remaining active members of the scheme ceased to be active with effect from 30 June 2010. The Company is not expected to pay any further contributions to the scheme.

The most recent formal actuarial valuation of the scheme was as at 31 December 2015. The values of the liabilities at the reporting date and the Transaction Date have been estimated by a qualified actuary by updating the results of the actuarial valuation as at 31 December 2015. The major assumptions used by the actuary were (in nominal terms):

	30 June 2020 % per annum	31 December 2018 % per annum
Inflation assumption	2.90	3.2
Rate of increase in payment of pensions	2.90	3.2
Discount rate	1.90	2.8
Rate of increase for deferred pensioners	1.90	2.2
Future salary increases	n/a	n/a

  

		Years	Years
Assumed life expectancies on retirement at age 65 are:			
Retiring today	Males	21.8	21.8
	Females	23.7	23.7
Retiring in 20 years' time	Males	22.8	22.8
	Females	24.9	24.9

The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not be borne out in practice.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**26. RETIREMENT BENEFIT SCHEMES (continued)**

The assumptions used in determining the overall expected return on the assets of the Scheme have been set having regard to yields available on government bonds, corporate bonds and bank base rates, incorporating appropriate risk margins where appropriate. The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	30 June 2020	31 December 2018
	Fair value £'000	Fair value £'000
Fixed interest	-	207
Index linked gilts	-	1,281
Cash	-	744
Total fair value of assets	-	2,232
Expected rate of return	-	2.8%

The Scheme does not hold any ordinary shares issued or property occupied by Paragon Customer Communications International Limited.

	30 June 2020	31 December 2018	31 December 2017	31 December 2016	31 December 2015
	£'000	£'000	£'000	£'000	£'000
<b>Net pension asset</b>					
Fair value of scheme assets	-	2,232	2,322	2,323	2,148
Present value of funded obligations	-	(753)	(778)	(708)	(595)
Net pension asset in plan	-	1,479	1,544	1,615	1,553

	18 Months to 30 June 2020	Year to 31 December 2018
	£'000	£'000
<b>Movement in surplus in the scheme during the period</b>		
Surplus in the scheme at beginning of period	1,479	1,544
Net finance income	33	36
Return on assets excluding interest income	(356)	(69)
Actuarial (loss)/gain	(81)	38
Scheme administrative costs	(104)	(70)
Transfer to RR Donnelley UK Directory Limited	(971)	-
Surplus in the scheme at end of period	-	1,479

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**26. RETIREMENT BENEFIT SCHEMES (continued)**

	<b>18 Months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Changes in the present value of the Scheme liabilities</b>		
Liabilities at beginning of period	753	778
Interest cost	18	19
Actuarial loss/(gain)	81	(38)
Benefits paid	(9)	(6)
Transfer to RR Donnelley UK Directory Limited	(843)	-
Liabilities at end of period	-	753
<b>Changes in the fair value of the Scheme assets</b>		
Fair value of assets at beginning of period	2,232	2,322
Interest income on Scheme assets	51	55
Return on assets excluding interest income	(356)	(69)
Benefits paid	(9)	(6)
Scheme administrative costs	(104)	(70)
Transfer to RR Donnelley UK Directory Limited	(1,814)	-
Fair value of Scheme assets at end of period	-	2,232
The Company is not expected to pay any further contributions to the Scheme.		
<b>Amount recognised in the profit and loss account in respect of the scheme</b>		
Net finance income	33	36
Scheme administrative costs	(104)	(70)
Settlements	(971)	-
	(1,042)	(34)

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**26. RETIREMENT BENEFIT SCHEMES (continued)**

	18 Months to 30 June 2020 £'000	Year to 31 December 2018 £'000
<b>Remeasurements of the net defined benefit asset to be shown in other comprehensive income</b>		
Actuarial (losses)/gains on the liabilities	(81)	38
Return on assets excluding interest income	(356)	(69)
Recognised in other comprehensive income	<u>(437)</u>	<u>(31)</u>

**III) RR Donnelley UK Pension Scheme.** The Group assumed responsibility for the scheme as principal employer with effect from 1 October 2016. The scheme is a defined benefit plan established in the UK for the pension liabilities accrued up to 31 December 2012 of employees of RR Donnelley UK Directory Limited and Donnelley Financial Solutions UK Limited.

Prior to its acquisition by Paragon Group Limited the Company was the sole sponsoring employer of the RR Donnelley UK Pension Scheme. On 22 October 2019 (the "Transaction Date") RR Donnelley UK Directory Limited became a sponsoring employer of the scheme prior to the Company ceasing to be a sponsoring employer. As a result the Company was fully discharged from any further liability to the RR Donnelley UK Pension Scheme. The Company also relinquished any future claim to benefit from any surplus remaining in the scheme.

The Company is not expected to pay any further contributions to the scheme.

The most recent formal actuarial valuation of the scheme was as at 31 March 2016. The values of the liabilities at the reporting date and the Transaction Date have been estimated by a qualified actuary by updating the results of the actuarial valuation as at 31 December 2015. The principal assumptions used for the actuarial valuation were:

	30 June 2020 % per annum	31 December 2018 % per annum
Inflation assumption	3.10	3.10
Rate of increase in pension payments	3.00	3.00
Discount rate	2.87	2.87
Future salary increases	n/a	n/a
	<b>Years</b>	<b>Years</b>
Assumed life expectancies on retirement at age 65 are:		
Males retiring today	22.0	22.1
Males retiring in 20 years' time	23.4	23.5

The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not be borne out in practice.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Eighteen months ended 30 June 2020**

**26. RETIREMENT BENEFIT SCHEMES (continued)**

The assumptions used in determining the overall expected return on the assets of the Scheme have been set having regard to yields available on government bonds, corporate bonds and bank base rates, incorporating appropriate risk margins where appropriate. The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	30 June 2020 Fair value £'000	31 December 2018 Fair value £'000
Cash and cash equivalents	-	4,308
Equities	-	-
Bonds	-	158,380
Property	-	9,579
Other	-	-
	<hr/>	<hr/>
Total fair value of assets	-	172,267
	<hr/>	<hr/>
Expected rate of return per annum	-	2.87%

The Scheme does not hold any ordinary shares issued or property occupied by Paragon Customer Communications International Limited.

	30 June 2020 £'000	31 December 2018 £'000
<b>Net pension asset</b>		
Fair value of scheme assets	-	172,267
Present value of funded obligations	-	(147,500)
	<hr/>	<hr/>
Net pension asset in plan	-	24,767
	<hr/>	<hr/>

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Eighteen months ended 30 June 2020**

**26. RETIREMENT BENEFIT SCHEMES (continued)**

	<b>18 Months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Movement in surplus in the scheme during the period</b>		
Surplus in the scheme at beginning of period	24,767	17,819
Loss on curtailments	-	(212)
Net finance income	564	423
Return on assets excluding interest income	-	(6,948)
Contributions by employer	2,912	3,489
Actuarial gain	-	10,539
Scheme administrative costs	(391)	(343)
Transfer to RR Donnelley UK Directory Limited	(27,852)	-
Surplus in the scheme at end of period	<u>-</u>	<u>24,767</u>

	<b>18 Months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Changes in the present value of the Scheme liabilities</b>		
Liabilities at beginning of period	147,500	165,215
Loss on curtailments	-	212
Interest cost	3,108	3,617
Actuarial gain	-	(10,539)
Benefits paid	(6,514)	(11,005)
Transfer to RR Donnelley UK Directory Limited	(144,094)	-
Liabilities at end of period	<u>-</u>	<u>147,500</u>

	<b>18 Months to 30 June 2020 £'000</b>	<b>Year to 31 December 2018 £'000</b>
<b>Changes in the fair value of the Scheme assets</b>		
Fair value of assets at beginning of period	172,267	183,034
Interest income on Scheme assets	3,672	4,040
Return on assets excluding interest income	-	(6,948)
Contributions by employer	2,912	3,489
Benefits paid	(6,514)	(11,005)
Scheme administrative costs	(391)	(343)
Transfer to RR Donnelley UK Directory Limited	(171,946)	-
Fair value of Scheme assets at end of period	<u>-</u>	<u>172,267</u>

The Company is not expected to pay any further contributions to the Scheme.



**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**26. RETIREMENT BENEFIT SCHEMES (continued)**

	18 Months to 30 June 2020 £'000	Year to 31 December 2018 £'000
<b>Amount recognised in the profit and loss account in respect of the scheme</b>		
Loss on curtailments	-	(212)
Net interest income	563	423
Scheme administrative costs	(391)	(343)
Settlements	(27,852)	-
	<u>(27,680)</u>	<u>(132)</u>

	18 Months to 30 June 2020 £'000	Year to 31 December 2018 £'000
<b>Remeasurements of the net defined benefit asset to be shown in other comprehensive income</b>		
Effect of changes in assumptions	-	10,539
Return on assets excluding interest income	-	(6,948)
Recognised in other comprehensive income	<u>-</u>	<u>3,591</u>

**IV) Defined contribution schemes**

The pension charge for the defined contribution schemes during the period is £2,788,000 (2018 - £2,261,000). The unpaid contributions outstanding at the period end were £152,000 (2018 - £164,000). These related to June 2020 contributions which were paid in July 2020 (2018 - December 2018 contributions which were paid in January 2019).

**27. CALLED UP SHARE CAPITAL**

	30 June 2020 £	31 December 2018 £
<b>Allotted, called up and fully paid</b>		
<b>At 1 January 2019</b>		
40,000,000 (2018 – 67,061,012) ordinary shares of £1 each	40,000,000	67,061,012
<b>Shares cancelled during the period/year</b>		
Nil (2018 - 27,061,012) ordinary shares of £1 each	-	(27,061,012)
<b>At 30 June 2020</b>	<u>40,000,000</u>	<u>40,000,000</u>

The Company has one class of ordinary shares which carry no right of fixed income, and have no restrictions as to payment of dividends.

On 6 December 2018 the Company reduced its issued share capital from £67,061,012 to £40,000,000 by cancelling and extinguishing 27,061,012 of the issued ordinary shares of £1 each in the Company.

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**28. FINANCIAL INSTRUMENTS**

	30 June 2020 £'000	31 December 2018 £'000
<b>Categories of financial instruments held at fair value</b>		
Financial assets measured at undiscounted amount receivable		
Trade and other debtors (note 19)	10,847	29,403
Equity instruments measured at cost less impairment		
Investment in unlisted equity instruments (note 17)	22,840	27,529
	<u>33,687</u>	<u>56,932</u>
Financial liabilities measured at amortised cost		
Obligations under finance leases (note 22)	251	459
Measured at undiscounted amount payable		
Trade and other creditors (note 22)	9,638	11,679
	<u>9,889</u>	<u>12,138</u>
<b>Interest expense</b>		
Total interest expense for financial liabilities at amortised cost	46	93
<b>Fair value gains</b>		
On financial assets measured at fair value through profit or loss	1,279	127

**29. FINANCIAL COMMITMENTS**

Capital commitments are as follows:

	30 June 2020 £'000	31 December 2018 £'000
Contracted for but not provided for	-	141

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

	2020		2018	
	Land and buildings £'000	Plant, equipment and vehicles £'000	Land and buildings £'000	Plant, equipment and vehicles £'000
Within one year	1,207	650	1,941	796
Between two to five years	1,508	785	3,945	703
	<u>2,715</u>	<u>1,435</u>	<u>5,886</u>	<u>1,499</u>

**PARAGON CUSTOMER COMMUNICATIONS INTERNATIONAL LIMITED (formerly RR Donnelley UK Limited)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**Eighteen months ended 30 June 2020**

**30. RELATED PARTY TRANSACTIONS**

As 100% of the share capital of the Company is owned by a group whose consolidated financial statements are publicly available, it is not required to disclose transactions with other group undertakings that would otherwise be required under FRS 102 Section 33.

All of the Company's subsidiaries are 100% owned.

Balances outstanding with related parties at the period-end are shown in note 19 (debtors) and note 22 (creditors).

Prior to its acquisition by Paragon Customer Communications Limited on 25 October 2019 the Company indirectly owned 25.84% of the ordinary share capital of RR Donnelley India Outsource Private Limited. This investment was sold to another RR Donnelley company on 21 June 2019. During the period to 21 June 2019 the Company purchased goods and services in the ordinary course of business from RR Donnelley India Outsource Private Limited at a cost of £3,014,000 (2018 - £9,060,000). Amounts owed to RR Donnelley India Outsource Private Limited at 31 December 2018 were £1,441,000. These amounts all related to trading balances.

The total remuneration for key management personnel for the period totalled £2,762,276 (2018 - £2,060,293). Key personnel are defined as directors and members of the senior management team who are directly remunerated by the Company.

**31. CONTROLLING PARTY**

The Company's ultimate parent company, ultimate controlling party, and parent undertaking of the largest group which includes the Company for which group accounts are prepared, is Paragon Group Limited, a company incorporated in England and Wales, whose registered office is situated at Lower Ground Floor, Park House, 16/18 Finsbury Circus, London, EC2M 7EB.

The Company's immediate parent company, immediate controlling party, and parent undertaking of the smallest group which includes the Company for which group accounts are prepared, is Paragon Customer Communications Limited, a company incorporated in England and Wales, whose registered office is situated at Lower Ground Floor, Park House, 16/18 Finsbury Circus, London, EC2M 7EB.

Copies of the group financial statements of Paragon Group Limited and Paragon Customer Communications Limited are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.