

AMENDING

Paragon Customer Communications Limited
(formerly DST Output Limited)

Report and Financial Statements

Year Ended

31 December 2016

Company Number 07262428

THURSDAY



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Paragon Customer Communications Limited
(formerly DST Output Limited)

Company Information

Directors	P J Crean L T Salmon J E C Walters
Company secretary	R J Cahill
Registered number	07262428
Registered office	Lower Ground Floor Park House 16/18 Finsbury Circus London EC2M 7EB
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors The Atrium 1 Harefield Road Uxbridge Middlesex UB8 1EX
Bankers	Lloyds Bank plc 25 Gresham Street London EC2V 7HV

Paragon Customer Communications Limited
(formerly DST Output Limited)

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Highlights of the Year

Group Revenue £162.7m	Underlying EBITDA* £10.0m
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Underlying Operating Profit* £4.8m	Underlying EBITDA Growth* 27.9%
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Free Cash Flow** £12.0m	Net Cash*** £1.5m
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*See note 33

**See note 25

***See consolidated statement of cashflows (page 18)

Paragon Customer Communications Limited

(formerly DST Output Limited)

Group Strategic Report **For the year ended 31 December 2016**

Introduction

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

Review of the business

The underlying EBITDA for the group is £10.0m (note 33), this is an increase of £2.2m, (27.9%) on prior year.

The results for the group show a loss before taxation of £3.4m (2015: profit of £1.2m) for the year and group turnover of £162.7m (2015: £166.2m). This loss includes a non cash item of £6.7m on the impairment of historical goodwill. Without this impairment the group profit after taxation would have been £3.1m. The directors have not proposed or paid a dividend in the current financial year (2015 - £Nil).

The business has generated free cash flow of £12.0m (2015: £4.7m) as a result of the strong trading performance and good working capital management.

Principal risks and uncertainties

The management of the business and the execution of the group's strategy are subject to a number of risks.

- *Consumer preferences and desires* – A significant element of the market in which the business operates is driven by the Direct Marketing industry, this is subject to annual cycles as well as pressures from the long term change to move to digital marketing by the current and potential clients. To address the risks presented by the changes in the Direct Mail market the business is continuing to invest in new technologies. The business also operates in the Transactional Print market, to remain competitive in this market the business is investing in technology which further develops the digital print offering and differentiates the business from its competitors.
- *Production risk* – The business runs very high levels of quality and service level agreement ('SLA') performance. Quality risk is managed via the use of Lean and 6 Sigma programmes by well trained and competent staff. SLA risk is managed by a planned production environment and well maintained production resources.
- *Business improvement risk* - There are a number of systems on which the business is highly dependent on. The business continues to invest in these systems to ensure they remain effective and are able to support the changes in the market in which the business operates.
- *Competition risk* - Continuing uncertainty in the UK and global economy particularly in relation to marketing expenditure continues to impact the group. Over capacity and low margin pricing in the lithographic and web offset printing sector continues to deliver challenges. The group's exposure is mitigated by having a customers' base from a wide spread of sectors and industries and by providing a broad range of services and product offerings with value added, emerging e-solutions and customised output. Furthermore, a significant proportion of the group's work is contractual, transactional and regulatory in nature. In addition, the group has a track record of successful customer retention through proactive customer relationship management and ensuring customer requirements are met.
- *Talent management* - To maintain the high levels of quality and service employee retention is key. The business manages the risks of attrition by maintaining good communications with staff, by training and developing the employees and incentivising excellent performance through various initiatives.

Paragon Customer Communications Limited

(formerly DST Output Limited)

Group Strategic Report (continued) For the year ended 31 December 2016

Financial 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, operating profit and operating cash flow indicate the volume of work, its profitability and the efficiency with which we have turned operating profits into cash. KPIs for 2016 are shown in the table below, along with prior year comparatives.

	2016 £'000	2015 £'000	Change %
Group turnover (including postage)	162,665	166,205	(2.1%)
Group turnover per employee	119	120	(0.8%)
Number of employees (average)	1,366	1,380	(1.0%)
Gross profit	44,102	42,918	2.8%
Gross margin	27.1%	25.8%	1.3%
Group operating profit (excluding impairment)	4,379	2,496	75.4%
Underlying EBITDA	10,014	7,826	27.9%
Operating cash flow	11,971	4,655	
Net cash (3 rd party debt)	1,448	4,950	

The operating profit of £4.4m (2015 - £2.5m) is well ahead of last year. This does not include the £6.7m non cash goodwill impairment provision booked during the year. The increased operational efficiencies has continued to have a positive impact on both the gross and operating margin of the business. The operating cashflow of £12.0m has improved by £7.3m in the year as a result of the good trading performance and strong working capital management. Net cash has reduced during the year due to intercompany loan repayment made to the parent company at the time of £23m.

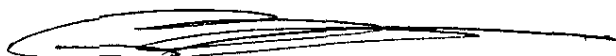
Environmental matters

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

Impact of UK deciding to leave the European Union

The directors have considered the impact of the UK deciding to leave the European Union based on the result of the 23 June 2016 referendum and the subsequent triggering of Article 50 on 29 March 2017 and do not believe it will have a significant impact on the group subsequent to the year end.

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



J E C Walters
Director

Paragon Customer Communications Limited

(formerly DST Output Limited)

Directors' Report

For the year ended 31 December 2016

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

Principal activity

Paragon Customer Communications Limited (formerly DST Output Limited) ("Paragon CC") through its subsidiaries, ("the group"), provides direct communications services to businesses across a wide range of sectors to assist them to optimise their clients' communication channels and contents through the managing and processing of data, printing and distribution which includes the distribution of information via the Internet. Additionally the group had a real estate company that owns property that was let to both group companies and third party tenants but this property was disposed of during the financial year.

Results and dividends

The results and dividends are disclosed in the strategic report.

Sale of Output UK Business

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

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

Directors

The directors who served during the year were:

J E C Walters (appointed 20 January 2016)
P J Crean (appointed 4 May 2017)
L T Salmon (appointed 4 May 2017)
G Givens (resigned 4 May 2017)

Political contributions

The group made no political donations.

Strategy and future developments

The group will continue to focus on the implementation of a resilient and stable platform in order to further strengthen its strategy of being a business partner to its customers, by working alongside them to deliver cost effective and efficient client communication solutions.

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

Paragon Customer Communications Limited

(formerly DST Output Limited)

Directors' Report (continued)

For the year ended 31 December 2016

Research and development activities

The group regard the investment in research and development as integral to the continuing success of the business and ensuring that we remain in the forefront in our industry. We have established ourselves as a leader in the processing of data and the output of variable data printing and internet based delivery of information.

Employee consultation

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

Disabled employees

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

Going concern

The directors have concluded that it is appropriate to prepare the financial statements on a going concern basis in accordance with the Companies Act 2006.

Directors' indemnities

Paragon Customer Communications Limited maintains liability insurance for its directors. For the purposes of the Companies Act 2006, Paragon Customer Communications Limited provides indemnity insurance for its directors and company secretary for qualifying third party provisions, this insurance was in place for the full year ending 31st December 2016 and remains in place at the date of signing of these financial statements.

Financial risk management

The group's operations expose it to a variety of financial risks that include the effects of price, credit, liquidity and interest rate risk. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by monitoring levels of risk and the related finance costs.

Credit risk

The group 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.

Price risk

The group is exposed to commodity price risk on paper as a result of its operations. However, given the size of the group's operations, the costs of continually managing exposure to commodity price risk exceeds any significant potential benefits. The risk is mitigated due to the on-going centralisation of the group procurement team and also certain inputs being rechargeable directly to clients. The directors will revisit the appropriateness of this policy should the group's operations change in size or nature.

Paragon Customer Communications Limited

(formerly DST Output Limited)

Directors' Report (continued) **For the year ended 31 December 2016**

Liquidity risk

The group actively maintains a mixture of long-term and short-term debt finance through terms loans and intercompany funding through the support of its parent company. These measures are designed to ensure the group has sufficient funds for operations and planned expansions.

Interest rate risk

The group has interest bearing assets and liabilities. All external liabilities include a variable element within their interest rate. All intercompany liabilities carry a fixed interest rate.

Foreign currency risk

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

Capital risk

The group manages its capital risk to safeguard its ability to continue as a going concern and maintain an optimal capital structure to minimise the cost of capital. This is done through changes made to the underlying debt structures within the group and, where appropriate, issuing shares or selling assets to reduce debt.

Directors' responsibilities statement

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

Company law requires the directors to prepare audited financial statements for each financial year. Under that law the directors have elected to prepare the audited financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the audited financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period. In preparing these audited financial statements, the directors are required to:

- select suitable accounting policies for the Group financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards including FRS102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the audited financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Paragon Customer Communications Limited
(formerly DST Output Limited)

Directors' Report (continued)
For the year ended 31 December 2016

Disclosure of information to auditors

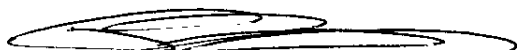
Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

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

Independent Auditors

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

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



J E C Walters
Director

Paragon Customer Communications Limited

(formerly DST Output Limited)

Independent auditors' report to the members of Paragon Customer Communications Limited (formerly DST Output Limited)

Report on the financial statements

Our opinion

In our opinion, Paragon Customer Communications Limited (formerly DST Output Limited) 's group financial statements and company financial statements (the "financial statements"):

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

What we have audited

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

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

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

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

Opinion 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 Group 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 Group Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Paragon Customer Communications Limited

(formerly DST Output Limited)

Independent auditors' report to the members of Paragon Customer Communications Limited (formerly DST Output Limited) (continued)

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

Paragon Customer Communications Limited
(formerly DST Output Limited)

Independent auditors' report to the members of Paragon Customer Communications Limited
(formerly DST Output Limited) (continued)

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

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



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

27 September 2017

Paragon Customer Communications Limited
(formerly DST Output Limited)

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2016

		2016	2015
	Note	£'000	£'000
Turnover			
Group and share of joint ventures' turnover		164,932	168,692
Less: Share of joint ventures' turnover		(2,267)	(2,487)
Group turnover	3	162,665	166,205
Cost of sales		(118,563)	(123,287)
Gross profit		44,102	42,918
Distribution costs		(2,104)	(2,285)
Administrative expenses		(38,082)	(38,178)
Fair value movement		-	41
Profit on sale of investment property	4	463	-
Operating profit	5	4,379	2,496
Impairment of goodwill		(6,658)	-
Income from participating interests		162	289
Interest receivable and similar income	8	20	22
Interest payable and similar charges	9	(1,268)	(1,615)
(Loss)/profit before taxation		(3,365)	1,192
Tax on (loss)/profit	10	(672)	(592)
Total comprehensive income and (loss)/profit for the financial year		(4,037)	600

The notes on pages 19 to 46 form part of these financial statements. The consolidated statement of comprehensive income has been prepared on the basis that all operations are continuing operations. There were no other comprehensive income in 2016 and 2015.

Other Information (Non statutory information) (See note 33)

Underlying EBITDA	10,014	7,826
Total profit after taxation for the year excluding impairment of goodwill	2,621	600

Paragon Customer Communications Limited
(formerly DST Output Limited)

Registered Number: 07262428

Consolidated Statement of Financial Position
As At 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed Assets			
Intangible assets	11	6,029	14,058
Tangible assets	13	7,488	14,249
Investments	14	202	240
Investment property	15	-	3,413
		<u>13,719</u>	<u>31,960</u>
Current Assets			
Stocks	16	4,036	3,933
Debtors	17	39,056	40,224
Cash at bank and in hand	18	3,215	4,950
		<u>46,307</u>	<u>49,107</u>
Creditors: amounts falling due within one year	19	(46,059)	(26,274)
Net Current assets		<u>248</u>	<u>22,833</u>
Total assets less current liabilities		<u>13,967</u>	<u>54,793</u>
Creditors: amounts falling due after more than one year	20	(2,649)	(40,177)
Provisions for liabilities			
Other provisions	23	(2,809)	(2,265)
Net Assets		<u>8,509</u>	<u>12,351</u>
Capital and reserves			
Called up share capital	24	30,419	30,419
Share premium account		30,901	30,901
Capital contribution reserve		1,141	946
Merger relief reserve		14,021	14,021
Profit and loss account		(67,973)	(63,936)
Total equity		<u>8,509</u>	<u>12,351</u>

The financial statements on pages 11 to 46 were approved and authorised for issue by the board and were signed on its behalf on 27 September 2017


J E C Walters

Director

Date

The notes on pages 19 to 46 form part of these financial statements.

Paragon Customer Communications Limited
(formerly DST Output Limited)

Registered Number: 07262428

Company Statement of Financial Position
As At 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed Assets			
Investments	14	45,523	45,523
Current Assets			
Debtors	17	30,490	39,730
Cash at bank and in hand	18	3,194	4,928
		<u>33,684</u>	<u>44,658</u>
Creditors: amounts falling due within one year	19	(52,757)	(38,590)
Net Current (liabilities)/assets		<u>(19,073)</u>	<u>6,068</u>
Total assets less current liabilities		26,450	51,591
Creditors: amounts falling due after more than one year	20	(32,231)	(45,496)
Net (Liabilities)/Assets		<u>(5,781)</u>	<u>6,095</u>
Capital and reserves			
Called up share capital	24	30,419	30,419
Share premium account		30,901	30,901
Capital contribution reserve		838	731
Merger relief reserve		14,021	14,021
Profit and loss account		<u>(81,960)</u>	<u>(69,977)</u>
Total equity		<u>(5,781)</u>	<u>6,095</u>

The financial statements on pages 11 to 46 were approved and authorised for issue by the board and were signed on its behalf on *27 September 2017*



J E C Walters
Director
Date

The notes on pages 19 to 46 form part of these financial statements.

Paragon Customer Communications Limited
(formerly DST Output Limited)

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

	Called up Share Capital £'000	Share Premium Account £'000	Capital Contribution Reserve £'000	Merger Relief Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 January 2016	30,419	30,901	946	14,021	(63,936)	12,351
Total comprehensive income and loss for the financial year	-	-	-	-	(4,037)	(4,037)
Contribution by and distribution to the owners						
Capital contribution in respect of stock incentive plan	-	-	195	-	-	195
Total transactions with owners	-	-	195	-	-	195
At 31 December 2016	30,419	30,901	1,141	14,021	(67,973)	8,509

The notes on pages 19 to 46 form part of these financial statements

Paragon Customer Communications Limited
(formerly DST Output Limited)

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

	Called up Share Capital £'000	Share Premium Account £'000	Capital Contribution Reserve £'000	Merger Relief Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 January 2015	30,419	30,901	731	14,021	(64,536)	11,536
Total comprehensive income and profit for the financial year	-	-	-	-	600	600
Contribution by and distribution to the owners						
Capital contribution in respect of stock incentive plan	-	-	215	-	-	215
Total transactions with owners	-	-	215	-	-	215
At 31 December 2015	30,419	30,901	946	14,021	(63,936)	12,351

The notes on pages 19 to 46 form part of these financial statements

Paragon Customer Communications Limited
(formerly DST Output Limited)

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

	Called up Share Capital £'000	Share Premium Account £'000	Capital Contribution Reserve £'000	Merger Relief Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 January 2016	30,419	30,901	731	14,021	(69,977)	6,095
Total comprehensive expense and loss for the financial year	-	-	-	-	(11,983)	(11,983)
Contribution by and distribution to the owners						
Capital contribution in respect of stock incentive plan	-	-	107	-	-	107
Total transactions with owners	-	-	107	-	-	107
At 31 December 2016	30,419	30,901	838	14,021	(81,960)	(5,781)

The notes on pages 19 to 46 form part of these financial statements

Paragon Customer Communications Limited
(formerly DST Output Limited)

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

	Called up Share Capital £'000	Share Premium Account £'000	Capital Contribution Reserve £'000	Merger Relief Reserve £'000	Profit and Loss Account £'000	Total Equity £'000
At 1 January 2015	30,419	30,901	631	14,021	(59,594)	16,378
Total comprehensive expense and loss for the financial year	-	-	-	-	(10,383)	(10,383)
Contribution by and distribution to the owners						
Capital contribution in respect of stock incentive plan	-	-	100	-	-	100
Total transactions with owners	-	-	100	-	-	100
At 31 December 2015	30,419	30,901	731	14,021	(69,977)	6,095

The notes on pages 19 to 46 form part of these financial statements

Paragon Customer Communications Limited
(formerly DST Output Limited)

Consolidated Statement of Cash Flows
For The Year Ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Net cash from operating activities	25	11,971	4,655
Net cash from investing activities			
Interest received	8	20	22
Purchase of intangible assets	11	(25)	(816)
Purchase of tangible assets	12	(3,249)	(3,347)
Proceeds from sale of tangible assets/investment property		11,587	57
Dividend received		200	600
Net cash used in investing activities		8,533	(3,484)
Cash flow from financing activities			
Interest payment	9	(1,268)	(1,615)
Repayment/(Receipt) of intercompany loan	20	(22,738)	2,830
Proceeds from obligations under finance lease	21	1,866	-
Repayment of obligations under finance lease	21	(99)	-
Repayment of bank loan		-	(3,920)
Net cash used in financing activities		(22,239)	(2,705)
Net decrease in cash and cash equivalent		(1,735)	(1,534)
Cash and cash equivalents at 1 January		4,950	6,484
Cash and cash equivalents at 31 December		3,215	4,950
<u>Other information (Non statutory information)</u>			
Net Cash/3 rd party debt summary			
Cash and cash equivalents		3,215	4,950
Finance lease		(1,767)	-
Net cash/3rd party debt		1,448	4,950

Paragon Customer Communications Limited

(formerly DST Output Limited)

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

1. Accounting Policies

1.1 Basis of preparation of financial statements

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

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

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the company's accounting policies (see note 2).

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

1.2 Financial reporting standard 102 – reduced disclosure exemptions

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

- The company has taken advantage of the exemption, under FRS 102 paragraphs 26.18(b), 26.19 – 26.21 and, 26.23, for certain disclosure requirements in respect of share based payments, where the share based payment concerns equity instruments of DST Systems, Inc. and the equivalent disclosures are included in the consolidated financial statements of ultimate parent company
- The company has taken advantage of the exemption, under FRS 102 para 33.7 from disclosing total compensation of key management personnel.
- The company has taken advantage of the exemption for qualifying entities from certain financial instrument disclosures, on the basis that the equivalent disclosures are included in the consolidated financial statements of ultimate parent company.
- The company has taken advantage of the exemption, under FRS 33.1 (a), from disclosing related party transactions as they are all with other companies that are wholly owned by DST Systems, Inc.

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

1.3 Basis of consolidation

The consolidated financial statements present the results of Group and its own subsidiaries ("the Group") as they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full. Accounting policies are uniform across the group.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of Financial Position, the acquiree's identifiable

Paragon Customer Communications Limited (formerly DST Output Limited)

Notes to the Financial Statements **For The Year Ended 31 December 2016 (continued)**

1. Accounting Policies (continued)

assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

In accordance with the transitional exemption available in FRS 102, the group has chosen not to retrospectively apply the standard to business combinations that occurred before the date of transition to FRS 102, being 01 January 2014. Therefore, the Group continues to recognise a merger reserve which arose on a past business combination that was accounted for as a merger in accordance with UK GAAP as applied at that time.

1.4 Associates and joint ventures

An entity is treated as a joint venture where the Group is a party to a contractual agreement with one or more parties from outside the group to undertake an economic activity that is subject to joint control.

An entity is treated as an associated undertaking where the Group exercises significant influence in that it has the power to participate in the operating and financial policy decisions.

In the consolidated accounts, interests in associated undertakings are accounted for using the equity method of accounting. Under this method an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investors' share of the profit or loss, other comprehensive income and equity of the associate. The Consolidated Statement of Comprehensive Income includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings applying accounting policies consistent with those of the Group. In the Consolidated Statement of Financial Position, the interests in associated undertakings are shown as the Group's share of the identifiable net assets, including any unamortised premium paid on acquisition. Any premium on acquisition is dealt with in accordance with the goodwill policy.

1.5 Turnover

Turnover represents amounts receivable for goods and services net of value added tax and trade discounts.

Print-mail

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

Services

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

Rent

Rental income, in respect of property leases, is recognised as turnover in the profit and loss account on a straight line basis over the period to which it relates. However, rental income

Paragon Customer Communications Limited (formerly DST Output Limited)

Notes to the Financial Statements **For The Year Ended 31 December 2016 (continued)**

1. Accounting Policies (continued)

ceased during the year as the land and building was disposed of under a sale and lease back arrangement in April 2016.

1.6 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the Group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Statement of Comprehensive Income over its useful economic life.

Other intangible assets

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

All intangible assets are considered to have a finite useful life.

Goodwill	-	20 years
Trademarks	-	9 years
Software	-	2 - 3 years

1.7 Tangible assets

Tangible assets under the cost model, other than investment properties, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, on a straight line basis except for motor vehicles, computers, office equipment and furniture, and production machinery which are calculated on either accelerated methods of depreciating assets or straight line basis.

The estimated useful lives range as follows:

Freehold property	-	30 years
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Paragon Customer Communications Limited

(formerly DST Output Limited)

Notes to the Financial Statements

For The Year Ended 31 December 2016 (continued)

1. Accounting Policies (continued)

Long-term leasehold property	- 30 years
Short-term leasehold property	- shorter of the remaining lease period or 10 years
Plant and machinery	- 4 - 7 years
Motor vehicles	- 3 - 5 years
Fixtures, fittings & equipment	- 3 - 5 years
Computer equipment	- 2 - 3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the Consolidated Statement of Comprehensive Income.

Land is not depreciated.

1.8 Operating leases: Lessee

Rentals paid under operating leases are charged to the profit or loss on a straight line basis over the period of the lease.

1.9 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

1.10 Investment property

Investment property is carried at fair value determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive Income, there was none in the current year as the property was disposed of during the financial year.

1.11 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional

Paragon Customer Communications Limited (formerly DST Output Limited)

Notes to the Financial Statements **For The Year Ended 31 December 2016 (continued)**

1. Accounting Policies (continued)

consideration paid.

Investments in unlisted Group shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the Consolidated Statement of Comprehensive Income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

Investments in listed company shares are remeasured to market value at each Statement of Financial Position date. Gains and losses on remeasurement are recognised in profit or loss for the period.

1.12 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

1.13 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.14 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

1.15 Financial instruments

The group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method.

Paragon Customer Communications Limited (formerly DST Output Limited)

Notes to the Financial Statements **For The Year Ended 31 December 2016 (continued)**

1. Accounting Policies (continued)

Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Investments in non-convertible preference shares and in non-puttable ordinary and preference shares are measured:

- at fair value with changes recognised in the Statement of Comprehensive Income if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment value for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an 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.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract 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.

1.16 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Paragon Customer Communications Limited (formerly DST Output Limited)

Notes to the Financial Statements **For The Year Ended 31 December 2016 (continued)**

1. Accounting Policies (continued)

1.17 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the Statement of Comprehensive Income at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

1.18 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

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

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

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

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

All operations are based in the UK with a GBP functional and presentational currency.

1.19 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Paragon Customer Communications Limited (formerly DST Output Limited)

Notes to the Financial Statements **For The Year Ended 31 December 2016 (continued)**

1. Accounting Policies (continued)

1.20 Share based payments

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

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

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

Where equity instruments are granted to persons other than employees, the Statement of Comprehensive Income is charged with fair value of goods and services received.

The restricted stock plan is no longer operational under the new ownership of Paragon Customer Communications Limited's Group subsequent to divestiture by DST Systems Inc. on 4 May 2017.

1.21 Pensions

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payments obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Group in independently administered funds.

1.22 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

1.23 Borrowing costs

All borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred

Paragon Customer Communications Limited (formerly DST Output Limited)

Notes to the Financial Statements **For The Year Ended 31 December 2016 (continued)**

1. Accounting Policies (continued)

1.24 Provision for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

1.25 Current and deferred taxation

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

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

Deferred tax balances are recognised in respect of all temporary differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to temporary differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

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

Paragon Customer Communications Limited

(formerly DST Output Limited)

Notes to the Financial Statements **For The Year Ended 31 December 2016 (continued)**

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

In preparing these financial statements the directors have made the judgements that accounting estimates are reasonable and prudent. Judgements made were as follow:

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

Other key sources of estimation uncertainty

Tangible assets (see note 13)

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

Contract accounting

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

Provisions (see note 23)

The provision made for dilapidations has been based on management's best estimate of the costs that will be incurred in accordance with the contractual requirements. The appropriate discount rates have been selected based on the assumed timing of the cash flows in calculating the net present value of the obligations.

Paragon Customer Communications Limited
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Notes to the Financial Statements
For The Year Ended 31 December 2016 (continued)

3. Analysis of turnover

An analysis of turnover by class of business is as follows:

	2016 £'000	2015 £'000
Services	100,664	98,555
Printmail	61,926	67,377
Rent	75	273
	<u>162,665</u>	<u>166,205</u>

Analysis of turnover by country of destination

	2016 £'000	2015 £'000
United Kingdom	160,267	162,420
Rest of Europe	1,471	1,680
Rest of the world	927	2,105
	<u>162,665</u>	<u>166,205</u>

4. Profit on sale of investment property

	2016 £'000	2015 £'000
Profit on sale of investment property	<u>463</u>	<u>-</u>

The group's investment property was sold in April 2016 and the profit on disposal amount to £463,000

5. Operating (loss)/profit

The operating (loss)/profit after charging/(crediting):

	2016 £'000	2015 £'000
Depreciation of tangible fixed assets - owned	3,925	4,068
Impairment of goodwill	6,658	-
Amortisation of goodwill	1,071	1,071
Amortisation of intangibles	325	280
Amortisation of government grants	(84)	(49)
Fees payable to the Group's auditors and their associates for		
- The audit of the company's financial statements	35	35
- The audit of the Group's subsidiaries pursuant to legislation	300	300
- Other services	15	15
- Taxation compliance services	6	6
Exchange differences	20	52
Defined contribution pension cost	877	960
Operating lease costs		
- Equipment	1,919	2,362
- Land and buildings	3,424	3,150
Profit on disposal of fixed assets	<u>(861)</u>	<u>(54)</u>

Paragon Customer Communications Limited

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Notes to the Financial Statements For The Year Ended 31 December 2016 (continued)

6. Employees

Staff costs were as follows:

	2016 £'000	2015 £'000
Wages and salaries	46,796	46,049
Social security costs	4,551	4,605
Cost of defined contribution scheme	877	960
Share based payments	193	213
Redundancy	94	587
	<u>52,511</u>	<u>52,414</u>

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

	2016 No	2015 No
Administration and sales	368	367
Operations	998	1,013
	<u>1,366</u>	<u>1,380</u>

7. Directors' remuneration

The total emoluments of £412,819 (2015 - nil) was received by one of the directors for his services as a director from the group during the year. The other director was remunerated by other group companies and no recharges were made. It is not possible to apportion the proportion of this director's work that was performed for the group.

Paragon Customer Communications Limited

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Notes to the Financial Statements For The Year Ended 31 December 2016 (continued)

8. Interest receivable and similar income

	2016	2015
	£'000	£'000
Other interest receivable	<u>20</u>	<u>22</u>

9. Interest payable and similar charges

	2016	2015
	£'000	£'000
Bank interest payable	-	196
Loans from group undertakings	<u>1,268</u>	<u>1,419</u>
	<u>1,268</u>	<u>1,615</u>

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Notes to the Financial Statements
For The Year Ended 31 December 2016 (continued)

10. Tax on (loss)/profit

	2016	2015
	£'000	£'000
Corporation tax		
Current tax on (loss)/profits for the year	316	56
Adjustments in respect of previous periods	249	(1,212)
	565	(1,156)
Deferred tax		
Origination and reversal of temporary differences	290	441
Changes to tax rates	(326)	378
Adjustment in respect of previous periods	143	929
	107	1,748
Taxation on (loss)/profit	672	592

Factors affecting tax charge for the year

The tax assessed for the year is higher (2015: higher) than the standard rate of corporation tax in the UK of 20.00% (2015 - 20.25%). The differences are explained below:

	2016	2015
	£'000	£'000
(Loss)/profit before tax	(3,365)	1,192
(Loss)/profit multiplied by standard rate of corporation tax in the UK of %20.00 (2015 - 20.25%)	(673)	241

Effects of

Non-taxable income	(293)	(550)
Expenses not deductible for tax	1,636	888
Relief for share based payments	(63)	296
Effect of tax rate deduction on deferred tax	142	-
Adjustment relating to previous periods	(77)	(283)
Total tax charge for the year	672	592

Factors that may affect future tax charges

Finance Act 2015 included legislation reducing the main UK corporation tax rate from 20% to 19%, effective from 1 April 2017. A further reduction to 18% was also enacted with an effective from date of 1 April 2020. The deferred tax balances have been re-measured at these rates as appropriate as they are the latest substantially enacted tax rates.

The Chancellor has announced that the main UK corporation tax rate will now be reduced to 17% with an effective from date of 1 April 2020. However, as this 17% rate has not yet been substantially enacted it has not been applied to any figures in these financial statements.

Paragon Customer Communications Limited
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Notes to the Financial Statements
For The Year Ended 31 December 2016 (continued)

11. Intangible assets

	Software £'000	Goodwill £'000	Total £'000
Cost			
At 1 January	7,161	58,353	65,514
Additions	<u>25</u>	<u>-</u>	<u>25</u>
At 31 December	<u>7,186</u>	<u>58,353</u>	<u>65,539</u>
Amortisation			
At 1 January	6,422	45,034	51,456
Impairment of goodwill	-	6,658	6,658
Charge for the year	<u>325</u>	<u>1,071</u>	<u>1,396</u>
At 31 December	<u>6,747</u>	<u>52,763</u>	<u>59,510</u>
Net book value			
At 31 December 2016	<u>439</u>	<u>5,590</u>	<u>6,029</u>
At 31 December 2015	<u>739</u>	<u>13,319</u>	<u>14,058</u>

The amount written off as goodwill impairment was based on the fair value of the business as at the point of sale to Paragon Group Limited on 4th May 2017.

Company

The Company held no intangible assets as at 31 December 2016 (2015: £nil).

12. Parent company loss for the financial year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements. The loss of the parent company for the financial year was £11,983 thousand (2015 - loss £10,383 thousand).

Paragon Customer Communications Limited
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Notes to the Financial Statements
For The Year Ended 31 December 2016 (continued)

13. Tangible assets

Group	Long Term Leasehold Property £'000	Short term Leasehold Property £'000	Plant and Machinery £'000	Fixtures Fittings & equipment £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost							
At 1 January 2016	6,762	7,223	21,841	2,163	3,091	84	41,164
Additions	-	23	2,711	433	82	-	3,249
Disposals	(6,762)	(266)	(3,483)	-	-	(29)	(10,540)
At 31 December 2016	-	6,980	21,069	2,596	3,173	55	33,873
Accumulated depreciation							
At 1 January 2016	1,023	4,738	17,381	1,441	2,326	6	26,915
Charge for the year	31	837	2,205	400	420	32	3,925
Disposals	(1,054)	(50)	(3,322)	-	-	(29)	(4,455)
At 31 December 2016	-	5,525	16,264	1,841	2,746	9	26,385
Net book value							
At 31 December 2016	-	1,455	4,805	755	427	46	7,488
At 31 December 2015	5,739	2,485	4,460	722	765	78	14,249

The long term leasehold property was disposed of under a sale and lease back arrangement. Included in the plant and machinery additions is a Prosper 6000 Commercial Press acquired for £1.9m under a finance lease arrangement while some old equipment, IBM Hunkeler Module Unit and Ricoh IP5000 Machine were disposed of and replaced with upgraded facilities under operating lease contracts.

Company

The Company has no tangible assets at 31 December 2016 (2015: £nil).

Paragon Customer Communications Limited
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Notes to the Financial Statements
For The Year Ended 31 December 2016 (continued)

14. Investments

Group

	Investment in associates £'000	Investment in joint ventures £'000	Total £'000
Cost or valuation			
At 1 January 2016	124	116	240
Share of profits	(46)	208	162
Dividends in the financial year	-	(200)	(200)
At 31 December 2016	78	124	202

Company

	Shares in group companies £'000
Cost	
At 1 January and 31 December 2016	68,804
Impairment	
At 1 January 2016	23,281
Charge for the year	-
At 31 December 2016	23,281
Net book value	
At 31 December 2016	45,523
At 31 December 2015	45,523

Subsidiary undertakings

The followings were the subsidiary undertakings of the company:

Name	Country of incorporation	Class of shares	Holdi ng	Principal activities
Directly held:				
dsicmm Group Limited	England & Wales	Ordinary	100%	Holding company
Paragon Customer Communications (Bristol) Limited (formerly DST Output (Bristol) Limited)	England & Wales	Ordinary	100%	Printing services
Paragon Customer Communications (Realty) Limited (formerly DST Realty (UK) Limited)	England & Wales	Ordinary	100%	Real estate operations
Lateral Holdings (UK) Limited	England & Wales	Ordinary	100%	Holding company

Paragon Customer Communications Limited

(formerly DST Output Limited)

Notes to the Financial Statements For The Year Ended 31 December 2016 (continued)

14. Investments (continued)

Name	Country of incorporation	Class of shares	Holding	Principal activities
Indirectly held:				
Paragon Customer Communications (London) Limited (formerly DST Output (London) Limited)	England & Wales	Ordinary	100%	Printing services
Paragon Customer Communications (Nottingham) Limited (formerly DST Output (Nottingham) Limited)	England & Wales	Ordinary	100%	Printing services
Innovative Output Solutions (Manchester) Limited	England & Wales	Ordinary Preference	100% 100%	Dormant
Paragon Data Analytics Limited (formerly DST Applied Analytics Limited)	England & Wales	Ordinary	100%	Data services
Lateral Group Limited	England & Wales	Ordinary	100%	Holding company
Pickfield Printing Company Limited	England & Wales	Ordinary	100%	Dormant

The registered address for all the directly and indirectly held subsidiaries is Lower Ground Floor, Park House, 16/18 Finsbury Circus, London, England, EC2M 7EB.

Participating interests

Indirectly held:

Joint ventures

dsi Billing Services Limited Evolution House, Choats Road, Dagenham, Essex RM9 6BF	England & Wales	Ordinary	50%	Personalisation and sorting services
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Associates

European Direct Mail Specialists Limited 5 White Oak Square, Swanley, Kent BR8 7AG	England & Wales	Ordinary	50%	Mailing and delivery services
Response Handling Centre Limited 5 White Oak Square, Swanley, Kent BR8 7AG	England & Wales	Ordinary	34%	Administration support for fund raising companies

Paragon Customer Communications Limited

(formerly DST Output Limited)

Notes to the Financial Statements For The Year Ended 31 December 2016 (continued)

15. Investment property

Group	2016 £'000	2015 £'000
At 1 January 2016	3,413	3,372
Surplus on revaluation	-	41
Disposals	(3,413)	-
At 31 December 2016	-	3,413

The group's investment properties were disposed of during the financial year. The profit on disposal of the investment property amounted to £463,155

The valuation at 31 December 2015 was undertaken by Colliers International Valuation UK LLP, a firm of independent valuers, registered with the RICS Valuer Registration Scheme (VRS), in accordance with the RICS Valuation Professional Standards (incorporating International Valuation Standards) of January 2014 issued by the Royal Institution of Chartered Surveyors in the United Kingdom.

The yield range of 6.8% to 8.1% (2015: 6.8% - 8.1%) to the rental income were used to arrive at the fair value.

Company

The company held no investment property as at 31 December 2016 (2015: Nil)

16. Stocks

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Raw materials and consumables	2,702	2,329	-	-
Work in progress (goods to be sold)	1,334	1,604	-	-
	4,036	3,933	-	-

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Paragon Customer Communications Limited

(formerly DST Output Limited)

Notes to the Financial Statements For The Year Ended 31 December 2016 (continued)

17. Debtors

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Due after more than one year:				
Amounts owed by group undertakings	-	-	17,000	17,000
Due within one year:				
Trade debtors	25,929	27,810	-	-
Amounts owed by group undertakings	15	-	12,895	22,377
Amounts owed by joint ventures and associated undertakings	98	176	-	-
Other debtors	2,638	2,152	283	210
Prepayments and accrued income	7,162	6,764	296	127
Deferred taxation	3,214	3,322	16	16
	39,056	40,224	30,490	39,730

Amounts owed by group undertakings, joint ventures and associates are unsecured, repayable on demand and do not bear any interest, except for the £17 million loan in the company falling due after one year. This is due in 2020 and bears interest at the Bank of England rate plus 2.0%.

18. Cash at bank and in hand

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Cash at bank and in hand	3,215	4,950	3,194	4,928

Paragon Customer Communications Limited
(formerly DST Output Limited)

Notes to the Financial Statements
For The Year Ended 31 December 2016 (continued)

19. Creditors: Amounts falling due within one year

	Note	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Obligations under finance lease and hire purchase contracts	21	364	-	-	-
Trade creditors		3,206	2,806	-	-
Capital grant		69	84	-	-
Amounts owed to group undertakings		27,549	8,945	51,083	37,051
Amounts owed to joint ventures and associated undertakings		4	-	-	-
Taxation and social security		3,929	3,427	79	-
Other creditors		1,005	785	228	267
Accruals and deferred income		9,933	10,227	1,367	1,272
		<u>46,059</u>	<u>26,274</u>	<u>52,757</u>	<u>38,590</u>

Included in amounts owed to group undertakings is £26.7 million owed to DST Process Solutions Limited that bears interest at the Bank of England base rate + 2% per annum, subject to a minimum rate of 3% per annum. The loan was repaid fully on 4th May 2017 with another loan facility (repayable on 3rd May 2019) granted by Grenadier Holdings PLC, the new owner of Paragon Customer Communications Group

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

	Note	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Obligations under finance lease and hire purchase contracts	21	1,403	-	-	-
Capital grant		-	69	-	-
Amounts owed to group undertakings		-	40,000	32,231	45,496
Other creditors		549	108	-	-
Accruals and deferred income		697	-	-	-
		<u>2,649</u>	<u>40,177</u>	<u>32,231</u>	<u>45,496</u>

Included in amounts owed to group undertakings for 2015 is £40.0 million owed to DST Process Solutions Limited that bears interest at the Bank of England base rate + 2% per annum, subject to a minimum rate of 3% per annum. The outstanding balance of this facility was treated as current as at 31 December 2016 following from the divestiture plan announced on 14th June 2016.

Paragon Customer Communications Limited

(formerly DST Output Limited)

Notes to the Financial Statements For The Year Ended 31 December 2016 (continued)

21. Finance Lease

During the financial year, the group entered into a finance lease agreement with Kodak for the purchase of a Prosper 6000 Commercial Press. The lease bears interest at 2.53% per annum and repayable over 5 years on a quarterly basis.

The future minimum lease payments are as follows:

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Not later than 1 year	396	-	-	-
Later than 1 year and not later than 5 years	1,485	-	-	-
Total gross payments	1,881	-	-	-
Less: finance charges	(114)	-	-	-
Carrying amount of liability	1,767	-	-	-

22. Deferred taxation Group

	2016 £'000	2015 £'000
At 1 January	3,322	5,016
Charged to the profit or loss	(108)	(1,748)
Utilised in the year	-	54
At 31 December	3,214	3,322

The deferred tax asset is made up as follows:

	2016 £'000	2015 £'000
Accelerated capital allowances	3,183	3,460
Deferred non-taxable income	134	-
Short term timing differences	46	57
Intangibles, customer list and trade name	(149)	(195)
	3,214	3,322

DST Output Limited

Notes to the Financial Statements For The Year Ended 31 December 2016 (continued)

2. Accounting Policies (continued)

23. Provision for liabilities

Group

	Dilapidation provisions £'000
At 1 January 2016	2,265
Charged to the profit or loss	544
	<hr/>
At 31 December 2016	2,809
	<hr/>

Dilapidation provisions

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

24. Called-up Share Capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid		
3,037,857,226 (2015: 3,037,857,226) - A Ordinary shares of £0.01 each	30,379	30,379
2,840,971 (2015: 2,840,971) - B Ordinary shares of £0.01 each	28	28
1,226,689 (2015: 1,226,689) - Deferred shares of £0.01 each	12	12
	<hr/>	<hr/>
	30,419	30,419
	<hr/>	<hr/>

Both 'A' ordinary shareholders and 'B' ordinary shareholders have the right to appoint 3 directors to the Board respectively. 'A' Ordinary and 'B' Ordinary shares rank pari-passu in all other respects. The deferred shareholders are not entitled to receive any dividends or other distribution.

Paragon Customer Communications Limited
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Notes to the Financial Statements
For The Year Ended 31 December 2016 (continued)

25. Reconciliation of operating profits to net cash inflow from operating activities

Group	2016 £'000	2015 £'000
(Loss)/profit for the financial year	(4,037)	600
Adjustments for:		
Tax on profit	672	592
Net interest expense	1,248	1,593
Income from participating ventures	(162)	(289)
Impairment of goodwill	6,658	
Group operating (loss)/profit	4,379	2,496
Depreciation of tangible assets	3,925	4,068
Amortisation of goodwill	1,071	1,071
Amortisation of intangible assets	325	280
Revaluation of investment property	-	(41)
Release of capital grant	(84)	49
Share based payments movements	195	215
Profit on disposal of fixed assets and investment property	(1,324)	(54)
Operating cash inflow before working capital movements	8,487	8,084
Increase in stocks	(104)	(1,319)
Decrease in debtors	1,078	3,221
Increase/(Decrease) in creditors and provisions	2,510	(5,331)
Working capital movements	3,484	(3,429)
Net cash inflow from operating activities	11,971	4,655

Paragon Customer Communications Limited
(formerly DST Output Limited)

Notes to the Financial Statements
For The Year Ended 31 December 2016 (continued)

26. Financial instruments

Group

The group has the following financial instruments:

	Note		2016 £'000	2015 £'000
Financial assets that are debt instruments measured at amortised cost				
Trade receivables	17	25,929	27,810	
Other receivables	17	2,638	2,152	
Amounts owed by group undertakings	17	15	-	
Amounts owed by joint ventures and associated undertakings	17	98	176	
			<u>28,680</u>	<u>30,138</u>
Financial liabilities measured at amortised cost				
Taxation and social security	19	(3,929)	(3,427)	
Trade creditors	19	(3,206)	(2,806)	
Accruals and deferred income	19	(9,933)	(10,227)	
Amounts owed by joint ventures and associated undertakings	19/20	(4)	-	
Finance lease	19/20	(1,767)	-	
Intercompany loan	19/20	(27,549)	(48,945)	
Other creditors	19/20	(1,554)	(893)	
			<u>(47,942)</u>	<u>(66,298)</u>

The net debt, made up of all external borrowings plus intercompany loan less cash/bank balance, as at 31 December 2016 is £26,085 (2015: £43,995).

Company

The company has the following financial instruments:

	Note		2016 £'000	2015 £'000
Financial assets that are debt instruments measured at amortised cost				
Other receivables	17	283	210	
Amounts owed by group undertakings	17	29,895	39,377	
			<u>30,178</u>	<u>39,587</u>
Financial liabilities measured at amortised cost				
Other creditors	19	(228)	(267)	
Taxation and social security	19	(79)	-	
Accruals and deferred income	19	(1,367)	(1,272)	
Intercompany loan	19/20	(83,314)	(82,547)	
			<u>(84,988)</u>	<u>(84,086)</u>

Paragon Customer Communications Limited

(formerly DST Output Limited)

Notes to the Financial Statements

For The Year Ended 31 December 2016 (continued)

27. Shared based payments

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

Share Options

On 1 December 2011, 23,710 share options in the common stock of DST Systems, Inc. were issued to certain employees and there has not been any additional shares issued since then. Share options vest and generally become fully exercisable over 3 years of continued employment, vesting in one third increments on each anniversary from the grant date. The company recognises expense on a straight-line basis over the requisite service period for each separately vesting portion of the entire award.

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

The total charge for the year relating to share based remuneration for the group was £194,851 (2015: £215,456) and £106,242 (2015: £100,793) for the company.

The restricted stock plan is no longer operational under the new ownership of Paragon Customer Communications Limited's Group subsequent to the sale of Output Group on 4th May 2017..

28. Pension commitments

The group operates a defined contribution pension scheme for its directors and staff. The pension cost in the year was £877,036 (2015 - £959,597). At the end of the year £135,059 (2015 - £191,999) was owed to the defined contribution scheme providers. This was included in accruals falling due in less than one year.

29. Commitments under operating leases

	Land and buildings	Others	Land and buildings	Others
	2016	2016	2015	2015
	£'000	£'000	£'000	£'000
Expiry date:				
Not later than 1 year	3,584	2,196	3,128	2,176
Later than 1 year and not later than 5 years	10,967	4,486	5,486	1,363
Later than 5 years	9,508	-	2,421	-
	<u>24,059</u>	<u>6,682</u>	<u>11,035</u>	<u>3,539</u>

Paragon Customer Communications Limited

(formerly DST Output Limited)

Notes to the Financial Statements For The Year Ended 31 December 2016 (continued)

30. Related party transactions

The following transactions took place with the group joint venture and associates.

		2016 £'000	2015 £'000
dsi Billing Services Limited (50% ownership)	Sales	1,057	1,154
	Purchases	(56)	(122)
	Management charges	37	37
	Dividend received	200	600
European Direct Mailing Specialists Limited (50% ownership)	Sales	238	375
	Management charges	9	25
Response Handling Centre Limited	Management charges	3	20

The following balances were owed to/(by) the group as at 31 December:

	2016 £'000	2015 £'000
dsi Billing Services Limited	(4)	-
dsi Billing Services Limited	56	47
European Direct Mailing Specialists Limited	42	129

31. Controlling party

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

DSTI Group LLP was the parent undertaking of the smallest group of undertakings to consolidate these financial statements as at 31 December 2016. The consolidated financial statements of DSTI Group LLP can be obtained from DST House, St Marks Hill, Surbiton, Surrey, KT6 4QD.

DST Systems, Inc. was the parent undertaking of the largest group of undertakings to consolidate these financial statements as at 31 December 2016. The consolidated financial statements of DST Systems, Inc. are available from 333 West 11th Street, Kansas City, MO 64105, USA.

32. Post balance sheet events

On the 14th of June 2016 DSTI Systems Inc. announced to the market that it was pursuing the divesture of the whole U.K. Customer Communications business, the DST Output Limited Group to which this accounts relate.

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

Paragon Customer Communications Limited

(formerly DST Output Limited)

Notes to the Financial Statements For The Year Ended 31 December 2016 (continued)

33. Underlying operating profit and EBITDA

Underlying operating profit

	2016 £'000	2015 £'000
Operating (loss)/profit	(2,279)	2,496
Add back:		
Goodwill impairment	6,658	-
Retention bonus	398	-
Underlying operating profit	<u>4,777</u>	<u>2,496</u>

Underlying EBITDA

	2016 £'000	2015 £'000
Operating (loss)/profit	(2,279)	2,496
Add back:		
Retention bonus	398	-
Depreciation of tangible assets	3,925	4,028
Amortisation of goodwill	849	849
Amortisation of intangibles	547	502
Amortisation of government grants	(84)	(49)
Goodwill impairment	6,658	-
Underlying EBITDA	<u>10,014</u>	<u>7,826</u>