

REGISTERED NUMBER: 01006371 (England and Wales)

COMMUNISIS UK LIMITED
STRATEGIC REPORT, DIRECTORS' REPORT AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019



COMMUNISIS UK LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2019**

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COMMUNISIS UK LIMITED

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019**

DIRECTORS:

Mr A M Blundell
Mr S C Rawlins

SECRETARY:

Mr S C Rawlins (appointed on 28 February 2019)
Mrs S L Caddy (resigned on 28 February 2019)

REGISTERED OFFICE:

Communis House
Manston Lane
Leeds
LS15 8AH

REGISTERED NUMBER:

01006371 (England and Wales)

AUDITORS:

Crowe U.K. LLP
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

COMMUNISIS UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their Strategic Report for the year ended 31 December 2019.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Communis is an integrated business services company with the mission to drive client value and sustainable profit improvement, through the provision of increasingly digitally enabled solutions for regulated transactional communication and marketing execution.

On 10 December 2018, the Company's immediate parent company, Communis Limited was acquired by OSG Bidco Limited, a wholly owned indirect subsidiary of OSG Group Holdings, Inc., a company registered in Delaware, United States.

The acquisition of Communis Limited gave the Company access to sharing of new products, services and markets to better serve its clients. The Company has been able to leverage OSG's pioneering technology to accelerate its continuing focus on transforming its clients' customer communications, particularly from a digital perspective. This includes the development and roll out of new products for the future such as e-billing and Artificial Intelligence propositions.

At the same time, the Company embarked on various transformation projects to drive improvement and efficiencies in its processes which will ultimately deliver benefits to the clients. These projects are across IT, manufacturing, procurement, finance and other support areas, and focus on using automation and technology to streamline existing processes and generate higher operating margins. The Company also invested in several projects with significant capital spend to improve manufacturing effectiveness.

RESULTS

Turnover decreased to £196,402,000 during the year from £236,911,000 in the prior year. Turnover and operating profit fell in 2019 due to contract changes and a number of client non-renewals towards the end of 2018. The Company posted profit before taxation of £2,076,000 (2018 loss of £838,000). The improvement in profit before taxation is primarily due to lower exceptional costs in 2019.

Key Performance Indicators

| | 2019 | 2018 |
|---|---------|---------|
| Turnover (£'000s) | 196,402 | 236,911 |
| Operating profit before exceptional costs (£'000s)* | 8,095 | 12,936 |
| Operating margin before exceptional costs (%) | 4% | 5% |
| Profit/(loss) before taxation (£'000s)** | 2,076 | (838) |

*Operating profit before exceptional costs is calculated by excluding material and infrequently occurring costs (see Note 5).

** (Loss)/Profit before taxation is calculated after all exceptional costs (see Note 5).

PRINCIPAL RISKS AND UNCERTAINTIES

The Board is accountable for ensuring the identification and appropriate management of risks faced by the Company. The Communis Risk Framework is designed to identify, evaluate and manage risks faced by the business in line with the Company's Risk Policy Statement. Risk management is about resilience, sustainable growth, and profitability enhancement – if done correctly it can be a key source of competitive advantage. The aim of the Company's Risk Framework is therefore to improve the awareness of the impacts of risk if they were to materialise, reduce the frequency of damaging events occurring and minimise the severity of the consequences should they occur. Part of the approach to mitigating risk includes the business operating in line with certification to number of standards, this helps the business to work to legal, regulatory and contractual requirements. All business areas are required to demonstrate that they identify, understand and assess risks within their area and develop mitigating actions in line with the relevant risk appetite statement. In addition, the Board has identified risks which are seen to pose a potential threat to the Company, and these are reviewed at least annually but also monitored more regularly by the Risk team to ensure the likelihood of them materialising is not increasing. The risks which are considered to sit at Company level and therefore form the 'principal risks and uncertainties' facing Communis are detailed below. The Company continues to monitor the impact of the UK's decision to exit the EU with a Company Brexit Risk Register in place and open communication channels with both suppliers and clients.

COMMUNISIS UK LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

PRINCIPAL RISKS AND UNCERTAINTIES - continued

| Risk Area | Impact | Mitigating Actions and Management |
|---|--|---|
| The Company must be able to respond to market and technological change | Communication methods are constantly changing, and Communisis must keep up in an environment where digital transformation requires more channel availability and a better user experience at all levels. There are more 'players' in the digital market of a smaller nature and with a greater agility. This coupled with the fact that the market for large first generation out-sourcing has drastically contracted means Communisis could fall behind traditional competitors or be unaware of emerging threats and be unable to provide relevant products and services to clients. | <ul style="list-style-type: none"> - Continued investment in technology and new services maintains and enhances the Company's competitive position. - Product development and management teams in place to understand markets and support the development of new products and services. - Understanding and leverage of product synergies through the wider OSG Group. - Development of strategic supplier partners to ensure digital products and services are developed using leading edge technology - Maintenance of a strong supply chain to ensure physical product can be procured at the right price while service standards are maintained. |
| Safeguarding of data and Cyber risk | The Company processes personal data both as a controller (for its own purposes) and on behalf of clients as part of the services provided. A failure to maintain a secure and fully functional environment could result in an inability to meet contractual or regulatory obligations. | <ul style="list-style-type: none"> - Investment in IT infrastructure, security and monitoring to maintain and enhance the effectiveness of controls. - Information and security standards working to recognised ISO27001 Enhanced standards under review for cloud adoption - Regular monitoring for changing legislation across the UK and wider Communisis jurisdictions |
| Existing Client concentration may mean that the loss of a major Client could materially decrease sales | A substantial percentage of the Company's revenues are derived from a relatively small number of Clients and therefore the loss of one or more of these Clients could have a material impact on the Company's sales. This could result in a material decrease in profitability whilst new contracts are sought and excess capacity reduced. | <ul style="list-style-type: none"> - A strategic account management programme operates to preserve Client relationships, monitor compliance with service level agreements and expand the services offered to key Clients. - Business development activities continue to promote the Company's services in a broad range of market sectors, reducing the historical reliance on the financial services sector. - Long-term Client relationships and associated contractual commitments are developed. |
| Risk of material reduction in operating profit as a result of exchange rate fluctuations and/or local economic instability within UK | Macro-economic issues could detrimentally affect the Company either directly or indirectly through client behaviours | <ul style="list-style-type: none"> - Market trends are monitored and factored into the Company's business planning, budgeting and management processes. This is especially pertinent with regard to Brexit. - Volume erosion protection is included in contract terms where possible. |
| Clients rely upon proven resilient business operations | Certain operations depend upon the uninterrupted delivery of products and services that rely on complex computer networks and systems. The impact is that the Company may face a significant business continuity incident that will materially affect its ability to deliver products or services to its Clients and result in payment of associated financial penalties. | <ul style="list-style-type: none"> - A Business Continuity Management (BCM) System and BCM plans are in place. These are exercised and audited for core areas of the Company. - The Company operates from multiple office, inbound and manufacturing facilities which helps to mitigate against natural disasters. - Appropriate business interruption insurance is maintained. - Key areas of the Company have been integrated into ISO/IEC 22301 certification. |
| Risk that a lack of available and appropriately trained and motivated staff leads to the inability to meet contractual/regulatory requirements and/or deliver the required sales contribution | An inability to recruit and/or retain appropriate staff due to either a real or perceived view of the organisation by individuals leading to financial, reputational or other damage to the Group. | <ul style="list-style-type: none"> - The Company actively monitors senior leadership to ensure motivation is maintained, that succession plans are in place and applied to relevant team members. - A growing range of benefits and incentives are provided by the Company to its staff. - The Company has policies and procedures in place for training and development. -The Company provides regular training on health and safety for all employees and monitors performance to ensure compliance with all relevant regulations and employment laws across all jurisdictions in which the Company operates. |

COMMUNISIS UK LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

PRINCIPAL RISKS AND UNCERTAINTIES - continued

| Risk Area | Impact | Mitigating Actions and Management |
|---|---|--|
| A change in pension scheme assumptions could increase the pension deficit | Communis has continuing obligations under a defined benefit pension scheme that is now closed to new entrants. The impact is that any changes in assumptions, such as interest rates, equity returns, or discount rates could require substantial future cash contributions to eliminate any resulting increase in the pension scheme deficit and therefore decrease the Company's ability to expand the business through continued investment or to pay dividends to shareholders. | - The Company works closely with the Pension Scheme Trustees to adopt programmes that optimise returns on Pension Scheme assets reduce the ultimate pension liabilities and minimise the level of additional cash contributions required to eliminate any deficit. |
| Due to high operational gearing, a reduction in revenues could significantly impact profitability | The impacts are that the Company will not: - Adapt sufficiently quickly to any technological change or downturn in demand, with a consequent loss of competitiveness and profitability; - have adequate resources to invest in new technology and services; - retain its major client portfolio, without replacement, or recover debts; and - diversify sufficiently into other market sectors. | - The Company prepares regular financial forecasts to evaluate its funding and liquidity requirements for the foreseeable future. These forecasts are reviewed and approved by the Board. Based on these forecasts appropriate funding and liquidity solutions are put in place to ensure that appropriate headroom is maintained. - Client credit is closely monitored and controlled to minimise the amount of overdue debt. Credit insurance is obtained against larger non-financial services sector debts. - Working capital and capital expenditure are actively managed, to ensure that where applicable, banking covenants are not breached. |

COVID-19

Subsequent to the balance sheet date, the global COVID-19 outbreak is expected to have a significant impact on the Group's results for forthcoming financial year. The impact of the outbreak, together with the restrictions imposed by the government in the territories in which the Group operate are being closely monitored by the Board and senior management. The Directors have assessed the impact of COVID-19 on these financial statements and have concluded that there is no material impact, however further disclosure regarding going concern is detailed within the Directors' report.

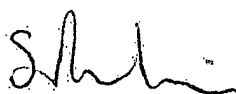
As part of our risk management procedures, the Group already has well established, comprehensive business continuity plans for all parts of the business. As a result, the Group has very quickly been able to adapt to the requirement for workplace closures and other government restrictions. The health and wellbeing of our staff remains our highest priority and where staff are working in any of the operational printing or warehousing sites, we are fully complying with the latest government guidelines.

POST BALANCE SHEET EVENTS

Since the year end, it has become clear that the spread of the COVID-19 virus will have a material impact on many economies globally both through the effects of the virus itself and the measures taken by governments to restrict its spread.

Given the emergence and spread of the COVID-19 virus is not considered to provide more information about conditions that existed as at the balance sheet date, this is considered to be a non-adjusting post balance sheet event and so the measurement of assets and liabilities in the accounts have not been adjusted for its potential impact. The Directors have set out the post year end impact on going concern in the Directors' Report.

SIGNED ON BEHALF OF THE DIRECTORS:



Mr S C Rawlins - Director

12 June 2020

COMMUNISIS UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their report and the Financial Statements of the Company for the year ended 31 December 2019.

DIVIDENDS

Dividends paid during the year amounted to £nil (2018 £14,000,000).

FUTURE DEVELOPMENTS

The Company is expected to trade on the same basis for the foreseeable future in line with the Company's strategic initiatives as set out in the Strategic Report on pages 2 to 4.

DIRECTORS

The Directors shown below have held office during the whole of the period from 1 January 2019 to the date of this report.

Mr A M Blundell
Mr S C Rawlins

FINANCIAL INSTRUMENTS

The Company finances its activities with a combination of bank and intercompany loans with other Group entities, cash and hire purchase contracts. Overdrafts are used to satisfy short term cash flow requirements. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities.

Financial instruments give rise to interest rate, credit, price and liquidity risk. These are managed at a group level, and further details can be obtained from the Group Financial Statements of OSG Bidco Limited.

DIRECTORS' INDEMNITY INSURANCE

The immediate parent company, Communisis Limited, granted an indemnity to each of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third-party indemnity remains in force as at the date of approving the Directors' Report. The indemnity is controlled and paid centrally by the immediate parent Company.

GOING CONCERN

The Company's immediate parent company, Communisis Limited has received assurances from its immediate parent company (OSG Bidco Limited) who in turn has received assurances from Output Services Group Inc. that in respect of intragroup balances, it does not intend to demand repayment of amounts which would impact the ability of the Group to continue as a going concern from the date of the issuance of the Group's financial statements.

The results of the Company's operations may vary based on the impact of changes in our industry or the global economy on us or our customers. The revenue growth and potential profitability of our business depend on demand for marketing offering and related services. Current or future economic uncertainties or downturns could adversely affect our business and results of operations.

In light of the uncertain and rapidly evolving situation relating to the spread of COVID-19 and in compliance with recent government advice directing that all non-essential businesses close their physical operations, Management have implemented measures intended to help minimise the risk of the virus to our employees, our customers and the communities in which we participate, which could negatively impact our business.

Although Management continue to monitor the situation and may continue to adjust our current policies as more information and guidance become available, the suspension of travel and doing business in-person could negatively impact our marketing efforts, our ability to enter into customer contracts in a timely manner, our international expansion efforts, our ability to recruit employees across the organisation and, in sales and marketing, in particular, which could have longer term effects on our sales pipeline, or create operational or other challenges as we adjust to a remote workforce, any of which could harm the business.

The Board, together with the management team continue to invest significant time, attention and resources monitoring the COVID-19 pandemic in order to assess and mitigate the impact on the business and workforce. The extent to which COVID-19 and the precautionary measures may impact the business will depend on future developments, which are uncertain and cannot be reliably predicted at this time.

COMMUNISIS UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Given the nature of our business, at the date of issuance of these financial statements, all of our printing and warehousing sites remain operational, and we continue to support all our customers including those in the banking, government and insurance sectors.

As a result of the pandemic, Management have initiated a range of strategies designed to mitigate the impact of the expected downturn in the business. This has included:

- Implementing weekly reforecasting of our results together with the associated cashflow impacts;
- Regularly reviewing and communicating with all our key customers and suppliers regarding the impact of COVID-19 on them and the wider supply chain;
- Accessing available government assistance where relevant, in the jurisdictions where the Group operates;
- Proactively managing and reducing spend across the business.
- Proactively engaging with our clients and suppliers to ensure continuity of supply and a high level of client satisfaction.

Due to the unprecedented global impact of COVID-19, estimates and assumptions about future events and their effects are extremely challenging to determine with certainty and therefore require significant judgment. Notwithstanding the above, at the date of issuance of these financial statements, the Directors, have prepared a range of scenario forecasts which indicate that the Group has adequate resources to continue operational existence for the foreseeable future.

Based on the measures put in place by the Board and Management, in addition to the confirmation from Output Services Group Inc. to Communisis Limited, that it does not intend to demand repayment of amounts owed to it, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual Financial Statements.

RESEARCH AND DEVELOPMENT

Expenditure on research and development in the year was £nil (2018 £nil). The Company's accounting policy on research and development costs are detailed in Note 2.

The period saw continued investment in the core platforms across the business with a focus on retirement of legacy systems and further functional enhancements to add to the services that the Company provides to its customers. In the period, the Company had invested into three key new products, our Hybrid Mail, E-Billing and Vault Solution. The Company have developed market leading capability in these areas for those in the highly regulated sectors that the majority of the Company's customer base operates in. We fully expect the growth of the product capabilities in these areas to continue. We have also begun development of our Artificial Intelligence (AI) solution in our operational sites to both automate and streamline processes.

SECTION 172 (1) STATEMENT

The Directors, in line with their duties under s172 of the Companies Act 2006, act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard to a range of matters when making decisions for the long term. Key decisions and matters that are of strategic importance to the Company are appropriately informed by s172 factors.

Section 172(1)(a) to (f) requires each director to act in the way he or she considers would be most likely to promote the success of the company for the benefit of its members as a whole, with regard to the following matters:

- (a) the likely consequences of any decision in the long term;

Five-year forecasts of profitability and cash flow has been prepared as part of the goodwill impairment testing. Management has good medium-term visibility of the business. Despite this, there will always be uncertain factors outside the control of Communisis and forecasting can never take into account unknown future economic, legal or regulatory changes which could impact the business and the markets in which it operates. The Board can confirm that they have a reasonable expectation that the Company will continue to operate and meet its liabilities as they fall due as part of the going concern assessments.

COMMUNISIS UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 172 (1) STATEMENT – continued

- (b) the interests of the company's employees;
At Communisis we understand that the success of our business strategy is critically dependent upon the involvement of all employees. We appreciate that employee engagement and wellbeing not only benefit our employees but also have a direct impact upon the performance of our business and we seek to achieve that engagement in a number of ways. The Board communicate our strategic goals to all of our managers and empower them to develop both themselves and those for whom they are responsible through focused training to ensure they can best deliver those goals. Further details on these can be found on Employee engagement section.
- (c) the need to foster the company's business relationships with suppliers, customers and others;
Our supply chain is key to the success of Communisis. We work hand in hand with our suppliers to understand our environmental impact and we plan to do more to establish a reliable source of data within the supply chain through the strategic adoption of a supply chain management platform which will give us greater insights into the businesses that we work with.
- (d) the impact of the company's operations on the community and the environment;
We actively encourage all employees to be socially active and participate in volunteering activities in the local community. We support this by allowing a paid volunteer day per employee per year. We are committed to the development, implementation and maintenance of an action plan to target improvements in our environmental and sustainability performance, in addition to helping our clients with theirs and to monitoring our progress over time.
- (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
Communisis values its reputation for ethical behaviour, financial integrity and reliability. It acknowledges that over and above the commission of any crime, any involvement in bribery will also reflect adversely on its reputation. Communisis' aim is to limit its exposure to bribery and corruption by: setting out a policy on anti-bribery and corruption; training all employees so that they can recognise and avoid the use of bribery by themselves and others; providing employees with a suitable channel of communication and ensuring sensitive information is treated appropriately; rigorously investigating instances of alleged bribery and assisting the police and other appropriate authorities in any resultant prosecution; and taking firm and vigorous action against any individual involved in bribery or corruption.
- (f) the need to act fairly between members of the company.
Through an open and transparent dialogue with our key stakeholders, we have been able to develop a clear understanding of their needs, assess their perspectives and monitor their impact on our strategic ambition and culture. As part of the Board's decision-making process, the Board and its senior management consider the potential impact of decisions on relevant stakeholders whilst also having regard to a number of broader factors, including the impact of the Company's operations on the community and environment, responsible business practices and the likely consequences of decisions in the long term.

EMPLOYEES

Employee Engagement

We take a broad approach to ensuring that we engage with our colleagues to share information, seek feedback, gather views on decisions and cascade key decisions.

Directors and senior leadership team are all held accountable for employee engagement and are regularly taking part in activities to share information and solicit feedback. We regularly communicate key actions and changes, as well as taking part in more formal consultation periods where there is significant change, or where change can directly impact an individual. Throughout the year, we undertake a number of activities to ensure that we are communicating and sharing information. Some of the key actions include:

Employee Consultation Forum

This group meets on a regular basis and is made up of representative members from all parts of the business. Topics for discussion include financial performance, updates on key initiatives and strategy, and deep dives into particular areas of the business. This is attended by the CEO, CFO and HR Director, with guest slots. During 2019, we were joined on webcam by the Executive Chairman and CEO of OSG, our ultimate parent company.

COMMUNISIS UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

EMPLOYEES - continued

Employee Newsletter

In 2019, we launched our new all employee newsletter to ensure we are able to communicate key information to all colleagues. This will be published 3-4 times per annum as required and relevant.

Union Engagement

Within our manufacturing business, we recognize UNITE and Accord Unions, who we engage with through Shop Stewards and Representatives, who have close working relationships with site management teams. We then engage through the Union leadership teams, up to the National Organizer.

State of the Nation/All Hands calls

Our divisional leadership teams regularly will hold wide scale meetings to be able to update teams on business performance and activity, as well as allowing time and space to ask questions.

2020 Developments

In 2020, we are focused on continuing and broadening this communication and feedback flow and will be developing further employee satisfaction surveying as a tool to understand how our teams are feeling. We will also look to continue the established working practices, as well as continuing to listen and understand what our colleagues are seeking from the organisation.

Diversity

We have an ongoing commitment to equality and diversity and have retained accreditation to the Committed2Equality® standard in 2019. Following an annual audit, our accreditation has remained at Gold standard. Communisis has focused on utilizing appropriate recruitment processes and techniques to ensure we are able to reach all jobseekers. We are also committed to flexible working arrangements, and benefits provision, which assists staff with their work-life balance. The Company has in place an Equal Opportunities Policy and Statement. The ongoing commitment above, together with the Company's Equal Opportunities Policy and Statement, comprises the Company's policy on diversity.

We have a progressive policy towards equality. Whilst we have always taken the view that the most suitable candidate for any role should be the person who is appointed to that role, we recognise the benefits that diversity can bring to any organisation and have embraced that philosophy when making all appointments into the business. Our recruitment partnership, with market leader Randstad Sourceright, involves coaching, training and up-skilling our line managers to help them support our approach to both diversity and gender equality. We also partner with SHL for a suite of psychometric assessment tools which ensure we have an objective and fair approach to candidate selection.

No person employed by Communisis will be treated less favourably on the grounds of (or the assumption or perception of) their disability for example, candidates for employment or promotion will be assessed objectively against the requirements for the job, taking account of any reasonable adjustments that may be required for candidates with a disability. Our overall approach to Diversity, equality and then subsequent specific areas (such as recruitment, training and all other relevant policies) ensures everyone in Communisis has the opportunity to enjoy rewarding careers, with valuable training and development, regardless of disability. We continue to meet our Gender pay gap reporting obligations under The Equality Act 2010 and publish our statistics on the Company's website (www.communisis.com) as well as our plans for closing our Gender Pay Gap.

Mental Health and Wellbeing

The business continued to grow our initiative to support our people's mental health and wellbeing. Our programme of works shows our commitment to our people and that we take the issue of mental health seriously and are committed to breaking down the taboo and helping end mental health discrimination in all workplaces. During the period, we continued to rely on a network of Mental Health First Aiders, took time out to recognise key events, and continue the conversation around Mental wellbeing. Our teams across the world took part in team yoga sessions, Fika Fridays, Charity bake sales in aid of mental health charities and other activities and events to promote mental health and wellbeing.

Human Rights and Modern Slavery

We take the issue of human rights seriously. The Modern Slavery Act 2015 has introduced changes in the UK law focusing on increasing transparency in supply chains. A copy of the Group's slavery and human trafficking statement can be found on the Company's website (www.communisis.com). We are committed to ensuring there is transparency in our approach in tackling modern slavery in our supply chain.

COMMUNISIS UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

POST BALANCE SHEET EVENTS

Since the year end, it has become clear that the spread of the COVID-19 coronavirus will have a material impact on many economies globally both through the effects of the virus itself and the measures taken by governments to restrict its spread. Given the emergence and spread of the COVID-19 virus is not considered to provide more information about conditions that existed as at the balance sheet date, this is considered to be a non-adjusting post balance sheet event and so the measurement of assets and liabilities in the accounts have not been adjusted for its potential impact. The Directors have set out the post year end impact on going concern in the Directors' Report.

DISCLOSURE IN THE STRATEGIC REPORT

The Companies Act 2006 requires us to present a fair review of the business during the year to 31 December 2019 and of the position of the Company at the end of the financial period along with a description of the principal risks and uncertainties faced. The Strategic Report can be found on pages 2 to 4.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

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;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

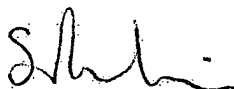
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

Crowe U.K. LLP have been appointed as auditor for the ensuing year in accordance with section 485 of the Companies Act 2006.

SIGNED ON BEHALF OF THE DIRECTORS:



Mr S C Rawlins - Director

12 June 2020

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF COMMUNISIS UK LIMITED

Opinion

We have audited the financial statements of Communis UK Limited (the 'Company') for the year ended 31 December 2019 which comprise the Income Statement, Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information in the Strategic Report and the Directors' Report but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and 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, 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.

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 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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters where 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF COMMUNISIS UK LIMITED

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page nine, 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 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.

Auditors' 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 a Report of the Auditors 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. This description forms part of our Report of the Auditors.

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 a Report of the Auditors 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.



Leo Malkin (Senior statutory auditor)
For and on behalf of
Crowe U.K. LLP
Statutory Auditor
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

12 June 2020

COMMUNISIS UK LIMITED

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019**

| | Notes | 2019 £'000 | 2018 £'000 |
|---|-------|------------------|------------------|
| TURNOVER | 3 | 196,402 | 236,911 |
| Cost of sales | | <u>(76,826)</u> | <u>(105,701)</u> |
| GROSS PROFIT | | 119,576 | 131,210 |
| Administrative expenses | | <u>(111,481)</u> | <u>(118,274)</u> |
| OPERATING PROFIT | | 8,095 | 12,936 |
| Exceptional costs | 5 | <u>(3,351)</u> | <u>(10,834)</u> |
| | | 4,744 | 2,102 |
| Income from shares in group undertakings | | 370 | 900 |
| Interest receivable and similar income | 14 | 345 | 412 |
| Amounts written off investments | 7 | (467) | - |
| Interest payable and similar expenses | 6 | <u>(2,916)</u> | <u>(4,252)</u> |
| PROFIT/(LOSS) BEFORE TAXATION | 7 | 2,076 | (838) |
| Tax expense | 8 | <u>(466)</u> | <u>(172)</u> |
| PROFIT/(LOSS) FOR THE FINANCIAL YEAR | | <u>1,610</u> | <u>(1,010)</u> |

All income and expenses relate to continuing operations.

The notes on pages 16 to 45 form part of these financial statements

COMMUNISIS UK LIMITED

**OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

| | 2019 £'000 | 2018 £'000 |
|---|-----------------------|-----------------------|
| PROFIT/(LOSS) FOR THE FINANCIAL YEAR | 1,610 | (1,010) |
| OTHER COMPREHENSIVE INCOME | | |
| Item that will not be reclassified to profit or loss: | | |
| Actuarial gain | 7,834 | 4,023 |
| Income tax relating to item that will not be reclassified to profit or loss | <u>(1,286)</u> | <u>(476)</u> |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX | <u>6,548</u> | <u>3,547</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>8,158</u> | <u>2,537</u> |

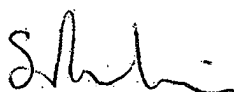
The notes on pages 16 to 45 form part of these financial statements

COMMUNISIS UK LIMITED (REGISTERED NUMBER: 01006371)

BALANCE SHEET
31 DECEMBER 2019

| | Notes | 2019 £'000 | 2018 £'000 |
|--|-------|-----------------|------------------|
| FIXED ASSETS | | | |
| Intangible assets | 10 | 13,431 | 14,041 |
| Tangible assets | 11 | 33,162 | 38,155 |
| Investments | 12 | <u>8,436</u> | <u>8,903</u> |
| | | <u>55,029</u> | <u>61,099</u> |
| CURRENT ASSETS | | | |
| Stocks | 13 | 7,383 | 6,823 |
| Debtors | 14 | 74,206 | 92,608 |
| Contract fulfilment assets | 15 | 1,398 | 1,670 |
| Contract assets | | 9,914 | 10,684 |
| Cash at bank | | <u>9,504</u> | <u>27,873</u> |
| | | <u>102,405</u> | <u>139,658</u> |
| CREDITORS | | | |
| Amounts falling due within one year | 16 | <u>(85,624)</u> | <u>(125,532)</u> |
| NET CURRENT ASSETS | | | |
| | | <u>16,781</u> | <u>14,126</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | 71,810 | 75,225 |
| CREDITORS | | | |
| Amounts falling due after more than one year | 17 | (34,283) | (36,598) |
| PROVISIONS | | | |
| | 20 | (607) | (607) |
| PENSION LIABILITY | | | |
| | 23 | <u>(14,742)</u> | <u>(24,000)</u> |
| NET ASSETS/(LIABILITIES) | | | |
| | | <u>22,178</u> | <u>14,020</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 21 | 200 | 200 |
| Retained earnings | 22 | <u>21,978</u> | <u>13,820</u> |
| SHAREHOLDERS' FUNDS | | | |
| | | <u>22,178</u> | <u>14,020</u> |

The Financial Statements were approved by the Board of Directors on 12 June 2020 and were signed on its behalf by:



Mr S C Rawlins - Director

The notes on pages 16 to 45 form part of these financial statements

COMMUNISIS UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

| | Called up share capital £'000 | Retained earnings £'000 | Total equity £'000 |
|--|--|--|-----------------------------------|
| Balance at 1 January 2018 | 200 | 10,347 | 10,547 |
| Changes in equity | | | |
| Total comprehensive income | - | 2,537 | 2,537 |
| Employee shares option schemes - value of services provided | - | 2,156 | 2,156 |
| Shares issued - exercise of options | - | (1,220) | (1,220) |
| Balance at 31 December 2018 | <u>200</u> | <u>13,820</u> | <u>14,020</u> |
| Changes in equity | | | |
| Total comprehensive income | - | 8,158 | 8,158 |
| Balance at 31 December 2019 | <u>200</u> | <u>21,978</u> | <u>22,178</u> |

The notes on pages 16 to 45 form part of these financial statements

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE

The Financial Statements of Communisis UK Limited (the "Company") for the year ended 31 December 2019 were authorised for issue on 12 June 2020 and the Balance Sheet was signed on the Board's behalf by Mr S C Rawlins. Communisis UK Limited is a private limited company, incorporated and domiciled in England and Wales. The registered office is located at Communisis House, Manston Lane, Leeds LS15 8AH.

The Financial Statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable United Kingdom law and accounting standards.

The Financial Statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The Financial Statements present information about the Company as an individual undertaking and not about its group, as the Company has taken advantage of the exemption provided by section 400 of the Companies Act 2006 not to prepare Consolidated Financial Statements as it is included by full consolidation in the Consolidated Financial Statements of its parent company, OSG Bidco Limited, a company incorporated in England and Wales.

The principal accounting policies adopted by the Company are set out in Note 2.

2. ACCOUNTING POLICIES

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 31 December 2019.

As at 31 December 2019 the Company had net current assets of £16,781,000 (2018 £14,126,000). The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and cash flow risk are described in the Strategic Report on pages 2 to 4.

Through the Group, the Company has considerable financial resources and as a consequence, the Directors believe that the Company is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Due to the unprecedented global impact of COVID-19, estimates and assumptions about future events and their effects are extremely challenging to determine with certainty and therefore require significant judgment. Notwithstanding the above, at the date of issuance of these financial statements, the Directors, have prepared a range of scenario forecasts which indicate that the Group (and therefore this entity) has adequate resources to continue operational existence for the foreseeable future. In addition, having received confirmation from the immediate parent company, Communisis Limited, that it does not intend to demand repayment of amounts owed to it, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements. Further details can be found in the Director's Report on page 5.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES - continued

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 134(d) to 134(f) of IAS 36 Impairments of Assets.
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

Critical accounting judgements and key sources of estimation uncertainty

The key judgements and assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements

Revenue recognition: principal or agent basis

The Company acts as principal if it controls a promised good or service before transferring that good or service to the customer. This assessment of control requires judgement, in particular in relation to certain service contracts. An example is the provision of licensing and postage services where the Company may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Costs to fulfil a contract

The Company recognises as an asset certain costs which are incurred in fulfilling a contract. In order to qualify for capitalisation, the costs must meet the criteria outlined in IFRS 15. The assessment of this criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

Exceptionals

The Company presents separately, on the face of the Income Statement, material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year. An element of management judgement is required in identifying these exceptional items.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES - continued

Development costs

Expenditure on a development project, such as computer software, which is reliably measurable, is capitalised when the technical feasibility and commercial viability of the project is demonstrated. The Company must intend to, and have available the resources to, complete the project and be satisfied that the intangible asset arising from the development project will generate probable future economic benefits. An element of management judgement is required when distinguishing between the research and development phases of a project.

Determining whether it is reasonably certain that an extension or termination option will be exercised

In determining the lease liabilities and right-of-use assets the Company is required to exercise judgement to identify contracts in the scope of IFRS 16 and determine contract terms. When identifying the contracts in the scope of IFRS 16 the Company exercises judgement to determine whether it depends on a specified asset, whether it obtains substantially all the economic benefits from the use of the asset and whether the Company has the right to direct of the use of the asset.

When determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Estimates

Impairment of goodwill

The Company determines whether goodwill is impaired on at least an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Pensions

The actuarial valuation involves making assumptions about mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Discount rates are based on interest rates of AA rated corporate bonds that have terms of maturity approximating to the terms of the relevant pension liability.

Revenue recognition

Revenue from agency projects are predominantly recognised over time using output method, namely a combination of time elapsed and milestones, as this reflects the nature in which the Company is transferring control of the goods/services to the customer. Where the financial outcome of an agency project cannot be reliably measured, revenue is only recognised to the extent that the costs recognised are recoverable.

Determination of the appropriate rate to discount the lease payments

A key input into the present value calculation of the Company's lease liabilities is the discount rate, which may have a material impact on the valuation of the lease liability recorded. The discount rate also impacts the allocation of total expense between the depreciation and interest throughout the lease term. In transitioning to the new lease standard, the Company elected to apply the modified retrospective approach and as such the discount rate use to measure the lease liability at the date of initial application is the incremental borrowing rate. To arrive at an appropriate incremental borrowing rate on portfolio of leases with similar characteristics, certain adjustments have been made on readily observable rates such as property yield to account for the length of the lease, the nature of the asset and the economic environment. For new leases from the date of initial application, the Company uses the rate implicit in the lease if it can readily be determined. Implicit rate is readily determined by considering the information made available by the Company's lessor.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES - continued

Impairment assessment of non-financial assets

Management annually perform impairment test of indefinite lived assets and, for finite lived assets, if events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment testing requires management to judge whether the carrying value of assets can be supported by the net present value of future cash flows that they generate. These calculations involve a variety of assumptions such as estimates of future cash inflows and outflows. Actual cash flows might, for example, differ significantly from management's current best estimate. Changes in assessed presence or absence of competitors, technological obsolescence etc. might have an impact on future cash flows and result in recognition of impairment losses.

Revenue from Contracts with Customers

The Company provides integrated business services. The goods and services provided as part of this offering are sold in separately identified contracts with customers.

Under IFRS 15, revenue is recognised based on delivery of performance obligations and an assessment of when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires a number of key judgements. In addition, the Company also exercises a number of judgements in recognising related Balance Sheet items in the period (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, contract assets and contract liabilities).

For all contracts, the Company determines if the arrangement with a customer creates enforceable rights and obligations. This assessment results in some Master Service Agreements (MSAs) not meeting the definition of a contract under IFRS 15 on their own. As such, the individual project briefs/purchase orders linked to the MSAs are treated as individual contracts.

For contracts with multiple components to be delivered such as short-term customer projects and transition services, management applies judgement to consider whether those promised goods and services are:

- (i) distinct - to be accounted for as separate performance obligations;
- (ii) not distinct - to be combined with other promised goods or services until a bundle is identified that is distinct; or
- (iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

At contract inception the total transaction price is estimated, being the amount to which the Company expects to be entitled and has rights to under the present contract. Once the total transaction price is determined, the Company allocates this to the identified performance obligations in proportion to their relative standalone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

For each performance obligation, the Company determines if revenue will be recognised over time or at a point in time. For each performance obligation to be recognised over time, the Company applies a revenue recognition method that faithfully depicts the Company's performance in transferring control of the goods or services to the customer.

The Company disaggregates revenue from contracts with customers by contract type (previously goods and services), as this best depicts how the nature, amount, timing and uncertainty of the Company's revenue and cash flows are affected by economic factors. The Company therefore now presents revenue in three categories: long-term services, short-term customer projects and transition services.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES - continued

Long-term services

The Company performs a range of services across the Customer Experience segment under customer contracts with a duration, on average, of five years. The main service lines within this category are as follows:

- Transactional Print
- Inbound Servicing and Response Handling
- Security Communications

The nature of performance obligations categorised within this revenue stream is diverse; however, the general principle is that revenue is recognised over time. The Company considers that the services provided meet the definition of a series of distinct goods and services as they are: (i) substantially the same; and (ii) have the same pattern of transfer, and therefore treats the series as one performance obligation. Even if the underlying activities performed by the Company to satisfy a promise vary significantly throughout the day and from day to day, that fact, by itself, does not mean the distinct goods or services are not substantially the same. The Company measures progress towards completion and hence recognises revenue using output methods, namely units produced/delivered, as this best reflects the nature in which the Company is transferring control of the goods/services to the customer.

Short-term customer projects

The Company performs a range of services across the Customer Experience segment and Brand Deployment segment under customer contracts with project durations of typically less than one year. The main service lines within this category are as follows:

- Managed Services
- Campaign Fulfilment
- Print Sourcing
- Direct Mail
- Document Design and Change

Agency projects are predominantly recognised over time using output methods, namely a combination of time elapsed and milestones, as this best reflects the nature in which the Company is transferring control of the goods/services to the customer. Campaign type work, however, is recognised at a point in time, when the performance obligation has been satisfied and control is passed to the customer.

Transition services

Transition revenue occurs within the Customer Experience segment, relating to the delivery of business process optimisation solutions and transformational services for significant new contracts secured. Revenue from transition services is assessed on a contract by contract basis to determine the number of distinct performance obligations in the contract and the point at which control is passed on to the customer. Where there is one identified performance obligation, namely the full integration of work into existing production facilities and systems, the total revenue is recognised over the term of the contract regardless of whether an advanced payment is received. Transition revenue may, however, also include payment for template design where the right to use the template is passed on to the customer. Any revenue in respect of this is recognised at a point in time when the performance obligation is satisfied and control transferred.

Contract premiums

Amounts paid to secure customer contracts are held within trade and other receivables and unwound over the life of the contract as a reduction to the transaction price.

Principal versus agent

The Company has arrangements with some of its customers whereby it needs to determine if it acts as a principal or an agent as more than one party is involved in providing the goods and services to the customer. In making this assessment the Company considers the overall performance obligation in the contract and whether the individual services provided in satisfying the performance obligation are distinct.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES - continued

The Company acts as a principal if it controls a promised good or service before transferring that good or service to the customer. The Company is an agent if its role is to arrange for another entity to provide the goods or services. Other indicators considered in making this assessment are most notably the discretion the Company has in establishing the price for the specified good or service, whether the Company has inventory risk and whether the Company is primarily responsible for fulfilling the promise to deliver the service or good.

Where the Company has determined that it is acting as principal in a transaction with a customer, revenue is recorded on a gross basis. Where the Company is acting as an agent, revenue is recorded at a net amount reflecting the margin earned.

Capitalisation of costs to obtain a contract

The Company recognises as an asset the incremental costs of obtaining a contract with a customer where those costs are expected to be recovered. Costs incurred to obtain a contract that are not incremental are expensed as incurred. Judgement is therefore applied by the Company when determining what costs qualify to be capitalised. These assets are referred to as 'contract acquisition assets' and are included as a separate class of intangible asset.

Capitalisation of contract fulfilment costs

Contract fulfilment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Company firstly considers any other applicable standards. If those other standards preclude capitalisation of a particular cost, then an asset is not recognised under IFRS 15.

If other standards are not applicable to contract fulfilment costs, the Company applies the following criteria which, if met, result in capitalisation:

- (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract;
- (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (iii) the costs are expected to be recovered.

Contract fulfilment assets relate directly to the Company's performance under the contract and are identified separately on the Balance Sheet and aged accordingly. The related utilisation is shown within cost of sales to reflect its nature.

Utilisation, derecognition and impairment of capitalised costs to obtain and fulfil contracts with customers

The Company amortises capitalised costs to obtain and fulfil a contract over the expected contract period using a systematic basis that mirrors the pattern in which the Company transfers control of the service to the customer. In the absence of any known phasing a straight-line basis over the life of the contract is used as the closest proxy. If the revenue stream ceases and no further economic benefits are expected to flow from its use, then the costs would be deemed as impaired and written off.

At each reporting date, the Company determines whether or not the contract acquisition assets or contract fulfilment assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company uses the same principles as it does to determine the contract transaction price.

Where there are indicators of impairment such as the relevant contracts demonstrating marginal profitability, judgement is required to determine whether or not the future economic benefits from these contracts are sufficient to recover these assets. Management is required to make an assessment of the costs to complete the contract in performing this impairment assessment. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES - continued

Goodwill

The UK Companies Act required goodwill to be reduced by provisions for amortisation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or wherever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act, specifically paragraph 22 of Schedule 1 of the Regulations. Had the Company amortised goodwill a maximum of 20 years would have been chosen as the useful life for goodwill.

Goodwill on acquisitions is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised. Any unamortised goodwill on 1 January 2014, the date of transition to FRS 101, was frozen from that date.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets created within the business are not capitalised (unless specific conditions are met) and expenditure is charged to the Income Statement in the year in which the expenditure is incurred.

Computer software costs

Acquired computer software and licences are capitalised. These costs are amortised over their useful estimated lives (three to eight years).

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will generate probable economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees. These costs are amortised over their estimated useful lives (three to eight years).

Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed as incurred. Expenditure on a development project, such as computer software, which is reliably measurable, is capitalised when the technical feasibility and commercial viability of the project is demonstrated. The Company must intend to and have available the resources to complete the project and be satisfied that the intangible asset arising from the development project will generate probable future economic benefits. Capitalisation ceases when the product is ready for launch.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project, from the date the asset is available for use.

The carrying value of development costs is reviewed when there is an indicator of impairment. In addition it is reviewed annually when the asset is not yet in use.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES - continued

Tangible fixed assets

Tangible fixed assets stated at cost less accumulated depreciation and accumulated impairment in value. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

| | |
|-------------------------------------|----------------|
| Freehold property | 25 or 50 years |
| Short leasehold property | 10 to 20 years |
| Plant, equipment and motor vehicles | 3 to 20 years |

The depreciation of right-of-use-assets is detailed in the Leases policy note. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of tangible fixed assets is the greater of fair value less costs to sell 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. Useful economic lives, depreciation methods and residual values are reviewed annually. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the Income Statement.

Financial instruments

Financial assets and financial liabilities are recognised in the Balance Sheet when the Company becomes party to the contractual provisions of the instrument. The Company's principal financial instruments comprise bank loans and overdrafts, cash and short-term deposits and interest rate swaps. The main purpose of these financial instruments is to raise finance for the Company's operations and to manage interest rate risk. The Company also has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Financial assets

On initial recognition, a financial asset is classified into one of three categories: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL), based on the business model in which the financial asset is managed and its contractual cash flow characteristics. The Company's financial assets are currently all classified within IFRS 9's amortised cost model and comprise contract assets, trade and other receivables and cash and cash equivalents. The Company's financial assets are therefore initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Impairment losses and any gain or loss on derecognition are recognised in the Income Statement. When calculating impairment provisions, the Company assesses on a forward-looking basis the expected credit loss associated with its financial assets. For contract assets and trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivable.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES - continued

Financial liabilities

On initial recognition the Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired: fair value through profit and loss (FVTPL) and amortised cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortised cost unless the fair value option is applied. The Company's financial liabilities include borrowings and trade and other payables. They are initially measured at fair value, net of transaction costs and then subsequently measured using the amortised cost model applying the effective interest rate method.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Raw materials are stated at purchase cost on a first-in, first-out basis. For finished goods and work in progress, costs include directly attributable material and labour costs and certain overhead costs that contribute in bringing the inventories to their present location and condition. Selling expenses and other administrative overhead expenses are excluded.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Provision is made for items of stock that are damaged, obsolete or slow-moving.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Creditors

Creditors, which generally have 30-90 days' credit terms, are recognised and carried at original invoice amount.

Investments

Investments are shown at cost less provision for impairment. The cost of an investment is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Any contingent consideration will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset, or a liability will be recognised in accordance with IFRS 9 either in profit and loss or in other comprehensive income. If the contingent consideration is classed as equity, it is not re-measured until it is finally settled within equity.

Investments are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES - continued

Dividend recognition

The Company recognise final dividends on approval by the Board of Directors.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Income tax

Current tax

Current tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Balance Sheet date.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised. In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance Sheet date.

Income tax relating to items recognised in other comprehensive income or directly in equity is also recognised in other comprehensive income or directly in equity.

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. ACCOUNTING POLICIES - continued

Leases

The Company as a lessee

The Company, as lessee, leases various land and buildings, plant and equipment and motor vehicles. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options as described. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Under IFRS 16, at inception of a contract the Company assesses whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee, the Company recognises a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company (commencement date) for all leases.

The right-of-use assets is initially measured at cost and comprises the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any residual value guarantees;
- any initial direct costs; and
- any restoration costs.

The right-of-use asset is subsequently depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. The right-of-use asset is then adjusted for any impairment losses or certain measurements of the lease liability where applicable.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the Company or relevant Company's incremental borrowing rate. Lease payments include the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Each lease payment is then allocated between the liability and finance cost. The finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured where there is a change in future lease payments, if there is a change in the Company's estimate to be payable under a residual guarantee, or if the Company changes the assessment of whether it will exercise a purchase option or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the right-of-use asset or is recorded in the Income Statement if the carrying amount of the right-of-use asset has been reduced to zero.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office equipment.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES - continued

Extension and termination options are included in a number of property and equipment leases across the Company. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

When the Company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;

- In all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;

- If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

The Company as an intermediate lessor

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Amounts due from lessee under finance lease are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Employee benefit costs

The Company operates defined contribution and defined benefit pension plans.

Payments to defined contribution pension plans are charged as an expense to the Income Statement as incurred when the related employee service is rendered. The Company has no further legal or constructive payment obligations once the contributions have been made.

The defined benefit pension plan is a Group scheme. The Company's share of the assets and liabilities of the scheme has been allocated on a contractual basis.

For the defined benefit pension plan, the cost of administering the pension scheme is recognised in employee benefits expense in the Income Statement. The Company determines the net interest income/expense on the net defined benefit assets/ liabilities for the year by applying the discount rates used to measure the defined benefit obligations at the beginning of the year to the net defined benefit assets/liabilities at the beginning of the year, taking into account any changes in the net defined benefit assets/liabilities during the year as a result of contributions and benefit payments. The liability recognised in the Balance Sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the Balance Sheet date less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of AA rated corporate bonds that have terms of maturity approximating to the terms of the relevant pension liability. AA rated corporate bonds are used as the most suitable proxy for calculating the discount rate.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES - continued

All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognised in the Consolidated Statement of Comprehensive Income.

When a settlement or a curtailment occurs, the obligation and the related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss is recognised in the Income Statement during the period in which the settlement or curtailment occurs. A settlement is the elimination of all obligations for benefits already accrued and a curtailment is the reduction of future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement.

Share based payments

Prior to acquisition of Communisis Limited, the Company's immediate parent company, by OSG Bidco Limited, certain directors and management are eligible to participate in share-based payment schemes, all of which are equity-settled.

The cost of equity-settled transactions with employees is measured by reference to their fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Communisis plc ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting or non-vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance or service conditions are satisfied.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the Income Statement for the award is expensed immediately. This includes any awards where non-vesting conditions within the control of the Company or the employee are not met. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the Income Statement.

Where an equity-settled award is forfeited, the total cost recognised in the Income Statement to date for the award is reversed.

Following the acquisition of Communisis Limited by OSG Bidco Limited, there is no intention that any further options will be granted under the share options schemes and the operation of the schemes will therefore be terminated.

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 an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made, but there is some uncertainty about the timing of the future expenditure required in settlement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. TURNOVER

Turnover are attributable to the principal activities of the Company, being the design, production and deployment of personalised customer communication.

An analysis of turnover by geographical market is given below:

| | 2019 | 2018 |
|----------------|-----------------------|-----------------------|
| | £'000 | £'000 |
| United Kingdom | 190,963 | 223,779 |
| Overseas | <u>5,439</u> | <u>13,132</u> |
| | <u><u>196,402</u></u> | <u><u>236,911</u></u> |

4. EMPLOYEES AND DIRECTORS

The average number of staff employed by the Company

| | 2019 | 2018 |
|--------------------------------|---------------------|---------------------|
| | No | No |
| Number of production staff | 857 | 897 |
| Number of administrative staff | <u>558</u> | <u>703</u> |
| | <u><u>1,415</u></u> | <u><u>1,600</u></u> |

| | 2019 | 2018 |
|-------------------------------------|----------------------|----------------------|
| | £'000 | £'000 |
| Wages and salaries | 56,301 | 55,056 |
| Social security costs | 5,489 | 5,649 |
| Redundancy costs | 3,029 | 2,480 |
| Other pension costs | 911 | 3,666 |
| Equity-settled share-based payments | <u>-</u> | <u>936</u> |
| | <u><u>65,730</u></u> | <u><u>67,787</u></u> |

Other pension costs are amounts charged to operating profit and do not include amounts charged to interest payable and similar charges (see Note 7), and amounts recognised in Other Comprehensive Income.

In addition to the above £65,730,000, a further £1,477,000 of employee costs have been capitalised during the year as part of various development projects. These costs have been capitalised as software and are included in Note 11.

The total emoluments of the Directors of the Company (including those paid through other Group Companies) were as follows:

| | 2019 | 2018 |
|---------------------------------------|-------------------|-------------------|
| | £'000 | £'000 |
| Remuneration receivable | <u>711</u> | <u>1,054</u> |
| Remuneration of highest paid director | <u><u>417</u></u> | <u><u>633</u></u> |

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

4. EMPLOYEES AND DIRECTORS - continued

One Director had benefits accruing under the Group's pension schemes during the period ended 31 December 2019 (2018 one). Total aggregate contribution to directors' pensions amounted to £10,000 in 2019 (2018 £12,000). Pension benefits of the highest paid director amounted to £10,000 (2018 £10,000).

Two Directors exercised the share options of the parent company, Communisis Limited, during the year ended 31 December 2018. Following the acquisition of the parent company by OSG Bidco Limited on 10 December 2018, Communisis Limited de-listed its shares on the London Stock Exchange. There is no intention that any further options will be granted under the share option scheme and the operation of the scheme will therefore be terminated.

It is not practicable to apportion the emoluments of the Directors amongst subsidiary entities in relation to their qualifying services provided.

5. EXCEPTIONAL COSTS

| | 2019 £'000 | 2018 £'000 |
|-------------------|---------------|---------------|
| Exceptional costs | <u>3,351</u> | <u>10,834</u> |

The exceptional costs in 2019 amounting to £3,351,000 pertains mostly to non-recurring costs incurred in 2019 in respect of organisational restructuring project to reduce the cost base. This has been paid in full in 2020.

Details of the exceptional costs incurred in 2018 which amounted to £10,834,000 are as follows:

- A one off costs totalling £3,024,000 has been incurred during the year in respect of GMP equalisation on the defined benefit pension plan.
- The Company incurred £2,370,000 in respect of organisational restructuring to reduce the cost base and deliver efficiency improvements.
- The Company incurred a total charge of £2,396,000 in relation to the impairment of non-financial assets along with £577,000 incurred in preparing the business for the introduction of General Data Protection Regulation.
- The Company recognised loss on disposal of business amounting to £1,087,000. Additional information is detailed on Note 12.
- A total costs of £828,000 were recognised in respect of leases that were considered onerous. The right-of-use assets in relation to these onerous leases were impaired accordingly (Note 11) and the unpaid balance as at year end was presented as an onerous lease provision (Note 20).
- A dilapidation provision of £300,000 has been established in respect of properties which are approaching the end of their lease term.
- The business changed its policy towards accruing for carried forward holiday pay, resulting in a one-off exceptional charge of £252,000 in establishing the accrual.

6. INTEREST PAYABLE AND SIMILAR EXPENSES

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Interest on lease liabilities | 1,721 | 2,555 |
| Net interest expense on defined benefit plan (Note 23) | 837 | 798 |
| Foreign currency exchange (gain)/loss | (449) | 84 |
| Other retirement benefit related finance cost | 534 | 583 |
| Other finance costs | <u>273</u> | <u>232</u> |
| | <u>2,916</u> | <u>4,252</u> |

COMMUNISIS UK LIMITED**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019****7. PROFIT BEFORE TAXATION**

| | 2019 | 2018 |
|-----------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Depreciation of tangible assets | 8,658 | 10,208 |
| Amortisation of intangible assets | 4,079 | 2,315 |
| Amounts written off investments | 467 | - |
| Auditors' remuneration | <u>138</u> | <u>138</u> |

The Company is exempt from giving the disclosures of non-audit remuneration which would otherwise be required by regulation 5(1)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 ('the Regulations') as it is included in the Group Financial Statements of its immediate parent company, Communisis Limited which are required to comply with regulation 6(1) of the Regulations.

8. TAXATION**Analysis of tax expense**

| | 2019 | 2018 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Current tax: | | |
| Current tax | 548 | 866 |
| Adjustment in respect of prior years | <u>-</u> | <u>(200)</u> |
| Total current tax | <u>548</u> | <u>666</u> |
| Deferred tax: | | |
| Origination and reversal of timing differences | 75 | (573) |
| Adjustment in respect of prior periods | <u>(157)</u> | <u>79</u> |
| Total deferred tax | <u>(82)</u> | <u>(494)</u> |
| Total tax expense in income statement | <u>466</u> | <u>172</u> |

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

8. TAXATION - continued

Tax on items charged to equity

| | 2019 | 2018 |
|---|----------------|--------------|
| | £'000 | £'000 |
| Deferred tax relating to actuarial gain on pension scheme | <u>(1,286)</u> | <u>(476)</u> |

Factors affecting the tax expense

The tax assessed for the year is higher (2018 higher) than the standard rate of corporation tax in the UK. The difference is explained below:

| | 2019 | 2018 |
|--|--------------|--------------|
| | £'000 | £'000 |
| (Loss)/Profit before income tax | <u>2,076</u> | <u>(838)</u> |
| (Loss)/Profit multiplied by the standard rate of corporation tax in the UK of 19.00% (2018 19.00%) | 394 | (159) |
| Effects of: | | |
| Expenses not deductible for tax purposes (including ineligible depreciation) | 600 | 618 |
| Non-taxable income | (70) | (171) |
| Share-based payment relief | - | 330 |
| Temporary differences as a result of transition to IFRS 15 | (390) | (325) |
| Impairment of investment not deductible for tax purposes | 89 | - |
| Adjustment in respect of prior years | <u>(157)</u> | <u>(121)</u> |
| Tax expense | <u>466</u> | <u>172</u> |

Tax effects relating to effects of other comprehensive income

| | Gross | Tax | Net |
|---------------------|--------------|----------------|--------------|
| | £'000 | £'000 | £'000 |
| 2019 Actuarial gain | <u>7,834</u> | <u>(1,286)</u> | <u>6,548</u> |

| | Gross | Tax | Net |
|---------------------|--------------|--------------|--------------|
| | £'000 | £'000 | £'000 |
| 2018 Actuarial gain | <u>4,023</u> | <u>(476)</u> | <u>3,547</u> |

The tax credit included in the above charge which is attributable to exceptional items is:

| | 2019 | 2018 |
|---------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Tax credit on exceptional items | <u>(637)</u> | <u>(991)</u> |

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. INTANGIBLE FIXED ASSETS

| | Goodwill £'000 | Computer software £'000 | Totals £'000 |
|-----------------------|---------------------------|--|-------------------------|
| COST | | | |
| At 1 January 2019 | 8,112 | 29,652 | 37,764 |
| Additions | <u>-</u> | <u>3,469</u> | <u>3,469</u> |
| At 31 December 2019 | <u>8,112</u> | <u>33,121</u> | <u>41,233</u> |
| AMORTISATION | | | |
| At 1 January 2019 | 6,826 | 16,897 | 23,723 |
| Amortisation for year | <u>-</u> | <u>4,079</u> | <u>4,079</u> |
| At 31 December 2019 | <u>6,826</u> | <u>20,976</u> | <u>27,802</u> |
| NET BOOK VALUE | | | |
| At 31 December 2019 | <u>1,286</u> | <u>12,145</u> | <u>13,431</u> |
| At 31 December 2018 | <u>1,286</u> | <u>12,755</u> | <u>14,041</u> |

Software assets are amortised evenly over their useful economic lives of between three and eight years. Included in software assets is £1,220,000 (2018 5,876,000) currently in development. Amortisation is expected to commence in 2020.

The Company conducts annual impairment testing on the carrying value of goodwill using value in use calculations. The key assumptions included in the value in use calculations are revenue growth, product and service mix and profit margins, the long-term growth rates and the discount rate applied.

Goodwill acquired through business combinations has been allocated to the transactional business unit for impairment testing purposes. This represents the lowest level within the Company at which goodwill is monitored for internal management purposes. The recoverable amount of the transactional cash generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board over 5 years. In 2019 no impairment charges in goodwill have been made (2018 £nil).

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019

11. TANGIBLE FIXED ASSETS

| | Freehold property £'000 | Short leasehold £'000 | ROU Assets* £'000 | Plant and machinery £'000 | Totals £'000 |
|---|-------------------------------|-----------------------------|----------------------|---------------------------------|-----------------|
| COST | | | | | |
| At 1 January 2019 | 8,633 | 2,406 | 34,589 | 58,089 | 103,717 |
| Deduction on ROU assets due to change in lease terms | - | - | (1,909) | - | (1,909) |
| Additions | - | - | 4,257 | 1,317 | 5,574 |
| At 31 December 2019 | <u>8,633</u> | <u>2,406</u> | <u>36,937</u> | <u>59,406</u> | <u>107,381</u> |
| DEPRECIATION | | | | | |
| At 1 January 2019 | 4,273 | 1,149 | 9,093 | 51,047 | 65,562 |
| Charge for year | 187 | 131 | 6,494 | 1,846 | 8,658 |
| At 31 December 2019 | <u>4,459</u> | <u>1,280</u> | <u>14,998</u> | <u>52,893</u> | <u>74,219</u> |
| NET BOOK VALUE | | | | | |
| At 31 December 2019 | <u>4,173</u> | <u>1,126</u> | <u>21,350</u> | <u>6,513</u> | <u>33,162</u> |
| At 31 December 2018 | <u>4,360</u> | <u>1,257</u> | <u>25,496</u> | <u>7,042</u> | <u>38,155</u> |

Included within plant and machinery are assets currently in development of £26,000 (2018 £34,000).
Depreciation is expected to commence in 2020.

**Right-of-Use (ROU) Assets*

The below table summarises the details of the ROU assets by class of underlying assets:

| | Land and buildings £'000 | Plant and equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---------------------------------------|--------------------------------|---------------------------------|----------------------------|----------------|
| Net book value as of 31 December 2019 | <u>9,591</u> | <u>11,219</u> | <u>540</u> | <u>21,350</u> |
| Net book value as of 31 December 2018 | <u>10,556</u> | <u>14,290</u> | <u>650</u> | <u>25,496</u> |

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

12. INVESTMENTS

| | Shares in group undertakings £'000 |
|------------------------------------|---|
| At 1 January 2019 | 8,903 |
| Impairment | <u>(467)</u> |
| Net book value at 31 December 2019 | <u>8,436</u> |

The Company's investments at the Balance Sheet date in the share capital of companies include the following:

Communis Ireland Limited

| | |
|---------------------------|---|
| Nature of business: | Transactional print |
| Class of shares: | Ordinary |
| Country of incorporation: | Ireland |
| % holding | 100 |
| Registered office | Suite 3, One Earlsfort Centre, Earlsfort Terrace, Dublin, Ireland |

Communis Digital Limited

| | |
|---------------------------|--|
| Nature of business: | Provision of digital production services |
| Class of shares: | Ordinary |
| Country of incorporation: | England and Wales |
| % holding | 100 |
| Registered office | Communis House, Manston Lane, Leeds LS15 8AH |

Editions Publishing Limited

| | |
|---------------------------|--|
| Nature of business: | Content marketing |
| Class of shares: | Ordinary |
| Country of incorporation: | England and Wales |
| % holding | 100 |
| Registered office | 50 Lothian Road, Edinburgh, Midlothian EH3 9WJ |

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

12. INVESTMENTS - continued

Communis Group Strategic Partnerships Limited

Nature of business: Dormant company
Class of shares: Ordinary
Country of incorporation: England and Wales
% holding: 100
Registered office: Communisis House, Manston Lane, Leeds LS15 8AH

Communis Capital Partner Limited

Nature of business: Non-trading company
Class of shares: Ordinary
Country of incorporation: England and Wales
% holding: 100
Registered office: Communisis House, Manston Lane, Leeds LS15 8AH

GDE Limited

Nature of business: Non-trading company
Class of shares: Ordinary
Country of incorporation: England and Wales
% holding: 100
Registered office: Communisis House, Manston Lane, Leeds LS15 8AH

Wakefield Holdings Limited

Nature of business: Non-trading company
Class of shares: Ordinary
Country of incorporation: England and Wales
% holding: 100
Registered office: Communisis House, Manston Lane, Leeds LS15 8AH

The Directors are of the opinion that the aggregate value of the investments in subsidiary undertakings, which are stated at cost less amounts written off for permanent reductions in value, is not less than the Balance Sheet amount.

13. STOCKS

| | 2019 | 2018 |
|------------------|---------------------|---------------------|
| | £'000 | £'000 |
| Raw materials | 4,296 | 4,350 |
| Work-in-progress | 767 | 821 |
| Finished goods | <u>1,323</u> | <u>1,652</u> |
| | <u>6,386</u> | <u>6,823</u> |

The Directors consider that the difference between the replacement cost of stocks and the amounts included in the accounts is not material.

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

14. DEBTORS

| | 2019 | 2018 |
|--|----------------------|----------------------|
| | £'000 | £'000 |
| Amounts falling due within one year: | | |
| Trade debtors | 20,956 | 33,338 |
| Net investment in a sublease under IFRS 16 | 3,383 | 4,173 |
| Other debtors | 945 | 2,083 |
| Amounts owed by parent undertaking | 7,829 | 4,880 |
| Amounts owed by subsidiary undertaking | 3,141 | 3,904 |
| Amounts owed by other group undertakings | 30,599 | 33,075 |
| Income tax | - | 612 |
| Prepayments | <u>4,613</u> | <u>5,853</u> |
| | <u>71,466</u> | <u>87,918</u> |

Trade and other debtors are shown net of lifetime expected loss provisions. Expected credit loss from trade and other debtors amounted to £198,000 (2018 £13,000). Amounts owed by group undertakings are interest free and are repayable on demand. Management has determined that any expected credit losses on these intercompany loans are immaterial.

Interest income received during the year from the net investment in sublease amounted to £345,000 (2018 £412,000).

| | 2019 | 2018 |
|---|----------------------|----------------------|
| | £'000 | £'000 |
| Amounts falling due after more than one year: | | |
| Deferred tax asset | <u>2,740</u> | <u>4,690</u> |
| Aggregate amounts | <u>74,206</u> | <u>92,608</u> |
| Deferred tax asset | | |
| | 2019 | 2018 |
| | £'000 | £'000 |
| Rolled over capital gains | (375) | (393) |
| Other timing differences | 946 | 1,338 |
| Deferred tax on pension scheme | 2,388 | 4,109 |
| Excess of depreciation over taxation allowances | <u>(219)</u> | <u>(364)</u> |
| | <u>2,740</u> | <u>4,690</u> |

The realisation of the current year deferred tax asset is dependent upon the anticipated continuing profitability of the Company. The deferred tax asset is recognised as the Directors foresee future profits adequate to assume recovery. The provision for deferred tax at 31 December 2018 has been made at rates between 17% and 19% depending upon the anticipated time of reversal. This reflects the legislation included in Finance Act 2016 reducing the rate of Corporation Tax to 17% from April 2020 and does not take account of the proposal to retain the rate at 19% included in Finance Bill 2020 because, at the date of signing, this had not been substantively enacted. If the rate change had been enacted it would have increased the deferred tax asset by £322,000.

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

| | | |
|---------------------------------------|--------------|--------------|
| 15. CONTRACT FULFILMENT ASSETS | | |
| | 2019 | 2018 |
| | £'000 | £'000 |
| Contract fulfilment assets | <u>1,398</u> | <u>1,670</u> |

| | | |
|---|----------------------|-----------------------|
| 16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | | |
| | 2019 | 2018 |
| | £'000 | £'000 |
| Lease liabilities (see note 18) | 6,429 | 6,747 |
| Trade creditors | 22,917 | 34,168 |
| Amounts owed to parent undertakings | 16,028 | 43,310 |
| Amounts owed to subsidiary undertakings | 3,641 | 4,052 |
| Amounts owed to other group undertakings | 18,600 | 20,694 |
| Current tax | 386 | - |
| Social security and other taxes | 127 | 2,528 |
| Other creditors | 1,432 | 2,845 |
| Accruals | 12,990 | 7,123 |
| Contract liabilities | <u>3,074</u> | <u>4,065</u> |
| | <u>85,624</u> | <u>125,532</u> |

Included within Other creditors is an amount of £1,150,000 (2018 £1,150,000) in relation to a loan from a Group company associated with one of the Group's freehold properties. The rate of interest on this loan is 8.27% with the term extended to 2031. Contract liabilities amounting to £4,065,000 in 2018 were recognised as revenue in 2019.

| | | |
|--|----------------------|----------------------|
| 17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | | |
| | 2019 | 2018 |
| | £'000 | £'000 |
| Lease liabilities (see note 18) | 18,276 | 22,453 |
| Accruals | 432 | 558 |
| Other creditors | 12,314 | 7,783 |
| Contract liabilities | <u>3,261</u> | <u>5,804</u> |
| | <u>34,283</u> | <u>36,598</u> |

Included within Other creditors is an amount of £10,475,000 (2018 £6,533,000) in relation to a loan from a Group company associated with one of the Group's freehold properties. The rate of interest on this loan is 8.27% with the term extended to 2031.

| | | |
|---------------------------------|---------------|---------------|
| 18. LEASE LIABILITIES | | |
| | 2019 | 2018 |
| | £'000 | £'000 |
| Current: | | |
| Lease liabilities (see note 19) | <u>6,429</u> | <u>6,747</u> |
| Non-current: | | |
| Lease liabilities (see note 19) | <u>18,276</u> | <u>22,453</u> |

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

18. LEASE LIABILITIES - continued

Terms and debt repayment schedule for year ended 31 December:

| | 1 year or less £'000 | 1-2 years £'000 | 2-5 years £'000 | More than 5 years £'000 | Totals £'000 |
|------------------------|----------------------------|--------------------|--------------------|-------------------------------|-----------------|
| 2019 Lease liabilities | <u>6,429</u> | <u>4,791</u> | <u>10,549</u> | <u>2,936</u> | <u>24,705</u> |

| | 1 year or less £'000 | 1-2 years £'000 | 2-5 years £'000 | More than 5 years £'000 | Totals £'000 |
|------------------------|----------------------------|--------------------|--------------------|-------------------------------|-----------------|
| 2018 Lease liabilities | <u>6,747</u> | <u>5,731</u> | <u>15,784</u> | <u>938</u> | <u>29,200</u> |

19. LEASING AGREEMENTS

Minimum lease payments under lease liabilities fall due as follows:

| | | |
|--------------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| | £'000 | £'000 |
| Gross obligations repayable: | | |
| Within one year | 7,881 | 8,706 |
| Between one and more than five years | <u>21,273</u> | <u>26,893</u> |
| | <u>29,154</u> | <u>35,599</u> |
| Finance charges repayable: | | |
| Within one year | 1,452 | 1,959 |
| Between one and more than five years | <u>2,997</u> | <u>4,440</u> |
| | <u>4,449</u> | <u>6,399</u> |
| Net obligations repayable: | | |
| Within one year | 6,429 | 6,747 |
| Between one and more than five years | <u>18,276</u> | <u>22,453</u> |
| | <u>24,705</u> | <u>29,200</u> |

20. PROVISIONS FOR LIABILITIES

Provisions recognised in 2019 and 2018 amounting to £607,000 pertains to the following:

Dilapidation provision

The dilapidation provisions totalling £400,000 (2018 £300,000) represent the estimated costs required to reinstate certain premises to a state as required under the lease agreements where liabilities are expected.

Onerous leases provision

Onerous leases provisions amounting to £207,000 (2018 £307,000) represent the estimated service costs that would be paid in relation to lease agreements that the Group considers to be onerous.

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

21. CALLED UP SHARE CAPITAL

| Allotted, issued and fully paid: | | Nominal value: | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------------------|-----------------------|-----------------------|
| Number: | Class: | | | |
| 200,000 | Ordinary | £1 | <u>200</u> | <u>200</u> |

22. RESERVES

| | Retained earnings £'000 |
|----------------------------|--|
| At 1 January 2019 | 13,820 |
| Total comprehensive income | <u>8,158</u> |
| At 31 December 2019 | <u>21,978</u> |

23. EMPLOYEE BENEFIT OBLIGATIONS

The Company has complied with the requirements of IAS 19 in the current and preceding year. These Financial Statements include a proportion of the Group pension deficit and charge which has been allocated to the Company.

The Company operates the Communisis Pension Plan which comprises a defined contribution and defined benefit section.

Defined contribution scheme

The Company operates UK defined contribution arrangements. The assets of the arrangements are held separately from those of the Company.

The Company is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £3.6m (2018 £3.3m) represents contributions payable to these arrangements by the Company at specified rates. As at 31 December 2019 all contributions due in respect of the current reporting period had been paid over to the arrangements on 4 January 2020 (2018 4 January 2019).

The Company expects to contribute £3.6m (2018 £3.3m) to the defined contribution pension arrangements in 2019.

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

23. EMPLOYEE BENEFIT OBLIGATIONS - continued

Defined benefit schemes

The section is closed to all members with no employees accruing further benefits under the plan.

The amounts recognised in the balance sheet are as follows:

| | 2019 | 2018 |
|---------------------------------------|------------------------|-----------------|
| | £'000 | £'000 |
| Present value of funded obligations | (176,211) | (166,352) |
| Fair value of plan assets | <u>161,469</u> | <u>142,352</u> |
| | (14,742) | (24,000) |
| Present value of unfunded obligations | <u>-</u> | <u>-</u> |
| Deficit | <u>(14,742)</u> | <u>(24,000)</u> |
| Net liability | <u>(14,742)</u> | <u>(24,000)</u> |

The amounts recognised in profit or loss are as follows:

| | 2019 | 2018 |
|---|-----------------------|----------------|
| | £'000 | £'000 |
| Current service cost | - | 3,013 |
| Net interest from net defined benefit asset/liability | 4,681 | 4,317 |
| Administrative expenses | 991 | 693 |
| Interest income | <u>(3,844)</u> | <u>(3,519)</u> |
| | <u>1,828</u> | <u>4,505</u> |

Changes in the fair value of the funded status of the defined benefit plan are as follows:

| | 2019 | 2018 |
|-----------------------------|------------------------|-----------------|
| | £'000 | £'000 |
| Opening net pension deficit | (24,000) | (26,225) |
| Contributions by employer | 3,252 | 2,706 |
| Current service cost | - | (3,013) |
| Net interest expense | (837) | (798) |
| Administration costs | (991) | (693) |
| Return on assets | 21,447 | (6,791) |
| Actuarial gains/(losses) | <u>(13,613)</u> | <u>10,814</u> |
| Closing net pension deficit | <u>(14,742)</u> | <u>(24,000)</u> |

COMMUNISIS UK LIMITED**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019****23. EMPLOYEE BENEFIT OBLIGATIONS - continued**

Changes in the present value of the defined benefit obligation are as follows:

| | 2019 | 2018 |
|------------------------------------|----------------|-----------------|
| | £'000 | £'000 |
| Opening defined benefit obligation | 166,352 | 176,989 |
| Current service cost | - | 3,013 |
| Interest cost | 4,681 | 4,317 |
| Benefits paid | (8,435) | (7,153) |
| Actuarial losses (gains) | <u>13,613</u> | <u>(10,814)</u> |
| | <u>176,211</u> | <u>166,352</u> |

Changes in the fair value of scheme assets are as follows:

| | 2019 | 2018 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Opening fair value of scheme assets | 142,352 | 150,764 |
| Contributions by employer | 3,252 | 2,706 |
| Interest income | 3,844 | 3,519 |
| Benefits paid | (8,435) | (7,153) |
| Administrative expenses | (991) | (693) |
| Return on plan assets (excluding interest income) | <u>21,447</u> | <u>(6,791)</u> |
| | <u>161,469</u> | <u>142,352</u> |

The amounts recognised in other comprehensive income are as follows:

| | 2019 | 2018 |
|---|---------------|----------------|
| | £'000 | £'000 |
| Actuarial gains/(losses) | (13,613) | 10,814 |
| Return on plan assets (excluding interest income) | <u>21,447</u> | <u>(6,791)</u> |
| | <u>7,834</u> | <u>4,023</u> |

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

23. EMPLOYEE BENEFIT OBLIGATIONS - continued

The value of major categories of scheme assets and categories of scheme assets as a percentage of total scheme assets are as follows:

| | 2019 £'000 | % | 2018 £'000 | % |
|--|----------------|-------------|----------------|-------------|
| Assets with a quoted market price in an active market | | | | |
| Diversified growth funds | 66,969 | 42% | 60,399 | 42% |
| Liability driven investments | 18,084 | 11% | 18,037 | 13% |
| Synthetic equities/liability driven investments | 20,141 | 13% | 14,576 | 10% |
| Diversified alternatives | 16,212 | 10% | 14,276 | 10% |
| Property income fund | 12,932 | 8% | 12,711 | 9% |
| Property used by the company | 9,689 | 6% | 6,848 | 5% |
| Other | | | | |
| Direct lending | 11,518 | 7% | 8,626 | 6% |
| Insured Liabilities | 1,945 | 1% | 1,946 | 1% |
| Cash | 3,979 | 2% | 4,942 | 4% |
| | <u>161,469</u> | <u>100%</u> | <u>142,352</u> | <u>100%</u> |

Communis Trustee (2011) Company Limited (the "Trustee") has been appointed by Communis to administer and manage the Communis Pension Plan on behalf of the members in accordance with the terms of the Trust Deed and Rules of the Plan and relevant legislation.

The overall management of the investment of the assets of the Pension Plan is the responsibility of the Plan Trustee. However, the day-to-day execution of the investment and associated transactions is delegated to the Plan's appointed Investment Managers. The Trustee agreed investment strategy is based on analysis of the liability profile of the Pension Plan and the risk and returns expected from the various asset classes held over the longer term. The primary objective of the Trustee is to operate a strategy which provides long-term growth and security for all beneficiaries. The risk that the investments may not be sufficient to cover the Plan liabilities is one which is monitored by the Trustee and their advisers as well as by the Group. The funding position and the divergence of invested assets is under regular review.

In February 2012, Communis Limited and the Trustee agreed to a Central Asset Reserve arrangement involving the securitisation of a rental stream on one of the Group's freehold properties to help address the pension fund deficit. In connection with the arrangement certain freehold property was transferred to a limited partnership established by the Group. The partnership is controlled by, and its results are consolidated by, the Group. The value of the assets transferred was £9,750,000 and on the same date the Plan used the contribution to acquire an interest in the partnership for its value of £9,750,000. In September 2019, it was agreed that the Plan's partnership interest entitles it to a distribution of £1,150,000 each year from the income of the partnership up to 2031. The Plan's interest in the partnership does not qualify as a Plan asset for the Group.

In addition to the rental payments referred to above, following the latest triennial valuation performed at 31 March 2017, in order to remove the deficit, a further recovery plan (subject to reassessment following future triennial valuations) was agreed. The recovery plan comprises eight annual contributions, payable by 5 October each year from 2017 up to and including 2024. In September 2019, it was agreed that annual deficit repair contributions to the scheme were extended out to 2030 and the contributions will increase annually by 10%.

COMMUNISIS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

23. EMPLOYEE BENEFIT OBLIGATIONS - continued

The Company expects to pay £6,050,000 to the defined benefit pension scheme in 2020, of which £1,150,000 relates to annual rent and £1,500,000 to administration costs including the Pension Protection Fund levy. The Board continues to work with the Trustee to seek opportunities to reduce the deficit and liability exposure and accelerate progress to the goal of “self-sufficiency” for the defined benefit pension scheme.

Assumptions

Independent qualified actuaries have updated the accounting deficit valuation to take account of the requirements of IAS 19 Employee Benefits in order to assess the liabilities of the scheme at 31 December 2019.

At 31 December 2019, the last triennial valuation performed is at 31 March 2017. As at issuance of these financial statements, the latest triennial valuation was calculated at 31 March 2020.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

| | 2019 | 2018 |
|----------------------------------|-------------|-------------|
| Discount rate | 2.00% | 2.90% |
| Inflation - Retail Price Index | 3.00% | 3.30% |
| Inflation - Consumer Price Index | 2.10% | 2.30% |

Mortality rates

Mortality rates have assumed the base table of 110% of S2PA to be consistent with the approach adopted at the actuarial valuation dated 31 March 2018 (2018 base table of 100% of S1PA). Assumed life expectancy for a member aged 65 is as follows:

| | 2019 Years | 2018 Years |
|---------------------|-----------------------|-----------------------|
| Current pensioners: | | |
| Male | 20.1 | 20.7 |
| Female | 22.0 | 22.6 |
| Future pensioners: | | |
| Male | 21.1 | 22.1 |
| Female | 23.2 | 24.2 |

Sensitivity analysis

Sensitivity analysis has been performed to determine the impact on the defined benefit obligation as a result of reasonable changes in the key assumptions occurring at the end of the reporting period.

A 0.1 percentage point change (in absolute terms), in the factors below would have the following effects:

| | Increase £'000 | Decrease £'000 |
|--------------------------------------|---------------------------|---------------------------|
| Discount rate | | |
| Effect on defined benefit obligation | (3,100) | 3,200 |
| Inflation | | |
| Effect on defined benefit obligation | 1,800 | (2,100) |

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

23. EMPLOYEE BENEFIT OBLIGATIONS - continued

A one-year increase in life expectancy would have the following effect:

| | Increase £'000 |
|--------------------------------------|---------------------------|
| Effect on defined benefit obligation | 7,800 |

The Plan is exposed to inflation and interest rate risk and changes in the life expectancy of pensioners. The Company's exposure to equity market risk is mitigated by a diverse portfolio of investments.

The weighted average duration of the defined benefit obligation at 31 December 2019 is approximately 17 years (2018 17 years).

24. IMMEDIATE AND ULTIMATE PARENT COMPANY

The Company's immediate parent company is Communisis Limited.

On 10 December 2018 Communisis Limited was acquired by OSG Bidco Limited. OSG Bidco Limited and Communisis Limited are both registered in England and Wales. OSG Bidco Limited is an indirect subsidiary of OSG Group Holdings, Inc. OSG Group Holdings, Inc. (incorporated in Delaware, United States) is regarded by the Directors as being the Company's ultimate parent company for the year ended 31 December 2019.

The only UK group into which the results of the Company are consolidated for year ended 31 December 2019 is that headed by OSG Bidco Limited. Copies of the Group accounts of OSG Bidco Limited are available from the registered office at Communisis House, Manston Lane, Leeds LS15 8AH.

25. CONTINGENT LIABILITIES

The Company has no contingent liabilities as at 31 December 2019.

In 2018, the Company, together with its fellow Group undertakings, has given guarantees in respect of certain bank borrowings of Communisis Limited, based on the business assets and liabilities of the Group operating companies. At 31 December 2018 total borrowings subject to the guarantee amounted to £53,000,000.

26. RELATED PARTY DISCLOSURES

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

During the year the Directors were remunerated for services provided to the Group. This has been disclosed in Note 4. The Directors are considered to be key management personnel.

There were no other related party transactions in the year that require disclosure under IAS 24.

27. POST BALANCE SHEET EVENTS

Since the year end, it has become clear that the spread of the COVID-19 coronavirus will have a material impact on many economies globally both through the effects of the virus itself and the measures taken by governments to restrict its spread.

Given the emergence and spread of the COVID-19 virus is not considered to provide more information about conditions that existed as at the balance sheet date, this is considered to be a non-adjusting post balance sheet event and so the measurement of assets and liabilities in the accounts have not been adjusted for its potential impact. The Directors have set out the post year end impact on going concern in the Directors' Report.