
HAWK INCENTIVES LIMITED
(FORMERLY THE GRASS ROOTS GROUP UK LIMITED)

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017



HAWK INCENTIVES LIMITED

COMPANY INFORMATION

Directors	P Gurney M Howe K Richesson
Company Secretary	M Wainhouse
Registered number	04155659
Registered office	Westside London Road Hemel Hempstead Hertfordshire United Kingdom HP3 9TD
Independent auditor	Deloitte LLP Statutory Auditor 1 New Street Square London United Kingdom EC4A 3BZ
Bankers	Lloyds TSB Bank plc Black Horse House Progression Centre 42 Mark Road Hemel Hempstead Hertfordshire HP2 7DW
Solicitors	Eversheds 115 Colmore Row Birmingham B3 3AL

HAWK INCENTIVES LIMITED

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HAWK INCENTIVES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER, 2017

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activities

The principal activity of the company is the provision of employee, customer and channel engagement programmes and promotions. These services help our clients engage with their employees, channel partners, customers and prospects, to improve their business performance.

Principal risks and uncertainties

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

- Failure of our infrastructure may result in non-delivery of agreed services to clients resulting in loss of business, reputational damage and potential legal claims. The company invests heavily in its IT infrastructure and employees to ensure this risk is mitigated.
- As part of the trading activities the company receives money on behalf of clients. The directors recognise that there are specific obligations when dealing money on behalf of third parties.

Business review

Turnover decreased by 26% to £33.2 million (on a restated basis); this was due to a shift in sales mix towards product sales and away from managed services, where some programmes came to an end. Gross profit decreased by 14% to £26.3 million and gross profit margin increased by 11% to 79% (restated), also due to the change in mix. The business has been successful in implementing operational cost savings through integration with the Blackhawk Group and as a consequence operating margin increased from 14% to 24%.

Shareholder's funds have increased by £6.6 million to £19.1 million which represents the profit in the year. Debtors have increased by approximately £9.8 million, due in large part to an increase in amounts due from group undertakings as a result of the acquisition by Blackhawk Network Holdings Inc, following which the funding and e-money licensed programmes were transferred to Blackhawk Network (UK) Limited. Previously the funds were held by a sponsor bank and as such were not presented on the balance sheet. This is also the key driver in the increase in creditors: Amounts falling due within one year of £7.0 million.

Key performance indicators

The following are our financial key performance indicators

	Year ended 31 December 2017	Year ended 31 December 2016
Turnover (£000's)	33,233	44,652
Gross profit % of turnover	79%	68%
Profit before tax % of turnover	24%	15%

HAWK INCENTIVES LIMITED

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER, 2017

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

M Howe

A handwritten signature in black ink, appearing to read 'M Howe', with a long, sweeping horizontal stroke extending to the right.

Director

28 September, 2018

HAWK INCENTIVES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER, 2017

The directors present their annual report and the audited financial statements for the year ended 31 December, 2017.

Details of activities and principal risks and uncertainties and business review can be found in the Strategic Report on page 4 and form part of this report by cross-reference.

Results and dividends

The profit for the year, after taxation, amounted to £6.6 million (2016: £6.1 million). The directors do not recommend the payment of a dividend (2016: £nil).

Directors

The directors who served during the year and any changes subsequent to the year-end were:

P Gurney

M Howe

J Kenny (resigned 7 August, 2018)

K Richesson

I Digby (resigned 16 April, 2018)

M Verman (resigned 14 April, 2017)

A Lister (resigned 15 December, 2017)

Going concern

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

Research and development activities

Investing in research and development programmes delivers product innovation within Hawk Incentives Limited. Expenditure in 2017 on research and development amounted to £0.1 million (2016: £0.5 million). This is in line with expectations.

Change of name

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

Future developments

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

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER, 2017

Financial risk management

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

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

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

Employee involvement

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

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

Disabled employees

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

Modern Slavery Act

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

Qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Companies Act 2006. Such qualifying third party indemnity provisions remain in force as at the date of approving the directors' report. The maximum liability covered on behalf of directors is approximately £50 million. This is a group-wide indemnity provision that benefits all directors of all companies within the Blackhawk group.

Disclosure of information to auditors

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

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

HAWK INCENTIVES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER, 2017

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

This report was approved by the board on 28 September, 2018 and signed on its behalf.


M Howe

Director

Registered company number: 04155659

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAWK INCENTIVES LIMITED (FORMERLY
THE GRASS ROOTS GROUP LIMITED)**

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December, 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework" ; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Hawk Incentives Limited (the 'company') which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 26

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".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAWK INCENTIVES LIMITED (FORMERLY
THE GRASS ROOTS GROUP LIMITED) (CONTINUED)**

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAWK INCENTIVES LIMITED (FORMERLY
THE GRASS ROOTS GROUP LIMITED) (CONTINUED)**

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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 any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Hadleigh Shekle FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

28 September, 2018

HAWK INCENTIVES LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER, 2017**

	Note	2017 £000	<i>2016 Restated £000</i>
Turnover	3	33,233	44,652
Cost of sales		(6,980)	(14,183)
Gross profit		26,253	30,469
Administrative expenses		(18,366)	(24,105)
Operating profit	4	7,887	6,364
Interest receivable and similar income	8	140	272
Profit before tax		8,027	6,636
Tax on profit	9	(1,383)	(575)
Profit for the year		6,644	6,061

All amounts relate to continuing operations.

See note 25 for details of restatements.

HAWK INCENTIVES LIMITED

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER, 2017**

	Note	2017 £000	2016 <i>Restated</i> £000
Non-current assets			
Intangible assets	10	1,108	368
Tangible assets	11	1,219	320
Investments	12	-	50
Deferred tax asset	17	251	157
		<u>2,578</u>	<u>895</u>
Current assets			
Stocks	13	1,307	1,301
Debtors	14	55,650	45,838
Cash at bank and in hand	15	38,664	37,633
		<u>95,621</u>	<u>84,772</u>
Creditors: Amounts falling due within one year	16	<u>(79,123)</u>	<u>(72,102)</u>
Net current assets		<u>16,498</u>	<u>12,670</u>
Total assets less current liabilities		<u>19,076</u>	<u>13,565</u>
Provisions for liabilities	20	-	(1,133)
Net assets		<u><u>19,076</u></u>	<u><u>12,432</u></u>
Capital and reserves			
Called up share capital	22	50	50
Profit and loss account		19,026	12,382
		<u>19,076</u>	<u>12,432</u>

For details of the restatements, see note 25.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 September, 2018.

M Howe 

Director

Registered company number: 04155659

The notes on pages 15 to 33 form part of these financial statements.

HAWK INCENTIVES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER, 2017**

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January, 2016	50	6,321	6,371
Comprehensive income for the year			
Profit for the year	-	6,061	6,061
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	6,061	6,061
At 31 December, 2016 and at 1 January, 2017	50	12,382	12,432
Comprehensive income for the year			
Profit for the year	-	6,644	6,644
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	6,644	6,644
At 31 December, 2017	50	19,026	19,076

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017**

1. Accounting policies

1.1 Basis of preparation of financial statements

Hawk Incentives Limited is a private company limited by shares, incorporated in the United Kingdom and registered in England and Wales. Its registered office is stated on page 2. The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 2).

The following principal accounting policies have been applied:

The Company meets the definition of a qualifying entity under FRS 100 "Application of Financial Reporting Requirements" issued by the Financial Reporting Council and has therefore elected to prepare its financial statements in accordance with FRS 101 "Reduced Disclosure Framework".

Consolidated accounts

Consolidated accounts have not been prepared because the Company's results are consolidated in the publicly available accounts of Blackhawk Network, Inc., a company registered in the USA, which prepares consolidated financial statements. Accordingly, these financial statements represent information about the Company as an individual undertaking and not about its group.

1.2 Financial reporting standard 101 – reduced disclosure exemptions

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER, 2017

1.2 Financial reporting standard 101 – reduced disclosure exemptions (continued)

Where required, equivalent disclosures are provided in the financial statements of Blackhawk Network Holdings Inc., which are available to the public and can be obtained from the address set out in note 24.

1.3 Going concern

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

1.4 Revenue

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

Revenue from reward and communication schemes is recorded across the period of the campaign. Revenue from the sale of goods and vouchers is recognised when the significant risks and rewards of ownership of the goods and vouchers have passed to the buyer, on dispatch of the goods and vouchers.

1.5 Intangible assets

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

Software is amortised on a straight-line basis over a useful economic life of 36 months (33%).

1.6 Tangible fixed assets

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

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Plant and machinery	33%
Motor vehicles	25%
Fixtures and fittings	20%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER, 2017

1.7 Investments

Investments in subsidiaries are measured at cost less accumulated impairment.

1.8 Inventories and work in progress

Vouchers and e-vouchers for resale are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal.

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

1.9 Debtors

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

1.10 Cash and cash equivalents

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

1.11 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER, 2017

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

At amortised cost

Financial liabilities at amortised cost are initially recognised at fair-value net of any transaction costs directly attributable to the issue of the instrument. Interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Statement of Financial Position.

1.12 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.13 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP, as this is the principal economic environment in which the Company operates.

Transactions and balances

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

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017**

1.14 Research and development

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

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

When it is impossible to demonstrate if a product or service at the research stage will generate any probable future economic benefit, IAS 38 states that all expenditure incurred at the research stage should be written off to the income statement as an expense when incurred, and will never be capitalised as an intangible asset.

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

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

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

1.15 Operating leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

1.16 Pensions

Defined contribution pension plan

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017**

1.17 Interest income

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

1.18 Provisions for liabilities

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

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

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

1.19 Unredeemed bonusbond and supercheques

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

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

Unredeemed Supercheques are stated in the balance sheet at the face value of cheques outstanding.

Unredeemed Bonusbonds and Supercheques are held on the balance sheet until their expiry date.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017**

1.20 Current and deferred taxation

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

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

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

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

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2. Critical accounting judgments and key sources of estimation uncertainty

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

Critical judgements in applying the company's accounting policies

Presentation of revenue

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

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

Key sources of estimation uncertainty

Recoverability of internally generated intangible assets

During the year, management reconsidered the recoverability of its internally-generated intangible asset portfolio which is included in the balance sheet at £1.0 million. Based on estimated future cashflows from the products concerned, management believes that the carrying value will be recovered in full, and this situation will be monitored closely.

HAWK INCENTIVES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017

3. Turnover

	2017	<i>Restated</i> 2016
	£000	£000
Product sales	12,095	11,402
Services rendered	21,138	33,250
	<u>33,233</u>	<u>44,652</u>

The total turnover of the company for the year has been derived from customers based in the United Kingdom. For a very small number of these clients the company operates fulfilment overseas. This represents approximately 2% of turnover (2016: 2%).

4. Profit before tax

Profit before tax is stated after charging / (crediting):

	2017	2016
	£000	£000
Research and development charged as an expense	124	453
Depreciation of tangible fixed assets	300	210
Amortisation of software and internally developed assets (included in administrative expenses)	269	98
Exchange differences	64	(247)
Defined contribution pension cost	489	576
Bad debt expense	(141)	289
Operating lease rentals:		
- plant and machinery	21	67
- land and buildings	328	579

HAWK INCENTIVES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017**

5. Auditor's remuneration

	2017	2016
	£000	£000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	22	64
Fees payable to the Company's auditor for audit services in connection with the consolidated financial statements of blackhawk Network Holdings Inc.	274	-
Other assurance services	-	5
	296	69

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2017	2016
	£000	£000
Wages and salaries	11,982	15,372
Social security costs	1,319	1,537
Cost of defined contribution scheme	489	576
	13,790	17,485

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

	2017	2016
	No.	No.
Business development	35	27
Customer Services & Operations	83	130
Functional Specialist	146	171
Leadership	-	3
Relationship management	89	87
	353	418

HAWK INCENTIVES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017

7. Directors' remuneration

	2017	2016
	£000	£000
Directors' emoluments	133	879
Company contributions to defined contribution pension schemes	12	75
	145	954

The number of directors who exercised share options and received shares was 4 (2016: 7). During the year retirement benefits were accruing to 6 directors (2016: 9) in respect of defined contribution pension schemes.

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

- Remuneration for certain directors has been borne by related companies: Hawk Incentives Holdings Limited, Blackhawk Network (UK) Limited and Blackhawk Network Netherlands B.V. These directors are also directors of other Blackhawk Group companies in the United Kingdom and Europe. The total remuneration for their services to these companies was £923,000 (2016: £580,000). It is not practicable to allocate their remuneration between these companies.
- The remaining directors received remuneration from other group companies in respect of their services to Blackhawk Network Holdings Inc group companies as a whole and received no remuneration for their services as directors of the Company as they are non-executives.

8. Interest receivable

	2017	2016
	£000	£000
Bank interest receivable	140	272
	140	272

HAWK INCENTIVES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017**

9. Taxation

	2017	<i>2016</i>
	£000	<i>£000</i>
Corporation tax		
Current tax on profits for the year	1,524	559
Adjustments in respect of previous periods	(47)	(69)
Total current tax	<u>1,477</u>	<u><i>490</i></u>
Deferred tax		
Origination and reversal of timing differences	(105)	35
Changes to tax rates	12	17
Adjustments in respect of prior periods	(1)	33
Total deferred tax	<u>(94)</u>	<u><i>85</i></u>
Taxation on profit	<u>1,383</u>	<u><i>575</i></u>

Factors affecting the tax charge for the year

The tax assessed for the year is lower than (2016 - lower than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The difference is explained below:

	2017	<i>2016</i>
	£000	<i>£000</i>
Profit before tax	<u>8,027</u>	<u><i>6,636</i></u>
Profit multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	1,545	1,327
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	7	(19)
Difference in tax rates	12	17
Adjustments to tax charge in respect of prior periods	(48)	(37)
Group relief claimed for nil consideration	(133)	(713)
Total tax charge for the year	<u>1,383</u>	<u><i>575</i></u>

The UK corporation tax rate reduced to 19% effective 1 April 2017. Following the enactment of the Finance Act 2016 in September 2016, the UK corporation tax rate will be reduced to 17% effective from 1 April 2020. Deferred tax has therefore been provided at this rate.

HAWK INCENTIVES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017**

10. Intangible assets

	Purchased software £000	Internally developed software	Total
Cost			
At 1 January, 2017	1,917	244	2,161
Additions	22	987	1,009
At 31 December, 2017	1,939	1,231	3,170
Amortisation			
At 1 January, 2017	1,656	137	1,793
Charge for the year	188	81	269
At 31 December, 2017	1,844	218	2,062
Net book value			
At 31 December, 2017	95	1,013	1,108
At 31 December, 2016	261	107	368

HAWK INCENTIVES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017**

11. Tangible assets

	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
Cost				
At 1 January, 2017	1,254	182	1,127	2,563
Additions	400	-	799	1,199
Disposals	-	(120)	-	(120)
At 31 December, 2017	<u>1,654</u>	<u>62</u>	<u>1,926</u>	<u>3,642</u>
Depreciation				
At 1 January, 2017	1,062	174	1,007	2,243
Charge for the year	220	7	73	300
Disposals	-	(120)	-	(120)
At 31 December, 2017	<u>1,282</u>	<u>61</u>	<u>1,080</u>	<u>2,423</u>
Net book value				
At 31 December, 2017	<u><u>372</u></u>	<u><u>1</u></u>	<u><u>846</u></u>	<u><u>1,219</u></u>
At 31 December, 2016	192	8	120	320

HAWK INCENTIVES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017

12. Investments

	Investments in subsidiary companies £000
Cost	
At 1 January, 2017	50
Impairment	(50)
At 31 December, 2017	-
Net book value	
At 31 December, 2017	-
<i>At 31 December, 2016</i>	<i>50</i>

Investments include the subsidiary undertaking Projectlink Motivation Limited. The decision was taken during the year ended 31 December, 2017 to liquidate this company. As such, this was written down to zero.

13. Stocks

	2017 £000	2016 £000
Vouchers held for sale	1,307	1,218
Amounts recoverable on contracts	-	83
	<u>1,307</u>	<u>1,301</u>

The total amount recognised as an expense in the year ended 31 December, 2017 with respect to items fulfilled from inventory was £5.6m (2016: £67.3m).

HAWK INCENTIVES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017**

14. Debtors

	2017	2016
	£000	£000
Trade debtors	18,093	18,749
Amounts owed by group undertakings	33,738	25,376
Other debtors	1,867	1,225
Prepayments and accrued income	1,952	488
	55,650	45,838

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

15. Cash and cash equivalents

	2017	2016
	£000	<i>Restated</i> £000
Cash at bank and in hand	38,664	37,633
	38,664	37,633

For details of the restatements see note 25.

16. Creditors: Amounts falling due within one year

	2017	2016
	£000	<i>Restated</i> £000
Trade creditors	3,286	4,813
Other taxation and social security	1,445	1,528
Other creditors	40,273	41,131
Accruals and deferred income	34,119	24,630
	79,123	72,102

For details of the restatements see note 25.

HAWK INCENTIVES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017**

17. Deferred tax

	2017	2016
	£000	£000
At beginning of the year	157	242
Credited / (charged) to profit and loss	94	(85)
At end of year	<u>251</u>	<u>157</u>

The deferred tax asset is made up as follows:

	2017	2016
	£000	£000
Accelerated capital allowances	148	131
Other timing differences	77	26
Share options	26	-
	<u>251</u>	<u>157</u>

18. Financial instruments

	2017	2016
	£000	£000
Financial assets		
Financial assets available for sale	-	50
Financial assets that are debt instruments measured at amortised cost	92,362	82,982
	<u>92,362</u>	<u>83,032</u>

	2017	2016
	£000	£000
Financial liabilities		
Financial liabilities measured at amortised cost	(75,544)	(70,574)
	<u>(75,544)</u>	<u>(70,574)</u>

HAWK INCENTIVES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017

19. Commitments under operating leases

At 31 December, 2017, the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £000	2016 £000
Within 1 year	1,066	321
Between 2 to 5 years	3,746	-
After more than 5 years	6,555	-
	<u>11,367</u>	<u>321</u>

The company leases various offices under non-cancellable operating leases expiring within one to twelve years. The company has entered into a new commercial lease for office premises commencing 1 January, 2018. Other existing leases expire within six months of the year ended 31 December, 2017.

20. Provisions

	Dilapidation £000
At 1 January, 2017	1,133
Utilised	(360)
Credited to profit and loss	(773)
At 31 December, 2017	<u>-</u>

Dilapidation provisions include obligations to restore leasehold properties to their original condition at the inception of the lease, upon termination of the lease.

At 31 December, 2017, the company had served notice to terminate the leases on three properties and reached settlement agreements with the landlords with respect to dilapidations expenses payable, all of which were settled by the year-end. The residual provision was released to profit and loss.

21. Related party transactions

The company has taken advantage of the exemption available for wholly owned subsidiaries from disclosing related party transactions with other wholly owned subsidiaries of Blackhawk Network Inc.

There were no other related party transactions during the year ended 31 December, 2017.

HAWK INCENTIVES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017

22. Share capital

	2017	2016
	£000	£000
Shares classified as equity		
Authorised, allotted, called up and fully paid		
50,000 ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>

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

23. Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £489,486 (2016: £576,142). There were contributions payable to the fund at the reporting date of £143,585 (2016: £157,773).

24. Controlling party

The immediate parent company and controlling entity is Hawk Incentives Holdings Limited, a company incorporated in Great Britain and registered in England and Wales, whose registered office is as stated on page 2.

At 31 December, 2017 the ultimate parent undertaking and controlling party and the parent of the largest and smallest group for which consolidated financial statements are prepared of which the Company was a part is Blackhawk Network Holdings Inc, a company registered in the USA. The Group accounts for Blackhawk Network Holdings Inc can be obtained from the registered office, 6220 Stoneridge Mail Rd, Pleasanton, CA 94588, USA.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017**

25. Restatements

a.) Turnover restatement – net presentation

During the year ended 31 December, 2017, the company undertook a detailed review of the accounting for its turnover, including reassessing whether it acts as principal or agent with respect to the services it provides.

The conclusion of our review was that a number of revenue streams that were previously presented gross, on the basis of a principal determination, would be more accurately presented net.

The prior period has been restated for this change, and the impact has been to reduce turnover for the year ended 31 December 2016 by £71,305,000 and reduce cost of sales by the same amount. There is no impact on profit or net assets.

b.) Client cash – gross presentation

Cash at bank and in hand includes amounts held in accounts that are operationally ringfenced in order to make payments to childcare providers under the Company's care-4 scheme. The company voluntarily undertakes this arrangement as we believe it is best practice, and complies with the code of practice of the Childcare Voucher Providers Association (CVPA), of which the company is a founding member. The code highlights and establishes clear expectations for parents, carers, employers and voucher providers.

In the accounts for the year ended 31 December, 2016, this cash was offset against the corresponding liabilities on the basis that it was deemed to be cash held on behalf of clients and therefore held off balance sheet.

A further review of this presentation was conducted during the year ended 31 December, 2017, and it was determined that, whilst the cash is operationally ringfenced, the offsetting requirements are not met under FRS 101. As such, the prior period has been adjusted for this and the impact on the statement of financial position as at 31 December, 2016 has been to increase cash at bank and in hand by £37,594,000 and increase creditors: Amounts falling due within one year by the same amount.

26. Post balance sheet events

On 15 June, 2018 Silverlake Partners V L.P. and P2 Capital Master Fund I L.P. acquired Blackhawk Network Holdings Inc and the group is now a privately held organisation.