Prinovis UK Limited

Registered number 5063783

Annual Report and Financial Statements

Year ended 31 December 2020

Registered number 5063783

Directors and Advisors
Richard Gray
Niklas Darijtschuk

Company Secretary
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Strategic report

The directors present their strategic report for the year ended 31 December 2020 for Prinovis UK Limited (the "company").

Principal activities
The company's principal activity is to print and bind magazines, catalogues and flyers.

Business review
2020 presented new challenges as the world adapted to Covid-19 (C19). Risk management processes meant a C19 response framework was developed at an early stage allowing the company to respond quickly as the situation developed to put in place measures to protect employees, reduce business risk and ensure delivery of customer requirements on time. Whilst these measures increased cost and reduced capacity to some extent, the primary concern was ensuring the company could continue to operate safely. The company was confirmed as a key worker business and therefore has remained operational throughout the lockdowns and expects to continue to do so. C19 responses are continually monitored to ensure they remain sufficient. The approach will continue until the directors are confident measures and active monitoring are no longer required.

Despite the pandemic, the company continued with strategic investments to ensure post-crisis the company is in the best possible position to move forward. C19 caused some delays; however, progress continued to be made in 2020. More solar panels were installed in Q1 2020 bringing the total number up to 4,812. The company is delighted to communicate that unique paper banding equipment has been developed with an original equipment manufacturer (OEM) and is progressing through commissioning. Although there were C19 delays, by the end of 2020 over one million paper bands a week were being produced. As well as reducing plastic, the product offers an innovative new marketing option. New customers were secured for the web press installed in 2018/19 supported by the unique ink jetting customisation capability. Productivity projects gained traction in 2020 with automated guided vehicles (AGVs) and improved industrial automation. Investment in newer finishing equipment is expected to drive improvements in 2021.

C19 was not the only cause of uncertainty. Whilst the Brexit outcome at the time of writing is known, for most of 2020 it was uncertain necessitating appropriate preparations to reduce risk and prepare for worst case outcomes. Contingency stocks were put in place again and refresher training undertaken in the run up to Brexit. The company chose to prepare for a possible 2021 Authorised Economic Operator (AEO) application with the Institute of Export. The work to prepare for an application provided a good opportunity to cross check preparation with a third-party expert to ensure relevant risks had been addressed. The Brexit outcome is essentially a free trade deal with some simplifications agreed to support the transition. At the time of writing, all planned EU / NI shipments and receipts had proceeded to plan with no production interruptions or delays due to new customs arrangements.

As would be expected, the 2020 figures reflect C19 impacts. However, the company achieved significant cost savings that helped compensate some of the sales impact from national lockdowns. The directors decided it was necessary to undertake a business restructure during lockdown one. Whilst relatively early in the pandemic, this step significantly reduced C19 risk whilst retaining sufficient capacity to be able to respond to changing customer demands. The Job Retention Scheme (JRS) was utilised where appropriate to do so, resulting in an income of £1.1m in the year. However, JRS was not used to support one-off restructuring cost (this was funded by the company). The company ended 2020 slightly ahead of revised expectations reflecting some positive market development and achievement of cost targets. Revenue is predominantly impacted by C19 effects. The loss before tax of £6.5m reflected C19 sales / cost developments, one off restructuring costs (£3.2m), an impairment (£3.1m) and, to a lesser extent, Brexit preparation costs. The company continues to be financed by an intercompany loan. The company was able to maintain a relatively small yearly loan movement despite C19 and one-off effects. A loan waiver (£17m) was concluded with Bertelsmann UK Limited in December 2020.

The company continues to benefit from being part of the Bertelsmann Printing Group (created through the merger of Bertelsmann's Arvato and BePrinters businesses in Jan 2016).

Strategic report (continued)

Future development
The European print market remains competitive despite market consolidation in recent years. Current customer contracts provide a good foundation, and the company has an established strategy to address this risk.

The company remains committed to its strategic plan with further projects planned to come on line through 2021 to ensure the site continues to make good progress in all focus areas including sustainability, productivity and customer focussed solutions. Despite continued difficult market conditions, the company expects that the strategic plan will help maintain profitability in the future.

Brexit uncertainty has reduced significantly with the publication of the Trade Continuity Agreement. Whilst, at the time of writing, the EU is yet to ratify the agreement, the company considers future risk in this area to be low.

C19 had a significant impact in 2020 and ultimately led to restructuring. Whilst there has been another lockdown in Q1 2021, the vaccine roll out is progressing well and economic forecasts (Bank of England) expect the UK to recover strongly in Q2 and through the rest of 2021 (although the range of projections is wider than normal as a result of the increased uncertainty). However, despite these expectations it was necessary to undertake a further, smaller redundancy exercise in Q1 2021 to address C19 led market changes and due to the installation of newer, more productive equipment that will be operational in 2021.

KPIs
The key ratio used by management to monitor performance is EBITDA. This was a loss of £48k for the current year (2019: profit £5,189k). This is discussed further in note 21.

Risk management
The principal risks and uncertainties facing the company are, on the whole, operational in nature.

The company faces financial risks, in the form of exchange rate risk, interest rate risk and default risk (see note 21). The company is exposed to fluctuations in the Euro exchange rate. The FX rate will be monitored post Brexit and a decision taken to forward purchase Euros when the company considers conditions right to do so.

Default risk is managed by way of credit verification and credit insurance which is obtained prior to trading. This minimises the risk of default in relation to financial assets. Despite C19 impacts there were no bad debts in 2020 (2019: £nil).

The major raw material purchases are ink and gas. The ink price is negotiated to ensure volume discounts are maximised, whilst the gas is, in part, forward purchased in line with company risk management policies.

The continuing liquidity of the company is secured by way of an intercompany cash management and loan agreement with Bertelsmann UK Limited.

Strategic report (continued)

Coronavirus (C19)
As detailed in earlier sections, C19 has impacted the company. It remains difficult to forecast the long-term effects of the pandemic. The Board has considered market / customer information and economic forecasts when modelling potential future scenarios and deriving the 2021-2023 business plan.

Whilst uncertainty remains, the actions taken to date have / will address controllable issues and the decision to continue strategic projects in 2020 means the company will be in the best possible position to move forward profitably.

From a supply chain perspective, the factory has continued to operate safely and without interruption. The Directors will continue to actively review the situation daily and will adjust measures accordingly to comply with new guidance, ensure the safety of employees and adapt to market developments.

Statutory duties in accordance with s172(1) Companies Act 2006
The board of directors consider, both individually and together, that they have acted in the way they consider would be most likely to promote the success of the company for the benefit of its members and stakeholders as a whole in the decisions taken during the year ended 31 December 2020. The approval of the business plan for 2021 to 2023 and the 2020 loan waiver / capital contribution demonstrates the support from the group which is vital to the ongoing success and viability of the company.

The plan was designed to have a long term beneficial impact on the company and to contribute to its success by delivering innovative and environmentally sound solutions. We will continue to operate our business within tight budgetary controls and in line with regulatory targets.

Our employees are fundamental to the delivery of our business plan, and we aim to be a responsible employer in our approach to pay and benefits our employees receive. The health, safety and well-being of our employees are primary considerations in the way we operate.

We aim to act responsibly and fairly in how we engage with our suppliers, customers, investors and regulators.

Our activities took into account the impact of the company's operations on the community and environment and our wider societal responsibilities. Several projects and performance measures introduced in 2020 deliver environmental improvements and focus will continue in the future to ensure performance measures continue to address environmental topics.

As the board of directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours and in doing so will contribute to the delivery of the plan.

On behalf of the board

Richard Gray
Managing Director

24th June 2021

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2020.

General information
Prinovis UK Limited is a private company, limited by shares. The company is domiciled, registered and incorporated in the United Kingdom.

Future development
An indication of likely future developments of the business is included in the strategic report on page 4.

Going concern
Having reviewed future cash projections and made enquiries to confirm intercompany funding arrangements, the directors are satisfied the going concern basis of preparation is appropriate. Please refer to note 2c for further details.

Research and development
There is no incurred or expected research and development expenditure (2019: £nil).

Proposed dividend
The directors do not recommend the payment of a dividend (2019: £nil).

Charitable and political donations
No charitable or political donations were made in the financial year (2019: £nil).

Financial risk management
Financial risk management is described in the strategic report on page 4.

Disabled employees
The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee involvement
The company is accredited as an Investor in People and has been awarded the extended framework status at bronze level.

The company continued to communicate with employees via the "Prino News" staff magazine, "Ask the MD" employee questions box and information screens installed around the plant. The managing director holds periodical forums to present a business update and other developments to the whole of the staff and utilises diagonal slice meetings to engage a cross section of employees on a periodic basis.
A plant performance bonus scheme is now in place, which is intended to encourage the involvement of employees in the company's performance.

Directors' report (continued)

Streamlined Energy and Carbon Reporting Disclosure

Reporting methodology
We have followed the 2019 UK Government environmental reporting guidance. We have used data compiled in fulfilment of EUETS for gas combustion. UK Government GHG Conversion Factors for Company Reporting have been used for all remaining metrics.
UK energy use covers printing activities across the Prinovis UK Limited entity.

Energy and emissions report
Prinovis UK Limited has always taken its environmental performance seriously. Despite the site benefitting from state-of-the-art equipment when it was built in 2005/06, the company has maintained focus on improving energy efficiency, as demonstrated by the site's ISO50001 recognition and multiple large energy efficiency investments.

In 2019 the company invested in a web offset press to bring cover production in-house. It is estimated we have reduced our supply chain transport by 271,142km per annum, reducing annual CO_2e emissions by more than 250 tonnes. Whilst the web offset press investment was an exciting opportunity for customers and the site, the directors' team were conscious of the environmental impact the increased electricity consumption on site would drive. As a result, a project to install a 1.1MW solar photovoltaic system on the main factory roof (consisting of 4,086 solar panels) was accelerated to ensure that the project would become operational at a similar time to the web press. Prinovis UK Limited was awarded a 2019 regional sustainability award from the manufacturers' association "Make UK" in recognition of the renewables installation and development of the paper banding solution described in the strategic report.
In 2020 the company invested in an additional 0.2MW solar photovoltaic system. The total system now consists of 4,812 solar panels and is expected to reduce site emissions by around 307 tonnes CO_2e per annum.
During 2020, Prinovis UK Limited undertook the following additional energy efficiency actions:

- Switched our supply of LPG to BioLPG, which is 40% renewable, resulting in a saving of 22 tonnes CO_2e. 2021 savings are expected to be higher as the change in fuel was made in June 2020;
- Updated our company vehicle policy so that our current fleet is replaced by electric alternatives when they fall due;
- Installed a cooling water bleed recovery system which captures the drain water, filters it, and reuses it back in the site's water supply. Overall, it has reduced water consumption and water to drain by approximately 45,000m³ per annum, saving 15 tonnes CO_2e; and
- In response to the coronavirus pandemic, we suspended business travel and increased video conferencing technology for staff meetings, further reducing the need for travel.

Summary

	2020	2019
UK energy use [kWh]	147.9 million	n/a
Total greenhouse gas emissions [tonnes CO_2e]	27,385	n/a
Intensity ratio [tonnes CO_2e per sales revenue]	0.0005	n/a

Greenhouse gas emissions by activity

	2020	2019
Gas consumption [tonnes CO_2e]	26,635	n/a
Owned transport [tonnes CO_2e]	244	n/a
Purchased electricity [tonnes CO_2e]	495	n/a
Business travel - rental cars [tonnes CO_2e]	0	n/a
Employee commuting - cars [tonnes CO_2e]	11	n/a

Directors' report (continued)

Indemnity
No qualifying third party professional indemnity provision or qualifying pension scheme indemnity provision has been in place for any of the directors during the year or the period up to the signing date.

Disclosure of information to the auditor
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Directors
The directors who held office during the year and up to the date of signing the financial statements were Richard Gray and Niklas Darijtschuk.

On behalf of the board

Richard Gray
Managing Director

24th June 2021

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the 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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the UK (IFRSs as adopted by the UK) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the UK;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRINOVIS UK LIMITED

Opinion

We have audited the financial statements of Prinovis UK Limited ("the company") for the year ended 31 December 2020 which comprise the statement of profit and loss and other comprehensive income, balance sheet, statement of changes in equity, statement of cash flows, and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations - ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management/ directors.
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRINOVIS UK LIMITED (continued)

Fraud and breaches of laws and regulations - ability to detect (continued)

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and the risk that management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We also performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and the EU Emissions Trading Scheme. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon. Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRINOVIS UK LIMITED (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Gareth Roberts

Gareth Roberts (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One St Peter's Square
Manchester
M2 3AE
United Kingdom

24 June 2021

Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Note	**2020** **GBP'000**	**2019** **GBP'000**
Revenue	*4*	53,035	66,763
Other income	*5*	2,298	2,206
		55,333	68,969
Change in inventories of finished goods and work in progress		(582)	151
Raw materials and consumables used		(19,467)	(26,054)
Staff costs	*6*	(22,747)	(23,072)
Depreciation and amortisation	*10*	(2,475)	(2,026)
Impairment of non-current assets	*10*	(3,104)	-
Other expenses	*7*	(12,585)	(14,805)
Total expenses		(60,960)	(65,806)
Operating (loss) / profit		(5,627)	3,163
Financial expenses	*8*	(829)	(752)
(Loss) / profit before tax		(6,456)	2,411
Taxation	*9*	1,043	(439)
(Loss) / profit for the financial year and total comprehensive (loss) / income for the year		(5,413)	1,972

The notes on pages 17 to 38 are an integral part of these financial statements.

Balance Sheet

As at 31 December 2020

	Note	**2020** **GBP'000**	**2019** **GBP'000**
Non-current assets			
Property, plant and equipment	*10*	23,515	26,436
Intangible assets	*10*	69	45
Deferred tax asset	*9*	1,800	2,000
		25,384	28,481
Current assets			
Inventories	*11*	5,025	5,373
Trade accounts receivable	*12*	3,657	5,429
Other accounts receivable and other financial assets	*12*	850	1,228
Tax receivable	*9*	1,186	285
Cash and cash equivalents		10	345
		10,728	12,660
Total assets		36,112	41,141
Current liabilities			
Bank overdraft		146	-
Other interest-bearing loans and borrowings	*16*	37	17
Trade and other payables	*17*	4,625	5,735
Other liabilities	*17*	3,508	3,308
		8,316	9,060
Non current liabilities			
Other interest-bearing loans and borrowings	*16*	20,198	36,070
Other financial liabilities	*17*	13	13
		20,211	36,083
Total liabilities		28,527	45,143
Net assets / (liabilities)		7,585	(4,002)
Equity			
Share capital	*13*	-	-
Capital contribution reserve	*13*	57,652	40,652
Accumulated losses		(50,067)	(44,654)
Total equity	*13*	7,585	(4,002)

The notes on pages 17 to 38 are an integral part of these financial statements.

The financial statements on pages 13 to 38 were authorised for issue by the Board of Directors on 24th June 2021 and the balance sheet was signed on the Board's behalf by:

Richard Gray
Director

Statement of changes in equity

For the year ended 31 December 2020

Attributable to equity owners of the parent

	Share capital GBP'000	**Capital contribution GBP'000**	**Accumulated losses GBP'000**	**Total Equity GBP'000**
Balance at 1 January 2019	-	40,652	(46,626)	(5,974)
Profit for the financial year and total comprehensive income for the year	-	-	1,972	1,972
Balance at 31 December 2019	-	40,652	(44,654)	(4,002)
Loan waiver		17,000	-	17,000
Loss for the financial year and total comprehensive loss for the year	-	-	(5,413)	(5,413)
Balance at 31 December 2020	-	57,652	(50,067)	7,585

The nature of the reserves are detailed in note 13.

The notes on pages 17 to 38 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2020

	Note	2020 GBP'000	2019 GBP'000
Cash flow from operating activities			
(Loss) / profit for the year		(5,413)	1,972
Adjustments for:			
Depreciation, amortisation and impairment	*10*	5,579	2,026
Financial expense		829	752
Loss on sale of property, plant and equipment		3	-
Taxation		(1,043)	439
		5,368	3,217
Decrease in trade and other receivables		2,150	719
Decrease / (increase) in inventories		348	(1,062)
(Decrease) in trade and other payables		(995)	(17)
		1,503	(360)
Tax received / (paid)		342	(90)
Net cash from operating activities		1,800	4,739
Cash flows from investing activities			
Acquisition of intangible assets		(75)	(10)
Acquisition of property, plant and equipment		(2,437)	(4,018)
Net cash from investing activities		(2,512)	(4,028)
Cash flows from financing activities			
Proceeds from borrowings	*23*	268	-
Repayments of borrowings	*23*	-	(418)
Payment of lease liabilities	*23*	(37)	(25)
Net cash from financing activities		231	(443)
Change in cash and cash equivalents		(481)	268
Cash and cash equivalents less bank overdraft at beginning of year		345	77
Cash and cash equivalents less bank overdraft at end of year		(136)	345

The notes on pages 17 to 38 are an integral part of these financial statements.

Notes to the financial statements

1 Corporate information

The financial statements contain information about Prinovis UK Limited as an individual entity. Prinovis UK Limited is a company limited by shares and is incorporated and domiciled in England.

2 Basis of preparation

a) General principles

The financial statements have been prepared on a historical cost basis. The financial statements have been prepared in GBP and all values are rounded to the nearest thousand.

b) Statement of compliance

The financial statements of Prinovis UK Limited for the year ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

c) Going concern

Notwithstanding a loss for the year ended 31 December 2020 of £5.4m, the operating cash inflows for the year were £1.8m.

The directors have considered the operating nature of the entity and expectations for future trading for a period of 12 months from the date of approval of these financial statements. It indicates that, taking account of reasonably possible downsides, the company will have sufficient funds through funding from its ultimate parent Bertelsmann SE & Co. KGaA to realise its assets and settle its liabilities in the ordinary course of business for that period.

This is dependent upon Bertelsmann SE & Co. KGaA providing the required funding through this period through the cash pooling arrangement. Bertelsmann SE & Co. KGaA has indicated its intention to continue to make available such funds as are needed by the company. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Given the dependency on the Ultimate Parent the directors have also considered the work carried out by Group management in relation to the Group's going concern assessment focussing on cash flow, liquidity position and the ability of the Group to meet known and potential liabilities and concluded that having analysed the impact of COVID 19, the Group has sufficient headroom and will be able to provide support to the company.

d) Changes in accounting policy and disclosures

Accounting policies adopted are consistent with those of previous years.

Notes to the financial statements (continued)

3 Summary of significant accounting policies

a) Significant accounting judgments, estimates and assumptions

The preparation of the company's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. Estimates and assumptions are continually evaluated and are based on historical experience and other facts, including expectations of future events that are believed to be reasonable under the circumstances.

There are no judgements which the directors consider are so significant that they require disclosure.

The 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.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The proposed future changes in the corporation tax rates (where enacted or substantively enacted) are considered in this calculation. Further details are contained in note 9.

Impairment

IFRS requires management to undertake an annual test for impairment of indefinite life assets and, for finite life assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported. This assessment involves cash flow projections which have been discounted at an appropriate rate, and also a periodic review of the current market value of the high value assets.

b) Currency translation

The financial statements are presented in GBP, which is the company's functional and presentational currency. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of the balance sheet are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of profit and loss and other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

c) Revenue recognition

Revenue is recognised when control of the goods is transferred to the customer and the revenue can be reliably measured. Revenue is measured at the fair value of the economic consideration received, excluding discounts, rebates, amortisation of supplier contracts and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the transfer of control of the goods has passed to the buyer, usually on dispatch of the goods. Payment terms vary between 30 days and 90 days.

Sale of by-products / scrap products

Revenue from the sale of by-products of the production process is included in turnover in the month they are physically sent to the buyer. Revenue from the sale of scrap products is recognised as other operating income in the month they are physically sent to the buyer. Any stocks held at the end of the year are capitalised.

d) Intangible assets

Purchased intangible assets are stated at acquisition cost. Intangible assets with finite useful lives are amortised systematically on a straight-line basis over their estimated useful lives. Impairments are recorded applying the requirements of impairment tests (IAS 36). Intangible assets with indefinite useful lives are not amortised, but are subject to an annual impairment test and, where applicable, are written down to their recoverable amount. Capitalised software is amortised over 3 years, and licences are amortised over the term of the respective licence agreement.

e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at acquisition cost less depreciation and accumulated impairment. Assets under construction are not depreciated.
Maintenance expenses are recorded as an expense in the year in which they were incurred, whereas costs incurred resulting in a prolongation of the asset's useful life or in an improvement to its use, are recognised as an increase in the carrying value of the asset.
Borrowing costs attributable to assets under construction are recognised as an expense when incurred.
Items included in property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives.
The following useful lives are now used:

• Land	not depreciated
• Buildings	33 years
• Plant and machinery	8 to 15 years
• Vehicles	3 to 5 years
• Fixtures and fittings	3 to 10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit and loss and other comprehensive income in the year the asset is derecognised.
Asset residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

e) Property, plant and equipment (continued)

(ii) Leased assets

For any new contracts entered into the company considers whether a contract is, or contains, a lease. A lease is defined as a contract (or part of a contract) that conveys the right to use an asset for a period of time in exchange for consideration. The company assesses whether the contract meets three key evaluations, which are whether:

a) the contract contains an identified asset;
b) the company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use;
c) the company has the right to direct the use of the identified asset throughout the period of use.

If the contract is a lease, the asset is recognised in the balance sheet at the amount of the discounted future payment obligations. This amount is also recognised as the lease liability. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of profit and loss and other comprehensive income. The asset is depreciated over the term of the lease. There are no conditional lease payments or subleases. The discount rate used is provided by the parent company, and is used throughout the group.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), b) or c) above.

(iii) Other lease payments

Payments made for the lease of low value assets are recognised in the statement of profit and loss and other comprehensive income on a straight-line basis over the term of the lease. Low value assets are those with a value below €5,000.

(iv) Impairments

At each reporting date the carrying amounts of property, plant and equipment are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where is it not possible to estimate the recoverable amount of an individual asset, the company will estimate the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of profit and loss and other comprehensive income.

Where an impairment loss subsequently reverses the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying value that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the statement of profit and loss and other comprehensive income.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable asset groups. There is no change to the aggregation of assets since the last review.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

f) Financial instruments

Financial assets

Financial assets are recognised when the company becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or as available for sale financial assets, as appropriate. The company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases and sales of financial assets are recognised on the trade date, being the date that the company commits to purchase or sell the asset. Transactions require delivery of assets within the timeframe generally established by regulation or convention in the marketplace. The subsequent measurement of financial assets depends on their classification.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the statement of profit and loss and other comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment

The company recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost. The company measures loss allowances at an amount equal to lifetime ECL. Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without indue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience, informed credit assessment and including forward-looking information.

g) Inventories

Inventories are stated the lower of cost, and their net realisable value.

Costs include all costs incurred in bringing each product to its present location and condition, including any attributable overheads, as follows:

• Raw materials	purchase cost on a moving average basis
• Work in progress and finished goods	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is the estimated sales price less expected costs to complete and estimated selling expenses. A write down is made if the net realisable value is lower than cost. The write down is reversed if the circumstances causing the write-down no longer exist. The new carrying value then represents the lower of acquisition or manufacturing cost and adjusted net realisable value. If the acquisition or manufacturing cost exceeds their current fair value at the balance sheet date, inventories are written down to their net realisable value.

h) Receivables

Other receivables and other assets are stated at their amortised cost or, where appropriate, at their fair value. Foreign currency receivables are translated into the reporting currency at rates ruling at the end of the year.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and cash on hand. The bank overdraft is used to manage the day to day cash flows of the business. Amounts in foreign currency are translated into the reporting currency at rates ruling at the end of the year.

j) Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the company becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs.
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised costs using the effective interest method.
Gains and losses arising on the repurchase, settlement or other cancellation of liabilities are recognised in finance revenue and finance cost.

k) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of profit and loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the balance sheet.

l) Provisions

All provisions have been recognised to the extent there is a legal or constructive obligation to a third party. Provisions are measured at full cost in the amount of the probable obligation.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

m) Trade payables and liabilities

Trade payables and liabilities are stated at amortised cost. Liabilities in foreign currency are translated into the reporting currency at rates ruling at the end of the year.

n) Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the existing liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the statement of profit and loss and other comprehensive income.

o) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants received in prior years continue to be held on the balance sheet and are recognised in the statement of profit and loss and other comprehensive income, being matched against the useful life of the assets which they relate to.

The Job Retention Scheme was utilised where appropriate to do so in 2020, resulting in an income of £1.1m in the year.

p) Share capital

Ordinary shares are classified as equity.

q) New standards and interpretations not applied

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2020 have had a material impact on the group or parent company.

Prinovis UK Limited has not opted for early adoption of any additional standards, interpretations or amendments that have been issued by the IASB or the IFRS IC but which are not yet mandatory.

Notes to the financial statements (continued)

4 Revenue from contracts with customers

In the following table, revenue is disaggregated by primary geographical market and the major product/service lines.

Primary geographical markets:

	2020 GBP'000	2019 GBP'000
UK	51,333	63,950
Europe	1,702	2,813
	53,035	66,763

Major products/service lines:

	2020 GBP'000	2019 GBP'000
Sale of printed materials	51,489	64,053
Sale of toluene (printing by-product)	571	1,013
Sale of waste paper (printing by-product)	975	1,697
	53,035	66,763

All products and services are transferred at a point in time.

5 Other income

	2020 GBP'000	2019 GBP'000
Intercompany recharges	609	973
Paper claims / web breaks	541	842
Other scrap	246	180
Other income	455	211
Foreign exchange gains	447	-
	2,298	2,206

6 Staff costs

	2020 GBP'000	2019 GBP'000
Wages and salaries	19,220	19,152
Social security costs	1,720	1,982
Other pension costs (note 15)	1,807	1,938
	22,747	23,072

The UK Government has offered a range of financial support packages to help companies affected by coronavirus. During the current year, the company has received a total government grant of £1.1m in respect of the furlough scheme. The company has elected to deduct the grant in reporting the related expense.
Redundancy costs of £3.2m are reported in the personnel costs.

Notes to the financial statements (continued)

6 Staff costs (continued)

Monthly average number of employees

	2020	2019
Administration staff	50	63
Operational staff	387	407
	437	470

Directors' emoluments

	2020 GBP'000	2019 GBP'000
Emoluments and benefits	315	340
	315	340

The aggregate of emoluments and amounts received under long term incentive schemes of the highest paid director was £315,000 (2019: £340,000), and pension contributions of £nil (2019: £nil) were made to a stakeholder scheme on his behalf. No director is a member of any company pension scheme. There are no benefits accruing to any member of key management under money purchase schemes or defined benefit schemes. No director is a member of any share option schemes.

7 Other operating expenses

Other expenses include:

	2020 GBP'000	2019 GBP'000
Auditor remuneration - audit fees	30	40
Operating lease rentals - other	202	65
Distribution expenses	1,724	2,138
Other expenses	10,629	12,562
	12,585	14,805

There were no non-audit fees (2019: £nil).

8 Financial expenses

	2020 GBP'000	2019 GBP'000
Interest expense on intercompany loan	829	751
Other interest expense	-	1
	829	752

Notes to the financial statements (continued)

9 Taxation

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly.

Income taxes, divided between current and deferred, as are follows:

	2020 GBP'000	2019 GBP'000
Current income taxes	1,186	285
Current income taxes prior year adjustment	57	11
Deferred income taxes		
- origination and reversal of timing differences (current year)	(200)	(735)
Total credit / (charge) from income taxes	1,043	(439)

Reconciliation of effective net tax

	2020 GBP'000	2019 GBP'000
(Loss) / profit before income tax	(6,456)	2,411
Tax using the UK corporation tax rate of 19% (2019: 19%)	1,227	(458)
Permanent differences - expenses not deductible	(2)	(10)
Deferred tax rate differences	(4)	79
Unrecognised deferred tax asset (current year)	(235)	(61)
Current income taxes prior year adjustment	57	11
Total tax credit / (charge)	1,043	(439)

Current tax

The company's profits are taxed at a rate of 19% (2019: rate of 19%).

Current tax asset

	2020 GBP'000	2019 GBP'000
Current income tax	1,186	285

Notes to the financial statements (continued)

9 Taxation (continued)

Deferred taxes

A deferred tax asset is recognised in 2020 (for the tax base in relation to property, plant and equipment, and tax losses) as the asset is expected to be recovered in the foreseeable future. The deferred tax asset is not recognised in full. The deferred tax asset has been calculated at 19% (2019: 17%).

In the March 2021 Budget, it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Group's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax liability would have increased by £0.6m.

At 31 December 2020 the company had unutilised tax losses of £35m (2019: £35m) and future capital allowances in excess of future depreciation of £10m (2019: £10m) resulting in net recognised and unrecognised temporary differences of £45m (2019: £45m).

Deferred tax asset

	Recognised GBP'000	Unrecognised GBP'000	Total GBP'000
Balance at 1 January 2019	2,735	5,544	8,279
(Decrease) / addition for the year	(735)	45	(690)
Balance at 31 December 2019	2,000	5,589	7,589
(Decrease) / addition for the year	(200)	1,066	866
Balance at 31 December 2020	1,800	6,655	8,455

Analysis of the potential deferred tax asset by category of timing difference:

	Temporary differences GBP'000	Losses GBP'000	Total GBP'000
Balance at 1 January 2019	2,400	5,879	8,279
Change in tax rate	-	-	-
Prior year adjustments	(61)	45	(16)
Result for the year	(674)	-	(674)
Balance at 31 December 2019	1,665	5,924	7,589
Change in tax rate	193	697	890
Prior year adjustments	(58)	-	(58)
Result for the year	34	-	34
Balance at 31 December 2020	1,834	6,621	8,455

Notes to the financial statements (continued)

10 Non current assets

Property, plant and equipment

	Land & buildings	Plant & machinery	Vehicles	Fixtures & fittings	Under construction	Total
	GBP'000	GBP'000	GBP'000	GBP'000	GBP'000	GBP'000
Cost						
Balance at 1 January 2019	54,599	132,075	-	3,907	4,005	194,586
Reclassification	-	(1,661)	1,661	-	-	-
Additions	-	-	58	-	3,860	3,918
Transfers	77	5,503	-	753	(6,333)	-
Disposals	-	(328)	(188)	(966)	-	(1,482)
Balance at 31 December 2019	54,676	135,589	1,531	3,694	1,532	197,022
Additions	-	-	110	-	2,524	2,634
Transfers	-	682	12	214	(908)	-
Disposals	-	(2,704)	(69)	(595)	-	(3,368)
Balance at 31 December 2020	54,676	133,567	1,584	3,313	3,148	196,288
Accumulated depreciation						
Balance at 1 January 2019	(43,293)	(123,432)	-	(3,376)	-	(170,101)
Reclassification	-	1,297	(1,297)	-	-	-
Depreciation charge for the year	(495)	(1,692)	(131)	(208)	-	(2,526)
Release of grant	560	-	-	-	-	560
Disposals	-	327	188	966	-	1,481
Balance at 31 December 2019	(43,228)	(123,500)	(1,240)	(2,618)	-	(170,586)
Depreciation charge for the year	(498)	(2,071)	(137)	(280)	-	(2,986)
Impairment charge for the year	-	(3,020)	(27)	(56)	-	(3,103)
Release of grant	561	-	-	-	-	561
Disposals	-	2,704	45	592	-	3,341
Balance at 31 December 2020	(43,165)	(125,887)	(1,359)	(2,362)	-	(172,773)
Carrying amounts						
Book value at 31 December 2020	11,511	7,680	225	951	3,148	23,515
Book value at 31 December 2019	11,448	12,089	291	1,076	1,532	26,436
Book value at 1 January 2019	11,306	8,643	-	531	4,005	24,485

Offset against land and building costs are government grants. The grants have a carrying value of £560,000 (2019: £1,121,000). The additions in 2020 were nil (2019: £nil).

Included within vehicles are four right of use assets with a total closing net book value of £91,000 (2019: £36,000). Additions in the year were £110,000 (2019: £58,000) and the depreciation on these assets in the year was £31,000 (2019: £22,000).

Prinovis UK Limited is the cash generating unit (CGU) for the impairment test. This is unchanged from the prior period. There is no change to the aggregation of assets since the last review. The test uses the 2021 budget, which covers the period 2021 to 2023, as a basis for the calculation. Figures reflect the actual and expected product portfolio for the budget period. The assumed discount rate is 5.89% (2019: 7.23%). The rate is calculated each year following a standard methodology by Bertelsmann accounting / treasury taking account of financing cost and other relevant items.

Notes to the financial statements (continued)

10 Non current assets (continued)

Property, plant and equipment (continued)

A trigger was indicated, mainly due to market developments as a result of C19. The impairment charge is recognised on the face of the statement of profit and loss and other comprehensive income, and it all relates to the assets used in the printing segment.

The recoverable amount of the CGU was calculated on a fair value basis, at level 3 of the hierarchy. Third party valuation experts were used to provide the value of the assets. The valuation technique used was that of obtaining the market value. The valuers were asked to assume an orderly sale in the principal (second hand) market for the asset, based on the current condition of the asset. Selling costs have been deducted if not already included in the recoverable value. This resulted in an impairment of £3.1m. A 5% increase / decrease in the recoverable values would have resulted in the impairment charge being £0.3m lower / higher.

Intangible Assets

	Software	Supplier contracts	Total
	GBP'000	GBP'000	GBP'000
Cost			
Balance at 1 January 2019	540	1,500	2,040
Additions	10	-	10
Disposals	(83)	-	(83)
Balance at 31 December 2019	467	1,500	1,967
Additions	75	-	75
Disposals	(61)	(1,500)	(1,561)
Balance at 31 December 2020	481	-	481
Accumulated amortisation			
Balance at 1 January 2019	(445)	(1,500)	(1,945)
Amortisation charge for the year	(60)	-	(60)
Disposals	83	-	83
Balance at 31 December 2019	(422)	(1,500)	(1,922)
Amortisation charge for the year	(50)	-	(50)
Impairment charge for the year	(1)	-	(1)
Disposals	61	1,500	1,561
Balance at 31 December 2020	(412)	-	(412)
Carrying amounts			
Book value at 31 December 2020	69	-	69
Book value at 31 December 2019	45	-	45
Book value at 1 January 2019	95	-	95

The additions to intangible assets were all acquired separately.

The supplier contract relating to OK! Magazine was not renewed during 2020, so the related intangible asset, already fully written down, was removed.

Notes to the financial statements (continued)

11 Inventories

	2020	2019
	GBP'000	GBP'000
Raw materials and supplies	1,043	965
Work in progress	581	1,163
Finished goods and merchandise	3,401	3,245
	5,025	5,373

During the year, the write off of inventories was £nil (2019: £nil). Obsolete stock is provided for, but not written off. The year end stock provision was £1,852,000 (2019: £1,748,000).
Included within inventories is £nil (2019: nil) expected to be recovered in more than 12 months.

12 Trade and other receivables

	2020	2019
	GBP'000	GBP'000
Trade accounts receivable - third party	3,554	5,288
Trade accounts receivable - intercompany	103	141
	3,657	5,429
Other accounts receivable and other assets		
Prepaid expenses	195	350
Other receivables	655	878
	850	1,228

At 31 December 2020 trade receivables at nominal value of £nil (2019: £1,000) were impaired and fully provided for.
Included within trade and other receivables is £nil (2019: nil) expected to be recovered in more than 12 months.

At 31 December the ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	------------------Past due but not impaired------------------				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
	GBP'000	GBP'000	GBP'000	GBP'000	GBP'000	GBP'000	GBP'000
2020	3,657	3,256	408	(7)	-	-	-
2019	5,429	4,221	1,196	12	-	-	-

The standard credit terms for trade receivables vary between 7 days and 90 days.

Notes to the financial statements (continued)

13 Capital and reserves

Share capital

	Ordinary shares (number)	
Allotted, called up and fully paid	**2020**	**2019**
In issue at beginning and the end of the year	1	1

At 31 December 2020, the authorised share capital comprised 3,000,000 ordinary shares of £1 each (2019: 3,000,000). The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Capital contribution reserve

Prinovis GmbH & Co KG made a capital contribution on the 1 July 2005 of £40,651,775. They did not ask for or receive any additional shares in return for the contribution.

Loan waiver

Bertelsmann UK Limited waived £17m of the intercompany loan in December 2020. This was treated as a capital contribution in the year. Bertelsmann UK Limited did not ask for or receive any additional shares in return for the waiver.

14 Dividends

No dividends have been declared.

15 Employee benefits

The company operates a defined contribution (stakeholder) plan for the benefit of the employees. The company makes payments into an external fund on a contractual basis. Once the company has paid the contributions due, it is not obliged to provide any further benefits and hence no provision is recognised in the balance sheet. Obligations for contributions to defined contribution plans are recognised as an expense in the statement of profit and loss and other comprehensive income as incurred. The expense for the company for the year was £1,807,000 (2019: £1,938,000).

16 Other interest-bearing loans and borrowings

	Current 2020 GBP'000	Current 2019 GBP'000	Non-current 2020 GBP'000	Non-current 2019 GBP'000
Intercompany loan	-	-	20,150	36,054
Leasing liabilities	37	17	48	16
	37	17	20,198	36,070

The intercompany balance between Prinovis UK Limited and Bertelsmann UK Limited is denominated in GBP. Interest was calculated at a floating rate of 1.375% above the UK base rate to the end of May 2020 and then, from the start of June 2020, at a floating rate of 2.75% above the ICE LIBOR GBP overnight rate (2019: 1.375% above the UK base rate). The interest is added to the principal amount of the loan every quarter (2019: every month). There is no fixed repayment schedule for the loan. All excess funds generated by Prinovis UK Limited are used to repay the loan. Outside of this, the repayment of the loan will not be requested by Bertelsmann SE & Co KGaA until at least 12 months after these financial statements have been signed. The loan is not secured on any assets of Prinovis UK Limited.

Notes to the financial statements (continued)

17 Trade and other payables

	2020 GBP'000	2019 GBP'000
Non current liabilities		
Other	13	13
	13	13
Current liabilities - trade payables		
Trade accounts payable - third party	4,490	5,587
Trade accounts payable - intercompany	135	148
	4,625	5,735
Current liabilities - other liabilities		
Social security contributions	482	527
Personnel related liabilities	628	907
Accrued expenses	2,398	1,874
	3,508	3,308

Trade payables are non interest bearing and the standard terms vary by suppliers. Unless otherwise negotiated, the standard terms offered are payment after 90 days. The company abides to these terms of payment wherever possible.

18 Commitments

Leases of low value assets	2020 GBP'000	2019 GBP'000
Less than one year	24	49
Between one and five years	-	24
More than five years	-	-
	24	73

The off balance sheet commitment relates to two leases for printers and copiers as the company has elected not to recognise a lease liability for these low value assets.
During the year ended 31 December 2020, £202,000 was recognised as an expense in the statement of profit and loss and other comprehensive income in respect of short term rentals and operating leases (2019: £65,000).

Leases committed but not yet commenced	2020 GBP'000	2019 GBP'000
Less than one year	-	21
Between one and five years	-	33
More than five years	-	-
	-	54

At 31 December 2019 the company had committed to two car leases which had not commenced. Both leases commenced in early 2020.

Notes to the financial statements (continued)

19 Capital commitments

At 31 December 2020, the company had ongoing commitments of £319,000 (2019: £386,000) for the construction of its property, plant and equipment.

20 Hedging activities

The company used forward currency contracts to manage some of its transactional exposure during the year. These currency forward contracts are designated as hedges of expected future purchases from suppliers in mainland Europe. At the end of the year the company had forward purchased Euros with a gross value of £nil (2019: £nil). The fair value of the contracts included in the balance sheet is £nil (2019: £nil).

21 Financial risk management

The company's principal financial instruments comprise bank overdrafts, intercompany loans and finance leases and trade payables. The main purpose of these financial instruments is to raise finance for the company's operations. The company has various financial assets such as trade receivables and cash and short term deposits, which arise directly from its operations.
The main risks arising from the company's financial instruments are exchange rate risk, interest rate risk and credit risk. The board reviews and agrees policies for managing each of these risks, which are summarised below.

Liquidity risk

The company is funded via an intercompany loan from Bertelsmann UK Limited which provides financial support through the cash management facility. Management believe that the company will be able to meet its obligations as they fall due in future years.

The table below summarises the maturity profile of the company's financial liabilities at 31 December based on contractual undiscounted cash flows.

	On demand	<3 months	3 to 12 months	1 to 5 years	Total
	2020	2020	2020	2020	2020
	GBP'000	GBP'000	GBP'000	GBP'000	GBP'000
Intercompany loan	-	-		20,150	20,150
Bank overdraft	146	-	-	-	146
Leasing liabilities	-	9	28	48	85
	146	9	28	20,198	20,381
	2019	2019	2019	2019	2019
	GBP'000	GBP'000	GBP'000	GBP'000	GBP'000
Intercompany loan	-	-	-	36,054	36,054
Leasing liabilities	-	6	11	16	33
	-	6	11	36,070	36,087

Notes to the financial statements (continued)

21 Financial risk management (continued)

Exchange rate risk

The company is exposed to foreign currency risk on sales and purchases denominated in a currency other than the pound sterling. The currencies giving rise to this risk are the Euro, Swiss franc and USD. Approximately 98% (2019: 95%) of the company's sales are denominated in the functional currency, whilst approximately 70% (2019: 71%) of the operating costs are denominated in the functional currency. The company continued to hedge against Euro payables.

If GBP had strengthened / (weakened) by 5% against the Euro then the impact on the operating result would have been £437,000 better / worse (2019: £434,000). Equity is not impacted by changes in exchange rates.

Interest rate risk

Prinovis UK Limited has an intercompany cash management and loan agreement with Bertelsmann UK Limited. The company's exposure to interest rate risk arises from the fluctuations in the rate of interest charged. For the period to the end of May 2020 this loan had a floating rate of 1.375% above the UK base rate. From the start of June 2020 this loan had a floating rate of 2.75% above the ICE LIBOR GBP overnight rate (2019: 1.375% above the UK base rate). If the base interest rate had been 1% higher / lower during the year, then the interest charge for the year would have been £351,000 higher / lower (2019: £353,000).

Default risk

The company's principal financial assets are bank balances, trade and other receivables. These represent the company's maximum exposure to default risk in relation to financial assets.

It is the policy of the company that all customers who wish to trade on credit terms are subject to credit verification procedures and, wherever possible, credit insurance is obtained.

In addition, receivables balances are monitored on a weekly basis with the result that the company's exposure to bad debts is not significant.

The amounts presented in the balance sheet are net of allowances for doubtful receivables. These have been estimated by the company's management based on prior experience and their assessment of the current economic environment.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

Capital management

The objective of capital management is to measure and maximise shareholder return.

The key ratio used by management to monitor capital is EBITDA.

Local management is not able, without prior input from the Bertelsmann Printing Group Management, to alter the capital structure of the company. No changes were made in the objectives, policies or processes during the years ending 31 December 2020 and 31 December 2019.

Key ratios (at 31 December)

	2020	2019
	GBP'000	GBP'000
(Loss) / profit before tax	(6,456)	2,411
Financial expenses	829	752
Operating (loss) / profit	(5,627)	3,163
Depreciation, amortisation and impairment	5,579	2,026
EBITDA	(48)	5,189

The decline in both EBITDA and PBT reflects C19 sales / cost developments, one off restructuring costs (£3.2m), an impairment (£3.1m) and, to a lesser extent, Brexit preparation costs.

Notes to the financial statements (continued)

22 Financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all the company's financial instruments that are carried in the financial statements.

	Carrying amount 2020 GBP'000	Carrying amount 2019 GBP'000	Fair value 2020 GBP'000	Fair value 2019 GBP'000
Cash and short term deposits	10	345	10	345
Bank overdraft	(146)	-	(146)	-
Trade receivables	3,657	5,429	3,657	5,429
Trade payables	(4,625)	(5,735)	(4,625)	(5,735)
Intercompany loan	(20,150)	(36,054)	(19,635)	(35,217)
	(21,254)	(36,015)	(20,739)	(35,178)

There are no significant concentrations of credit risk within the company, apart from the intercompany loan.
The fair value of the intercompany loan is based on the discounted cash flows associated with the loan, taking into account that the repayment will not be due until at least eighteen months after the balance sheet date.
Based on the historical experience, informed credit assessment and including forward-looking information, the company does not expect any ECL to occur, and has not recognised a loss allowance on the financial assets.

Set out below is the carrying value of the financial liabilities of the company, measured at amortised cost.

	Amortised cost 2020 GBP'000	Amortised cost 2019 GBP'000
Intercompany loan	(20,150)	(36,054)
Bank overdraft	(146)	-
Leasing liabilities	(85)	(33)
Trade payables	(4,625)	(5,735)
Other liabilities	(3,508)	(3,308)
	(28,514)	(45,130)

23 Additional cash flow information

Set out below is the analysis of net debt:

	1 Jan 2020 GBP'000	Cash flow GBP'000	Non-cash GBP'000	31 Dec 2020 GBP'000
Intercompany loan	(36,054)	(268)	16,172	(20,150)
Leasing liabilities	(33)	37	(89)	(85)
	(36,087)	(231)	16,083	(20,235)

	1 Jan 2019 GBP'000	Cash flow GBP'000	Non-cash GBP'000	31 Dec 2019 GBP'000
Intercompany loan	(35,721)	418	(751)	(36,054)
Leasing liabilities	-	25	(58)	(33)
	(35,721)	443	(809)	(36,087)

Non cash movements on the intercompany loan include accrued interest charges that are added to the loan but are not settled by a cash movement. In December 2020 £17m of the loan was waived by Bertelsmann UK Limited.

Notes to the financial statements (continued)

24 Related parties

Transactions are made between Prinovis UK Limited and other Prinovis group companies, and also with other companies in the Bertelsmann Group. Transactions with related parties involve primarily the delivery of goods and services between the companies. They are made on arms' length terms.

The transactions are summarised as follows:

	Sales / other income 2020 GBP'000	Purchases/ operating costs 2020 GBP'000	Trade receivables 2020 GBP'000	Trade payables 2020 GBP'000	Interest 2020 GBP'000
Parent companies					
Bertelsmann SE & Co KGaA	-	(254)	-	(59)	-
Bertelsmann UK Limited	-	-	-	-	(828)
Sister companies					
Prinovis GmbH & Co KG	5	(891)	1	(40)	-
Prinovis Ahrensburg GmbH	-	(53)	6	-	-
Prinovis Dresden GmbH	-	(81)	-	-	-
Prinovis Nuernberg GmbH	-	(18)	-	(10)	-
Other group companies					
Arvato Systems GmbH	-	(43)	-	(6)	-
Bertelsmann Accounting Services Gmbh	-	(1)	-	(4)	-
Bertelsmann Accounting Services Limited	-	(108)	-	(11)	-
Bertelsmann Corporate Services Limited	-	(10)	-	(2)	-
GGP Media GmbH	11	-	-	-	-
Mohn Media Mohndruck GmbH	309	-	20	-	-
Random House Group Limited	-	(3)	-	(3)	-
Sonopress GmbH	295	-	76	-	-

At the end of the year the intercompany loan from Bertelsmann UK Limited was £20.1m (2019: £36.0m).

Notes to the financial statements (continued)

24 Related parties (continued)

	Sales / other income 2019 GBP'000	Purchases/ operating costs 2019 GBP'000	Trade receivables 2019 GBP'000	Trade payables 2019 GBP'000	Interest 2019 GBP'000
Parent companies					
Bertelsmann SE & Co KGaA	-	(241)	-	(57)	-
Bertelsmann UK Limited	-	-	-	-	(751)
Sister companies					
Prinovis GmbH & Co KG	24	(906)	2	(26)	-
Prinovis Ahrensburg GmbH	138	(9)	-	-	-
Prinovis Dresden GmbH	-	(110)	-	(10)	-
Prinovis Nuernberg GmbH	407	(9)	49	-	-
Other group companies					
Arvato Systems GmbH	-	(13)	-	(4)	-
Bertelsmann Accounting Services Gmbh	-	(4)	-	-	-
Bertelsmann Accounting Services Limited	-	(23)	-	(5)	-
Bertelsmann Corporate Services Limited	-	(10)	-	(2)	-
GGP Media GmbH	8	(73)	8	(44)	-
Mohn Media Mohndruck GmbH	509	-	33	-	-
Nuovo Istituto Italiano d'Arti Grafiche	-	(2)	-	-	-
Sonopress GmbH	417	-	49	-	-

All transactions have arisen in the normal course of business.
Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2020 the company has not recorded any impairment of receivables relating to amounts owed by related parties (2019: £nil). The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

There are no related party transactions involving any the key management team.

Key management compensation

	2020 GBP'000	2019 GBP'000
Emoluments and benefits	1,123	952
Employer pension contributions to stakeholder pension	116	99
	1,239	1,051

Key management includes both statutory and non statutory directors. Personal benefits include private health care, company car and private fuel costs.

Notes to the financial statements (continued)

25 Group entities

The company is a subsidiary undertaking of Bertelsmann UK Limited (the immediate parent undertaking), which is incorporated in England & Wales. The address of Bertelsmann UK Limited is One Fleet Place, London EC4M 7WS.

The ultimate parent company, and the ultimate controlling party, is Bertelsmann SE & Co. KGaA, which is incorporated in Germany, and it is the smallest and the largest group in which the results of the company are consolidated. Copies of the financial statements can be obtained from:

Bertelsmann SE & Co KGaA
Corporate Communications
Carl-Bertelsmann-Strasse 270
33311 Gütersloh
Germany