Arvato Government Services (ERYC) Limited

Annual report and financial statements

Registered number 05322712

31 December 2016

Contents

Strategic report

Introduction

The directors of Arvato Government Services (ERYC) Limited present the Strategic report for the year ended 31 December 2016.

Business review

About Arvato

Arvato Government Services (ERYC) Limited is part of the global network of Arvato, a division of Bertelsmann Group. The company is 100% owned by Arvato Limited, a company 100% owned by Bertelsmann UK Limited, which is ultimately 100% owned by Bertelsmann SE & Co. KGaA, the ultimate parent company of Bertelsmann Group (Bertelsmann).Bertelsmann is an international media, services and education company which encompasses eight divisions: RTL Group, Penguin Random House, Gruner + Jahr and BMG are the Group's media businesses. Arvato and Bertelsmann Printing Group provide services. The Bertelsmann Education Group comprises the businesses in the third segment of education. More than 100 start-up investments are grouped in Bertelsmann Investments. In 2016 the group's businesses, with their more than 116,000 employees, generated revenues of €17.0 billion.

Bertelsmann is successfully established in international capital markets and is one of the largest issuers of EUR-bonds in the media-segment. As credit ratings and transparency are of great importance to Bertelsmann's financial security and independence, its financing policy is conservative and based on criteria ensuring that strong credit ratings are maintained.

Bertelsmann operations are centrally financed by Bertelsmann SE & Co. KGaA. As such, Arvato Government Services (ERYC) Limited benefits from Bertelsmann's financial strength and funds are provided by an intermediate parent company as required on a daily cash pooling basis.

Business Development

Under a pioneering initiative between East Riding of Yorkshire Council (the Council) and Arvato Government Services (ERYC) Limited, a public-private partnership was established for the outsourcing of public services. The company's principal business focus was the delivery of an 8 year business process outsourcing (BPO) contract to the Council. The contract commenced in 2005 and included the outsourcing and delivery of 9 key service areas including revenues, financial assessments, ICT, payroll, training and print and design. This contract came to its natural expiry on 30 September 2013 and staff and services were smoothly transferred back to the Council.

Up to the point of expiry the company performed strongly both financially and operationally through client KPIs. A number of these attracted financial penalties for non-performance or under-performance. The performance-orientated culture of Arvato, supported by robust reporting, ensured strong operational performance levels against targets.

Business Performance

In 2016 Arvato Government Services (ERYC) Limited revenues were £4,000 (2015: £7,000) with loss from operations of £11,000 (2015: £7,000).

Future Developments

The contract with East Riding of Yorkshire Council came to its natural end in September 2013 at which point the majority of staff TUPE transferred back to the Council. The contract represents all of the business in Arvato Government Services (ERYC) Limited and the company is not expected to actively trade in 2017 other than any residual transactions relating to the end of the Council contract.

Strategic report *(continued)*

Principal Risks and Uncertainties

The company has no active service contracts going forward and is not expected to have any notable risks.

On behalf of the board

Debra Maxwell
Director
24 May 2017

Directors' report

Introduction

The directors of Arvato Government Services (ERYC) Limited present the annual report and audited financial statements for the year ended 31 December 2016.

Principal Activities of the Business

Arvato Government Services (ERYC) Limited provided outsourced services to the public sector until the cessation of the contract with East Riding of Yorkshire Council on 30 September 2013. From that date, the company is not actively trading, other than any residual transactions relating to the end of the Council contract.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Debra Maxwell

Richard Parkin

Corporate and Social Responsibility

The company made no political or charitable donations, nor incurred any political expenditure during the year. However, in line with our values, we remain committed to meeting our environmental obligations and to supporting charities and communities in the UK through our employee base.

Dividends

No dividend was paid during the year (2015: £Nil) and the directors do not recommend the payment of a dividend (2015: £Nil).

Future Developments

The directors' views of the key to the future success of the company are set out in the Strategic report.

Corporate Governance

The Arvato Government Services (ERYC) Limited Board of Directors is committed to a modern and responsible approach to corporate governance. Citizenship is one of our four core values and an integral part of our corporate culture. We are committed to responsible behaviour towards employees, customers, business partners and public sector organisations.

An example of this in practice is our Code of Conduct which is based on ethical principles, legal requirements and our own rules and regulations. It consists of 20 principles that govern corporate responsibility, workplace conduct, business and financial transactions and media and technology. It is shared with our employees through a variety of training sessions.

Directors' report *(continued)*

Financial Risk Management

As set out in note 12, Arvato's business operations are financed by Bertelsmann SE & Co. KGaA. As such, Arvato Government Services (ERYC) Limited benefits from Bertelsmann's financial strength and funds are provided by an intermediate parent company as required on a daily cash pooling basis.

Other measures to control financial risks, such as hedging against foreign currency exposures, are managed on a case-by-case basis, backed by the support of the treasury department of Bertelsmann SE & Co. KGaA.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Disclosure of Information to Auditors

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 auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

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

On behalf of the board

Debra Maxwell
Director
24 May 2017

One Fleet Place
London
United Kingdom
EC4M 7WS

Independent auditors' report to the members of Arvato Government Services (ERYC) Limited

Report on the financial statements

Our opinion

In our opinion, Arvato Government Services (ERYC) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

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

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

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

Opinion on other matters prescribed by the Companies Act 2006

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

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Independent auditors' report to the members of Arvato Government Services (ERYC) Limited *(continued)*

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

S Simpson

Steve Simpson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Hull
26 May 2017

Statement of Comprehensive Income

for the year ended 31 December 2016

	Note	2016	2015
		£000	£000
Discontinued operations			
Revenue	2	**4**	7
Operating costs			
Administrative expenses		**(15)**	(14)
Loss from operations	3	**(11)**	(7)
Financial income	5	**4**	6
Loss before taxation		**(7)**	(1)
Taxation	6	**-**	18
(Loss)/profit for the year		**(7)**	17
Other comprehensive income for the year		**-**	-
Total comprehensive (expense)/income for the year		**(7)**	17

The notes on pages 11 to 22 form part of the financial statements.

The activities of the company ceased on the completion of the contract with East Riding of Yorkshire Council during 2013, therefore the operations have been classified as discontinued.

Statement of Financial Position

as at 31 December 2016

	Note	2016	2015
		£000	£000
Current assets			
Trade and other receivables	8	**3,105**	3,119
Cash and cash equivalents	9	**10**	10
Total current assets		**3,115**	3,129
Total assets		**3,115**	3,129
Equity			
Share capital	11	**-**	-
Retained earnings	11	**3,064**	3,071
Total equity		**3,064**	3,071
Current liabilities			
Trade and other payables	10	**51**	58
Total current liabilities		**51**	58
Total liabilities		**51**	58
Total equity and liabilities		**3,115**	3,129

The notes on pages 11 to 22 form part of the financial statements.

The financial statements of Arvato Government Services (ERYC) Limited (registered number 05322712) were approved by the Board of Directors on 24 May 2017 and were signed on its behalf by:

D Maxwell

Debra Maxwell
Director

Statement of Changes in Shareholders' Equity
for the year ended 31 December 2016

	Share capital £000	Retained earnings £000	Total equity £000
Opening balance at 1 January 2015	-	3,054	3,054
Profit for the year	-	17	17
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	17	17
Closing balance at 31 December 2015	-	3,071	3,071
Opening balance at 1 January 2016	**-**	**3,071**	**3,071**
Loss for the year	-	(7)	(7)
Other comprehensive income for the year	-	-	-
Total comprehensive expense for the year	**-**	**(7)**	**(7)**
Closing balance at 31 December 2016	**-**	**3,064**	**3,064**

The notes on pages 11 to 22 form part of the financial statements.

Statement of Cash Flow

for the year ended 31 December 2016

	Note	**2016**	2015
		£000	£000
Net cash from/(used in) operating activities	*14*	**585**	(19)
Cash flows from financing activities			
Interest received		**4**	6
Net cash from financing activities		**4**	6
Net increase/(decrease) in cash and cash equivalents		**589**	(13)
Cash and cash equivalents at 1 January		**2,495**	2,508
Cash and cash equivalents at 31 December	9	**3,084**	2,495

The notes on pages 11 to 22 form part of the financial statements.

The activities of the company ceased on the completion of the contract with East Riding of Yorkshire Council during 2013, therefore the cash flows relate to discontinued operations.

Notes

(forming part of the financial statements)

1. Accounting policies

Arvato Government Services (ERYC) Limited (the "company") is a private company limited by shares, incorporated and domiciled in London, United Kingdom.

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs"), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements are presented in pounds sterling, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons. Following the natural conclusion of the contract with East Riding of Yorkshire Council, the directors have a reasonable expectation that the company will have adequate resources to continue in existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the directors' report and financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through profit or loss or as available-for-sale, trade and other receivables, trade and other receivables from group companies, trade and other payables and trade and other payables to group companies. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Foreign currency

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of 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 *(continued)*

1. Accounting policies *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flow.

Trade and other receivables

Trade and other receivables at the statement of financial position date comprise amounts receivable from the sale of services to third parties.

Trade and other receivables from group companies include the cash pooling financing facility balance with a United Kingdom based intermediate parent company on which interest is charged or credited at specific rates, based on the Bank of England base rate.

Trade and other receivables are stated at fair value which approximates cost less impairment losses.

Trade and other payables

Trade and other payables are stated at cost and principally comprise amounts outstanding for trade purchases and ongoing costs.

Trade and other payables are stated at fair value which approximates cost.

Impairment

The carrying amounts of the company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes *(continued)*

1. Accounting policies *(continued)*

Provisions

A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Deferred income

Deferred income represents amounts received in advance of the performance of services to be provided.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, vat and other sales related taxes.

Revenue is recognised on completion of services and is invoiced to the client based on predetermined billing criteria. The nature of how a client is billed for services provided will depend upon the nature of the work undertaken.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.

Net financing costs

Net financing costs comprise interest payable, interest receivable on funds invested and foreign exchange gains and losses that are recognised in the statement of comprehensive income.

Interest income and interest payable is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of 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 statement of financial position date, and any adjustment 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 statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Changes in accounting policy and disclosures

New and amended standards adopted by the company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2016 that would be expected to have a material impact on the company.

Notes *(continued)*

1. Accounting policies *(continued)*

Changes in accounting policy and disclosures (continued)

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements:

- IFRS 2 'Share based payments' deals with classification and measurement of share-based payment transactions (effective for accounting periods beginning on or after 1 January 2018).
- IFRS 9, 'Financial instruments', Phase 1 and 2 address the classification, measurement and recognition of financial assets and financial liabilities (effective for accounting periods beginning on or after 1 January 2018).
- Amendments to IFRS 9 'Financial instruments' Phase 3 on general hedge accounting introduces a reformed model for hedge accounting with enhanced disclosures about risk management activities (effective for accounting periods beginning on or after 1 January 2018).
- IFRS 15, 'Revenue from contracts' deals with revenue recognition and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

  The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations (effective for accounting periods beginning on or after 1 January 2018).
- IFRS 16, 'Leases' deals with the recognition and measurement of leases and establishes principles for reporting the leasing activities of both lessees and lessors.

  The standard replaces IAS 17 'Leases' and related interpretations (effective for accounting periods beginning on or after 1 January 2019).

The company is assessing the impact the application of the above standards would have on the statement of financial position and statement of comprehensive income. The company plans to adopt each statement in the year it becomes applicable. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

2. Revenue

An analysis of the company's revenue is as follows:

	2016	2015
	£000	£000
Other operating income	**4**	7
	4	7

The company is a subsidiary of parent company Bertelsmann SE & Co. KGaA and is therefore exempt from producing a segmental analysis under IFRS 8.

Other operating income consists of recharges to group companies.

3. Loss from operations

Loss from operations has been arrived at after charging/(crediting):

	2016	2015
	£000	£000
Net foreign exchange gains	**-**	(2)
Auditors' remuneration:		
Audit of these financial statements	**4**	4

Notes *(continued)*

4. Directors' remuneration

Directors' emoluments are borne by another group company. No recharge has been made in respect of directors' emoluments in the current year (2015: £Nil).

5. Financial income

	2016	2015
	£000	£000
Interest income	4	6
	4	6

Interest income represents interest received from an intermediate parent company in respect of cash pooling facilities provided in the United Kingdom.

6. Taxation

	2016	2015
	£000	£000
Current taxation:		
UK corporation tax – current year	-	-
UK corporation tax – prior year	-	(18)
Deferred taxation (see note 7):		
Origination and reversal of temporary differences	-	-
	-	(18)

No tax credit arises as current year tax losses have been surrendered to fellow UK subsidiaries for no consideration. The standard rate of corporation tax changed from 21% to 20% with effect from 1 April 2015. Accordingly the company's tax reconciliation has been prepared using an effective rate of 20% (2015: 20.25%).

The credit for the year can be reconciled to the loss per the statement of comprehensive income as follows:

	2016	2015
	£000	£000
Loss before taxation	(7)	(1)
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	(1)	-
Effects of:		
Current tax rate difference	1	-
Total tax over provided in prior years	-	(18)
Total tax in statement of comprehensive income	-	(18)

During 2015 changes to the UK main corporation tax rate were enacted. The tax rate has fallen to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Accordingly deferred tax has been calculated at 19%.

Notes *(continued)*

7. Deferred tax assets and liabilities

Unrecognised deferred tax assets and liabilities

At 31 December 2016 no deferred tax asset has been recognised for the tax base in relation to temporary differences.

	Assets		Liabilities		Net	
	2016	2015	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000	**£000**	£000
Temporary differences	**1**	1	**-**	-	**1**	1
Unrecognised net tax assets	**1**	1	**-**	-	**1**	1

8. Trade and other receivables

	2016	2015
	£000	£000
Due within one year:		
Trade and other receivables	**2**	3
Trade and other receivables from group companies	**3,074**	3,087
Prepayments	**29**	29
	3,105	3,119

An allowance has been made for estimated irrecoverable amounts of trade and other receivables of £5,000 (2015: £5,000).

Trade and other receivables from group companies includes the cash pooling financing facility balance with the intermediate parent company in the United Kingdom.

9. Cash and cash equivalents

	2016	2015
	£000	£000
Bank balances	**10**	10
Bank overdrafts	**-**	-
Cash and cash equivalents	**10**	10
Group cash pooling balance	**3,074**	2,485
Cash and cash equivalents per statement of cash flow	**3,084**	2,495

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flow.

10. Trade and other payables

	2016	2015
	£000	£000
Due within one year:		
Trade and other payables	**18**	24
Trade and other payables due to group companies	**33**	34
	51	58

Notes *(continued)*
11. Capital and reserves

Reconciliation of movement in capital and reserves:

	Share capital £000	Retained earnings £000	Total equity £000
At 1 January 2015	-	3,054	3,054
Total comprehensive income for the year	-	17	17
At 31 December 2015	-	3,071	3,071
At 1 January 2016	**-**	**3,071**	**3,071**
Total comprehensive expense for the year	**-**	**(7)**	**(7)**
At 31 December 2016	**-**	**3,064**	**3,064**

No dividend was paid during the year (2015: £Nil).
Retained earnings relate wholly to the company's ultimate parent as detailed in note 16.

Share capital	**2016**	2015
	£	£
Issued and fully paid:		
1 ordinary share of £1 (2015: 1 ordinary share of £1)	**1**	1

The holders 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.

Notes *(continued)*
12. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the company's business.

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

All of the company's financial instruments fall into hierarchy level 2.

(a) Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the statement of financial position date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the statement of financial position date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the statement of financial position date.

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the statement of financial position date.

Fair values

The fair values for each class of financial assets and financial liabilities together with their carrying amounts shown in the statement of financial position are as follows:

	Carrying amount 2016	**Fair value 2016**	Carrying amount 2015	Fair value 2015
	£000	**£000**	£000	£000
Trade and other receivables	**2**	**2**	3	3
Trade and other receivables from group companies	**3,074**	**3,074**	3,087	3,087
Cash and cash equivalents	**10**	**10**	10	10
Trade and other payables	**(18)**	**(18)**	(24)	(24)
Trade and other payables to group companies	**(33)**	**(33)**	(34)	(34)
	3,035	**3,035**	3,042	3,042
Unrecognised gains/losses		**-**		**-**

Notes *(continued)*

12. Financial instruments *(continued)*

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers.

The company's principal financial assets are bank balances, trade and other receivables which represent the company's maximum exposure to credit risk in relation to financial assets. The company bears the bad debt risk on all trade receivables. The company's directors make assessments on new customers before work is carried out, based on their knowledge of the industry and the customer's acceptance of imposed credit terms.

The amounts presented in the statement of financial position are net of allowances for doubtful receivables after taking into consideration the amount of balances covered by the company's credit insurance policy. These have been estimated by the company's directors based on prior experience and their assessment of the current economic environment.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the statement of financial position date was £2,000 (2015: £3,000) included in the total of the carrying amount of trade and other receivables, shown in the table above.

Financial assets and impairment losses

The ageing of trade receivables at the statement of financial position date was:

	Gross trade receivables 2016	**Doubtful debt provision 2016**	**Net trade receivables 2016**	Gross trade receivables 2015	Doubtful debt provision 2015	Net trade receivables 2015
	£000	**£000**	**£000**	£000	£000	£000
Not past due	**7**	**(5)**	**2**	8	(5)	3
Past due but not impaired:						
One to thirty days	**-**	**-**	**-**	-	-	-
Thirty one to ninety days	**-**	**-**	**-**	-	-	-
Ninety + days	**-**	**-**	**-**	-	-	-
Individually impaired amounts	**-**	**-**	**-**	-	-	-
	7	**(5)**	**2**	8	(5)	3

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2016	2015
	£000	£000
At 1 January	**5**	5
Impairment loss recognised	**-**	-
Impairment loss reversed	**-**	-
At 31 December	**5**	5

Notes *(continued)*

12. Financial instruments *(continued)*

(c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due.

Liquidity is managed by group via the cash pooling facility. For details on this see notes 8 and 9.

Capital management

Capital is managed by the ultimate parent company.

(d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or the value of its holdings of financial instruments.

Market risk - Foreign currency risk

A proportion of expenses are invoiced in foreign currency (Euros) and the company bears the foreign currency risk on these payables. Some cash balances are held in foreign currency. The company does not take out forward contracts on currency.

Sensitivity analysis – Foreign currency risk

A one percent weakening of the euro against the pound sterling at 31 December 2016 would have impacted the company's result by the amounts shown below. This calculation assumes that the change occurred at the statement of financial position date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 31 December 2015.

At the year end it is estimated that a one percent weakening of the euro against the pound sterling would have minimal impact on the company's profit before taxation (2015: minimal impact).

A one percent strengthening of the euro against the pound sterling at 31 December 2016 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Market risk – Interest rate risk

The company's exposure to interest rate risk arises from the fluctuations in the rate of interest charged on cash and cash equivalent balances payable as impacted on by the changes in the Bank of England base rate. The company utilises a group cash pooling facility, on which interest is charged or credited at specific rates, based on the Bank of England base rate.

Sensitivity analysis – Interest rate risk

A change of one percent in interest rates at the statement of financial position date would have impacted the company's result by the amounts shown below. This calculation assumes that the change occurred at the statement of financial position date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis for 31 December 2015.

At the year end it is estimated that an increase of one percentage rise in the Bank of England base rate would decrease the company's loss before taxation by approximately £25,000 (2015: £25,000).

Notes *(continued)*

13. Related parties

Identity of related parties

The company has a related party relationship with fellow subsidiaries of the group headed by Bertelsmann SE & Co. KGaA and with its directors and executive officers.

Related party transactions

During the year the company entered into the following transactions with fellow subsidiary companies of the group. The transactions were priced on an arm's length basis.

	Sale / (purchase) of goods £000	Sale / (purchase) of assets £000	Deliver / (receive) services £000	Balance receivable / (payable) £000
Arvato Limited	-	-	4	-
Arvato Systems GmbH	-	-	-	(7)
Arvato Business Support GmbH	-	-	-	(23)
Bertelsmann SE & Co. KGaA	-	-	(3)	(3)
BeAccounting Services GmbH	-	-	(1)	-
Bertelsmann UK Limited – Cash Pooling	-	-	4	3,074
At 31 December 2016	**-**	**-**	**4**	**3,041**

The total amounts receivable from and payable to related parties are disclosed in the statement of financial position as follows:

	2016	2015
	£000	£000
Trade and other receivables from group companies	3,074	3,087
Trade and other payables to group companies	(33)	(34)
	3,041	3,053

Trade receivables from and trade payables to group companies arose in the ordinary course of business and are on substantially the same terms as for comparable transactions with third party counterparties.

14. Notes to the cash flow statement

Cash flows from operating activities

	2016	2015
	£000	£000
Loss before taxation	(7)	(1)
Adjustments for:		
Financial income	(4)	(6)
Operating loss before movements in working capital and provisions	(11)	(7)
Decrease in receivables	603	1
Decrease in payables	(7)	(9)
Cash generated from/(used in) operations	**585**	(15)
Tax paid	-	(4)
Net cash from/(used in) operating activities	**585**	(19)

Notes *(continued)*

15. Accounting estimates and judgements

The preparation of these financial statements requires the directors to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

No key estimates or judgements were identified that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Recoverability of receivables

The company reviews overdue trade receivables on a regular basis and makes provisions against those balances considered most at risk.

16. Ultimate parent company and controlling party

The immediate parent company is Arvato Limited, a company incorporated and registered in the United Kingdom.

The ultimate parent company and ultimate controlling party is Bertelsmann SE & Co. KGaA, a company incorporated and registered in Germany. The consolidated financial statements of this group are available to the public and may be obtained from Bertelsmann SE & Co. KGaA, Carl Bertelsmann Strasse 270, Postfach 111, D-33311, Gütersloh, Germany.

No other group financial statements include the results of the company.