arvato government services (ERYC) Limited

Annual report and financial statements

Registered number 05322712

31 December 2013

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Strategic report

Introduction

The directors of arvato government services (ERYC) Limited present the Strategic report for the year ended 31 December 2013

Business review

About arvato

arvato government services (ERYC) Limited is part of the global network of arvato AG, 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 company whose core divisions encompass television (RTL Group), book publishing (Random House), magazine publishing (Gruner + Jahr), services (arvato), and printing (Be Printers) in some 50 countries In 2013, the company's businesses, with their more than 100,000 employees, generated revenues of €16 4 billion Bertelsmann stands for a combination of creativity and entrepreneurship that empowers the creation of first-rate media, communications, and service offerings to inspire people around the world and to provide innovative solutions for customers

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 based on the requirements of a "BBB+/Baa1" credit rating

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 and arvato government services (ERYC) Limited, a public-private partnership was established for the outsourcing of public services The company's principal business focus is the delivery of an 8 year business process outsourcing (BPO) contract to the Council The contract commenced in 2005 and includes 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 again performed strongly both financially and operationally through client KPIs A number of these attract 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 2013 arvato government services (ERYC) Limited revenues were £16,557,000 (2012 £21,729,000) and operating profit of £1,381,000 (2012 £1,682,000)

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 business in arvato government services (ERYC) Limited and the company is not expected to actively trade in 2014 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 forwards and is not expected to have any notable risks

On behalf of the board

M Mierisch
Director
15 May 2014

Directors' report

Introduction

The directors of arvato government services (ERYC) Limited present the annual report for the year and audited financial statements for the year ended 31 December 2013

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

Future Developments

The directors' views of the key to the future success of the group are set in the Strategic report

Our People

We confirm that arvato government services (ERYC) Limited complies with the Disability Discrimination Act 1995, which replaced the Disabled Persons (Employment) Act 1944

Where existing employees become disabled, it is the company's policy wherever practical to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate

During the year, the policy of providing employees with information about the company has continued and employees are encouraged to present their suggestions and views on the company's performance Regular meetings are held between management and employees to allow a free flow of information and ideas

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 (2012 £3,000,000) and the directors do not recommend the payment of a dividend (2012 £Nil)

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 18, 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

Directors

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

Matthias Miersch

Stefan Glaser

Debra Maxwell (appointed 9 April 2013)

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

M Miersch
Director
15 May 2014

One Fleet Place
London
EC4M 7WS

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

Independent auditors' report to the members of arvato government services (ERYC) Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit 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

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The financial statements, which are prepared by arvato government services (ERYC) Limited, comprise

- the statement of financial position as at 31 December 2013,
- 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 their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of arvato government services (ERYC) Limited *(continued)*

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 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

Steve Simpson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Hull
22 May 2014

Statement of Comprehensive Income

for year ended 31 December 2013

	Note	2013	2012
		£000	£000
Discontinued operations			
Revenue	2	**16,557**	21,729
Operating costs			
Employee expenses	5	**(8,677)**	(11,477)
Administrative expenses		**(6,499)**	(8,570)
Profit from operations	3	**1,381**	1,682
Financial income	6	**6**	11
Profit before taxation		**1,387**	1,693
Taxation	7	**(332)**	(451)
Profit for the year		**1,055**	1,242
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**1,055**	1,242

The notes on pages 12 to 30 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 the year, therefore the operations have been classified as discontinued

Statement of Financial Position
as at 31 December 2013

	Note	2013	2012
		£000	£000
Non-current assets			
Property, plant and equipment	*8*	-	622
Intangible assets	*9*	-	116
Deferred tax asset	*10*	**61**	435
Total non-current assets		**61**	1,173
Current assets			
Trade and other receivables	*11*	**4,338**	6,116
Cash and cash equivalents	*12*	**10**	11
Total current assets		**4,348**	6,127
Total assets		**4,409**	7,300
Equity			
Share capital	*17*	-	-
Retained earnings	*17*	**2,806**	1,751
Total equity		**2,806**	1,751
Current liabilities			
Trade and other payables	*13*	**1,283**	4,664
Deferred income	*15*	**20**	648
Bank overdraft	*12*	-	1
Provisions	*16*	**300**	236
Total current liabilities		**1,603**	5,549
Total liabilities		**1,603**	5,549
Total equity and liabilities		**4,409**	7,300

The notes on pages 12 to 30 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 15 May 2014 and were signed on its behalf by

M Miensch
Director

Statement of Changes in Shareholders' Equity

for year ended 31 December 2013

	Note	**Share capital £000**	**Retained earnings £000**	**Total £000**
Opening balance at 1 January 2012		-	3,509	3,509
Profit for the year		-	1,242	1,242
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	**1,242**	**1,242**
Proceeds from shares issued		-	-	-
Dividends to equity holders of the company	*17*	-	(3,000)	(3,000)
Total contributions by and distributions to owners of the company		-	**(3,000)**	**(3,000)**
Closing balance at 31 December 2012		-	**1,751**	**1,751**
Opening balance at 1 January 2013		-	**1,751**	**1,751**
Profit for the year		-	1,055	1,055
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	**1,055**	**1,055**
Proceeds from shares issued		-	-	-
Dividends to equity holders of the company	*17*	-	-	-
Total contributions by and distributions to owners of the company		-	-	-
Closing balance at 31 December 2013		-	**2,806**	**2,806**

The notes on pages 12 to 30 form part of the financial statements

Statement of Cash Flow
for year ended 31 December 2013

	Note	2013	2012
		£000	£000
Net cash from operating activities	21	**1,456**	1,687
Cash flows used in investing activities			
Acquisition of property, plant and equipment		**(146)**	(780)
Acquisition of intangible assets		**(166)**	(152)
Net cash used in investing activities		**(312)**	(932)
Cash flows from financing activities			
Interest paid		**-**	-
Interest received		**6**	11
Dividend paid		**-**	(3,000)
Net cash from/(used in) financing activities		**6**	(2,989)
Net increase/(decrease) in cash and cash equivalents		**1,150**	(2,234)
Cash and cash equivalents at the beginning of the year		**1,980**	4,214
Cash and cash equivalents at 31 December	12	**3,130**	1,980

The notes on pages 12 to 30 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 the year, 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 company incorporated and domiciled in the UK

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)*

Property, plant and equipment

Property, plant and equipment are stated at deemed cost less accumulated depreciation and impairment losses

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment Land is not depreciated The estimated useful lives are as follows

Office equipment	-	8 years
Motor vehicles	-	4 years
Other equipment	-	2 years
Computer equipment	-	4 years

The useful economic life of all assets was deemed not to extend beyond the end of the contract with East Riding of Yorkshire Council which expired on 30 September 2013 All assets were fully written down by that date

Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and impairment losses

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite Intangible assets are amortised from the date they are available for use The estimated useful lives are as follows

Computer software	-	4 years

The useful economic life of all assets was deemed not to extend beyond the end of the contract with East Riding of Yorkshire Council which expired on 30 September 2013 All assets were fully written down by that date

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 The average credit period taken on these sales is 30 days and no interest is charged on the receivables

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 The average credit period taken by the company for trade purchases is 30 days

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

Notes *(continued)*

1. Accounting policies *(continued)*

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

Employee benefits

Defined contribution plan

The company operates a defined contributions pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund Obligations for contributions to the defined contribution pension scheme are recognised as an expense in the statement of comprehensive income as incurred

Defined benefit plan

The company participates in a defined benefit retirement scheme Details of the accounting treatment have been disclosed in note 14

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

Notes *(continued)*

1. Accounting policies *(continued)*

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 2013 that would be expected to have a material impact on the company

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 2013, and have not been applied in preparing these financial statements

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities Effective for accounting periods beginning on or after 1 January 2015
- Amendments to IFRS 10, 11 and 12 on transition guidance (effective 1 January 2013) (endorsed 1 January 2014)
- IAS19, 'Employee benefits' (effective 1 January 2013)
- Amendments to IAS 27, 'Separate financial statements' on consolidation for investment entities (effective 1 January 2013) (endorsed 1 January 2014)
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013) (endorsed 1 January 2014)
- Amendments to IAS 32 on Financial instruments assets and liabilities offsetting (effective 1 January 2014)
- Amendments to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective 1 January 2014)

Notes *(continued)*

1. Accounting policies (continued)

New standards and interpretations not yet adopted (continued)

- Amendments to IAS 39, 'Financial instruments Recognitions and measurement' on novation of derivatives and hedge accounting (effective 1 January 2014)
- Amendments to IAS 19, 'Employee benefits' on defined benefit plans (effective 1 July 2014)
- Annual improvements 2012 and 2013 (effective 1 July 2014)

The application of the above standards in 2013 would not have affected the statement of financial position or statement of comprehensive income as the standards are either concerned only with disclosure or are not relevant to the company's operations 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

	2013	2012
	£000	£000
Sales of services	15,597	21,055
Other operating income	960	674
	16,557	21,729

The company is exempt from producing a segmental analysis under IFRS 8

Other operating income consists of recharges to group companies

3. Expenses and auditors' remuneration

Profit from operations has been arrived at after charging

	2013	2012
	£000	£000
Net foreign exchange losses	5	2
Depreciation of tangible assets	768	725
Amortisation of intangible assets	282	198
Loss on disposal of tangible assets	-	-
Operating lease rentals		
Land and buildings	92	115
Staff costs (see note 5)	8,677	11,477
Auditors' remuneration		
Audit of these financial statements	13	13

Notes *(continued)*

4 Directors' remuneration

	2013	2012
	£000	£000
Emoluments (excluding pension contributions)	-	139
Pension contributions	-	-
Benefits in kind	-	-
	-	139

No director has retirement benefits accruing under the scheme (2012 None)

In the current year directors' emoluments are borne by another group company and have not been recharged to the company

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows

	Number of employees	
	2013	2012
Operations	328	411
Management and administration	41	87
	369	498

The aggregate payroll costs of these persons were as follows

	2013	2012
	£000	£000
Wages and salaries	7,068	9,500
Social security costs	407	590
Other pension costs – defined benefit scheme	1,034	1,360
Other pension costs – defined contribution scheme	168	27
	8,677	11,477

6. Financial income

	2013	2012
	£000	£000
Interest income	6	11
Interest charges	-	-
	6	11

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

Interest charges represent guarantee fees and interest charged from an intermediate parent company in respect of cash pooling facilities provided in the United Kingdom

Notes *(continued)*

7. Taxation

	2013	2012
	£000	£000
Current taxation		
UK corporation tax – current year	(41)	494
UK corporation tax – prior year	(1)	-
Deferred taxation (see note 10)		
Origination and reversal of temporary differences	374	(43)
	332	451

The current year tax (credit)/charge represents amounts receivable/payable to fellow UK subsidiaries of the Bertelsmann group in respect of current year tax profits surrendered in the United Kingdom The standard rate of corporation tax changed from 24% to 23% with effect from 1 April 2013 Accordingly the company's profits are taxed at an effective rate of 23 25%

The charge for the year can be reconciled to the profit per the statement of comprehensive income as follows

	2013	2012
	£000	£000
Profit before taxation	1,387	1,693
Tax using the UK corporation tax rate of 23 25% (2012 24 5%)	322	415
Effects of		
Expenses not deductible for tax purposes	6	3
Deferred tax rate difference	5	31
Total tax under/(over) provided in prior years	(1)	2
Total tax in statement of comprehensive income	332	451

As a result of changes to the UK main corporation tax rate that were enacted during the year, the relevant deferred tax balances have been re-measured The tax rate has fallen to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015

Notes *(continued)*

8. Property, plant and equipment

	Motor vehicles £000	Computer equipment £000	Office equipment £000	Other equipment £000	Total £000
Cost					
At 1 January 2012	10	2,260	146	380	2,796
Additions	-	766	14	-	780
Disposals	-	-	-	-	-
At 31 December 2012	10	3,026	160	380	3,576
At 1 January 2013	**10**	**3,026**	**160**	**380**	**3,576**
Additions	-	**143**	**3**	-	**146**
Disposals	**(10)**	**(3,169)**	**(163)**	**(380)**	**(3,722)**
At 31 December 2013	-	-	-	-	-
Accumulated depreciation					
At 1 January 2012	10	1,736	103	380	2,229
Charged for the year	-	692	33	-	725
Disposals	-	-	-	-	-
At 31 December 2012	10	2,428	136	380	2,954
At 1 January 2013	**10**	**2,428**	**136**	**380**	**2,954**
Charged for the year	-	**741**	**27**	-	**768**
Disposals	**(10)**	**(3,169)**	**(163)**	**(380)**	**(3,722)**
At 31 December 2013	-	-	-	-	-
Net book value					
At 31 December 2013	-	-	-	-	-
At 31 December 2012	-	598	24	-	622

The depreciation charge is recognised in the statement of comprehensive income under the line administrative expenses

Notes *(continued)*
9 Intangible assets

	Computer software £000	Total £000
Cost		
At 1 January 2012	703	703
Additions	152	152
Disposals	-	-
At 31 December 2012	855	855
At 1 January 2013	**855**	**855**
Additions	**166**	**166**
Disposals	**(1,021)**	**(1,021)**
At 31 December 2013	**-**	**-**
Accumulated amortisation		
At 1 January 2012	541	541
Charged for the year	198	198
Disposals	-	-
At 31 December 2012	739	739
At 1 January 2013	**739**	**739**
Charged for the year	**282**	**282**
Disposals	**(1,021)**	**(1,021)**
At 31 December 2013	**-**	**-**
Net book value		
At 31 December 2013	**-**	**-**
At 31 December 2012	116	116

The amortisation charge is recognised in the statement of comprehensive income under the line administrative expenses

Notes *(continued)*

10. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

At 31 December 2013 a deferred tax asset has been recognised for the tax base in relation to employee benefits and provisions as the future benefit is expected to be utilised by the company or surrendered to other UK group companies The nature of the deferred tax asset is such that it is expected to reverse in the next twelve months

	Assets		Liabilities		Net	
	2013	2012	**2013**	2012	**2013**	2012
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	**-**	310	-	-	**-**	310
Employee benefits	**60**	89	-	-	**60**	89
Provisions	**1**	36	-	-	**1**	36
Net tax assets	**61**	435	-	-	**61**	435

Movement in deferred tax during the year:

	1 January 2013	**P&L movement**	**31 December 2013**
	£000	**£000**	**£000**
Property, plant and equipment	**310**	**(310)**	**-**
Employee benefits	**89**	**(29)**	**60**
Provisions	**36**	**(35)**	**1**
	435	**(374)**	**61**

Movement in deferred tax during the prior year:

	1 January 2012	P&L movement	31 December 2012
	£000	£000	£000
Property, plant and equipment	268	42	310
Employee benefits	85	4	89
Provisions	39	(3)	36
	392	43	435

11. Trade and other receivables

	2013	2012
	£000	£000
Due within one year		
Trade and other receivables	**251**	3,152
Trade and other receivables from group companies	**4,087**	2,522
Prepayments	**-**	442
	4,338	6,116

An allowance has been made for estimated irrecoverable amounts of trade and other receivables of £5,000 (2012 £5,000)

Trade and other receivables from group companies include the cash pooling financing facility balance with a United Kingdom based intermediate parent company This facility is interest bearing at the Bank of England base rate less 0 25%

Notes *(continued)*

12. Cash and cash equivalents

	2013	2012
	£000	£000
Bank balances	10	11
Bank overdrafts	-	(1)
Cash and cash equivalents	10	10
Group cash pooling balance	3,120	1,970
Cash and cash equivalents per statement of cash flow	3,130	1,980

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

13. Trade and other payables

	2013	2012
	£000	£000
Due within one year		
Trade and other payables	191	3,817
Trade and other payables due to group companies	1,092	696
Retirement benefit obligation (see note 14)	-	151
	1,283	4,664

14. Employee benefits

Defined contribution plan

The company operates a defined contribution pension scheme The pension costs charge for the year includes contributions payable by the company to the scheme and amounted to £168,000 (2012 £27,000)

At the statement of financial position date, contributions amounting to £Nil (2012 £3,000) were payable to the scheme

Defined benefit plan

On 1 October 2005, the company commenced its participation in the East Riding of Yorkshire Pension Fund (ERYPF), part of the Local Government Pension Scheme (LGPS) The LGPS is a final salary pension scheme On this date the company's section of the scheme was 100% funded as valued by the Scheme Actuary

Ordinarily, participation in a final salary scheme in this way would require the company to account for their share using the normal principles applicable to a final salary pension scheme The company has however reached agreement with the East Riding of Yorkshire Council (the administering authority of the ERYPF) to limit their exposure in a number of areas

- The company has agreed to pay contributions at a very cautious rate so that the likelihood that their contribution rate will change over time is greatly reduced
- In addition, the company has agreed with the Council that it is only responsible for increases due to factors within their control, namely
  - Granting salary increases in excess of those assumed by the Scheme Actuary or imposed on the company under the Local Government Pay Award,
  - Redundancies,
  - Granting early retirement on favourable terms,
  - Exercising discretion to pay an ill health pension, or
  - Changes in the demographic profile of employees

Notes *(continued)*

14. Employee benefits (continued)

- Provided that the company does not breach the terms of its contract with East Riding of Yorkshire Council or the terms of admission to participation in the ERYPF its potential liability on the termination of the contract will be limited to £500,000

As a result of these limitations, the company does not have the large, open ended liability that is normally characteristic of final salary pension arrangements Equally, the likelihood of the company's contribution rate changing is very much less than is normally the case, therefore in line with IAS 19, the company has accounted for the pension scheme as a defined contribution scheme and not a defined benefit scheme, as follows

- The charge to the statement of comprehensive income (excluding any payments made to fund additional benefits) is calculated as 22 5% of pensionable pay This is the agreed "cautious" contribution rate referred to above and has been calculated using the following principles
  - Discount rate based on government bond yields,
  - Salary growth 1 5% above inflation plus a promotional salary scale,
  - Inflation and pension increases derived from fixed interest and index linked yields, and
  - Cautious mortality assumptions
- All actuarial gains and losses are being disregarded as the company is not exposed to the liability in the scheme
- Any payments made to fund additional benefits (for example on early retirement) will be expensed as a prior service cost in the year in which they arise
- No liability is shown on the company's statement of financial position for pensions reflecting the fact that the company's liability at the termination of the contract was limited to £500,000 but that no payment was required

The amounts recognised in the statement of comprehensive income are as follows

	2013	2012
	£000	£000
Pension cost at 22 5% of pensionable pay	**1,034**	1,360
Prior service cost	-	-
Total amount recognised in statement of comprehensive income	**1,034**	1,360

At the statement of financial position date, contributions amounting to £Nil (2012 £148,000) were payable to the fund and are included within retirement benefit obligations

15 Deferred income

	2013	2012
	£000	£000
Non-current	-	-
Current	**20**	648
	20	648

Notes *(continued)*
16. Provisions

	Pension provisions £000
At 1 January 2012	213
Provisions made during the year	23
Release of provision	-
At 31 December 2012	236
At 1 January 2013	**236**
Provisions made during the year	**64**
Release of provision	**-**
At 31 December 2013	**300**
Non-current	**-**
Current	**300**
	300

Under pension arrangements, the company has a contractual obligation to pay £250,000 plus indexation back to East Riding of Yorkshire Council if the company completes the contract without having to make payments above 22 5% of pensionable salary This is provided for on a straight line basis over the life of the contract and is payable at the end of the contract on 30 September 2013

17. Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £000	Retained earnings £000	Total £000
At 1 January 2012	-	3,509	3,509
Total comprehensive income for the year	-	1,242	1,242
Total contributions by and distributions to owners of the company	-	(3,000)	(3,000)
At 31 December 2012	-	1,751	1,751
At 1 January 2013	**-**	**1,751**	**1,751**
Total comprehensive income for the year	**-**	**1,055**	**1,055**
Total contributions by and distributions to owners of the company	**-**	**-**	**-**
At 31 December 2013	**-**	**2,806**	**2,806**

No dividend was paid during the year (2012 £3,000,000)

Retained earnings relate wholly to the company's ultimate parent as detailed in note 23

Share capital	**2013**	2012
	£	£
Issued and fully paid		
1 ordinary share of £1 (2012 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)*
18. 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 2013	**Fair value 2013**	Carrying amount 2012	Fair value 2012
	£000	**£000**	£000	£000
Trade and other receivables	**251**	**251**	3,152	3,152
Trade and other receivables from group companies	**4,087**	**4,087**	2,522	2,522
Cash and cash equivalents	**10**	**10**	10	10
Trade and other payables	**(191)**	**(191)**	(3,817)	(3,817)
Trade and other payables to group companies	**(1,092)**	**(1,092)**	(696)	(696)
	3,065	**3,065**	1,171	1,171
Unrecognised gains/losses		**-**		-

Notes *(continued)*

18. 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 £251,000 (2012 £3,152,000) 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 2013	**Doubtful debt provision 2013**	**Net trade receivables 2013**	Gross trade receivables 2012	Doubtful debt provision 2012	Net trade receivables 2012
	£000	**£000**	**£000**	£000	£000	£000
Not past due	**231**	**-**	**231**	2,847	-	2,847
Past due but not impaired						
One to thirty days	**-**	**-**	**-**	31	-	31
Thirty one to ninety days	**15**	**-**	**15**	-	-	-
Ninety + days	**10**	**(5)**	**5**	279	(5)	274
Individually impaired amounts	**-**	**-**	**-**	-	-	-
	256	**(5)**	**251**	3,157	(5)	3,152

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

	2013	2012
	£000	£000
At 1 January	**5**	5
Impairment loss recognised	**-**	-
Impairment loss reversed	**-**	-
At 31 December	**5**	5

Notes *(continued)*
18. 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 11 and 12

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 2013 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 2012

At the year end it is estimated that a one percent weakening of the euro against the pound sterling would increase the company's profit before taxation by approximately £1,000 (2012 increased profit £1,000)

A one percent strengthening of the euro against the pound sterling at 31 December 2013 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 2012

At the year end it is estimated that an increase of one percentage rise in the Bank of England base rate would increase the company's profit before taxation by approximately £18,000 (2012 increased profit £43,000)

Notes *(continued)*

19. Operating leases

Non-cancellable operating lease rentals are payable as follows

	Land and buildings 2013	Land and buildings 2012
	£000	£000
Less than one year	-	96
Between one and five years	-	-
More than five years	-	-
	-	96

During the year £92,000 (2012 £115,000) for land and buildings was recognised as an expense in the statement of comprehensive income in respect of operating leases

20. 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 paid no dividend (2012 £3,000,000) to its immediate parent company, arvato Limited

In addition, 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

	Sales / (purchase) of goods £000	**Sales / (purchase) of assets £000**	**Deliver / (receive) services £000**	**Balances receivable / (payable) £000**
arvato finance services Limited, Dublin	-	-	2	-
arvato government services Limited	-	-	(86)	602
arvato Limited	-	-	(450)	(936)
arvato public sector services Limited	-	-	51	202
arvato D-INT BA der arvato direct services GmbH	-	-	(89)	(22)
arvato systems GmbH	-	-	(64)	(6)
arvato systems UK & Ireland Limited	-	-	(3)	(3)
Bertelsmann SE & Co KGaA	-	-	(3)	-
Random House Group Limited	-	-	(5)	(3)
Bertelsmann UK Limited – Cash Pooling	-	-	6	3,120
Bertelsmann UK Limited – Tax Pooling	-	-	41	41
At 31 December 2013	-	-	(600)	2,995

Notes *(continued)*

20. Related parties (continued)

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

	2013	2012
	£000	£000
Trade and other receivables from group companies	4,087	2,522
Trade and other payables to group companies	(1,092)	(696)
	2,995	1,826

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

At the statement of financial position date, the amount receivable from Bertelsmann UK Limited in respect of the cash pooling account was £3,120,000 (2012 £1,970,000) This balance is included within trade and other receivables from group companies

21. Notes to the cash flow statement

Cash flows from operating activities

	2013	2012
	£000	£000
Profit before taxation	1,387	1,693
Adjustments for		
Loss on disposal of property, plant and equipment	-	-
Depreciation of property, plant and equipment	768	725
Amortisation of intangible assets	282	198
Financial expenses	-	-
Financial income	(6)	(11)
Operating profit before movements in working capital and provisions	2,431	2,605
Decrease/(increase) in receivables	2,968	(455)
Decrease in payables	(3,515)	(23)
Increase in provision	64	23
Cash generated from operations	1,948	2,150
Tax paid	(492)	(463)
Net cash from operating activities	1,456	1,687

22 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

Notes *(continued)*

23. 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 is available to the public and may be obtained from Bertelsmann SE & Co KGaA, Carl Bertelsmann Strasse 270, Postfach 111, D-33311, Gutersloh, Germany

No other group financial statements include the results of the company