

# **arvato government services Limited**

Annual report and consolidated  
financial statements

Registered number 05429280

31 December 2015

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## Strategic report

### Introduction

The directors of arvato government services Limited present the Strategic Report for the year ended 31 December 2015.

### Business review

#### About arvato

arvato government services Limited is part of the global network of arvato, a division of Bertelsmann Group. The company is 80.1% owned by arvato Limited, a company 100% owned by Bertelsmann UK Limited, which is ultimately owned by Bertelsmann SE & Co. KGaA, the ultimate parent company of Bertelsmann Group (Bertelsmann). The remaining 19.9% of the company is owned by East Riding of Yorkshire Council. 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 startup investments are grouped in Bertelsmann Investments. In 2015 the group's businesses, with their more than 117,000 employees, generated revenues of €17.1 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 Limited benefits from Bertelsmann's financial strength and funds are provided by an intermediate parent company as required on a loan basis.

#### Business Development

The company was established to be the initial growth vehicle for arvato, building on the first contract win for arvato government services (ERYC) Limited with East Riding of Yorkshire Council. arvato successfully tendered for a major Business Process Outsourcing (BPO) contract with Sefton Metropolitan Borough Council, commencing in 2008. In 2010 the company was successful in signing a ten year contract with Chesterfield Borough Council, delivering a similar range of services. In 2012 it signed a further contract with Slough Borough Council to deliver a range of services including revenues and benefits, payroll, finance services, HR and logistics services. A contract with Derbyshire Dales District Council was added in 2014. Those contracts are delivered by the company's subsidiary undertaking, arvato public sector services Limited.

In 2015 arvato government services Limited group revenues reached £41,378,000 (2014: £37,813,000) with operating profit of £2,338,000 (2014: profit £2,611,000).

Revenue from the main contracts is mostly fixed and contractual. The challenge for the group is to manage costs within contractually defined revenue levels and manage KPI performance to avoid financial penalties. During 2015 both of these were successfully delivered. Costs were controlled to deliver efficiencies priced into the contracts and KPI performance was such that there were negligible penalties.

## Strategic report (continued)

### **Future Developments**

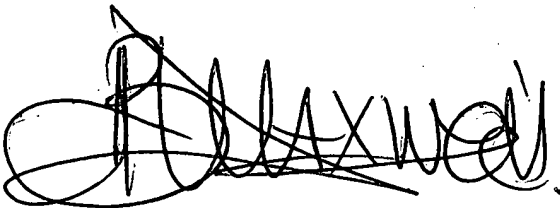
Following the end of the exclusivity arrangements, this company will not actively bid for new business and will remain as a holding company for its subsidiary arvato public sector services Limited.

### **Principal Risks and Uncertainties**

The majority of the revenue the group receives (via its subsidiary company) for delivering the services is fixed and contractual. Therefore the main risk the group faces is to deliver services in line with the KPI targets agreed with the Councils. Failure to achieve these would leave the group with significant financial penalties. The operational organisation has a strong performance management framework in place to manage KPI performance on a daily, weekly and monthly basis. This allows preventative action to be taken in the event any KPI starts to deviate from target. To date the group has managed this process successfully and has not received any significant operational KPI penalties.

Cost control is the other main risk for the group to enable EBIT targets to be achieved. As the contracts are service based, cost control is focussed on personnel controls as people represent the majority of the cost base.

On behalf of the board

A handwritten signature in black ink, appearing to read 'Debra Maxwell', with a large, stylized initial 'D'.

Debra Maxwell  
Director  
29 June 2016

## Directors' report

The directors of arvato government services Limited present the annual report and audited consolidated financial statements for the year ended 31 December 2015.

### Principal Activities of the Business

arvato government services Limited and its subsidiary provide outsourced services to the public sector.

### 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 Mierisch (resigned 30 June 2015)

Stefan Gläser (resigned 30 June 2015)

Debra Maxwell (appointed 30 June 2015)

Richard Parkin (appointed 30 June 2015)

Councillor Stephen Robert Parnaby

### Our People

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

Where existing employees become disabled, it is the group'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 group has continued and employees are encouraged to present their suggestions and views on the group's performance. Regular meetings are held between management and employees to allow a free flow of information and ideas.

### Corporate and Social Responsibility

The group 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 (2014: £Nil) and the directors do not recommend the payment of a dividend (2014: £Nil).

### Future Developments

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

### Corporate Governance

The arvato government services 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 19, arvato's business operations are financed by Bertelsmann SE & Co. KGaA. As such, arvato government services Limited benefits from Bertelsmann's financial strength and funds are provided by an intermediate parent company as required on a loan 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 group and parent company 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 group and the company and of the profit or loss of the group 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 and the group 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

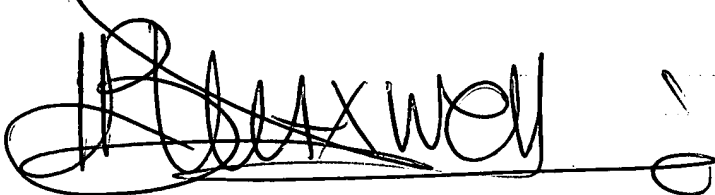
### Disclosure of Information to Auditors

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

A handwritten signature in black ink, appearing to read 'Debra Maxwell', with a horizontal line extending to the right.

Debra Maxwell

Director

29 June 2016

## **Independent auditors' report to the members of arvato government services Limited**

### **Report on the financial statements**

#### **Our opinion**

In our opinion, arvato government services Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2015 and of the group's profit and the group's and the company's 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 consolidated financial statements (the "Annual Report"), comprise:

- the Statements of Financial Position as at 31 December 2015;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Statements of Cash Flow for the year then ended;
- the Statements 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 applicable law and IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 matter prescribed by the Companies Act 2006**

In our opinion, 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.

### **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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company 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 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, 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

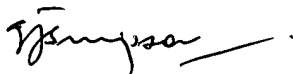
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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

- whether the accounting policies are appropriate to the group's and 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.



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

30 June 2016



## Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015

	Note	2015 £000	2014 £000
<b>Continuing operations</b>			
Revenue	2	40,460	37,813
<b>Operating costs</b>			
Employee expenses	5	(19,390)	(21,606)
Administrative expenses		(18,732)	(13,596)
<b>Profit from operations</b>	3	2,338	2,611
Financial expenses	6	(441)	(536)
<b>Profit before taxation</b>		1,897	2,075
Taxation	7	(397)	(462)
<b>Profit for the year</b>		1,500	1,613
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		1,500	1,613

The notes on pages 11 to 35 form part of the financial statements.

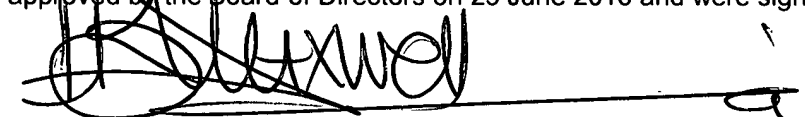
## Statements of Financial Position

as at 31 December 2015

		Group		Company	
	Note	2015	2014	2015	2014
		£000	£000	£000	£000
<b>Non-current assets</b>					
Property, plant and equipment	8	1,203	1,292	2	4
Intangible assets	9	716	830	-	-
Investments in subsidiary undertakings	10	-	-	1	1
Deferred tax asset	11	267	290	-	-
<b>Total non-current assets</b>		<b>2,186</b>	<b>2,412</b>	<b>3</b>	<b>5</b>
<b>Current assets</b>					
Trade and other receivables	12	7,741	6,416	47	47
Cash and cash equivalents	13	2,296	6,017	1,143	1,266
<b>Total current assets</b>		<b>10,037</b>	<b>12,433</b>	<b>1,190</b>	<b>1,313</b>
<b>Total assets</b>		<b>12,223</b>	<b>14,845</b>	<b>1,193</b>	<b>1,318</b>
<b>Equity</b>					
Share capital	18	1	1	1	1
Retained earnings	18	(2,072)	(3,572)	(4,387)	(4,229)
<b>Total equity</b>		<b>(2,071)</b>	<b>(3,571)</b>	<b>(4,386)</b>	<b>(4,228)</b>
<b>Current liabilities</b>					
Trade and other payables	14	12,658	12,755	5,579	5,546
Deferred income	17	1,636	1,666	-	-
Interest-bearing loans and borrowings	15	-	2,370	-	-
<b>Total current liabilities</b>		<b>14,294</b>	<b>16,791</b>	<b>5,579</b>	<b>5,546</b>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	15	-	1,625	-	-
<b>Total non-current liabilities</b>		<b>-</b>	<b>1,625</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>14,294</b>	<b>18,416</b>	<b>5,579</b>	<b>5,546</b>
<b>Total equity and liabilities</b>		<b>12,223</b>	<b>14,845</b>	<b>1,193</b>	<b>1,318</b>

The notes on pages 11 to 35 form part of the financial statements.

The financial statements of arvato government services Limited (registered number 05429280) were approved by the Board of Directors on 29 June 2016 and were signed on its behalf by:



Debra Maxwell  
Director

## Statements of Changes in Shareholders' Equity

For the year ended 31 December 2015

<b>Group</b>	<b>Share capital £000</b>	<b>Retained earnings £000</b>	<b>Total equity £000</b>
Opening shareholders' funds at 1 January 2014	1	(5,185)	(5,184)
Profit for the year	-	1,613	1,613
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	1,613	1,613
Closing shareholders' funds at 31 December 2014	1	(3,572)	(3,571)
<b>Opening shareholders' funds at 1 January 2015</b>	<b>1</b>	<b>(3,572)</b>	<b>(3,571)</b>
Profit for the year	-	1,500	1,500
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	1,500	1,500
Closing shareholders' funds at 31 December 2015	1	(2,072)	(2,071)

<b>Company</b>	<b>Share capital £000</b>	<b>Retained earnings £000</b>	<b>Total £000</b>
Opening shareholders' funds at 1 January 2014	1	(4,062)	(4,061)
Loss for the year	-	(167)	(167)
Other comprehensive income for the year	-	-	-
Total comprehensive loss for the year	-	(167)	(167)
Closing shareholders' funds at 31 December 2014	1	(4,229)	(4,228)
<b>Opening shareholders' funds at 1 January 2015</b>	<b>1</b>	<b>(4,229)</b>	<b>(4,228)</b>
Loss for the year	-	(158)	(158)
Other comprehensive income for the year	-	-	-
Total comprehensive loss for the year	-	(158)	(158)
Closing shareholders' funds at 31 December 2015	1	(4,387)	(4,386)

The notes on pages 11 to 35 form part of the financial statements.

## Statements of Cash Flow

for the year ended 31 December 2015

	Note	Group		Company	
		2015	2014	2015	2014
		£000	£000	£000	£000
<b>Net cash from operating activities</b>	22	<b>2,132</b>	<b>5,209</b>	<b>785</b>	<b>1,025</b>
<b>Cash flows used in investing activities</b>					
Acquisition of property, plant and equipment		(466)	(510)	-	-
Acquisition of intangible assets		(182)	(147)	-	-
<b>Net cash used in investing activities</b>		<b>(648)</b>	<b>(657)</b>	<b>-</b>	<b>-</b>
<b>Cash flows used in financing activities</b>					
Interest paid		(460)	(496)	(158)	(118)
Repayment of borrowings		(3,995)	(345)	-	-
<b>Net cash used in financing activities</b>		<b>(4,455)</b>	<b>(841)</b>	<b>(158)</b>	<b>(118)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,971)</b>	<b>3,711</b>	<b>627</b>	<b>907</b>
Cash and cash equivalents at the beginning of the year		2,532	(1,179)	(2,219)	(3,126)
<b>Cash and cash equivalents at 31 December</b>	13	<b>(439)</b>	<b>2,532</b>	<b>(1,592)</b>	<b>(2,219)</b>

The notes on pages 11 to 35 form part of the financial statements.

## Notes

*(forming part of the financial statements)*

### 1. Accounting policies

arvato government services Limited (the "company") is a company incorporated and domiciled in the UK.

The group financial statements consolidate those of the company and its subsidiary (together referred to as the "group"). The parent company financial statements present information about the company as a separate entity and not about its group.

Both the group and parent 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. On publishing the group financial statements here together with the parent company financial statements, the company takes advantage of the exemption permitted under s408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of the approved financial statements.

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. The board of Bertelsmann UK Limited, the parent company of the company's immediate parent, arvato Limited, has committed to provide financial support to the company, that it is their intention to provide such financial support as is required by the company to meet its liabilities as they fall due for payment and will not require repayment of any amounts already advanced for at least 12 months from the date of finalising these financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

#### ***Basis of consolidation***

##### ***Subsidiaries***

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### ***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.

## Notes (continued)

### 1. Accounting policies (continued)

#### **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.

#### **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:

Leasehold improvements	-	over the period of the lease term
Computer, office and other equipment	-	4 years

The useful economic life of all assets is deemed not to extend beyond the end of the relevant contracts with the various public sector bodies.

#### **Intangible assets**

Intangible assets that are acquired by the group 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.

Applicable bid costs were capitalised from the date that it was probable the contract would be obtained, which was deemed to be the date that preferred bidder status was achieved. The costs are amortised over the life of the contract. The estimated useful lives are as follows:

Bid costs	-	over life of contract
Computer software and licences	-	4 years

The useful economic life of all assets is deemed not to extend beyond the end of the relevant contracts with the various public sector bodies.

#### **Investments in subsidiary undertakings**

Investments in subsidiary undertakings are stated at cost less impairment losses. Investments are subject to impairment review at each statement of financial position date or earlier if indicators of impairment exist.

#### **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 group'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 are stated at fair value which approximates cost less impairment losses.

## Notes (continued)

### 1. Accounting policies (continued)

#### **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 for trade purchases is 30 days.

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

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

#### **Impairment**

The carrying amounts of the group'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.

#### *Reversal of impairment*

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **Employee benefits**

##### *Defined contribution plan*

The group 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 group participates in defined benefit schemes administered by Wirral Borough Council, Slough Borough Council and Derbyshire County Council. Under the terms of the contracts the group is obliged to pay the contributions as determined by the actuary during the contract period although the obligation to fund the pension schemes will revert to these Councils on conclusion of the contracts. The group is obliged to pay any increase in contributions caused by specific factors within their control (e.g. salary increases over the Councils' pay awards, early retirements, redundancies or any change in the demographic profile of members). Any change in contributions from factors outside the group's control (e.g. actuarial gains/losses, investment return, inflation and pension increases) can be reclaimed from the Councils under the terms of the contracts.

## Notes (continued)

### 1. Accounting policies (continued)

#### **Employee benefits** (continued)

In setting an appropriate accounting policy the group's directors have concluded that to correctly present the nature of the group's participation in the schemes, they have been accounted for as defined contribution plans in accordance with the requirements of IAS 19. The amount charged to the statement of comprehensive income represents the contributions payable to the schemes less any amounts to be reclaimed from the Councils in respect of the accounting period.

#### **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.

#### **Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.



## Notes (continued)

### 1. Accounting policies (continued)

#### Changes in accounting policy and disclosures

##### New and amended standards adopted by the group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2015 that would be expected to have a material impact on the group.

##### 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 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).

- Amendments to IFRS 11 'Joint arrangements on acquisition of an interest in a joint operation' add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions (effective for accounting periods beginning on or after 1 January 2016).
- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' clarify that revenue-based methods to calculation depreciation and amortisation are not appropriate (effective for accounting periods beginning on or after 1 January 2016).
- Amendments to IAS 27, 'Separate financial statements' on consolidation for investment entities (effective for accounting periods beginning on or after 1 January 2016).
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' on sales or contribution of assets (effective for accounting periods beginning on or after 1 January 2016).

The group is assessing the impact of the application of the above standards would have on the statements of financial position or statements of comprehensive income. The group 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 group.

### 2. Revenue

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

	2015	2014
	£000	£000
Sales of services	39,915	35,891
Other operating income	545	1,922
	<u>40,460</u>	<u>37,813</u>

The group 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.

## Notes (continued)

### 3. Profit from operations

Profit from operations has been arrived at after charging:

	2015	2014
	£000	£000
Net foreign exchange losses	4	-10
Depreciation of tangible assets	555	506
Amortisation of intangible assets	296	314
Operating lease rentals:		
Land and buildings	142	175
Equipment	6	5
Employee expenses	19,390	21,606
Auditors' remuneration:		
Audit of these financial statements:		
Group	20	19
Company	5	5

### 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 (2014: £Nil).

### 5. Employee expenses

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

	Number of employees			
	Group		Company	
	2015	2014	2015	2014
Operations	587	675	-	7
Management and administration	132	136	-	-
	<u>719</u>	<u>811</u>	<u>-</u>	<u>7</u>

Services in respect of employees under contracts of service with arvato public sector services Limited are recharged to the company.

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Wages and salaries	16,632	18,639	-	466
Social security costs	1,168	1,342	-	51
Other pension costs	1,590	1,625	-	14
	<u>19,390</u>	<u>21,606</u>	<u>-</u>	<u>531</u>

## Notes (continued)

### 6. Financial expenses

	2015	2014
	£000	£000
Interest charges	218	310
Other interest	223	226
	<u>441</u>	<u>536</u>

Interest charges represent guarantee fees, commission and interest charged from a group company in respect of cash pooling and loan facilities provided in the United Kingdom.

### 7. Taxation

	2015	2014
	£000	£000
Current taxation:		
UK corporation tax – current year	387	536
UK corporation tax – prior year	(13)	57
Deferred taxation (see note 11):		
Origination and reversal of temporary differences	23	(131)
	<u>397</u>	<u>462</u>

The current year tax charge represents amounts 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 in the United Kingdom changed from 21% to 20% with effect from 1 April 2015. Accordingly the group's profits are taxed at an effective rate of 20.25% (2014: 21.5%).

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

	2015	2014
	£000	£000
Profit before taxation	<u>1,897</u>	<u>2,075</u>
Tax using the UK corporation tax rate of 20.25% (2014: 21.5%)	384	446
Effects of:		
Expenses not deductible for tax purposes	1	3
Deferred tax rate difference	15	6
Total tax (over)/under provided in prior years	(3)	7
Total tax in statement of comprehensive income	<u>397</u>	<u>462</u>

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 provided at 19%.

**Notes (continued)**

**8. Property, plant and equipment**

<b>Group</b>	<b>Leasehold improvements £000</b>	<b>Computer equipment £000</b>	<b>Office equipment £000</b>	<b>Other equipment £000</b>	<b>Total £000</b>
<b>Cost</b>					
At 1 January 2014	800	2,420	81	11	3,312
Additions	-	505	5	-	510
Disposals	-	-	-	-	-
At 31 December 2014	800	2,925	86	11	3,822
At 1 January 2015	800	2,925	86	11	3,822
Additions	-	466	-	-	466
Disposals	-	-	-	-	-
At 31 December 2015	800	3,391	86	11	4,288
<b>Accumulated depreciation</b>					
At 1 January 2014	280	1,693	40	11	2,024
Charged for the year	101	395	10	-	506
Disposals	-	-	-	-	-
At 31 December 2014	381	2,088	50	11	2,530
At 1 January 2015	381	2,088	50	11	2,530
Charged for the year	101	444	10	-	555
Disposals	-	-	-	-	-
At 31 December 2015	482	2,532	60	11	3,085
<b>Net book value</b>					
At 31 December 2015	318	859	26	-	1,203
At 31 December 2014	419	837	36	-	1,292

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

**Notes (continued)**

**8. Property, plant and equipment (continued)**

<b>Company</b>	<b>Computer equipment £000</b>	<b>Office equipment £000</b>	<b>Total £000</b>
<b>Cost</b>			
At 1 January 2014	20	15	35
Additions	-	-	-
Disposals	-	-	-
At 31 December 2014	20	15	35
At 1 January 2015	20	15	35
Additions	-	-	-
Disposals	-	-	-
At 31 December 2015	20	15	35
<b>Accumulated depreciation</b>			
At 1 January 2014	12	15	27
Charged for the year	4	-	4
Disposals	-	-	-
At 31 December 2014	16	15	31
At 1 January 2015	16	15	31
Charged for the year	2	-	2
Disposals	-	-	-
At 31 December 2015	18	15	33
<b>Net book value</b>			
At 31 December 2015	2	-	2
At 31 December 2014	4	-	4

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

**Notes (continued)**  
**9. Intangible assets**

**Group**

	Computer software £000	Bid costs £000	Total £000
<b>Cost</b>			
At 1 January 2014	491	1,276	1,767
Additions	147	-	147
Disposals	-	-	-
At 31 December 2014	638	1,276	1,914
At 1 January 2015	638	1,276	1,914
Additions	182	-	182
Disposals	-	-	-
At 31 December 2015	820	1,276	2,096
<b>Accumulated amortisation</b>			
At 1 January 2014	235	535	770
Charged for the year	167	147	314
Disposals	-	-	-
At 31 December 2014	402	682	1,084
At 1 January 2015	402	682	1,084
Charged for the year	149	147	296
Disposals	-	-	-
At 31 December 2015	551	829	1,380
<b>Net book value</b>			
At 31 December 2015	269	447	716
At 31 December 2014	236	594	830

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

**Notes (continued)**

**9. Intangible assets (continued)**

**Company**

	Computer software £000	Total £000
<b>Cost</b>		
At 1 January 2014	2	2
Additions	-	-
Disposals	-	-
At 31 December 2014	<u>2</u>	<u>2</u>
At 1 January 2015	2	2
Additions	-	-
Disposals	-	-
At 31 December 2015	<u>2</u>	<u>2</u>
<b>Accumulated amortisation</b>		
At 1 January 2014	1	1
Charged for the year	1	1
Disposals	-	-
At 31 December 2014	<u>2</u>	<u>2</u>
At 1 January 2015	2	2
Charged for the year	-	-
Disposals	-	-
At 31 December 2015	<u>2</u>	<u>2</u>
<b>Net book value</b>		
At 31 December 2015	<u>-</u>	<u>-</u>
At 31 December 2014	<u>-</u>	<u>-</u>

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

**Notes (continued)**

**10. Investments in subsidiary undertakings**

<b>Company</b>	<b>Investments in subsidiary undertakings £000</b>
<b>Cost</b>	
At 1 January 2014 and 31 December 2014	1
At 1 January 2015	1
Additions	-
Disposals	-
<b>At 31 December 2015</b>	<b>1</b>
<b>Impairment</b>	
At 1 January 2014 and 31 December 2014	-
At 1 January 2015	-
Charged for the year	-
Disposals	-
<b>At 31 December 2015</b>	<b>-</b>
<b>Net book value</b>	
<b>At 31 December 2015</b>	<b>1</b>
At 31 December 2014	1
<b>Subsidiary undertaking</b>	<b>Country of incorporation</b>
arvato public sector services Limited	England
	<b>Principal activity</b>
	Local government services
	<b>Class and percentage of shares held</b>
	100% ordinary

The directors believe that the carrying value of the investment is supported by its underlying value.



## Notes (continued)

### 11. Deferred tax assets and liabilities

#### Group

#### Recognised deferred tax assets and liabilities

At 31 December 2015 a deferred tax asset has been recognised for the tax base in relation to property, plant and equipment 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 in relation to property, plant and equipment and provisions is such that no part of it is expected to reverse in the next twelve months.

	Assets		Liabilities		Net	
	2015	2014	2015	2014	2015	2014
	£000	£000	£000	£000	£000	£000
Property, plant and equipment	228	233	-	-	228	233
Losses carried forward	-	-	-	-	-	-
Provisions	39	57	-	-	39	57
Net tax assets	267	290	-	-	267	290

#### Movement in deferred tax during the year:

	1 January 2015	P&L movement	31 December 2015
	£000	£000	£000
Property, plant and equipment	233	(5)	228
Losses carried forward	-	-	-
Provisions	57	(18)	39
	290	(23)	267

#### Movement in deferred tax during the prior year:

	1 January 2014	P&L movement	31 December 2014
	£000	£000	£000
Property, plant and equipment	82	151	233
Losses carried forward	11	(11)	-
Provisions	66	(9)	57
	159	131	290

## Notes (continued)

### 11. Deferred tax assets and liabilities (continued)

#### Company

##### Recognised deferred tax assets and liabilities

At 31 December 2015 no deferred tax asset has been recognised for the tax base in relation to property, plant and equipment and provisions.

	Assets		Liabilities		Net	
	2015	2014	2015	2014	2015	2014
	£000	£000	£000	£000	£000	£000
Property, plant and equipment		-		-		-
Provisions		-		-		-
Net tax assets		-		-		-

##### Movement in deferred tax during the year:

	1 January 2015	P&L movement	31 December 2015
	£000	£000	£000
Property, plant and equipment	-	-	-
Provisions	-	-	-
	-	-	-

##### Movement in deferred tax during the prior year:

	1 January 2014	P&L movement	31 December 2014
	£000	£000	£000
Property, plant and equipment	-	-	-
Provisions	-	-	-
	-	-	-

### 12. Trade and other receivables

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Due within one year:				
Trade and other receivables	5,583	3,307	4	2
Trade and other receivables from group companies	263	419	43	45
Prepayments	1,895	2,690	-	-
	<u>7,741</u>	<u>6,416</u>	<u>47</u>	<u>47</u>

An allowance has been made for group estimated irrecoverable amounts of trade and other receivables of £5,000 (2014: £7,000).

An allowance has been made for company estimated irrecoverable amounts of trade and other receivables of £Nil (2014: £2,000).

## Notes (continued)

### 13. Cash and cash equivalents

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Bank balances	2,296	6,017	1,143	1,266
Bank overdrafts				
Cash and cash equivalents	2,296	6,017	1,143	1,266
Group cash pooling balance	(2,735)	(3,485)	(2,735)	(3,485)
Cash and cash equivalents per statement of cash flow	(439)	2,532	(1,592)	(2,219)

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

### 14. Trade and other payables

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Due within one year:				
Trade and other payables	5,919	4,764	85	46
Trade and other payables to group companies	6,536	7,762	5,494	5,500
Retirement benefit obligation (see note 16)	203	229	-	-
	12,658	12,755	5,579	5,546

Trade and other payables to group companies include the cash pooling financing facility balance with a group company in the United Kingdom. See note 13 for details.

### 15. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the group's interest-bearing loans and borrowings. For more information about the group's exposure to interest rate and foreign currency risk, see note 19.

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Loan from associate:				
Non-current	-	1,625	-	-
Current	-	2,370	-	-
	-	3,995	-	-

#### Terms and debt repayment schedule

Interest-bearing loans and borrowings represent working capital loans from a group company in the United Kingdom. The loan was repaid in full in 2015.

## Notes (continued)

### 16. Employee benefits

#### Group

##### *Defined contribution plan*

See note 1 regarding the accounting treatment of pension schemes. The pension costs charge for the year includes contributions payable by the group to the scheme and amounted to £1,590,000 (2014: £1,625,000).

At the statement of financial position date, contributions amounting to £203,000 (2014: £229,000) were payable to the fund.

#### Company

##### *Defined contribution plan*

The company operated a defined contribution pension scheme. The pension costs charge for the year includes contributions payable by the company to the scheme and amounted to £Nil (2014: £14,000).

At the statement of financial position date, contributions amounting to £Nil (2014: £Nil) were payable to the fund.

### 17. Deferred income

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Non-current	-	-	-	-
Current	1,636	1,666	-	-
	<u>1,636</u>	<u>1,666</u>	<u>-</u>	<u>-</u>

Deferred income relates to income received for services that had not been recognised at 31 December.

## Notes (continued)

### 18. Capital and reserves

Reconciliation of movement in capital and reserves:

<b>Group</b>	<b>Share capital £000</b>	<b>Retained earnings £000</b>	<b>Total equity £000</b>
At 1 January 2014	1	(5,185)	(5,184)
Total comprehensive income for the year	-	1,613	1,613
Shares issued	-	-	-
At 31 December 2014	1	(3,572)	(3,571)
At 1 January 2015	1	(3,572)	(3,571)
Total comprehensive income for the year	-	1,500	1,500
Shares issued	-	-	-
At 31 December 2015	1	(2,072)	(2,071)

<b>Company</b>	<b>Share capital £000</b>	<b>Retained earnings £000</b>	<b>Total equity £000</b>
At 1 January 2014	1	(4,062)	(4,061)
Total comprehensive loss for the year	-	(167)	(167)
Shares issued	-	-	-
At 31 December 2014	1	(4,229)	(4,228)
At 1 January 2015	1	(4,229)	(4,228)
Total comprehensive loss for the year	-	(158)	(158)
Shares issued	-	-	-
At 31 December 2015	1	(4,387)	(4,386)

<b>Share capital</b>	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Issued and fully paid:</b>				
801 ordinary 'A' shares of £1 each (2014: 801)	801	801	801	801
199 ordinary 'B' shares of £1 each (2014: 199)	199	199	199	199
	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>

The holder of ordinary 'A' shares ("A shareholder") and holder of ordinary 'B' shares ("B shareholder") are entitled to receive dividends as declared from time to time in proportion to the nominal value that issued 'A' shares and issued 'B' shares respectively bear to the combined nominal value of the issued shares.

The 'A' and 'B' shares rank pari-passu in all respects, except:

#### **Appointment/Removal of directors**

The 'A' shareholder can appoint up to five directors and is entitled at any time to remove or substitute any directors so appointed. The 'B' shareholder can appoint one director and is entitled at any time to remove or substitute any director so appointed.

## Notes (continued)

### 18. Capital and reserves (continued)

#### **Shareholders' guarantees**

In the event that a third party requires a guarantee, indemnity or covenant from the shareholders in order to secure the indebtedness or obligations of the company, such guarantee shall subject to the prior written approval of the terms by the 'A' shareholder, be given by the 'A' shareholder and nothing shall oblige the 'B' shareholder to provide any guarantee, indemnity or covenant to secure the indebtedness and obligations of the company.

#### **Disposal or charging of shares**

The 'A' shareholder may transfer all (but not some only) of the shares held to any other company within the Bertelsmann SE & Co. KGaA group.

In the event that 'B' shares are not purchased by the 'A' shareholder, the 'B' shareholder may, at any time after the 8 September 2015, transfer all or any of the 'B' shares to any person without the prior consent of the other shareholder.

#### **Restrictions on shareholders**

The 'B' shareholder may not be concerned or in any other way interested in any other business in competition with the business of the company.

### 19. Financial instruments

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

## Notes (continued)

### 19. Financial instruments (continued)

#### 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:

Group	Carrying amount	Fair value	Carrying amount	Fair value
	2015	2015	2014	2014
	£000	£000	£000	£000
Trade and other receivables	5,583	5,583	3,307	3,307
Trade and other receivables from group companies	263	263	419	419
Cash and cash equivalents	2,296	2,296	6,017	6,017
Trade and other payables	(5,919)	(5,919)	(4,764)	(4,764)
Trade and other payables to group companies	(6,536)	(6,536)	(7,762)	(7,762)
Interest bearing loan from group company	-	-	(3,995)	(3,995)
	(4,313)	(4,313)	(6,778)	(6,778)

Unrecognised gains/losses

-

-

#### Company

	Carrying amount	Fair value	Carrying amount	Fair value
	2015	2015	2014	2014
	£000	£000	£000	£000
Trade and other receivables	4	4	2	2
Trade and other receivables from group companies	43	43	45	45
Cash and cash equivalents	1,143	1,143	1,266	1,266
Trade and other payables	(85)	(85)	(46)	(46)
Trade and other payables to group companies	(5,494)	(5,494)	(5,500)	(5,500)
	(4,389)	(4,389)	(4,233)	(4,233)

Unrecognised gains/losses

-

-

### (b) Credit risk

#### Financial risk management

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

The group's principal financial assets are bank balances, trade and other receivables which represent the group's maximum exposure to credit risk in relation to financial assets. The group bears the bad debt risk on all receivables. The group'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 group's credit insurance policy. These have been estimated by the group's directors based on prior experience and their assessment of the current economic environment.

## Notes (continued)

### 19. Financial instruments (continued)

#### 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 for the group was £5,583,000 (2014: £3,307,000); and for the company was £4,000 (2014: £2,000), being 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 and other receivables at the statement of financial position date was:

<b>Group</b>	<b>Gross trade receivables</b>	<b>Doubtful debt provision</b>	<b>Net trade receivables</b>	<b>Gross trade receivables</b>	<b>Doubtful debt provision</b>	<b>Net trade receivables</b>
	<b>2015</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Not past due	3,932	-	3,932	3,000	-	3,000
Past due but not impaired:						
One to thirty days	1,477	-	1,477	54	-	54
Thirty one to ninety days	3	-	3	239	-	239
Ninety + days	176	(5)	171	21	(7)	14
Individually impaired amounts	-	-	-	-	-	-
	<b>5,588</b>	<b>(5)</b>	<b>5,583</b>	<b>3,314</b>	<b>(7)</b>	<b>3,307</b>

<b>Company</b>	<b>Gross trade receivables</b>	<b>Doubtful debt provision</b>	<b>Net trade receivables</b>	<b>Gross trade receivables</b>	<b>Doubtful debt provision</b>	<b>Net trade receivables</b>
	<b>2015</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Not past due	4	-	4	2	-	2
Past due but not impaired:						
One to thirty days	-	-	-	-	-	-
Thirty one to ninety days	-	-	-	-	-	-
Ninety + days	-	-	-	2	(2)	-
Individually impaired amounts	-	-	-	-	-	-
	<b>4</b>	<b>-</b>	<b>4</b>	<b>4</b>	<b>(2)</b>	<b>2</b>

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

	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 January	7	7	2	2
Impairment loss recognised	-	-	-	-
Impairment loss reversed	(2)	-	(2)	-
<b>At 31 December</b>	<b>5</b>	<b>7</b>	<b>-</b>	<b>2</b>



## Notes (continued)

### 19. Financial instruments (continued)

#### (c) Liquidity risk

##### Financial risk management

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

Liquidity is managed by group via the cash pooling and loan facilities. For details on this see notes 13, 14 and 15.

##### 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 group'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 group bears the foreign currency risk on these payable. Some cash balances are held in foreign currency. The group 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 2015 would have impacted the group and 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 2014.

	Group		Company	
	Profit		Profit	
	2015	2014	2015	2014
	£000	£000	£000	£000
Euro	4	4	-	-

A one percent strengthening of the euro against the pound sterling at 31 December 2015 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 group's exposure to interest rate risk arises from the fluctuations in the rate of interest charged on cash and cash equivalent balances payable and interest bearing loan. The group utilises a group cash pooling facility on which interest is charged at variable rates, based on the Bank of England base rate. The group utilises a loan facility from an associate company, on which interest is charged at specific rates, based on the 3 month LIBOR market rate.

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. The company utilises a group cash pooling facility on which interest is charged at specific rates, based on the Bank of England base rate.

## Notes (continued)

### 19. Financial instruments (continued)

#### Sensitivity analysis – Interest rate risk

A change of one percent in interest rates at the statement of financial position date would have impacted the group and company's results 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 2014.

At the year end it is estimated that an increase of one percentage rise in the Bank of England base rate would decrease the group and company's profit before taxation by approximately £34,000 (2014: £35,000).

At the year end it is estimated that an increase of one percentage rise in the 3 month LIBOR market rate would decrease the group's profit before taxation by approximately £17,000 (2014: £41,000).

### 20. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Group	
	Land and buildings	Equipment	Land and buildings	Equipment
	2015	2015	2014	2014
	£000	£000	£000	£000
Less than one year	406	32	406	34
Between one and five years	947	34	1,352	51
More than five years	-	-	-	-
	<b>1,353</b>	<b>66</b>	<b>1,758</b>	<b>85</b>

	Company		Company	
	Land and buildings	Equipment	Land and buildings	Equipment
	2015	2015	2014	2014
	£000	£000	£000	£000
Less than one year	-	-	-	-
Between one and five years	-	-	-	-
More than five years	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

During the year £142,000 (2014: £175,000) for land and buildings and £6,000 (2014: £5,000) for equipment were recognised as an expense in the statement of comprehensive income in respect of operating leases.

## Notes (continued)

### 21. Related parties

#### Identity of related parties

The group and 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, and with the group's and company's non-controlling stakeholder, East Riding of Yorkshire Council.

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

<b>Group</b>	<b>Sale / (purchase) of goods £000</b>	<b>Sale / (purchase) of assets £000</b>	<b>Deliver / (receive) services £000</b>	<b>Balance receivable / (payable) £000</b>
arvato government services (ERYC) Limited	-	-	-	(602)
arvato Limited	-	-	(4,826)	(2,396)
arvato finance services Limited	-	-	17	4
arvato IT support GmbH	-	-	(4)	(1)
arvato systems GmbH	-	-	(4)	(25)
Customer Service - BA arvato direct services GmbH	-	-	(2)	(1)
Bertelsmann SE & Co. KGaA	-	-	(315)	(85)
Bertelsmann SE & Co. KGaA Bereichsleitung arvato	-	-	(4)	(4)
Bertelsmann Luxembourg Sarl	-	-	(3)	-
Be Accounting Services GmbH	-	-	(1)	-
Medienfabrik Gutersloh GmbH	-	-	(8)	(1)
Bertelsmann UK Limited – Cash Pooling	-	-	(159)	(2,735)
Bertelsmann UK Limited - Loan	-	-	(47)	-
Bertelsmann UK Limited	-	-	-	(40)
Bertelsmann UK Limited - Tax Pooling	-	-	(374)	(387)
<b>At 31 December 2015</b>	-	-	<b>(5,730)</b>	<b>(6,273)</b>

<b>Company</b>	<b>Sale / (purchase) of goods £000</b>	<b>Sale / (purchase) of assets £000</b>	<b>Deliver / (receive) services £000</b>	<b>Balance receivable / (payable) £000</b>
arvato government services (ERYC) Limited	-	-	-	(602)
arvato Limited	-	-	1	(1,116)
arvato public sector services Limited	-	-	3	(975)
arvato systems GmbH	-	-	-	(23)
Customer Service - BA arvato direct services GmbH	-	-	-	(1)
Bertelsmann SE & Co. KGaA Bereichsleitung arvato	-	-	-	-
Be Accounting Services GmbH	-	-	-	-
Bertelsmann UK Limited - Cash Pooling	-	-	(159)	(2,735)
Bertelsmann UK Limited	-	-	-	(40)
Bertelsmann UK Limited - Tax Pooling	-	-	42	41
<b>At 31 December 2015</b>	-	-	<b>(113)</b>	<b>(5,451)</b>

## Notes (continued)

### 21. Related parties (continued)

#### Related party transactions

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

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Trade and other receivables from group companies	263	419	43	45
Trade and other payables to group companies	(6,536)	(7,762)	(5,494)	(5,500)
Loan from group company	-	(3,995)	-	-
	<u>(6,273)</u>	<u>(11,338)</u>	<u>(5,451)</u>	<u>(5,455)</u>

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 payable to Bertelsmann UK Limited in respect of the cash pooling facility was £2,735,000 (2014: £3,485,000). This balance is included within trade and other payables to group companies.

### 22. Notes to the cash flow statement

#### Cash flows from operating activities

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Profit /(loss) before taxation	1,897	2,075	(200)	(211)
Adjustments for:				
Depreciation of property, plant and equipment	555	506	2	4
Amortisation of intangible assets	296	314	-	1
Financial expenses	441	536	159	158
Operating profit/(loss) before movements in working capital and provisions	<u>3,189</u>	<u>3,431</u>	<u>(39)</u>	<u>(48)</u>
(Increase)/decrease in receivables	(1,329)	1,183	(5)	1,004
Increase/(decrease) in payables	793	561	782	(21)
Cash generated from operations	<u>2,653</u>	<u>5,175</u>	<u>738</u>	<u>935</u>
Tax (paid)/received	(521)	34	47	90
Net cash from operating activities	<u>2,132</u>	<u>5,209</u>	<u>785</u>	<u>1,025</u>

## Notes (continued)

### 23. 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 group reviews overdue trade receivables on a regular basis and makes provisions against those balances considered most at risk.

### 24. Ultimate parent company and controlling party

The immediate parent company is arvato Limited, a company incorporated 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.