

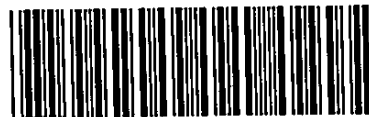
arvato services (East Riding) Limited

**Directors' report and financial
statements**

Registered number 06105044

31 December 2010

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Directors' report

Introduction

The directors of arvato services (East Riding) Limited presents the annual report for the year ended 31 December 2010, which includes a business review, information on corporate governance and audited financials

▪ Principal activity of the business

arvato services (East Riding) Limited provides UK central management services

▪ Business reorganisation

In 2010 arvato reorganised the legal organisation of its entities in the UK in order to adapt to market changes and the increasing demand for complex, integrated client solutions across different service lines and industry sectors. As part of this strategy, on 31 December 2010 the trade, assets and liabilities of arvato services (East Riding) Limited were acquired by arvato Limited, a provider of business process outsourcing (BPO) services, for a consideration of £3,120,000

Going forward, arvato Limited will act as arvato's main BPO service provider in the UK. It will provide operational services to its clients and will also act as the holding company of arvato companies in the UK. In this function arvato Limited will continue to provide flexible and tailored solutions to its clients

Business review

▪ About arvato

arvato services (East Riding) Limited is part of the global network of arvato AG, a division of Bertelsmann Group. The company is 100% owned by Bertelsmann UK Limited, which is ultimately 100% owned by Bertelsmann AG, the ultimate parent company of Bertelsmann Group. Bertelsmann Group (Bertelsmann) employs over 100,000 people in more than 50 countries and is one of the world's most international media companies with consolidated annual revenues in excess of €15 bn. The group includes the number one in television and radio in Europe (RTL Group), one of the leading international media and communication service providers (arvato AG), the world's largest trade-book publisher (Random House), Europe's biggest magazine publisher (Gruner + Jahr) as well as media clubs, direct marketing and other media related businesses.

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 AG. As such, arvato services (East Riding) Limited benefits from Bertelsmann's financial strength and funds are provided by its parent company as required on a daily pooling basis.

▪ Business Development

arvato services (East Riding) Limited is established to support the arvato companies in the UK through the provision of central management services, including finance, IT support, marketing and human resources. Costs in relation to the provision of services are charged on to the arvato companies.

Consequently, development of the company is dependent on the business development of arvato companies in the UK. At the start of 2010, the outlook for the operational business was uncertain as the financial crisis remained a concern, and there was significant price pressure across all our business units. As the year progressed, confidence increased and 2010 proved to be a successful year for the arvato UK businesses.

This was supported by the continued trend towards outsourcing, as organisations across both private and especially public sectors continued to look for ways to deliver immediate cost savings and long-term efficiencies.

Director's report *(continued)*

Business Review *(continued)*

In 2010 arvato services (East Riding) Limited revenues reached £7,147,000 (2009 £5,357,000) and loss before taxation was £48,000 (2009 profit £57,000)

Throughout 2010 the company has continued to help reduce the overall arvato UK cost base and continued to support the competitiveness of the arvato UK businesses

▪ **The Year Ahead**

The UK economy has been hit hard by the recent financial and economic crisis. Compounded by an increased VAT rate and inflation on the increase, the overall economic forecast remains bleak, though opportunities and challenges for each of the arvato UK businesses are different

arvato believes that opportunities for profitable growth in the domestic and global BPO market space remain positive. We estimate that the UK and Ireland BPO market will continue to grow at around 7% p a over the next few years and it is our plan to invest in this growing market place to outpace this growth

Following the successful reorganisation of the arvato UK companies, we are well positioned to respond to the market demand for increasingly integrated service offerings that continually adapt to meet clients' changing needs

The business of arvato services (East Riding) Limited is accounted for in arvato Limited from 1 January 2011

▪ **Our People**

We confirm that arvato services (East Riding) 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

In addition, arvato services (East Riding) Limited participated in the 2010 Bertelsmann employee survey that canvassed feedback from 70,000 people from 400 companies in 47 countries. More than 85% of all employees participated demonstrating strong employee engagement across Bertelsmann

▪ **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

▪ **Proposed Dividend**

The directors do not recommend the payment of a dividend

Directors' report *(continued)*

Corporate Governance

The arvato services (East Riding) Limited board of directors is committed to a modern and responsible approach to corporate governance. Citizenship is one of our four 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

The directors who held office during the year were as follows:

Matthias Mierisch


Stefan Glaser

Rolf Buch (resigned 18 May 2010)

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



S. Glaser
Director

The Hall
Lairgate
Beverley
East Yorkshire
HU17 8HL

14 JULY 2011

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable laws.

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

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

8 Princes Parade
Liverpool
L3 1QH
United Kingdom

Independent auditor's report to the members of arvato services (East Riding) Limited

We have audited the financial statements of arvato services (East Riding) Limited for the year ended 31 December 2010 set out on pages 7 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its result for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of arvato services (East Riding) Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Ian Goalen (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

8 Princes Parade

Liverpool

L3 1QH

Date

26th Jul 2011

Statement of Comprehensive Income
for year ended 31 December 2010

| | <i>Note</i> | 2010 £000 | 2009 £000 |
|--|-------------|----------------------------|----------------------------|
| Discontinuing operations | | | |
| Revenue | 2 | 7,147 | 5,357 |
| Operating costs | | | |
| Employee expenses | | (4,584) | (3,233) |
| Administrative expenses | | (2,575) | (2,308) |
| Loss from operations | 3 | (12) | (184) |
| Financial income | 6 | - | 269 |
| Financial expenses | 7 | (36) | (28) |
| (Loss)/profit before taxation | | (48) | 57 |
| Taxation | 8 | 7 | 27 |
| (Loss)/profit for the year | | (41) | 84 |
| Other comprehensive income for the year | | - | - |
| Total comprehensive income for the year | | (41) | 84 |

The notes on pages 11 to 28 form part of the financial statements

Statement of Financial Position
at 31 December 2010

| | <i>Note</i> | 2010 £000 | 2009 £000 |
|-------------------------------------|-------------|----------------------------|----------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 9 | - | 508 |
| Intangible assets | 10 | - | 8 |
| Deferred tax asset | 11 | - | 26 |
| Total non-current assets | | - | 542 |
| Current assets | | | |
| Trade and other receivables | 12 | 3,120 | 2,538 |
| Cash and cash equivalents | 13 | 381 | 104 |
| Total current assets | | 3,501 | 2,642 |
| Total assets | | 3,501 | 3,184 |
| Equity | | | |
| Share capital | 16 | 1 | 1 |
| Share premium | 16 | - | - |
| Retained earnings | 16 | (243) | (202) |
| Total equity | | (242) | (201) |
| Current liabilities | | | |
| Trade and other payables | 14 | 3,743 | 3,385 |
| Total liabilities | | 3,743 | 3,385 |
| Total equity and liabilities | | 3,501 | 3,184 |

The notes on pages 11 to 28 form part of the financial statements

The financial statements of arvato services (East Riding) Limited (registered number 06105044) were approved by the board of directors on 7th July 2011 and were signed on its behalf by


 S. Glaser
 Director

Statement of Changes in Shareholders' Equity
for year ended 31 December 2010

| | Share capital £000 | Share premium £000 | Retained earnings £000 | Total £000 |
|---|-----------------------|-----------------------|------------------------------|---------------|
| Opening shareholders' funds at 1 January 2009 | 1 | - | (286) | (285) |
| Profit for the year | - | - | 84 | 84 |
| Dividends paid | - | - | - | - |
| Total recognised income and (expense) | - | - | 84 | 84 |
| Shares issued | - | - | - | - |
| Total movement in shareholders' funds | - | - | 84 | 84 |
| Closing shareholders' funds at 31 December 2009 | 1 | - | (202) | (201) |
| Opening shareholders' funds at 1 January 2010 | 1 | - | (202) | (201) |
| Loss for the year | - | - | (41) | (41) |
| Dividends paid | - | - | - | - |
| Total recognised income and (expense) | - | - | (41) | (41) |
| Shares issued | - | - | - | - |
| Total movement in shareholders' funds | - | - | (41) | (41) |
| Closing shareholders' funds at 31 December 2010 | 1 | - | (243) | (242) |

The notes on pages 11 to 28 form part of the financial statements

Cash Flow Statement
for year ended 31 December 2010

| | <i>Note</i> | 2010 £000 | 2009 £000 |
|--|-------------|----------------------------|----------------------------|
| Net cash from operating activities | <i>19</i> | (881) | (1 377) |
| Cash flows from investing activities | | | |
| Acquisition of property, plant and equipment | | (4) | (3) |
| Disposal of business cash acquired | | 6 | - |
| Net cash from investing activities | | 2 | (3) |
| Cash flows from financing activities | | | |
| Interest paid | | (36) | (28) |
| Net cash from financing activities | | (36) | (28) |
| Net decrease in cash and cash equivalents | | (915) | (1,408) |
| Cash and cash equivalents at the beginning of the period | | (2,424) | (1 017) |
| Effect of exchange rate fluctuations on cash held | | - | 1 |
| Cash and cash equivalents at 31 December | <i>13</i> | (3,339) | (2,424) |

The notes on pages 11 to 28 form part of the financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

arvato services (East Riding) Limited (the "Company") is a company incorporated 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 EU ("Adopted IFRSs")

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

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 management 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 the company's ultimate parent undertaking, Bertelsmann AG, 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.

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 the 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:

| | | |
|------------------------------|---|---------|
| Leasehold improvements | - | 5 years |
| Computer and other equipment | - | 5 years |

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 with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

| | | |
|--------------------------------|---|---------|
| Computer software and licences | - | 5 years |
|--------------------------------|---|---------|

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 cash flow statement.

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.

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 to group companies principally comprise the cash pooling financing facility balance with the company's parent company in the United Kingdom. This facility is interest bearing at a rate of 1% above the base rate of the group's principal bankers in the United Kingdom.

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, other than inventories and deferred tax 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.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each statement of financial position date.

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

The company operates a non-contributory 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 contributions pension plan are recognised as an expense in the statement of comprehensive income as incurred.

Deferred income

Deferred income represents amounts received in advances 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 are 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, dividend income and foreign exchange gains and losses that are recognised in the statement of comprehensive income.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

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

Notes (continued)

1 Accounting policies (continued)

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.

Adopted IFRS not yet applied

The following Adopted IFRSs were available for early application but have not yet been applied by the company in these financial statements:

- IAS 24 (revised in 2009) - Related Party Disclosures. Effective for annual periods beginning on or after 1 January 2011.
- Amendments to IAS 32 - Classification of Rights Issues. Effective for annual periods beginning on or after 1 February 2010.
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments. Effective for annual periods beginning on or after 1 July 2010.

The application of the above standards in 2010 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.

Notes (continued)

2 Revenue

An analysis of the company's revenue is as follows

| | 2010 £000 | 2009 £000 |
|------------------------|--------------|--------------|
| Other operating income | 7,147 | 5 357 |
| | <u>7,147</u> | <u>5 357</u> |

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

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

| | 2010 £000 | 2009 £000 |
|-------------------------------------|--------------|--------------|
| Net foreign exchange gains | (5) | (1) |
| Depreciation of tangible assets | 199 | 189 |
| Amortisation of intangible assets | 3 | 3 |
| Operating lease rentals | | |
| Land and buildings | - | - |
| Equipment | - | - |
| Staff costs (<i>see note 5</i>) | 4,584 | 3,233 |
| Auditors' remuneration | | |
| Audit of these financial statements | 6 | 5 |
| | <u></u> | <u></u> |

4 Remuneration of directors

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Emoluments (excluding pension contributions) | 392 | 566 |
| Social security costs | - | - |
| Pension contributions | - | - |
| | <u>392</u> | <u>566</u> |
| Benefits in kind | - | - |
| | <u></u> | <u></u> |

Notes (continued)

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 | |
|---|---------------------|-----------|
| | 2010 | 2009 |
| Operations, administration and distribution | 27 | 20 |
| | <u>27</u> | <u>20</u> |

The aggregate payroll costs of these persons were as follows

| | 2010 £000 | 2009 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 4,106 | 2,938 |
| Social security costs | 364 | 216 |
| Pension costs | 114 | 79 |
| | <u>4,584</u> | <u>3,233</u> |

6 Financial income

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Net profit on financial instruments designated at fair value through statement of comprehensive income | - | 269 |
| | <u>-</u> | <u>269</u> |

7 Financial expenses

| | 2010 £000 | 2009 £000 |
|------------------|--------------|--------------|
| Interest charges | 36 | 28 |
| | <u>36</u> | <u>28</u> |

Interest charges represent interest charged from the immediate parent company in respect of cash pooling facilities provided in the United Kingdom

Notes (continued)

8 Taxation

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| Current taxation | | |
| UK corporation tax – current year | 24 | 84 |
| UK corporation tax – prior year | (6) | (85) |
| Deferred taxation (<i>see note 11</i>) | | |
| Origination and reversal of temporary differences | (25) | (26) |
| Total tax credit | (7) | (27) |

The tax credit represents amounts receivable from fellow UK subsidiaries of the Bertelsmann group in respect of current year tax losses surrendered in the United Kingdom at the current tax rate of 28% (2009 28%)

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

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| (Loss)/profit before taxation | (48) | 57 |
| Tax using the UK corporation tax rate of 28% (2009 28 %) | (13) | 16 |
| Effects of | | |
| Expenses not deductible for tax purposes | 7 | 2 |
| Change in deferred tax rate | 2 | - |
| Under/(over) provided in prior years | (3) | (45) |
| Total tax in statement of comprehensive income | (7) | (27) |

The deferred tax asset as at 31 December 2010 has been calculated using the tax rate of 27% enacted following the June 2010 Budget (2009 28%) applicable when the entity recovers the carrying value of the asset

A reduction to the UK corporation tax rate to 26% with effect from 1 April 2011 was substantively enacted on 29 March 2011. Further reductions to the UK corporation tax rates by 1% per annum to 23% by 1 April 2014 were announced in the March 2011 Budget and are expected to be enacted separately each year. The changes have not been recognised in these financial statements as they had not been substantively enacted at the statement of financial position date.

Notes (continued)

9 Property, plant and equipment

| | Leasehold improvements £000 | Computer equipment £000 | Other equipment £000 | Total £000 |
|-----------------------|-----------------------------------|-------------------------------|----------------------------|---------------|
| Cost | | | | |
| At 1 January 2009 | 330 | 424 | 130 | 884 |
| Additions | - | 3 | - | 3 |
| Disposals | - | - | - | - |
| At 31 December 2009 | 330 | 427 | 130 | 887 |
| At 1 January 2010 | 330 | 427 | 130 | 887 |
| Additions | - | - | 4 | 4 |
| Disposals | (330) | (427) | (134) | (891) |
| At 31 December 2010 | - | - | - | - |
| Depreciation | | | | |
| At 1 January 2009 | 68 | 95 | 27 | 190 |
| Charge for the period | 66 | 97 | 26 | 189 |
| Disposals | - | - | - | - |
| At 31 December 2009 | 134 | 192 | 53 | 379 |
| At 1 January 2010 | 134 | 192 | 53 | 379 |
| Charge for the period | 66 | 72 | 61 | 199 |
| Disposals | (200) | (264) | (114) | (578) |
| At 31 December 2010 | - | - | - | - |
| Net book value | | | | |
| At 31 December 2010 | - | - | - | - |
| At 31 December 2009 | 196 | 235 | 77 | 508 |

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

Notes (continued)

10 Intangible assets

| | Computer software £000 | Total £000 |
|----------------------------|---------------------------------------|-----------------------|
| Cost | | |
| At 1 January 2009 | 13 | 13 |
| Additions | - | - |
| | <hr/> | <hr/> |
| At 31 December 2009 | 13 | 13 |
| | <hr/> | <hr/> |
| At 1 January 2010 | 13 | 13 |
| Additions | - | - |
| Disposals | (13) | (13) |
| | <hr/> | <hr/> |
| At 31 December 2010 | - | - |
| | <hr/> | <hr/> |
| Amortisation | | |
| At 1 January 2009 | 2 | 2 |
| Charge for the period | 3 | 3 |
| | <hr/> | <hr/> |
| At 31 December 2009 | 5 | 5 |
| | <hr/> | <hr/> |
| At 1 January 2010 | 5 | 5 |
| Charge for the period | 3 | 3 |
| Disposals | (8) | (8) |
| | <hr/> | <hr/> |
| At 31 December 2010 | - | - |
| | <hr/> | <hr/> |
| Net book value | | |
| At 31 December 2010 | - | - |
| | <hr/> | <hr/> |
| At 31 December 2009 | 8 | 8 |
| | <hr/> | <hr/> |

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

Notes (continued)

11 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

At 31 December 2010 a deferred tax asset has been recognised for the tax base in relation to property, plant and equipment, employee benefits and provisions as the future benefit is expected to be utilised by the company or surrendered to other UK group companies

| | Assets | | Liabilities | | Net | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2010 £000 | 2009 £000 | 2010 £000 | 2009 £000 | 2010 £000 | 2009 £000 |
| Property, plant and equipment | - | 12 | - | - | - | 12 |
| Employee benefits | - | - | - | - | - | - |
| Provisions | - | 14 | - | - | - | 14 |
| Net tax assets | - | 26 | - | - | - | 26 |

| | 1 January 2010 £000 | P&L Movement £000 | Sale of trade and assets £000 | 31 December 2010 £000 |
|---|------------------------|----------------------|----------------------------------|--------------------------|
| <i>Movement in deferred tax during the year</i> | | | | |
| Property, plant and equipment | 12 | 23 | (35) | - |
| Employee benefits | - | - | - | - |
| Provisions | 14 | 2 | (16) | - |
| | 26 | 25 | (51) | - |

| | 1 January 2009 £000 | P&L Movement £000 | Sale of trade and assets £000 | 31 December 2009 £000 |
|---|------------------------|----------------------|----------------------------------|--------------------------|
| <i>Movement in deferred tax during the prior year</i> | | | | |
| Property, plant and equipment | - | 12 | - | 12 |
| Employee benefits | - | - | - | - |
| Provisions | - | 14 | - | 14 |
| | - | 26 | - | 26 |

Notes (continued)

12 Trade and other receivables

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Due within one year | | |
| Trade and other receivables | - | 10 |
| Trade and other receivables from group companies | 3,120 | 2,461 |
| Prepayments | - | 67 |
| | <hr/> | <hr/> |
| | 3,120 | 2,538 |
| | <hr/> | <hr/> |

An allowance has been made for estimated irrecoverable amounts of £Nil (2009 £Nil)

13 Cash and cash equivalents/ bank overdrafts

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| Bank balances | 381 | 116 |
| Bank overdrafts | - | (12) |
| | <hr/> | <hr/> |
| Cash and cash equivalents | 381 | 104 |
| Group cash pooling balance | (3,720) | (2,528) |
| | <hr/> | <hr/> |
| Cash and cash equivalents per cash flow statement | (3,339) | (2,424) |
| | <hr/> | <hr/> |

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 cash flow statement.

14 Trade and other payables

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| Due within one year | | |
| Trade and other payables | - | 684 |
| Trade and other payables due to group companies | 3,743 | 2,693 |
| Retirement benefit obligation (see note 15) | - | 8 |
| | <hr/> | <hr/> |
| | 3,743 | 3,385 |
| | <hr/> | <hr/> |

Trade and other payables to group companies principally comprise the cash pooling financing facility balance with the immediate parent company in the United Kingdom. This facility is interest bearing at a rate of 1% above the base rate of the group's principal bankers in the United Kingdom.

Notes (continued)

15 Employee benefits

Defined contribution plan

The company operates a non-contributory defined contribution pension scheme. The pension costs charge for the year includes contributions payable by the company to the scheme and amounted to £114,000 (2009 £79,000).

At the statement of financial position date, contributions amounting to £Nil (2009 £8,000) were payable to the fund.

16 Capital and reserves

Reconciliation of movement in capital and reserves

| | Share capital | Share premium | Retained earnings | Total |
|-------------------------------------|---------------|---------------|-------------------|-------|
| | £000 | £000 | £000 | £000 |
| At 1 January 2009 | 1 | - | (286) | (285) |
| Total recognised income and expense | - | - | 84 | 84 |
| At 31 December 2009 | 1 | - | (202) | (201) |
| At 1 January 2010 | 1 | - | (202) | (201) |
| Total recognised income and expense | - | - | (41) | (41) |
| At 31 December 2010 | 1 | - | (243) | (242) |

Retained earnings relate wholly to the company's ultimate parent as detailed in note 21.

| | 2010 £ | 2009 £ |
|----------------------------------|-----------|-----------|
| Share capital | | |
| <i>Authorised</i> | | |
| 1,000 ordinary shares of £1 each | 1,000 | 1,000 |
| <i>Issued and fully paid</i> | | |
| 1,000 ordinary shares of £1 each | 1,000 | 1,000 |

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.

17 Financial instruments

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

(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.

Notes (continued)

17 Financial instruments (continued)

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 2010 £000 | Fair value 2010 £000 | Carrying amount 2009 £000 | Fair value 2009 £000 |
|--|------------------------------------|----------------------------|------------------------------------|----------------------------|
| Trade and other receivables due within one year | - | - | 10 | 10 |
| Trade and other receivables from group companies | 3,120 | 3,120 | 2,461 | 2,461 |
| Cash and cash equivalents | 381 | 381 | 104 | 104 |
| Trade and other payables | - | - | (684) | (684) |
| Trade and other payables to group companies | (3,743) | (3,743) | (2,693) | (2,693) |
| | (242) | (242) | (802) | (802) |
| Unrecognised gains/losses | | - | | - |

(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 debtors. The company's management 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 management based on prior experience and their assessment of the current economic environment

Notes (continued)

17 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 was £Nil (2009 £10,000) 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 receivables at the statement of financial position date was

| | Gross trade receivables 2010 £000 | Doubtful debt provision 2010 £000 | Net trade receivables 2010 £000 | Gross trade receivables 2009 £000 | Doubtful debt provision 2009 £000 | Net trade receivables 2009 £000 |
|----------------------------------|--|--|--|--|--|--|
| Not past due | - | - | - | 5 | - | 5 |
| Past due but not impaired | | | | | | |
| 1 – 30 days | - | - | - | - | - | - |
| 31 – 60 days | - | - | - | - | - | - |
| 60 + days | - | - | - | - | - | - |
| Individually impaired amounts | - | - | - | - | - | - |
| | - | - | - | 5 | - | 5 |

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

| | 2010 £000 | 2009 £000 |
|----------------------------|--------------|--------------|
| At 1 January | - | - |
| Impairment loss recognised | - | - |
| Impairment loss reversed | - | - |
| | <hr/> | <hr/> |
| At 31 December | - | - |

(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 13 and 14.

(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 creditors. Some cash balances are held in foreign currency.

Notes (continued)

17 Financial instruments (continued)

The company's exposure to foreign currency risk is as follows This is based on the carrying amount for monetary financial instruments

| | Sterling 2010 £000 | Euro 2010 £000 | Total 2010 £000 | Sterling 2009 £000 | Euro 2009 £000 | Total 2009 £000 |
|-----------------------------|-----------------------------------|-------------------------------|--------------------------------|-----------------------------------|-------------------------------|--------------------------------|
| Cash and cash equivalents | - | 381 | 381 | (12) | 116 | 104 |
| Trade and other receivables | 3,120 | - | 3,120 | 2,461 | - | 2,461 |
| Trade and other payables | (3,743) | - | (3,743) | (2,654) | (39) | (2,693) |
| | (623) | 381 | (242) | (205) | 77 | (128) |

Sensitivity analysis – Foreign currency risk

A one percent weakening of the euro against the pound sterling at 31 December 2010 would have increased the loss 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 2009

| | 2010 £000 | (Profit) or loss 2009 £000 |
|------|----------------------|---|
| Euro | 3 | 5 |

A one percent strengthening of the Euro against the pound sterling at 31 December 2010 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 at variable 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 increased the loss 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 2009

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 loss before taxation by approximately £23,000 (2009 £18,000)

Notes (continued)

18 Related parties

Identity of related parties

The company has a related party relationship with fellow subsidiaries of the group headed by Bertelsmann AG and with its directors and executive officers

Related party transactions

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

| | Sales/ (Purchase) of Goods £000 | Sales/ (purchase) of assets £000 | Deliver/ (Receive) services £000 | Balances Receivable/ (payable) £000 |
|---|--|---|---|--|
| arvato Limited | - | 3,120 | 1,802 | 3,120 |
| arvato finance services Limited, Dublin | - | - | 1,053 | - |
| arvato government services Limited | - | - | 188 | - |
| arvato government services (ERYC) Limited | - | - | 582 | - |
| arvato public sector services Limited | - | - | 422 | - |
| Bertelsmann AG | - | - | (7) | - |
| arvato print management GmbH | - | - | 793 | - |
| arvato systems Technologies GmbH | - | - | (13) | - |
| arvato direct services Dortmund GmbH | - | - | (3) | - |
| arvato services – BA der Bertelsmann AG | - | - | (214) | - |
| arvato systems GmbH | - | - | (14) | - |
| arvato loyalty services Limited | - | - | 1,406 | - |
| arvato finance services Limited | - | - | 300 | - |
| arvato logistics services GmbH | - | - | (84) | - |
| Mohn Media GmbH | - | - | 197 | - |
| Freemantle Media Group Limited | - | - | (1) | - |
| Bertelsmann UK Limited – Cash Pooling | - | - | (35) | (3,720) |
| Bertelsmann UK Limited – Tax Pooling | - | - | - | (23) |
| At 31 December 2010 | - | 3,120 | 6,372 | (623) |

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

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Trade and other receivables from group companies | 3,120 | 2,461 |
| Trade and other payables to group companies | (3,743) | (2,693) |
| | (623) | (232) |

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 balance sheet date, the amount payable to Bertelsmann UK Limited in respect of the cash pooling account was £3,720,000 (2009 £2,528,000). This balance is included within trade and other payables to group companies

Notes (continued)

19 Notes to the cash flow statement

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| Cash flows from operating activities | | |
| (Loss)/profit before taxation | (48) | 57 |
| Adjustments for | | |
| Depreciation of property, plant and equipment | 199 | 189 |
| Amortisation of intangible assets | 3 | 3 |
| Financial income | - | (269) |
| Financial expenses | 36 | 28 |
| | <hr/> | <hr/> |
| Operating profit before movements in working capital and provisions | 190 | 8 |
| Increase in receivables | (1,436) | (433) |
| Increase/(decrease) in payables | 443 | (1,011) |
| | <hr/> | <hr/> |
| Cash generated from operations | (803) | (1,436) |
| Tax (paid)/received | (78) | 59 |
| | <hr/> | <hr/> |
| Net cash from operating activities | (881) | (1,377) |
| | <hr/> | <hr/> |

20 Accounting estimates and judgements

The preparation of these financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reports 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 make provisions against those balances considered most at risk.

21 Ultimate parent company and controlling party

The immediate parent company is Bertelsmann UK Limited, a company incorporated in the United Kingdom.

The ultimate parent company and ultimate controlling party is Bertelsmann AG, 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 AG, Carl Bertelsmann Strasse 270, Postfach 111, D-33311, Gütersloh, Germany.

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

Notes (continued)

22 Disposal of business

On 31 December 2010, the company disposed its business to arvato Limited for a consideration of £3,120,000. arvato Limited provides a range of business process outsourcing services.

Effect of disposal

The disposal had the following effect on the company's assets and liabilities

| | Pre-disposal £000 | Fair value adjustments £000 | Fair value on disposal £000 |
|--|----------------------|-----------------------------------|-----------------------------------|
| <i>Net assets disposed of</i> | | | |
| Property, plant and equipment | 317 | - | 317 |
| Trade and other receivables | 4,026 | - | 4,026 |
| Cash and cash equivalents | (6) | - | (6) |
| Trade and other payables | (1,217) | - | (1,217) |
| Net identifiable assets disposed of | 3,120 | - | 3,120 |
| Cash consideration receivable (included in trade and other receivables from group companies) | | | (3,120) |
| Net cash inflow | | | - |