

# **Arvato Government Services Limited**

Annual report and consolidated  
financial statements

Registered number 05429280

31 December 2017



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## Strategic report

### Introduction

The directors of Arvato Government Services Limited present the Strategic Report for the year ended 31 December 2017.

### 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 start-up investments are grouped in Bertelsmann Investments. In 2017 the group's businesses, with their more than 119,000 employees, generated revenues of €17.2 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 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 2017 Arvato Government Services Limited group revenues were £38,484,000 (2016: £39,689,000) with an operating loss of £1,891,000 (2016: £13,000).

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 2017 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.

#### **Future Developments**

Following the end of the exclusivity arrangements with East Riding of Yorkshire Council, this company will not actively bid for new business and will remain as a holding company for its subsidiary Arvato Public Sector Services Limited.

## Strategic report (*continued*)

### **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.

### **Post Balance Sheet Events**

The ultimate parent company, Bertelsmann SE & Co. KGaA, recently announced a strategic review of the global Arvato CRM division (excluding French speaking territories). The review is expected to be concluded by the end of 2018 and options include partnerships as well as a complete or partial sale.

On behalf of the board



Richard Parkin

*Director*

28 August 2018

## Directors' report

The directors of Arvato Government Services Limited present the annual report and audited consolidated financial statements for the year ended 31 December 2017.

### 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:

Debra Maxwell

Richard Parkin

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.

It is the group's policy to give full and fair consideration to applications for employment made by disabled persons, and to recruit individuals fairly and objectively on the basis of their particular skills, aptitudes and abilities.

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 (2016: £Nil) and the directors do not recommend the payment of a dividend (2016: £Nil).

### Future Developments

The directors' views of the factors which are 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 18, 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.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons. The directors have considered the trading position of the company and its business risks, and have prepared detailed forecasts for the next 12 months. In addition the Board of Arvato UK Limited, the intermediate parent company, has announced its intention to provide financial support to the company for a period of at least 12 months from the date of signing these financial statements which will include, but is not limited to, not requiring repayment of any amounts owing to it for this period. The directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future.

Furthermore the directors have considered the announcement made by Bertelsmann SE & Co. KGaA in January 2018 regarding the potential sale of the global CRM division, which includes the company and a number of other UK companies headed by Bertelsmann UK Limited. At the time of signing these financial statements the sale process remains in its early stages and there remains uncertainty regarding the ultimate likelihood of a sale, as well as its possible nature and the identity of any purchaser(s). The directors are aware that a sale could occur within the 12 month period following the signing of these financial statements however at this stage the likelihood of this does not appear sufficiently high to raise significant doubts about the company's ability to continue as a going concern. Accordingly the directors continue to adopt the going concern basis in preparing the financial statements.

### 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.

## Directors' report *(continued)*

### Independent 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



Richard Parkin

Director

28 August 2018

One Fleet Place  
London  
United Kingdom  
EC4M 7WS

## **Independent auditors' report to the members of Arvato Government Services Limited**

### **Report on the audit of the financial statements**

#### **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 2017 and of the group's loss 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, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report") which comprise: the group and company statements of financial position as at 31 December 2017; the consolidated statement of comprehensive income, the group and company statements of cash flows, the group and company statements of changes in shareholders' equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's or the company's ability to continue as a going concern.

#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.



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

### **Reporting on other information (continued)**

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### **Responsibilities for the financial statements and the audit**

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

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.

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

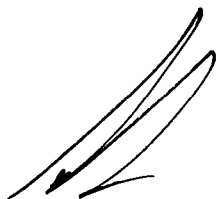
### Other required reporting

#### Companies Act 2006 exception reporting

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 group or the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Christopher Neale (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

29 August 2018

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Continuing operations</b>			
Revenue	2	<u>38,484</u>	<u>39,689</u>
<b>Operating costs</b>			
Employee expenses	5	(19,738)	(19,593)
Administrative expenses		<u>(20,637)</u>	<u>(20,109)</u>
<b>Loss from operations</b>	3	<u>(1,891)</u>	<u>(13)</u>
Financial expenses	6	(239)	(379)
<b>Loss before taxation</b>		<u>(2,130)</u>	<u>(392)</u>
Taxation	7	382	74
<b>Loss for the year</b>		<u>(1,748)</u>	<u>(318)</u>
Other comprehensive income for the year		-	-
<b>Total comprehensive expense for the year</b>		<u><u>(1,748)</u></u>	<u><u>(318)</u></u>

The notes on pages 13 to 35 form part of the financial statements.

## Statements of Financial Position

as at 31 December 2017

		Group		Company	
	Note	2017	2016	2017	2016
		£000	£000	£000	£000
<b>Non-current assets</b>					
Property, plant and equipment	8	575	877	-	1
Intangible assets	9	293	459	-	-
Investments in subsidiary undertakings	10	-	-	1	1
Deferred tax asset	11	330	277	-	-
<b>Total non-current assets</b>		<b>1,198</b>	<b>1,613</b>	<b>1</b>	<b>2</b>
<b>Current assets</b>					
Trade and other receivables	12	5,512	6,749	8	37
Cash and cash equivalents	13	2,700	2,716	79	184
<b>Total current assets</b>		<b>8,212</b>	<b>9,465</b>	<b>87</b>	<b>221</b>
<b>Total assets</b>		<b>9,410</b>	<b>11,078</b>	<b>88</b>	<b>223</b>
<b>Equity</b>					
Share capital	17	1	1	1	1
Accumulated losses:	17	(4,138)	(2,390)	(2,566)	(2,535)
<b>Total equity</b>		<b>(4,137)</b>	<b>(2,389)</b>	<b>(2,565)</b>	<b>(2,534)</b>
<b>Current liabilities</b>					
Trade and other payables	14	11,718	11,910	2,653	2,757
Deferred income	16	1,829	1,557	-	-
<b>Total current liabilities</b>		<b>13,547</b>	<b>13,467</b>	<b>2,653</b>	<b>2,757</b>
<b>Total liabilities</b>		<b>13,547</b>	<b>13,467</b>	<b>2,653</b>	<b>2,757</b>
<b>Total equity and liabilities</b>		<b>9,410</b>	<b>11,078</b>	<b>88</b>	<b>223</b>

The notes on pages 13 to 35 form part of the financial statements.

The financial statements of Arvato Government Services Limited (registered number 05429280) on pages 9 to 35 were approved by the Board of Directors on 28 August 2018 and were signed on its behalf by:



Richard Parkin  
Director

## Statements of Changes in Shareholders' Equity

For the year ended 31 December 2017

<b>Group</b>	<b>Share capital £000</b>	<b>Accumulated losses £000</b>	<b>Total equity £000</b>
Opening shareholders' funds at 1 January 2016	1	(2,072)	(2,071)
Loss for the year	-	(318)	(318)
Other comprehensive income for the year	-	-	-
Total comprehensive expense for the year	-	(318)	(318)
Closing shareholders' funds at 31 December 2016	1	(2,390)	(2,389)
<b>Opening shareholders' funds at 1 January 2017</b>	<b>1</b>	<b>(2,390)</b>	<b>(2,389)</b>
Loss for the year	-	(1,748)	(1,748)
Other comprehensive income for the year	-	-	-
Total comprehensive expense for the year	-	(1,748)	(1,748)
Closing shareholders' funds at 31 December 2017	1	(4,138)	(4,137)

<b>Company</b>	<b>Share capital £000</b>	<b>Accumulated losses £000</b>	<b>Total equity £000</b>
Opening shareholders' funds at 1 January 2016	1	(4,387)	(4,386)
Profit for the year	-	1,852	1,852
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	1,852	1,852
Closing shareholders' funds at 31 December 2016	1	(2,535)	(2,534)
<b>Opening shareholders' funds at 1 January 2017</b>	<b>1</b>	<b>(2,535)</b>	<b>(2,534)</b>
Loss for the year	-	(31)	(31)
Other comprehensive income for the year	-	-	-
Total comprehensive expense for the year	-	(31)	(31)
Closing shareholders' funds at 31 December 2017	1	(2,566)	(2,565)

The notes on pages 13 to 35 form part of the financial statements.

## Statements of Cash Flows

for the year ended 31 December 2017

		Group		Company	
	Note	2017	2016	2017	2016
		£000	£000	£000	£000
<b>Net cash from/(used in) operating activities</b>	21	<b>543</b>	3,800	<b>(36)</b>	(2,666)
<b>Cash flows (used in)/from investing activities</b>					
Acquisition of property, plant and equipment		(264)	(228)	-	-
Acquisition of intangible assets		(57)	(57)	-	-
Proceeds from disposal of property, plant and equipment		-	47	-	-
Proceeds from disposal of intangible assets		-	10	-	-
<b>Net cash used in investing activities</b>		<b>(321)</b>	(228)	-	-
<b>Cash flows (used in)/from financing activities</b>					
Interest paid		(238)	(417)	(69)	(158)
Dividend received		-	-	-	2,000
<b>Net cash (used in)/from financing activities</b>		<b>(238)</b>	(417)	<b>(69)</b>	1,842
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(16)</b>	3,155	<b>(105)</b>	(824)
Cash and cash equivalents at 1 January		<b>2,716</b>	(439)	<b>(2,416)</b>	(1,592)
<b>Cash and cash equivalents at 31 December</b>	13	<b>2,700</b>	2,716	<b>(2,521)</b>	(2,416)

The notes on pages 13 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 private company limited by shares, incorporated and domiciled in London, England, United Kingdom.

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 directors have considered the trading position of the company and its business risks, and have prepared detailed forecasts for the next 12 months following the signing of these financial statements. In addition, the Board of Arvato UK Limited, the intermediate parent company, has announced its intention to provide financial support to the company for a period of at least 12 months from the date of signing these financial statements which will include, but is not limited to, not requiring repayment of any amounts owing to it for this period. The directors therefore have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future.

Furthermore the directors have considered the announcement made by Bertelsmann SE & Co. KGaA in January 2018 regarding the potential sale of the global CRM Division, which includes the company and a number of other UK companies headed by Bertelsmann UK Limited. At the time of signing these financial statements the sale process remains in its early stages and there remains uncertainty regarding the ultimate likelihood of a sale, as well as its possible nature and the identity of any purchaser(s). The directors are aware that a sale could occur within the 12 month period following the signing of these financial statements however at this stage the likelihood of this does not appear sufficiently high to raise significant doubts about the company's ability to continue as a going concern. Accordingly the directors continue to adopt the going concern basis in preparing the financial statements.

#### **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.

## Notes (continued)

### 1. Accounting policies (continued)

#### **Measurement convention**

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

#### **Foreign Currency**

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

#### **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 flows.

#### **Trade and other receivables**

Trade and other receivables at the statement of financial position date comprise amounts receivable from the sale of services to third parties. Trade and other receivables from group companies comprise amounts receivable from recharge of costs to fellow subsidiaries of the Bertelsmann group.

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. Trade and other payables to group companies comprise amounts payable to fellow subsidiaries of the Bertelsmann group in respect of services received and costs incurred on the company's behalf.

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, value added tax 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.

## 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 2017 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 2018, and have not been applied in preparing these financial statements:

- IFRS 2, 'Share based payments' deals with classification and measurement of share-based payment transactions (effective for accounting periods beginning on or after 1 January 2018).
- IFRS 9, 'Financial instruments', Phase 1 and 2 address the classification, measurement and recognition of financial assets and financial liabilities (effective for accounting periods beginning on or after 1 January 2018).
- Amendments to IFRS 9 'Financial instruments' Phase 3 on general hedge accounting introduces a reformed model for hedge accounting with enhanced disclosures about risk management activities (effective for accounting periods beginning on or after 1 January 2018).
- IFRS 15, 'Revenue from contracts' deals with revenue recognition and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations (effective for accounting periods beginning on or after 1 January 2018).
- IFRS 16, 'Leases' deals with the recognition and measurement of leases and establishes principles for reporting the leasing activities of both lessees and lessors.  
The standard replaces IAS 17 'Leases' and related interpretations (effective for accounting periods beginning on or after 1 January 2019).
- IFRIC 23 'Uncertainty over income tax treatments' clarifies how the recognition and measurement requirements of IAS 12 'income taxes' are applied where there is uncertainty over tax treatments.

The group is assessing the impact the application of the above standards would have on the statements of financial position or statements and 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:

	2017	2016
	£000	£000
Sales of services	36,984	38,924
Other operating income	1,500	765
	<u>38,484</u>	<u>39,689</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. Loss from operations

Loss from operations has been arrived at after charging:

	2017	2016
	£000	£000
Net foreign exchange losses	12	18
Depreciation of tangible assets	566	507
Amortisation of intangible assets	223	304
Operating lease rentals:		
Land and buildings	406	460
Equipment	28	41
Employee expenses (see note 5)	19,738	19,593
Auditors' remuneration:		
Audit of these financial statements:		
Group	24	25
Company	5	6

### 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 (2016: £Nil).

### 5. Employee expenses

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

	Number of employees	
	Group	
	2017	2016
Operations	582	541
Management and administration	113	163
	<u>695</u>	<u>704</u>

The company has no employees (2016: Nil).

The aggregate payroll costs of these persons were as follows:

	Group	
	2017	2016
	£000	£000
Wages and salaries	16,583	16,727
Social security costs	1,469	1,355
Other pension costs	1,686	1,511
	<u>19,738</u>	<u>19,593</u>

## Notes (continued)

### 6. Financial expenses

	2017	2016
	£000	£000
Interest charges	-	117
Other interest	239	262
	<u>239</u>	<u>379</u>

Interest charges and other interest 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

	2017	2016
	£000	£000
Current taxation:		
UK corporation tax – current year	(328)	(64)
UK corporation tax – prior year	(1)	-
Deferred taxation (see note 11):		
Origination and reversal of temporary differences	(53)	(10)
	<u>(382)</u>	<u>(74)</u>

The current year 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. The standard rate of corporation tax in the United Kingdom changed from 20% to 19% with effect from 1 April 2017. Accordingly the group's losses are taxed at an effective rate of 19.25% (2016: 20%).

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

	2017	2016
	£000	£000
Loss before taxation	<u>(2,130)</u>	<u>(392)</u>
Tax using the UK corporation tax rate of 19.25% (2016: 20%)	(410)	(78)
Effects of:		
Expenses not deductible for tax purposes	(9)	2
Deferred tax rate difference	40	-
Total tax (over)/under provided in prior years	(3)	2
Total tax in consolidated statement of comprehensive income	<u>(382)</u>	<u>(74)</u>

During 2016 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 17% with effect from 1 April 2020. Accordingly deferred tax has been provided at 17% (2016: 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 2016	800	3,391	86	11	4,288
Additions	-	227	1	-	228
Disposals	-	(55)	-	-	(55)
At 31 December 2016	800	3,563	87	11	4,461
At 1 January 2017	800	3,563	87	11	4,461
Additions	-	264	-	-	264
Disposals	-	-	-	-	-
At 31 December 2017	800	3,827	87	11	4,725
<b>Accumulated depreciation</b>					
At 1 January 2016	482	2,532	60	11	3,085
Charged for the year	101	398	8	-	507
Disposals	-	(8)	-	-	(8)
At 31 December 2016	583	2,922	68	11	3,584
At 1 January 2017	583	2,922	68	11	3,584
Charged for the year	101	455	10	-	566
Disposals	-	-	-	-	-
At 31 December 2017	684	3,377	78	11	4,150
<b>Net book value</b>					
At 31 December 2017	116	450	9	-	575
At 31 December 2016	217	641	19	-	877

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 2016	20	15	35
Additions	-	-	-
Disposals	-	-	-
At 31 December 2016	20	15	35
At 1 January 2017	20	15	35
Additions	-	-	-
Disposals	-	-	-
At 31 December 2017	20	15	35
<b>Accumulated depreciation</b>			
At 1 January 2016	18	15	33
Charged for the year	1	-	1
Disposals	-	-	-
At 31 December 2016	19	15	34
At 1 January 2017	19	15	34
Charged for the year	1	-	1
Disposals	-	-	-
At 31 December 2017	20	15	35
<b>Net book value</b>			
At 31 December 2017	-	-	-
At 31 December 2016	1	-	1

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

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

<b>Group</b>	<b>Computer software £000</b>	<b>Bid costs £000</b>	<b>Total £000</b>
<b>Cost</b>			
At 1 January 2016	820	1,276	2,096
Additions	57	-	57
Disposals	(14)	-	(14)
At 31 December 2016	863	1,276	2,139
At 1 January 2017	863	1,276	2,139
Additions	57	-	57
Disposals	-	-	-
At 31 December 2017	920	1,276	2,196
<b>Accumulated amortisation</b>			
At 1 January 2016	551	829	1,380
Charged for the year	159	145	304
Disposals	(4)	-	(4)
At 31 December 2016	706	974	1,680
At 1 January 2017	706	974	1,680
Charged for the year	103	120	223
Disposals	-	-	-
At 31 December 2017	809	1,094	1,903
<b>Net book value</b>			
At 31 December 2017	111	182	293
At 31 December 2016	157	302	459

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



**Notes (continued)**

**9. Intangible assets (continued)**

<b>Company</b>	<b>Computer software £000</b>	<b>Total £000</b>
<b>Cost</b>		
At 1 January 2016	2	2
Additions	-	-
Disposals	-	-
At 31 December 2016	2	2
At 1 January 2017	2	2
Additions	-	-
Disposals	-	-
At 31 December 2017	2	2
<b>Accumulated amortisation</b>		
At 1 January 2016	2	2
Charged for the year	-	-
Disposals	-	-
At 31 December 2016	2	2
At 1 January 2017	2	2
Charged for the year	-	-
Disposals	-	-
At 31 December 2017	2	2
<b>Net book value</b>		
At 31 December 2017	-	-
At 31 December 2016	-	-

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 2016 and 31 December 2016			1
At 1 January 2017			1
Additions			-
Disposals			-
<b>At 31 December 2017</b>			<b>1</b>
<b>Impairment</b>			
At 1 January 2016 and 31 December 2016			-
At 1 January 2017			-
Charged for the year			-
Disposals			-
<b>At 31 December 2017</b>			<b>-</b>
<b>Net book value</b>			
<b>At 31 December 2017</b>			<b>1</b>
At 31 December 2016			1
<b>Subsidiary undertaking</b>	<b>Registered address</b>	<b>Principal activity</b>	<b>Class and percentage of shares held</b>
Arvato Public Sector Services Limited	One Fleet Place, London, United Kingdom EC4M 7WS	Local government services	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 2017 a deferred tax asset has been recognised for the tax base in relation to property, plant and equipment, employee pension benefits and other temporary differences as the future benefit is expected to be utilised by the group or surrendered to other UK group companies.

The nature of the deferred tax asset is such that no part of it is expected to reverse in the next twelve months.

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
	£000	£000	£000	£000	£000	£000
Property, plant and equipment	236	236	-	-	236	236
Employee pension benefits	76	41	-	-	76	41
Other temporary differences	18	-	-	-	18	-
Net tax assets	330	277	-	-	330	277

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

	1 January 2017	Credit to profit	31 December 2017
	£000	£000	£000
Property, plant and equipment	236	-	236
Employee pension benefits	41	35	76
Other temporary differences	-	18	18
	277	53	330

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

	1 January 2016	Credit to profit	31 December 2016
	£000	£000	£000
Property, plant and equipment	228	8	236
Employee pension benefits	39	2	41
Other temporary differences	-	-	-
	267	10	277

#### Company

##### Deferred tax assets and liabilities

At 31 December 2017 there are no recognised or unrecognised deferred tax assets and liabilities (2016: None).

## Notes (continued)

### 12. Trade and other receivables

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Due within one year:				
Trade and other receivables	2,052	4,142	-	-
Trade and other receivables from group companies	848	324	8	37
Prepayments	2,612	2,283	-	-
	<u>5,512</u>	<u>6,749</u>	<u>8</u>	<u>37</u>

An allowance has been made for group estimated irrecoverable amounts of trade and other receivables of £333,000 (2016: £5,000).

No allowance has been made for company estimated irrecoverable amounts of trade and other receivables (2016: £Nil).

### 13. Cash and cash equivalents

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Bank balances	2,700	2,716	79	184
Bank overdrafts	-	-	-	-
Cash and cash equivalents	<u>2,700</u>	<u>2,716</u>	<u>79</u>	<u>184</u>
Group cash pooling balance	-	-	(2,600)	(2,600)
Cash and cash equivalents per statement of cash flows	<u>2,700</u>	<u>2,716</u>	<u>(2,521)</u>	<u>(2,416)</u>

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 flows.

### 14. Trade and other payables

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Due within one year:				
Trade and other payables	5,607	6,323	53	54
Trade and other payables to group companies	5,665	5,373	2,600	2,703
Retirement benefit obligation (see note 15)	446	214	-	-
	<u>11,718</u>	<u>11,910</u>	<u>2,653</u>	<u>2,757</u>

## Notes (continued)

### 15. 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 £1,686,000 (2016: £1,511,000).

At the statement of financial position date, contributions amounting to £446,000 (2016: £214,000) were payable to the fund.

#### Company

The company does not operate a pension scheme.

### 16. Deferred income

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Non-current	-	-	-	-
Current	1,829	1,557	-	-
	<u>1,829</u>	<u>1,557</u>	<u>-</u>	<u>-</u>

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

### 17. Capital and reserves

Reconciliation of movement in capital and reserves:

#### Group

	Share capital £000	Accumulated losses £000	Total equity £000
At 1 January 2016	1	(2,072)	(2,071)
Total comprehensive expense for the year	-	(318)	(318)
At 31 December 2016	<u>1</u>	<u>(2,390)</u>	<u>(2,389)</u>
At 1 January 2017	1	(2,390)	(2,389)
Total comprehensive expense for the year	-	(1,748)	(1,748)
At 31 December 2017	<u>1</u>	<u>(4,138)</u>	<u>(4,137)</u>

#### Company

	Share capital £000	Accumulated losses £000	Total equity £000
At 1 January 2016	1	(4,387)	(4,386)
Total comprehensive income for the year	-	1,852	1,852
At 31 December 2016	<u>1</u>	<u>(2,535)</u>	<u>(2,534)</u>
At 1 January 2017	1	(2,535)	(2,534)
Total comprehensive expense for the year	-	(31)	(31)
At 31 December 2017	<u>1</u>	<u>(2,566)</u>	<u>(2,565)</u>

## Notes (continued)

### 17. Capital and reserves (continued)

Share capital	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
<b>Issued and fully paid:</b>				
801 ordinary 'A' shares of £1 each (2016: 801)	801	801	801	801
199 ordinary 'B' shares of £1 each (2016: 199)	199	199	199	199
	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

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.

#### **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.

## Notes (continued)

### 18. 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.

##### 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:

<b>Group</b>	<b>Carrying amount 2017 £000</b>	<b>Fair value 2017 £000</b>	<b>Carrying amount 2016 £000</b>	<b>Fair value 2016 £000</b>
Trade and other receivables	2,052	2,052	4,142	4,142
Trade and other receivables from group companies	848	848	324	324
Cash and cash equivalents	2,700	2,700	2,716	2,716
Trade and other payables	(5,607)	(5,607)	(6,323)	(6,323)
Trade and other payables to group companies	(5,665)	(5,665)	(5,373)	(5,373)
	<b>(5,672)</b>	<b>(5,672)</b>	<b>(4,514)</b>	<b>(4,514)</b>

##### Unrecognised gains/losses

-

## Notes (continued)

### 18. Financial instruments (continued)

#### Fair values (continued)

Company	Carrying amount	Fair value	Carrying amount	Fair value
	2017	2017	2016	2016
	£000	£000	£000	£000
Trade and other receivables	-	-	-	-
Trade and other receivables from group companies	8	8	37	37
Cash and cash equivalents	79	79	184	184
Trade and other payables	(53)	(53)	(54)	(54)
Trade and other payables to group companies	(2,600)	(2,600)	(2,703)	(2,703)
	<b>(2,566)</b>	<b>(2,566)</b>	<b>(2,536)</b>	<b>(2,536)</b>
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.

##### 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 £2,052,000 (2016: £4,142,000), and for the company was £Nil (2016: £Nil), 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:

Group	Gross trade receivables	Doubtful debt provision	Net trade receivables	Gross trade receivables	Doubtful debt provision	Net trade receivables
	2017	2017	2017	2016	2016	2016
	£000	£000	£000	£000	£000	£000
Not past due	1,237	-	1,237	2,091	-	2,091
Past due but not impaired:						
One to thirty days	101	-	101	822	-	822
Thirty one to ninety days	84	-	84	36	-	36
Ninety + days	635	(5)	630	1,198	(5)	1,193
Individually impaired amounts	328	(328)	-	-	-	-
	<b>2,385</b>	<b>(333)</b>	<b>2,052</b>	<b>4,147</b>	<b>(5)</b>	<b>4,142</b>



## Notes (continued)

### 18. Financial instruments (continued)

#### Exposure to credit risk (continued)

<b>Company</b>	<b>Gross trade receivables 2017</b>	<b>Doubtful debt provision 2017</b>	<b>Net trade receivables 2017</b>	<b>Gross trade receivables 2016</b>	<b>Doubtful debt provision 2016</b>	<b>Net trade receivables 2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Not past due	-	-	-	-	-	-
Past due but not impaired:						
One to thirty days	-	-	-	-	-	-
Thirty one to ninety days	-	-	-	-	-	-
Ninety + days	-	-	-	-	-	-
Individually impaired amounts	-	-	-	-	-	-
	-	-	-	-	-	-

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>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 January	5	5	-	-
Impairment loss recognised	328	-	-	-
Impairment loss reversed	-	-	-	-
<b>At 31 December</b>	<b>333</b>	<b>5</b>	<b>-</b>	<b>-</b>

#### (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 facility. For details of this see notes 13 and 14.

##### Capital management

Capital is managed by the ultimate parent company.

## Notes (continued)

### 18. Financial instruments (continued)

#### (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 2017 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 2016.

	Group Profit		Company Profit	
	2017	2016	2017	2016
	£000	£000	£000	£000
Euro	4	4	-	-

A one percent strengthening of the euro against the pound sterling at 31 December 2017 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. During the prior year the group repaid a loan facility from an associate company, on which interest was 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 loan facility on which interest is charged at specific rates, based on the Bank of England base rate.

##### *Sensitivity analysis – Interest rate risk*

A change of one percent in interest rates at the statement of financial position date would have impacted the 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 2016.

At the year end it is estimated that an increase of one percentage rise in the Bank of England base rate would increase the group's loss before taxation by approximately £Nil (2016: £21,000).

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 £26,000 (2016: £38,000).

## Notes (continued)

### 19. Operating leases

Non-cancellable operating lease rentals are payable as follows:

Group	Group		Group	
	Land and buildings	Equipment	Land and buildings	Equipment
	2017	2017	2016	2016
	£000	£000	£000	£000
Less than one year	304	9	406	29
Between one and five years	237	10	541	20
More than five years	-	-	-	-
	<b>541</b>	<b>19</b>	<b>947</b>	<b>49</b>

During the year £406,000 (2016: £460,000) for land and buildings and £28,000 (2016: £41,000) for equipment were recognised as an expense in the consolidated statement of comprehensive income in respect of operating leases.

### Company

The company holds no non-cancellable operating leases.

### 20. 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.

Group	Sale / (purchase) of goods £000	Sale / (purchase) of assets £000	Deliver / (receive) services £000	Balance receivable / (payable) £000
Arvato Limited	-	-	(8,299)	(5,402)
Arvato Business Support GmbH	-	-	(1)	-
Arvato CRM Limited	-	-	376	376
Arvato Finance Services Limited	-	-	13	-
BeAccounting Services GmbH - BeProcurement	-	-	(7)	(7)
Arvato IT Support GmbH	-	-	(19)	(3)
Arvato Systems GmbH	-	-	(15)	(26)
Bertelsmann SE & Co. KGaA	-	-	(97)	(82)
BeProcurement S.a.r.l	-	-	(5)	(1)
BeAccounting Services GmbH	-	-	(2)	-
STOK UK Limited	-	-	1	1
Territory CTR GmbH	-	-	(10)	(1)
Bertelsmann UK Limited - Tax Pooling	-	-	329	328
<b>At 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>(7,736)</b>	<b>(4,817)</b>

## Notes (continued)

### 20. Related parties (continued)

<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 Systems GmbH	-	-	14	-
BeAccounting Services GmbH	-	-	(1)	-
Arvato Public Sector Services Limited	-	-	(43)	(2,600)
Bertelsmann UK Limited - Tax Pooling	-	-	8	8
<b>At 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>(22)</b>	<b>(2,592)</b>

### Related party transactions

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

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade and other receivables from group companies	848	324	8	37
Trade and other payables to group companies	(5,665)	(5,373)	(2,600)	(2,703)
	<b>(4,817)</b>	<b>(5,049)</b>	<b>(2,592)</b>	<b>(2,666)</b>

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.

## 21. Notes to the statement of cash flow

### Cash flows from operating activities

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
(Loss)/profit before taxation	(2,130)	(392)	(39)	1,815
Adjustments for:				
Depreciation of property, plant and equipment	566	507	1	1
Amortisation of intangible assets	223	304	-	-
Financial expenses/(income)	239	379	43	(1,857)
Operating (loss)/profit before movements in working capital and provisions	(1,102)	798	5	(41)
Decrease in receivables	1,500	1,042	-	7
Increase/(decrease) in payables	80	2,348	(78)	(2,673)
<b>Cash generated from/(used in) operations</b>	<b>478</b>	<b>4,188</b>	<b>(73)</b>	<b>(2,707)</b>
Tax received/(paid)	65	(388)	37	41
<b>Net cash from/(used in) operating activities</b>	<b>543</b>	<b>3,800</b>	<b>(36)</b>	<b>(2,666)</b>

## Notes (continued)

### 22. Accounting estimates and judgements

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

The directors consider that the nature of the judgements and estimates used within the calculation of asset impairment are the only key estimates or judgements identified that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Impairment calculations are prepared each financial year comparing forecast discounted cash flows to carrying values and any previous impairments.

#### ***Recoverability of receivables***

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

### 23. 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.