

arvato government services Limited

**Directors' report and consolidated
financial statements**

Registered number 05429280

31 December 2011

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Directors' report

Introduction

The directors of arvato government services Limited present the annual report for the year ended 31 December 2011, which includes a business review, information on corporate governance and audited financials

Principal activity of the business

arvato government services Limited provides outsourced services to the public sector

Business review

▪ About arvato

arvato government services Limited is part of the global network of arvato AG, 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 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 government services Limited benefits from Bertelsmann's financial strength and funds are provided on a loan basis.

▪ Business development

The company was established to be the growth vehicle for arvato, building on the initial contract win for arvato government services (ERYC) Limited with East Riding of Yorkshire Council. arvato successfully tendered for a major BPO contract with Sefton Metropolitan Borough Council, commencing in 2008. This involves the outsourcing and delivery of key service areas including Revenues and Benefits, ICT, Payroll and HR, Customer Services and Accounts Payable. These services are delivered by 450 employees who were TUPE transferred to the group on commencement of the contract. In 2010 the company was successful in signing a 10 year contract with Chesterfield Borough Council, delivering a similar range of services, and in November 2011 was appointed preferred bidder for a similar contract with Slough Borough Council (subsequently signed in March 2012 and commenced in April 2012). The group will continue to focus on delivery and growth of these contracts, whilst bidding for additional contracts. The current contracts are structured to deliver up-front cost savings to the Councils and so are planned to be loss-making for the group in the first few years, funded through loans provided by Bertelsmann AG.

In 2011 arvato government services Limited group revenues reached £24,699,000 (2010 £22,275,000) and operating loss improved at £543,000 (2010 £1,368,000).

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 2011 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

arvato government services Limited 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 per cent per annum over the next few years and it is our plan to invest in this growing market place to outpace this growth.

The government's public sector cuts are well underway with indications of more to follow. This should lead to additional business opportunities as the public sector explores the benefits that outsourcing can provide to support cost reduction objectives. Our primary business objective is to deliver profitable growth through creating value for our clients by delivering individual, innovative BPO solutions that continually adapt to meet clients' changing needs.

Directors' report *(continued)*

Business Review *(continued)*

▪ **Principal Risks and Uncertainties**

The majority of the revenue the group receives 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.

▪ **Financial Risk Management**

arvato's business operations are financed by Bertelsmann AG. As such, arvato government services Limited benefits from Bertelsmann's financial strength and funds are provided by its 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 AG.

Our People

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

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

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

Corporate and Social Responsibility

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

Proposed Dividend

The directors do not recommend the payment of a dividend.

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)*

Directors

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

Matthias Mierisch
Rainer Majcen
Stefan Gläser
Councillor Stephen Robert Parnaby

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



R Majcen
Director

The Hall
Lairgate
Beverley
East Yorkshire
HU17 8HL

9 May 2012

Statement of directors' responsibilities

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 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 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.

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

We have audited the group and parent company financial statements (the "financial statements") of arvato government services Limited for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, Statements of Financial Position, Statements of Changes in Shareholders' Equity, Statements of Cash Flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's loss and group's and parent company's cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, 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 auditors' report to the members of arvato government services 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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



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

Date 9 May 2012

Consolidated Statement of Comprehensive Income
for year ended 31 December 2011

	<i>Note</i>	2011 £000	2010 £000
Continuing operations			
Revenue	2	24,699	22,275
Operating costs			
Employee expenses	5	(16,050)	(14,041)
Administrative expenses		(9,192)	(9,602)
Loss from operations	3	(543)	(1,368)
Financial expenses	6	(476)	(288)
Loss before taxation		(1,019)	(1,656)
Taxation	7	172	450
Loss for the year		(847)	(1,206)
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		(847)	(1,206)

The notes on pages 13 to 38 form part of the financial statements

Statements of Financial Position
as at 31 December 2011

	Note	Group		Company	
		2011 £000	2010 £000	2011 £000	2010 £000
Non-current assets					
Property, plant and equipment	8	1,289	1,303	4	1
Intangible assets	9	847	848	2	-
Investments in subsidiary undertakings	10	-	-	1	1
Deferred tax asset	11	773	102	3	3
Total non-current assets		2,909	2,253	10	5
Current assets					
Trade and other receivables	12	3,315	2,072	558	909
Cash and cash equivalents	13	1,998	2,732	615	361
Total current assets		5,313	4,804	1,173	1,270
Total assets		8,222	7,057	1,183	1,275
Equity					
Share capital	18	1	1	1	1
Retained earnings	18	(5,779)	(4,932)	(2,922)	(2,272)
Total equity		(5,778)	(4,931)	(2,921)	(2,271)

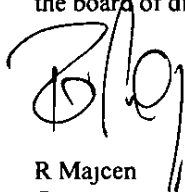
The notes on pages 13 to 38 form part of the financial statements

Statements of Financial Position (continued)
as at 31 December 2011

	Note	Group		Company	
		2011 £000	2010 £000	2011 £000	2010 £000
Current liabilities					
Trade and other payables	14	7,788	7,576	3,749	3,194
Deferred income	17	698	576	345	319
Bank overdraft	13	4	3	-	-
Total current liabilities		8,490	8,155	4,094	3,513
Non-current liabilities					
Trade and other payables	14	10	33	10	33
Interest-bearing loans and borrowing	15	5,500	3,800	-	-
Total non-current liabilities		5,510	3,833	10	33
Total liabilities		14,000	11,988	4,104	3,546
Total equity and liabilities		8,222	7,057	1,183	1,275

The notes on pages 13 to 38 form part of the financial statements

The financial statements of arvato government services Limited (registered number 05429280) were approved by the board of directors on 9 May 2012 and were signed on its behalf by


 R Majcen
 Director

Statements of Changes in Shareholders' Equity
for year ended 31 December 2011

Group	Share capital £000	Share premium £000	Retained earnings £000	Total £000
Opening shareholders' funds at 1 January 2010	1	-	(3,726)	(3,725)
Loss for the year	-	-	(1,206)	(1,206)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(1,206)	(1,206)
Proceeds from shares issued	-	-	-	-
Dividends to equity holders of the company	-	-	-	-
Total contributions by and distributions to owners of the company	-	-	-	-
Closing shareholders' funds at 31 December 2010	1	-	(4,932)	(4,931)
Opening shareholders' funds at 1 January 2011	1	-	(4,932)	(4,931)
Loss for the year	-	-	(847)	(847)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(847)	(847)
Proceeds from shares issued	-	-	-	-
Dividends to equity holders of the company	-	-	-	-
Total contributions by and distributions to owners of the company	-	-	-	-
Closing shareholders' funds at 31 December 2011	1	-	(5,779)	(5,778)

The notes on pages 13 to 38 form part of the financial statements

Statements of Changes in Shareholders' Equity *(continued)*
for year ended 31 December 2011

Company	Share capital £000	Share premium £000	Retained earnings £000	Total £000
Opening shareholders' funds at 1 January 2010	1	-	(1,841)	(1,840)
Loss for the year	-	-	(431)	(431)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(431)	(431)
Proceeds from shares issued	-	-	-	-
Dividends to equity holders of the company	-	-	-	-
Total contributions by and distributions to owners of the company	-	-	-	-
Closing shareholders' funds at 31 December 2010	1	-	(2,272)	(2,271)
Opening shareholders' funds at 1 January 2011	1	-	(2,272)	(2,271)
Loss for the year	-	-	(650)	(650)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(650)	(650)
Proceeds from shares issued	-	-	-	-
Dividends to equity holders of the company	-	-	-	-
Total contributions by and distributions to owners of the company	-	-	-	-
Closing shareholders' funds at 31 December 2011	1	-	(2,922)	(2,921)

The notes on pages 13 to 38 form part of the financial statements

Statements of Cash Flow
for year ended 31 December 2011

	Note	Group		Company	
		2011 £000	2010 £000	2011 £000	2010 £000
Net cash from operating activities	21	(2,116)	(1,727)	(330)	(304)
Cash flows from investing activities					
Acquisition of intangible assets		(132)	(263)	(2)	-
Acquisition of property, plant and equipment		(411)	(559)	(5)	-
Proceeds from disposal of intangible assets		-	-	-	-
Net cash from investing activities		(543)	(822)	(7)	-
Cash flows from financing activities					
Interest paid		(476)	(288)	(109)	(90)
Proceeds from loan increase		1,700	2,800	-	-
Net cash from financing activities		1,224	2,512	(109)	(90)
Net decrease in cash and cash equivalents		(1,435)	(37)	(446)	(394)
Cash and cash equivalents at the beginning of the period		329	366	(2,039)	(1,645)
Cash and cash equivalents at 31 December	13	(1,106)	329	(2,485)	(2,039)

The notes on pages 13 to 38 form part of the financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

arvato government services Limited (the "Company") is a company incorporated in the UK

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

Basis of consolidation

Subsidiaries

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

Measurement convention

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

Notes (continued)

1 Accounting policies (continued)

Foreign currency

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

Property, plant and equipment

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

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

Leasehold improvements	-	10 years
Computer, office and other equipment	-	4 years

Intangible assets

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of the associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

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 statement of financial position date. Other 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	-	10 years
Computer software and licences	-	4 years

Investments in subsidiary undertakings

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

Cash and cash equivalents

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

Trade and other receivables

Trade and other receivables at the statement of financial position date comprise amounts receivable from the sale of services to third parties. The average credit period taken on these sales is 30 days and no interest is charged on the receivables. Trade and other receivables are stated at fair value which approximates cost less impairment losses.

Notes (continued)

1 Accounting policies (continued)

Trade and other payables

Trade and other payables are stated at cost and principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken by the company for trade purchases is 30 days.

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

Impairment

The carrying amounts of the group'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.

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 participates in defined benefit schemes administered by Wirral 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)

In setting an appropriate accounting policy the group's management have concluded that to correctly present the nature of the group's participation in the schemes does not comply with the requirements of IAS 19 and have therefore accounted for the schemes as defined contribution plans. The amount charged to 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 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 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

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 the statement of comprehensive income as it accrues, using the effective interest method.

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

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

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

Interest-bearing borrowings

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

Notes (continued)

1 Accounting policies (continued)

Adopted IFRS not yet applied

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

- Amendments to IAS 19 - Employee Benefits Effective for annual periods beginning on or after 1 January 2013
- IFRS 9 - Financial Instruments Effective for annual periods beginning on or after 1 January 2013
- IFRS 10 - Consolidated Financial Statements Effective for annual periods beginning on or after 1 January 2013
- IFRS 12 - Disclosure of Interests in other Entities Effective for annual periods beginning on or after 1 January 2013
- IFRS 13 – Fair Value Measurement Effective for annual periods beginning on or after 1 January 2012

The application of the above standards in 2011 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 group's operations. The group plans to adopt each statement in the year it becomes applicable.

2 Revenue

An analysis of the group's revenue is as follows

	2011 £000	2010 £000
Sales of services	24,232	21,764
Other operating income	467	511
	24,699	22,275

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

Other operating income consists of recharges to arvato group companies

3 Expenses and auditors' remuneration

Loss from operations has been arrived at after charging

	2011 £000	2010 £000
Net foreign exchange losses	5	7
Depreciation of tangible assets	425	350
Amortisation of intangible assets	133	93
Staff costs (see note 5)	16,050	14,041
Auditors' remuneration		
Audit of these financial statements		
Group	15	15
Company	4	4
	19	19

Notes (continued)

4 Directors' remuneration

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Emoluments (excluding pension contributions)	85	79	-	-
Social security costs	-	-	-	-
Pension contributions	-	-	-	-
	85	79	-	-
Benefits in kind	=	=	=	=

5 Staff numbers and costs

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

	Number of employees			
	Group		Company	
	2011	2010	2011	2010
Operations	500	442	-	-
Management and administration	32	30	-	-
	532	472	-	-

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

The aggregate payroll costs of these persons were as follows

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Wages and salaries	13,824	12,225	767	797
Social security costs	998	836	75	2
Pension costs	1,228	980	3	(2)
	16,050	14,041	845	797

Notes (continued)

6 Financial expenses

	2011 £000	2010 £000
Interest charges	476	288
	476	288

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

7 Taxation

	2011 £000	2010 £000
Current taxation		
UK corporation tax – current year	(282)	(433)
UK corporation tax – prior year	781	(13)
Deferred taxation (<i>see note 11</i>)		
Origination and reversal of temporary differences	(671)	(4)
Total tax credit	(172)	(450)

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 changed from 28% to 26% with effect from 1 April 2011. Accordingly the company's losses are taxed at an effective rate of 26.5%.

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

	2011 £000	2010 £000
Loss before taxation	(1,019)	(1,656)
Tax using the UK corporation tax rate of 26.5% (2010: 28%)	(270)	(464)
Effects of:		
Expenses not deductible for tax purposes	14	16
Change in deferred taxation rate	7	4
Total tax under/(over) provided in prior years	77	(6)
Total tax in statement of comprehensive income	(172)	(450)

The deferred tax asset as at 31 December 2011 has been calculated using the tax rate of 25% (2010: 27%). During the year, as a result of the change in the UK main corporation tax rate to 25% that was substantively enacted on 5 July 2011 and became effective from 1 April 2012, the relevant deferred tax balances have been re-measured.

A reduction to the UK corporation tax rate to 24% has been substantively enacted on 26 March 2012. Further reductions to the UK corporation tax rates by 1% per annum to 22% by 1 April 2014 have been announced 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)

8 Property, plant and equipment

Group	Leasehold improvements £000	Computer equipment £000	Office equipment £000	Other equipment £000	Total £000
Cost					
At 1 January 2010	500	670	15	11	1,196
Additions	-	524	35	-	559
Disposals	-	-	-	-	-
At 31 December 2010	500	1,194	50	11	1,755
At 1 January 2011	500	1,194	50	11	1,755
Additions	-	387	24	-	411
Disposals	-	-	-	-	-
At 31 December 2011	500	1,581	74	11	2,166
Accumulated depreciation					
At 1 January 2010	9	79	11	3	102
Charge for the period	58	283	7	2	350
Disposals	-	-	-	-	-
At 31 December 2010	67	362	18	5	452
At 1 January 2011	67	362	18	5	452
Charge for the period	57	359	6	3	425
Disposals	-	-	-	-	-
At 31 December 2011	124	721	24	8	877
Net book value					
At 31 December 2011	376	860	50	3	1,289
At 31 December 2010	433	832	32	6	1,303

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

Notes (continued)

8 Property, plant and equipment (continued)

Company	Computer equipment £000	Office equipment £000	Total £000
<i>Cost</i>			
At 1 January 2010	5	15	20
Additions	-	-	-
Disposals	-	-	-
<hr/>			
At 31 December 2010	5	15	20
<hr/>			
At 1 January 2011	5	15	20
Additions	5	-	5
Disposals	-	-	-
<hr/>			
At 31 December 2011	10	15	25
<hr/>			
<i>Accumulated depreciation</i>			
At 1 January 2010	2	11	13
Charge for the period	2	4	6
Disposals	-	-	-
<hr/>			
At 31 December 2010	4	15	19
<hr/>			
At 1 January 2011	4	15	19
Charge for the period	2	-	2
Disposals	-	-	-
<hr/>			
At 31 December 2011	6	15	21
<hr/>			
<i>Net book value</i>			
At 31 December 2011	4	-	4
<hr/>			
At 31 December 2010	1	-	1
<hr/>			

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

Notes (continued)

9 Intangible assets

Group	Computer software £000	Bid costs £000	Total £000
<i>Cost</i>			
At 1 January 2010	51	732	783
Additions	24	239	263
Disposals	-	-	-
At 31 December 2010	75	971	1,046
<hr/>			
At 1 January 2011	75	971	1,046
Additions	132	-	132
Disposals	-	-	-
At 31 December 2011	207	971	1,178
<hr/>			
<i>Accumulated amortisation</i>			
At 1 January 2010	16	89	105
Charge for the period	21	72	93
Disposals	-	-	-
At 31 December 2010	37	161	198
<hr/>			
At 1 January 2011	37	161	198
Charge for the period	37	96	133
Disposals	-	-	-
At 31 December 2011	74	257	331
<hr/>			
<i>Net book value</i>			
At 31 December 2011	133	714	847
<hr/>			
At 31 December 2010	38	810	848
<hr/>			

Bid costs capitalised during the prior year relate to the contract with Chesterfield Borough Council. Applicable bid costs were capitalised from the date that it was probable that the contract would be obtained which was deemed to be the date that preferred bidder status was achieved. Bid costs are amortised over the life of the contract (see note 1).

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

Notes (continued)

9 Intangible assets (continued)

Company	Computer software £000	Total £000
<i>Cost</i>		
At 1 January 2010	-	-
Additions	-	-
Disposals	-	-
<hr/>		
At 31 December 2010	-	-
<hr/>		
At 1 January 2011	-	-
Additions	2	2
Disposals	-	-
<hr/>		
At 31 December 2011	2	2
<hr/>		
<i>Accumulated amortisation</i>		
At 1 January 2010	-	-
Charge for the period	-	-
Disposals	-	-
<hr/>		
At 31 December 2010	-	-
<hr/>		
At 1 January 2011	-	-
Charge for the period	-	-
Disposals	-	-
<hr/>		
At 31 December 2011	-	-
<hr/>		
<i>Net book value</i>		
At 31 December 2011	2	2
<hr/>		
At 31 December 2010	-	-
<hr/>		

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

Notes (continued)

10 Investments in subsidiary undertakings

Company	Investments in subsidiary undertakings £000		
Cost			
At 1 January 2010	1		
Additions	-		
Disposals	-		
	<hr/>		
At 31 December 2010	1		
	<hr/>		
At 1 January 2011	1		
Additions	-		
Disposals	-		
	<hr/>		
At 31 December 2011	1		
	<hr/>		
Impairments			
At 1 January 2010	-		
Charge for the period	-		
Disposals	-		
	<hr/>		
At 31 December 2010	-		
	<hr/>		
At 1 January 2011	-		
Charge for the period	-		
Disposals	-		
	<hr/>		
At 31 December 2011	-		
	<hr/>		
Net book value			
At 31 December 2011	1		
	<hr/>		
At 31 December 2010	1		
	<hr/>		
Subsidiary undertaking	Country of incorporation	Principal activity	Class and percentage of shares held
arvato public sector services Limited	England	Local government services	100% ordinary

Notes (continued)

11 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities

At 31 December 2011 a deferred tax asset has been recognised for the tax base in relation to property, plant and equipment, unutilised tax losses carried forward and provisions 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	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Property, plant and equipment	-	18	(2)	-	(2)	18
Losses carried forward	739	-	-	-	739	-
Provisions	36	84	-	-	36	84
Net tax assets	775	102	(2)	-	773	102

	1 January 2011 £000	Movement £000	31 December 2011 £000
<i>Movement in deferred tax during the year</i>			
Property, plant and equipment	18	(20)	(2)
Losses carried forward	-	739	739
Provisions	84	(48)	36
	102	671	773

	1 January 2010 £000	Movement £000	31 December 2010 £000
<i>Movement in deferred tax during the prior year</i>			
Property, plant and equipment	25	(7)	18
Losses carried forward	-	-	-
Provisions	73	11	84
	98	4	102

Notes (continued)

11 Deferred tax assets and liabilities (continued)

Company

Recognised deferred tax assets and liabilities

At 31 December 2011 a deferred tax asset has been recognised for the tax base in relation to property, plant and equipment and provisions as the future benefit is expected to be utilised by the company or surrendered to other UK group companies. The nature of the deferred tax asset is such that no part of it is expected to reverse in the next twelve months.

	Assets		Liabilities		Net	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Property, plant and equipment	3	3	-	-	3	3
Provisions	-	-	-	-	-	-
Net tax assets	3	3	-	-	3	3

	1 January 2011 £000	Movement £000	31 December 2011 £000
<i>Movement in deferred tax during the year</i>			
Property, plant and equipment	3	-	3
Provisions	-	-	-
	3	-	3

	1 January 2010 £000	Movement £000	31 December 2010 £000
<i>Movement in deferred tax during the prior year</i>			
Property, plant and equipment	2	1	3
Provisions	-	-	-
	2	1	3

Notes (continued)

12 Trade and other receivables

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Due within one year				
Trade and other receivables	481	388	67	48
Trade and other receivables from group companies	300	580	315	859
Prepayments	2,534	1,104	176	2
	3,315	2,072	558	909

An allowance has been made for group estimated irrecoverable amounts of £7,000 (2010 £2,000)

An allowance has been made for company estimated irrecoverable amounts of £2,000 (2010 £2,000)

Trade and other receivables from group companies include current year tax losses surrendered within the group in the United Kingdom. See note 7 for details

13 Cash and cash equivalents/ bank overdrafts

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Bank balances	1,998	2,732	615	361
Bank overdrafts	(4)	(3)	-	-
Cash and cash equivalents	1,994	2,729	615	361
Group cash pooling balance	(3,100)	(2,400)	(3,100)	(2,400)
Cash and cash equivalents per statement of cash flow	(1,106)	329	(2,485)	(2,039)

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

Notes (continued)

14 Trade and other payables

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Due within one year				
Trade and other payables	3,449	4,344	304	539
Trade and other payables due to group companies	4,196	3,062	3,445	2,645
Trade and other payables due to related parties	-	10	-	10
Retirement benefit obligation (see note 16)	143	160	-	-
	7,788	7,576	3,749	3,194
Due within more than one year				
Trade and other payables due to related parties	10	33	10	33

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

Trade and other payables to related parties comprise amounts due in respect of services provided by East Riding of Yorkshire Council. See note 20 for details.

15 Interest-bearing loans and borrowings

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

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Non-current liabilities				
Loan from associate	5,500	3,800	-	-
	5,500	3,800	-	-

Terms and debt repayment schedule

Interest-bearing loan and borrowings represent a working capital loan from a group company in the United Kingdom.

The loan bears interest at 3.25% above the 3 month LIBOR market rate. Repayment of the loan falls in four equal instalments during each of the fifth to the eighth years from the drawdown of the loan.

Notes (continued)

16 Employee benefits

Group

Defined contribution plan

See note 1 regarding the accounting treatment of pension schemes. The pension costs charge for the year includes contributions payable by the group to the scheme and amounted to £1,228,000 (2010 £980,000)

At the statement of financial position date, contributions amounting to £143,000 (2010 £160,000) were payable to the fund, which represented one month's total contributions collected

Company

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 £3,000 (2010 (£2,000))

At the statement of financial position date, contributions amounting to £Nil (2010 £Nil) were payable to the fund

17 Deferred income

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Non-current	-	-	-	-
Current	698	576	345	319
	698	576	345	319

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

18 Capital and reserves

Reconciliation of movement in capital and reserves

Group	Share capital	Share premium	Retained earnings	Total
	£000	£000	£000	£000
At 1 January 2010	1	-	(3,726)	(3,725)
Total comprehensive loss for the year	-	-	(1,206)	(1,206)
At 31 December 2010	1	-	(4,932)	(4,931)
At 1 January 2011	1	-	(4,932)	(4,931)
Total comprehensive loss for the year	-	-	(847)	(847)
At 31 December 2011	1	-	(5,779)	(5,778)

Notes *(continued)*

18 Capital and reserves *(continued)*

Reconciliation of movement in capital and reserves *(continued)*

Company	Share capital £000	Share premium £000	Retained earnings £000	Total £000
At 1 January 2010	1	-	(1,841)	(1,840)
Total comprehensive loss for the year	-	-	(431)	(431)
<hr/>				
At 31 December 2010	1	-	(2,272)	(2,271)
<hr/>				
At 1 January 2011	1	-	(2,272)	(2,271)
Total comprehensive loss for the year	-	-	(650)	(650)
<hr/>				
At 31 December 2011	1	-	(2,922)	(2,921)

Group and company	2011 £	2010 £
Share capital		
<i>Authorised:</i>		
801 ordinary 'A' shares of £1 each	801	801
199 ordinary 'B' shares of £1 each	199	199
	<hr/>	<hr/>
	1,000	1,000
	<hr/>	<hr/>
<i>Issued and fully paid:</i>		
801 ordinary 'A' shares of £1 each	801	801
199 ordinary 'B' shares of £1 each	199	199
	<hr/>	<hr/>
	1,000	1,000
	<hr/>	<hr/>

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

Notes (continued)

18 Capital and reserves (continued)

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 AG 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 2013, transfer all or any of the 'B' shares to any person without the prior consent of the other shareholder.

Restrictions on shareholders

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

19 Financial instruments

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

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

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

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

(a) Fair values of financial instruments

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Notes (continued)

19 Financial instruments (continued)

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

Group	Carrying amount	Fair value	Carrying amount	Fair value
	2011 £000	2011 £000	2010 £000	2010 £000
Trade and other receivables	481	481	388	388
Trade and other receivables from group companies	300	300	580	580
Cash and cash equivalents	1,994	1,994	2,729	2,729
Trade and other payables	(3,449)	(3,449)	(4,344)	(4,344)
Trade and other payables to group companies	(4,196)	(4,196)	(3,062)	(3,062)
Trade and other payables to related parties	(10)	(10)	(43)	(43)
Interest bearing loan from group company	(5,500)	(5,500)	(3,800)	(3,800)
	(10,380)	(10,380)	(7,552)	(7,552)

Unrecognised gains/losses

-

-

Company	Carrying amount	Fair value	Carrying amount	Fair value
	2011 £000	2011 £000	2010 £000	2010 £000
Trade and other receivables	67	67	48	48
Trade and other receivables from group companies	315	315	859	859
Cash and cash equivalents	615	615	361	361
Trade and other payables	(304)	(304)	(539)	(539)
Trade and other payables to group companies	(3,445)	(3,445)	(2,645)	(2,645)
Trade and other payables to related parties	(10)	(10)	(43)	(43)
	(2,762)	(2,762)	(1,959)	(1,959)

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 debtors. The group'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

Notes (continued)

19 Financial instruments (continued)

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 management 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 £481,000 (2010 £388,000), and for the company was £67,000 (2010 £48,000), 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

Group	Gross trade receivables	Doubtful debt provision	Net trade receivables	Gross trade receivables	Doubtful debt provision	Net trade receivables
	2011	2011	2011	2010	2010	2010
	£000	£000	£000	£000	£000	£000
Not past due	402	-	402	292	-	292
Past due but not impaired						
1 – 30 days	38	-	38	83	-	83
31 – 60 days	(19)	-	(19)	10	(1)	9
60 + days	67	(7)	60	5	(1)	4
Individually impaired amounts	-	-	-	-	-	-
	488	(7)	481	390	(2)	388
Company	Gross trade receivables	Doubtful debt provision	Net trade receivables	Gross trade receivables	Doubtful debt provision	Net trade receivables
	2011	2011	2011	2010	2010	2010
	£000	£000	£000	£000	£000	£000
Not past due	67	-	67	45	-	45
Past due but not impaired						
1 – 30 days	1	(1)	-	4	(1)	3
31 – 60 days	1	(1)	-	1	(1)	-
60 + days	-	-	-	-	-	-
Individually impaired amounts	-	-	-	-	-	-
	69	(2)	67	50	(2)	48

Notes (continued)

19 Financial instruments (continued)

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

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
At 1 January	2	2	2	2
Impairment loss recognised	5	-	-	-
Impairment loss reversed	-	-	-	-
At 31 December	7	2	2	2

(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 cash pooling and loan facilities For details on this see notes 14 and 15

Capital management

Capital is managed by the ultimate parent company

(d) Market risk

Financial risk management

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

Market risk - Foreign currency risk

A proportion of expenses are invoiced in foreign currency (Euros) and the group bears the foreign currency risk on these creditors 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 2011 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 other exchange rates and interest rates, remain constant The analysis is performed on the same basis for 31 December 2010

	Group		Company	
	(Profit) or loss 2011 £000	2010 £000	(Profit) or loss 2011 £000	2010 £000
Euro	(3)	8	-	-

A one percent strengthening of the euro against the pound sterling at 31 December 2011 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant

Notes (continued)

19 Financial instruments (continued)

Market risk – Interest rate risk

The group's exposure to interest rate risk arises from the fluctuations in the rate of interest charged on cash and cash equivalent balances payable and interest bearing loan. The group utilises a group cash pooling facility on which interest is charged at variable rates, based on the Bank of England base rate. The group utilises a loan facility from an associate company, on which interest is charged at variable rates, based on the 3 month LIBOR market rate.

The company's exposure to interest rate risk arises from the fluctuations in the rate of interest charged on cash and cash equivalent balances payable. The company utilises a group cash pooling facility on which interest is charged at 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 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 2010.

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 and company's loss before taxation by approximately £27,000 (2010 £24,000).

At the year end it is estimated that an increase of one percentage rise in the 3 month LIBOR market rate would increase the group's loss before taxation by approximately £46,000 (2010 £38,000).

20 Related parties

Identity of related parties

The group has a related party relationship with fellow subsidiaries of the group headed by Bertelsmann AG and with its directors and executive officers, and with the company's non-controlling stakeholder, East Riding of Yorkshire Council.

The company has a related party relationship with fellow subsidiaries of the group headed by Bertelsmann AG and with its directors and executive officers and with the company's non-controlling stakeholder, East Riding of Yorkshire Council.

Notes (continued)

20 Related parties (continued)

Related party transactions

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

Group	Sales/ (Purchase) of Goods £000	Sales/ (purchase) of assets £000	Deliver/ (Receive) services £000	Balances Receivable/ (payable) £000
arvato government services (ERYC) Limited	-	-	(795)	(364)
arvato Limited	-	-	(1,116)	(419)
arvato services BA der Bertelsmann AG	-	-	(103)	(22)
arvato systems GmbH	-	-	(18)	(1)
Bertelsmann AG	-	-	(271)	(271)
Bertelsmann AG Bereichsleitung arvato	-	-	(3)	1
East Riding of Yorkshire Council	-	-	-	(10)
Prinovis UK Limited	-	-	13	-
Medienfabrik Gutersloh GmbH	-	-	(11)	(2)
Bertelsmann UK Limited – Cash Pooling	-	-	(109)	(3,100)
Bertelsmann UK Limited - Loan	-	-	(187)	(5,500)
Bertelsmann UK Limited - Tax Pooling	-	-	-	282
At 31 December 2011	-	-	(2,600)	(9,406)

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

Company	Sales/ (Purchase) of Goods £000	Sales/ (purchase) of assets £000	Deliver/ (Receive) services £000	Balances Receivable/ (payable) £000
arvato government services (ERYC) Limited	-	-	(703)	(201)
arvato Limited	-	-	(449)	(137)
arvato public sector services Limited	-	-	163	69
arvato services BA der Bertelsmann AG	-	-	(11)	-
arvato systems GmbH	-	-	(13)	-
East Riding of Yorkshire Council	-	-	-	(10)
Bertelsmann UK Limited - Cash Pooling	-	-	(109)	(3,100)
Bertelsmann UK Limited - Tax Pooling	-	-	-	239
At 31 December 2011	-	-	(1,122)	(3,140)

Notes (continued)

20 Related parties (continued)

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

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade and other receivables from group companies	300	580	315	859
Trade and other payables to group companies	(4,196)	(3,062)	(3,445)	(2,645)
Trade and other payables to related parties	(10)	(43)	(10)	(43)
Loan from group company	(5,500)	(3,800)	-	-
	(9,406)	(6,325)	(3,140)	(1,829)

Trade and other payables to related parties relate to amounts invoiced by East Riding of Yorkshire Council in respect of services provided to the company

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

At the statement of financial position date, the amount payable to Bertelsmann UK Limited in respect of the cash pooling facility was £3,100,000 (2010 £2,400,000) This balance is included within trade and other payables to group companies

21 Notes to the cash flow statement

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Cash flows from operating activities				
Loss before taxation	(1,019)	(1,656)	(879)	(598)
Adjustments for				
Depreciation of property, plant and equipment	425	350	2	5
Amortisation of intangible assets	133	93	-	-
Financial expenses	476	288	109	90
	15	(925)	(768)	(503)
Operating profit before movements in working capital and provisions				
(Increase)/decrease in receivables	(1,393)	(428)	421	(667)
(Decrease)/increase in payables	(390)	(953)	(142)	793
	(1,768)	(2,306)	(489)	(377)
Cash generated from operations				
Tax received	(348)	579	159	73
	(2,116)	(1,727)	(330)	(304)
Net cash from operating activities				

Notes (continued)

22 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 reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Recoverability of receivables

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

23 Ultimate parent company and controlling party

During the prior year the 'A' shares of the company were acquired by arvato Limited from Bertelsmann UK Limited for a consideration of £1.

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

The ultimate parent company and ultimate controlling party is Bertelsmann 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.