

Lyreco UK Limited

Directors' report and financial
statements

Registered number 442696

For the year ended 31 December 2010

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2010

Principal activity

The company's principal activity continues to be the distribution of office products

Business review

Background

Lyreco UK Limited distributes office products within the UK to a diverse customer base. Brand image means that the company is well placed within the marketplace and it has increased its market share to 12% during 2010.

Objectives and strategies

The company's main objectives and strategies are focused on sales and margin growth and minimising the impact to the environment.

The company's mission statement is to delight customers, be proud of what we do and grow like crazy. The company aims to maintain its position as the biggest and best contract stationer in the UK.

Risks and uncertainties

The company manages any risks to the business well and does not consider that there are any material principal risks or uncertainties that will affect the company's on-going growth targets. There is significant opportunity for the company to continue to grow in the future, given its market share at present.

The company has developed a clear vision and has conducted in depth market analysis to identify future market share growth opportunities for the next 10 years and its current Distribution Centre has the capacity to support this growth.

Measurement

The company's key performance indicators to ensure its strategies for meeting objectives are working effectively include turnover, profit before tax, margins and net assets.

The company monitors sales and margin performance on a daily basis and at each monthly Board meeting a full review of all key operational indicators takes place relating to areas such as departmental productivity, average order value, lines per order, staff turnover and cost control.

The company has fanatical attention to detail and its Business Analysis function provides a suite of monthly brochures to enable the functional management heads to receive and act on key trends and indicators in a timely and effective manner.

Regular benchmarking is conducted against the company's main competitors to compare performance and proposition to ensure that the company remains the market leader.

Performance during year ended 31 December 2010 and the future

Turnover for 2010 exceeded £277 million and was in line with the company's expectations. Profit before tax and net profit margin were £16.4 million and 5.9% respectively, which represent an excellent return during a challenging economic period and an increase versus 2009. The company maintained strong controls over its operating expenses and continued to focus on driving efficiencies and maximising working capital opportunities.

During the year the company retained all of its major Corporate Account customers and continued its on-going investment in its Field Sales force.

Net assets have increased year on year from £85 million in 2009 to £97 million in 2010. On 5 July 2010 the company received a certificate from Dun & Bradstreet commending its financial status with a D&B rating of 1 which denotes the highest level of creditworthiness and minimum risk of failure.

The turnover for the next financial year is anticipated to exceed £280 million, again, in an environment showing increased controls on expenditure by clients.

The company maintained its Investor in People status throughout 2010 following a full triennial review in 2009.

Directors' report *(continued)*

Business review *(continued)*

The company is accredited for ISO9002 2000 (quality system) and ISO14001 (environment) and will continue to be externally audited for both during 2011

The company has a well established and robust computer system, a storage and distribution facility with the capacity for future growth and an own-vehicle fleet that performs 97% of the company's deliveries, these will assist it to achieve its objectives and strategies in the future

Financial Instruments

The company uses financial instruments, including debt factoring, the main purpose of which is to raise finance for the company's activities

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the company. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Cash flow and liquidity risk

Liquidity risk is the risk that the company may not be able to meet its financial obligations as they fall due. The company ensures that there are sufficient levels of committed facilities, cash and cash equivalents to ensure that the company is, at all times, able to meet its financial commitments. Liquidity risk is managed by continuous monitoring of forecast and actual cash flows.

Dividends

The directors recommend that no final ordinary dividend be paid for 2010 (2009 £Nil)

Directors

The directors who served during the year were as follows,

E Bigeard

DJ Walmsley (appointed 1 January 2010)

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The company is committed to involving all employees in the performance and development of the company. Employees are encouraged to discuss with management matters of interest to the employee and subjects affecting day to day operations of the company. This is formally facilitated via the company's employee forum – the "Voice of Lyreco".

Charitable donations

During the year, the company made charitable donations of £Nil (2009 £9,000)

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 were aware of this information.

Directors' report *(continued)*

Auditors

It has been elected, by a resolution passed in accordance with Section 386 of the Companies Act 1985 and dated 29 October 1990, to dispense with the obligation to appoint auditors annually KPMG LLP will therefore continue in office

Approved by the board of directors and signed on its behalf by

DJ Walmsley
Director

Deer Park Court
Donnington Wood
Telford
Shropshire
TF2 7NB



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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Independent auditor's report to the members of Lyreco UK Limited

We have audited the financial statements of Lyreco UK Limited for the year ended 31 December 2010 set out on pages 7 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report to the members of Lyreco Limited *(continued)*

Matters on which we are required to report by exception

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

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

SJ Purkess

SJ Purkess (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

11/07/2011

Profit and loss account
for the year ended 31 December 2010

	<i>Note</i>	2010 £000	2009 £000
Turnover	2	277,055	300,183
Changes in stocks of finished goods		762	1,707
Purchases		185,065	202,863
Staff costs	7	42,842	45,726
Depreciation, amortisation and impairment		1,860	1,914
Other operating charges		30,608	32,354
Operating profit		15,918	15,619
Net interest receivable and similar income	3	623	360
Other finance costs	4	(84)	(108)
Profit on ordinary activities before taxation	5	16,457	15,871
Tax on profit on ordinary activities	6	(4,873)	(4,469)
Profit for the financial year		11,584	11,402

All amounts above relate to continuing activities

The notes on pages 11 to 24 form part of these financial statements

Balance sheet
at 31 December 2010

	<i>Note</i>	2010 £000	2009 £000
Fixed assets			
Intangible assets	9	-	-
Tangible assets	10	17,999	18,261
		<u>17,999</u>	<u>18,261</u>
Current assets			
Stocks	11	12,768	13,530
Debtors	12	115,458	104,689
Cash at bank and in hand		632	972
		<u>128,858</u>	<u>119,191</u>
Creditors Amounts falling due within one year	13	(48,039)	(49,921)
Net current assets		<u>80,819</u>	<u>69,270</u>
Total assets less current liabilities		<u>98,818</u>	<u>87,531</u>
Provisions for liabilities and charges	14	(402)	(389)
Net assets excluding pension liabilities		<u>98,416</u>	<u>87,142</u>
Pension liabilities	19	(1,507)	(1,878)
Net assets including pension liabilities		<u>96,909</u>	<u>85,264</u>
Capital and reserves			
Called up share capital	15	14,841	14,841
Share premium account	16	6,634	6,634
Revaluation reserve	16	79	79
Profit and loss account	16	75,355	63,710
Shareholders' funds		<u>96,909</u>	<u>85,264</u>

These financial statements were approved by the board of directors on behalf by

16/01/11

and were signed on its


E. Bigeard
Director

Company number 442696

Cash flow statement
for the year ended 31 December 2010

	<i>Note</i>	2010 £000	2009 £000
Net cash inflow from operating activities	18	5,088	3,210
Returns on investments and servicing of finance	18	623	360
Taxation	18	(4,453)	(4,982)
Capital expenditure and financial investment	18	(1,598)	(178)
Decrease in cash in the year	18	(340)	(1,590)

Statement of total recognised gains and losses
for the year ended 31 December 2010

	2010 £000	2009 £000
Profit for the financial year	11,584	11,402
Actuarial gain/(loss) recognised in the pension scheme (net of deferred tax)	113	(525)
Deferred tax arising on gains/(losses) in the pension scheme	(52)	147
Total recognised gains and losses relating to the financial year	11,645	11,024

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2010

	2010 £000	2009 £000
Profit for the financial year	11,584	11,402
Other recognised gains and losses relating to the year (net)	61	(378)
Net addition to shareholders' funds	11,645	11,024
Shareholders' funds at the beginning of the year	85,264	74,240
Shareholders' funds at the end of the year	96,909	85,264

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently, except as noted below, in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

Basis of accounting

The financial statements have been prepared on the going concern basis which assumes that the company will continue to trade

The directors have prepared detailed cash flow information for the period to 31 May 2012. On the basis of this cash flow information, the directors consider that the company will be able to settle all current and future debts as they fall due for at least twelve months from the date of approval of these financial statements. The directors therefore believe that it is appropriate for the financial statements to be prepared on a going concern basis

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, customer rebates, VAT and other sales related taxes

Goodwill

Goodwill arising on the acquisition of businesses, representing any excess on the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised on a straight line basis over its useful economic life, which is ten years. Provision is made for any impairment

Tangible fixed assets

Fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value of each asset on a straight line basis over its expected useful life, as follows

Freehold buildings	-	2%-5% per annum
Leasehold properties and improvements	-	over the life of the lease
Plant and machinery	-	4%-20% per annum
Fixtures and fittings	-	10%-20% per annum
Motor vehicles	-	20%-25% per annum
Computers	-	20%-33 33% per annum

Residual value is calculated on prices prevailing at the date of acquisition or revaluation

Leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price, less further costs to disposal. Provision is made for obsolete, slow moving or defective items where appropriate

Related party disclosures

As permitted by FRS 8, the company has not disclosed related party transactions with other group undertakings

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred Tax'

Pension costs and other post retirement benefits

The company operates a defined benefit scheme in the UK. Pension scheme assets are measured using market values (for quoted securities the current bid-price is taken as market value). Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement of the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The company also operates a defined contribution scheme, the amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the contributions payable to the scheme in respect of the accounting period. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Assets of each of the schemes are held separately from those of the company.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

2 Turnover

In the opinion of the directors, there is only one class of business, which is the distribution of office products. All turnover was derived in the United Kingdom.

Notes (continued)

3 Net interest receivable and similar income

	2010 £000	2009 £000
Interest payable and similar charges		
Inter-company interest	385	648
	<hr/>	<hr/>
Other interest receivable and similar income		
Bank and similar interest	28	9
Inter-company interest	980	999
	<hr/>	<hr/>
	1,008	1,008
	<hr/>	<hr/>
Net interest receivable and similar income	623	360
	<hr/>	<hr/>

4 Other finance costs

	2010 £000	2009 £000
Expected return on pension scheme assets	(478)	(394)
Interest on pension scheme liabilities	562	502
	<hr/>	<hr/>
	84	108
	<hr/>	<hr/>

5 Notes to the profit and loss account

	2010 £000	2009 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Depreciation of owned fixed assets	1,860	1 914
Operating lease rentals		
Plant and machinery	12	19
Other	3,231	4,661
	<hr/>	<hr/>
<i>Auditors' remuneration</i>		
Audit of these financial statements	46	49
Amounts receivable by the auditors and their associates in respect of		
Valuation and actuarial services	90	137
Other services	-	-
	<hr/>	<hr/>

Notes (continued)

6 Directors' remuneration

	2010 £000	2009 £000
Emoluments	166	132
Pension contributions	12	7
Compensation for loss of office	-	70
	<u>178</u>	<u>209</u>

The number of directors who are members of pension schemes at the end of the year is as follows

	Number
Money purchase schemes	<u>1</u>

7 Staff numbers and costs

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

	Number of employees 2010	2009
Management and administration	150	209
Distribution and sales	1,403	1,522
	<u>1,553</u>	<u>1,731</u>

The aggregate payroll costs for these persons were as follows

	£000	£000
Wages and salaries	38,305	40,734
Social security costs	3,856	4,140
Other pension costs	681	852
	<u>42,842</u>	<u>45,726</u>

Notes (continued)

8 Tax on profit on ordinary activities

Analysis of charge in the period

	2010 £000	2009 £000
<i>Current tax</i>		
UK corporation tax on income for the period	4,709	4,703
Adjustments in respect of prior periods	29	(223)
Total current tax	<u>4,738</u>	<u>4,480</u>
<i>Deferred tax</i>		
Reversal/(origination) of timing differences	101	(42)
Adjustments in respect of prior periods	49	31
Effect of change in applicable tax laws/tax rate	(15)	-
Total deferred tax (see note 14)	<u>135</u>	<u>(11)</u>
Tax on profit on ordinary activities	<u><u>4,873</u></u>	<u><u>4,469</u></u>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2009 higher) than the 28% standard rate of corporation tax in the UK (2009 28%). The differences are explained below

	2010 £000	2009 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	16,457	15,871
Current tax at 28% (2009 28%)	<u>4,608</u>	<u>4,444</u>
<i>Effects of</i>		
Expenses not deductible for tax purposes	81	114
Capital allowances for period less than depreciation	20	106
Adjustments in respect of prior periods	29	(223)
Depreciation on assets not qualifying for capital allowances	121	103
Pension scheme timing differences	(121)	(64)
Total current tax charge (see above)	<u><u>4,738</u></u>	<u><u>4,480</u></u>

Factors that may affect future current and total tax charges

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011, and a further reduction to 26% in the rate applicable from 1 April 2011 was substantively enacted on 29 March 2011. This will reduce the company's future current tax charge accordingly and further reduce the deferred tax liability at 31 December 2010 (which has been calculated based on the rate of 27% substantively enacted at the balance sheet date) by £6,000. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly.

Notes (continued)

9 Intangible fixed assets

	Goodwill £000
<i>Cost</i>	
At beginning and end of year	450
<i>Amortisation</i>	
At beginning and end of year	(450)
<i>Net book value</i>	
At 31 December 2010 and at 31 December 2009	-

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Goodwill is amortised over 10 years.

10 Tangible fixed assets

	Land and buildings	Plant, machinery and computers	Motor vehicles, fixtures and fittings	Total
	£000	£000	£000	£000
<i>Cost</i>				
At beginning of year	24,488	9,635	1,536	35,659
Additions	31	129	1,438	1,598
Transfers	-	101	(101)	-
At end of year	24,519	9,865	2,873	37,257
<i>Depreciation</i>				
At beginning of year	9,395	6,921	1,082	17,398
Charge for the year	1,164	496	200	1,860
At end of year	10,559	7,417	1,282	19,258
<i>Net book value</i>				
At 31 December 2010	13,960	2,448	1,591	17,999
At 31 December 2009	15,093	2,714	454	18,261

The net book value of land and buildings comprises

	2010 £000	2009 £000
Freehold land and buildings	13,945	15,075
Short leasehold improvements	15	18
	13,960	15,093

Freehold land and buildings includes non-depreciable land with a cost of £2,790,000 (2009 £2,790,000)

Notes (continued)

11 Stocks

	2010 £000	2009 £000
Goods for resale	12,768	13,530

There is no material difference between the balance sheet value of stocks and their replacement cost

12 Debtors

	2010 £000	2009 £000
Amounts falling due within one year		
Trade debtors	40,883	41,379
Amounts owed by group undertakings	71,006	57,969
Prepayments and accrued income	3,569	5,341
	<u>115,458</u>	<u>104,689</u>

13 Creditors Amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	37,805	39,128
Amount owed to group undertakings	2,042	2,248
Corporation tax	2,061	1,776
Other taxation and social security	1,958	2,248
Accruals and deferred income	4,173	4,521
	<u>48,039</u>	<u>49,921</u>

14 Deferred taxation

	£000
At beginning of year net	(342)
Credit to profit and loss account for the year (see note 8)	135
Charge to the statement of total recognised gains and losses for the year	52
At end of year, net	<u>(155)</u>

Analysis of deferred tax balances

	2010 £000	2009 £000
Deferred tax liability, excluding deferred tax on pension deficit, included in provisions for liabilities and charges	402	389
Deferred tax asset on pension deficit – included in pension liability (see note 19)	(557)	(731)
	<u>(155)</u>	<u>(342)</u>

Notes (continued)

14 Deferred taxation (continued)

The elements of deferred tax included in provisions for liabilities and charges are as follows

	2010 £000	2009 £000
Accelerated capital allowances	402	389

15 Called up share capital

	2010 £000	2009 £000
<i>Allotted, called up and fully paid.</i>		
14,841,100 ordinary shares of £1 each	14,841	14,841

16 Reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
At beginning of year	6,634	79	63,710
Profit for the financial year	-	-	11,584
Actuarial gain recognised in the pension scheme	-	-	113
Deferred tax arising on gains in the pension scheme	-	-	(52)
At end of year	6,634	79	75,355

	2010 £000	2009 £000
Profit and loss account excluding pension liability	76,862	65,588
Pension liability	(1,507)	(1,878)
Profit and loss account including pension liability	75,355	63 710

Notes (continued)

17 Contingent liabilities and other financial commitments

- (a) There were capital commitments at the year end totalling £117,000 (2009 £4,000)
- (b) Annual commitments under non-cancellable operating leases are as follows

	Land and buildings		Other	
	2010 £000	2009 £000	2010 £000	2009 £000
On leases which expire				
Within one year	166	461	434	960
Within two to five years	816	816	1,596	2,310
After five years	231	133	-	-
	<u>1,213</u>	<u>1,410</u>	<u>2,030</u>	<u>3,270</u>

18 Cash flow information

(a) Reconciliation of operating profit to operating cash flow

	2010 £000	2009 £000
Operating profit	15,918	15,619
Depreciation and amortisation charges	1,860	1,914
Decrease in stocks	762	1,707
Increase in debtors	(10,769)	(13,195)
Decrease in creditors	(2,167)	(2,607)
Cash funding in excess of pension charge	(516)	(228)
Net cash inflow from operating activities	<u>5,088</u>	<u>3,210</u>

(b) Analysis of cash flows

	2010 £000	2009 £000
Returns on investments and servicing of finance		
Interest received	1,008	1,008
Interest paid	(385)	(648)
Net cash inflow	<u>623</u>	<u>360</u>
Taxation		
UK corporation tax paid	<u>(4,453)</u>	<u>(4,982)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	<u>(1,598)</u>	<u>(178)</u>

Notes (continued)

18 Cash flow information (continued)

(c) Analysis and reconciliation of cash

	1 January 2010 £000	Cash flow £000	31 December 2010 £000
Cash in hand, at bank	972	(340)	632
		2010 £000	2009 £000
Decrease in cash in the year		(340)	(1,590)
Net funds at beginning of year		972	2,562
		632	972

19 Pension arrangements

The company provides pension arrangements to the majority of full time employees through a funded defined contribution scheme. The company also operates a defined benefit scheme which was closed to new members in April 1997 and to existing members on 28 February 2006. The assets of the pension arrangements are held in a separate trustee administered fund, which incorporates the defined contribution and the defined benefit assets and liabilities. The related costs of the benefits are assessed in accordance with the advice of an independent, professionally qualified actuary, on the basis of triennial valuations.

The costs of the defined contribution scheme are charged to the profit and loss account in the period in which they are incurred.

The pension cost charge for the year for the defined contribution scheme was £681,000 (2009 £852,000). There are no outstanding or prepaid contributions at either the beginning or end of the financial year.

Scheme valuations have been updated by a qualified independent actuary on an FRS 17 basis as at 31 December 2010.

The Company operates a scheme in the UK with final salary benefits (closed to future accrual with effect from 28 February 2006).

The last formal valuation was carried out with an effective date of 1 January 2009. The current FRS 17 calculations are based on the valuation results as at 1 January 2009, updated to 31 December 2010 by a qualified independent actuary.

Notes (continued)

19 Pension arrangements (continued)

Relationship between the reporting entity and the Trustees (managers) of the defined benefit scheme

The pension assets are held in a separate Trustee-administered fund to meet long-term pension liabilities to past and present employees. The Trustees of the Scheme are required to act in the best interest of the Scheme's beneficiaries. The appointment of the Trustees to the Scheme is determined by the Scheme's trust documentation. The Company has a policy that one-third of all trustees should be nominated by members of the Scheme.

The information disclosed below is in respect of the whole of the plans for which the Company is the sponsoring employer.

	2010 £000	2009 £000
Present value of funded defined benefit obligations	(10,304)	(9,447)
Fair value of plan assets	8,240	6,838
Deficit	(2,064)	(2,609)
Related deferred tax asset	557	731
Net liability	(1,507)	(1,878)

Movements in present value of defined benefit obligations

	2010 £000	2009 £000
At 1 January	9,447	7,986
Interest cost	562	502
Actuarial losses	613	1,125
Benefits paid	(318)	(166)
At 31 December	10,304	9,447

Movements in fair value of plan assets

	2010 £000	2009 £000
At 1 January	6,838	5,674
Expected return on plan assets	478	394
Actuarial gains	726	600
Contributions by employer	516	336
Benefits paid	(318)	(166)
At 31 December	8,240	6,838

Notes (continued)

19 Pension arrangements (continued)

Expense recognised in the profit and loss account

	2010 £000	2009 £000
Interest on defined benefit pension plan obligation	562	502
Expected return on defined benefit pension plan assets	(478)	(394)
Total	84	108

The expense is recognised in the following line in the profit and loss account

	2010 £000	2009 £000
Other finance costs	84	108

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is a gain of £113,000 (2009 loss of £525,000)

Cumulative actuarial gains reported in the statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently, included by prior year adjustment under paragraph 96 of FRS 17, are £139,000 (2009 £26,000)

The fair value of the plan assets and the return on those assets were as follows

	2010 Fair value £000	Percent	2009 Fair value £000	Percent
Equities	6,328	77	5,084	74
Corporate bonds	1,690	20	1,477	22
Property	160	2	139	2
Other	62	1	138	2
	8,240		6,838	
Actual return on plan assets	1,204		994	

At 31 December 2010 the Scheme assets were invested in a diversified portfolio that consisted primarily of equities and debt securities. The fair value of the Scheme assets as a percentage of total Scheme assets and target allocations are set out above.

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class. The expected return on equities is the sum of the return on risk free gilts plus an equity risk premium. The expected return on gilts and bonds is the current market yield on long term gilts and bonds.

Notes (continued)

19 Pension arrangements (continued)

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows

	2010 %	2009 %
Future salary increases	n/a	n/a
Discount rate	5.65	6.00
Expected rate of return on plan assets	6.70	7.09
Inflation	3.60	3.50
LPI increases to pensions payment	3.35	3.30

On 8 July 2010, the government announced it would change the inflation index used for statutory pension increases that would apply to private sector pension schemes to Consumer Price Index ("CPI") where previously it was based on Retail Price Index ("RPI"). However, as RPI is stipulated in the company's pension scheme rules, there has been no change to the inflation index used in the calculation at 31 December 2010.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

- Current pensioner aged 65: 20.8 years (male), 23.2 years (female)
- Future retiree upon reaching 65: 22.7 years (male), 25.1 years (female)

History of plans

The history of the plans for the current and prior periods is as follows:

Balance sheet

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Present value of scheme liabilities	(10,304)	(9,447)	(7,986)	(9,362)	(9,461)
Fair value of scheme assets	8,240	6,838	5,674	6,412	5,998
Deficit	(2,064)	(2,609)	(2,312)	(2,950)	(3,463)
	2010 £000/%	2009 £000/%	2008 £000/%	2007 £000/%	2006 £000/%

Experience adjustments

Experience adjustments on scheme liabilities	613 5.9%	(137) (1.5%)	32 0.4%	65 0.7%	(25) (0.3%)
Experience adjustments on scheme assets	726 8.8%	600 8.8%	(1,468) (25.9%)	(113) (1.8%)	286 4.8%
	1,339	463	(1,436)	(48)	261

The Company expects to contribute approximately £516,000 to its defined benefit plans in the next financial year.

Notes (continued)

19 Pension arrangements (continued)

Future funding obligations in relation to defined benefit schemes

The most recently completed triennial actuarial valuation of the Scheme was performed by an independent actuary for the Trustees of the Scheme and was carried out as at 1 January 2009. A triennial valuation is due as at 1 January 2012. The results contained in this disclosure are based on the draft actuarial valuation as at 1 January 2009, adjusted to allow for the estimated impact of market movement and membership movements between 1 January 2009 and 31 December 2010.

For the valuation as at 1 January 2009, the Trustees of the Scheme have decided, with the Company's agreement, that the long-term funding objective is to be fully funded on the ongoing basis. In particular, the assets of the Scheme and the future investment return on these assets should be expected to cover the total value of the benefits in full in respect of service already completed, based on projected Pensionable Salaries.

A secondary funding objective is to improve the funding level on a solvency basis over time.

20 Ultimate parent company

The immediate parent company is Holdings Lyreco Internationale SAS, a company incorporated in France. The smallest and largest group into which the results of the company are consolidated is that of Lyreco SAS, a company incorporated in France.

The directors consider Lyreco SAS as the ultimate controlling party.

The consolidated financial statements of Lyreco SAS may be obtained from Rue du 19 Mars 1962, 59584 Marly, Cadex, France.