

Company registration number 4320853 (England and Wales)

INGEUS UK LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012



INGEUS UK LIMITED (Consolidated)

COMPANY INFORMATION

Company registration number 4320853 (England and Wales)

Company name Ingeus UK Limited

The Board of Directors S Griggs
G Ashmead
T Rein
D James
S Challah
M Turley
D Merritt

Company secretary Magma Nominees Limited
Magma House
16 Davy Court
Castle Mound Way
Rugby
CV23 0UZ

Registered office Magma House
16 Davy Court
Castle Mound Way
Rugby
CV23 0UZ

Business address The Registry
3 Royal Mint Court
London
EC3N 4QN

Independent auditors KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

Business bankers Lloyds TSB Bank PLC
25 Gresham Street
London
EC2V 7HN

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INGEUS UK LIMITED (Consolidated)

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2012

Principal activities and business review

The Company (Ingeus UK Limited) is a limited company which is incorporated and domiciled in the UK. The Group consists of Ingeus UK Limited and Ingeus Training Limited. The principal activity of the Group is that of the provision of integrated programs and services which support people moving from welfare dependency into work and the delivery of skills-based training.

Review and results of operations

During the 12-month period the Group grew significantly with revenue increasing by 27.2% over the previous period (2011: 24.5%) to £118,382k (2011: £93,040k). However because of the need for upfront investment in the Work Programme, the Group made a loss after tax in the year amounting to £2,639k (2011: Profit £5,967k). During the year the work performed under the Work Programme continued to expand across all eight regions. Net assets decreased by 30.0% (2011: increase 12.8%) to £6,144k (2011: £8,783k) during the year.

Significant changes in the state of affairs

2012 was the first full year of the successful 50/50 joint venture ("JV") between Ingeus Limited and Deloitte LLP ("Deloitte"), which has created an entity that combines the financial strength and expertise of Deloitte with the experience and know-how of Ingeus. From 1 January 2012, all the risks and rewards of the contracts in place at 31 December 2010 of the Company and all future contracts won remain with the Group.

The Company now operates out of 79 principal offices. Our supply chain network continues to grow with 17 end-to-end specialist partners and 109 specialist intervention partners, of which 37% are from the charity/third sector. In June 2012, the Company was assessed under the Merlin Standard and later accredited with grade 'good', with an overall score of 76%. This was the highest mark awarded to any welfare to work provider.

On 19th November 2012, the Company acquired 100% of the share capital of Ingeus Training Limited (formerly Zodiac Training Limited) a company that has been delivering training and development programmes since 1996 and now employs over 120 skilled and dedicated members of staff in offices throughout North East England.

Apart from the matters referred to above, in the opinion of the directors, there were no other significant changes in the state of affairs of Ingeus UK that occurred during the financial year under review.

Principal risks and uncertainties

The management of the business and the Group's strategy is subject to a number of risks. Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them.

The key business risks affecting the Group are set out below.

Economic conditions

The success of our business depends on placing clients into sustainable jobs. An economic downturn might reduce our ability to either place clients into long term jobs or to ensure their sustainability in a job once acquired. This would affect our revenues due to the Work Programme payment-by-results structure.

The external commercial environment will remain competitive for the coming year, and the directors remain confident that the Group has a good platform on which to consolidate and further grow the business.

Employees

The Group's performance depends largely on the quality and commitment of its staff and its ability to attract and retain the best talent

In this regard, Ingeus UK has been placed 43rd in the 2013 announcement of the 2012 Sunday Times 100 Best Companies to Work For list. This is the fifth year in a row that Ingeus has been named one of the best places to work in the UK. The Sunday Times 100 Best Companies to Work For list is the largest independent assessment and ranking of employee engagement in the UK. Each year 100s of companies participate in the survey and based on the responses of employees who rate their employers on factors such as leadership, personal growth and fair deal, companies are independently ranked by Best Companies.

The Company policy is to actively provide equal opportunities for employment. Ingeus recruits and promotes employees on the basis of their qualifications, skills, values and aptitude. The Company keeps employees informed about the latest news, activities and best practices through the Company intranet and quarterly updates which are circulated to all employees. Employees can also voice ideas through a shared website of which the most popular ideas are reviewed by senior management for potential implementation.

Sub-contractors

The business uses multiple sub-contractors to assist in its provision of the Work Programme and other contracts. The Group's performance is dependent on the results of these sub-contractors, which are actively managed by the in-house Supply Chain managers and monitored by the Quality Assurance team.

We have been very pleased by how our sub-contractors have performed during the year despite the apparent economic difficulties.

KPI's

Comprehensive KPI's are used within the business to manage the performance of the whole business, management and staff. The KPI's relate to operational performance indicators such as client attachments on programs, job outcomes and sustainability percentages, quality of client service and financial measures.

Financial risk management

Capital management

The objective of the Group's capital management is to ensure that it maintains strong credit ratings and capital ratios. This will ensure that the business is correctly supported and shareholder value is maximised.

Interest rate risk

The Group finances its operations through retained profits and a loan facility with Lloyds TSB Bank Plc. As at 31 December 2012 the Group had drawn down a loan of £17.5m. Given the forecast short-term requirement of this loan and the stability of market interest rates, the Group has limited risk by fixing rates on the drawn amount.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets, when available, safely and profitably.

Management monitors rolling forecasts of the Group's liquidity reserve, borrowings and cash and cash equivalents on the basis of expected cash flow. The Group's liquidity management policy involves projecting cash flows in sterling and considering the level of liquid assets necessary to meet these and monitoring balance sheet liquidity ratios against internal and external regulatory requirements.

Results and dividends

The results for the year are set out on page 8

No dividends were paid in 2012 (2011 £9,969m) The 2011 dividends related to legacy contract profits arising prior to the joint venture arrangement with Deloitte LLP

Directors

The following directors held office during the year ended 31st December 2012 up to the signing of the accounts

S Griggs (appointed 30 January 2012)

J Connolly (Chairman, resigned 30 June 2012)

T Rein

G Ashmead

D James

S Chailah (Chairman)

A Hili (appointed 30 January 2012, resigned 21 December 2012)

D Merritt

M Turley (appointed 22 November 2012)

I Steele (resigned 30 January 2012)

W Smith (resigned 30 January 2012)

Statement as to disclosure of information to auditor

In so far as each of the directors holding office at the date of this report is aware

- there is no relevant audit information of which the company's auditor are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor are aware of that information

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 group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to

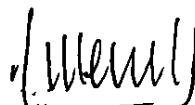
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 group and to prevent and detect fraud and other irregularities.

On behalf of the board



D James
Director



D Merritt
Director

29 April 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INGEUS UK LIMITED

We have audited the financial statements of Ingeus UK Limited for the year ended 31 December 2012 set out on pages 8 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 5, 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- 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 2012 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INGEUS UK LIMITED
(continued)**

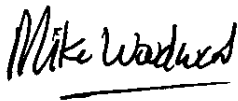
Opinion on other matter prescribed by the Companies Act 2006

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

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



Mike Woodward (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

29 April 2013

INGEUS UK LIMITED (Consolidated)**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Revenue	3	118,382	93,040
Cost of sales		<u>(78,936)</u>	<u>(54,583)</u>
Gross profit		39,446	38,457
Administrative expenses		(42,382)	(32,744)
Other income		<u>-</u>	<u>2,600</u>
Operating (loss) / profit	4	(2,936)	8,313
Finance income	6	81	202
Finance costs	7	<u>(333)</u>	<u>(97)</u>
(Loss) / profit before taxation		(3,188)	8,418
Income tax expense	8	<u>549</u>	<u>(2,451)</u>
(Loss) / profit for the year		<u>(2,639)</u>	<u>5,967</u>

INGEUS UK LIMITED (Consolidated)

**CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	As at 31 Dec 2012 £'000	As at 31 Dec 2011 £'000
ASSETS			
Non-current assets			
Intangible assets and goodwill	12	5,421	11
Property, plant and equipment	13	10,118	8,883
Deferred taxation assets	14	459	315
Other receivables	15	74	159
Total non-current assets		16,072	9,368
Current assets			
Trade and other receivables	17	20,310	6,627
Cash and cash equivalents	18	2,789	8,394
Intercompany loan	28	3,859	-
Corporation tax		70	-
Total current assets		27,028	15,021
LIABILITIES			
Current liabilities			
Trade and other payables	19	(15,366)	(9,824)
Provisions	21	(104)	(40)
Corporation tax		-	(2,323)
Bank loan	22	(17,500)	-
Total current liabilities		(32,970)	(12,187)
Net current (liabilities) / assets		(5,942)	2,834
Non-current liabilities			
Trade and other payables	20	(293)	(305)
Provisions	21	(3,693)	(3,114)
Total non-current liabilities		(3,986)	(3,419)
NET ASSETS		6,144	8,783
SHAREHOLDER'S EQUITY			
Share capital	23	-	-
Share premium		5,000	5,000
Retained earnings		1,144	3,783
TOTAL EQUITY		6,144	8,783

The financial statements on pages 8 to 39 were approved by the board of directors on 29 April 2013 and signed on its behalf by


D James
Director


D Merritt
Director

Company registration number 4320853

INGEUS UK LIMITED (Consolidated)

**COMPANY BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	As at 31 Dec 2012 £'000	As at 31 Dec 2011 £'000
ASSETS			
Non-current assets			
Intangible assets	12	1,485	11
Property, plant and equipment	13	10,052	8,883
Deferred taxation assets	14	462	315
Other receivables	15	74	159
Investment in subsidiary	16	3,902	-
Total non-current assets		<u>15,975</u>	<u>9,368</u>
Current assets			
Trade and other receivables	17	19,837	6,627
Cash and cash equivalents	18	1,882	8,394
Intercompany loan	28	3,859	-
Corporation tax		304	-
Total current assets		<u>25,882</u>	<u>15,021</u>
LIABILITIES			
Current liabilities			
Trade and other payables	19	(14,286)	(9,824)
Provisions	21	(63)	(40)
Corporation tax		-	(2,323)
Bank loan	22	(17,500)	-
Total current liabilities		<u>(31,849)</u>	<u>(12,187)</u>
Net current (liabilities) / assets		<u>(5,967)</u>	<u>2,834</u>
Non-current liabilities			
Trade and other payables	20	(293)	(305)
Provisions	21	(3,688)	(3,114)
Total non-current liabilities		<u>(3,981)</u>	<u>(3,419)</u>
NET ASSETS		<u><u>6,027</u></u>	<u><u>8,783</u></u>
SHAREHOLDER'S EQUITY			
Share capital	23	-	-
Share premium		5,000	5,000
Retained earnings		<u>1,027</u>	<u>3,783</u>
TOTAL EQUITY		<u><u>6,027</u></u>	<u><u>8,783</u></u>

The financial statements on pages 8 to 39 were approved by the board of directors on 29 April 2013 and signed on its behalf by


D James
Director


D Merritt
Director

INGEUS UK LIMITED (Consolidated)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2012	-	5,000	3,783	8,783
Loss for the year	-	-	(2,639)	(2,639)
Balance at 31 December 2012	-	5,000	1,144	6,144

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2011	-	-	7,785	7,785
Profit for the year	-	-	5,967	5,967
Dividends paid	-	-	(9,969)	(9,969)
New share capital issued	-	5,000	-	5,000
Balance at 31 December 2011	-	5,000	3,783	8,783

INGEUS UK LIMITED (Consolidated)

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000
Cash flows from operating activities			
Cash generated from operations	25	(6,805)	5,757
Tax paid		(1,844)	(2,918)
Net cash from operating activities		(8,649)	2,839
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(4,766)	(8,163)
Purchase of intangible assets	12	(3,263)	-
Share capital issued		-	5,000
Finance income	6	81	202
Intercompany loan	28	(3,859)	-
Acquisition of subsidiary	11	(2,316)	-
Net cash from investing activities		(14,123)	(2,961)
Cash flows from financing activities			
Finance costs	7	(333)	(97)
Dividends		-	(9,969)
Capital element of finance lease repayments		-	(111)
Loan drawdowns	22	17,500	-
Net cash from financing activities		17,167	(10,177)
Net decrease in cash and cash equivalents		(5,605)	(10,299)
Cash and cash equivalents at 1 January	18	8,394	18,693
Cash and cash equivalents at 31 December	18	2,789	8,394

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS'S

Basis of preparation

Ingeus UK Limited is a company incorporated and domiciled in the UK

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs")

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2012. These have not been adopted in the preparation of these financial statements:

- IAS 12 - "Deferred Tax – Recovery of underlying assets"

The financial statements have been prepared under the historical cost convention and on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The comparative amounts shown within these statements are for the Company only.

Basis of consolidation

The business combination is accounted for using the acquisition method as at the acquisition date, when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred less the fair value of the identifiable assets acquired and liabilities assumed.

Transaction costs associated with the acquisition are expensed as incurred.

The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in the business combination.

Intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

2 ACCOUNTING POLICIES

Revenue recognition

Revenue represents income from employment and training services, net of value added tax and trade discounts

Revenue earned under the Work Programme by the Company and its subcontractors is mainly recognised at the time it becomes valid for invoicing, which is typically after the Company has undertaken certain procedures to introduce clients on to the Company's schemes or ensure a client remains in employment. Revenues for the Work Programme are accrued in the accounts based on the Company's past experience.

Intangible assets

Computer software licenses

Externally purchased computer software licenses and similar intangible items are capitalised at historical cost and amortised on a straight line basis over their estimated useful lives of three to five years.

Goodwill

Goodwill arising on acquisition is presented within intangible assets. Goodwill is measured at fair value less accumulated impairment losses and is reviewed annually for impairment.

Licences

Licences acquired on acquisition are initially recognised at fair value at the acquisition date. They are subsequently reported at cost less accumulated amortisation and impairment losses and amortised on a straight-line basis in profit or loss over the estimated useful life of three years from the start of the relevant contract year.

Contracts

Contracts acquired on acquisition are initially recognised at fair value at the acquisition date. They are subsequently reported at cost less accumulated amortisation and impairment losses and amortised on a straight-line basis in profit or loss over the estimated useful life of five years from the start of the relevant contract year.

Property, plant and equipment

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation and any impairment. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful economic life.

The estimated useful economic life of a leasehold improvement asset is determined by the length of the property lease for that site, provided it does not exceed:

- 1 the length of the underlying revenue contract for that site, or
- 2 the asset's economic useful life

The annual depreciation rates applicable are as follows:

Leasehold improvements	2 - 5 years
Office equipment and fittings	3 years
Computer equipment	3 - 5 years

2. ACCOUNTING POLICIES (continued)

Impairment of assets

At each reporting period, the Group reviews the carrying amounts of its intangible assets to assess whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are allocated to individual CGUs, or otherwise allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use is determined for an individual asset. Discount rates reflecting the asset specific risks and the time value of money are used in the value in use calculation.

Leasing

Assets obtained under hire purchase contracts and finance leases, where substantially all the risks and rewards of ownership are transferred to the Group, are capitalised as property, plant and equipment and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in payables net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the income statement so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'Administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'Administrative expenses' in the income statement.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

Provisions

Provisions are recognised as a liability when a present obligation exists in respect of a past event and where the amount can be reliably estimated. Provisions are discounted where the time value of money is considered material.

2. ACCOUNTING POLICIES (continued)

Pension costs

The amount charged to the income statement represents the contributions payable by the Group to the defined contribution pension scheme. There were outstanding contributions at the end of the year amounting to £177k (31 December 2011: £43k) and these are included in other payables.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits. Short term deposits are defined as deposits with an initial maturity of three months or less.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income statement.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred income tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is not discounted.

Deferred income tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

Significant accounting estimates and judgements

The preparation of these financial statements requires the use of estimates and judgements that affect the carrying amounts of assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and judgements are based on management's best knowledge of the amount, events or actions, ultimately actual results may differ from those estimates. The key estimates and judgements used in these financial statements are set out below.

2 ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. The directors have made estimates regarding revenue and certain other provisions based on their knowledge and estimates of the change in contract base that has occurred within the business during the year.

Revenue earned under the Work Programme by the Company and its subcontractors is mainly recognised at the time it becomes valid for invoicing, which is typically after the Company has undertaken certain procedures to introduce clients on to the Company's schemes or ensure a client remains in employment. Revenues for the Work Programme are accrued in the accounts based on the Company's past experience.

Income taxes

Significant judgement is required in determining the Group provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises liabilities for anticipated tax based on estimates as to whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the year in which such determination is made.

Impairment excluding deferred tax assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if 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.

INGEUS UK LIMITED (Consolidated)**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012****3 REVENUE**

The total revenue of the Group for the current and prior period has been derived from its principal activity wholly undertaken in the United Kingdom

4 RECONCILIATION TO GROUP OPERATING PROFIT

	Continuing	Acquisition	Year ended 31 Dec 2012
	£'000	£'000	£'000
Revenue	117,781	601	118,382
Cost of sales	<u>(78,593)</u>	<u>(343)</u>	<u>(78,936)</u>
Gross profit	39,188	258	39,446
Administrative expenses	(42,256)	(126)	(42,382)
Other income	<u>-</u>	<u>-</u>	<u>-</u>
Operating (loss) / profit	(3,068)	132	(2,936)

5 OPERATING PROFIT

	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000
Operating profit is stated after crediting / (charging)		
Other income	-	2,600
Amortisation of intangible assets	(169)	(20)
Depreciation of owned property, plant and equipment	(3,521)	(1,497)
Depreciation of leased property, plant and equipment	-	(102)
Operating lease rentals – property	(3,702)	(3,832)
Auditors' remuneration – audit	(70)	(65)
Auditors' remuneration – non audit services	<u>(88)</u>	<u>(54)</u>

6 FINANCE INCOME

	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000
Bank interest	<u>81</u>	<u>202</u>

7. FINANCE COSTS

	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000
Other interest	<u>333</u>	<u>97</u>

8 INCOME TAX EXPENSE

	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000
Domestic current year tax		
UK Corporation tax	17	2,423
Adjusting for prior years (Foreign Tax)	-	(38)
Overprovision in prior year	(418)	-
Current tax charge	(401)	2,385
Deferred tax		
Deferred tax charge / (credit) (note 14)	(155)	55
Overprovision in prior year (note 14)	7	(14)
Reduction in tax rate		25
Deferred tax credit	(148)	66
Income tax expense	(549)	2,451

The tax charge is higher (year ended 31 December 2011 higher) than the standard rate of tax at 24.5% (2011 26.5%). The differences are explained below

	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Factors affecting the tax charge for the year		
(Loss) / profit before taxation	(3,188)	8,418
UK profit on ordinary activities before taxation multiplied by standard corporation tax at 24.5% (year ended 31 December 2011 26.5%)	(782)	2,231
Effects of		
Non-deductible expenses	238	247
Effect of corporation tax rate falling to 25% (2011 25%)	35	25
Under / (over) provided in prior years – current tax	(418)	(38)
Under / (over) provided in prior years – deferred tax	7	(14)
Losses carried back	371	-
Income tax expense	(549)	2,451

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 and the December 2012 Autumn Statement announced a planned further reduction to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly.

The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

INGEUS UK LIMITED (Consolidated)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012**

9 EMPLOYEES

Number of employees

The average monthly number of employees during the year was

	Year ended 31 Dec 2012	Year ended 31 Dec 2011
	Number	Number
Management	18	18
Operational and administration	1,513	1,055
	<u>1,531</u>	<u>1,073</u>

	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000
Employment costs (including directors):		
Wages and salaries	43,301	30,086
Social security costs	4,463	3,084
Pension contributions (note 10)	1,363	1,123
	<u>49,127</u>	<u>34,293</u>

	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000
Directors emoluments:		
Aggregate emoluments	332	286
Social security costs	45	36
Pension contributions	25	23
Amounts paid to third parties in respect of directors' services	285	245
	<u>687</u>	<u>590</u>

	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000
Highest paid director		
Total amount of emoluments	332	286
Social security costs	45	36
Pension contributions	25	23
	<u>402</u>	<u>345</u>

T Rein, G Ashmead, W Smith, I Steele, N Prior, A Hill, S Griggs, J Fotheringham, M Turley and S Challah received no remuneration from the Group during the year. Fees for John Connolly's services were paid to Eclipse Partners Limited, but were recharged to Deloitte LLP and are therefore not included in the figures above.

10 PENSION COSTS

Defined contribution

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charged represents contributions payable by the Group to the fund. There were outstanding contributions at the end of the financial period amounting to £177k (Year ended 31 December 2011: £43k) and these are included in other payables.

	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000
Contributions payable by the Group for the year (note 9)	<u>1,363</u>	<u>1,123</u>

11. ACQUISITION OF SUBSIDIARY

On 19 November 2012, the Group acquired 100% of Ingeus Training Limited, a provider of training and development programmes.

The following summarises consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

Consideration transferred

	Note	£'000
Cash		3,342
Deferred consideration		385
Contingent consideration		<u>175</u>
	16	<u>3,902</u>

Contingent consideration

The Group has agreed to pay the vendor within six months of the acquisition date, additional consideration of £175k unless any claim in connection with the sale and purchase agreement is determined, is the subject of any proceedings or has been notified to the sellers detailing the nature and amount of the claim and a reasonable estimate of the buyer's costs in connection with the claim.

Identifiable assets acquired and liabilities assumed

	Note	£'000
Property, plant & equipment	13	64
Intangible assets	12	1,620
Trade and other receivables		491
Cash and cash equivalents		741
Deferred tax liabilities	14	(4)
Provisions	21	(43)
Trade and other payables		<u>(1,283)</u>
		<u>1,586</u>

INGEUS UK LIMITED (Consolidated)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012**

11 ACQUISITION OF SUBSIDIARY (continued)

Goodwill

Goodwill was recognised as a result of the acquisition as follows

	Note	£'000
Total consideration transferred		3,902
Fair value of identifiable net assets		<u>(1,586)</u>
	12	<u><u>2,316</u></u>

Acquisition related costs

The Group incurred acquisition related costs of £253k related to external legal fees and due diligence costs. These costs have been included in 'administrative expenses' in the consolidated statement of comprehensive income.

INGEUS UK LIMITED (Consolidated)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012**

12. INTANGIBLE ASSETS

Group

	Goodwill £'000	Licences £'000	Contracts £'000	Computer software licenses £'000	Total £'000
Cost					
At 1 January 2012	-	-	-	451	451
Acquisition through business combinations	2,316	240	1,380	-	3,936
Additions	-	-	-	1,643	1,643
Disposals	-	-	-	(149)	(149)
At 31 December 2012	2,316	240	1,380	1,945	5,881
Amortisation					
At 1 January 2012	-	-	-	440	440
Charge for the year	-	-	-	169	169
Disposals	-	-	-	(149)	(149)
At 31 December 2012	-	-	-	460	460
Net book value					
At 31 December 2012	<u>2,316</u>	<u>240</u>	<u>1,380</u>	<u>1,485</u>	<u>5,421</u>
	Goodwill £'000	Licences £'000	Contracts £'000	Computer software licenses £'000	Total £'000
Cost					
At 1 January 2011 and 31 December 2011	-	-	-	451	451
Amortisation					
At 1 January 2011	-	-	-	420	420
Charge for the year	-	-	-	20	20
At 31 December 2011	-	-	-	440	440
Net book value					
At 31 December 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>11</u>	<u>11</u>

Acquisitions

The value of the licence and contracts acquired in the year is attributable to the existing Skills Funding Agency registration and contracts held by Ingeus Training Limited

12 INTANGIBLE ASSETS (continued)

Impairment testing

The Group tests each cash generating unit's ("CGU") intangible assets for impairment annually or more frequently if there are indications that goodwill might be impaired

The recoverable amounts of the CGU are determined from value in use calculations which are estimated using a discounted cash flow model. The Group prepares cash flow forecasts derived on estimated profits for the next five years, extrapolates the future cash flows based on estimated national growth of 24% and then applies a risk rate of 33% and a discount factor of 4%

The key assumptions across the CGU for the value in use calculations are those regarding profit forecasts, terminal growth rate, risk factor and discount rate. The Group has approved the forecasts used for the next five years. The terminal growth rates are based on skills business growth forecast. Management has estimated the risk rate based on potential contract renewal and the discount rate reflects the Group's current market assessments of the time value of money.

Company

	Computer software licenses £'000
Cost	
At 1 January 2012	451
Additions	1,643
Disposals	(149)
	<hr/>
At 31 December 2012	1,945
Accumulated amortisation	
At 1 January 2012	440
Charge for the year	169
Disposals	(149)
	<hr/>
At 31 December 2012	460
Net book value	
At 31 December 2012	<hr/> 1,485 <hr/>
	Computer software licenses £'000
Cost	
At 1 January 2011 and 31 December 2011	451
Accumulated amortisation	
At 1 January 2011	420
Charge for the year	20
	<hr/>
At 31 December 2011	440
Net book value	
At 31 December 2011	<hr/> 11 <hr/>

INGEUS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012**

13 PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements £'000	Office equipment and fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2012	10,651	3,786	2,653	17,090
Acquisition through business combinations	-	64	-	64
Additions	1,731	1,441	1,530	4,702
Disposals	(1,018)	(725)	(1,263)	(3,006)
At 31 December 2012	11,364	4,566	2,920	18,850
Accumulated depreciation				
At 1 January 2012	4,413	2,073	1,721	8,207
Charge for the year	1,724	1,124	673	3,521
Disposals	(1,018)	(715)	(1,263)	(2,996)
At 31 December 2012	5,119	2,482	1,131	8,732
Net book value				
At 31 December 2012	<u>6,245</u>	<u>2,084</u>	<u>1,789</u>	<u>10,118</u>

	Leasehold improvements £'000	Office equipment and fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2011	4,975	2,208	1,744	8,927
Additions	5,676	1,578	909	8,163
At 31 December 2011	10,651	3,786	2,653	17,090
Accumulated depreciation				
At 1 January 2011	3,588	1,689	1,331	6,608
Charge for the year	825	384	390	1,599
At 31 December 2011	4,413	2,073	1,721	8,207
Net book value				
At 31 December 2011	<u>6,238</u>	<u>1,713</u>	<u>932</u>	<u>8,883</u>

INGEUS UK LIMITED (Consolidated)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012**

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Assets held under finance leases and hire purchase contracts (included above)

	Office equipment £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2012	231	827	1,058
Additions	-	-	-
Disposals	(231)	(827)	(1,058)
At 31 December 2012	-	-	-
Accumulated Depreciation			
At 1 January 2012	231	827	1,058
Charge for the year	-	-	-
Disposals	(231)	(827)	(1,058)
At 31 December 2012	-	-	-
Net Book Value			
31 December 2012	-	-	-
	Office equipment £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2011	231	723	954
Additions	-	104	104
Accumulated depreciation			
31 December 2011	(231)	(827)	(1,058)
Net book value			
31 December 2011	-	-	-

INGEUS UK LIMITED (Consolidated)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012**

13 PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements £'000	Office equipment and fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2012	10,651	3,786	2,653	17,090
Additions	1,731	1,424	1,530	4,685
Disposals	<u>(1,018)</u>	<u>(725)</u>	<u>(1,263)</u>	<u>(3,006)</u>
At 31 December 2012	11,364	4,485	2,920	18,769
Accumulated depreciation				
At 1 January 2012	4,413	2,073	1,721	8,207
Charge for the year	1,724	1,119	673	3,516
Disposals	<u>(1,018)</u>	<u>(725)</u>	<u>(1,263)</u>	<u>(3,006)</u>
At 31 December 2012	5,119	2,467	1,131	8,717
Net book value				
At 31 December 2012	<u>6,245</u>	<u>2,018</u>	<u>1,789</u>	<u>10,052</u>

	Leasehold improvements £'000	Office equipment and fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2011	4,975	2,208	1,744	8,927
Additions	<u>5,676</u>	<u>1,578</u>	<u>909</u>	<u>8,163</u>
At 31 December 2011	10,651	3,786	2,653	17,090
Accumulated depreciation				
At 1 January 2011	3,588	1,689	1,331	6,608
Charge for the year	<u>825</u>	<u>384</u>	<u>390</u>	<u>1,599</u>
At 31 December 2011	4,413	2,073	1,721	8,207
Net book value				
At 31 December 2011	<u>6,238</u>	<u>1,713</u>	<u>932</u>	<u>8,883</u>

INGEUS UK LIMITED (Consolidated)**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012****13 PROPERTY, PLANT AND EQUIPMENT (continued)****Assets held under finance leases and hire purchase contracts (included above).**

	Office equipment £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2012	231	827	1,058
Additions	-	-	-
Disposals	<u>(231)</u>	<u>(827)</u>	<u>(1,058)</u>
At 31 December 2012	-	-	-
Accumulated Depreciation			
At 1 January 2012	231	827	1,058
Charge for the year	-	-	-
Disposals	<u>(231)</u>	<u>(827)</u>	<u>(1,058)</u>
At 31 December 2012	-	-	-
Net book value			
31 December 2012	<u>-</u>	<u>-</u>	<u>-</u>
	Office equipment £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2011	231	723	954
Additions	-	104	104
Accumulated depreciation			
31 December 2011	<u>(231)</u>	<u>(827)</u>	<u>(1,058)</u>
Net book value			
31 December 2011	<u>-</u>	<u>-</u>	<u>-</u>

INGEUS UK LIMITED (Consolidated)**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012****14. DEFERRED TAXATION ASSET**

The deferred tax asset is made up as follows

	Group 2012 £'000	Company 2012 £'000
Balance at 1 January 2012	315	315
Deferred tax charge (note 8)	155	154
Overprovision in prior year (note 8)	(7)	(7)
Acquired in business combination	(4)	
	<u>459</u>	<u>462</u>
Balance at 31 December 2012	459	462

	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Accelerated capital allowances	418	304	421	304
Unpaid pension contributions	<u>41</u>	<u>11</u>	<u>41</u>	<u>11</u>
	<u>459</u>	<u>315</u>	<u>462</u>	<u>315</u>

There is no amount of unprovided deferred tax

15 OTHER RECEIVABLES**Group and Company**

	31 Dec 2012 £'000	31 Dec 2011 £'000
Non current		
Cash deposits	<u>74</u>	<u>159</u>

The above includes cash deposits secured against property leases

16 INVESTMENT IN SUBSIDIARY**Company**

	31 Dec 2012 £'000	31 Dec 2011 £'000
Cost and carrying amount		
Ingeus Training Limited	<u>3,902</u>	<u>-</u>

On the 19 November 2012, Ingeus UK Limited acquired 100% of Ingeus Training Limited (formerly Zodiac Training Limited), a provider of training and development programmes (note 11)

INGEUS UK LIMITED (Consolidated)**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012****17. TRADE AND OTHER RECEIVABLES**

	Group		Company	
	31 Dec	31 Dec	31 Dec	31 Dec
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Trade receivables	2,017	1,236	1,624	1,236
Other taxes and social security costs	-	522	-	522
Other receivables	105	782	105	782
Prepayments and accrued income	18,188	4,087	18,108	4,087
	<u>20,310</u>	<u>6,627</u>	<u>19,837</u>	<u>6,627</u>

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	31 Dec	31 Dec	31 Dec	31 Dec
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Short term bank deposits	-	5,574	-	5,574
Cash	2,789	2,820	1,882	2,820
Cash and cash equivalents per cash flow statement and balance sheet	<u>2,789</u>	<u>8,394</u>	<u>1,882</u>	<u>8,394</u>

The effective interest rate on short-term bank deposits was 1.35% (2011: 1.35%). These deposits have an average maturity of 60 days (2011: 60 days).

19. TRADE AND OTHER PAYABLES – CURRENT

	Group		Company	
	31 Dec	31 Dec	31 Dec	31 Dec
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Trade payables	4,333	4,795	4,254	4,795
Amounts owed to parent undertakings	203	1,041	203	1,041
Other taxes and social security costs	3,745	-	3,532	-
Other payables	811	71	752	71
Accruals and deferred income	6,274	3,917	5,545	3,917
	<u>15,366</u>	<u>9,824</u>	<u>14,286</u>	<u>9,824</u>

INGEUS UK LIMITED (Consolidated)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012**

20 TRADE AND OTHER PAYABLES – NON-CURRENT

Group and Company

	31 Dec 2012 £'000	31 Dec 2011 £'000
Other payables	<u>293</u>	<u>305</u>

21. PROVISIONS

	Group Lease dilapidations £'000	Company Lease dilapidations £'000
Balance at 1 January 2012	3,154	3,154
Charged to provision	750	746
Released to income statement	(150)	(149)
Assumed in business combination	43	-
At 31 December 2012	<u>3,797</u>	<u>3,751</u>
At 31 December 2012		
Current liabilities	104	63
Non current liabilities	<u>3,693</u>	<u>3,688</u>
	<u>3,797</u>	<u>3,751</u>
At 1 January 2011		
Current liabilities	40	40
Non current liabilities	<u>3,114</u>	<u>3,114</u>
	<u>3,154</u>	<u>3,154</u>

Lease dilapidations

This provision represents the estimated lease dilapidation costs on the Group's operating lease tenancies. It is anticipated that these provisions will be utilised between 2014 and 2016.

22 BANK LOAN

Group and Company

	31 Dec 2012 £'000	31 Dec 2011 £'000
Unsecured bank loan	<u>17,500</u>	<u>-</u>

The bank loan represents an available facility of £40,000,000 which expires on 30 September 2014 and is unsecured. The loan had an effective interest rate of 2.09%.

INGEUS UK LIMITED (Consolidated)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012**

23. SHARE CAPITAL

	A Ordinary Shares		B Ordinary Shares	
	Number of Shares		Number of Shares	
	31 Dec	31 Dec	31 Dec	31 Dec
	2012	2011	2012	2011
In issue at 1 January and 31 December 2012	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

24. RETAINED EARNINGS

	Group	Company
	£'000	£'000
At 1 January 2012	3,783	3,783
Loss for the year	<u>(2,639)</u>	<u>(2,756)</u>
At 31 December 2012	<u>1,144</u>	<u>1,027</u>

25. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended	Year ended
	31 Dec 2012	31 Dec 2011
	£'000	£'000
(Loss) / profit before taxation	(3,188)	8,418
Depreciation	3,521	1,599
Amortisation	169	20
Deferred tax movement	(144)	66
Finance costs	333	97
Lease interest	-	(1)
Finance income	(81)	(202)
(Increase) / decrease in investments	85	(31)
(Increase) / decrease in trade and other receivables	(11,453)	3,669
(Decrease) / increase in trade and other payables	3,300	(9,012)
Increase in provisions	643	1,134
Loss on disposal of property, plant & equipment	<u>10</u>	<u>-</u>
Cash flow from operating activities	<u>(6,805)</u>	<u>5,757</u>

INGEUS UK LIMITED (Consolidated)**NOTES TO THE FINANCIAL STATEMENTS (continued)**
FOR THE YEAR ENDED 31 DECEMBER 2012

26. FINANCIAL COMMITMENTS

At 31 December 2012 the Group had commitments under non-cancellable operating leases as follows

	31 Dec 2012 £'000	31 Dec 2011 £'000
Expiry date		
Less than one year	4,149	3,316
Between two and five years	9,240	10,415
Later than five years	895	-
	<u>14,284</u>	<u>13,731</u>

11 operating lease agreements are supported by rental guarantees secured by a cash deposit with the landlords amounting to £60k (year ended 31 December 2011 £159k) (note 15)

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The objective of the Group's capital management is to ensure that it maintains strong credit ratings and capital ratios. This will ensure that the business is correctly supported and shareholder value is maximised.

There were no changes to the objectives or policies during the year ended 31 December 2012 and period ended 31 December 2011.

(a) Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables, excluding construction contract debtors, is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet 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 balance sheet 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 balance sheet date.

Interest-bearing borrowings

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

The fair values of all financial assets and financial liabilities by class together with their fair carrying amounts shown in the balance sheet are as follows:

	Carrying amount		Fair value	
	Dec 2012	Dec 2011	Dec 2012	Dec 2011
	£'000	£'000	£'000	£'000
Financial assets				
Cash and cash equivalents	2,789	8,394	2,789	8,394
Trade and other receivables	18,080	6,627	18,080	6,627
	20,869	15,021	20,869	15,021
Financial liabilities				
Trade and other payables	(13,136)	(9,824)	(13,136)	(9,824)

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk

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 and investment securities

Internal risk control assesses the credit quality of the customers, taking into account its financial position, past experience and other factors set by the board

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £19,172k (2011 £10,934k) being the total of the carrying amount of financial assets, excluding prepayments, shown in the table above

The maximum exposure to credit risk for trade receivables at the balance sheet date was £2,017k (2011 £1,236k), all were current

Credit quality of financial assets and impairment losses

The aging of trade receivables at the balance sheet date was

	Gross Dec 2012 £'000	Impairment Dec 2012 £'000	Gross Dec 2011 £'000	Impairment Dec 2011 £'000
Not past due	1,750	-	969	-
Past due 0–30 days	209	-	52	-
Past due 31–120 days	58	-	215	-
	<u>2,017</u>	<u>-</u>	<u>1,236</u>	<u>-</u>

There was impairment of trade receivables of £28k (2011 £Nil) during the year. Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2012, trade receivables of £267k (2011 £267k) were past due but not impaired. These relate to government contracts for which there is no history of default.

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against the trade receivables directly.

(c) Market risk

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

The Group's main exposure to risk is through interest rates. The Group finances its operations through retained profits and has minimal financing exposure on leased assets.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Interest rate risk

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was

	31 Dec 2012 £'000	31 Dec 2011 £'000
Fixed rate instruments		
Financial assets	2,789	8,394
Financial liabilities	(17,500)	-
	<u>(14,711)</u>	<u>8,394</u>

The Group does not account for any fixed rates financial assets and liabilities at fair value through the profit and loss. Therefore a change in interest rates at the reporting date would not affect profit.

The Group finances its operations through retained profits and has minimal financing exposure on leased assets. This analysis is performed on the same basis for 2011.

(e) Foreign currency risk

The Group trades mainly in sterling and therefore has no significant currency risk.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(f) Liquidity risk

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

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements

		Year ended 31 Dec 2012			
	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000
Non-derivative financial liabilities					
Trade and other payables	<u>13,429</u>	<u>13,429</u>	<u>13,136</u>	<u>293</u>	
	<u>13,429</u>	<u>13,429</u>	<u>13,136</u>	<u>293</u>	
		Year ended 31 Dec 2011			
	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000
Non-derivative financial liabilities					
Trade and other payables	<u>10,129</u>	<u>10,129</u>	<u>9,824</u>	<u>305</u>	-
	<u>10,129</u>	<u>10,129</u>	<u>9,824</u>	<u>305</u>	-

(g) Capital management

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

28 RELATED PARTY TRANSACTIONS

	Transaction value for the year ended		Balance outstanding as at	
	31 Dec 2012 £'000	31 Dec 2011 £'000	31 Dec 2012 £'000	31 Dec 2011 £'000
Management charges				
Ingeus Limited	38	460	-	(3)
Ingeus Europe Limited	4,519	3,769	(15)	(430)
Deloitte LLP	721	2,369	(131)	(245)
Black Fin Management Limited	-	92	-	-
Eclipse Partners Limited	59	50	-	-
Transactions on behalf of related party				
Ingeus Social Ventures Limited	-	558	-	(364)
Ingeus Europe Limited	322	-	(1)	-
Loans				
Ingeus Europe Limited	3,859	-	3,859	-
Purchase of assets				
Ingeus Europe Limited	2,178	-	(55)	-

David Merritt is a director of both Ingeus UK Limited and Black Fin Management Limited. Fees of £59k (2011: £50k) for John Connolly's services were paid to Eclipse Partners Limited, but were recharged to Deloitte LLP. John Connolly was a director of both Ingeus UK Limited and Eclipse Partners Limited during 2012.

Amounts owed to Ingeus Limited and Ingeus Europe Limited are unsecured, interest free and repayable on demand. Invoices from Deloitte LLP are payable when presented and do not incur interest charges. Due to prompt payment no interest was incurred in the year. Amounts owed to Ingeus Social Ventures Limited do not incur interest charges.

Deloitte LLP and Ingeus Limited have provided a joint and several guarantee in relation to the bank facility of £40,000,000 and a performance and liability guarantee for certain contracts entered into by Ingeus UK Limited.

29. ULTIMATE AND CONTROLLING PARTY

The Group is jointly owned by Ingeus Europe Limited, a subsidiary of Ingeus Limited (registered office Level 11, Oracle House, 300 Ann Street, Brisbane, Queensland 4000, Australia) and Deloitte LLP (registered office 2 New Street Square, London EC4A 3BZ). The directors do not believe there to be an ultimate controlling party.

30 CONTINGENT LIABILITY

The Group has the following guarantees as at 31 December 2012

Rental guarantee provided by HSBC Bank plc to OMFS Company 1 Limited in regards of the operating lease for Third Floor, The Registry, Royal Mint Court, London. The total liability is limited to £225k (2011: £225k) and expires on 28 March 2014. This guarantee was discharged on 5 March 2013.

Rental guarantee provided by Lloyds TSB Bank plc to OMFS Company 1 Limited in regards of the operating lease for Third Floor, The Registry, Royal Mint Court, London. The total liability is limited to £225k (2011: £Nil) and expires on 28 March 2014.

On 08 March 2011 the Company discharged a financial guarantee provided to HSBC Australia Limited in respect of a loan facility arranged by Ingeus Limited.