

Company registration number: 4320853 (England and Wales)

INGEUS UK LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013



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 D Merritt M Turley A Showering – appointed 29 October 2013
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	Fourth Floor 66 Prescott Street London E1 8HG
Independent auditors	KPMG LLP 8 Salisbury Square London EC4Y 8BB
Business bankers	Lloyds TSB Bank PLC 25 Gresham Street London EC2V 7HN

	Pages
Strategic report	2 to 4
Directors' report	5 to 6
Independent auditors' report to the members of Ingeus UK Limited	7 to 8
Consolidated statement of comprehensive income	9
Consolidated balance sheet	10
Company balance sheet	11
Consolidated statement of changes in equity	12
Consolidated cash flow statement	13
Notes to the financial statements	14 to 39

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

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 43.4% over the previous period (2012: 27.2%) to £169,707k (2012: £118,382k). The Group made a profit in the year amounting to £22,986k (2012: Loss £2,639k). During the year the Work Programme performance continued to expand across all eight different regions. Net assets increased by 148.6% (2012: decrease 30.0%) to £15,271k (2012: £6,144k) during the year.

Significant changes in the state of affairs

The Company now operates out of 86 principal offices. Our supply chain network continues to grow with 17 end-to-end specialist partners and 65 specialist intervention partners, of which 50% are from the charity/third sector.

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 long term 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 85th in the 2014 Sunday Times 100 Best Companies to Work For list. This is the sixth 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 Group 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 Group keeps employees informed about the latest news, activities and best practices through the Group 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 operation 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

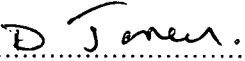
The Group finances its operations through retained profits and a loan facility with Lloyds TSB Bank Plc. As at 31 December 2013 the Group had no external loans, with the Lloyds loan being repaid in full in May 2013. Given the forecast short-term requirement of this loan and the stability of market interest rates, the Group has limited risk by fixing rates on the drawn amount.

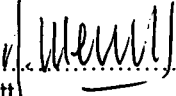
Liquidity risk.

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.

On behalf of the board


.....
D James
Director


.....
D Merritt
Director

26 March 2014

Results and dividends

The results for the year are set out on page 9.

In 2013, an interim dividend of £3,859k was paid to the B shareholder on 30 June. This dividend related to legacy contracts profits arising prior to Deloitte LLP becoming a 50% shareholder. Another interim dividend was paid to both A and B Shareholders on 15th November 2013 of £5,000k each relating to the Joint Venture performance.

Directors

The following directors held office during the year ended 31st December 2013 up to the signing of the accounts:

S Griggs
T Rein
G Ashmead
D James
S Challah (Chairman)
D Merritt
M Turley
A Showering (appointed 29 October 2013)

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 strategic report, directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

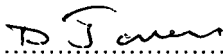
Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.


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

26 March 2014



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 2013 set out on pages 9 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 6, 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 give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit 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)

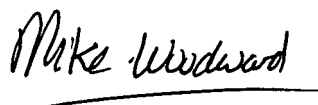
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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

26 March 2014

INGEUS UK LIMITED (Consolidated)**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013**


	Note	Year ended 31 Dec 2013 £'000	Year ended 31 Dec 2012 £'000
Revenue	3	169,707	118,382
Cost of sales		<u>(94,622)</u>	<u>(78,936)</u>
Gross profit		75,085	39,446
Administrative expenses		<u>(44,999)</u>	<u>(42,382)</u>
Operating profit / (loss)	4	30,086	(2,936)
Finance income	5	72	81
Finance costs	6	<u>(30)</u>	<u>(333)</u>
Profit / (loss) before taxation		30,128	(3,188)
Income tax (expense) / credit	7	<u>(7,142)</u>	<u>549</u>
Profit / (loss) for the year		<u><u>22,986</u></u>	<u><u>(2,639)</u></u>

INGEUS UK LIMITED (Consolidated)

**CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	As at 31 Dec 2013 £'000	As at 31 Dec 2012 £'000
ASSETS			
Non-current assets			
Intangible assets and goodwill	11	5,017	5,421
Property, plant and equipment	12	6,011	10,118
Deferred taxation assets	13	907	459
Other receivables	14	76	74
Total non-current assets		12,011	16,072
Current assets			
Trade and other receivables	16	24,116	20,310
Cash and cash equivalents	17	5,328	2,789
Intercompany loan	26	-	3,859
Corporation tax		-	70
Total current assets		29,444	27,028
LIABILITIES			
Current liabilities			
Trade and other payables	18	(18,883)	(15,366)
Provisions	20	(432)	(104)
Corporation tax		(4,258)	-
Bank loan	21	-	(17,500)
Total current liabilities		(23,573)	(32,970)
Net current assets / (liabilities)		5,871	(5,942)
Non-current liabilities			
Trade and other payables	19	(899)	(293)
Provisions	20	(1,712)	(3,693)
Total non-current liabilities		(2,611)	(3,986)
NET ASSETS		15,271	6,144
SHAREHOLDER'S EQUITY			
Share capital	22	-	-
Share premium		5,000	5,000
Retained earnings		10,271	1,144
TOTAL EQUITY		15,271	6,144

The financial statements on pages 9 to 39 were approved by the board of directors on 26 March 2014 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 2013**

	Note	As at 31 Dec 2013 £'000	As at 31 Dec 2012 £'000
ASSETS			
Non-current assets			
Intangible assets	11	1,437	1,485
Property, plant and equipment	12	5,808	10,052
Deferred taxation assets	13	846	462
Other receivables	14	76	74
Investment in subsidiary	15	3,902	3,902
Total non-current assets		<u>12,069</u>	<u>15,975</u>
Current assets			
Trade and other receivables	16	23,850	19,837
Cash and cash equivalents	17	4,945	1,882
Intercompany loan	26	-	3,859
Corporation tax		-	304
Total current assets		<u>28,795</u>	<u>25,882</u>
LIABILITIES			
Current liabilities			
Trade and other payables	18	(18,315)	(14,286)
Provisions	20	(318)	(63)
Corporation tax		(4,239)	-
Bank loan	21	-	(17,500)
Total current liabilities		<u>(22,872)</u>	<u>(31,849)</u>
Net current assets / (liabilities)		<u>5,923</u>	<u>(5,967)</u>
Non-current liabilities			
Trade and other payables	19	(899)	(293)
Provisions	20	(1,712)	(3,688)
Total non-current liabilities		<u>(2,611)</u>	<u>(3,981)</u>
NET ASSETS		<u><u>15,381</u></u>	<u><u>6,027</u></u>
SHAREHOLDER'S EQUITY			
Share capital	22	-	-
Share premium		5,000	5,000
Retained earnings		<u>10,381</u>	<u>1,027</u>
TOTAL EQUITY		<u><u>15,381</u></u>	<u><u>6,027</u></u>

The financial statements on pages 9 to 39 were approved by the board of directors on 26 March 2014 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 2013**

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2013	-	5,000	1,144	6,144
Profit for the year	-	-	22,986	22,986
Dividends paid	-	-	(13,859)	(13,859)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2013	-	5,000	10,271	15,271

	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)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2012	-	5,000	1,144	6,144

INGEUS UK LIMITED (Consolidated)**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	Year ended 31 Dec 2013 £'000	Year ended 31 Dec 2012 £'000
Cash flows from operating activities			
Cash generated from operations	23	34,409	(6,805)
Tax paid		(2,816)	(1,844)
Net cash from operating activities		31,593	(8,649)
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(990)	(4,766)
Purchase of intangible assets	11	(606)	(3,263)
Finance income	5	72	81
Intercompany loan	26	3,859	(3,859)
Acquisition of subsidiary	10	-	(2,316)
Net cash from investing activities		2,335	(14,123)
Cash flows from financing activities			
Finance costs	6	(30)	(333)
Dividends		(13,859)	-
Loan (repayment) / drawdowns	21	(17,500)	17,500
Net cash from financing activities		(31,389)	17,167
Net increase/ (decrease) in cash and cash equivalents		2,539	(5,605)
Cash and cash equivalents at 1 January	17	2,789	8,394
Cash and cash equivalents at 31 December	17	5,328	2,789

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 are standards that have been issued but are not effective as 1 January 2013 and have not been early adopted:

- Amendments to IAS 32 – "Offsetting Financial Assets and Financial Liabilities".
- Recoverable amount disclosures for non-financial assets – Amendments to IAS 36.

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.

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 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 and / or ensures a client remains in employment. Due to the terms of the Work Programme contract the payment for achieving a job start is not paid until 3 – 6 months after the candidate is placed and remains in a job, and this is accrued in the accounts based on a statistical profile of the number of people that are expected to achieve that milestone 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 purchases 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

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 £184k (31 December 2012: £177k) 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 is mainly recognised at the time it becomes valid for invoicing, which is typically after the Group has undertaken certain procedures to introduce clients on to the Group's schemes or ensure a client remains in employment. Due to the terms of the Work Programme contract the payment for achieving a job start is not paid until 3 – 6 months after the candidate is placed and remains in a job, and this is accrued in the accounts based on a statistical profile of the number of people that are expected to achieve that milestone based on the Group'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 2013****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. OPERATING PROFIT

	Year ended 31 Dec 2013 £'000	Year ended 31 Dec 2012 £'000
Operating profit is stated after crediting / (charging):		
Amortisation of intangible assets	(1,010)	(169)
Depreciation of owned property, plant and equipment	(3,557)	(3,521)
Reduction of lease dilapidations provision (see note 20)	460	-
Operating lease rentals – property	(3,938)	(3,702)
Auditors' remuneration – audit	(78)	(70)
Auditors' remuneration – non audit services	(45)	(88)

5. FINANCE INCOME

	Year ended 31 Dec 2013 £'000	Year ended 31 Dec 2012 £'000
Bank interest	72	81

6. FINANCE COSTS

	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2012 £'000
Other interest	30	333

7. INCOME TAX EXPENSE

	Year ended 31 Dec 2013 £'000	Year ended 31 Dec 2012 £'000
Domestic current year tax		
UK Corporation tax	7,563	17
Under provision (overprovision) in prior year	27	(418)
Current tax charge	7,590	(401)
Deferred tax		
Deferred tax charge / (credit) (note 13)	(405)	(155)
Overprovision in prior year (note 13)	(43)	7
Deferred tax credit	(448)	(148)
Income tax expense	7,142	(549)

The tax charge is higher (year ended 31 December 2012: higher) than the standard rate of tax at 23.25% (2012: 24.5%). The differences are explained below:

	Year ended 31 Dec 2013	Year ended 31 Dec 2012
Factors affecting the tax charge for the year		
Profit / (loss) before taxation	30,336	(3,188)
UK profit on ordinary activities before taxation multiplied by standard corporation tax at 23.25% (year ended 31 December 2012: 24.5%)	7,053	(782)
Effects of:		
Non-deductible expenses	19	238
Non-taxable income	(5)	-
Effect of corporation tax rate falling to 24% (2012: 25%)	91	35
Under / (over) provided in prior years – current tax	27	(418)
(Over) / Under provided in prior years – deferred tax	(43)	7
Losses carried back	-	371
Income tax expense	7,142	(549)

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 21 per cent for the financial year commencing 1 April 2014; and, 20 per cent for the financial year commencing 1 April 2015. A reduction in the rate from 25% to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012, and further reductions to 23% (effective from 1 April 2013) and 21% (effective from 1 April 2014) were substantively enacted on 3 July 2012 and 18 July 2013 respectively. This will reduce the company's future current tax charge accordingly.

The deferred tax asset at 31 December 2013 has been calculated based on the rate of 21% substantively enacted at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

8. EMPLOYEES

Number of employees

The average monthly number of employees during the year was:

	Year ended 31 Dec 2013	Year ended 31 Dec 2012
	Number	Number
Management	20	18
Operational and administration	1,695	1,513
	<u>1,715</u>	<u>1,531</u>

	Year ended 31 Dec 2013 £'000	Year ended 31 Dec 2012 £'000
Employment costs (including directors):		
Wages and salaries	50,251	43,301
Social security costs	5,232	4,463
Pension contributions (note 9)	1,572	1,363
	<u>57,055</u>	<u>49,127</u>

	Year ended 31 Dec 2013 £'000	Year ended 31 Dec 2012 £'000
Directors emoluments:		
Aggregate emoluments	617	332
Social security costs	84	45
Pension contributions	25	25
Amounts paid to / accrued for third parties in respect of directors' services	488	285
	<u>1,214</u>	<u>687</u>

Included in directors' emoluments and amounts owed to third parties for year ended 31 December 2013 is an accrual of £606k relating to a long term incentive plan payment for two directors.

	Year ended 31 Dec 2013 £'000	Year ended 31 Dec 2012 £'000
Highest paid director		
Total amount of emoluments	617	332
Social security costs	84	45
Pension contributions	25	25
	<u>726</u>	<u>402</u>

T Rein, G Ashmead, S Griggs, D M Turley, S Challah and A Showering received no remuneration from the Group during the year.

9. 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 £184k (Year ended 31 December 2012: £177k) and these are included in other payables.

	Year ended 31 Dec 2013 £'000	Year ended 31 Dec 2012 £'000
Contributions payable by the Group for the year (note 8)	<u>1,572</u>	<u>1,363</u>

10. 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	2012 £'000
Cash		3,342
Deferred consideration		385
Contingent consideration		<u>175</u>
	15	<u>3,902</u>

Contingent consideration

The Group paid the vendor within six months of the acquisition date additional consideration of £175k.

Identifiable assets acquired and liabilities assumed

	2012 £'000
Property, plant & equipment	64
Intangible assets	1,620
Trade and other receivables	491
Cash and cash equivalents	741
Deferred tax liabilities	(4)
Provisions	(43)
Trade and other payables	<u>(1,283)</u>
	<u>1,586</u>

10. ACQUISITION OF SUBSIDIARY (continued)

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	Note	2012 £'000
Total consideration transferred		3,902
Fair value of identifiable net assets		<u>(1,586)</u>
	11	<u><u>2,316</u></u>

Acquisition related costs

The Group incurred acquisition related costs of £nil (2012:£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.

11. INTANGIBLE ASSETS

Group

	Goodwill £'000	Licences £'000	Contracts £'000	Computer software licenses £'000	Total £'000
Cost					
At 1 January 2013	2,316	240	1,380	1,945	5,881
Additions	-	-	-	606	606
At 31 December 2013	2,316	240	1,380	2,551	6,487
Amortisation					
At 1 January 2013	-	-	-	460	460
Charge for the year	-	80	276	654	1,010
At 31 December 2013	-	80	276	1,114	1,470
Net book value					
At 31 December 2013	2,316	160	1,104	1,437	5,017

	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	2,316	240	1,380	1,485	5,421

2012 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 Ltd.

11. 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 3.5% and a discount factor of 4.6%.

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 2013	1,945
Additions	<u>606</u>
At 31 December 2013	2,551
Accumulated amortisation	
At 1 January 2013	460
Charge for the year	<u>654</u>
At 31 December 2013	1,114
Net book value	
At 31 December 2013	<u><u>1,437</u></u>

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

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements £'000	Office equipment and fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2013	11,364	4,566	2,920	18,850
Transfer of assets	9	21	173	203
Additions	492	295	204	990
Disposals	(2,273)	(7)	-	(2,280)
At 31 December 2013	9,592	4,875	3,296	17,763
Accumulated depreciation				
At 1 January 2013	5,121	2,482	1,131	8,734
Charge for the year	1,542	1,164	869	3,575
Transfer of assets	9	21	173	203
Disposals	(760)	-	-	(760)
At 31 December 2013	5,912	3,667	2,173	11,752
Net book value				
At 31 December 2013	<u>3,680</u>	<u>1,208</u>	<u>1,123</u>	<u>6,011</u>

In 2012, the Property, Plant and Equipment acquired on acquisition was included at net book value in Office equipment and fittings. It has now been transferred to the correct categories and split into cost and accumulated depreciation.

	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>

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

No assets or accumulated depreciation included above were held under finance leases and hire purchase contracts at 1 January 2013 and 31 December 2013.

	Office equipment £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2012	231	827	1,058
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
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>

INGEUS UK LIMITED (Consolidated)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements £'000	Office equipment and fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2013	11,364	4,485	2,920	18,769
Additions	408	207	132	747
Disposals	(2,273)	-	(1)	(2,274)
At 31 December 2013	9,499	4,692	3,051	17,242
Accumulated depreciation				
At 1 January 2013	5,119	2,467	1,131	8,717
Charge for the year	1,516	1,090	871	3,477
Disposals	(760)	-	-	(760)
At 31 December 2013	5,875	3,557	2,002	11,434
Net book value				
At 31 December 2013	<u>3,624</u>	<u>1,135</u>	<u>1,049</u>	<u>5,808</u>

	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	(1,018)	(725)	(1,263)	(3,006)
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	(1,018)	(725)	(1,263)	(3,006)
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>

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

No assets or accumulated depreciation included above were held under finance leases and hire purchase contracts at 1 January 2013 and 31 December 2013.

	Office equipment £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2012	231	827	1,058
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
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>

13. DEFERRED TAXATION ASSET

The deferred tax asset is made up as follows:

	Group 2013 £'000	Company 2013 £'000
Balance at 1 January 2013	459	462
Deferred tax charge (note 7)	405	341
Overprovision in prior year (note 7)	43	43
	<u>907</u>	<u>846</u>
Balance at 31 December 2013	<u>907</u>	<u>846</u>

	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Accelerated capital allowances	687	418	680	421
Other provisions	54	-	-	-
Unpaid incentive plan provision	127	-	127	-
Unpaid pension contributions	39	41	39	41
	<u>907</u>	<u>459</u>	<u>846</u>	<u>462</u>

There is no amount of unprovided deferred tax.

14. OTHER RECEIVABLES

Group and Company

	31 Dec 2013 £'000	31 Dec 2012 £'000
Non-current		
Cash deposits	<u>76</u>	<u>74</u>

The above includes cash deposits secured against property leases.

15. INVESTMENT IN SUBSIDIARY

Company

	31 Dec 2013 £'000	31 Dec 2012 £'000
Cost and carrying amount		
Ingeus Training Limited	<u>3,902</u>	<u>3,902</u>

On the 19 November 2012, Ingeus UK Limited acquired 100% of Ingeus Training Limited, a provider of training and development programmes (note 10).

16. TRADE AND OTHER RECEIVABLES - CURRENT

	Group		Company	
	31 Dec 2013 £'000	31 Dec 2012 £'000	31 Dec 2013 £'000	31 Dec 2012 £'000
Trade receivables	5,613	2,017	5,600	1,624
Other receivables	85	105	85	105
Amounts owed by group undertakings	-	-	422	-
Prepayments and accrued income	18,418	18,188	17,743	18,108
	<u>24,116</u>	<u>20,310</u>	<u>23,850</u>	<u>19,837</u>

Amounts owed by group undertakings are unsecured, charge interest at 1% above London inter bank base rate and are repayable on demand.

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	31 Dec 2013 £'000	31 Dec 2012 £'000	31 Dec 2013 £'000	31 Dec 2012 £'000
Cash	5,328	2,789	4,945	1,882
Cash and cash equivalents per cash flow statement and balance sheet	<u>5,328</u>	<u>2,789</u>	<u>4,945</u>	<u>1,882</u>

18. TRADE AND OTHER PAYABLES – CURRENT

	Group		Company	
	31 Dec 2013 £'000	31 Dec 2012 £'000	31 Dec 2013 £'000	31 Dec 2012 £'000
Trade payables	4,353	4,333	4,193	4,254
Amounts owed to group undertakings	3	203	3	203
Other taxes and social security costs	5,388	3,745	5,326	3,532
Other payables	212	811	181	752
Accruals and deferred income	8,927	6,274	8,612	5,545
	<u>18,883</u>	<u>15,366</u>	<u>18,315</u>	<u>14,286</u>

19. TRADE AND OTHER PAYABLES – NON-CURRENT

Group and Company

	31 Dec 2013 £'000	31 Dec 2012 £'000
Other payables	293	293
Accruals	606	-
	<u>899</u>	<u>293</u>

20. PROVISIONS

	Group Lease dilapidations £'000	Company Lease dilapidations £'000
Balance at 1 January 2013	3,797	3,751
Charged to provision	369	302
Released to income statement	(460)	(460)
Released on Disposal	(126)	(126)
Adjustment to cost on new surveyor reports	(1,437)	(1,437)
At 31 December 2013	<u>2,144</u>	<u>2,030</u>
At 31 December 2013		
Current liabilities	432	318
Non-current liabilities	1,712	1,712
	<u>2,144</u>	<u>2,030</u>
At 1 January 2013		
Current liabilities	104	63
Non-current liabilities	3,693	3,688
	<u>3,797</u>	<u>3,751</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 2018.

The make good assets were professionally re-evaluated in the year which led to the credit to the income statement.

21. BANK LOAN

Group and Company

	31 Dec 2013 £'000	31 Dec 2012 £'000
Unsecured bank loan	<u>-</u>	<u>17,500</u>

The bank loan represents an available facility of £20,000,000 (2012:£40,000,000) which expires on 30 September 2014 and is unsecured. Drawdowns from this facility are available on rolling three month periods. The loan had an effective interest rate of 2.09%.

22. SHARE CAPITAL

	A Ordinary Shares Number of Shares		B Ordinary Shares Number of Shares	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
In issue at 1 January and 31 December 2013	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

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

	Year ended 31 Dec 2013 £'000	Year ended 31 Dec 2012 £'000
Profit / (loss) before taxation	30,128	(3,188)
Depreciation	3,575	3,521
Amortisation	1,010	169
Deferred tax movement	(448)	(144)
Finance costs	30	333
Release of make good provision	2,023	-
Finance income	(72)	(81)
(Increase) / decrease in investments	(2)	85
Increase in trade and other receivables	(3,806)	(11,453)
Decrease in trade and other payables	4,124	3,300
(Decrease) / Increase in provisions	(1,653)	643
(Profit) / loss on disposal of property, plant & equipment	<u>(500)</u>	<u>10</u>
Cash inflow / (outflow) from operating activities	<u>34,409</u>	<u>(6,805)</u>

24. FINANCIAL COMMITMENTS

At 31 December 2013 the Group had commitments under non-cancellable operating leases as follows:

	31 Dec 2013	31 Dec 2012
	£'000	£'000
Expiry date:		
Less than one year	3,443	4,149
Between two and five years	6,539	9,240
Later than five years	-	895
	<u>9,982</u>	<u>14,284</u>

Nine operating lease agreements are supported by rental guarantees secured by a cash deposit with the landlords amounting to £43k (year ended 31 December 2012: £60k) (note 14).

25. 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.

The Group manages its capital structure through adjustments that are dependent on economic conditions. In order to maintain or adjust the capital structure, the Group may choose to change or amend dividend payments to shareholders or issue new share capital to shareholders. There were no changes to the objectives or policies during the year ended 31 December 2013 and period ended 31 December 2012.

(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 2013 £'000	Dec 2012 £'000	Dec 2013 £'000	Dec 2012 £'000
Financial assets				
Cash and cash equivalents	5,328	2,789	5,328	2,789
Receivables	24,116	18,080	24,116	18,080
	<u>29,444</u>	<u>20,869</u>	<u>29,444</u>	<u>20,869</u>
Financial liabilities				
Trade and other payables	(18,883)	(13,136)	(18,883)	(13,136)
	<u>(18,883)</u>	<u>(13,136)</u>	<u>(18,883)</u>	<u>(13,136)</u>

25. 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 £27,858k (2012: £19,172k) 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 £5,613k (2012: £2,017k), not all are current.

Credit quality of financial assets and impairment losses

The aging of trade receivables at the balance sheet date was:

	Gross Dec 2013 £'000	Impairment Dec 2013 £'000	Gross Dec 2012 £'000	Impairment Dec 2012 £'000
Not past due	5,440	-	1,750	-
Past due 0–30 days	139	-	209	-
Past due 31–120 days	34	-	58	-
	<u>5,613</u>	<u>-</u>	<u>2,017</u>	<u>-</u>

There was impairment of trade receivables of £21k (2012: £28) during the year. Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2013, trade receivables of £173k (2012: £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.

25. 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 2013	31 Dec 2012
	£'000	£'000
Fixed rate instruments:		
Financial assets	5,328	2,789
Financial liabilities	-	(17,500)
	<u>5,328</u>	<u>(14,711)</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 2012.

(e) Foreign currency risk

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

25. 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 2013				
	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	19,782	19,782	18,883	899	-
	<u>19,782</u>	<u>19,782</u>	<u>18,883</u>	<u>899</u>	<u>-</u>
	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	13,429	13,429	13,136	293	-
	<u>13,429</u>	<u>13,429</u>	<u>13,136</u>	<u>293</u>	<u>-</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

26. RELATED PARTY TRANSACTIONS

	Transaction value for the year ended		Balance outstanding as at	
	31 Dec 2013 £'000	31 Dec 2012 £'000	31 Dec 2013 £'000	31 Dec 2012 £'000
Management charges				
Ingeus Limited	38	38	(3)	-
Ingeus Europe Limited	4,456	4,519	(9)	(15)
Deloitte LLP	355	721	(92)	(131)
Eclipse Partners Limited	-	59	-	-
Transactions on behalf of related party				
Ingeus Europe Ltd	161	322	9	(1)
Loans				
Ingeus Europe Limited	-	3,859	-	3,859
Purchase of assets				
Ingeus Europe Limited	204	2,178	-	(55)

Fees of £NIL (2012: £59k) 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, do not incur interest charges and are repayable on demand. Invoices from Deloitte LLP are payable when presented and do not incur interest charges.

27. ULTIMATE AND CONTROLLING PARTY

The Group is jointly owned by 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.

28. CONTINGENT LIABILITY

The Group has the following guarantees as at 31 December 2013:

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 £NIL (2012: £225k) as the 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 (2012: £225k) and expires on 28 March 2014.