

Registered number: 04220043

XCHANGING PROCUREMENT SERVICES LIMITED

Annual report

for the year ended 31 December 2014

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**Annual report
for the year ended 31 December 2014**

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Directors and advisors

Directors

P Dreghorn
D Royer
C Kusneraitis

Company secretary

C Fussell

Registered office

The Walbrook Building
25 Walbrook
London
EC4N 8AQ

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Bankers

Lloyds Bank plc
City Office
PO Box 72
Gillingham Business Park
Kent
ME8 0LS

Strategic report for the year ended 31 December 2014

The directors present their strategic report on the company for the year ended 31 December 2014.

Principal activities

The company is engaged in providing procurement services for indirect spend categories under long term outsourcing contracts.

Review of the business

The results for the company show a loss on ordinary activities before taxation of £3,168,000 (2013: £145,000 profit) and turnover of £179,294,000 (2013: £176,141,000).

In 2014, the company undertook a programme of operational restructuring that resulted in restructuring related expenses of £612,000 (2013: £462,000).

The financial performance in 2014 was disappointing as the business transitions from the sole focus on large scale procurement outsource contracts to develop additional new offerings including procurement as a service and tail spend management.

The performance improvement from this strategic change will impact future years as contracts won in 2014 will be implemented in 2015 and deliver multiple new revenue streams.

The new business wins for the Xchanging Procurement business are on a worldwide geography whereas previous contracts were heavily focused in the UK. Hence the new revenues will be more evenly spread across the worldwide procurement entities.

The company differentiates itself from competitors in the following way:

- Delivers identifiable and tangible cost reduction benefits to its clients;
- An emphasis on service performance measurement and management;
- Flexible delivery systems;
- Multiple savings methods and procurement models; and
- A full service offering including transaction processing capability.

Future developments

The BAE Systems contract in the UK will come to an end in March 2015 and with it the managed service transacting model. The resulting annual reduction in turnover and cost of sales based on 2014 volumes will be £167m. The BAE Systems contribution in 2014 was £1.0m and will be replaced by new contracts already in place.

Non-financial risk

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to be;

- failure to achieve new contractual relationships;
- exposure to fluctuations in the volume of customer spend;
- failure to renew contracts with existing customers; and
- loss of key personnel.

Strategic report for the year ended 31 December 2014 (continued)

Financial risk

The company is exposed to a variety of financial risks which are reviewed on a regular basis in order to limit the adverse effects on financial performance. These are set out below:

(i) **Foreign exchange risk**

The company is exposed to foreign exchange rate risks primarily with respect to the Euro. The company has reviewed the risks posed by these rate movements and has considered that at the present time natural hedges exist within the businesses and so the company does not use derivative financial instruments. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

(ii) **Interest rate cash flow risk**

The company has no interest bearing liabilities. The company does not use derivative financial instruments as exposure levels are not material.

(iii) **Credit risk**

Credit risks arise from the possibility that customers may not be able to settle their obligations as agreed. To manage this risk, the company periodically assesses the financial reliability of customers, taking into account their financial position, past experience and other factors. Individual risk limits are set accordingly. Receivable balances are continually reviewed in order to minimise the Company's exposure to bad debts. The company is included in the notional cash pooling arrangement of the wider Xchanging Group in order to optimise Group liquidity. As such investment of the company's cash is managed by the Group Treasury function. The Group Treasury function only transacts with counterparties that have a strong investment grade rating from a credit rating agency and ensures that no exposure to any one institution at any given time exceeds exposure limits that have been approved by the Xchanging plc Board.

(iv) **Liquidity risk**

The company actively monitors its cash flows to ensure that it has sufficient funds for operations and expansion. The company does not currently make use of any financing arrangements but this will be continually reviewed as the business develops and matures.

The principal risk facing Xchanging Procurement Services Limited is credit risk.

Strategic report for the year ended 31 December 2014 (continued)

Key performance indicators

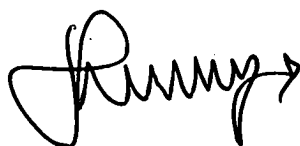
The company's strategy is one of growth with improved profitability. The directors monitor progress against this strategy by reference to a number of KPI's.

Performance for the year, together with comparative data for the previous year is set out in the table below:

	2014	2013	Definition, method of calculation and analysis
Growth in sales (%)	2	9	Year on year sales growth expressed as a percentage. 2% year on year sales growth in 2014 is due to higher customer spend volumes where the company acts as principal.
Operating margin (%)	(2.0)	(0.1)	Operating margin is the ratio of operating profit to revenue. 2014 operating margin % has fallen against the previous year primarily due to changes in some customer contractual relationships and customer spend volumes.
Employee numbers	169	176	The average monthly number of persons (including executive directors) employed by the company during the year. The fall in employee numbers was driven by the continuation of restructuring activities which began in 2012.
Revenue per employee (£m)	1.1	1.0	Turnover divided by average employee numbers. 2014 revenue per employee has risen compared with prior year due the increased revenue derived from principal trading.

On behalf of the Board

D Royer
Director
15 April 2015



Directors' report for the year ended 31 December 2014

The directors present their report and the audited financial statements of the company for the year ended 31 December 2014.

Future Developments

An indication of the likely future developments of the business is included in the Strategic Report on pages 4 - 6.

Dividends

The directors do not recommend a dividend payment in respect of the year ended 31 December 2014 (2013: no dividend recommended).

Financial Risk Management

Financial risk management is described in the Strategic Report on pages 4 to 6.

Directors

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

P Dreghorn	Appointed 21 January 2015
D Royer	Appointed 2 December 2014
N Ford	Appointed 26 September 2014, Resigned 10 April 2015
M J Batty	Resigned 21 January 2015
J P Andre	Resigned 28 November 2014
S E Trainor	Resigned 26 September 2014
D E G Cross	Resigned 30 June 2014
C Kusneraitis	Appointed 10 April 2015

Research and development

The company continues to invest in new technology platforms as well as further develop our existing capabilities.

The directors regard the investment in research and development as integral to the continuing success of the business and ensuring that we provide our customers with a full and flexible service offering.

Directors' report for the year ended 31 December 2014 (continued)

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

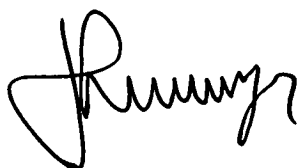
Each director of the company, in office at the time of approval of this report, acknowledges that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the annual general meeting.

On behalf of the Board



D Royer
Director
15 April 2015

Independent Auditors' Report to the Members of Xchanging Procurement Services Limited

Report on the financial statements

Our opinion

In our opinion, Xchanging Procurement Services Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Xchanging Procurement Services Limited's financial statements comprise:

- the Balance sheet as at 31 December 2014;
- the Profit and loss account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Independent Auditors' Report to the Members of Xchanging Procurement Services Limited (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

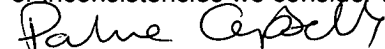
- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

**Independent Auditors' Report to the Members of
Xchanging Procurement Services Limited (continued)**

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Pauline Campbell (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

15 April 2015

Profit and loss account for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Turnover	2	179,294	176,141
Cost of sales		<u>(166,974)</u>	<u>(160,572)</u>
Gross profit		12,320	15,569
Administrative expenses	3	(15,145)	(15,231)
Exceptional expenses	6	(612)	(462)
(Loss)/profit on ordinary activities before interest and taxation		(3,437)	(124)
Interest receivable and similar income	7	269	269
Loss on ordinary activities before taxation		(3,168)	145
Tax on (loss)/profit on ordinary activities	8	627	(168)
Loss for the financial year	18	<u>(2,541)</u>	<u>(23)</u>

The company had no gains or losses other than those included in the results above, therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the (loss)/profit on ordinary activities before taxation and the loss for the financial years stated above and their historical cost equivalents.

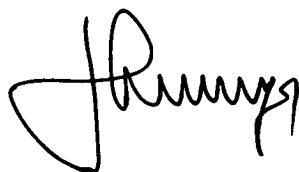
All results stated relate to continuing operations.

Balance sheet as at 31 December 2014

	Notes	2014 £'000	2013 £'000
Fixed assets			
Tangible assets	9	2,547	1,919
Investments	10	-	-
		<u>2,547</u>	<u>1,919</u>
Current assets			
Debtors: amounts falling due within one year	11	36,487	34,427
Debtors: amounts falling due after more than one year	11	1,963	637
		<u>38,450</u>	<u>35,064</u>
Cash at bank and in hand		5,822	14,572
		<u>44,272</u>	<u>49,636</u>
Creditors: amounts falling due within one year	13	<u>(44,718)</u>	<u>(46,769)</u>
Net current (liabilities)/assets		<u>(446)</u>	<u>2,867</u>
Total assets less current liabilities		<u>2,101</u>	<u>4,786</u>
Creditors: amounts falling due after one year	14	(61)	(37)
Provisions for liabilities	15	(340)	(658)
Net assets		<u>1,700</u>	<u>4,091</u>
Capital and reserves			
Called up share capital	17	-	-
Profit and loss account	18	1,700	4,091
Total shareholders' funds	19	<u>1,700</u>	<u>4,091</u>

The financial statements of Xchanging Procurement Services Limited – registered number 04220043 – as set out on pages 12 to 28 were approved by the Board of directors on 15 April 2015 and were signed on its behalf by:

D Royer
Director



Notes to the financial statements for the year ended 31 December 2014

1 Principal accounting policies

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which, unless otherwise stated, have been applied consistently with the prior year, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Going Concern

The directors believe that preparing the financial statements on the going concern basis is appropriate based on projections for the foreseeable future.

Cash flow statement and non-consolidation of subsidiary undertakings

The company is a wholly owned subsidiary of Xchanging plc and is included in the consolidated financial statements of Xchanging plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996) 'Cash flow statements' and has also taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

Turnover

Turnover is recognised only when it is probable that the economic benefits associated with a transaction will flow to the company. Revenue from procurement management services is recognised, net of guaranteed rebates to customers, according to the period to which the service relates and only when all obligations are fulfilled.

Turnover, which is stated exclusive of value added tax, comprises amounts receivable for services provided, net of rebates to customers.

For categories where the company acts as an agent for its customers, turnover represents commission which is recognised when earned. Where the company transacts directly with suppliers and bears the associated risks and rewards of the underlying transaction, the entire transaction value is recorded as turnover when the service is performed.

Exceptional items

Exceptional items are events or transactions that fall within the ordinary activities of the company, but which by virtue of their size or incidence, have been separately disclosed in order to improve a reader's understanding of the financial statements. These include expenditure relating to restructuring of the company's operations.

Software development costs and pre contract costs

Software development costs and pre contract costs are stated at cost less accumulated amortisation and any provision for impairment.

Notes to the financial statements for the year ended 31 December 2014 (continued)

1 Principal accounting policies (continued)

Software development costs and pre contract costs (continued)

Software development costs incurred in the design and implementation of processes and systems that substantially improve those already installed in the business area of the contract are capitalised in accordance with SSAP 13 'Accounting for research and development'. Costs that are capitalised comprise directly attributable costs that are incremental in nature and incurred during development, including salaries of staff utilised in the development, and third party costs.

Pre-contract costs comprise legal and other professional expenses and other directly attributable staff costs incurred in order to secure a relevant contract. Costs that are capitalised are directly attributable to a contract when it is virtually certain that the contract will be awarded and the contract will result in future net cash inflows with a present value no less than all amounts recognised as an asset.

Software development costs and pre contract costs do not include restructuring costs or allocation of central overheads, which are all expensed to the profit and loss account as incurred.

Prior to capitalisation, the present value of future revenue streams is compared to the costs to be capitalised. Costs are capitalised only in circumstances where the present value of future revenue streams exceed the costs.

Costs are amortised over the duration of the useful life of the asset, from the end of the pre-defined contract streamlining phase / date that the software development is implemented, unless specific circumstances indicate that a shorter period is more relevant. Impairment reviews are performed at the end of the first period after capitalisation or when there is a trigger event to ensure that the present value of estimated future revenue streams from the capitalised asset exceeds the capitalised costs. Where these are deemed to be impaired the excess is written off to the profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. The historic purchase cost includes any incidental costs of acquisition that are directly attributable to the asset.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Computer equipment	33%
Software development	20%
Fixtures and fittings	25%

Fixed asset investments

Fixed asset investments are stated at cost less any provision for impairment. Impairment reviews are conducted at the end of the first full year following acquisition and thereafter where indicators of impairment are present.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date and any differences arising are taken to the profit and loss account.

**Notes to the financial statements
for the year ended 31 December 2014 (continued)****1 Principal accounting policies (continued)****Debtors**

Trade debtors are recognised at the value of amounts receivable for services provided, inclusive of value added tax, less provision for impairment.

Accrued income is recognised at the value of amounts receivable for services provided, exclusive of value added tax.

Provisions

Provisions are recognised when a present obligation exists as the result of a past event and it is probable that this will result in an outflow of economic benefit, the size of which can be reliably estimated. Where the provision is long term, the net cash flows are discounted using an appropriate pre-tax discount rate.

Restructuring provisions are only recognised if an obligation exists at the balance sheet date i.e. a formal plan exists and those affected by that plan have a valid expectation that the restructuring will be carried out.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date and where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. However, deferred tax assets are regarded as recoverable and therefore recognised, only when, on the basis of all available evidence, the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Operating leases

Rental charges under operating leases are charged to the profit and loss account on a straight-line basis over the life of the lease.

Notes to the financial statements for the year ended 31 December 2014 (continued)

1 Principal accounting policies (continued)

Pensions

Certain employees of the company participate in funded defined benefit schemes operated by BAE Systems plc. The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution being agreed by the trustees and BAE Systems plc after considering actuarial advice. The actuarial assumptions relating to these schemes are included in the financial statements of BAE Systems plc. The pension fund assets are held in a separately administered fund.

Under the terms of the contractual agreement with BAE Systems plc, the company's contribution was fixed for five years until November 2008. From this date onwards the company pays contributions at the rate that the respective trustees of the schemes determine to be payable. The company accounts for its contributions to the schemes as if they were defined contribution schemes, as this appropriately reflects the relationship. The pension costs are therefore charged to the profit and loss account on an accruals basis in the year in which they arise. Differences between the funding rate set by the schemes' trustees and the pension cost to the company are borne by BAE Systems plc.

In addition, certain employees of the company participate in a defined contribution scheme operated by Xchanging UK Limited. Contributions made to the scheme are charged to the profit and loss account in the year in which they arise.

Related party transactions

The company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS8, 'Related Party Disclosures', from disclosing transactions with wholly owned subsidiaries within the Group which it is a member, on the grounds that it is a wholly owned subsidiary of a group headed by Xchanging plc, whose financial statements are publicly available.

2 Turnover

All turnover relates to the principle activity of the company, being the provision of procurement services for indirect spend categories under long term outsourcing contracts.

Contributions to turnover by location of customer and geographical origin of service are analysed below:

	2014 £'000	2013 £'000
United Kingdom	178,875	176,023
Continental Europe	369	-
Rest of World	50	118
	<u>179,294</u>	<u>176,141</u>

Notes to the financial statements for the year ended 31 December 2014 (continued)

3 (Loss)/profit on ordinary activities before taxation

Administrative expenses comprise:	2014	2013
	£'000	£'000
Staff costs:		
Wages and salaries	7,339	7,680
Social security costs	905	879
Other pension costs (note 21)	289	272
Staff costs capitalised	(3,142)	(1,576)
Share based payments	150	404
	<u>5,541</u>	<u>7,659</u>
Exceptional administrative expenses	612	462
Other administrative expenses	8,992	7,110
	<u>15,145</u>	<u>15,231</u>
 Other administrative expenses include the following:		
Depreciation – owned assets (note 9)	943	583
Amortisation of intangible assets – development costs	-	-
Amortisation of pre-contract costs (note 12)	647	782
Auditors' remuneration – audit services	50	80
Impairment of trade receivables	240	(110)
Operating lease charges - land and buildings	-	44
Foreign exchange loss/(gain)	<u>79</u>	<u>(4)</u>

Full details of the share-based payments are included in the Xchanging plc consolidated financial statements; copies of which may be obtained from Xchanging, The Walbrook Building, 25 Walbrook, London, EC4N 8AQ, United Kingdom.

Notes to the financial statements for the year ended 31 December 2014 (continued)

4 Directors' emoluments

	2014 £'000	2013 £'000
Aggregate emoluments	574	843
Aggregate contributions under defined contribution schemes	33	39
Directors' emoluments	607	882

	2014 Number	2013 Number
Number of directors with retirement benefits accruing under:		
Defined contribution schemes	1	4

	2014 £'000	2013 £'000
Compensation for loss of office	222	-

During the year two directors exercised options over 5p shares of Xchanging plc (2013: two directors exercised options over 5p shares of Xchanging plc).

Highest paid director

	2014 £'000	2013 £'000
Emoluments of the highest paid director	147	373
Contributions under defined contribution schemes	5	11
	152	384

The highest paid director exercised share options over 5p shares of Xchanging plc and received shares in respect of qualifying services under a long-term incentive scheme during the year.

The highest paid director participated in defined contribution pension schemes in respect of qualifying services during the year.

Notes to the financial statements for the year ended 31 December 2014 (continued)

5 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2014 Number	2013 Number
By activity		
Service delivery	128	139
Selling and distribution	5	5
Administration	36	32
	<u>169</u>	<u>176</u>

6 Exceptional expenses

Exceptional expenses incurred relate to:

	2014 £'000	2013 £'000
Restructuring costs	612	462
	<u>612</u>	<u>462</u>

In 2014, the company undertook a further programme of operational restructuring as part of a group-wide restructuring programme that resulted in restructuring related expenses of £612,000 (2013: £462,000). The estimated costs include expected termination and redundancy payments along with employee related taxes, as well as premises related costs.

7 Interest receivable and similar income

	2014 £'000	2013 £'000
Interest receivable and similar income		
Interest receivable from group undertakings	269	269
	<u>269</u>	<u>269</u>

Notes to the financial statements for the year ended 31 December 2014 (continued)

8 Tax on (loss)/profit on ordinary activities

	2014 £'000	2013 £'000
Current tax:		
UK corporation tax on profits of the year	(569)	(100)
Adjustments in respect of prior years	(13)	(241)
Total current tax	(582)	(341)
Deferred tax:		
Impact of change in tax rate	2	48
Restructuring provision	-	271
Adjustments in respect of prior years	16	230
Origination and reversal of timing differences:		
Depreciation less than capital allowances	(63)	(40)
Total deferred tax (note 16)	(45)	509
Tax (credit)/charge on (loss)/profit on ordinary activities	(627)	168

The tax assessed for the year is higher (2013: lower) than the standard effective rate of corporation tax in the UK of 21.5% (2013: 23.25%). The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly the company's profits for the accounting year are taxed at a blended rate of 21.5%. The differences are explained below.

	2014 £'000	2013 £'000
(Loss)/profit on ordinary activities before taxation	(3,168)	145
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)	(681)	34
Short term temporary differences	63	40
Restructuring provision	-	(271)
Expenses not deductible for tax purposes	49	97
Adjustments in respect of prior years	(13)	(241)
Total current tax charge	(582)	(341)

Notes to the financial statements for the year ended 31 December 2014 (continued)

8 Tax on (loss)/profit on ordinary activities (continued)

Factors affecting current and future tax charges

The Finance Act 2013 reduced the main rate of corporation tax in the UK to 21% from 1 April 2014 and to 20% from April 2015. The change to 20% has been reflected in the closing deferred tax balances recognised in these financial statements.

Deferred tax assets have not been discounted.

9 Tangible fixed assets

	Computer equipment £'000	Software development £'000	Fixtures & fittings £'000	Total £'000
Cost				
At 1 January 2014	523	4,400	29	4,952
Additions	15	1,556	-	1,571
At 31 December 2014	538	5,956	29	6,523
Accumulated depreciation				
At 1 January 2014	459	2,547	27	3,033
Charge for the year	27	914	2	943
At 31 December 2014	486	3,461	29	3,976
Net book value				
At 31 December 2014	52	2,495	-	2,547
At 31 December 2013	64	1,853	2	1,919

10 Fixed asset investments

The following is a wholly owned subsidiary of Xchanging Procurement Services Limited:

Name	Country of incorporation	Principal activity	% ownership of ordinary shares
Xchanging Procurement Services (Europe) Limited	United Kingdom	Procurement services	100%

Investments comprise one equity share with a cost of £1 (2013: £1).

The directors believe that the carrying value of the investment is supported by their underlying net assets.

Notes to the financial statements for the year ended 31 December 2014 (continued)

11 Debtors

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Trade debtors	2,856	7,505
Amounts owed by group undertakings	15,739	16,609
Other debtors	1,006	-
Prepayments and accrued income	15,346	9,865
Corporation tax	667	-
Pre-contract costs (note 12)	873	448
	<u>36,487</u>	<u>34,427</u>
Amounts falling due after more than one year:		
Pre-contract costs (note 12)	1,772	491
Deferred tax asset (note 16)	191	146
	<u>1,963</u>	<u>637</u>

12 Pre-contract costs

	2014 £'000	2013 £'000
Net book value at 1 January	939	874
Pre-contracts costs deferred in year	<u>2,353</u>	<u>847</u>
	3,292	1,721
Amortisation charge for the year	<u>(647)</u>	<u>(782)</u>
Net book value at 31 December	<u>2,645</u>	<u>939</u>

**Notes to the financial statements
for the year ended 31 December 2014 (continued)**

13 Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Trade creditors	15,582	17,212
Amounts owed to group undertakings	7,989	7,269
Other creditors	8,492	8,376
Other taxation and social security	402	1,080
Corporation tax	-	1,366
Accruals and deferred income	12,253	11,466
	<u>44,718</u>	<u>46,769</u>

14 Creditors: amounts falling due after one year

	2014 £'000	2013 £'000
Taxation and social security	<u>61</u>	<u>37</u>

Notes to the financial statements for the year ended 31 December 2014 (continued)

15 Provisions for liabilities

	Restructuring provision
	£'000
At 1 January 2014	658
Provided in the year	612
Utilised during the year	(930)
At 31 December 2014	<u>340</u>

In 2013 the company took a provision to cover operational restructuring activities which has been largely utilised in 2014.

In 2014, the company undertook a further programme of operational restructuring. The estimated costs include expected termination and redundancy payments along with employee related taxes, as well as premises related costs. The provision is expected to be fully utilised by 31 December 2015.

16 Deferred tax

	2014 £'000	2013 £'000
Deferred tax asset comprises:		
Depreciation in excess capital allowances	148	119
Restructuring and other timing differences	43	27
	<u>191</u>	<u>146</u>
At 1 January	146	655
Amount charged/(credited) to profit and loss (note 8)	45	(509)
Deferred tax asset at 31 December	<u>191</u>	<u>146</u>

17 Called up share capital

	2014 £	2013 £
Allotted, called up and fully paid		
1 (2013: £1) ordinary share of £1 (2013: 1)	1	1
	<u>1</u>	<u>1</u>

Notes to the financial statements for the year ended 31 December 2014 (continued)

18 Profit and loss account

	£'000
At 1 January 2014	4,091
Loss for the financial year	(2,541)
Equity settled employee share based payment credit	150
At 31 December 2014	1,700

19 Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Opening shareholders' funds	4,091	3,790
Loss for the financial year	(2,541)	(23)
Equity settled employee share based payment credit	150	324
Closing shareholders' funds	1,700	4,091

20 Operating lease commitments

The company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2014 £'000	2013 £'000
Operating leases which expire:		
Within one year	-	27
Within two to five years	170	-
	170	27

Notes to the financial statements for the year ended 31 December 2014 (continued)

21 Pensions

The majority of employees participate in a defined contribution scheme operated by Xchanging UK Limited. Pension costs of £252,000 (2013: £236,000) were charged to the profit and loss account in the year.

The company has 4 employees (2013: 4 employees) who participate in a number of defined benefit schemes run for the employees of BAE Systems plc. The company accounts for its contributions to the schemes as if they were defined contribution schemes, as this appropriately reflects the relationship. Furthermore, it is not possible to identify the company's share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis. Details of these pension schemes can be found in the financial statements of BAE Systems plc.

Pension costs of £37,000 (2013: £36,000) relating to these schemes were charged in the profit and loss account in the year.

There were no outstanding or prepaid contributions at the balance sheet date (2013: £nil).

22 Contingent liabilities

The Company acts as a guarantor for the Xchanging Group's £165.0 million multicurrency revolving credit facility. As at 31 December 2014, £115.0 million was drawn as cash under this facility (2013: £nil). The revolving credit facility matures in June 2018.

23 Ultimate parent and controlling party

The company's immediate parent is Xchanging Procurement Services (Holdco) Limited.

Xchanging plc, a company incorporated in England and Wales is the ultimate parent undertaking and controlling party. The results of Xchanging Procurement Services Limited are included in the Xchanging plc consolidated financial statements; copies of which may be obtained from Xchanging, The Walbrook Building, 25 Walbrook, London, EC4N 8AQ, United Kingdom. Xchanging plc is the only undertaking to include the results of the company in its consolidated financial statements.

Notes to the financial statements for the year ended 31 December 2014 (continued)

24 Related party transactions

The companies set out below are considered to be related parties of the company as they all share the same ultimate controlling party, Xchanging plc. A description of the nature of the services provided by/(to) the related parties of the company and the amount receivable/(payable) in respect of them at 31 December, are set out in the table below:

Services provided by/(to) the company	Revenue/(charge)		Receivable/(payable)	
	31 December 2014 £'000	31 December 2013 £'000	31 December 2014 £'000	31 December 2013 £'000
Xchanging Ins-sure Services Limited	269	514	8	55
Xchanging Claims Services Group	72	238	3	10
Xchanging Solutions (Europe) Limited	16	51	-	77
LCO Marine Limited	-	4	-	(4)
Xchanging Solutions (Malaysia) Sdn. Bhd.	(416)	(223)	(31)	(53)

All revenue/charges and associated receivables/payables relate to Procurement services, Technology services, Seconded and other recharges.