

**ASPEN INSURANCE UK SERVICES LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2015**

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## CONTENTS

	<b>Page</b>
THE COMPANY .....	2
STRATEGIC REPORT .....	3
DIRECTORS' REPORT .....	4
STATEMENT OF DIRECTORS' RESPONSIBILITIES .....	6
INDEPENDENT AUDITOR'S REPORT .....	7
INCOME STATEMENT .....	8
STATEMENT OF COMPREHENSIVE INCOME .....	8
STATEMENT OF CHANGES IN EQUITY .....	9
BALANCE SHEET .....	10
NOTES TO THE FINANCIAL STATEMENTS .....	11

## **THE COMPANY**

### **Directors**

Christopher O’Kane

Helen Rose

Karen Green

### **Secretary**

Helen Lipscomb

### **Auditor**

KPMG LLP

15 Canada Square

London

E14 5GL

### **Registered Office**

30 Fenchurch Street

London

EC3M 3BD

Registered in England No: 4270446

### **Legal Advisors**

Willkie Farr & Gallagher LLP

City Point

1 Ropemaker Street

London

EC2V 9HT

## STRATEGIC REPORT

### Overview

Aspen Insurance UK Services Limited (“the Company”) has, throughout the year, continued to act as a service company for the following entities within the Aspen group (together referred to as “the group companies”):

- Aspen Insurance UK Limited (“AIUK”);
- Aspen Underwriting Limited (“AUL”);
- Aspen Managing Agency Limited (“AMAL”);
- Aspen Risk Management Limited (“ARML”);
- APJ Asset Protection Jersey Limited (“APJJ”); and
- Aspen Lloyd’s Syndicate 4711.

The Company administers and provides services and employs staff used by the group companies. All services and expenses are paid for by the Company and then recharged to the group companies. The Company’s activities are not expected to change in the foreseeable future.

### Activities during 2015

The Company is a service company. The principal activities of the Company reported in these financial statements are:

- payment of salaries and related expenses for all staff employed by the Company and working for the benefit of the group companies; and
- payment of operating expenses incurred by the group companies.

A processing service fee of 7% is charged on services (excluding staff related costs) provided to the group companies in addition to the cost of the services.

Dividends of \$5.0m (2014: \$9.0m) were paid during the year to Aspen (UK) Holdings Limited, the Company’s immediate parent company.

The financial performance and position of the Company is explained in the Directors’ Report, set out on page 4.

### Principal Risks and Uncertainties

The Company’s business is the provision of administrative and other services to the group companies. The Company has in place a risk management process which is appropriate to the relatively low risks of the Company and is in accordance with the Aspen Group Risk Management Framework.

The main risks are defined as follows:

- **Liquidity Risk** - The risk that the Company is unable to make payment particularly to suppliers when required. This will be reduced through funding from fellow group companies as and when needed.
- **Operational Risk** - The risk of loss arising from inadequate or failed internal processes, personnel or systems or from external events. Operational risks are managed by the Aspen group at the level of the entities that use the service company. The Group risk management team have worked with key members of management within those entities and identified operation risks and their related risk assessments, owners and identified controls in a separate ‘Operational Risk Register’ for each of those entities. This will include operational risks relating to processes undertaken by the service company.
- **Market Risk** – The risk of variation in the fair value of derivative contracts including the effect of changes in foreign currency exchange rates.

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2015.

## PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the Company is the provision of administrative and other services to the group companies. The Company also acts as the employer of all staff used by the group companies. A review of the business and future prospects of the Company is contained within the Strategic Report on page 3.

## RESULTS AND DIVIDENDS

The results for the year are set out in the accompanying Income Statement. The net profit for the year before tax was \$6.5m (2014: \$7.7m) and the net asset position of the Company is \$3.8m (2014: \$4.5m). The directors regard the current state of affairs of the Company and its future prospects as satisfactory.

The Company declared and paid a dividend of \$5.0m (2014: \$9.0m) to Aspen (UK) Holdings Limited, the Company's immediate parent company, in the year.

## SHARE CAPITAL

The authorised share capital of the Company is 1 ordinary share of £1.

## DIRECTORS AND DIRECTORS' INTERESTS

The directors of the Company at the date of this report are set out on page 2. Changes in directors during 2015 and up to the date of this report are as follows:

	Date of appointment	Date of resignation
Nigel Terry	6 September 2013	19 November 2015
Helen Rose	19 November 2015	
Carole Barlow		26 August 2016
Karen Green	26 August 2016	

## COMPANY SECRETARY

The Secretary of the Company at the date of this report is set out on page 2.

## STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITOR

The directors who held office at the date of approval of this directors' report confirm that, as far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## AUDITORS

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has maintained insurance to cover directors' and officers' liability as defined by section 236 of the Companies Act 2006.

## FINANCIAL RISK MANAGEMENT

The Company's business is the provision of administrative and other services to the group companies. The Company has in place a risk management process which is appropriate to the relatively low risks of the Company and is in accordance with the Aspen Group Risk Management Framework. This is explained in more detail in the Strategic Report.

## **EMPLOYEES**

The Company encourages its employees to develop their full potential by providing opportunities for training and professional development. Such opportunities, as well as career development and promotion, are equally available to disabled employees, whether newly recruited or existing employees who become disabled whilst in the Company's employment.

The Company's equal opportunities policy aims to ensure that no potential or existing employee receives less favourable treatment because of his/her sex, actual or perceived sexual orientation, gender (including gender reassignment), marital or family state, age, ethnic origin, disability, race, colour, nationality, national origin, creed, political affirmation, part-time status, or any other condition, unless it can be shown to be legally justifiable. Copies of the Company's policies are available on the Company's website or on request.

During the year the average number of staff employed was 701 (2014: 642). The number of staff employed at the year end was 710 (2014: 652).

## **SUPPLIER PAYMENT POLICY**

During the financial year the Company has followed standard payment terms and conditions for the Company's suppliers. Copies of the conditions can be obtained from the registered office of the Company.

## **EVENTS SINCE THE REPORTING DATE**

There have been no material events since the reporting date.

## **GOING CONCERN**

The Directors confirm that they are satisfied that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to apply the going concern basis in the preparation of these financial statements.

## **DONATIONS**

The Company made charitable donations during the year of \$nil (2014: \$nil). There were no political donations made during the year.

By Order of the Board



Helen Rose

Director

27 September 2016

Registered in England No: 4270446

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ASPEN INSURANCE UK SERVICES LIMITED**

We have audited the financial statements of Aspen Insurance UK Services Limited for the year ended 31 December 2015 set out on pages 8 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://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 company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

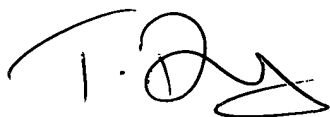
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

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

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



**Timothy Butchart (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square London  
E14 5GL  
27 September 2016



**INCOME STATEMENT**

For the year ended 31 December 2015

		<b>2015</b>	<b>2014</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>
Turnover		210,473	196,253
Operating expenses	2	(203,368)	(189,998)
Operating profit		7,105	6,255
Foreign exchange (losses)/gains		(677)	1,344
Interest receivable		50	73
Profit on ordinary activities before tax	4	6,478	7,672
Tax on profit on ordinary activities	5	(1,010)	(1,748)
<b>Profit for the financial year</b>		<b>5,468</b>	<b>5,924</b>

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2015

		<b>2015</b>	<b>2014</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>
Profit for the financial year		5,468	5,924
Loss on cash flow hedge	9	(1,242)	-
<b>Total comprehensive income for the year</b>		<b>4,226</b>	<b>5,924</b>

The results for the year ended 31 December 2015 and 2014 are derived from continuing operations.  
The notes on pages 11 to 17 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2015

	Notes	2015 \$'000	2014 \$'000
Opening shareholder's equity	14	4,575	9,555
Prior year adjustments	14	-	(1,904)
Opening shareholder's equity as restated	14	4,575	7,651
Dividends paid	10	(5,000)	(9,000)
Profit for the financial year	10	5,468	5,924
Other reserves	9	(1,242)	-
<b>Closing shareholder's equity</b>		<b>3,801</b>	<b>4,575</b>

The notes on pages 11 to 17 form part of these financial statements.

**BALANCE SHEET**

As at 31 December 2015

	Notes	2015 \$'000	2014 \$'000
<b>ASSETS</b>			
Cash at bank and in hand		15,299	17,480
Debtors	6	63,107	80,193
<b>Total Assets</b>		<b>78,406</b>	<b>97,673</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	8	-	-
Other reserves	9	(1,242)	-
Profit and loss account	10	5,043	4,575
		<b>3,801</b>	<b>4,575</b>
<b>Liabilities</b>			
Creditors: amounts falling due within one year	11	74,605	93,098
<b>Total Equity and Liabilities</b>		<b>78,406</b>	<b>97,673</b>

These financial statements were approved by the Board of Directors on 27 September 2016 and signed on its behalf by:



**Helen Rose**  
**Director**

The notes on pages 11 to 17 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 1. Accounting policies

#### Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 (“FRS 102”), being applicable UK GAAP accounting standard in the United Kingdom.

In the transition to FRS 102 from old UK GAAP, the Company has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Company is provided in Note 14.

These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006.

#### Basis of preparation

The functional and presentation currency of these financial statements is US dollars. All amounts in the financial statements have been rounded to the nearest \$1,000. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the Company is provided in Note 14 to the financial statements.

The Company’s ultimate parent undertaking, Aspen Insurance Holdings Limited (AIHL) includes the Company in its consolidated financial statements. The consolidated financial statements of AIHL are prepared in accordance with US GAAP, which are publicly available and may be obtained from 141 Front Street, Hamilton, Bermuda. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Requirements of related party disclosures;
- Key management personnel compensation.

The principal accounting policies are set out below and have been applied consistently to all periods presented in these financial statements.

#### Turnover

Turnover represents the cost, plus a processing service fee, of providing services to the group companies and is recognised on an accrual basis in line with the underlying expense.

#### Operating expenses

Operating expenses represents the costs of providing administrative and other services to the group services as incurred.

#### Post-retirement benefits

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

#### Taxation

The charge for taxation is based on the profit for the accounting period and takes into account taxation deferred due to timing differences between the treatments of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102.

### **Foreign currency**

Foreign currency transactions are translated at the average rates of exchange for the year.

Monetary assets and liabilities are translated into US Dollars at year end exchange rates and differences arising on translation are recorded through the Income Statement.

### **Financial instruments**

#### **a) Other debtors / creditors**

Other debtors and creditors - Other debtors are recognised initially at transaction price less attributable transaction costs. Other creditors are recognised initially at transaction price plus attributable transaction costs.

#### **b) Cash flow hedges**

The Company entered into several forward exchange contracts in order to hedge its' cash flow in respect of salaries and rent against the devaluation of the USD. The cash flow for these payments are expected to be made monthly over the course of 2016 and recognised in the Income Statement at the date of payment. The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take place between market participants. Further information is provided in Note 9.

The financial liabilities relating to derivatives are recognised at fair value through other comprehensive income, and are classified within creditors.

### **Judgements and Key Sources of Estimation Uncertainty**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. On first time adoption of FRS 102, the Company has not retrospectively changed its accounting under old UK GAAP for accounting estimates. The following are the company's key sources of estimation uncertainty:

### **Taxation**

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2015

**2. Operating expenses**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Staff costs (Note 3)	125,924	119,202
Other administration costs	77,444	70,796
	<b>203,368</b>	<b>189,998</b>

**3. Staff costs**

The average number of employees (including directors) employed by the Company in the year was as follows:

	<b>2015</b>	<b>2014</b>
Underwriting	326	292
Claims administration	49	47
Other administration	326	303
	<b>701</b>	<b>642</b>

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Salaries	95,086	90,376
Other employee benefits	11,331	9,134
Social security costs	10,172	10,582
Pension costs	9,335	9,110
	<b>125,924</b>	<b>119,202</b>

**Directors' remuneration**

The aggregate emoluments of the directors were as follows:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Directors' emoluments	1,824	3,488
Company contributions to defined contribution pension schemes	92	98
<b>Total</b>	<b>1,916</b>	<b>3,586</b>

The remuneration of the highest paid director in 2015 was \$1,132,030 (2014: \$2,422,527) plus pension contributions of \$nil (2014: \$11,641). This was fully recharged to other Group companies.

Retirement benefits are accruing to the following number of current directors under:

	<b>2015</b>	<b>2014</b>
Defined contribution pension schemes	<b>2</b>	<b>3</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2015

**4. Profit on ordinary activities before tax**

All administrative and service expenses for the group companies are borne by the Company. All these expenses are subsequently reimbursed by the group companies together with a service fee payable to the Company.

Fees paid to the auditors in respect of the audit of these financial statements of \$25,135 (2014: \$12,905) were reimbursed by AIUK.

**5. Taxation**

	2015 \$'000	2014 \$'000
<i>UK corporation tax</i>		
Current tax charge on profit for the year	(711)	(1,794)
Adjustments in respect of prior periods	(653)	(923)
Total current tax charge	<u>(1,364)</u>	<u>(2,717)</u>
<i>Deferred tax</i>		
Origination/reversal of timing differences	295	757
Adjustments in respect of prior periods	499	271
Impact of rate change	(440)	(59)
Total deferred tax credit	<u>354</u>	<u>969</u>
Tax charge on profit on ordinary activities	<u><u>(1,010)</u></u>	<u><u>(1,748)</u></u>

In November 2015, reductions were enacted in the corporation tax rates to 19% with effect from April 2017, and 18% from April 2020 respectively. The impact of these rate changes are reflected in the financial statements for the year ended 31 December 2015. In the March 2016 Budget, the UK Government announced a further reduction in the rate to 17% with effect from April 2020.

The tax charge (2014: charge) for the period is lower (2014: higher) than the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below.

	2015 \$'000	2014 \$'000
<i>Total tax reconciliation</i>		
Profit on ordinary activities before tax	<u>6,478</u>	<u>7,672</u>
Current tax at 20.25% (2014: 21.5%)	(1,312)	(1,650)
<i>Effects of</i>		
Disallowed items	(608)	(430)
Adjustments relating to share based payments	1,596	1,041
Foreign exchange	(93)	(2)
Impact of rate change	(440)	(55)
Adjustments in respect of prior periods	(153)	(652)
Total tax charge (see above)	<u><u>(1,010)</u></u>	<u><u>(1,748)</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2015

**6. Debtors**

	2015 \$'000	2014 \$'000
Deferred tax asset (Note 7)	3,873	3,519
Amounts owed by group undertakings	48,176	55,038
Other debtors	11,058	21,636
	<u>63,107</u>	<u>80,193</u>

**7. Deferred taxation**

	2015 \$'000	2014 \$'000
The deferred tax asset comprises the following:		
Temporary differences related to share based payments	3,658	2,935
Temporary differences related to pension contributions	215	156
Temporary differences related to FRS 102 transitional adjustments	-	428
	<u>3,873</u>	<u>3,519</u>

**8. Called up share capital**

The allotted, issued and paid-up capital is set out below.

	2015 £	2015 \$	2014 £	2014 \$
Allotted, issued and fully paid-up				
1 ordinary share of £1 each	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>

**9. Other reserves**

Other reserves comprise the following:

	2015 \$'000	2014 \$'000
Cash flow hedges		
Change in fair value recognised in other comprehensive income	<u>(1,242)</u>	<u>-</u>

The financial liabilities in respect of derivatives are measured at fair value through other comprehensive income are included within creditors (Note 11).



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2015

**10. Profit and loss account**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
At 1 January	4,575	9,555
Prior year adjustments	-	(1,904)
At 1 January as restated	4,575	7,651
Profit for the financial year	5,468	5,924
Dividends paid	(5,000)	(9,000)
At 31 December	<b>5,043</b>	<b>4,575</b>

The prior year adjustments of \$1,940,304 in 2014 resulted from recognising the holiday pay accrual due to the adoption of FRS 102 (Note 14).

**11. Creditors: amounts falling due within one year**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Amounts owed to group undertakings	45,268	63,654
Amounts owed to group undertakings relating to tax	12,074	9,958
Other creditors	16,021	19,486
Financial liability relating to derivatives (Note 9)	1,242	-
	<b>74,605</b>	<b>93,098</b>

**12. Pension scheme**

The Company operates a defined contribution pension scheme.

The pension cost charge for the year represents contributions payable by the Company to the fund and amounted to \$9,335,162 (2014: \$9,110,263) (see Note 3).

**13. Ultimate holding company**

The Company is a direct subsidiary undertaking of Aspen (UK) Holdings Limited whose ultimate parent company is Aspen Insurance Holdings Limited (AIHL) incorporated in Bermuda.

The ultimate parent undertaking and controlling party is AIHL which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The consolidated accounts of this company are available to the public and may be obtained from The Company Secretary, Aspen Insurance Holdings Limited, c/o 30 Fenchurch Street, London, EC3M 3BD.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2015

**14. Transition to FRS 102**

The Company transitioned to FRS 102 from previous UK GAAP as at 1 January 2014.

The impact from the transition to FRS 102 is as follows:

	<b>2014</b>
	<b>\$'000</b>
<b>Reconciliation of shareholder's equity as at 1 January 2014</b>	
Shareholder's equity as at 1 January 2014 under previous UK GAAP	9,555
Holiday pay accrual	(1,904)
Shareholder's equity as at 1 January 2014 under FRS 102	<u>7,651</u>
	<b>2014</b>
	<b>\$'000</b>
<b>Reconciliation of shareholder's equity as at 31 December 2014</b>	
Shareholder's equity as at 31 December 2014 under previous UK GAAP	6,262
Holiday pay accrual	(1,687)
Shareholder's equity as at 31 December 2014 under FRS 102	<u>4,575</u>

**Holiday pay accrual**

Under previous UK GAAP, the Company accrued for holiday pay where this was expected to be paid as a cash sum where the employee was entitled to carry forward holidays earned indefinitely. However, the Company did not accrue for holiday pay that was earned but the holiday entitlement was expected to be taken in the subsequent financial year. Under FRS 102, the Company is required to accrue for all short term compensated absences as holiday entitlement earned but not taken at the date of the statement of financial position. The impact is to account for holiday pay accruals of \$1,904,000 and \$1,687,000 at 1 January 2014 and 31 December 2014 respectively.

As a result of the requirement to accrue for holiday that was earned but not taken at the date of the statement of financial position, there is a credit of \$217,000 in 2014 to the 'Operating Expenses' within the Income Statement for the year ended 31 December 2014, recognising the decrease in holiday pay accrual over the year.