

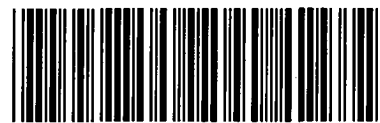
Slater and Gordon UK Limited

(formerly known as Slater Gordon Solutions Legal Limited)

Annual Report & Financial Statements

30 June 2017

WEDNESDAY



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COMPANIES HOUSE

Officers and Professional Advisors

Directors

Mr K Fowlie
Mr M Jarvis
Mr D Whitmore

Auditors

Ernst and Young LLP
20 Chapel Street
Liverpool
L3 9AG

Bankers

Royal Bank of Scotland Plc
Abbey Gardens
4 Abbey Street
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RG1 3BA

Solicitors

MacFarlanes LLP
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London EC4A 1LT

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Strategic Report

Principal activities

Slater and Gordon UK Limited (formerly known as Slater Gordon Solutions Legal Limited) (the 'Company'), is an industry leading provider of legal services, focusing on claimant personal injury. The Company changed its name to Slater and Gordon UK Limited on 17 July 2018.

Our strategy

Slater and Gordon UK Limited was part of the Slater Gordon Solutions division of Slater and Gordon Limited (together "the Group"). Slater and Gordon Limited is a leading international law firm listed on the Australian Stock Exchange. Their mission is to give people easier access to world class legal services. The Group provides specialist legal and complementary services in a broad range of areas.

On 31 August 2017, Slater and Gordon Limited announced that it had entered a binding restructure support deed with 100% of its secured senior lenders in relation to a recapitalisation of the Group. On the implementation of the creditors' scheme of arrangement to give effect to the recapitalisation on 22 December 2017, all UK operations, including the Company separated from Slater and Gordon Limited and transferred to a new UK holding company wholly owned by the senior lenders. Following separation, the former shareholders of the Group ceased to have an interest in the UK operations.

The Company is therefore uniquely placed within the personal injury legal sector to take advantage of the regulatory and legislative changes by working with companies within the Group and other partners providing an end to end solution for our customers, that, as a group, includes treating the injured party, repairing their vehicle and providing a replacement vehicle, as well as managing their claim for personal injury.

The Company aims to deliver high quality legal services and is committed to becoming one of the most trusted providers of personal legal services in the United Kingdom. This will be achieved through various factors including building awareness of the Slater and Gordon brand.

Financial review

These financial statements are for the year ended 30 June 2017. The comparative period is for the year ended 30 June 2016.

Revenue for the year was £78.1 million (2016: £101.1 million). Loss before tax for the year was £19.8 million (2016: loss of £72.2 million). The loss for the prior year includes the impairment of the goodwill balance of £40.9 million as forecasts did not support the carrying value of this balance. In addition, the deferred tax asset of £15 million was fully impaired in 2016.

During the year, the Company continued to focus on noise induced hearing loss ('NIHL') cases although no value has been attributed to the work in progress on these cases except for a small number transferred from Slater Gordon (UK) LLP in the year with a year end value of £0.8m in the financial statements as, despite some settlements in the year, there is a lack of substantial historical data on the settlement of these claims. While NIHL resolution levels remain lower than anticipated, management has made significant progress with internal process improvements and successful settlements are increasing.

During the prior year, a decision was taken to focus the work of the Company on fast track personal injury cases. A further strategic decision was taken to focus on case quality rather than quantity which resulted in a reduction in case intake, thus reducing marketing costs, and also impacting revenue given the lower number of case settlements. This review has continued in the year ended 30 June 2017. In addition, a review of the focus of each site was performed together with a restructuring of the senior management team. The Feltham office was closed in 2017. The Aldershot office closed in September 2017 and the Chelmsford office closed in March 2018. The Fareham office was closed at the end of July 2018. These changes will ensure the cost base of the business reflects the current operations. This is expected to lead to cost savings in future years but means that a number of restructuring costs will be incurred.

Strategic Report *(continued)*

The Company is in a net liability position and net liabilities increased during the year as a result of the loss for the year. Accrued income and disbursement payables and receivables are categorised between fixed and current depending on the expected case settlement profile. The mix of cases as at 30 June 2017 resulted in a higher proportion of these assets and liabilities being classified as fixed.

The UK Government's consultation paper regarding whiplash reforms was published in November 2016 and the initial response was published in February 2017. The changes will need primary legislation through the Civil Liability Bill announced in the Queen's Speech in June 2017 and currently awaiting its Second Reading in the House of Commons, as well as through secondary legislation. Slater and Gordon has actively participated in the consultation process and, in concert with other market participants, has suggested alternative solutions which address community concerns in a balanced way. The Company believes that the proposed changes, if implemented, will bring about a reduction in the rights of people in the UK to access fair compensation through the legal system and continues actively to engage with policy makers and the insurance sector to ensure that any changes to the law are in the best interests of the injured people it represents. Until these changes are legislated for and implemented, there will be no impact on the business. Given goodwill and the deferred tax asset were fully impaired during the year, the uncertainty from the impact of this proposed legislation is already reflected in the financial statements.

It is not clear what the impact of Brexit will be on the announced proposals or the UK economy, although the outcome of the Brexit referendum itself is not likely to have any material adverse impact on the Company's performance or operations.

Key performance indicators

The Directors use a number of measures to determine the performance of the Company. Of these, the principal key performance indicators are:

	2017 £'000	2016 £'000
Turnover	78,071	101,071
Operating loss	(19,643)	(72,256)

Principal risks and uncertainties

These financial statements have been prepared on a going concern basis. Further details of the going concern assessment are set out in note 3

Strategic Report *(continued)*

Regulatory change

The pricing of products and services, the activities of major industry organisations, and the Company's ability to operate and contract in the manner that it has done so in the past or expects to do so in the future, may be affected by the actions of regulatory bodies in the UK. Such action could affect the Company's profitability either directly or indirectly. The Company continually monitors and assesses the likelihood, potential impact and opportunity provided by regulatory change, and adapts its plans and activities accordingly.

The proposed reforms in respect of Whiplash and Small Claims will impact the Company. The outcome remains uncertain and the earliest possible date for any changes to the recoverability of general damages in minor whiplash cases is April 2019.

Key personnel and resources

The success of the Company depends to a large extent upon its current executive management team and its ability to recruit and retain high calibre individuals at all relevant levels within the organisation.

The Company will continue to seek to mitigate the resource risk by investing in and developing staff training programmes, competitive reward and compensation packages, incentive schemes and succession planning.

Regulatory and reputational risks

The Company operates in regulated environments and is regulated by the Financial Conduct Authority and Solicitors Regulation Authority. As a data controller and a business that provides services on behalf of its customers to consumers and individuals, the Company is also subject to risks related to matters such as data processing and security, data and service integrity. In the event of a breach, these risks may give rise to reputational, financial or other sanctions. The Company considers these risks seriously and designs, maintains and reviews its policies and processes so as to mitigate or avoid these risks.

Market conditions

The Company faces competition from other organisations, some of which may have been more established in a particular territory or product area. The Company's strategy is to offer a range of tailored or specialist products and services and to be dominant in the markets it operates in.

Post Balance Sheet Events

On 22 December 2017 (the "Implementation Date"), the Company's former Australian parent, Slater and Gordon Limited, completed the Senior Lender Scheme of Arrangement (the "Senior Lender Scheme") which resulted in, amongst other things:

- A reduction of secured debt owed by the Slater and Gordon Limited Group under its Syndicated Facility Agreement of A\$636.6m (of this, £386m was owed by the Company's UK parent which was reduced to £nil);
- Separation of the Company and the other companies in the UK Group from Slater and Gordon Limited, and transfer of these entities and their operations to Slater and Gordon UK Holdings Limited, the "New Parent Company", a newly incorporated company wholly owned by the New Senior Lenders under the Senior Lender Scheme;
- The provision of a new syndicated facility agreement by the New Parent Company's shareholders (the "Super Senior Facility Agreement") for £14.8m of working capital funding, which was fully drawn on the Implementation Date;

Strategic Report *(continued)*

Post Balance Sheet Events (continued)

- Agreement that the UK Group would pay any proceeds of the claim against Watchstone Group plc (formerly Quindell Plc), arising from the acquisition of the Slater Gordon Solutions business from Quindell Plc on 29 May 2015, for which proceedings were issued and served on 13 June 2017, first to recover any expenses incurred, second to pay up to A\$40m deferred consideration to Slater and Gordon Limited under the Share Sale Agreement, third to repay any amounts drawn under the Super Senior Facility Agreement, fourth to pay up to £250m to convertible note holders and fifth to retain by the Company's UK parent.

Following completion, the consolidated balance sheet position of the UK Group has moved from net liabilities of £173.6m at 30 June 2017 to net assets of approximately £170m on the Implementation Date.

The Company announced restructuring activities in July 2017. These included the closure of the Aldershot office in September 2017 together with the closure of the Chelmsford office in March 2018. The Fareham office was closed on 31 July 2018.

On 17 July 2018, the parent company (Slater & Gordon (UK) 1 Limited) transferred the assets and liabilities of Slater & Gordon (UK) 2 LLP (formerly Slater & Gordon (UK) LLP) to the company. Slater & Gordon (UK) 2 LLP also surrendered its regulatory licence from the date of transfer and has ceased to trade, and will become dormant in due course.

Financial Instrument Risks

The Group ("Slater and Gordon UK Holdings Limited", "Slater and Gordon UK limited, formerly known as Slater Gordon Solutions Legal Limited" and "Slater Gordon (UK) 1 Limited") has established a risk and financial management framework whose primary objectives are to protect the Group from events that hinder the achievement of the Group's performance objectives. The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk.

Use of derivatives

The Company does not use any derivative instruments.

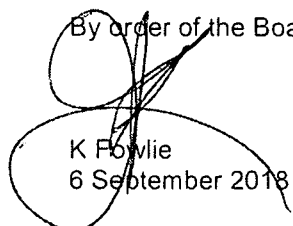
Exposure to credit, liquidity, cash flow risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main exposure to credit risk in the Company is represented by the receivables (debtors and disbursements) owing to the Company. The majority of debtors are insurance companies.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at the end of the reporting period of recognised financial assets is the carrying amount of those assets, net of any provisions against those assets, as disclosed in the statement of financial position and notes to the financial statements.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by maximising cash generation by its operations, through applying cash collection targets and prioritising cash management activities.

By order of the Board.


K Fowle
6 September 2018

Directors' Report

The Directors present their report on the affairs of Slater and Gordon UK Limited,, formerly known as Slater Gordon Solutions Legal Limited (the "Company" or "Slater and Gordon UK Limited"), together with the financial statements and auditor's report, for the year ended 30 June 2017. The financial statements have been prepared in accordance with FRS 101 *Reduced Disclosure Framework*. The Company changed its name to Slater and Gordon UK Limited on 17 July 2018.

Dividends

The Directors do not recommend a dividend be paid for the year under review (2016: nil).

Directors

The Directors who held office during the year were as follows:

Mr K Fowlie	
Ms S Bence	(Appointed 3 August 2016/ resigned 17 July 2017)
Mr S Prew	(Appointed 17 July 2017/ resigned 28 June 2018)
Ms K Morrison	(Resigned 3 February 2017)
Ms D Rowe	(Appointed 30 October 2017/ resigned 16 March 2018)
Mr M Jarvis	(Appointed 16 November 2017)
Mr D Whitmore	(Appointed 20 February 2018)

Going concern

The financial statements have been prepared on a going concern basis. Further details of the going concern assessment are set out in note 3.

Employees

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

Employee consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the performance of the Company.

Political and charitable contributions

The Company made no charitable donations during the year ended 30 June 2017 (2016: £603).

Change in ownership

On 31 August 2017, Slater and Gordon Limited announced that it had entered a binding restructure support deed with 100% of its secured senior lenders in relation to a recapitalisation of the Group. On the implementation of the creditors' scheme of arrangement to give effect to the recapitalisation, all UK operations, including the Company, will be separated from Slater and Gordon Limited and transferred to a new UK holding company which will be wholly owned by the senior lenders. Following separation, existing shareholders of the Group will cease to have an interest in the UK operations.

Directors' Report *(continued)*

Disclosure of information to auditors

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

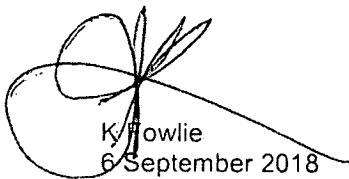
Auditor

During the year, Ernst & Young LLP were reappointed as company auditors. In accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be proposed at the Annual General Meeting.

Directors' liabilities

The Group has maintained liability insurance for directors and officers of UK Group companies, including the Company, during the financial year. The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

By order of the Board



K. Towlie
6 September 2018

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 laws and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with FRS 101 *Reduced Disclosure Framework*.

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 year. 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 they have been prepared in accordance with FRS 101; 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.

Slater and Gordon UK Limited (formerly known as Slater Gordon Solutions Legal Limited) is a licensed body regulated by the Solicitors Regulation Authority (SRA). As such we are required to comply with the SRA Handbook. To oversee the arrangements for compliance we have appointed a Compliance Officer for Legal Practice (COLP) and a Compliance Officer for Finance and Administration (COFA). The COLP is responsible for taking all reasonable steps to ensure that Slater and Gordon UK Limited's compliance arrangements are effective, to record any failures and make them available to the SRA for inspection, and to report material failures. The COFA is responsible for taking all reasonable steps to ensure that the firm, its employees and managers, comply with obligations imposed under the SRA Accounts Rules 2011, to record any failure to comply with the SRA Accounts Rules 2011, to make this record available to the SRA for inspection, and to report material breaches to the SRA.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SLATER & GORDON UK LIMITED (formerly known as Slater Gordon Solutions Legal Limited)

Opinion

We have audited the financial statements of Slater and Gordon UK Limited (formerly known as Slater Gordon Solutions Legal Limited) for the year ended 30 June 2017 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SLATER & GORDON UK LIMITED (formerly known as Slater Gordon Solutions Legal Limited) *(continued)*

Other information *(continued)*

misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SLATER & GORDON UK LIMITED (formerly known as Slater Gordon Solutions Legal Limited) (*continued*)

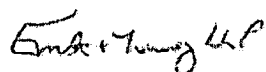
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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



Jennifer Hazlehurst (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Liverpool

10 September 2018

Statement of Comprehensive Income

		2017	2016
	Note	£'000	£'000
Turnover	5	78,071	101,071
Cost of sales	6	(80,452)	(114,296)
Gross loss		(2,381)	(13,225)
Administrative expenses		(20,807)	(25,231)
Other operating income	7	3,545	7,123
Goodwill impairment	14	-	(40,923)
Operating loss	8	(19,643)	(72,256)
Interest receivable and similar income	11	4	199
Interest payable and similar cost	12	(139)	(101)
Loss before taxation		(19,778)	(72,158)
Taxation	13	2	(14,163)
Loss after taxation and total comprehensive loss for the year		(19,776)	(86,321)

The notes on pages 15 to 35 form part of these financial statements.

Statement of Changes in Equity

for the year ended 30 June 2017

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total equity £'000
At 30 June 2016	81,410	12,778	(277,729)	(183,541)
Total comprehensive loss	-	-	(19,776)	(19,776)
At 30 June 2017	81,410	12,778	(297,505)	(203,317)
At 30 June 2015	81,410	12,778	(191,408)	(97,220)
Total comprehensive loss	-	-	(86,321)	(86,321)
At 30 June 2016	81,410	12,778	(277,729)	(183,541)

The notes on pages 15 to 35 form part of these financial statements

Slater and Gordon UK Limited (formerly known as Slater Gordon
Solutions Legal Limited)
Annual Report and Financial Statements
for the year ended 30 June 2017

Balance Sheet

at 30 June 2017

		2017	2016
	Note	£'000	£'000
Fixed assets			
Intangible assets	14	408	591
Tangible assets	15	828	873
Accrued income	17	8,541	3,662
Trade and other receivables	16	14,517	5,918
		24,294	11,044
Current assets			
Trade and other receivables	16	92,433	117,166
Current tax receivable		-	2,000
Accrued income	17	40,251	54,503
Cash at bank and in hand	18	3,472	8,580
		136,156	182,249
Creditors: amounts falling due within one year			
Trade and other payables	19	(350,134)	(370,670)
Provisions	20	(47)	-
		(350,181)	(370,670)
Net current liabilities		(214,025)	(188,421)
Total assets less current liabilities		(189,731)	(177,377)
Creditors: amounts falling due after one year			
Trade and other payables	19	(13,586)	(5,564)
Provisions	20	-	(600)
		(13,586)	(6,164)
Total liabilities		(363,767)	(376,834)
Net liabilities		(203,317)	(183,541)
Capital and Reserves			
Share capital	22	81,410	81,410
Share premium		12,778	12,778
Retained earnings		(297,505)	(277,729)
Total equity		(203,317)	(183,541)

The notes on pages 15 to 35 form part of these financial statements.

The financial statements of Slater and Gordon UK Limited (formerly known as Slater Gordon Solutions Legal Limited), registered number 07931918, on pages 15 to 35 were approved and authorised for issue by the Board of Directors on 6 September 2018 and signed on its behalf by:


K. Fowlie
Director

Notes to the Financial Statements

1. General information

Slater and Gordon UK Limited (formerly known as Slater Gordon Solutions Legal Limited) ("the Company") is a company incorporated and domiciled in the United Kingdom. These financial statements are for the year to 30 June 2017. The comparative year is for the year ended 30 June 2016.

2. Adoption of new and revised Standards

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date. During 2015, the Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9.

(a) *Classification and measurement*

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Company expects that these will continue to be measured at amortised cost under IFRS 9. However, the Company will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) *Impairment*

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables.

The Company expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

Notes to the Financial Statements *(continued)*

2. Adoption of new and revised Standards *(continued)*

IFRS 16 Leases

This is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 except for low value assets or short term leases. It is expected that the lease expense recognition pattern will generally be accelerated. This will impact the accounting for the Company's property rentals. More extensive disclosures will also be required. An exercise to review the impact of this standard has not yet been performed and therefore the impact cannot currently be quantified with any certainty.

Other amendments not considered to have an impact are:

- Amendments to IFRS 10, IFRS 12 and IAS 28 in respect of *Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28*
- Amendments to IFRS 10 and IAS 28 *Sale or Contributions of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28*
- IFRS 14 *Regulatory Deferral Accounts* – this is applicable only to entities with rate regulated assets and liabilities.
- IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12* – This is only applicable for unrealised losses on debt instruments measured at fair value and is not applicable to the Company.
- IAS 27 *Equity Method in Separate Financial Statements – Amendments to IAS 27* – This is not applicable to the Company
- IFRS 2 *Classification and Measurement of Share-based payment transactions – Amendments to IFRS 2* – The Company has no share based payment transactions and therefore these changes are not applicable.

Notes to the Financial Statements *(continued)*

3. Significant accounting policies

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 years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed later in this note.

Slater and Gordon UK Limited (formerly known as Slater Gordon Solutions Legal Limited) have taken advantage of the following disclosure exemptions under FRS 101:-

- (a) the requirements of IFRS 7 *Financial Instruments: Disclosures*,
- (b) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*,
- (c) the requirement in paragraph 38 of IAS 1 '*Presentation of Financial Statements*' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1 *Capital management policies*;
 - (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
 - (iii) paragraph 118(e) of IAS 38 *Intangible Assets*;
- (d) the requirements of IAS 7 *Statement of Cash Flows*;
- (e) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (f) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- (g) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*

Notes to the Financial Statements *(continued)*

3. Significant accounting policies *(continued)*

Business combinations

The acquisition of another entity's trade and assets is accounted for using the purchase method. On acquisition, the assets and liabilities and contingent liabilities are measured at their respective fair values at the date of acquisition. Any excess of the consideration made over fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the Income Statement in the year of acquisition. Where consideration is locked in for future years, due to performance conditions, the value of this consideration is discounted by the company's cost of equity for the time value of money.

Cash and cash equivalents

Cash in the Statement of Financial Position comprise cash at banks and in hand.

Going Concern

The financial statements have been prepared on a going concern basis and accordingly do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

S&G UK Limited is a member of the UK Slater & Gordon group of companies. For the period ended 30 June 2017, S&G UK Limited's results are consolidated at the immediate parent level, being Slater & Gordon (UK) 1 Limited. The directors of Slater & Gordon (UK) 1 Limited have prepared consolidated cash flow forecasts including the Company for the purpose of assessing going concern, as it is the intention of the directors of the overall UK Group to run the business on this basis. The Company has received confirmation from its parent entity that its intention is to run S&G UK Limited on a going concern basis, and that it will support S&G UK Limited to meet its liabilities as they fall due, only to the extent that funds are not otherwise available to the Company to meet these liabilities as they fall due, for a period of at least 12 months from the date of signing of these financial statements. The going concern disclosures, as set out in Slater & Gordon (UK) 1 Limited's financial statements, are as follows:

The Company and its subsidiaries are members of the UK Slater and Gordon group ("the UK Group"), owned from 22 December 2017 by Slater and Gordon UK Holdings Limited (the "New Parent Company"), following the completion of the Senior Lender Scheme of Arrangement (the "Senior Lender Scheme") which, inter alia, resulted in the reduction of secured debt owed by the UK Group to £nil; separation of the Company and the other companies in the UK Group from Slater and Gordon Limited, its former Australian parent entity, and the provision of a £14.8m Super Senior GBP Facility ("SSF") by the New Parent Company's shareholders which was fully drawn on completion (for more details see note 24).

During the year ended 30 June 2017 the UK Group incurred a net loss after tax of £52.5m and generated negative net cash flows from operating activities of £13.7m. At 30 June 2017, the UK Group had net liabilities of £173.6m and cash of £14.8m. After completion of the Senior Lender Scheme and the overall reduction of UK debt from £386.4m to £14.8m, the UK Group had net assets of circa £170m, including cash of £13.9m. In addition to the £14.8m of drawn SSF debt, the New Parent Company's shareholders have committed to provide a further £10m facility for general business purposes, and a third party funder has provided two £10m facilities which are being drawn progressively as disbursement receivables are assigned to the funder pending agreement of costs on successfully settled cases or where the UK Group has already paid the disbursement from its own funds.

Notes to the Financial Statements *(continued)*

3. Significant accounting policies *(continued)*

Going Concern *(continued)*

These third party facilities have been agreed on a rolling basis for an initial period of 12 months until July 2019. Given the nature of these facilities, such that they are secured against successfully settled cases or disbursement receivables already paid by the UK Group, the Directors have a reasonable basis to expect these facilities to continue to be renewed on similar terms, to the extent that they are required. Furthermore, the Directors have a reasonable expectation that alternative sources of funding would also be available to the UK Group via third parties if required.

Management has announced plans to invest an additional £30m in the UK Group over the next 3 years to complete its transformation plans for the business. This incremental investment will be funded from the UK Group's own cash resources and the £30m committed facilities described above. Management has also taken action or announced changes to the operating structure of the business which are planned to reduce annual support function costs by £20m.

The UK Group has prepared cash flow forecasts for the foreseeable future based on management's best estimate of the achievement of revenues and the phasing of collection of the related cash. The cash flow forecasts also reflect management's best estimate of the impact on receipts and payments of its plans described in the paragraph above. Management has prepared sensitivities which show that the cash position of the UK Group remains above the minimum level required to maintain normal operations through all realistic combinations of cash receipt shortfalls against forecast or realised cost reductions being delayed or being less than forecast.

After taking into account all available information, the Directors have concluded that there are currently reasonable grounds to believe that the UK Group will continue as a going concern. The Directors have formed this view based on a number of factors including their assessment of the continued availability of third party and shareholder facilities and their expectation of the efficacy of the steps taken to manage down costs through the transformation plan. As such the Directors believe it appropriate that the financial statements for the year ended 30 June 2017 are prepared on the going concern basis.

Notes to the Financial Statements *(continued)*

3. Significant accounting policies *(continued)*

Goodwill

Goodwill on the acquisition of a business is recognised as an asset at the date the business is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the company's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred the excess is recognised immediately in the Income Statement as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually with any impairment recognised immediately in the Income Statement and not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to each of the company's cash-generating units expected to benefit from the synergies of the combination. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis. During the prior year 2016, the goodwill balance of £40.9 million was fully impaired.

Trade payables

Trade payables do not carry any interest and are stated at their historic cost.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Impairment of PPE and intangible assets excluding goodwill

At each Statement of Financial Position date the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of the asset's value in use and its fair value less costs to sell. Value in use is calculated using cash flow projections for the asset (or group of assets where cash flows are not identifiable for specific assets) discounted at the Company's cost of capital.

Notes to the Financial Statements *(continued)*

3. Significant accounting policies *(continued)*

Impairment of PPE and intangible assets excluding goodwill *(continued)*

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense in the Statement of Comprehensive Income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Legal disbursements

Amounts incurred by the Company with third parties in relation to legal disbursements on unbilled cases are recorded within trade payables. Where disbursements represent services provided by the Company, they are shown as revenue in the Statement of Comprehensive Income. To the extent that these are recoverable from third parties, an asset is recognised within other debtors. Provisions are recorded against these assets where there is a risk of recovery e.g. on failed cases where amounts are not recoverable.

Fixed Assets

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is not provided on freehold land. On other assets depreciation is calculated to write off the cost less estimated residual values over their estimated useful lives as follows:

Leasehold improvements (fixtures and fittings)	10%	per annum straight line
Fixtures and fittings (other)	20% - 25%	per annum straight line
Office equipment	20% - 33 ⅓ %	per annum straight line
Computer equipment	20% - 33 ⅓ %	per annum straight line

Assets in the course of construction are capitalised as expenditure is incurred. Depreciation is not charged until the asset is brought into use. Residual value is calculated on prices prevailing at the date of acquisition.

Estimated residual values and useful lives are reviewed annually and adjusted where necessary.

Turnover

Provision of legal services

The personal injury law practice operates on the basis of No Win – No Fee conditional fee arrangements, whereby fees are earned only in the event of a successful outcome of a customer's claim. In some cases, fees may be fixed, depending on the stage at which a matter concludes. For some arrangements, fees are fixed as a specific percentage of damages awarded under a claim.

Notes to the Financial Statements *(continued)*

3. Significant accounting policies *(continued)*

Turnover *(continued)*

In personal injury matters, contracts with clients generally comprise a single distinct performance obligation, being the provisions of services in pursuit of the successful settlement of a customer's claim, and the transaction price is allocated to this single performance obligation. Some contracts contain multiple deliverables – such as initial pre-issue work and litigation work. In such circumstances, these multiple deliverables are considered to represent a single distinct performance obligation, given there is a significant service of integration performed by the Company in delivering these services. Management considers the methods used provide a faithful depiction of the transfer of goods and services.

The uncertainty around the fees receivable under a contract is generally only resolved when a matter is concluded. In recognising revenue in the personal injury practice, where the Company has sufficient historical experience in similar contracts in order to be able to estimate the expected outcome of a group of existing contracts reliably, revenue from the fees from contracts is estimated using the expected value method. The estimated amount of variable consideration is based on the expected fee for the nature of the legal service with reference to historical fee levels and relative rates of successful and unsuccessful outcomes. To determine the probability of success of a case, a level of judgement is required to be applied based on past experience and historical performance of similar matters.

Expected fees are only included in revenue to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract at the end of a reporting year will not be subject to significant reversal when a matter is concluded.

Where historical averages are not predictive of the probability of outcomes for a given contract, or where the Company has limited historical experience with similar contracts, the expected amount of variable consideration is estimated using a most likely amount approach on a contract by contract basis. In such circumstances, a level of judgement is required to determine the likelihood of success of a given matter, as well as the estimated amount of fees that will be recovered in respect of the matter.

Revenue is recognised when control of a service is transferred to the customer. The Company recognises revenue in respect of personal injury matters "over time" (as opposed to at a "point in time"). A stage of completion approach is used to measure progress towards completion of the performance obligation.

The stage of completion is determined using a milestones based approach using prescribed status codes for client matters as the relevant milestones. The percentage completion is determined either by calculating the average fee received for matters that resolve at a particular status code as a percentage of the average fee received for matters that resolve at that status and any later status, or by use of defined completion allocations based on historical performance

Estimates of revenues (including interim billing), costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the year in which the circumstances that give rise to the revision become known by management.

The Company has determined that no significant financing component exists in respect of the personal injury revenue streams. This is because in personal injury matters, a substantial amount of the consideration promised by the customer is variable subject to the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the Company.

A receivable in relation to these services is recognised on settlement of the client matter and when a bill has been invoiced, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Company arranges for the disbursement activities on behalf of the client; however it does not control the output from those activities. The Company cannot influence the content of the medical reports or court filings, therefore no profit margin is recognised on the activities and the clients are charged the direct cost incurred by the Company. As such, the Company acts as an agent for disbursements, which are only recognised when it is assessed that a reimbursement will be received from the client or on his or her behalf. The disbursements are treated as a separate asset. The amount recognised for the expected reimbursement does not exceed the relevant costs incurred.

Notes to the Financial Statements *(continued)*

3. Significant accounting policies *(continued)*

Turnover *(continued)*

The amount of any expected reimbursement is reduced by an allowance for non-recovery based on past experience.

Revenue from Road Traffic Accidents ("RTA") and Employer Liability/Public Liability ("EL/PL") files is recognised over the life of the case based on prescribed milestones in a matter.

The legal services practice operates on the basis of No Win – No Fee conditional fee arrangements and applies the same accounting policies as personal injury claims described above. In some cases, fees may be fixed, depending on the stage at which a matter concludes. For some arrangements, fees are fixed as a specified percentage of damages awarded under a claim.

No revenue has been recognised for Noise Induced Hearing Loss ("NIHL") files that are in progress as at 30 June 2016 or 30 June 2017 due to the low number of NIHL cases that have settled within the Company during the year and the inherent uncertainty over the consideration to be achieved in each successful matter. Revenue is only recognised on NIHL files when they have been settled.

A small amount has been recognised in respect of a number of cases which were transferred from Slater & Gordon (UK) LLP in the year ended 30 June 2017 based on their prior valuation and historical evidence of collection.

Accrued Income

Accrued income represents client cases which have not yet reached a conclusion and comprises personal injury cases, services performed ancillary to personal injury cases, non-personal injury cases and project litigation cases.

Contracts for legal services are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to the unsatisfied or partially unsatisfied performance obligations under these contracts has not been disclosed.

The Company allocates accrued income between current and non-current classifications based on a historical analysis of the Company's accrued income balances and velocity rates to determine expected timing of settlements.

Taxation including deferred tax

The tax expense represents the sum of current tax and deferred tax. Tax is recognised in the Balance Sheet except to the extent that it relates to items recognised in equity in which case it is recognised in equity. The current tax is based on taxable profit for the year calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax is provided using the Statement of Financial Position liability method on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets or liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Financial Statements *(continued)*

3. Significant accounting policies *(continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Trade receivables

Trade receivables are held at amortised cost less any impairment provisions and this equates to their recoverable value. Amounts set aside for settlement adjustments, which insurers in certain limited circumstances (e.g. due to administrative delays) seek to negotiate, are based on historical experience. The resulting settlement adjustments are recognised within revenue as they relate to revisions of income estimates, not collectability (credit risk). Movements in the impairment provision relating to credit risk are recognised within administrative expenses as bad debt expenses.

Other intangible assets

Intangible assets with finite useful lives are initially measured at cost, or their fair value on date of acquisition, and amortised on a straight line basis over their useful economic lives, which are reviewed on an annual basis. The residual values of intangible assets are assumed to be nil. The estimated useful economic lives of intangible assets are as follows:

Customer contracts, data and relationships	2 – 10 years
Intellectual Property rights, software and licences	10 years

4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, management has made a number of judgements, and the preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of Financial Position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue recognition – identifying the performance obligation

In personal injury matters, contracts with clients generally comprise a single distinct performance obligation, being the provision of services in pursuit of the successful settlement of a customer's claim, and the transaction price is allocated to this single performance obligation.

The Company notes that it is not practicable to determine and track on a case-by-case basis.

Revenue recognition – estimating the transaction price: Variable consideration – No Win No Fee arrangements

The Company provides various services on the basis of No Win No Fee conditional fee arrangements. The uncertainty around the fees ultimately receivable under these types of contracts is generally only fully resolved when a matter is concluded.

Notes to the Financial Statements *(continued)*

4. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Where the Company has sufficient historical experience in similar contracts in order to be able to estimate the expected outcome of a group of existing contracts reliably, revenue is estimated using the expected value method. Fees are only included in revenue to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract at the end of a reporting year will not be subject to a significant reversal when the matter is concluded.

To determine the probability of success of a case using the expected value method, a level of judgement is required to be applied based on past experience and historical performance of similar matters. The estimated amount of variable consideration is based on the expected fee for the nature of legal service provided with reference to internal historical fee levels and relative rates of successful and unsuccessful outcomes.

(i) Recognising revenue: Measuring the stage of completion

Revenue is recognised when control of a service is transferred to the customer. The Company recognises revenue in respect of personal injury matters over time (as opposed to a point in time). A stage of completion approach is used to measure progress towards completion of the performance obligation. The stage of completion is determined using a milestones based approach using prescribed status codes for client matters as the relevant milestones. The percentage completion is determined either by calculating the average fee received for matters that resolve at a particular status code as a percentage of the average fee received for matters that resolve at that status and any later status, or by use of defined completion allocations based on historical performance.

ii) Proposals for changes to Whiplash and Small Claims

The proposed reforms announced by the UK Government in November 2015 are now expected to affect all personal injury cases below £2,000, with the exception of road traffic accident personal injury cases, where a £5,000 small claims limit is being proposed. The Company has made its best effort to factor potential changes into its assessment of the future cash flows, even though the results are not yet certain.

Measurement and impairment of goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. During 2016, the goodwill balance of £40.9 million was fully impaired. Further details are given in note 14.

Measurement of deferred tax assets

The Company reviews the carrying value of any deferred tax assets, particularly in respect of tax losses, on an annual basis (note 3). This requires an estimation of the future utilisation of any tax losses over the forecast year. This requires the Company to make an estimate of future utilisation based on expectations. A deferred tax asset is only recognised to the extent that losses are expected to be utilised over the 3 year forecast period.

Financial risk factors

As at the Statement of Financial Position date, the Company's primary financial risk factors are those associated with credit risk. The Company is not subject to significant concentration of credit risk with exposure spread across a number of companies within the UK, mainly insurance companies.

Notes to the Financial Statements *(continued)*

4. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Legal disbursements

Amounts incurred by the Company with third parties in relation to legal disbursements on unbilled cases are recorded within trade payables (note 19). Where disbursements represent services provided by the Company, they are shown as revenue in the Statement of Comprehensive Income. To the extent that these are recoverable from third parties, an asset is recognised within other debtors (note 16). Where there is a risk of recovery, a provision will be held against these assets, e.g. full provision against disbursements recognised on failed cases.

5. Turnover

The analysis of the Company's revenue is as follows:

	2017 £'000	2016 £'000
Provision of legal services	78,071	101,071

6. Cost of sales

Cost of sales can be analysed as:

	2017 £'000	2016 £'000
Staff and related costs	32,585	36,132
Marketing fees	37,136	60,517
Write offs and provision movements	10,731	17,647
	<u>80,452</u>	<u>114,296</u>

7. Other Operating Income

	2017 £'000	2016 £'000
Related marketing fee income	3,545	7,123

Notes to the Financial Statements *(continued)*

8. Operating loss

The operating loss for the year is stated after charging:

	2017	2016
	£'000	£'000
Depreciation of property, plant and equipment - owned assets	335	193
Amortisation	17	116
Goodwill impairment (note 14)	-	40,923
Operating lease expenses	1,365	2,701
Staff costs (note 10)	40,241	43,891
Profit on disposal of fixed asset	54	253

9. Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

	2017	2016
	£'000	£'000
Audit of the financial statements	233	157

10. Employee and staff costs

Number of employees at the end of the year including Directors

	2017 Number	2016 Number
Solicitors	67	91
Fee Earners and other Direct Staff	971	636
Cost Lawyers	178	67
Non Fee Earners	82	553
	1,298	1,347

Due to a revision of roles and responsibilities during 2017 a number of individuals previously classed as non-fee earners have been reassigned into cost lawyers and other direct staff.

Notes to the Financial Statements *(continued)*

10. Employee and staff costs *(continued)*

Staff costs including directors

	2017	2016
	£'000	£'000
Wages and salaries	36,692	39,802
Social security costs	3,171	3,933
Pension Costs	378	156
	<u>40,241</u>	<u>43,891</u>

Directors' emoluments

	2017	2016
	£'000	£'000
Directors' emoluments	29	1,278
Company contribution to money purchase pension plans	-	15
Compensation for loss of office	-	275
	<u>29</u>	<u>1,568</u>

The emoluments of the highest paid directors, in the current and prior year

	2017	2016
	£'000	£'000
Stewart McCulloch	<u>29</u>	<u>196</u>
Robert Fielding	<u>-</u>	<u>732</u>

The costs of the current directors were borne by other Group companies.

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

	2017	2016
	Number	Number
Money Purchase Schemes	<u>-</u>	<u>1</u>

11. Interest receivable

	2017	2016
	£'000	£'000
Interest received	<u>4</u>	<u>199</u>

12. Interest payable

	2017	2016
	£'000	£'000
Interest expense	<u>(139)</u>	<u>(101)</u>

Notes to the Financial Statements *(continued)*

13. Taxation

	2017 £'000	2016 £'000
The taxation credit comprises:		
UK Tax	-	-
Adjustments in respect of prior years	(2)	(837)
	<hr/>	<hr/>
Current tax (credit)/ charge	(2)	(837)
<i>Deferred tax</i>		
<i>charge/(credit)</i>		
Origination and reversal of temporary differences	-	-
Derecognition of deferred tax asset	-	15,000
	<hr/>	<hr/>
Total tax recognised in the Statement of Comprehensive Income	(2)	14,163

Income tax for the UK is calculated at the standard rate of UK Corporation tax of 19% (2016: 20%) on the estimated assessable profits for the year.

The total charge for the year can be reconciled to the accounting loss as follows:

	2017 £'000	2016 £'000
Loss before taxation	(19,778)	(72,158)
	<hr/>	<hr/>
Tax at 19.75% (2016: 20%) thereon	(3,906)	(14,432)
Effect of:		
Expenses not deductible for tax purposes	690	9
Non-taxable income	(342)	(666)
Deferred tax recognised at different rate	-	-
Derecognition of deferred tax asset	-	15,000
Group relief surrendered	-	1,633
Losses not recognised	3,571	5,300
Goodwill impairment – not taxable	-	8,185
Other timing differences not recognised	(13)	(29)
Adjustments in respect to prior years	(2)	(837)
	<hr/>	<hr/>
Total tax (credit)/charge for the year	(2)	14,163

Deferred tax assets are recognised for tax losses available for carrying forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Company recognised deferred tax assets of £Nil in respect of losses in 2017 (2016: £Nil). No deferred tax asset has been recognised on a further £210.6 million of losses (2016: £193.3 million) as the current forecasts do not support the recoverability of this balance in the forecast year.

Notes to the Financial Statements *(continued)*

13. Taxation *(continued)*

Future Developments

Reductions in the UK corporation tax rate from 20% to 19% (as effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to the UK corporation tax rate down to 17% was announced in the 2016 Budget and substantively enacted on 6 September 2016 (to be effective from 1 April 2018).

14. Intangible assets

	Goodwill	Intellectual Property rights, software and licences	Total
	£'000	£'000	£'000
Cost			
At 1 July 2016	40,923	1,002	41,925
Additions	-	-	-
Disposals	-	(186)	(186)
At 30 June 2017	40,923	816	41,739
Amortisation and impairment			
At 1 July 2016	(40,923)	(411)	(41,334)
Charge for the year	-	(17)	(17)
Disposals	-	20	20
At 30 June 2017	(40,923)	(408)	(41,331)
Net book value			
At 30 June 2017	-	408	408
At 30 June 2016	-	591	591

The goodwill impairment review performed for the year ended 30 June 2016 indicated that the goodwill balance should be fully impaired and therefore this balance of £40.9 million was fully impaired in the prior year (2016).

Notes to the Financial Statements *(continued)*

15. Tangible Fixed Assets

	Office and computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 July 2016	700	1,013	1,713
Additions	4	340	344
Disposals	(348)	(186)	(534)
At 30 June 2017	356	1,167	1,523
Depreciation			
At 1 July 2016	(482)	(358)	(840)
Charge for the year	(112)	(223)	(335)
Disposal	339	141	480
At 30 June 2017	(255)	(440)	(695)
Net book value			
At 30 June 2017	101	727	828
At 30 June 2016	218	655	873

Fixture and fittings additions include work in progress of £234k (2016: nil).

16. Trade and other receivables

	2017 £'000	2016 £'000
Current assets		
Trade receivables	14,632	18,781
Other receivables:		
- relating to legal disbursements due from insurance companies	67,041	85,982
- Other	191	571
Amounts due from group undertakings	9,180	10,651
Prepayments	1,389	1,181
	92,433	117,166
Non-current assets		
Other receivables:		
- relating to legal disbursements due from insurance companies	14,517	5,918

All trade receivables are expected to be received within 12 months.

Notes to the Financial Statements *(continued)*

17. Accrued Income

	2017 £'000	2016 £'000
Current Assets		
Accrued income	40,251	54,503
Non-current Assets		
Accrued income	8,541	3,662
	<u>48,792</u>	<u>58,165</u>

18. Cash at bank and in hand

	2017 £'000	2016 £'000
Cash at banks and in hand	<u>3,472</u>	<u>8,580</u>

Cash in the Statement of Financial Position comprises cash at banks and in hand.

19. Trade Creditors

	2017 £'000	2016 £'000
Current liabilities		
Trade payables:		
- relating to legal disbursements due from insurance companies	62,738	82,813
- other	2,800	2,255
Amounts due to related parties	272,795	268,110
Payroll and other taxes including social security	1,533	4,704
Accruals	10,107	10,170
Other payables	161	2,618
	<u>350,134</u>	<u>370,670</u>
Non-current liabilities		
Trade payables:		
- relating to legal disbursements due from insurance companies	13,586	5,564
	<u>13,586</u>	<u>5,564</u>

Trade payables principally comprise amounts outstanding for trade purchases and on-going costs.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the Financial Statements *(continued)*

20. Provisions

Provisions, which comprise potential liabilities to regulatory authorities, are as follows:

	2017 £'000	2016 £'000
Current Provision	<u>47</u>	<u>-</u>
Non-Current Provision	<u>-</u>	<u>600</u>

21. Operating lease commitments

At the end of the reporting year, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 £'000	2016 £'000
Less than one year	1,154	959
Between one and five years	2,518	4,548
More than five years	560	2,599
At the end of the year	<u>4,232</u>	<u>8,106</u>

Operating lease payments represent rentals payable by the Company for certain of its office properties. Leases are typically negotiated for an average year of ten years.

22. Capital and reserves

	2017		2016	
	Number '000	Nominal Value £'000	Number '000	Nominal Value £'000
Shares allotted, called up and fully paid:				
At the beginning of the year	81,410	81,410	81,410	81,410
At the end of the year	81,410	81,410	81,410	81,410

The Company has one class of Ordinary Shares of £1 each which carry no right to fixed income and has no authorised share capital limit.

Notes to the Financial Statements *(continued)*

23. Contingent liabilities

The Company routinely enters into a range of contractual arrangements in the ordinary course of events which can give rise to claims or potential litigation against it. It is the Company's policy to make specific provisions at the Statement of Financial Position date for all liabilities which, in the opinion of the Directors, are expected to result in a significant loss. The Directors have reviewed the open claims and pending litigation against the Company at the year end and concluded that no material unprovided loss is likely to accrue to the Company from any such unprovided claims.

The Company is party to a GBP currency Super Senior Facility Agreement ("SSFA") dated 22 December 2017 pursuant to which the Company's direct parent company, Slater and Gordon (UK) 1 Limited, is a borrower having fully drawn the facility (£14.8m) on that date. Pursuant to the terms of the SSFA, the Company has given a cross-guarantee (along with other UK Group companies) in relation to all liabilities outstanding under the SSFA in favour of the Finance Parties (as defined under the SSFA), which are all shareholders of Slater and Gordon UK Holdings Limited, the ultimate parent company.

The Company is also party to a debenture dated 22 December 2017 (the "Debenture") pursuant to which the Company (together with other UK Group companies) covenants with GLAS Trust Corporation Limited (acting as Security Trustee for itself and the Secured Parties (as defined in the Debenture), which are all shareholders of Slater and Gordon UK Holdings Limited, the ultimate parent company) that it will on demand pay all liabilities outstanding under the SSFA (and associated finance documents) when they are due and payable and grants security over all of its assets in favour of GLAS Trust Corporation Limited (acting as Security Trustee for itself and the Secured Parties).

24. Post balance sheet events

On 22 December 2017 (the "Implementation Date"), the Company's former Australian parent, Slater and Gordon Limited, completed the Senior Lender Scheme of Arrangement (the "Senior Lender Scheme") which resulted in, amongst other things:

- A reduction of secured debt owed by the Slater and Gordon Limited group under its Syndicated Facility Agreement of A\$636.6m (of this, £386m was owed by the Company's UK parent which was reduced to £nil);
- Separation of the Company and the other companies in the UK Group from Slater and Gordon Limited, and transfer of these entities and their operations to Slater and Gordon UK Holdings Limited, the "New Parent Company", a newly incorporated company wholly owned by the New Senior Lenders under the Senior Lender Scheme;
- The provision of a new syndicated facility agreement by the New Parent Company's shareholders (the "Super Senior Facility Agreement") for £14.8m of working capital funding, which was fully drawn on the Implementation Date;
- Agreement that the UK Group would pay any proceeds of the claim against Watchstone Group plc (formerly Quindell Plc), arising from the acquisition of the Slater Gordon Solutions business from Quindell Plc on 29 May 2015, for which proceedings were issued and served on 13 June 2017, first to recover any expenses incurred, second to pay up to A\$40m deferred consideration to Slater and Gordon Limited under the Share Sale Agreement, third to repay any amounts drawn under the Super Senior Facility Agreement, fourth to pay up to £250m to convertible note holders and fifth to retain by the Company's UK parent.

Notes to the Financial Statements *(continued)*

24. Post balance sheet events *(continued)*

Following completion, the consolidated balance sheet position of the UK Group has moved from net liabilities of £173.6m at 30 June 2017 to net assets of approximately £170m on the Implementation Date.

The Company announced restructuring activities in July 2017. These included the closure of the Aldershot office in September 2017 together with the closure of the Chelmsford office in March 2018. The Fareham office was closed on 31 July 2018. As a result of these closures further onerous lease provisions have been recognised since the 31 July 2017 of £1.1m.

On 17 July 2018, the parent company (Slater & Gordon (UK) 1 Limited) transferred the assets and liabilities of Slater & Gordon (UK) 2 LLP (formerly Slater & Gordon (UK) LLP) to the company. Slater & Gordon (UK) 2 LLP also surrendered its regulatory licence from the date of transfer and has ceased to trade, and will become dormant in due course.

25. Ultimate parent company

The parent of the Company is Slater and Gordon (UK) 1 Limited, a company incorporated in England and Wales.

The ultimate parent and the largest group in which the results of the Company are consolidated is that headed by Slater and Gordon UK Holdings Limited, a company incorporated in England and Wales. Copies of the company's accounts are available on application or from the company's website.