

Registered Number: 10977311

**SLATER AND GORDON UK
HOLDINGS LIMITED**

**DIRECTORS' REPORT AND
CONSOLIDATED FINANCIAL
STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019**

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Highlights and Contents


Year ended 31 December 2019

Key Highlights


Revenue

£192.9m -13.4% 
(2018: £222.7m)


Operating profit / (loss)^a

Profit of £5.0m 188.0% 
(2018: loss of £5.6m)


Adjusted EBITDA^b

£16.3m 1,548.2% 
(2018: £1.0m)


Operating cash flow

Inflow £16.0m 186.4% 
(2018: outflow £18.5m)

Cash

£26.1m 129.8% 
(2018: £11.4m)

Technology initiatives

£7.8m 16.4% 
(2018: £6.7m)

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[a] Operating profit / (loss) is stated before non-recurring items

[b] Adjusted EBITDA The Group calculates adjusted EBITDA as operating profit before interest, tax, depreciation, amortisation and excludes non-recurring items. The Directors believe that adjusted EBITDA is the most appropriate approach for ascertaining the underlying trading performance and trends as it reflects the measures used internally by senior management for all discussions of performance. Full details are disclosed in note 4.2.

Company Information

Year ended 31 December 2019

Directors

M J Beauchamp
J P Connolly
M Glengarry
D S Neave
N I Stoesser
G J White
D J L Whitmore
A L Wilford

Company secretary

E L Humphrey

Company number

10977311

Registered office

58 Mosley Street
Manchester
England
M2 3HZ

Auditor

Deloitte LLP
2 Hardman Street
Manchester
M3 3HF

Chief Executive's Strategic Report

Year ended 31 December 2019

Review of the Business

Slater and Gordon is one of the UK's leading providers of consumer legal services, serving customers in England, Scotland and Wales. Our mission is to provide high quality, technology-driven legal services that are accessible to all.

What We Do

We are here to support our customers through many of life's most significant moments: both planned and unplanned.

From helping people to get back on the road after an accident, to making sure they get the best care and compensation after an injury. From guiding them through the complexities of divorce to protecting them against abusive ex-partners, we are always here.

This means that our customers are at the very heart of our business, and that our wide range of specialist legal and complementary services is built firmly around their needs and expectations.

In any and every event, our team of 1,870 dedicated professionals are here to take some of the stress away and deliver justice to all those in need. We can promise this because, guided by our Business Values System and supported by market-leading technology, our people offer an unsurpassed level of legal expertise and practical experience. This has been gained over many years, during which we have achieved successful outcomes in some of the country's most high-profile cases.

Yet while we are undeniably a people business – with a firm focus on treating both customers and colleagues as respected individuals – we are also a technology business. That is because only by continuing to invest in both people and technology will we continue to deliver exceptional customer service and industry-leading legal outcomes.

The 2019 Accounts

These accounts represent the consolidated entity, Slater and Gordon UK Holdings Limited (the "Company"), and its controlled entities (jointly referred to as "Slater and Gordon" or the "Group"), for the financial year ended 31 December 2019. The comparative results (2018) represent the period from 22 September 2017 to 31 December 2018. As the Company acquired the Group on 15 December 2017, the trading results in the comparative period represent the period from 15 December 2017 to 31 December 2018.

A year of Investment and Optimism

I am pleased to report that 2019 was another very successful year for Slater and Gordon, with the business performing well across a number of key growth areas.

The year saw a significant improvement in our adjusted EBITDA¹ profitability and operating cash flow. This is particularly pleasing in the context of our continued investment in the technology required to help secure future profitable growth and differentiate us from our competitors.

In 2019 the Group achieved an adjusted EBITDA¹ of £16.3m² (2018: £1.0m). Operating profit, before non-recurring items was £5.0m, compared to an operating loss of £5.6m in 2018. Group revenues were £192.9m in the year (2018: £222.7m) after planned reductions in less profitable channels of activity.

The Group reported a loss before tax of £9.6m after non-recurring items of £6.0m. This compares to a profit before tax of £112.2m in 2018, which included a one-off gain on bargain purchase of £134.6m. Operating cash flow has improved from an outflow of £18.5m in 2018 to an operating cash inflow of £16.0m in 2019.

We continue to invest in technology in line with our strategic ambitions, with a spend of £7.8m on technology initiatives in 2019 (2018: £6.7m). The net assets at 31 December 2019 were £125.7m, compared with £135.0m at 2018. The year-end cash position was £26.1m, compared with £11.4m in 2018.

Importantly, we have built on the excellent foundations we laid in 2018 by continuing to invest significantly in both our technology and our people. This investment has provided us with a framework and structure that has underpinned a marked improvement in our employee experience and operating performance, which I believe will help accelerate our growth in 2020 and beyond.

Alongside our improved financial performance, the Group also performed well against targets for intake volumes, productivity and for improving our success and dilution rates.

[1] Adjusted EBITDA: The Group calculates adjusted EBITDA as operating profit before interest, tax, depreciation, amortisation and excludes non-recurring items. The Directors believe that adjusted EBITDA is the most appropriate approach for ascertaining the underlying trading performance and trends as it reflects the measures used internally by senior management for all discussions of performance. Full details are disclosed in note 4.2.

[2] Adjusted EBITDA in 2019 includes the impact of conversion to IFRS 16. 2019 adjusted EBITDA excluding IFRS 16 is £10.2m.

Chief Executive's Strategic Report (continued)

Year ended 31 December 2019

Leadership

Our Executive Leadership Team continues to drive the Group's dynamic strategy.

In 2019 Alicia Alinia, former Joint Managing Director of Personal Injury, moved to head up our new people and culture function as Chief People Officer. She has already led an ambitious programme designed to revitalise our culture and introduced our new values system: the Slater and Gordon Way, also known as the S+G Way. She has also focused on strengthening our people experience through the introduction of a tech-enabled 'smart' working culture.

We also welcomed Jon Grainger as Chief Information Officer in 2019. Jon has been pivotal to the pace and ambition of our technological development; quickly embedding Microsoft's most sophisticated software across our operation to help our people provide even better customer service.

He has also continued to develop our technology roadmap, which will enable us to keep transforming our processes across the country.

In January 2020 Nils Stoesser moved from his position as Chairman of the Slater and Gordon board to become Chief Development Officer. In this new role, Nils has taken responsibility for further development of our group litigation business, as well as becoming Chief Risk Officer. In addition, Nils will help identify and develop potential corporate acquisitions and other expansion opportunities. This will be particularly important over the next 18 months, as we anticipate considerable consolidation in the consumer legal services sector.

Our Way of Working

We always strive to recruit the best staff, to uphold the highest legal standards and to provide best in class expertise. Yet being technically gifted or having the brightest legal minds are not the only qualities we look for in new colleagues. We are committed to hiring people who challenge our own conventions: questioning processes that no longer work and removing every roadblock to exceptional customer service.

To ensure that we are united in delivering the best possible outcome for customers, our focus is now underpinned by the S+G Way. This is a new initiative that we rolled out in 2019, which was developed through a series of workshops and interviews with more than 200 people from right across the business.

It is a set of guiding principles that represent who we are and what we believe in, to ensure that we always deliver the very best: for each other and our customers.

While many companies have written value statements, we believe that these can be hard to apply to day-to-day working life. So the S+G Way defines the very specific behaviours and actions that our people and our customers care about most.

These are:

- We do what we say we will
- We own it, we sort it
- We don't wait, we create
- We respect and encourage each other
- We make time to live

Since its introduction, the S+G Way has had a significant impact across the business: delivering greater engagement, transparency and collaboration.

Chief Executive's Strategic Report (continued)

Year ended 31 December 2019

Driving Technological Innovation

To ensure our position as the leading provider of consumer legal services in the UK, we need to take the lead on technology innovation in our sector.

With this in mind, Jon Grainger, our new Chief Information Officer, has worked quickly to implement a strategy aimed at delivering agility, speed and convenience. This strategy is based on three fundamental principles:

- **Work Anywhere**
We had already rolled out a system that enables our workforce to be highly mobile, and this turned out to be crucial to our remote working capabilities during the Covid-19 crisis. Having the ability to collaborate, co-author, share information and keep in touch regardless of location enabled a seamless and consistent service to our customers. Coupled with a holistic approach to agile working, this technology also helps us to dramatically improve our employee experience.
- **Automate Everything**
We have adopted an 'automate-first' approach to solving technology problems and providing new services to the market. This has included the development of customer and delivery platforms that use machine learning, as well as an automated claims system within our personal injury business. This has enabled us to develop solutions while still delivering an excellent customer experience within the insurer value chain.
- **Create/Disrupt**
Our customers and our people are at the very heart of everything we do, so our technology transformation programme is designed to challenge and improve every aspect of legal service provision. With this uppermost in mind we are developing a suite of bespoke customer portals for all service areas. The first of these has been developed for the personal injury area, as well as to support our group litigation business, notably some 70,000 customers in the VW emissions case.

People and Culture

In 2019, we conducted a thorough review of the culture of our business. This resulted in a new people and culture function, led by Chief People Officer Alicia Alinia, and the development of an inclusive, integrated and forward-looking people strategy.

Our ambition is to now deliver an enhanced employee experience from the moment people join the business.

A key part of this has been to ensure we have the right talent in the right place to deliver the right services for our customers. We also recognise that, in a period of considerable change in our sector, our capabilities need to constantly evolve.

The reputation and scale of the business has meant we have always attracted high-quality and interesting casework, which in turn helps us to attract high-calibre talent.

We have also developed a new corporate social responsibility strategy and revised our diversity and inclusion policy in order to focus on inclusiveness and sustainability.

Along with the launch of the S+G Way, 2019 saw the start of a partnership with The Happiness Index. This allows us to track the sentiment and engagement of our employees, enabling changes that not only align with our culture and values but also resonate with our staff.

These changes have included new training programmes, increased clarity of career progression, a structured induction programme for all new employees and greatly improved channels of communication.

This puts us in an excellent position when looking to attract and retain talented people. Another key achievement in driving innovation was the creation of a new podcast series: The Case Files. To date we have achieved in excess of 50,000 downloads, and research shows that we have been effective in both raising awareness of consumer rights and in changing the public perception of lawyers.

Principal Risks and Uncertainties

Effective risk management is fundamental to helping the Group deliver its strategic objectives; a fact we recognised by asking Nils Stoesser to take on the critical role of Chief Risk Officer. The Group has a clear risk framework, and considers strategic, operational and financial risks on a regular basis, and of course identifies actions to mitigate those risks.

Chief Executive's Strategic Report (continued)

Year ended 31 December 2019

Opportunities

The introduction of the new Civil Liability Act in April 2021 marks a significant moment for the consumer legal services industry. We believe this will trigger a period of considerable consolidation and therefore an opportunity for growth, as we establish new partnerships and relationships in the legal and insurance sectors.

We decided in 2019 that to take advantage of these opportunities we would have to make significant investments in technology. Innovative technological solutions will drive both the customer service and scale we need to stay at the forefront of consumer legal services. This has resulted in 18 months of sustained investment and development in our online platforms and this will continue into 2021.

Credit and Liquidity Management

The main exposure to credit risk in the Group is represented by the receivables (debtors and disbursements) owing to the Group.

The maximum exposure to credit risk, excluding the value of any collateral or other security at the end of the reporting year, is the carrying amount of recognised financial assets, net of any provisions against those assets, as disclosed in note 1 and note 23.

Liquidity risk is the risk that an entity will encounter difficulty in meeting the obligations associated with financial liabilities. The Group aims to mitigate liquidity risk by managing cash generation by its operations and applying cash collection targets throughout the Group. The Group also manages liquidity risk by ensuring that adequate borrowing facilities are maintained.

Brexit

Slater and Gordon continues to follow developments linked to the UK's decision to withdraw from the European Union closely. A comprehensive risk assessment of the situation to date has concluded that the risk to the business' performance is low, but we will continue to keep developments under review.

Coronavirus

During the coronavirus pandemic and subsequent lockdown we have focused on minimising its impact, while aiming to operate our business as fully as possible.

By the end of the first week of lockdown, 90% of our colleagues were able to work from home. We were able to do this thanks to our considerable investment in Microsoft technologies, which gave us both the hardware and software platforms and cloud-based security to enable people to work from anywhere. Investment in our People function also ensured that our colleagues were supported through multiple channels of communication at various levels in the organisation.

Our experience throughout the crisis has enabled us to accelerate plans to move towards a new operating model in a more digitally enabled, flexible working environment. This will allow us to respond to the increasing demand by our customers to provide digital modes of interaction and service delivery.

It will also ensure that our people will have the option to work from any location where they are most productive: whether at home or at an intelligently designed office space. We also expect to see benefits to the health and wellbeing of our people, as they achieve a better work/life balance, and female leaders enjoy more freedom to progress their careers, regardless of family commitments.

This new operating model will ultimately see a big reduction in our carbon footprint and improve our efforts as a sustainable business. We will also drive efficiencies in property costs and, just as importantly, become more agile and better placed to weather future crises.

The financial impact is detailed in the going concern section in the Directors' Report.

Legal Action

Slater and Gordon UK brought a claim against Watchstone Group plc (formerly Quindell plc) in June 2017 for fraudulent misrepresentation and breach of warranty in relation to the financial performance of the Professional Services Division of Quindell prior to its acquisition by Slater and Gordon in 2015.

Proceedings were settled out of court during the year, a settlement of £11.0 million was received and this matter is now closed. Full details are disclosed in note 4.3.

Chief Executive's Strategic Report (continued)

Year ended 31 December 2019

Subsequent Events

In January 2020, the Group converted a £250m convertible loan note issued by Slater & Gordon (UK) 1 Limited in December 2017 into 2,500 ordinary shares in the Company. See Note 26.

In March 2020, the Company was excited to welcome its new Chairman of the board, John Connolly. John comes to Slater and Gordon with a wealth of experience in the professional services industry, having been the CEO and Senior Partner of Deloitte UK for twelve years. More recently, John has chaired a number of FTSE and private equity backed companies, including his current Chairmanship of G4S.

On 31 March 2020, the Group concluded a tender process and committed to repurchase approximately 2% of its outstanding shareholder debt from one of its shareholders. This repurchase transaction is expected to conclude in July 2020. Linked to this debt repurchase, the Company will be reducing and cancelling the ordinary shares owned by that Shareholder shortly after signature of the accounts.

The Company created a new class of shares during 2019 (A Ordinary Shares), and in March 2020 repurchased some of these A Ordinary Shares, representing approximately 2% of the issued share capital of the Company.

Summary and Future Developments

The year saw Slater and Gordon take great strides towards its ambition of becoming the leading provider of consumer legal services in the UK. While 2018 was about stabilising the business, 2019 was about creating the conditions to propel the business forward.

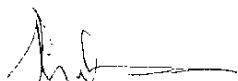
Consequently, we entered 2020 with a renewed sense of confidence and the business has responded well despite the Covid-19 pandemic creating some uncertainties.

In fact, the lockdown created the opportunity to accelerate plans around our future operating model, and we have taken decisive steps in rightsizing our property portfolio as well as moving our people to a smart, agile and flexible working culture.

The investment in technology in 2018 and 2019 put us at a distinct competitive advantage, as we were able to move to remote working within days of lockdown beginning.

The coronavirus lockdown has also created a landscape that is ripe for consolidation, and we are confident in our growth plans for the next 18 months.

With strong momentum already, we will continue to work towards securing that market-leading position.



David Whitmore
Chief Executive Officer
30 June 2020

Section 172 Statement

Year ended 31 December 2019

Slater and Gordon UK Holdings Limited is the parent company of Slater and Gordon UK Limited, an Alternative Business Structure operating as an independent law firm with its own board and leadership team.

The Directors' Approach

Companies now need to report on how the Directors have carried out their Section 172 duties under the Companies Act.

In short, Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, most likely to promote the success of the Company for the benefit of its members as a whole.

To do so, section 172 requires a Director to have regard (amongst other matters) to:

- a. The likely consequences of any decisions in the long-term;
- b. The interests of the company's employees;
- c. The need to foster the company's business relationships with suppliers, customers and others;
- d. The impact of the company's operations on the community and environment;
- e. The desirability of the company maintaining a reputation for high standards of business conduct; and
- f. The need to act fairly as between members of the company.

The board should also understand the views of the company's other key stakeholders and describe in the Annual Report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making.

In discharging our section 172 duty, the Directors of the Company, have given full regard to the factors set out above.

Consequences of long-term Decisions

In 2019, the Slater and Gordon board made a series of strategic decisions for the business. These decisions were made with due consideration of the potential long-term consequences, and the long-term success of the business.

Actions included taking strategic decisions on several property transactions, as well as restructuring of activities, strategic technology investments, consideration of key regulatory changes faced by the business (in particular the implementation of the Civil Liabilities Act 2018), the creation of a new People and Culture function and development of a new internal value proposition, and consideration and approval of the group strategy and budget for 2020.

In assessing the long-term strategy of the business, the board completed a full assessment to identify the different consequences, including risk management considerations and scenarios that could arise from alternative decisions.

Financial performance has also been monitored on a monthly basis, and the Board has no plans to pay dividends in respect of 2019 or for the foreseeable future; this will continue to be reviewed in line with the performance of the Group.

Community and the Environment

With technology at the heart of everything we do, it is essential for us to move towards reducing our carbon footprint in order to remain a sustainable and responsible business. We are doing this by working with our internal colleagues, strategic suppliers and partners to create a culture that will achieve this by digitalisation and mobilisation of the workforce.

Our work in this area is fundamental to a responsible business strategy and is monitored by our responsible business committee as a key priority for our Directors in 2020.

Section 172 Statement (continued)

Year ended 31 December 2019

Employee Interests

Maintaining a good employee experience is key to staff recruitment and retention. So we have a dedicated communications function that supports employee engagement. Relevant information is shared through channels such as regular online information updates, employee surveys and face-to-face executive briefings.

Communication with colleagues also takes place through a variety of channels including S+G Colleague roadshows, videos, blogs, emails, team talks, the Intranet and internal social channels.

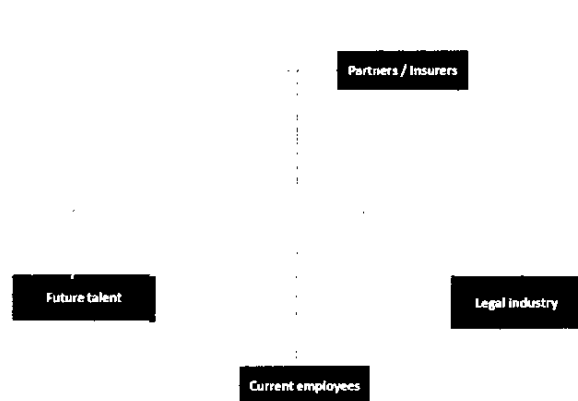
In addition to this, over the course of 2019 we have provided a number of staff training programmes including our solicitor traineeship programme, 15 apprenticeship programmes, a new starter induction training system and our annual PDR training.

We have also provided extensive system training on our case management systems, speech recognition software and Microsoft Excel, as well as compliance training on data protection and the updated Solicitors Regulation Authority (SRA) codes of conduct.

Fostering Business Relationships

Maintaining healthy relationships with suppliers, stakeholders and regulators is key to the long-term success of the business, as illustrated in Figure 1.

Figure 1. Slater and Gordon Stakeholders



With this in mind, the business complies with various regulatory bodies including the Solicitors Regulation Authority and the Financial Conduct Authority. Our Directors also obtain appropriate information to make judgements through stakeholder engagement, day-to-day business interactions, structures or channels for engagement. Details on the Group's supply chain, anti-bribery and corruption policies are detailed in the Directors' Report.

Maintaining a Reputation for High Standards of Business Conduct

For Slater and Gordon, maintaining a reputation for excellent business conduct and standards is a priority. It underpins everything we do. The S+G Way has been pivotal in setting the framework for our culture; it also guides the expectations we have of each employee in working with each other, our customers and other stakeholders to ensure that we retain both integrity and accountability. Full details of the Board composition and Directors responsibilities are detailed in the Directors' Report.

Acting Fairly between Members of the Company

Slater and Gordon exercises its relevant powers in accordance with the Company's Articles of Association and in accordance with relevant internal policies and procedures to ensure it acts fairly as between the Members of the Company. The board is comprised of:

- Our CEO
- Three non-executive Directors (NEDs), representing Slater and Gordon's majority shareholder, one of whom is the chair
- One NED, representing Slater and Gordon's minority shareholders
- Three additional executive Directors

All shareholders therefore have a fair opportunity to provide their views to the board. To ensure probity and transparency, the board meets at least ten times a year to assess the performance of the Company as part of its responsibility to ensure long-term success.

Directors' Report

Year ended 31 December 2019

The Directors present their report, together with the financial report of the consolidated entity consisting of Slater and Gordon UK Holdings Limited (the "Company") and its controlled entities (jointly referred to as the "Group"), for the financial year ended 31 December 2019. This financial report has been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union.

Principal Activities

Slater and Gordon UK Holdings Limited is the ultimate holding company of the Slater and Gordon Group of companies in the UK and Malta. The principal activities of the Group are to provide consumer and complementary services.

Results

The consolidated results for the year ended 31 December 2019 are set out on page 20. No dividend has been proposed by the Company during the year ended 31 December 2019 (2018: £nil).

Directors

The Directors in office at any time during the financial year and up to the date of this report are:

- M J Beauchamp (Appointed 18 March 2019)
- J P Connolly (Appointed 17 March 2020)
- K J Fowle (Resigned 3 May 2019)
- M Glengarry (Appointed 28 February 2019)
- D S Neave
- N I Stoesser
- G J White (Appointed 27 June 2019)
- D J L Whitmore
- A L Wilford (Appointed 14 January 2019)

Slater and Gordon UK Holdings Limited maintains Directors' and officers' liability insurance for its UK and Maltese Directors and officers.

Employee Involvement

The Company's policy is to continuously consult and discuss matters likely to affect employees' interests and engagement. The Company has a dedicated Internal Communications function which supports our drive to engage with our colleagues regularly.

Information is given through media such as regular online information updates, employee surveys and face-to-face Executive briefings which seek to achieve a common awareness on financial and operational matters affecting the Company's performance.

Disabled Persons

The Company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Modern Slavery

The Company is committed to ensuring the prevention of modern slavery practices across the Company and in its supply chains. The Company has a zero-tolerance approach which reflects our commitment to acting ethically and with integrity in all our business relationships. Anti-slavery awareness has been incorporated within induction and annual training programmes.

Anti-bribery and Corruption

The Slater and Gordon Group has a group-wide anti-bribery and corruption policy, which is in compliance with the Bribery Act 2010. Procedures are reviewed periodically to ensure continued effective compliance across the Group (including the Company).

Political Donations

During the year the Company made no political donations (2018: same).

Directors' Report (continued)

Year ended 31 December 2019

Purpose and Leadership

The mission of Slater and Gordon is to provide high quality, technology-driven legal services to all UK consumers. This purpose is underpinned by our culture and commitment to be a people business that is powered by technology.

As detailed in the Section 172 statement above, processes are in place to ensure that the board has a clear understanding of all shareholder views, including its minority shareholders. The People Committee - a sub-committee of the board - is tasked not only with setting a consistent HR strategy across the group, but also in reporting on key employee initiatives to the board at each board meeting. Unfiltered feedback is also shared with the board after each regular round of 'Town Halls'. This process ensures the board is aware of the views of employees and uses these insights to inform its views on the impact of wider business decisions on employees.

The board introduced the **One in 21 Strategy** in 2018.

The objectives of this strategy are:

1. To become one fully integrated company
2. To have one culture and way of working
3. To be number one in our chosen markets and the first choice for consumers and colleagues

The strategy is referred to in all Executive Leadership Team colleague communications and the ambitious outcomes are targets that every member of the workforce is involved in achieving.

Our people are updated on progress throughout the year, via communication tools that range from monthly communications from our CEO, to monthly 'talking points' shared with all people managers. In 2019, we focused on delivering culture change so that key behaviours and ways of working could be established ahead of delivering a growth strategy in 2020.

This was largely done by launching the S+G Way, a values system for the Group as a whole. It sets out a shared expectation of how the workforce should collaborate and interact both with customers and with each other. The board anticipates that the S+G Way will deliver cultural change and an improved employee and customer experience; the outcome of which will see better engagement reflected in our customer and employee net promoter scores.

The S+G Way is the foundation of our new competency framework and during 2020 we will introduce a recognition program to celebrate people demonstrating its values.

In addition to HR's standard monitoring and reporting on staff data and issues, the board has also committed to conducting regular employee engagement surveys through an external supplier in order to track engagement throughout the business and measure cultural change.

2019 also saw the introduction of a Risk Charter that was created to guide employees on how to manage risk, meet regulatory obligations and operate to specific standards.

To complete our overhaul of internal policies, two additional policies were rolled out in 2019: 'Raising Issues and Concerns', and our 'Whistleblowing Policy and Procedure' which will be reviewed annually and may be amended or replaced at any time.

Our Whistleblowing policies state that the first port of call to report a concern or issue is the staff member's line manager, and the second is an HR business partner. In addition to this mechanism, 2019 also saw the launch of 'Safecall', a confidential telephone helpline for the workforce to report any concerns.

Board Composition and Directors' Responsibilities

As befits a business such as ours, the board is comprised of individuals with a range and balance of skills, backgrounds, experience and knowledge. The Chairman is effective, promoting open debate and facilitating constructive discussion, and individual Directors have sufficient capacity and opportunity to make a valuable contribution. John Connolly was newly appointed as the Chairman of the Company in March 2020 and brings a wealth of experience as both a Chairman and Director to the board. Leveraging this experience, the Chairman consistently encourages open and constructive debate amongst his fellow Directors.

The roles of Chairman and CEO are held by separate individuals. Throughout 2019, there were three non-executive Directors (excluding the Chairman), and two executive Directors on the board (excluding the CEO). Therefore 60% of the board were non-executive Directors (NEDs).

Currently, there are three NEDs (excluding the Chair), and three executive Directors (excluding the CEO) on the board. Therefore, 50% of the board remain NEDs.

Directors' Report (continued)

Year ended 31 December 2019

Board Composition and Directors' Responsibilities (continued)

During 2019, the board met fifteen times. Typically, unless a meeting is held in short order, the Directors are given four weeks to prepare their items for the next meeting. Board packs contain an action list that keeps track of the status of every assigned task given to the Directors, including associated delivery dates. Directors are given a minimum of two days to read the board pack before each board meeting, and each item is allocated sufficient time for full discussion at the meeting. The Chairman ensures that a full range of critical matters from across the business are scheduled for discussion at the board level. In particular, the board will always hear feedback from the People Committee and Audit and Risk Committee about key matters arising from their meetings. In addition to this, the board annually undertakes an immersive strategy session over a number of days, to ensure that all aspects of the business and its strategy have received due consideration.

The board has delegated its risk function to the Board Audit and Risk Committee, and their remuneration function to the People Committee. The terms of reference for each committee set out the authorities delegated to them, and the chair of each committee (each an NED) reports to the board at each meeting.

Importantly, board members come from a diverse range of backgrounds including financial investment and accountancy, insurance, law, investment management and management consultancy. This ensures that a broad range of knowledge, skill sets and approaches inform every board decision. Further, the board actively seeks to align the business with strategic commercial partners who embrace the same vision.

The Chair and Company Secretary periodically review the Company's governance processes to ensure they support effective decision-making. The General Counsel and Company Secretary, Emma Humphrey, attends all board meetings and is responsible for advising the board on all governance matters, ensuring that all Directors have direct access to this advice.

While all of our Directors are experienced in their roles, further work is currently underway within the General Counsel's office to ensure that all Directors receive clear written guidance on their statutory and shareholder responsibilities and professional development opportunities pertinent to their role.

With this in mind, the General Counsel's office is currently undertaking a thorough review of corporate governance across the Group to ensure that the Group subscribes to a responsible level of decision making, catering for the interests of all key stakeholders. To reinforce this, the General Counsel's office will be conducting a board effectiveness study during 2020.

In 2019, the Group introduced new Delegations of Authority Guidelines (the "DoA"). The DoA sets out to whom the board may delegate decision-making authority to run the business on a day-to-day basis. However, decisions around external commitments which are business-critical in nature, or which represent a high financial commitment, remain reserved to the board of Directors.

Conflicts of interest are managed by a register of interests for board members and the Articles of Association of the board sets out how conflicts of interest should be decided. The board is currently provided with:

- An annual report from an independent auditor who audits the financial statements of the Group. In 2019, an independent auditor also provided a report in relation to the Company's IT environment
- Financial reports and key performance indicators from the CFO
- Workforce data from the CPO (HR)
- Feedback from employees via employment engagement surveys and colleague roadshows
- Regular 'deep dive' reports from each area of the Group
- Consumer data from research conducted by the Chief Customer Officer (Marketing)

All material provided to the board for consideration must go through a rigorous internal review process, to include approval by the Executive Leadership Team where appropriate, and by the CEO, to ensure the reliability of business information being provided to the board for consideration.

Where it is appropriate for the board to appoint external advisors (in particular to provide clear guidance on their statutory responsibilities as Directors) this is commissioned by the General Counsel. Where ongoing monitoring of a particular business matter is required, the board will appoint a dedicated sub-committee of the board - with a clear terms of reference - to monitor progress of that matter and report back to the board at regular intervals.

The Company will also provide periodic presentations of operational performance to the minority shareholders and their appointed representative on the board: a Non-Executive Director who specifically represents the interests of the minority shareholders. Effective and efficient communication of information with all Shareholders is ensured through the appointment of an experienced managing agent: Global Loan Agency Services.

Directors' Report (continued)

Year ended 31 December 2019

Opportunity and Risk

The board works to promote the long-term, sustainable success of the Company by identifying opportunities to create and preserve value and by establishing oversight for the identification and mitigation of risks.

One of the values that make up the S+G Way is 'We Don't Wait, We Create', which encapsulates our drive to create solutions and identify future opportunities.

In 2019, we undertook extensive market research into the UK legal industry, to find out who our customers are, the types of products they demand and the best ways in which we can meet their needs. Our findings helped to identify six key customer segments, which now inform and direct the design of our products and services.

To test our product and service development, we also carry out robust user testing prior to release. This user feedback helps to verify that the decisions we make about our communication and technology solutions truly meet customer needs and expectations.

Our quality control processes also involve closely monitoring and responding to customer feedback via our complaints procedures, as well as continuously monitoring Google and Trustpilot reviews and our customer Net Promoter Scores (NPS).

In addition to all of this, our partnership with The Happiness Index has helped us to identify pockets of low engagement and take appropriate remedial action. For example, in 2019 we responded to low opinion of our communication channels by investing in a new digital workspace – effectively a modern Intranet – fully aligned to our technology investment. This enables us to communicate, collaborate and innovate far more effectively.

The Audit and Risk Committee

The Audit and Risk Committee (ARC) is responsible for maintaining an appropriate relationship with the Group's external auditors and for reviewing the Group's internal financial controls and the audit process. It assists the Board in seeking to ensure the integrity of the financial and non-financial information supplied to external stakeholders and that such information presents a fair, balanced and understandable assessment of the Group's performance and position.

The board considers that the ARC's responsibilities include:

- The principles of, and developments in, financial reporting including the applicable accounting standards and statements of recommended practice
- Financial performance, including liquidity and matters which may influence the presentation of the financial statements
- The principles of, and developments in, company law, sector specific laws and other relevant corporate legislation
- Making recommendations to the board on the Group's risk strategy and risk appetite
- Overseeing the design and effectiveness of the Group's risk management framework relative to the Group's activities, including those that would threaten its business model
- Reviewing the adequacy and quality of the risk management function and the effectiveness of risk reporting

The Committee reviews the effectiveness, objectivity and independence of the external auditors and also considers the scope of their work and fees paid for audit and non-audit services.

The activities of the ARC are supported by a dedicated risk and assurance function, which sits within the Data and Assurance team under the leadership of the Chief Risk Officer.

Slater and Gordon is committed to identifying and understanding, environmental, social and governance risks and ensuring that the appropriate decisions are made across the Group and its supply chains. The ARC therefore aims to ensure that all stakeholders are safeguarded and treated fairly and with dignity. Our Risk Charter, in conjunction with our corporate social responsibility programme, sets out all stakeholders' responsibilities in this regard. Through our risk and assurance programmes we will be working with our people and procurement functions to strengthen our internal controls framework and systems.

The board has determined its risk appetite and the Group's key risk indicators are reviewed on a monthly basis. There is also further work underway to align subsidiary key risk indicators to the Group position. In addition to this, the board keeps the risk appetite statement and risk framework under active review, and both of these documents require board approval on an annual basis.

Directors' Report (continued)

Year ended 31 December 2019

The Audit and Risk Committee (continued)

Identifying potential problems is a vital part of managing risk, so in line with the Group Raising Issues and Concerns Policy there are various reporting channels in place for each business unit. These are set out within the Whistleblowing Policy and Procedures, together with local business unit reporting procedures.

A full group risk report is presented to and reviewed by the ARC when it convenes at its quarterly meetings. The ARC reports to the board on all matters within its remit and the committee makes whatever recommendations to the board that it deems appropriate.

Remuneration

The board promotes executive remuneration structures that are aligned to the long-term sustainable success of the Company, taking into account pay and conditions elsewhere in the Company.

2019 saw the rolling out of harmonised benefits across the Group. Alongside this was a new Group Incentive Plan, designed to reward the results and behaviours that help to drive the profitable growth of Slater and Gordon by:

- (1) Incentivising superior results, including cash management measures.
- (2) Promoting the values, behaviours and actions which will help the business advance.
- (3) Rewarding results and behaviour in a clear, consistent, fair and straightforward manner.

The Group Incentive Plan offers the opportunity to earn a market-competitive percentage of salary in return for results achieved. Annual performance reviews are aligned with the incentive.

The plan has been implemented across the organisation, but adjustments have been made for its application across different levels, roles and responsibilities. For example, there is a specific plan for the executive leadership team and senior management whereby the increased seniority of the employee means closer alignment of the individual awards to group performance over individual attainment.

The executive leadership team and senior management remuneration is closely aligned to the results of a bi-annual performance review. This performance rating is based not only on individual output but also functional and group performance on a financial and non-financial basis. Further governance is enabled via the People Committee.

With regard to the mechanism for remunerating Directors, Slater & Gordon (UK) 1 Limited, a direct subsidiary of the Company, controls the pay for all Directors of Slater and Gordon Group companies under the supervision of the People Committee. All non-executive Directors have a services agreement with Slater & Gordon (UK) 1 Limited, which sets out the scope of their responsibilities to the Group.

The People Committee

The People Committee is made of up two independent NEDs and has responsibility for setting the overall remuneration policy and making decisions about specific remuneration arrangements in the broader context of employee remuneration throughout the Group. This involves approving all awards under the incentive plan and the wider remuneration package for all Directors, executive leadership team members and other members of the senior management team.

Further, the Company participates in an annual compensation survey, which provides benchmarking data for all roles within the organisation, ensuring a robust salary review process and informing a competitive range of rewards for all employees in the context of their local market. In late 2019, supported by an external pay benchmarking specialist, we commenced a group-wide job levelling and pay review exercise to ensure that every role is governed and rewarded competitively.

Full and detailed calibration of group-wide pay awards and incentives is also undertaken, which includes visibility of any gender pay gap. In fact, we have gone beyond government requirements in our reporting of gender pay gap data, and have also signed up to the government's Think, Act, Report campaign, which promotes gender equality at work.

In addition to all of these positive changes to our remuneration and benefits packages, from mid-2019 we have been offering enhanced family-friendly leave payments to all levels of the workforce.

This involved standardisation of maternity, enhanced maternity and paternity pay for all colleagues across the group, including voluntary benefits. We also launched a colleague discount hub.

Directors' Report (continued)

Year ended 31 December 2019

Our Diversity and Inclusion Policy

The aim of this policy is to support a diverse and inclusive workplace where all members of the workforce feel free to be themselves and to thrive. This is aligned with the S+G Way and applies equally to the executive leadership team, from whom the executive Directors are appointed.

Slater and Gordon is also a 'Diversity Champion' member of Stonewall, with the People Committee enabling four diversity and inclusion networks, each with its own executive sponsor. The People Committee regularly reports on diversity and inclusion initiatives to the board, and a majority Director is the Chairman of the People Committee, to ensure sufficient rigour and independence of that sub-committee.

Going Concern

The financial statements have been prepared on a going concern basis.

The Group manages its financing via a shareholder loan facility which, including accrued interest, is £30.0m as at 31 December 2019 and is fully drawn down (2018: £22.4m). The Group also takes advantage of a working capital facility to ensure that the short-term liquidity of the business is also managed, and the Group can fulfil its obligations when they fall due. The working capital facility is £30.0m at 31 December 2019 (2018: £20.0m) with £16.5m drawn as at 31 December 2019 (2018: £9.1m).

At 31 December 2019, the Group had net assets of £125.7 million and cash of £26.1 million. The Group has prepared cash flow forecasts for the foreseeable future based on key assumptions. The key drivers of going concern for the Group are the achievement of revenues, management of working capital cycle providing cash self-sufficiency in the Group, the level of case intake based on a strong pipeline and the likely future value of this work. Management has considered these drivers together with the forecasts and projected cash flow patterns of the Group for the foreseeable future being a period of 12 months from the date of approval of these financial statements.

The business has considered the impact of Covid-19 on its business. Covid-19 will have a number of impacts with a reduction in road traffic leading to a reduction in road traffic accidents and less demand for hire cars and repairs, fewer personal injury claims being incurred due to less movement of the population in public places, temporary restriction on face to face medical examination and rehabilitation services, temporary closure of court facilities leading to a slowdown in closure of open cases and delay in completion of property conveyancing matters, which could have a negative impact on the revenue and cash received into the business. This impact is mitigated in part by reduction in variable marketing costs, participation in the HMRC Furlough and VAT deferral schemes, reduced operational costs due to the remote working environment and strong cost management.

The Group has used the 2020 budget as its base case and flexed this for a fall in intake volumes of between 50% to 70% for a period of three months and reducing to a fall of between 20% to 35% for a further three to four months. It is expected that business volumes will return to the base case levels of activity in October 2020. For 2020, this results in an impact on revenue of (17)% and cash flow of (24)% versus budget. Under this forecast the business would still have a minimum of £7.5m of cash headroom over its shareholder covenants and a minimum of £10.9m of cash headroom on its undrawn working capital facility.

In addition to the revised forecast (referred to as 'Moderate') a number of downside scenarios have been considered (namely, 'Significant' and 'Severe'). In respect of the main income streams (Personal Injury, Consumer Legal Services, Health and Motor), in the Significant scenario these include reductions in intake volumes of 50% to 70% for three to four months, and 25% to 70% for a further three to six months. For the full year this has an impact on revenue of (22)% and cashflow of (48)% versus budget. Under the Severe scenario these include reductions in intake volumes of 50% to 75% for three to six months, and 25% to 70% for at least three months and in most streams until the end of the year. For the full year this has an impact on revenue of (28)% and cashflow of (63)% versus budget.

Even under the most pessimistic modelled scenario, there are sufficient mitigating actions available to the business to ensure it would be able to meet its liabilities and remain within its shareholder covenants for a period of more than 12 months.

The Company's projections for the period to July 2021 including receipts and payments indicate that Slater and Gordon expects to pay all its obligations to all stakeholders. Business activity and cash flows are monitored on a regular weekly basis and continue to be satisfactory. Regular financial forecasts are prepared to monitor the firms funding requirements through retained profits and borrowing facilities, and projected compliance with shareholders covenants.

The management has reasonable expectations that the Company has adequate resources to continue trading for the foreseeable future. Accordingly, the management continues to adopt the going concern basis of accounting for preparing these financial statements.

Directors' Report (continued)

Year ended 31 December 2019

Stakeholder Relationships and Engagement

The board is responsible for overseeing and fostering meaningful engagement with all stakeholders, including the workforce. Just as importantly, it has a responsibility to have a proper regard for their views when taking decisions.

Similarly, the board understands its duty to treat clients, and each other, with mutual respect and trust. With this in mind, Slater and Gordon will roll out a board-approved corporate and social responsibility strategy in 2020, which comprises three key areas: pro bono, community and the environment.

This will work in concert with the business' evolving environmental policy, which will include the property strategy deliverables and establish the document management strategy for the Group. The policy is designed to introduce measures that will ultimately reduce the carbon footprint of the Group.

Together with the ongoing initiatives to promote the S+G Way, enhance dialogue with staff and stakeholders and manage risk, we believe that this new social responsibility strategy puts the business on a firm footing with regard to all stakeholder relationships and engagement.

To make Slater and Gordon as inclusive and supportive as possible, we also support an active Employee Assistance Programme, which is a confidential service designed to help staff with life's ups and downs, both at home and at work. This provides our colleagues with a range of professional services, including counselling, either over the telephone or face-to-face.

And because clients are always at the heart of our thinking, we also provide a formal complaints process for clients whereby the Client Care Team provides details of any complaints to senior management for further review and action. The section 172 statement earlier in this document provides additional information relating to the board and the Company's dialogue with stakeholders.

Auditor

Deloitte LLP was appointed as auditor on 1 November 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. A resolution to appoint Deloitte as auditor was proposed at the board meeting of 25 September 2019 on the recommendation of the Audit and Risk Committee. The Directors unanimously passed the resolution to appoint Deloitte as auditor at that meeting.

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006. Deloitte LLP has expressed their willingness to continue in office as auditors and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Directors' Report (continued)

Year ended 31 December 2019

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including 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 period.

In preparing the parent Company financial statements, the Directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



David Whitmore
Chief Executive Officer

30 June 2020



Alison Wilford
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SLATER AND GORDON UK HOLDINGS LIMITED

Opinion and Report on the audit of the financial statements

In our opinion:

- the financial statements of Slater and Gordon UK Holdings Limited (the 'parent company') and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statement of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related consolidated notes 1 to 26 and Company notes 1-9.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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 are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in 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 Group's or the parent 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.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information is comprised of information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 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 this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SLATER AND GORDON UK HOLDINGS LIMITED (CONTINUED)

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 Group's and the parent 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 Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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 Chief Executive's 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 Chief Executive's strategic report and the Directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Chief Executive's strategic report or the Directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

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.



Heather J Crosby BSc ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Manchester

30 June 2020

Consolidated Statement of Comprehensive Income

for the period ended 31 December 2018

		Consolidated Year ended 31 December 2018	Period ended 31 December 2018
		£'000	£'000
Revenue	3	192,889	222,667
Cost of sales		(41,627)	(55,334)
Gross profit		151,262	167,333
Operating expenses before non-recurring items		(146,300)	(172,973)
Operating profit / (loss) before non-recurring items		4,962	(5,640)
Non-recurring items	4	(6,013)	119,980
Operating (loss) / profit	4	(1,051)	114,340
Net finance costs	7	(8,576)	(2,166)
(Loss) / profit before tax		(9,627)	112,174
Income tax	8	(253)	(85)
(Loss) / profit and total comprehensive (loss) / income		(9,880)	112,089

The Company was incorporated on 22 September 2017. The comparative period financial information within the financial statements therefore covers the 15 month period ended 31 December 2018.

The total comprehensive (loss) / income for the current and preceding periods arises wholly from the Group's continuing operations.

The accompanying notes on pages 24 to 51 form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

		31 December 2019	31 December 2018
	Notes	£ 000	£ 000
Non-current assets			
Intangible assets	9	11,709	17,519
Property, plant and equipment	10	4,946	5,636
Right-of-use assets	25	18,811	-
Deferred tax assets	11	925	938
Work in progress	12	49,229	46,377
Trade and other receivables	13	49,747	39,975
Total non-current assets		135,367	110,445
Current assets			
Deferred tax assets	11	1,815	3,036
Work in progress	12	77,165	87,569
Trade and other receivables	13	124,979	151,587
Cash	14	26,082	11,351
Total current assets		230,041	253,543
Total assets		365,408	363,988
Current liabilities			
Trade and other payables	15	152,885	171,449
Lease liabilities	25	5,111	-
Current tax		2,950	3,897
Provisions	16	10,187	15,593
Total current liabilities		171,133	190,939
Non-current liabilities			
Trade and other payables	15	12,078	12,963
Lease liabilities	25	23,727	-
Provisions	16	2,733	2,649
Loans	17	30,029	22,444
Total non-current liabilities		68,567	38,056
Total liabilities		239,700	228,995
Net assets		125,708	134,993
Equity			
Share premium	18	23,549	22,904
Retained earnings		102,159	112,089
Total equity attributable to equity holders in the Company		125,708	134,993

*restated

The accompanying notes on pages 24 to 51 form an integral part of these financial statements.

The financial statements were approved by the board of Directors and authorised for issue on 30 June 2020.

They were signed on its behalf by:



David Whitmore
Chief Executive Officer



Alison Wilford
Chief Financial Officer

Company number: 10977311

Consolidated Statement of Changes in Equity

Period ended 31 December 2019

	Attributable to ordinary holders of the Parent			
	Note	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 22 September 2017		-	-	-
Profit after tax for the period		-	112,089	112,089
Total comprehensive income for the period		-	112,089	112,089
<i>Transactions with owners in their capacity as owners</i>				
Issue of ordinary shares	18	22,904	-	22,904
Total transactions with owners in their capacity as owners		22,904	-	22,904
Balance as at 31 December 2018		22,904	112,089	134,993
Change in accounting standards	25	-	(50)	(50)
Restated balance at 1 January 2019		22,904	112,039	134,943
Loss after tax for the year		-	(9,880)	(9,880)
Total comprehensive loss for the year		-	(9,880)	(9,880)
<i>Transactions with owners in their capacity as owners</i>				
Issue of ordinary shares	18	645	-	645
Total transactions with owners in their capacity as owners		645	-	645
Balance as at 31 December 2019		23,549	102,159	125,708

The Company was incorporated on 22 September 2017. The comparative period financial information within the financial statements therefore covers the 15 month period ended 31 December 2018.

The accompanying notes on pages 24 to 51 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the period ended 31 December 2018

		For the period ended 31 December 2018	Period ended 31 December 2017
	Note	£'000	£'000
Operating activities			
(Loss) / profit before tax		(9,627)	112,174
Adjustments for:			
Depreciation of property, plant and equipment	4	1,223	1,570
Depreciation of right-of-use assets	4	4,288	-
Amortisation of intangible assets	4	5,861	5,061
Finance costs	7	8,733	2,266
Interest income	7	(157)	(100)
Loss / (gain) on disposal of property, plant and equipment	4	104	(30)
Gain on bargain purchase	21	-	(134,634)
Changes in working capital:			
Decrease in receivables		16,836	5,885
Decrease in work in progress		7,552	8,075
Decrease in payables		(12,943)	(16,152)
Decrease in provisions		(4,234)	(3,159)
Cash generated / (used in) operations		17,636	(19,044)
Interest received	7	157	100
Interest paid	7	(1,848)	(613)
Income tax received		30	1,065
Net cash inflow / (outflow) from operating activities		15,975	(18,492)
Investing activities			
Payment for plant, equipment & software development		(696)	(1,979)
Proceeds from sale of plant, equipment & software development		8	1,220
Cash acquired through business combination	21	-	10,558
Consideration paid on acquisition	21	-	(747)
Net cash (outflow) / inflow from investing activities		(688)	9,052
Financing activities			
Issue of share capital	18	645	-
Loan drawdown		4,000	20,791
Repayment of lease liabilities	25	(5,201)	-
Net cash (outflow) / inflow from financing activities		(556)	20,791
Net increase in cash and cash equivalents		14,731	11,351
Cash and cash equivalents at beginning of financial year / period		11,351	-
Cash and cash equivalents at end of financial year / period	14	26,082	11,351

The Company was incorporated on 22 September 2017. The comparative period financial information within the financial statements therefore covers the 15 month period ended 31 December 2018.

The accompanying notes on pages 24 to 51 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

31 December 2019 to 31 December 2017

1. Statement of Significant Accounting Policies

The following is a summary of significant accounting policies adopted by the Group in the preparation and presentation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

Slater and Gordon UK Holdings Limited ("the Company") is a private company limited by shares, incorporated and domiciled in England and Wales under the Companies Act 2006. The consolidated financial statements comprise the Company and its controlled entities referred to in note 20, together referred to as the Group and individually as Group Entities.

This financial report is a general purpose financial report that has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, Interpretations and other applicable authoritative pronouncements of the International Accounting Standards Board (IASB) and the Companies Act 2006 in the United Kingdom.

The financial report was authorised for issue by the Directors as at the date of the Directors' report.

The consolidated financial statements are presented in pounds sterling (GBP) which is the functional currency and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

The statement of financial position at 31 December 2018 contains a restatement to decrease current trade and other payables by £13.0m to £171.4m and increase non-current trade and other payables by the same amount. This correctly reports the aged split of legal creditors, reflecting the dates that these items fall due.

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

By publishing the Company financial statements here together with the Group financial statements the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of these approved financial statements.

Change of accounting reference date

The comparative period financial information within the financial statements covers a 15 month accounting period ended 31 December 2018. The Company was incorporated on 22 September 2017.

Significant accounting estimates

The preparation of the financial statement requires the use of certain estimates and judgements in applying the Group's accounting policies. Those estimates and judgements that are significant to the financial report are disclosed in note 2.

Going Concern

The financial statements have been prepared on a going concern basis.

The Group manages its financing via a shareholder loan facility which, including accrued interest, is £30.0m as at 31 December 2019 and is fully drawn down (2018: £22.4m). The Group also takes advantage of a working capital facility to ensure that the short-term liquidity of the business is also managed, and the Group can fulfil its obligations when they fall due. The working capital facility is £30.0m at 31 December 2019 (2018: £20.0m) with £16.5m drawn as at 31 December 2019 (2018: £9.1m).

At 31 December 2019, the Group had net assets of £125.7 million and cash of £26.1 million. The Group has prepared cash flow forecasts for the foreseeable future based on key assumptions. The key drivers of going concern for the Group are the achievement of revenues, management of working capital cycle providing cash self-sufficiency in the Group, the level of case intake based on a strong pipeline and the likely future value of this work. Management has considered these drivers together with the forecasts and projected cash flow patterns of the Group for the foreseeable future being a period of 12 months from the date of approval of these financial statements.

The business has considered the impact of Covid-19 on its business. Covid-19 will have a number of impacts with a reduction in road traffic leading to a reduction in road traffic accidents and less demand for hire cars and repairs, fewer personal injury claims being incurred due to less movement of the population in public places, temporary restriction on face to face medical examination and rehabilitation services, temporary closure of court facilities leading to a slowdown in closure of open cases and delay in completion of property conveyancing matters, which could have a negative impact on the revenue and cash received into the business. This impact is mitigated in part by reduction in variable marketing costs, participation in the HMRC Furlough and VAT deferral schemes, reduced operational costs due to the remote working environment and strong cost management.

The Group has used the 2020 budget as its base case and flexed this for a fall in intake volumes of between 50% to 70% for a period of three months and reducing to a fall of between 20% to 35% for a further three to four months. It is expected that business volumes will return to the base case levels of activity in October 2020. For 2020, this results in an impact on revenue of (17)% and cash flow of (24)% versus budget. Under this forecast the business would still have a minimum of £7.5m of cash headroom over its shareholder covenants and a minimum of £10.9m of cash headroom on its undrawn working capital facility.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2019

I. Statement of Significant Accounting Policies (continued)

(a) Basis of preparation of the financial report (continued)

Going Concern (continued)

In addition to the revised forecast (referred to as 'Moderate') a number of downside scenarios have been considered (namely, 'Significant' and 'Severe'). In respect of the main income streams (Personal Injury, Consumer Legal Services, Health and Motor), in the Significant scenario these include reductions in intake volumes of 50% to 70% for three to four months, and 25% to 70% for a further three to six months. For the full year this has an impact on revenue of (22)% and cashflow of (48)% versus budget. Under the Severe scenario these include reductions in intake volumes of 50% to 75% for three to six months, and 25% to 70% for at least three months and in most streams until the end of the year. For the full year this has an impact on revenue of (28)% and cashflow of (63)% versus budget.

Even under the most pessimistic modelled scenario, there are sufficient mitigating actions available to the business to ensure it would be able to meet its liabilities and remain within its shareholder covenants for a period of more than 12 months.

The Company's projections for the period to July 2021 including receipts and payments indicate that Slater and Gordon expects to pay all its obligations to all stakeholders. Business activity and cash flows are monitored on a regular weekly basis and continue to be satisfactory. Regular financial forecasts are prepared to monitor the firms funding requirements through retained profits and borrowing facilities, and projected compliance with shareholders covenants.

The management has reasonable expectations that the Company has adequate resources to continue trading for the foreseeable future. Accordingly, the management continues to adopt the going concern basis of accounting for preparing these financial statements.

(b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent entity controls. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are prepared using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist. All intercompany balances and transactions, including any unrealised profits or losses, have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

(c) Revenue

Fees Billed - Provision of Legal Services

• *Personal Injury Law Claims*

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 specified percentage of damages awarded under a claim.

In personal injury matters, contracts with customers 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. Some contracts contain multiple deliverables – such as legal services in respect of a statutory claim and a common law claim, or initial pre-issue work and litigation work. In such circumstances, these multiple deliverables are considered to represent a single distinct performance obligation. This is considered by management as an accurate method of the transfer of services.

Revenue is recognised when the significant risks and rewards of a service is transferred to the customer. The Group recognises revenue in respect of personal injury matters "over time" (as opposed to at a "point in time"). Where a contract has only been partially completed at the year-end date, revenue represents the fair value of the services provided to date based on the stage of completion of the performance obligation at the statement of financial date. The net movement in work in progress is disclosed separately within revenue.

The Group arranges for the disbursement activities on behalf of the customer; however, it does not control the output from those activities. The Group cannot influence the content of the medical reports or court filings; therefore, no profit margin is recognised on the activities and the customers are charged the direct cost incurred by the Group. As such, the Group acts as an agent for disbursements, which are only recognised when it is assessed that a reimbursement will be received from the customer 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. The amount of any expected reimbursement is reduced by an allowance for non-recovery based on past experience.

A receivable in relation to these services is recognised on settlement of the customer 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.

Notes to the Consolidated Financial Statements

(continued)

Notes to the Consolidated Financial Statements 2019

1. Statement of Significant Accounting Policies (continued)

(c) Revenue (continued)

• Consumer Legal Services

Revenue from the provision of general legal services, including group litigation, is recognised over time in the accounting period when services are rendered. This includes fixed fee arrangements, where revenue is recognised based on the stage of completion with reference to the actual services provided as a proportion of the total services expected to be provided under the contract. In fee for service contracts, revenue is recognised up to the amount of fees that the Group is entitled to invoice for services performed to date based on contracted rates. The net movement in work in progress is disclosed separately within revenue.

Certain group litigation matters are undertaken on a partially funded basis. The Group has arrangements with third party funders to provide a portion of the fee's receivable on a matter over time as services are performed. In such arrangements, the funded portion of fees is billed regularly over time and is not contingent on the successful outcome of the litigation.

A receivable in relation to these services is recognised 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.

• Other Legal Services

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. 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.

Revenue has been recognised for Noise Induced Hearing Loss ("NIHL") files that have settled during the year ended 31 December 2019. Any files that are in progress as at 31 December 2019 have no revenue recognised due to the inherent uncertainty over the consideration to be achieved in each successful matter.

The Group has determined that no significant financing component exists in respect of the provision of legal services revenue streams. This is because 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 Group.

Ancillary revenue - Provision of Non-legal Services

• Vehicle Hire and Repair

Revenue from the provision of car repair services is recognised on completion of all repair work and upon the customer signing a "customer satisfaction note" in taking back possession of the car. The amount of revenue recognised is the amount as agreed in writing between the parties prior to the service being provided in the repair contract.

Revenue from the provision of car hire and cost recovery services are recognised over the time that the services are performed, being the period between the commencement of the car hire and settlement of costs through the Third-Party Insurer ("TPI"). The amount of revenue recognised is the amount as agreed in writing between the parties prior to the service being provided in the hire rental agreement.

Work in progress is 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 period will not be subject to significant reversal when a matter is concluded. A dilution rate is applied on the invoice to recognise the fact that there may be a settlement adjustment with the insurer if the insurer disputes any costs. This also takes into account the fact that some cases may not be 'no fault'. Accrued income is recorded based on the provision of car recovery services where the services provided overlap the year end date and the final invoice has not been billed to the customer.

A receivable in relation to these services is recognised when a bill has been issued, 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.

For car hire and repair services provided for not at fault customers, the Group acts as a principal. Although the services are provided by third party suppliers, the Group has the primary responsibility to ensure that the services have been delivered to the customers. The Group cannot vary the prices set by the supplier, as it is governed by an industry framework and the Group collects the revenue from the customer and bears all credit risk.

• Medical Reports and Rehabilitation Services

Revenue from the provision of medical appointments and rehabilitation services is recognised at a point in time. For medical appointments, the revenue is recognised when the medical report is received from the medical expert. The amount of revenue recognised is based on the fee structure. This value remains in accrued income until the medical report is issued to the Instructing Party ("IP") at which point a request for payment is raised. For rehabilitation services, the revenue is recognised when the course of treatment is completed, and the final assessment or discharge report is issued to the IP. The amount of revenue recognised is based on the fee structure agreed with the IP. A receivable in relation to these services is recognised when a bill has been issued, as this is the point in time that the consideration is unconditional.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2019

1. Statement of Significant Accounting Policies (continued)

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and short-term deposits with an original maturity of three months or less. It includes any amounts held in escrow. For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding banking overdrafts.

Under the Solicitors Accounts Rules 2019 the Group is required to have a separate bank account to hold and receive client money. This must be under the name of the relevant entity and the name of the account must also include the word 'client'. All client money must be held in a client account. Client monies do not appear in the financial statements.

(e) Receivables

Collectability of trade debtors is reviewed at each reporting period. Management considers whether an impairment of debtors is required based on the ageing profile and uses calculated historic rates or recovery to determine the required impairment. Debts that are known to be uncollectable are written off when identified.

The Group has adopted IFRS 9 applying the simplified approach to measure the expected credit losses. This uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit loss, trade receivables have been grouped based on shared credit and market risk characteristics and the days overdue. For trade receivables in Consumer Legal Services, the expected loss rates are based on the three year historic default rate experienced for each aged group of items. The rates range from 0.16% for 0-30 days to 2.86% for 61-90 days and 100% for over 90 days. For all other trade receivables there is no history of credit loss owing to the nature of the counterparties. Further details of the credit loss provision are disclosed in note 25.

Disbursements are only recognised when it is assessed that a reimbursement will be received from the customer 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.

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

Accrued income represents the revenue recognised in accordance with the Group's revenue recognition policy to the extent it has not been invoiced.

(f) Payables

Trade payables and legal creditors are obligations to pay for services that have been acquired in the ordinary course of business from suppliers. Trade payables and legal creditors are classified as current liabilities if payment is due within one year or less. The Group has a funding facility in place whereby a third party will lend on expected agreed costs and paid disbursements at a given interest rate on personal injury (No Win - No Fee) cases. This facility is disclosed in other creditors.

(g) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

The carrying amount of property, plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from those assets. Recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is based on estimated future cash flows, discounted to their present value using a post-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

Depreciation

The depreciable amounts of property, plant and equipment are depreciated over their estimated useful lives, commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rate	Depreciation method
Property, Plant & Equipment	3 – 15 years	Straight Line and Diminishing Value
Leasehold Improvements	Length of lease	Straight Line

An asset's residual value and useful life is reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Any impairment losses are recognised in the consolidated statement of comprehensive income.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

(continued)

Financial statements for the year ended 31 December 2018

1. Statement of Significant Accounting Policies (continued)

(h) Leases

Periods prior to 31 December 2018

Until 31 December 2018, leases where the lessor retains substantially all the risks and benefits of ownership of the asset were classified as operating leases. Operating lease payments were recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Lease incentives under operating leases were recognised as a liability and amortised on a straight-line basis over the life of the lease.

Reporting from 1 January 2019

From 1 January 2019, the Group adopted IFRS 16 which removes the distinction between an operating and a finance lease. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

All existing operating lease commitments are now recognised as right-of-use assets, with corresponding lease liabilities being presented in the consolidated statement of financial position, with the exception for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as leases with a value of less than £4k). The right-of-use assets and lease liabilities are initially measured at the present value of the future lease payments. Full details and the impact of the new policy are described in note 25.

Lease incentives are recognised as part of the measurement of the right-of-use assets and lease. Termination options are included in a number of property leases across the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to not exercise a termination option. Periods after termination options are only included in the lease term if the lease is reasonably certain to not be terminated.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the statement of comprehensive income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely the consolidated entity will obtain ownership of the asset, or over the term of the lease and is included within administrative expenses in the statement of comprehensive income.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within administrative expenses in the statement of comprehensive income.

(i) Work in progress ("WIP")

Work in progress represents customer 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 group 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 Group allocates work in progress between current and non-current classifications based on a historical analysis of the Group's work in progress balances and velocity rates to determine expected timing of settlements.

(j) Business combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquired. Deferred consideration payable is measured at fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value.

Goodwill is initially recognised as the excess over the consideration transferred at the acquisition date and the fair value of the identifiable assets acquired and liabilities assumed. The fair value of any non-controlling interest or previously held equity interest (in the case of a step acquisition) are added where relevant.

If the fair value of the acquirer's interest is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), the gain is immediately recognised in the consolidated statement of comprehensive income as a gain from bargain purchase.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2019

1. Statement of Significant Accounting Policies (continued)

(k) Intangibles

Software development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the entity is able to use or sell the asset; the entity has sufficient resources and intent to complete the development and its costs can be measured reliably. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the cost of the intangible assets over their estimated useful lives. Amortisation commences when the intangible asset is available for use.

Software development costs are carried at cost less accumulated amortisation and any accumulated impairment losses. These assets have been assessed as having a finite useful life and are amortised over a useful life of 5-8 years.

Trademarks

Trademarks acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). The fair value of trademarks is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned.

Trademarks are carried at cost less accumulated impairment losses. Trademarks have been assessed as having an indefinite useful life.

Customer relationships

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. They are assessed as having a finite useful life and are amortised over their useful life of 3 years.

(l) Impairment of non-financial assets

Goodwill, intangible assets not yet ready for use and intangible assets that have an indefinite useful life are not subject to amortisation and are therefore tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs of disposal and value in use.

For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(m) Taxation

Taxation consists of income tax and Value Added Tax ("VAT").

Income tax

Income tax expense comprises current and deferred tax.

Current tax

Current income tax expense or benefit is the tax payable / receivable on the current period's taxable income based on the applicable income tax rate for the jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the country where the Group operates and generates taxable income.

Value Added Tax ("VAT")

Revenue, expenses and assets are recognised net of the amount of VAT, except where the VAT incurred is not recoverable from Her Majesty's Revenue and Customs ("HMRC") or Malta Inland Revenue ("MIR") and is therefore recognised as part of the asset's cost or as part of the expense item. Receivables and payables are stated inclusive of VAT.

The net amount of VAT recoverable from, or payable to, HMRC/MIR is included as part of current receivables or payables in the consolidated statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the VAT component of investing and financing activities, which are disclosed as operating cash flows. Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the relevant taxation authority.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 March 2016

1. Statement of Significant Accounting Policies (continued)

(m) Taxation (continued)

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, and at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred tax for the period are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(n) Provisions

Provisions for liabilities are recognised in respect of obligations resulting from past events for which it is probable that the Group will be required to transfer economic benefits in settlement where the amount and/or timing of the settlement is uncertain. The provisions are stated at the best estimate of the amount required to settle the obligation at the statement of financial position date.

The onerous provision covers the remaining expenditure of rent, rates and utilities from properties that no longer derive economic benefit in the future. The onerous provisions are stated at the net present value of the amounts payable under the contracts.

A provision for claims is made for the potential future cost of claims brought against the Group by former customers. The provision is determined by including the estimated maximum amount payable by the Group under its Professional Indemnity Insurance Policy on all claims notified to its insurer.

Provisions for dilapidations are recognised on a lease by lease basis and are based on the Group's best estimate of the likely amount payable.

(o) Borrowing costs

Borrowing costs includes interest expense, finance charges in respect of leases, amortisation of discounts or premiums and ancillary costs relating to borrowings.

Borrowing costs are expensed in the period in which they are incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

(p) Foreign currency translations and balances

The financial statements are produced using the functional currency. The functional currency is Pounds Sterling (GBP).

Transactions and balances

Currency transactions in entities within the Group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2019

1. Statement of Significant Accounting Policies (continued)

(q) Employee benefits

Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at the amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave and accumulated sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Defined contribution pension plan

The Group makes contributions to defined contribution superannuation plans in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period as the employee services are received.

Bonus plan

The Group recognises a provision when a bonus is payable in accordance with the employee's contract of employment and the amount can be reliably measured.

Termination benefits

Termination benefits are payable when employment of an employee or group of employees is terminated before the normal retirement date, or when the entity provides termination benefits as a result of an offer made and accepted in order to encourage voluntary redundancy.

The Group recognises a provision for termination benefits when the entity can no longer withdraw the offer of those benefits, or if earlier, when the termination benefits are included in a formal restructuring plan that has been announced to those affected by it. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted and presented as non-current liabilities.

(r) Financial instruments

Classification

The Group has financial instruments in the following category: loans and receivables. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Non-derivative financial instruments

Non-derivative financial instruments consist of investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings, lease liabilities and trade and other payables. Non-derivative financial instruments are initially recognised at fair value, plus directly attributable transaction costs (if any), except for instruments recorded at fair value through profit or loss. After initial recognition, non-derivative financial instruments are measured as described below.

Loans and receivables

Loans and receivables are non-interest bearing, non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The loans are initially recognised based on fair value plus directly attributable transactions costs and are subsequently stated at amortised cost using the effective interest rate method.

Impairment of financial assets

Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence of impairment.

For loans and receivables or held-to-maturity investments carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (including future credit losses that have not been incurred due to the adoption of IFRS 9 in the current year) discounted at the financial asset's original effective interest rate. The amount of the loss reduces the carrying amount of the asset and is recognised in profit or loss. The impairment loss is reversed through profit or loss if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised.

Financial liabilities

Financial liabilities include trade payables, other payables and loans from third parties including loans from or other amounts due to related entities. Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Non-interest bearing financial liabilities for deferred cash consideration on the acquisitions are measured at amortised cost using the effective interest rate method. The implied interest expense is recognised in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2019

1. Statement of Significant Accounting Policies (continued)

(s) Impact of new International reporting standards, amendments & interpretations

The Group has applied the following standards and amendments for the first time for the annual reporting year commencing 1 January 2019:

- IFRS 9 '*Financial Instruments*'
- IFRS 16 '*Leases*'

The adoption of IFRS 9, which replaces IAS 39 "*Financial Instruments: Recognition and Measurement*", addresses the classification, measurement and recognition of financial assets and liabilities. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. The classification and measurement basis for the Group's financial assets and liabilities have not been materially changed by the adoption of IFRS 9. Further details of the impact are disclosed in note 25.

The Group has adopted IFRS 16 "*Leases*" retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition provision in the standard. The Group has recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 "*Leases*". The Group has recognised the cumulative effect of initial application at 1 January 2019 in retained earnings. Further details are disclosed in note 25.

(t) New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	<i>Insurance Contracts</i>
IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IFRS 3	<i>Definition of a business</i>
Amendments to IAS 1 and IAS 8	<i>Definition of material</i>
<i>Conceptual Framework</i>	<i>Amendments to References to the Conceptual Framework in IFRS Standards</i>

The Directors do not expect that the adoption of the Standards listed above to have a material impact on the financial statements of the Group in future periods.

Notes to the Consolidated Financial Statements

(continued)

Financial statements for the year ended 31 March 2020

2. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In preparing these consolidated financial statements following application of the Group's accounting policies described in note 1, management has made judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The judgements, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

(a) Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Revenue Recognition – Identifying the Performance Obligation

In personal injury matters, contracts with customers 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.

Some personal injury contracts contain multiple deliverables – such as legal services in respect of a statutory claim and a common law claim, or 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 Group in delivering these services.

The Group has some contractual arrangements outside of personal injury matters that include multiple performance obligations. In these instances, the transaction price must be allocated to the performance obligations on a relative stand-alone selling price basis and is identified in the contract.

Recognising Revenue: Stage of Completion

Revenue is recognised when the significant risks and rewards of a service is transferred to the customer. The Group 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. Where a contract has only been partially completed at the year-end date, revenue represents the fair value of the services provided to date based on the stage of completion of the performance obligation at the statement of financial date.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that management considers that it is certain that future taxable profits will be available to utilise those temporary differences.

(b) Key sources of estimation uncertainty

In the preparation of the financial statements, assumptions applied in the below estimates may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of intangible assets

Following the assessment of the recoverable amount of the trademark acquired in the business combination in the prior period, the fair value of £5.7m is considered recoverable by the Directors. The trademark is deemed to have an infinite life and therefore is subject to an annual impairment assessment.

Management has estimated the future income attributable to the trademark and has used the applicable royalty rates and discount rate. Budgets used include forecasts of revenue based on current and anticipated market conditions that have been considered and approved by the Board. Naturally, the revenue projections are uncertain due to the nature of the business and unstable market conditions. Revenue is most sensitive to changes in the revenue attributable to each business sector, particularly surrounding the personal injury services given that this is the largest service provided by the Group.

Overall market conditions have seen a significant slowdown due to the outbreak of the pandemic, Covid-19. The sensitivity analysis in respect of the recoverable amount for the Trademark shows no indications of a significant impairment should the market continue to slowdown.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2019

2. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

(b) Key sources of estimation uncertainty (continued)

Provision for claims

In estimating the fair value of the liability, the Group uses market-observable data to the extent it is available.

Provision for claims relates to open claims and potential future claims as identified at the end of the reporting year. The provision is determined based on historical data, taking into account the nature of the existing claim, and expected reimbursed expense on a case by case basis. A level of judgement is required to be applied based on past experience and historical performance of similar matters. The provision determined includes the potential maximum amount payable by the Group.

Revenue Recognition – Estimating the Transaction Price: Variable Consideration – No Win - No Fee Arrangements

The Group 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 resolved when a matter is concluded.

Where the Group 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 period will not be subject to significant reversal when a 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 the legal service provided with reference to internal historical fee levels and relative rates of successful and unsuccessful outcomes.

Where historical averages are not predictive of the probability of outcomes for a given contract, or where the Group 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.

3. Revenue

	Year ended 31 December 2019	Period ended 31 December 2018
Revenue	£ 000	£ 000
Fees billed	128,536	155,933
Ancillary revenue	67,690	74,695
Other	41	114
	196,267	230,742
Net movement in work in progress	(3,378)	(8,075)
Total revenue	192,889	222,667

4. Operating (Loss) / Profit from Continuing Activities

The following items have been charged / (credited) to the statement of comprehensive income to arrive at the operating (loss) / profit:

	Year ended 31 December 2019	Period ended 31 December 2018
	£ 000	£ 000
Amortisation of intangible assets (note 9)	5,861	5,061
Depreciation of property, plant and equipment (note 10)	1,223	1,570
Depreciation of right-of-use assets (note 25)	4,288	-
Loss / (gain) on disposal of property, plant and equipment	104	(30)
Operating lease rentals	-	8,981
Net foreign currency (gains) / losses	(2)	11
Auditors remuneration	328	925

Notes to the Consolidated Financial Statements

(Continued)

Financial statements for the year ended 31 December 2019

4. Operating (Loss) / Profit from Continuing Activities (continued)

4.1 Fees Payable to the Company's Auditors

	Year ended 31 December 2019	Period ended 31 December 2018
	£ 000	£ 000
Audit and audit-related services		
Audit of the Company (including consolidated) financial statements	45	250
Audit of the financial statements of subsidiaries of the Company	235	625
Other Audit Services (SRA)	48	50
Total audit and audit-related services	328	925

Deloitte LLP was appointed as auditor on 1 November 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods.

4.2 Reconciliation of Adjusted EBITDA¹ to (Loss) / Profit before tax

		Year ended 31 December 2019	Period ended 31 December 2018
	Notes	£ 000	£ 000
Adjusted EBITDA ¹		16,334	991
Depreciation of right-of-use assets	25	(4,288)	-
Depreciation of property, plant and equipment	10	(1,223)	(1,570)
Amortisation of intangible assets	9	(5,861)	(5,061)
Non-recurring items ²		(6,013)	119,980
Operating (loss) / profit		(1,051)	114,340
Net finance costs	7	(8,576)	(2,166)
(Loss) / profit before tax		(9,627)	112,174

[1] Adjusted EBITDA: The Group calculates adjusted EBITDA as operating profit before interest, tax, depreciation, amortisation and excludes non-recurring items. The Directors believe that adjusted EBITDA is the most appropriate approach for ascertaining the underlying trading performance and trends as it reflects the measures used internally by senior management for all discussions of performance.

[2] Non-recurring items: Costs or income that have been recognised in the statement of comprehensive income which the Directors believe, due to their nature or size, should be disclosed separately to give a more comparable view of year on year underlying performance. Non-recurring items include costs associated with restructuring the business including redundancies and office closures as well as settlement proceeds and legal costs related to the Watchstone case. These costs are disclosed separately as non-recurring items due to their one-off nature and significance.

4.3 Non-recurring items

		Year ended 31 December 2019	Period ended 31 December 2018
	Notes	£ 000	£ 000
Redundancies		3,014	2,543
Restructuring costs		7,482	6,919
Watchstone settlement		(11,000)	-
Legal costs		6,517	5,192
Gain on bargain purchase	21	-	(134,634)
		6,013	(119,980)

Redundancy and restructuring costs have been incurred in relation to the Group's One in 21 strategy. Included within restructuring costs is expenditure on relocation and office closures.

In June 2017 the Group made a claim against Watchstone Group plc (formerly Quindell plc) for fraudulent misrepresentation and breach of warranty in relation to the financial performance of the Professional Services Division of Quindell prior to its acquisition by Slater and Gordon Limited in 2015. A counter claim was made by Watchstone plc. Full and final settlement was agreed in October 2019, with £11m of funds being received. Associated costs of £6.5m were incurred during the year ended 31 December 2019.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2019

5. Employee Information

5.1 Employee Benefits

The aggregate employee benefit expense, including Directors, comprised:

	Year ended 31 December 2019	Period ended 31 December 2018
	£ 000	£ 000
Wages and salaries	66,947	82,751
Social security costs	6,682	7,459
Contributions to defined contribution pension arrangements	3,201	3,200
Total aggregate employee benefits	76,830	93,410

Pension arrangement costs include only those defined contribution plan costs included within operating costs and the defined contribution plan charge.

5.2 Employee Numbers

The average monthly number of people, including Directors, employed by the Group during the year / period was:

	Year ended 31 December 2019 Number	Period ended 31 December 2018 Number
Headcount by type		
Fee earner	743	800
Legal support	308	374
Shared services	947	1,025
	1,998	2,199

* The prior period headcount categories were operations of 1,341 employees and administration of 858 employees. The Group have updated the category headings this year to show fee earner, legal support and shared services as this is a more accurate reflection of the categories within the Group.

6. Directors' Remuneration

	Year ended 31 December 2019 £ 000	Period ended 31 December 2018 £ 000
Directors' emoluments	1,671	1,255
Contributions to defined contribution pension arrangements	19	10
Total Directors' benefits	1,690	1,265

During the year ended 31 December 2019 there were six (2018: four) Directors.

The highest paid Director received remuneration of £470,000 (2018: £510,701).

Included within Directors' emoluments figure above are termination benefits of £115,396 (2018: £185,596) which are included in operating expenses in the statement of comprehensive income.

During the year three (2018: two) Directors participated in the defined contribution pension arrangements.

Notes to the Consolidated Financial Statements

(continued)

Financial years ended 31 December 2019 and 2018

7. Net Finance Costs

	Year ended 31 December 2019	Period ended 31 December 2018
	£'000	£'000
Interest receivable		
On deposits	157	100
Interest payable		
Loan	(3,549)	(1,653)
Lease liabilities	(3,336)	-
Working capital	(1,848)	(613)
	(8,733)	(2,266)
Net finance costs	(8,576)	(2,166)

8. Income Tax

	Year ended 31 December 2019	Period ended 31 December 2018
	£'000	£'000
Income tax expense		
Overseas current tax	(980)	(737)
Deferred tax	1,159	934
Adjustment for current tax relating to prior periods	(1)	(39)
Adjustment for deferred tax relating to prior periods	75	(78)
Change in rate of deferred tax	-	2
Derecognition of deferred tax asset	-	3
	253	85

Factors affecting the total tax charge for the year / period

The tax charge assessed on the (loss) / profit on ordinary activities for the year / period is lower (2018: lower) from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	Year ended 31 December 2019	Period ended 31 December 2018
	£'000	£'000
(Loss) / profit before tax	(9,627)	112,174
At the statutory income tax rate of 19% (2018: 19%)	(1,829)	21,313
<i>Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:</i>		
Expenses not deductible for tax purposes	1,678	1,703
Gain on bargain purchase not taxable	-	(25,579)
Non-taxable income	(2,090)	(38)
Adjustments in respect of prior periods	74	(117)
Change in tax rate on deferred tax brought forward	-	2
Deferred tax charged at lower rate	1	1
Derecognition of deferred tax asset	-	3
Difference in overseas tax rate	(222)	(567)
Deferred tax assets not recognised	2,641	3,364
Income tax expense	253	85

A reduction to the UK corporation tax rate down from 19% to 17% was announced in the 2016 Budget and enacted on 15 September 2016 (to be effective from 1 April 2020). However, in the 2020 Budget it was announced that this reduction in rate would be reversed with 19% being maintained from 1 April 2020.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2019

9. Intangible Assets

	Software development £'000	Assets Under Construction £'000	Trademarks £'000	Customer Relationships £'000s	Acquired Intangibles £'000s	Total £'000
Cost						
At 31 December 2018	4,187	21	5,726	1,096	11,550	22,580
Additions	51	63	-	-	-	114
Disposals	(154)	-	-	-	-	(154)
At 31 December 2019	4,084	84	5,726	1,096	11,550	22,540
Amortisation						
At 31 December 2018	979	-	-	381	3,701	5,061
Charge for the year	1,416	-	-	381	4,064	5,861
On disposals	(91)	-	-	-	-	(91)
At 31 December 2019	2,304	-	-	762	7,765	10,831
Net book value at 31 December 2019	1,780	84	5,726	334	3,785	11,709

	Software development £'000	Assets Under Construction £'000	Trademarks £'000	Customer Relationships £'000s	Acquired Intangibles £'000s	Total £'000
Cost						
At 22 September 2017	-	-	-	-	-	-
Acquired on acquisition of subsidiary	2,040	1,053	5,726	1,096	11,549	21,464
Additions	-	1,370	-	-	1	1,371
Disposals	(99)	(156)	-	-	-	(255)
Transfers	2,246	(2,246)	-	-	-	-
At 31 December 2018	4,187	21	5,726	1,096	11,550	22,580
Amortisation						
At 22 September 2017	-	-	-	-	-	-
Charge for the period	979	-	-	381	3,701	5,061
At 31 December 2018	979	-	-	381	3,701	5,061
Net book value at 31 December 2018	3,208	21	5,726	715	7,849	17,519

The customer relationships were acquired as part of a business combination in the prior period (note 21). They were recognised at their fair value at the date of acquisition and are subsequently amortised on a straight line basis, based on the timing of the projected cash flows on the contracts over their estimated useful economic lives.

Included within acquired intangibles are software licences and fair valuation adjustments for WIP acquired as part of the business combination in the prior period (note 21). Software licences were recognised at their fair value at the date of acquisition and are subsequently amortised on a straight line basis, based on the timing of the projected cash flows on the contracts over their estimated useful economic lives. WIP recognised as an intangible asset at fair value at the date of acquisition at as the present value of its future profit and is amortised in line with the realisation of these profits.

Trademarks have been defined as an indefinite life intangible asset, which was acquired through business combinations and have been allocated to individual cash generating units ("CGUs") in the UK business for the purposes of impairment testing.

The recoverable amount of indefinite life intangible asset allocated to each of the CGUs has been determined based on a value in use calculation as required by IAS 36 *Impairment of Assets*. This uses financial budgets and cash flow projections approved by senior management covering a ten year period.

The value in use is compared to the net carrying amount of the CGU. If the calculated value in use exceeds the net carrying amount, no impairment loss is recorded.

For all CGUs a post-tax cost of capital of 12.0% has been applied. This cost of capital has been assessed with reference to the Company's weighted average cost of capital and independent third party analysis of its cost of capital.

Notes to the Consolidated Financial Statements

(continued)

Report period ended 31 December 2019

10. Property, Plant & Equipment

	Plant & Machinery	Leasehold Improvements	Total
	£'000	£'000	£'000
Cost			
At 31 December 2018	7,140	66	7,206
Additions	582	-	582
Disposals	(352)	-	(352)
At 31 December 2019	7,370	66	7,436
Depreciation			
At 31 December 2018	1,537	33	1,570
Charge for the year	1,223	-	1,223
On disposals	(303)	-	(303)
At 31 December 2019	2,457	33	2,490
Net book value at 31 December 2019	4,913	33	4,946

	Plant & Machinery	Leasehold Improvements	Total
	£'000	£'000	£'000
Cost			
At 22 September 2017	-	-	-
Acquired on acquisition of subsidiary	6,636	897	7,533
Additions	574	33	607
Disposals	(70)	(864)	(934)
At 31 December 2018	7,140	66	7,206
Depreciation			
At 22 September 2017	-	-	-
Charge for the period	1,537	33	1,570
At 31 December 2018	1,537	33	1,570
Net book value at 31 December 2018	5,603	33	5,636

11. Deferred Tax Assets

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2019	31 December 2018
	£'000	£'000
Tax losses	53,140	57,082
Property, plant and equipment	2,837	2,086
Other short-term timing differences	213	235
Deferred tax asset not recognised	56,190	59,403

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2019

11. Deferred Tax Assets (continued)

	31 December 2019	31 December 2018
	£ 000	£ 000
Deferred tax relates to the following:		
Maltese refundable tax credit	1,815	3,036
Other short-term timing differences	405	464
Property, plant and equipment	120	114
Revenue losses carried forward	2,026	2,378
Net deferred tax assets	4,366	5,992
 Reflected in the statement of financial position as follows:		
Deferred tax assets	4,366	5,992
Deferred tax liabilities on intangibles	(1,626)	(2,018)
Net deferred tax assets	2,740	3,974
 Non-current deferred tax asset	925	938
Current deferred tax asset	1,815	3,036
Total deferred tax asset	2,740	3,974
	31 December 2019	31 December 2018
	£ 000	£ 000
Balance brought forward	3,974	4,835
Change in tax rate	-	(2)
Derecognition of deferred tax asset	-	(3)
Charge for the year / period	(1,159)	(934)
Adjustments to prior periods	(75)	78
Total deferred tax asset	2,740	3,974

12. Work in Progress

	31 December 2019	31 December 2018
	£ 000	£ 000
Non-current		
Legal	49,229	46,377
 Current		
Legal	77,165	83,597
Non-Legal	-	3,972
	77,165	87,569

Non-legal WIP has been reclassified to accrued income during the year ended 31 December 2019.

Notes to the Consolidated Financial Statements

(continued)

Financial year ended 31 December 2019

13. Trade and Other Receivables

	31 December 2019 £,000	31 December 2018 £,000
Non-current		
Disbursements	67,221	51,685
Allowance for non-recovery	(17,474)	(11,710)
	49,747	39,975
Current		
Trade debtors	30,221	32,850
Accrued income	4,218	2,057
Net debtors	34,439	34,907
Disbursements	105,199	140,552
Allowance for non-recovery	(28,510)	(35,728)
Net disbursements	76,689	104,824
Prepayments	8,439	6,376
Other	5,412	5,480
	124,979	151,587

Trade debtors is reported after charging a provision for non-recovery of £26.3m (2018: £35.7m). For the year ended 31 December 2019, the allowance for non-recovery debtors includes an expected credit loss charge as part of the adoption of IFRS 9. Further details are disclosed in note 25.

The fair value of the trade debtors, accrued income, disbursements and prepayments is considered to be equal to their carrying amount.

14. Cash

	31 December 2019 £,000	31 December 2018 £,000
Cash at bank	26,082	11,351

At 31 December 2019 cash includes an amount of £0.1m (2018: £0.1m) in respect of cash held in escrow.

15. Trade and Other Payables

	31 December 2019 £,000	31 December 2018 £,000
Non-current		
Legal creditors	12,078	12,963
Current		
Trade payables	26,059	20,684
Legal creditors	86,781	97,956
Accruals & deferred income	17,503	30,995
VAT payable	54	6,857
Social security & pension payable	2,537	3,682
Other creditors	19,951	11,275
	152,885	171,449

*The legal creditors totalling £110,919k in 2018 have been split between current and non-current legal creditors reflecting the dates that these items fall due.

Included in other creditors is an outstanding balance of £16.5m (2018: £9.1m) in relation to the Group's arrangements for financing on costs agreed and paid disbursements. The Group has a funding facility in place whereby a third party will lend on expected agreed costs and paid disbursements at a given interest rate on personal injury (No Win - No Fee) cases. The total facility available is £30.0m and has a three year term ending 30 June 2022.

Notes to the Consolidated Financial Statements

(continued)

Financial year ended 31 December 2019

16. Provisions

	Dilapidations £'000	Onerous provision £'000	Claims £'000	Other £'000	Total £'000
Balance as at 31 December 2018	5,132	2,353	6,709	4,048	18,242
Adoption of IFRS 16	-	(1,088)	-	-	(1,088)
Restated 1 January 2019	5,132	1,265	6,709	4,048	17,154
Additions	603	1,897	3,228	91	5,819
Utilisations	(763)	(1,340)	(2,737)	-	(4,840)
Releases	(756)	(113)	(3,834)	(510)	(5,213)
Balance as at 31 December 2019	4,216	1,709	3,366	3,629	12,920

Analysed as:

Current	2,098	1,094	3,366	3,629	10,187
Non-current	2,118	615	-	-	2,733
	4,216	1,709	3,366	3,629	12,920

	Dilapidations £'000	Onerous provision £'000	Claims £'000	Other £'000	Total £'000
Balance as at 22 September 2017	-	-	-	-	-
Subsidiaries acquired	5,467	3,822	8,266	3,846	21,401
Additions	717	659	256	202	1,834
Utilisations	(488)	(2,128)	(1,813)	-	(4,429)
Releases	(564)	-	-	-	(564)
Balance as at 31 December 2018	5,132	2,353	6,709	4,048	18,242

Analysed as:

Current	3,122	1,714	6,709	4,048	15,593
Non-current	2,010	639	-	-	2,649
	5,132	2,353	6,709	4,048	18,242

The provisions made above have been shown as current or non-current on the statement of financial position to indicate the Group's expected timing of the matters reaching conclusion.

Dilapidations: The provision represents the future expected repair costs required to restore the Group's leased buildings to their fair condition at the end of their respective lease terms.

Onerous provision: The provision represents the remaining expenditure from rates and utilities that no longer derive economic benefit in the future. The onerous provisions are stated at the net present value of the amounts payable under the contracts. The restated position at 1 January 2019 reflects an adjustment required to the 31 December 2018 balance for the adoption of IFRS 16.

Claims: The provisions represent the potential future cost of claims brought against the Group by former customers. The provision is determined by including the estimated maximum amount payable by the Group under its Professional Indemnity Insurance Policy on all claims notified to its insurer.

Other: The provision is in respect of a potential VAT liability and commissions payable.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2019

17. Loans

As at 31 December 2019 the Group had outstanding loans payable, which can be analysed as follows:

	31 December 2019	31 December 2018
	£'000	£'000
Non-current		
<i>Amounts falling due 1-2 years</i>		
Shareholders' Loan	30,029	-
<i>Amounts falling due 2-5 years</i>		
Shareholders' Loan	-	22,444
	30,029	22,444

The Group has an outstanding loan of £30.0m (2018: £22.4m) comprising principal of £24.8m (2018: £20.8m) and interest of £5.2m (2018: £1.6m). The loan comprises two facilities; the Existing Facility Loan and the Incremental Facility Loan. At 31 December 2019 the Existing Facility Loan had an outstanding balance of £18.0m (2018: £16.4m) including interest incurred at 10% per annum (2018: 10% per annum). The Incremental Facility Loan had an outstanding balance of £12.0m (2018: £6.0m) including interest incurred at 17.5% per annum (2018: 17.5% per annum). The total loan is secured on all assets of the Group and is repayable in full on 22 December 2021.

18. Share Capital

	Number of ordinary shares at £0.00001	Number of Class A shares at £0.0017	Share Capital £'000	Share Premium £'000	Total £'000
Balance at 22 September 2017	-	-	-	-	-
Issued ordinary shares	1,000,014	-	-	22,904	22,904
Balance at 31 December 2018	1,000,014	-	-	22,904	22,904
Issued ordinary shares	-	172,004	-	645	645
Balance at 31 December 2019	1,000,014	172,004	-	23,549	23,549

At 31 December 2019 the Company has two classes of shares which carry no right to fixed income. In 2019 the Company issued 172,004 A Ordinary Shares to Key management personal ("beneficial owners") and were purchased in cash at their unrestricted market value as at the purchase date. Slater and Gordon UK Nominees Limited holds these shares on behalf of the beneficial owners.

19. Related Parties

19.1 Key Management Personnel

The key management have been assessed to be the Group's Executive Leadership Team. During the year ended 31 December 2019 there were nine (2018: nine) key management personnel. The compensation paid or payable to key management for employee services is shown below:

	31 December 2019	31 December 2018
	£'000	£'000
Short-term employee benefits		
Wages and salaries	2,120	1,742
Social security costs	275	217
Contributions to defined contribution pension arrangements	35	27
Total key management compensation	2,430	1,986

19.2 Transactions with Group Related Parties

During the year ended 31 December 2019, the Group issued loans of £0.1m (2018: £nil) to two key management employees. The outstanding receivable balance for the Group is £0.1m (2018: £nil). The loan attracts interest at 2.5% and is repayable after 1 year. There were no other related party transactions during the period to 31 December 2019 other than the shareholders' loan referred to in note 17.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2014

20. Group Entities

The following subsidiaries as well as the parent company (Slater and Gordon UK Holdings Limited) form the Group. The subsidiaries exempt from the requirements relating to the audit of accounts under section 479A of the Companies Act 2006 are noted below. The basis of the subsidiaries within the Group is not defined by ownership but by control of the entity.

Company Name	Country of incorporation	Company Number	Ownership Interest (%)	Audit Exemption	Principal Activity
Controlled entities					
4 Legal Limited	United Kingdom ¹	06466579	100	Exempt	Dormant
4 Legal Solutions Limited	United Kingdom ¹	06492865	100	Exempt	Legal
Abstract Legal Holdings Limited	United Kingdom ¹	05107527	100	Exempt	Non-Legal
Access to Compensation Limited	United Kingdom ¹	05107366	100	Exempt	Non-Legal
Accident Advice Helpline Direct Limited	United Kingdom ¹	05107417	100	Exempt	Non-Legal
Accident Advice Helpline Limited	United Kingdom ¹	05121321	100	Exempt	Dormant
Accident Advice Insurance Management Group Limited	United Kingdom ¹	05121320	100	Exempt	Dormant
Adroit Financial Planning Limited	United Kingdom ¹	07980535	100	Audit	Financial Services
Cab Claims Limited	United Kingdom ¹	05126239	100	Exempt	Dormant
Claim4 Limited	United Kingdom ¹	05123360	100	Exempt	Dormant
Claimsense UK Limited	United Kingdom ¹	05599808	-	Exempt	Dormant
Compass Costs Consultants Limited	United Kingdom ¹	04265483	100	Exempt	Dormant
Fast Track PPI Limited	United Kingdom ¹	08012611	100	Exempt	Dormant
Intelligent Claims Management Limited	United Kingdom ¹	05658734	100	Exempt	Non-Legal
iSaaS Technology Limited	United Kingdom ¹	07434692	100	Exempt	Non-Legal
Legal Facilities Management & Services Limited	United Kingdom ¹	05340220	100	Exempt	Non-Legal
Legal One Limited	United Kingdom ¹	04620722	-	Exempt	Dormant
Legal Two Limited	United Kingdom ¹	06195622	-	Exempt	Dormant
Liberty Protect Limited	United Kingdom ¹	05657846	100	Exempt	Non-Legal
MDL Medical Administration Limited	United Kingdom ¹	03688229	100	Exempt	Dormant
Medicalaw Limited	United Kingdom ¹	03447569	100	Exempt	Non-Legal
Medici Legal Limited	United Kingdom ¹	04266208	100	Exempt	Non-Legal
Mobile Doctors Group Limited	United Kingdom ¹	05383361	100	Exempt	Non-Legal
Mobile Doctors Limited	United Kingdom ¹	02446392	100	Exempt	Non-Legal
Mobile Doctors Solutions Limited	United Kingdom ¹	04215291	100	Exempt	Non-Legal
Overland Health Limited	Malta ²	C49864	100	Audit	Non-Legal
Overland Limited	Malta ²	C43412	100	Audit	Non-Legal
Overland Malta (Trading) Limited	Malta ²	C43415	100	Audit	Non-Legal
Pannone Napier Limited	United Kingdom ¹	08912957	100	Exempt	Dormant
React & Recover Medical Group Limited	United Kingdom ¹	07316438	100	Exempt	Non-Legal
React Medical Management Limited	United Kingdom ¹	07315629	100	Exempt	Non-Legal
React Medical Reporting Limited	United Kingdom ¹	06872536	100	Exempt	Non-Legal
Recover Healthcare Limited	United Kingdom ¹	06836625	100	Exempt	Non-Legal
RJW Registrars Limited	United Kingdom ¹	06829712	-	Exempt	Dormant
Russell Jones & Walker Limited	United Kingdom ¹	04225001	-	Exempt	Dormant
Sentinel Alliance Limited	United Kingdom ¹	05107418	100	Exempt	Dormant
SGS Business Process Services (UK) Limited	United Kingdom ¹	03851175	100	Audit	Non-Legal
Slater & Gordon (UK) 1 Limited	United Kingdom ¹	07895497	100	Audit	Holding Company
Slater & Gordon Collections Limited	United Kingdom ¹	12500854	100	Exempt	Non-Legal
Slater & Gordon Trust Corporation Limited	United Kingdom ¹	08185633	100	Exempt	Dormant
Slater and Gordon EBT Limited	United Kingdom ¹	06519828	100	Exempt	Dormant
Slater and Gordon Scotland Limited	United Kingdom ¹	SC572803	-	Exempt	Legal
Slater and Gordon UK Limited	United Kingdom ¹	07931918	100	Audit	Legal
Slater and Gordon UK Nominees Limited	United Kingdom ¹	04432180	100	Exempt	Legal
Walker Smith Way Limited	United Kingdom ¹	07016439	100	Exempt	Dormant
WSW Limited	United Kingdom ¹	07016446	100	Exempt	Dormant

[1] – Registered office: 58 Mosley Street, Manchester, M2 3HZ

[2] – Registered office: Suite 3, Ideacasa House, G.F Agius De Soldanis Street, Birkirkara, BKR 4850, Malta

Notes to the Consolidated Financial Statements

(continued)

Period ended 31 December 2019

21. Business Combinations

In the year ended 31 December 2019 there were no business combinations.

Prior Period Business Combinations

Acquisition of business – Slater & Gordon (UK) 1 Limited

On 15 December 2017, Slater and Gordon UK Holdings Limited acquired Slater & Gordon (UK) 1 Limited, comprising of 36 entities.

The principal activities of Slater & Gordon (UK) 1 Limited and its subsidiaries are:

(a) Legal Services

The largest part of Legal Services is the personal injury business (PI), which operationally comprises:

- **Multi-Track:** Complex cases, such as clinical negligence and serious road traffic accidents that take 2 to 5 years, or sometimes longer, to complete. Fees are generally time-based and require cost negotiation.
- **Fast-Track:** High volume claims with damages up to £25,000, most with fixed fees, and a typical case duration of 8 months to 2 years.

Cases are brought on a contingent fee and costs basis. Customers take out After The Event Insurance (ATE) to cover disbursements such as medical and other expert reports, Counsel and Court fees in the event the case fails. The ATE premium (and tax) is only payable on successful cases.

In addition to PI, Slater and Gordon offers a wide range of Consumer Legal Services, including family, employment, conveyancing, wills, trusts, probate, criminal law, court of protection services and group litigation.

(b) Motor

The Motor business provides services to customers who have had a road traffic accident (RTA), arranging a hire car and for repair or replacement of their vehicle. Where the customer has suffered a personal injury, they are offered the option of pursuing a claim using Slater and Gordon PI services. Motor works with a range of leading insurance providers.

(c) Health

The Health division comprises two businesses, in entities separate from Legal Services:

- **Mobile Doctors (MDL)**, which arranges medical reports for PI cases, for Slater and Gordon customers, but predominately for third parties. It acts as an agency, working with leading providers of medical expertise. These medical reports form part of the disbursements on PI cases.
- **Overland Health**, which arranges rehabilitation (physiotherapy, etc.) and treatment, almost exclusively for Slater and Gordon PI customers. These costs form part of PI claims, although as special damages rather than disbursements.

(d) Adroit

This business provides financial planning advice and services.

The strategic rationale for the business acquisition was to create a standalone UK Group as part of the scheme of arrangement of Slater and Gordon Limited.

Notes to the Consolidated Financial Statements

(continued)

For the period ended 31 December 2018

21. Business Combinations (continued)

The final consideration transferred, and the value of the consolidated assets and liabilities assumed at the dates of acquisition is as follows:

	31 December 2018 £'000
Non-current assets	
Intangible assets	21,464
Property, plant and equipment	7,533
Deferred tax assets	4,821
Work in progress	51,081
Trade and other receivables	46,893
Total non-current assets	131,792
Current assets	
Work in progress	90,940
Trade and other receivables	150,554
Cash	10,558
Total current assets	252,052
Total assets	383,844
Current liabilities	
Trade and other payables	200,564
Current tax	3,594
Provisions	15,312
Total current liabilities	219,470
Non-current liabilities	
Provisions	6,089
Total non-current liabilities	6,089
Total liabilities	225,559
Net assets	158,285
Consideration	
Amount settled in cash	747
Fair value of Promissory Note	22,904
Total equity attributable to equity holders in the Company	23,651
Gain on bargain purchase recognised in statement of comprehensive income	134,634

Gain on bargain purchase

Slater and Gordon UK Holdings Limited had determined that the fair value of the consideration transferred does not exceed the fair value of the assets and liabilities acquired therefore, a gain on bargain purchase had been recognised immediately in the consolidated statement of comprehensive income. Prior to recognising this gain on bargain purchase Slater and Gordon UK Holdings Limited reassessed whether it had correctly identified all the assets acquired and all the liabilities assumed in the purchase of Slater & Gordon (UK) 1 Limited, as per the requirements of IFRS 3 paragraph 36. Slater and Gordon UK Holdings Limited were also required to consider the amount of consideration paid.

Under the terms of the acquisition of Slater and Gordon UK by Slater and Gordon Holdings Limited, deferred consideration is payable up to the first AUS\$40 million of the proceeds in respect of Slater and Gordon UK's existing legal proceedings against Watchstone. As detailed in note 4, the Watchstone case was settled in October 2019 and none of the settlement proceeds are attributable to the deferred consideration.

Acquired receivables

The fair value of trade and other receivables acquired as part of the business combination amounted to £197.4m, with a gross contractual amount of £280.4m. As of acquisition date, the Group's best estimate of the contractual cash flow not expected to be collected amounted to £83m.

Revenue and profit contribution

The acquired business contributed revenues of £222.7m and net loss of £22.4m to the Group for the period from 15 December 2017 to 31 December 2018.

Acquisition related costs

Acquisition-related costs amount to £0.2m are not included as part of the consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss as part of operating expenses and in operating cash flows in the statement of cash flows.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2018

22. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt (comprising of interest bearing loans and borrowings, lease liabilities, and after deducting cash and short-term deposits) and equity of the Group (comprising issued capital and retained earnings).

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. The Group monitors capital using a gearing ratio, determined as the proportion of net debt to equity.

		31 December 2018	31 December 2017
	£'000	£'000	£'000
Interest bearing loans	17	30,029	22,444
Lease liabilities	25	28,838	-
Less: cash and short-term deposits	14	(26,082)	(11,351)
Net debt		32,785	11,093
Equity		125,708	134,993
Net debt to equity ratio		26%	8%
Net debt to equity ratio excluding impact of lease liabilities		3%	8%

Gearing decreases when excluding the adoption of IFRS 16 *Leases*. The debt excludes the funding facility due to this being a working capital arrangement which is repaid from monies received on settlement.

23. Financial Risk Management

The Group is exposed to a variety of financial risks comprising:

- i) Credit risk
- ii) Liquidity risk
- iii) Fair values
- iv) Foreign exchange risk

The Board of Directors has overall responsibility for identifying and managing operational and financial risks.

The categories of financial instruments are as follows:

		31 December 2018	31 December 2017
	£'000	£'000	£'000
Financial assets			
Cash and cash equivalents	14	26,082	11,351
Net trade debtors	13	34,439	34,907
Other debtors and prepayments	13	13,851	11,856
Net disbursements	13	126,436	144,799
		200,808	202,913
Financial liabilities			
Payables	15	164,963	184,412
Borrowings	17	30,029	22,444
		194,992	206,856

Notes to the Consolidated Financial Statements

(continued)

Slater and Gordon UK Holdings Limited

23 Financial Risk Management (continued)

i) Credit Risk

Credit risk arises from the financial assets of the Group. The main exposure to credit risk in the Group is represented by receivables (debtors and disbursements) owing to the Group. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of those assets as disclosed in the statement of financial position and notes to the financial statements.

The credit risk associated with cash and cash equivalents is considered as minimal as the cash and cash equivalents are held with reputable financial institutions in the UK.

Debts are almost exclusively due from insurance companies. The capitalisation of insurers is regulated by the Financial Conduct Authority in the UK. The insurance industry operates a policy holders' protection scheme to alleviate the impact of the failure of an insurance company.

No interest is charged on the receivables balances, however late penalty payments become payable at certain dates under the Association of British Insurers' General Terms of Agreement. The Group does not hold any security over these balances nor has the legal right of offset with any amounts owed by the Group to the receivables counterparty.

Management of credit risk

The Group actively manages its credit risk by:

- assessing the capability of a customer to meet its obligations under the fee and retainer agreement;
- periodically reviewing the reasons for bad debt write-offs in order to improve the future decision-making process;
- maintaining an adequate provision against the future recovery of debtors and disbursements;
- including in practitioner's Key Performance Indicators ("KPI's") measurements in respect of debtor levels, recovery and investment in disbursements;
- providing ongoing training to staff in the management of their personal and practice group debtor portfolios; and
- where necessary, pursuing the recovery of debts owed to the Group through external mercantile agents and the courts.

Due to the nature of the No Win - No Fee arrangements applicable to the majority of the legal matters managed by the Group an increase in the required processing time between initiation and settlement and an increase in the ageing of receivables, particularly disbursements, does not always increase the associated credit risk.

Management performs periodic assessment of the recoverability of receivables, and provisions are calculated based on historical write-offs of the receivables as well as any known circumstances relating to the matters in progress.

ii) Liquidity Risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of operating cash flows and committed available credit facilities. The Group actively reviews its funding position to ensure the available facilities are adequate to meet its current and anticipated needs.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained.

Maturity Analysis

The table below represents the undiscounted contractual settlement terms for financial instruments and management's expectation for settlement of undiscounted maturities.

31-Dec-19	< 12 Months £,000	1-5 years £,000	Total contractual cash flows £,000	Carrying amount £,000
Non-derivative financial liabilities				
Trade and other payables	152,885	12,078	164,963	164,963
Lease liabilities	5,111	23,727	28,838	28,838
Provisions	10,187	2,733	12,920	12,920
Borrowings	-	30,029	30,029	30,029
Financial liability maturities	168,183	68,567	236,750	236,750

Notes to the Consolidated Financial Statements

(continued)

Financial statements for the year ended 2019

23. Financial Risk Management (continued)

Maturity Analysis (continued)

31-Dec-18	12 Months*	1-5 years*	Interest-related cash flows	Carrying amount
	£ 000	£ 000	£ 000	£ 000
Non-derivative financial liabilities				
Trade and other payables	171,449	12,963	184,412	184,412
Lease liabilities	-	-	-	-
Provisions	15,593	2,649	18,242	18,242
Borrowings	-	22,444	22,444	22,444
Financial liability maturities	187,042	38,056	225,098	225,098

*restated

iii) Fair Values

The fair value of financial assets and financial liabilities not measured at fair value approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statements.

iv) Foreign Exchange Risk

The Group is exposed to currency risk on services income, expenses, receivables and borrowings that are denominated in a currency other than the functional currency of the Group entities, which is Sterling (GBP).

24. Controlling Party

At 31 December 2019, there was no one party with control of Slater and Gordon UK Holdings Limited and its subsidiaries. Slater and Gordon UK Holdings Limited is the largest group for which consolidated accounts are prepared.

25. Adoption of New Accounting Standards

The Group adopted the following standards and amendments from 1 January 2019:

- IFRS 9 'Financial Instruments'
- IFRS 16 'Leases'

The Group has adopted these new standards retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition provisions in the standards. The Group has recognised the cumulative effect on initial application at 1 January 2019 in retained earnings. At 31 December 2019, the additional charge / (credit) to profit or loss for the year has been reported in the statement of comprehensive income:

	31 December 2019	1 January 2019
	£ 000	£ 000
Adoption of new standards		
IFRS 9 'Financial Instruments'	11	41
IFRS 16 'Leases'		
Opening charge	-	9
Decrease in operating expenses	(6,118)	-
Depreciation on right-of-use assets	4,288	-
Finance costs for lease liabilities	3,336	-
Increase in loss for the year	1,517	50

i) Adoption of IFRS 9

As indicated in note 1, the Group has adopted IFRS 9 which replaces IAS 39 "Financial Instruments: Recognition and Measurement", addresses the classification, measurement and recognition of financial assets and liabilities. The classification and measurement basis for the Company's financial assets and liabilities have not been materially changed by the adoption of IFRS 9. The impact of the expected credit loss to retained earnings at 1 January 2019 was reflected in retained earnings. During the year ended 31 December 2019, an additional charge of £11k has been reflected for the allowance of non-recovery for trade debtors (note 13).

Notes to the Consolidated Financial Statements

(continued)

Financial year ended 31 December 2019

25. Adoption of New Accounting Standards (continued)

ii) Adoption of IFRS 16

As indicated in note 1, the Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the simplified transition approach within the standard. Instead, the Group has recognised the cumulative effect on initial application at 1 January 2019 in retained earnings.

In applying IFRS 16, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- reliance on previous assessment of whether leases are onerous in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 12%. The Group has performed the following reconciliation for the measurement of lease liabilities as at 1 January 2019 in relation to the existing operating lease commitments reported in the period ended 31 December 2018.

	1 January 2019
	£'000
Operating lease commitments disclosed as at 31 December 2018	37,783
(Less): short-term leases not recognised as a liability	(690)
Operating lease liabilities before discounting	37,093
Discounted using Group's incremental borrowing rate at the date of initial application	23,731
Of which are:	
Current lease liabilities	1,634
Non-current lease liabilities	22,097
Lease liability recognised as at 1 January 2019	23,731

The associated right-of-use assets for existing operating leases were measured on a retrospective basis as if the new rules had always been applied. The provision for onerous lease contracts of £1,088k required under IAS 17 has been derecognised at 1 January 2019. The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets. The statement of financial position shows the following amounts:

	31 December 2019	1 January 2019
	£'000	£'000
Right-of-use assets		
Property	17,457	16,127
Computer equipment	1,354	-
	18,811	16,127
Lease liabilities		
Current	5,111	1,634
Non-current	23,727	22,097
	28,838	23,731

Additions to the right-of-use assets during the year ended 31 December 2019 were £7.0m.

Notes to the Consolidated Financial Statements

(continued)

Financial year ended 31 December 2019

25. Adoption of New Accounting Standards (continued)

The statement of comprehensive income shows the following amounts:

	Year ended 31 December 2019	Period ended 31 December 2019
	£'000	£'000
Depreciation charge of right-of-use assets		
Property	4,070	-
Computer equipment	218	-
Total depreciation of right-of-use assets	4,288	-
Interest on lease liabilities	3,336	-

For tax purposes the Group receives tax deductions in respect of the right-of-use assets and the lease liabilities in a manner consistent with the accounting treatment.

The short-term lease payments during the year ended 31 December 2019 was less than £0.1m. For the year ended 31 December 2019, the cash paid for the principal portion was £5.2m. As permitted by IAS 7, all cash payments for IFRS 16 has been disclosed within financing activities in the statement of cash flows. The adoption of IFRS 16 did not have an impact on net cash flows.

26. Subsequent Events

Convertible Loan Note

In anticipation of the Watchstone plc litigation, Slater & Gordon (UK) 1 Limited and Glas Trustees Limited ("Trustee") entered into a Convertible Loan Notes Trust Deed on 22 December 2017 (as amended on 19 December 2019) to absorb any proceeds from the litigation. Under this deed Slater & Gordon (UK) 1 Limited issued £250,000,008 loan notes to the Noteholders.

It was agreed under the deed that once the litigation had concluded, the loan notes would be exchanged for equity in Slater & Gordon UK Holdings Limited. This took effect by Slater & Gordon (UK) 1 Limited issuing preference shares in the Company (on a 1:1 basis, by reference to the outstanding Loan Notes, 250,000,008 Preference Shares in total) in exchange for Slater & Gordon UK Holdings Limited issuing Ordinary Shares to the Noteholders (on a 1:100,000 basis, by reference to the Preference Shares, 2,500 Ordinary Shares in total). The further issuance of Preference Shares in Slater & Gordon (UK) 1 Limited to Slater & Gordon UK Holdings Limited, and the issue of Ordinary Shares in Slater & Gordon UK Holdings Limited each took place on 20 January 2020.

Debt repurchase

On 31 March 2020, the Group concluded a tender process and committed to repurchase approximately 2% of its outstanding shareholder debt from one of its shareholders. This repurchase transaction is expected to conclude in July 2020. Linked to this debt repurchase, the Company will be reducing and cancelling the ordinary shares owned by that Shareholder shortly after signature of the accounts.

Share Buy Back

Article 41 of the Company's Articles of Association states the Company may purchase its own shares in any way provided for by the Companies Act including by way of a purchase out of cash reserves up to the limits provided by the Companies Act, subject to the approval of the Majority Shareholders. The Company created a new class of shares during 2019 (A Ordinary Shares), and in March 2020 repurchased some of these A Ordinary Shares representing approximately 2% of the issued share capital of the Company.

Appointment of New Chairman

On 29 January 2020 David Neave replaced Nils Stoesser in the position of interim Chairman of the Board. In March 2020, the Company welcomed its new Chairman of the board, John Connolly.

Company Statement of Financial Position

		31 December 2019 £ 000	31 December 2018 £ 000
	Note		
Non-current assets			
Investments	3	23,651	23,651
		23,651	23,651
Current assets			
Trade and other receivables	4	645	-
		645	-
Total assets		24,296	23,651
Current liabilities			
Trade and other payables	5	747	747
Total current liabilities		747	747
Net current liabilities		(102)	(747)
Net assets		23,549	22,904
Capital and reserves			
Share premium	7	23,549	22,904
Retained earnings		-	-
Total equity		23,549	22,904

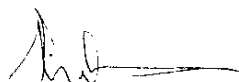
The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an Income Statement or a Statement of Comprehensive Income for the Company.

The Company was incorporated on 22 September 2017. The comparative period financial information within the financial statements therefore covers the 15 month period ended 31 December 2018.

The accompanying notes on pages 54 to 56 form an integral part of these financial statements.

The financial statements were approved by the board of Directors and authorised for issue on 30 June 2020.

They were signed on its behalf by:



David Whitmore
Chief Executive Officer



Alison Wilford
Chief Financial Officer

Company number: 10977311

Company Statement of Changes in Equity

For the year ended 31 December 2019

	Shares	Share Premium	Reserves	Total
	£,000	£,000	£,000	£,000
Balance at 22 September 2017	-	-	-	-
Result after tax for the period	-	-	-	-
Total comprehensive result for the period	-	-	-	-
Transactions with owners in their capacity as owners				
Issue of ordinary shares	7	22,904	-	22,904
Total transactions with owners in their capacity as owners	22,904	22,904	-	22,904
Balance as at 31 December 2018	22,904	22,904	-	22,904
Result after tax for the year	-	-	-	-
Total comprehensive result for the year	-	-	-	-
Transactions with owners in their capacity as owners				
Issue of ordinary shares	7	645	-	645
Total transactions with owners in their capacity as owners	645	645	-	645
Balance as at 31 December 2019	23,549	23,549	-	23,549

The Company was incorporated on 22 September 2017. The comparative period financial information within the financial statements therefore covers the 15 month period ended 31 December 2018.

The accompanying notes on pages 54 to 56 form an integral part of these financial statements.

Notes to the Company Financial Statements

31 December 2019 to 31 December 2020

1. Accounting Policies

(a) Basis of Preparation of Financial Statements

The Company's financial statements have been prepared in accordance with Financial Reporting Standard 101, "*Reduced Disclosure Framework*" (FRS 101) and the Companies Act 2006 (the "Act"). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements in accordance with IFRS as adopted by the European Union (EU). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council.

The Company's financial statements are presented in pounds sterling (GBP), which is the functional currency and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

FRS 101 sets out amendments to IFRS as adopted by the EU that are necessary to achieve compliance with the Act and related Regulations. The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an Income Statement or a Statement of Comprehensive Income for the Company alone.

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

A summary of the Company's significant accounting policies is set out below.

(b) Investments

Fixed asset investments are stated at cost less provision for diminution in value.

The carrying amount of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying amount may not be recoverable.

(c) Receivables

Amounts owed from group companies include amounts relating to the issue of Class A shares within the Company. These are repayable on demand and do not attract interest.

(d) Payables

Other creditors are stated at cost and are classified as current liabilities if the payment is due within one year or less.

(e) Going concern

Slater and Gordon UK Holdings Limited had net assets of £23.5m and net current liabilities of £0.1m at 31 December 2019. The net current liabilities are the result of an intercompany payable owed to Slater and Gordon UK Limited. The Directors of Slater and Gordon UK Limited confirm that this amount will not be recalled within 12 months of the approval of these financial statements. The Directors have prepared the Company financial statements of Slater & Gordon UK Holdings Limited using the going concern basis of preparation, on the basis that the Company is included within the Slater and Gordon Group of companies in the UK and Malta. The going concern disclosure as set out in the consolidated financial statements of Slater and Gordon UK Holdings Limited are as follows:

The Group manages its financing via a shareholder loan facility which, including accrued interest, is £30.0m as at 31 December 2019 and is fully drawn down (2018: £22.4m). The Group also takes advantage of a working capital facility to ensure that the short-term liquidity of the business is also managed, and the Group can fulfil its obligations when they fall due. The working capital facility is £30.0m at 31 December 2019 (2018: £20.0m) with £16.5m drawn as at 31 December 2019 (2018: £9.1m).

At 31 December 2019, the Group had net assets of £125.7 million and cash of £26.1 million. The Group has prepared cash flow forecasts for the foreseeable future based on key assumptions. The key drivers of going concern for the Group are the achievement of revenues, management of working capital cycle providing cash self-sufficiency in the Group, the level of case intake based on a strong pipeline and the likely future value of this work. Management has considered these drivers together with the forecasts and projected cash flow patterns of the Group for the foreseeable future being a period of 12 months from the date of approval of these financial statements.

The business has considered the impact of Covid-19 on its business. Covid-19 will have a number of impacts with a reduction in road traffic leading to a reduction in road traffic accidents and less demand for hire cars and repairs, fewer personal injury claims being incurred due to less movement of the population in public places, temporary restriction on face to face medical examination and rehabilitation services, temporary closure of court facilities leading to a slowdown in closure of open cases and delay in completion of property conveyancing matters, which could have a negative impact on the revenue and cash received into the business. This impact is mitigated in part by reduction in variable marketing costs, participation in the HMRC Furlough and VAT deferral schemes, reduced operational costs due to the remote working environment and strong cost management.

Notes to the Company Financial Statements (continued)

Notes 1 to 12 are set out on pages 20 to 35

1. Accounting Policies (continued)

(e) Going concern (continued)

The Group has used the 2020 budget as its base case and flexed this for a fall in intake volumes of between 50% to 70% for a period of three months and reducing to a fall of between 20% to 35% for a further three to four months. It is expected that business volumes will return to the base case levels of activity in October 2020. For 2020, this results in an impact on revenue of (17)% and cash flow of (24)% versus budget. Under this forecast the business would still have a minimum of £7.5m of cash headroom over its shareholder covenants and a minimum of £10.9m of cash headroom on its undrawn working capital facility.

In addition to the revised forecast (referred to as 'Moderate') a number of downside scenarios have been considered (namely, 'Significant' and 'Severe'). In respect of the main income streams (Personal Injury, Consumer Legal Services, Health and Motor), in the Significant scenario these include reductions in intake volumes of 50% to 70% for three to four months, and 25% to 70% for a further three to six months. For the full year this has an impact on revenue of (22)% and cashflow of (48)% versus budget. Under the Severe scenario these include reductions in intake volumes of 50% to 75% for three to six months, and 25% to 70% for at least three months and in most streams until the end of the year. For the full year this has an impact on revenue of (28)% and cashflow of (63)% versus budget.

Even under the most pessimistic modelled scenario, there are sufficient mitigating actions available to the business to ensure it would be able to meet its liabilities and remain within its shareholder covenants for a period of more than 12 months.

The Company's projections for the period to July 2021 including receipts and payments indicate that Slater and Gordon expects to pay all its obligations to all stakeholders. Business activity and cash flows are monitored on a regular weekly basis and continue to be satisfactory. Regular financial forecasts are prepared to monitor the firms funding requirements through retained profits and borrowing facilities, and projected compliance with shareholders covenants.

The management has reasonable expectations that the Company has adequate resources to continue trading for the foreseeable future. Accordingly, the management continues to adopt the going concern basis of accounting for preparing these financial statements.

2. Audit Fees

The audit fee of £93k was borne by Slater and Gordon (UK) 1 Limited, a subsidiary company (2018: £250k).

3. Investments

	31 December 2019	31 December 2018
	£'000	£'000
Cost		
At start of year / period	23,651	23,651
At end of year / period	23,651	23,651
Provisions for impairment		
At start of year / period	-	-
At end of year / period	-	-
Net book value at end of year / period	23,651	23,651

Investments comprise of equity shares in Slater & Gordon (UK) 1 Limited, a company incorporated and acquired in the United Kingdom. The address of the registered office for Slater & Gordon (UK) 1 Limited is 58 Mosley Street, Manchester, M2 3HZ. The Company has performed an impairment review at 31 December 2019 and does not consider there to be any impairment on its investment.

4. Trade and Other Receivables

	31 December 2019	31 December 2018
	£'000	£'000
Current		
Amounts owed from group companies	645	-

The amounts due from group companies are repayable on demand and do not attract interest.

5. Trade and Other Payables

	31 December 2019	31 December 2018
	£'000	£'000
Current		
Amounts owed to group companies	747	747

The amounts owed to group companies are repayable on demand and do not attract interest.

Notes to the Company Financial Statements (continued)

12 months ended 31 December 2019

6. Related Party Transactions

The Company is taking advantage of the exemption granted under Financial Reporting Standard 101, Paragraph 8(k), "Related Party Transactions", not to disclose transactions with wholly owned group companies, which are related parties. Disclosures related to Directors' remuneration are made within Note 6 of the consolidated accounts.

7. Share Premium

	Number of ordinary shares at £0.003001	Number of Class A shares at £0.0017	Share Capital £ 000	Share Premium £ 000	Total £'000
Balance at 22 September 2017	-	-	-	-	-
Issued ordinary shares	1,000,014	-	-	22,904	22,904
Balance at 31 December 2018	1,000,014	-	-	22,904	22,904
Issued ordinary shares	-	172,004	-	645	645
Balance at 31 December 2019	1,000,014	172,004	-	23,549	23,549

At 31 December 2019 the Company has two classes of shares which carry no right to fixed income. In 2019 the Company issued 172,004 A Ordinary Shares to Key management personal ("beneficial owners") and were purchased in cash at their unrestricted market value as at the purchase date. Slater and Gordon UK Nominees Limited holds these shares of behalf of the beneficial owners.

8. Financial Guarantees

On 12 February 2019, the Company entered into a guarantee of a services agreement between RAC Motoring Services, SGS Business Process Services (UK) Limited and Slater and Gordon UK Limited, each of whom provide services (credit hire, credit repair or legal services) to customers of RAC. Annual anticipated fees £1.1m, as adjusted for volumes.

On 22 June 2019, the Company entered into a counter-indemnity (issued in favour of Slater and Gordon Limited ("SGL") of SGL's guarantee of the LLP Agreement relating to Slater and Gordon (UK) 2 LLP (the "LLP") dated 30 April 2012 in favour of the B Members of the LLP).

9. Subsequent Events

Convertible Loan Note

In anticipation of the Watchstone plc litigation, Slater & Gordon (UK) 1 Limited and Glas Trustees Limited ("Trustee") entered into a Convertible Loan Notes Trust Deed on 22 December 2017 (as amended on 19 December 2019) to absorb any proceeds from the litigation. Under this deed Slater & Gordon (UK) 1 Limited issued £250,000,008 loan notes to the Noteholders.

It was agreed under the deed that once the litigation had concluded, the loan notes would be exchanged for equity in Slater & Gordon UK Holdings Limited. This took effect by Slater & Gordon (UK) 1 Limited issuing preference shares in the Company (on a 1:1 basis, by reference to the outstanding Loan Notes, 250,000,008 Preference Shares in total) in exchange for Slater & Gordon UK Holdings Limited issuing Ordinary Shares to the Noteholders (on a 1:100,000 basis, by reference to the Preference Shares, 2,500 Ordinary Shares in total). The further issuance of Preference Shares in Slater & Gordon (UK) 1 Limited to Slater & Gordon UK Holdings Limited, and the issue of Ordinary Shares in Slater & Gordon UK Holdings Limited each took place on 20 January 2020.

Capitalisation of preference shares

As above, on 20 January 2020 Slater & Gordon (UK) 1 Limited issued 250,000,008 Preference shares of £1 each fully paid at par to the Company. It is intended that the Preference Shares will be reclassified as ordinary shares, ranking equally with the existing ordinary shares (also owned by the Company) by changing the rights attaching to the shares. Whilst this has not yet taken place at the date of the Accounts signing, it is intended that this will imminently take place.

Share Buy Back

Article 41 of the Company's Articles of Association states the Company may purchase its own shares in any way provided for by the Companies Act including by way of a purchase out of cash reserves up to the limits provided by the Companies Act, subject to the approval of the Majority Shareholders. The Company created a new class of shares during 2019 (A Ordinary Shares), and in March 2020 repurchased some of these A Ordinary Shares representing approximately 2% of the issued share capital of the Company.

Appointment of New Chairman

On 29 January 2020 David Neave replaced Nils Stoesser in the position of interim Chairman of the Board. In March 2020, the Company welcomed its new Chairman of the board, John Connolly.

Debt repurchase

On 31 March 2020, the Group concluded a tender process and committed to repurchase approximately 2% of its outstanding shareholder debt from one of its shareholders. This repurchase transaction is expected to conclude in July 2020. Linked to this debt repurchase, the Company will be reducing and cancelling the ordinary shares owned by that Shareholder shortly after signature of the accounts.