

# **SLATER & GORDON (UK) 1 LIMITED**

## **DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

Registered Number 07895497



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# Company Information

Year Ended 30 June 2015

<b>Directors</b>	A A Grech C D Evans (resigned 27 March 2016) K J Fowlie
<b>Secretary</b>	R A Bell W Brown (resigned 29 January 2016) K Morrison
<b>Company number</b>	07895497
<b>Registered Office</b>	50-52 Chancery Lane London WC2A 1HL
<b>Auditor</b>	Ernst & Young LLP Apex Plaza Forbury Road Reading RG1 1YE
<b>Bankers</b>	Royal Bank of Scotland 9th Floor, 280 Bishopsgate London EC2M 4RB

# Strategic Report

## Year Ended 30 June 2015

The Directors present their strategic report for the year ended 30 June 2015

### Review of the business

The Group's principal activities during the year is the provision of legal services in both the Personal Injury ('PI') and General Law fields, with the acquisition of the Professional Services Division of Quindell expanding in the Personal Injury area as well as the provision of other ancillary services

The key financial and other performance indicators performance during the year was as follows

	2015	2014	
	£'000	Unaudited £'000	Change %
Fee & service revenue	153,786	101,717	51.2
(Loss)/Profit before tax	(245,820)	20,369	-1,306
Goodwill impairment	269,062	-	
Profit before goodwill impairment and tax	23,242	20,369	14.1
Equity shareholders' funds	219,848	23,054	853.6
	<b>Ratio</b>	<b>Ratio</b>	<b>%</b>
Current assets as % of current liabilities ('quick ratio')	1.34	0.84	59.5

Fee & service revenue for the year increased by 51.2% partially due to the acquisition of the Professional Services Division of Quindell (rebranded Slater & Gordon Solutions), accounting for £19.7m of the growth with a further £15.6m from the increases in WIP. The remaining increase is attributable to the acquisitions of Walker Smith Way and Leo Abse Cohen (£3.3m) and general increases in fees across both PI and General Law.

The improvement in profit before goodwill impairment and tax year-on-year is directly attributed to the additional revenues brought in by Leo Abse Cohen and Walker Smith Way, more than covering the additional spend in various areas of the business. However this was partially offset by the pre-tax losses incurred in the Slater & Gordon Solutions business.

Associated with the finalisation of the Global Group's accounts for the period ending 31 December 2015, the group recently undertook a review of the goodwill held at year end and ascertained that the goodwill arising on acquisition of the SGS businesses required impairment to the value of £269m at year end, attributable to latest forecasts indicating reduced profitability.

During the year, the Group has reassessed its accounting treatment of deferred consideration payable in the context of its acquisition of legal service practices. This reassessment has taken into account an analysis of historical acquisitions in the United Kingdom where cash and share-based consideration payable to the vendor principals of businesses acquired by the Group is deferred. Refer to Business Combinations Note 28.

Historically, all cash payments and share issues to vendors, whether restrained, deferred, contingent or otherwise, have been treated as consideration for the relevant business acquisition.

The Group has now carefully considered the appropriate treatment of these payments by reference to IFRS 3(r) Business Combinations with regard to the treatment of specific components of deferred consideration. IFRS 3(r) requires that transactions remunerating employees or former owners of the acquired business for future services be treated as separate transactions that are not to be included in the acquisition accounting.

An assessment has been made in relation to those arrangements that include contingent consideration to vendors of the business that are subject to so-called "bad leaver" provisions.

Included in the terms of a number of purchase agreements entered into by the Group is an arrangement whereby the payment of cash consideration to, and/or the retention of share-based consideration by, the vendors of acquired entities is contingent upon the relevant vendors remaining with the Group for a defined period. If a vendor ceases to remain with the Group for the prescribed period, the vendor may forfeit its entitlement to payment of the cash consideration and/or its ability to retain its share-based consideration, at the discretion of the Group.

In light of our assessment, we have now corrected and restated the accounting treatment of deferred consideration payable. These arrangements will be deemed to be "separate transactions" for accounting purposes, the effect of which is that they are treated as payments to former owners, to be expensed in accordance with other applicable International Financial Reporting Standards as adopted in the European Union.

# Strategic Report

## Year Ended 30 June 2015

### Review of the business (Continued)

Shareholders' funds increased by 880% due to both increases in retained earnings and £448m of new shares issued during the year that facilitated the acquisition of the Slater & Gordon Solutions business in May 2015, offset by the goodwill impairment

The Group's "quick ratio" (current assets as a percentage of current liabilities) has increased principally due to the acquisition of the Slater & Gordon Solutions business

### Principal risks and uncertainties

For the going concern assessment, please refer to Note 1 for further information

#### Financial Instrument Risks

The Group has established a risk and financial management framework whose primary objectives are to protect the Group from events that hinder the achievement of the Group's performance objectives

The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk at a business unit level

#### Use of derivatives

The Group uses interest rate hedges to adjust interest rate exposures in order to guarantee fixed interest payments where payments are variable and hence exposed to interest rate movements

#### Exposure to credit, liquidity, cash flow risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main exposure to credit risk in the 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 period of recognised financial assets is the carrying amount of those assets, net of any provisions against those assets, as disclosed in the statement of financial position and notes to the financial statements. Refer to Note 29 for full details of the exposure

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

By order of the board



K Fowlie  
Director

31 March 2016

# Directors' Report

Year Ended 30 June 2015

The Directors present their report, together with the financial report of the consolidated entity consisting of Slater and Gordon (UK) 1 Limited ("the Company") and its controlled entities (jointly referred to as "the Group"), for the financial year ended 30 June 2015. This financial report has been prepared in accordance with International Financial Reporting Standards (IFRS, adopted by the European Union). Compliance with International Accounting Standards Board (IASB) ensures compliance with International Financial Reporting Standards ("IFRS").

## Directors

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

- K J Fowle
- A A Grech
- C D Evans (resigned 27 March 2016)

## Principal Activities

Slater & Gordon (UK) 1 Limited is the immediate holding company of Slater & Gordon (UK) LLP whose principal activity is providing legal advice. The Company derives its income from the provision of business services to Slater & Gordon (UK) LLP together with interest on loans and profit distributions from Slater & Gordon (UK) LLP.

In May, the Company acquired the Professional Service Division (rebranded Slater Gordon Solutions) of Quindell Plc. The acquisition of the Professional Service Division supports the strategy to become the leading Personal Injury group in the UK and provides access to a comprehensive platform of businesses, processes and infrastructure.

The Company considers its immediate and ultimate Parent Company to be Slater and Gordon Limited, a company incorporated in Australia.

## Business Model and Main Objectives

Through its subsidiaries, the Company aims to deliver high quality legal and ancillary services for individuals, membership organisations, affinity groups and other strategic commercial partners in their personal, employment and business affairs. The Company is committed to becoming one of the largest and most trusted providers of personal legal services in the United Kingdom. This will be achieved through the successful integration of the past year's acquisitions, building awareness of the Slater & Gordon brand and building strategic relationships.

## Results

The consolidated results for the year ended 30 June 2015 are set out on page 11. No dividend has been proposed by the Group. The Directors do not feel that there are any relevant key performance indicators that need to be disclosed in addition to the financial information included in the financial statements.

## Financial instruments

The Company has entered into an interest rate swap to reduce the impact of any adverse movement in interest rates on the loans borrowed from the Parent Company's banks. The fair value of the swap arrangement at the balance sheet date was £176,382.

## Political and charitable donations

During the period the Company made no political or charitable donations.

## Employee involvement

The Company's policy is to consult and discuss with employees, through unions, staff councils and at meetings, matters likely to affect employees' interests.

Information about matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group'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 courses 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.

# Directors' Report

Year Ended 30 June 2015

## Auditor

During the year, Ernst & Young LLP, were appointed as auditors, and are deemed to be reappointed under section 487(2) of the Companies Act 2006

## Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and for the Company in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP")

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss for that period

In the case of the UK GAAP parent company financial statements, the Directors are required to prepare financial statements for each financial year that give a true and fair view of the state of the affairs of the Company

In preparing those financial statements, the Directors are required to

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

In the case of the IFRS financial statements, IAS 1 requires that the Directors prepare Group financial statements for each financial year, which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that year

In preparing the Group financial statements, the Directors are required to

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures, when compliance with specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance, and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

# Directors' Report

Year Ended 30 June 2015

## Going Concern

The financial statements have been prepared using the going concern assumption which contemplates the realisation of assets and the settlement of liabilities in the ordinary course of business

The Company and its subsidiaries are members of the Slater & Gordon Consolidated Group (the Global Group) whose ultimate parent entity is Slater and Gordon Limited, a company incorporated in Australia

At 30 June 2015 the Group had net assets of £220.1m and cash of £39.2m. The Company is reliant upon its ultimate parent entity in relation to ongoing financial support. The Company has received confirmation from its parent entity that it will support the Company to meet its liabilities as and when they fall due, but only to the extent that funds are not otherwise available to the Company to meet such liabilities. The parent has also confirmed that it will continue to provide the financial support outlined above for a period of at least 12 months from the date of signing of this financial report.

At 31 December 2015, the consolidated Slater and Gordon Group had net assets of AUD375.0m, which decreased since 30 June 2015 primarily due to a non-cash impairment charge of AUD876.4m and the adoption of AASB 15. The Group had net current assets of AUD509.4m. The Group had drawings of AUD783.0m under its syndicated debt facility, against limits of AUD850.3m at 31 December 2015. The Group had cash on hand of AUD51.9m and other borrowings of AUD10.3m, resulting in net debt (drawn debt facilities less cash and cash equivalents) of AUD741.4m and available liquidity of AUD119.2m. At 31 December 2015, the Group's net debt position had increased since 30 June 2015 by AUD118.0m, reflecting underlying cash requirements in the business. At the date of signing of the financial report the Group has drawn its existing facilities in full.

Since 1 July 2015, the consolidated Slater and Gordon Group has obtained various amendments from its banking syndicate ("lenders") to the Slater and Gordon Syndicated Facility Agreement ("SFA"). As at the date of the Company's financial report, the consolidated Slater and Gordon Group remains in compliance with all its undertakings under the SFA. Under the SFA the consolidated Slater and Gordon Group agreed to present to the lenders and their financial advisers proposals which may include amendments to the current SFA. These proposals have been provided to the lenders in line with the contractual requirements of the SFA. In the event that amendments are required by the lenders and if any such amendments are not implemented by 30 April 2016, repayment dates for the SFA may be brought forward to a date no earlier than 31 March 2017.

Based on discussions to date, the Directors of the consolidated Slater and Gordon Group are of the view that the consolidated Slater and Gordon Group will comply with the above obligations. The consolidated Slater and Gordon Group has further initiated a comprehensive review including an assessment of revised financial forecasts, and the implementation of performance improvement programmes with the aim of improving the profitability of the business and reducing the level of drawn debt.

The Directors, having given consideration to the current financial forecasts for the Group and the Company, the engagement with the banking syndicate and its financial advisers, the comprehensive review, and the performance improvement programmes being implemented by management, consider the going concern basis of preparation is appropriate for a period to 31 March 2017.

## Statement of disclosure to the auditor

So far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the Directors have taken all the necessary steps that they ought to have taken as Directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the board



K Fowle  
Director

31 March 2016

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SLATER & GORDON (UK) 1 LIMITED**

We have audited the financial statements of Slater & Gordon UK (1) Ltd for the year ended 30 June 2015 which comprise the Consolidated Statement of Profit and Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, the related notes 1 to 31 for the Group accounts, and the Company's Balance Sheet and the related notes 1 to 11 for the Company accounts. The financial reporting framework that has been applied in their preparation of the Group financial statements is applicable law and International Financial Reporting Standards (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 (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on pages 7 to 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic and Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion:

- ▶ the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2015 and of the Group's and the Parent Company's loss for the year then ended,
- ▶ the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- ▶ the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SLATER & GORDON (UK) 1 LIMITED

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

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

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

## Other Matters

The consolidated financial statements for 2014 are unaudited

*Ernst & Young LLP*

Kevin Harkin (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Chartered Accountants

Reading

**31 MAR 2016**

Dated

# Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2015

	Note	2015 £'000	2014 £'000 Unaudited
<b>Revenue and other income</b>			
Fee revenue – rendering of services	3	127,347	90,939
Net movement in work in progress	3	15,587	10,778
Services revenue	3	10,852	-
Subtotal Revenue		153,786	101,717
Gain from bargain purchase	3	11,709	8,733
Other income	3	2,591	1,279
<b>Total revenue and other income</b>		<b>168,086</b>	<b>111,729</b>
<b>Less expenses</b>			
Salaries and employee benefit expense	4	66,125	46,661
Payments to former owners	4	2,996	2,061
Share based payment expense to former owners	4	3,916	3,035
Cost of sales	4	8,832	-
Rental expense		5,769	5,266
Advertising and marketing expense		19,651	9,991
Administration and office expense		13,568	9,925
Consultant fees		1,787	1,549
Finance costs	4	5,607	4,613
Bad and doubtful debts	4	2,645	1,491
Depreciation and amortisation expense	4	2,244	1,979
Goodwill Impairment		269,062	-
Costs associated with acquisitions		5,525	2,074
Other expenses	4	6,179	2,714
<b>(Loss)/profit before income tax expense</b>		<b>(245,820)</b>	<b>20,369</b>
Income tax expense	5	5,390	3,856
<b>(Loss)/profit for the year after income tax expense</b>		<b>(251,210)</b>	<b>16,513</b>
<b>Other comprehensive expense, net of tax</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Changes in fair value of cash flow hedges		31	110
<b>Total items that may be reclassified subsequently to profit or loss</b>		<b>31</b>	<b>110</b>
<b>Other comprehensive expense for the year, net of tax</b>		<b>31</b>	<b>110</b>
<b>Total comprehensive (loss)/income for the year, net of tax</b>		<b>(251,241)</b>	<b>16,403</b>
<b>(Loss)/profit for the year attributed to</b>			
Owners of the Company	18	(251,345)	16,391
Non-controlling interests	19	135	122
		<b>(251,210)</b>	<b>16,513</b>
<b>Total comprehensive (loss)/income for the year attributed to</b>			
Owners of the Company		(251,376)	16,281
Non-controlling interests	19	135	122
		<b>(251,241)</b>	<b>16,403</b>

The accompanying notes on pages 15 to 64 form an integral part of these financial statements

# Consolidated Statement of Financial Position

As at 30 June 2015

	Note	2015 £'000	2014 £'000 Unaudited
<b>Current assets</b>			
Cash	6	39,159	7,371
Receivables	7	232,753	55,742
Work in progress	8	154,623	56,665
Current tax assets		12,371	-
Other current assets	9	9,848	3,817
<b>Total current assets</b>		<b>448,754</b>	<b>123,595</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	9,384	2,913
Receivables	7	32,923	18,033
Work in progress	8	67,994	44,320
Intangible assets	11	304,788	31,634
Deferred tax assets	5	18,190	-
<b>Total non-current assets</b>		<b>433,279</b>	<b>96,900</b>
<b>Total assets</b>		<b>882,033</b>	<b>220,495</b>
<b>Current liabilities</b>			
Payables	12	323,240	133,694
Short term borrowings	13	100	4,230
Current tax liabilities		1,102	922
Other current liabilities	14	5,352	5,600
Provisions	15	4,435	2,061
<b>Total current liabilities</b>		<b>334,229</b>	<b>146,507</b>
<b>Non-current liabilities</b>			
Payables	12	-	2,561
Long term borrowings	13	307,808	40,444
Deferred tax liabilities	5	13,623	6,773
Derivative financial instruments		176	145
Provisions	15	6,084	881
<b>Total non-current liabilities</b>		<b>327,691</b>	<b>50,804</b>
<b>Total liabilities</b>		<b>661,920</b>	<b>197,311</b>
<b>Net assets</b>		<b>220,113</b>	<b>23,184</b>
<b>Equity</b>			
Contributed equity	16	448,170	-
Cash-flow hedge reserve	17	(176)	(145)
Retained profits/(accumulated losses)	18	(228,146)	23,199
<b>Total equity attributable to equity holders in the Company</b>		<b>219,848</b>	<b>23,054</b>
Non-controlling interest	19	265	130
<b>Total equity</b>		<b>220,113</b>	<b>23,184</b>

The accompanying notes on pages 15 to 64 form an integral part of these financial statements

The financial statements were approved by the board of directors and authorised for issue on 31 March 2016

They were signed on its behalf by

K Foyrie  
Director

Company number 07895497

# Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2015

2015

Attributable to the equity holders of the Parent

	Note	Contributed Equity £'000	(Retained Profits)/ Accumulated Losses £'000	Cash Flow Hedging Reserve £'000	Total £'000	Non- controlling interest £'000	Total Equity £'000
<b>Balance as at 1 July 2014 (unaudited)</b>		-	(23,199)	145	(23,054)	(130)	(23,184)
Net loss/(profit) after tax for the year		-	251,345	-	251,345	(135)	251,210
Total other comprehensive expense for the year	17	-	-	31	31	-	31
<b>Total comprehensive loss/(income) for the year</b>		-	251,345	31	251,376	(135)	251,241
<b>Transactions with owners in their capacity as owners</b>							
Share issuance	16	(448,170)	-	-	(448,170)	-	(448,170)
<b>Total transactions with owners in their capacity as owners</b>		(448,170)	-	-	(448,170)	-	(448,170)
<b>Balance as at 30 June 2015</b>		(448,170)	228,146	176	(219,848)	(265)	(220,113)

2014

Attributable to the equity holders of the Parent

	Note	Contributed Equity £'000	Retained Profits £'000	Cash Flow Hedging Reserve £'000	Total £'000	Non- controlling interest £'000	Total Equity £'000
<b>Balance as at 1 July 2013 (unaudited)</b>		(75)	(6,808)	35	(6,848)	(8)	(6,856)
Net Profit after tax for the year		-	(16,391)	-	(16,391)	(122)	(16,513)
Total other comprehensive expense for the year	17	-	-	110	110	-	110
<b>Total comprehensive income for the</b>		-	(16,391)	110	(16,281)	(122)	(16,403)
<b>Transactions with owners in their capacity as owners</b>							
Share buyback	16	75	-	-	75	-	75
<b>Total transactions with owners in their capacity as owners</b>		75	-	-	75	-	75
<b>Balance as at 30 June 2014</b>		-	(23,199)	145	(23,054)	(130)	(23,184)

The accompanying notes on pages 15 to 64 form an integral part of these financial statements

# Consolidated Statement of Cash Flows

For the Year Ended 30 June 2015

	Note	2015 £'000	2014 £'000 Unaudited
<b>Cash flow from operating activities</b>			
Receipts from customers		138,056	104,457
Payments to suppliers and employees		(129,228)	(85,765)
Payments to former owners		(1,374)	-
Interest received	3	145	138
Borrowing costs		(1,960)	(724)
Income tax paid		(1,438)	(1,155)
<b>Net cash provided by operating activities</b>	<b>20</b>	<b>4,201</b>	<b>16,951</b>
<b>Cash flow from investing activities</b>			
Payment for software development		(4,845)	(317)
Payment for plant and equipment		(5,886)	(1,423)
Costs associated with acquisition of businesses		(5,525)	(2,074)
Payment for acquisition of businesses, net of cash in subsidiaries		(653,849)	(54,858)
Payment for deferred consideration of prior period acquisitions		(5,783)	(7,011)
<b>Net cash used in investing activities</b>		<b>(675,888)</b>	<b>(65,683)</b>
<b>Cash flow from financing activities</b>			
Proceeds from share issue	16	448,170	-
Repayment to related parties		(248)	-
Proceeds from borrowings		265,960	56,345
Repayment of borrowings		(6,079)	(18,917)
Transactions with parent		(4,328)	17,599
<b>Net cash provided by financing activities</b>		<b>703,475</b>	<b>55,027</b>
Net increase in cash held		31,788	6,295
Cash at beginning of financial year		7,371	1,076
<b>Cash at end of financial year</b>	<b>6</b>	<b>39,159</b>	<b>7,371</b>

The accompanying notes on pages 15 to 64 form an integral part of these financial statements

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1: Statement of Significant Accounting Policies

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

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

Slater and Gordon (UK) 1 Limited is a company limited by shares, incorporated and domiciled in the United Kingdom. The consolidated financial statements comprise the Company and its controlled entities referred to in Note 26, 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 European Union, 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) and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

#### *Compliance with IFRS*

The consolidated financial statements of Slater and Gordon (UK) 1 Limited comply with the International Financial Reporting Standards ("IFRS") as adopted by the European Union issued by the International Accounting Standards Board ("IASB").

#### *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 Parent 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.

#### *Significant accounting estimates*

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity'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 using the going concern assumption which contemplates the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Company and its subsidiaries are members of the Slater & Gordon Consolidated Group (the Global Group) whose ultimate parent entity is Slater and Gordon Limited, a company incorporated in Australia.

At 30 June 2015 the Group had net assets of £220.1m and cash of £39.2m. The Company is reliant upon its ultimate parent entity in relation to ongoing financial support. The Company has received confirmation from its parent entity that it will support the Company to meet its liabilities as and when they fall due, but only to the extent that funds are not otherwise available to the Company to meet such liabilities. The parent has also confirmed that it will continue to provide the financial support outlined above for a period of at least 12 months from the date of signing of this financial report.

At 31 December 2015, the consolidated Slater and Gordon Group had net assets of AUD375.0m, which decreased since 30 June 2015 primarily due to a non-cash impairment charge of AUD876.4m and the adoption of AASB 15. The Group had net current assets of AUD509.4m. The Group had drawings of AUD783.0m under its syndicated debt facility, against limits of AUD850.3m at 31 December 2015. The Group had cash on hand of AUD51.9m and other borrowings of AUD10.3m, resulting in net debt (drawn debt facilities less cash and cash equivalents) of AUD741.4m and available liquidity of AUD119.2m. At 31 December 2015, the Group's net debt position had increased since 30 June 2015 by AUD118.0m, reflecting underlying cash requirements in the business. At the date of signing of the financial report the Group has drawn its existing facilities in full.

Since 1 July 2015, the consolidated Slater and Gordon Group has obtained various amendments from its banking syndicate ("lenders") to the Slater and Gordon Syndicated Facility Agreement ("SFA"). As at the date of the Company's financial report, the consolidated Slater and Gordon Group remains in compliance with all its undertakings under the SFA. Under the SFA the consolidated Slater and Gordon Group agreed to present to the lenders and their financial advisers proposals which may include amendments to the current SFA. These proposals have been provided to the lenders in line with the contractual requirements of the SFA. In the event that amendments

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1: Statement of Significant Accounting Policies (continued)

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

are required by the lenders and if any such amendments are not implemented by 30 April 2016, repayment dates for the SFA may be brought forward to a date no earlier than 31 March 2017

Based on discussions to date, the Directors of the consolidated Slater and Gordon Group are of the view that the consolidated Slater and Gordon Group will comply with the above obligations. The consolidated Slater and Gordon Group has further initiated a comprehensive review including an assessment of revised financial forecasts, and the implementation of performance improvement programmes with the aim of improving the profitability of the business and reducing the level of drawn debt.

The Directors, having given consideration to the current financial forecasts for the Group and the Company, the engagement with the banking syndicate and its financial advisers, the comprehensive review, and the performance improvement programmes being implemented by management, consider the going concern basis of preparation is appropriate for a period to 31 March 2017.

### (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 for the same reporting period as the parent entity, 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.

Non-controlling interests in the results of subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position.

Any changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

### (c) Revenue

#### Rendering of services

It is the Group's policy to recognise revenue in accordance with the revenue recognition criteria described in IAS 18 Revenue.

Revenue from rendering of services to customers is recognised upon delivery of the service to the customer. The majority of revenue from services is comprised of fees billed, with the remaining amount representing movement in work in progress and services revenue. Revenue is recognised to the extent that it is probable that the economic benefit will flow to the entity and that revenue can be reliably measured. The Group measures revenue at the fair value of the consideration received or receivable.

The Group has implemented practice standards within each region to monitor the progression of individual cases, and thereby to determine the likely outcome of the transaction. The practice standards are based on the Group's significant depth of experience in progressing the various types of legal work undertaken to conclusion.

The Group renders the following key services to customers:

- provision of legal services for personal injury claims,
- provision of services for general law incorporating project litigation, and
- provision of legal and complementary services from SGS, acquired from Quindell Plc on 29 May 2015. Refer to Business Combinations Note 28.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1: Statement of Significant Accounting Policies (continued)

### c) Revenue (continued)

#### Revenue resulting from work in progress movement

Revenue includes the difference in work in progress value between reporting periods. The revenue recognised excludes the net movement in work in progress contributed by the acquisition of client matters arising from a business combination or file specific acquisition.

In relation to Personal Injury legal matters, the Group identifies individual contracts at a similar stage of completion. This means that the rights and obligations contained in each contract do not vary materially from one contract to another in each category of work that the Group typically performs for clients.

The measurement of this component of revenue is based upon

- the estimate of fees upon completion of the matter,
- the probability of the success of the matter, and
- the percentage of completion of the matter.

On an individual client matter basis this means that as work in progress increases on a client matter, the increase in work in progress is recorded as a revenue item. When a matter is finalised, the full amount of the actual fees for services is invoiced or billed to the client and recorded as revenue. This is then offset by the work in progress matter being written back to nil (recognised as a negative revenue amount) neutralising the previously recorded revenue.

#### Provision of legal and other services resulting from Slater Gordon Solutions

##### *Legal Services*

These services relate to road traffic accident ("RTA"), employee liability/public liability ("ELPL") and noise induced hearing loss ("NIHL") cases. Revenue is recognised by stage of completion, consistent with the treatment outlined above for provision of services from personal injury claims.

Other services include replacement vehicle hire, vehicle repair, provision of medical reports and rehabilitation.

##### *Vehicle hire and repair*

Revenue relating to car hire, repair and claims management services is measured at the fair value of the consideration receivable, net of Value Added Tax ("VAT") and other sales taxes. Revenue is recognised when services are provided, including an appropriate proportion of any services that are in progress at the reporting date. It is recognised only when it can be estimated reliably.

Hire revenue is recognised on a stage of completion basis as it is accrued on a daily basis for each day that the vehicle is on the road with the client. Revenue and costs are accrued on each specific vehicle at the GTA (the Association of British Insurers General Terms of Agreement for credit hire arrangements) or contracted rates.

The benefit of the service to the customer is generated over time and the ability to estimate the stage of completion is high given it is based on actual days and known rates.

Vehicle repair revenue is recognised on a 'significant act' basis whereby the significant act is the completion of a repair. At this point the obligation is fulfilled. The corresponding cost of repair is also recognised at this point.

Administration fee revenue on car hire/repair as set under the GTA is recognised at the start of the respective service.

##### *Medical Reports and Services*

Revenue is earned from the procurement of medical reports and other services.

The instructing party will request SGS to procure a service. An appointment is arranged with a third party medical practitioner. The significant event for revenue recognition is considered to be the attendance at the appointment of the instructing party's client. At this point there is certainty over the outcome. Therefore, medical reports revenue is recognised once an appointment has been attended as this is considered to be the significant act in accordance with IAS 18.

##### *Rehabilitation Services*

Revenue is recognised when the initial assessment appointment has been attended as this is considered to be the 'significant act'. The medical practitioner will confirm the course of treatment required in the initial assessment. For rehabilitation, the instructing party is liable for the costs as they have instructed the services on behalf of an individual.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1: Statement of Significant Accounting Policies (continued)

### (c) Revenue (continued)

#### Interest Revenue

Interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets

#### Other revenue

Other revenue is recognised when the right to receive the revenue has been established

All revenue is stated net of value added tax ("VAT")

### (d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and short-term deposits with an original maturity of three months or less. Bank overdrafts are shown within short-term borrowings in current liabilities on the consolidated statement of financial position. 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 SRA Accounts Rules 2011 the Group is required to have a separate bank account to hold and receive client money. This must be under the name of the LLP 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) Disbursements

Disbursements are only recognised when it is assessed that a reimbursement will be received from the client or on his or her behalf. The disbursements are treated as a separate asset. The amount recognised for the expected reimbursement does not exceed the relevant costs incurred.

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

### (f) 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 by Directors 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

Land is not depreciated.

The depreciable amounts of all other 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 rates	Depreciation method
Fixtures, Fittings and Equipment	5.00 – 66.67%	Straight Line and Diminishing Value
Low value asset pool	18.75 – 37.50%	Diminishing value

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 profit or loss.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit or loss.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1: Statement of Significant Accounting Policies (continued)

### (g) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership

#### *Finance leases*

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the fair value or, if lower, the present value of the minimum lease payments, including any guaranteed residual values. 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. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

#### *Operating leases*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are 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 are recognised as a liability and amortised on a straight-line basis over the life of the lease.

### (h) Work in progress ("WIP")

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

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. Refer Note 1(t) regarding changes to account classification during the financial year ended 30 June 2015.

#### **Work in progress arising from legal services performed by Slater and Gordon Lawyers**

Work in progress is either earned at cost or it may include profit recognised to date based on the value of work completed. The following are the methodologies adopted for each division in determining the value of work in progress.

#### *Personal Injury Law work in progress*

Personal injury law work in progress is measured using the regional practice standards applicable to each region established by the Group to determine the stage of completion using a methodology:

- a) to examine the nature and extent of work performed for individual cases, and
- b) to identify services performed to date as a percentage of total services to be performed.

The regional practice standards incorporate value pricing and fixed fee valuations, applying a probability of success factor, making allowance for the "No Win No Fee" conditional fee arrangements, under which the Personal Injury practice operates.

The Group conducts a detailed review of the stage of completion calculations for all cases on a half-yearly basis. When necessary, the Group revises the estimates of revenue for the services performed. The need for such revisions does not necessarily indicate that the outcome of the transaction cannot be estimated reliably, rather it implicitly includes some estimation uncertainty. (Refer Note 2(b) Critical Accounting Estimates and Judgments – Work in progress.)

#### *General Law work in progress*

For estate, probate, industrial law, commercial law and funded project litigation matters, time records and historical levels of fees billed are used in determining the value of work completed.

#### *Project litigation work in progress*

Project litigation matters are defined as any matters where total professional fees and/or disbursements are likely to exceed £1.0 million over the course of the conduct of the matter(s).

Work in progress in project litigation matters is recognised on self-funded project litigation matters for which a favourable outcome is considered probable. For such projects, work in progress is initially valued at costs incurred less a discount for the likely recovery of those costs. Cost includes both variable and fixed costs directly related to cases and those that can be attributed to case activity and that can be allocated to specific projects on a reasonable basis. Where a project litigation matter has reached partial or full settlement and an enforceable agreement to recover the professional fees exists, work in progress is valued at the settled fee amount and discounted for percentage fee completion, and the probability of the full fee being collected. Project litigation matters that are not expected to be realised within twelve months are classified as non-current.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1: Statement of Significant Accounting Policies (continued)

### (h) Work in progress ("WIP") (continued)

#### Work in progress arising from services provided by Slater Gordon Solutions

##### *Legal Services*

Revenue from work in progress from non-hearing loss files (RTA, ELPL) is recognised based on the following key milestones on a matter

- i) Validation – this is the initial stage of the case,
- ii) Collation pre-med – matters with claim notification form ("CNF") submitted, but pre-receipt of medical report,
- iii) Collation post-med – medical report received, but prior to submission of settlement pack,
- iv) Valuation – settlement pack submitted, but prior to issue of proceedings, and
- v) Issue – post issue of proceedings

The measurement of this component of revenue is consistent with the Group approach for valuing WIP based on average fees, probability of success and percentage completion

No value of work in progress has been recognised for Noise Induced Hearing Loss ("NIHL") files as the amount of revenue cannot at this stage (30 June 2015) be measured reliably

##### *Vehicle hire and repair*

Work in progress is recognised for the following transactions

- i) Incomplete WIP – where a car hire is still in use, and
- ii) Billing not completed – this occurs where the car hire has been returned or repairs completed where the invoice is still outstanding (due to the time period required for all documentation to be in place before it is issued)

Work in progress is recognised based on the probable inflow of economic benefits flowing to the entity which occurs before settlement by the insurer. Settlement could take considerable time to recover. 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'.

##### *Medical reports and rehabilitation services*

Work in progress is recognised when an appointment has been attended. The amount will remain in work in progress until the discharge form has been received at which point the rehabilitation service is invoiced. This value remains in work in progress until the number of sessions required is known at which point the invoice is raised.

Work in progress is calculated based on the average amount charged out, based on historic cases less a historic dilution factor applied to reflect the fact that not all amounts will be billed.

For medical reports, the work in progress balance is calculated when the appointment is attended.

### (i) 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 recognised initially at the excess over 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), less the fair value of the identifiable assets acquired and liabilities assumed.

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 profit or loss as gain from bargain purchases.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1· Statement of Significant Accounting Policies (continued)

### (i) Business combinations (continued)

In conjunction with the business combination transaction there may be a transfer of assets between controlled entities as part of restructuring the acquired business. The parent accounts for such transfers through reallocation of the cost of the investments in its statement of financial position. Acquisition related costs are expensed as incurred.

### (j) Intangibles and goodwill

#### *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 once operating in the Group are amortised over the useful life of 5-8 years.

#### *Trademarks and Brand names*

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 amortisation and any accumulated impairment losses. Trademarks that have been assessed as having a finite useful life are amortised over their finite life.

Brand names acquired as part of the acquisition of Slater Gordon Solutions have been carried at cost. These brand names have been assessed as having an indefinite useful life, therefore no amortisation is applicable.

#### *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.

#### *Goodwill*

Goodwill is initially measured as the excess over the aggregate of the consideration transferred, the fair value (or proportionate share of net assets 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), less the fair value of the identifiable assets acquired and liabilities assumed.

Goodwill is not amortised, but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less any accumulated impairment losses.

### (k) 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 indicate 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).

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1: Statement of Significant Accounting Policies (continued)

### (l) 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 each 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 countries where the Group operates and generates taxable income.

#### *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 year 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 year 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.

#### *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 the UK 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, the HMRC/MIR is included as part of 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.

### (m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, for which it is probable that an outflow of economic benefits will result in an amount that can be reliably measured.

A provision for solicitor liability claims is made for the potential future cost of claims brought against the Group by former clients. 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.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1: Statement of Significant Accounting Policies (continued)

### (n) 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.

#### *Long-term employee benefit obligations*

The provision for employee benefits in respect of long service leave and annual leave payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. These estimated future cash flows have been discounted using market yields, at the reporting date, on corporate bonds with matching terms to maturity.

Employee benefit obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

#### *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.

### (o) Share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The consolidated entity operates share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 23. In respect of share-based payments that are dependent on the satisfaction of performance conditions, the number of shares and options expected to vest is reviewed and adjusted at each reporting date. The amount recognised for services received as consideration for these equity instruments granted is adjusted to reflect the best estimate of the number of equity instruments that eventually vest.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

The Group operates an Employee Ownership Plan ("EOP"). The EOP allows employees to purchase Vesting Convertible Redeemable ("VCR") shares in the Company by way of an interest-free loan. Per the policy, the loan has been recorded as a financial instrument.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1: Statement of Significant Accounting Policies (continued)

### (o) Share-based payment transactions (continued)

- The VCR shares vest over a specified period of time. At the time of vesting, VCR shares convert into ordinary shares with disposal restrictions. The terms and conditions of these shares are further described in Note 23.
- The value of the benefit received by an employee from issue of the VCR shares is assessed as the difference between the value of the VCR shares at the date of issue and the present value of the amount payable by the employee for purchase of the VCR shares. In accordance with IFRS 2 *Share-based Payment*, the benefit is expensed on a proportional basis over the period from issue date to the date on which the employee becomes unconditionally entitled to the full benefit of ownership of the shares.

In 2015 the Equity Incentive Plan ("EIP") has been introduced to replace the EOP without prejudice to the rights of current participants in the EOP. Refer to Note 23 for more details.

### (p) Borrowing costs

Borrowing costs can include interest expense, finance charges in respect of finance leases, amortisation of discounts or premiums, ancillary costs relating to borrowings, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

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.

### (q) 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, 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 (excluding future credit losses that have not been incurred) 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 creditors and loans from third parties including loans from or other amounts due to director-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 acquisition of acquired firms is measured at amortised cost using the effective interest rate method. The implied interest expense is recognised in profit and loss.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1: Statement of Significant Accounting Policies (continued)

### (q) Financial instruments (continued)

#### *Derivative financial instruments*

The Group designates certain derivatives as either

- hedges of fair value of recognised assets or liabilities or a firm commitment (fair value hedge), or
- hedges of highly probable forecast transactions (cash flow hedges)

The Group currently has cash flow hedges only, relating to interest rate risk management. At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions are documented. It is the Group's policy to hedge a portion of its exposure in order to minimise the impact of an adverse change in interest rates that the Group is subject to.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flow hedged items, are also documented.

#### *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of comprehensive income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

#### *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of comprehensive income.

Amounts accumulated in the hedge reserve in equity are transferred to the consolidated statement of comprehensive income in the periods when the hedged item will affect profit and loss.

### (r) Foreign currency translations and balances

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

#### *Transactions and balances*

Transactions in foreign currencies of entities within the consolidated group are translated into functional currency at the rate of exchange ruling at the date of the transaction except for foreign operations.

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.

Except for certain foreign currency hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

#### *Foreign operations*

Entities that have a functional currency different from the presentation currency are translated as follows:

- assets and liabilities are translated at the closing rate on reporting date,
- income and expenses are translated at actual exchange rates or average exchange rates for the period, unless the exchange rate fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used, and
- all resulting exchange differences are recognised in other comprehensive income, a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### (s) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

Comparatives have also been updated for changes in accounting policies as described in Note 1(t) below.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1· Statement of Significant Accounting Policies (continued)

### (t) Changes in accounting policies adopted by the Group

#### *Change to accounting for business combinations*

The Group has reassessed its accounting treatment of deferred consideration payable in the context of its acquisition of legal service practices. This reassessment has taken into account an analysis of historical acquisitions in Australia and the United Kingdom where cash and share-based consideration payable to the vendor principals of businesses acquired by the Group is deferred.

Historically, all cash payments and share issues to vendors, whether restrained, deferred, contingent or otherwise, have been treated as consideration for the relevant business acquisition.

The Group has now carefully considered the appropriate treatment of these payments in accordance with IFRS 3 *Business Combinations* with regard to the treatment of specific components of deferred consideration. IFRS 3(r) requires that transactions remunerating employees or former owners of the acquired business for future services be treated as separate transactions that are not to be included in the acquisition.

An assessment has been made in relation to those arrangements that include contingent consideration to vendors of the business that are subject to so-called "bad leaver" provisions.

Included in the terms of a number of purchase agreements entered into by the Group is an arrangement whereby the payment of cash consideration to, and/or the retention of share-based consideration by, the vendors of acquired entities is contingent upon the relevant vendors remaining with the Group for a defined period. If a vendor ceases to remain with the Group for the prescribed period, the vendor may forfeit its entitlement to payment of the cash consideration and/or its ability to retain its share-based consideration, at the discretion of the Group.

We now take the view that such arrangements will be deemed to be "separate transactions" for accounting purposes, the effect of which is that they are treated as payments to former owners, to be expensed in accordance with other applicable International Financial Reporting Standards.

#### *Classification of Work In Progress and Disbursements*

Historically, all of the Group's work in progress and disbursement balances have been classified as current assets in the consolidated statement of financial position, with the exception of the work in progress of the Group's Project Litigation practice which included a current and non-current component. The work in progress on the Group's Personal Injury Law ("PIL") matters were historically assessed as being capable of being resolved at any stage of the matters process and therefore all work in progress and disbursements on PIL matters were classified as current assets in the consolidated statement of financial position.

The Group has reassessed the classification of its work in progress and disbursement balances in the consolidated statement of financial position as at 30 June 2015. A historical analysis of the Group's work in progress balances and historical file velocity rates were used to form a view on the expected timing of settlements. The Group carefully considered the appropriate accounting as to this analysis and the applicable International Financial Reporting Standards (IFRSs).

As a result of this reassessment, the Group has made adjustments to the presentation of its work in progress and disbursement balances to include a current and non-current classification in the consolidated statement of financial position as at 30 June 2015.

### (u) Adoption of new and amended accounting standards

The Group has adopted all the new mandatory standards and interpretations for the current reporting period. The adoption of these standards and interpretations did not result in a material change on the reported results and position of the Group.

### (v) Accounting standards issued but not yet effective at 30 June 2015

#### *IFRS 15 Revenue from contracts with customers*

IFRS 15 is operative for annual reporting periods beginning on or after 1 January 2018. IFRS 15 specifies the accounting for an individual contract with a customer, also recognising that the requirements of the standard may be applied to a portfolio of contracts for performance obligations with similar characteristics, if the entity reasonably expects that the effects on the financial statements of applying the standard to the portfolio would not differ materially from applying this standard to the individual contracts (or performance obligations) within that portfolio.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 1: Statement of Significant Accounting Policies (continued)

### (v) Accounting standards issued but not yet effective at 30 June 2015 (continued)

IFRS 15 introduces a five step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. The five step approach is as follows:

- Step 1 Identify the contracts with the customer,
- Step 2 Identify the separate performance obligations,
- Step 3 Determine the transaction price,
- Step 4 Allocate the transaction price, and
- Step 5 Recognise revenue when a performance obligation is satisfied

IFRS 15 will also result in enhanced disclosures in relation to revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The Group currently determines the stage of completion based on a methodology which identifies services performed to date as a percentage of total services to be performed for an outcome to be rendered in the case.

A thorough reassessment of the valuation methodology within all practice areas in each region is being undertaken to determine the full impact of the standard. The evaluation is in progress at the time of reporting and will be completed to facilitate the Group's intended early adoption of IFRS 15 in the financial year ending 30 June 2016.

### IFRS 9 *Financial Instruments*

IFRS 9 introduces significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using IFRS 9 are to be measured at fair value.

Chapter 6 Hedge Accounting supersedes the general hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement*, which many consider to be too rules-based and arbitrary. Chapter 6 requirements include a new approach to hedge accounting that is intended to more closely align hedge accounting with risk management activities undertaken by entities when hedging financial and non-financial risks. Some of the key changes from IAS 39 are as follows:

- to allow hedge accounting of risk components of non-financial items that are identifiable and measurable (many of which were prohibited from being designated as hedged items under IAS 39),
- changes in the accounting for the time value of options, the forward element of a forward contract and foreign-currency basis spreads designated as hedging instruments, and
- modification of the requirements for effectiveness testing (including removal of the 'brightline' effectiveness test that offset for hedging must be in the range 80%-125%)

Revised disclosures about an entity's hedge accounting have also been added to IFRS 7 *Financial Instruments Disclosures*.

Impairment of assets is now based on expected losses in IFRS 9 which requires entities to measure:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date), or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)

The effective date is for annual reporting periods beginning on or after 1 January 2018.

IFRS 9 is expected to be applied when it becomes effective.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 2. Critical Accounting Estimates and Judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The areas involving significant estimates or judgements are:

### (a) Impairment of goodwill

Goodwill is allocated to cash generating units ("CGUs") according to applicable business operations. CGUs for the purposes of impairment testing are:

- 1 UK – Personal Injury Law ("SGL PI")
- 2 UK - General Law ("SGL GL")
- 3 Slater Gordon Solutions ("SGS")

During the current financial year the Group acquired several new entities within the UK, as a result of the significant geographical expansion of the Group and expansion of business activities, additional CGUs have been identified and the Group now allocates the UK subsidiaries into two CGUs. SGS has been identified as its own CGU due to the different revenue streams and independent cash flows.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Refer to Note 11.

### (b) Work in progress ("WIP")

WIP is the balance of cases not yet billed at the end of the reporting period. The Group measures WIP based on the estimated fees likely to be rendered to the client multiplied by the percentage stage of completion at the reporting date, adjusted for the probability of success. To determine the probability of success of a case the Group takes into account past history of similar cases and a level of judgement is required based on experience and historical performance of similar matters. Refer to Note 8.

The stage of completion valuation methodology incorporates best estimates of expected revenue and the percentage of total services completed to date. The expected revenue is based on the expected fee for the nature of the legal service provided with reference to internal and external (where available) historical and forecast fee levels. The percentage of completion and probability of success is made with reference to internal and external (where available) information and experience, and having regard to where a file is in its life cycle.

The Group conducts detailed reviews of all case files on a half-yearly basis and revises calculations based on estimates of revenue and stage of completion as necessary. While the Group remains satisfied that the valuation methodology applied to work in progress is robust and supported by historical trends, it acknowledges that the actual amount billed may vary from the estimated amounts previously recognised. However, the Group does not anticipate any material variation in the amounts recognised.

In addition, when new businesses are acquired, there is a transition period during which time the Group's practices and procedures are embedded into the operations of the new business. Therefore the valuation of work in progress acquired in a business combination may be adjusted during the period of provisional accounting for the acquisition.

### (c) Provisional accounting

Provisional accounting is applied by the Group to account for business combinations when the initial accounting is incomplete at the end of the reporting period. By its nature provisional accounting involves estimates and judgements based on the information available to the Group at the end of the reporting period, while it continues to seek information about facts and circumstances that existed as of the acquisition date.

### (d) Income tax

Deferred tax assets and liabilities are based on the assumption that no adverse change will occur in the income tax legislation in the UK and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences to the extent that management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Refer to Note 5.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 2: Critical Accounting Estimates and Judgements (continued)

### (e) Fair value measurements

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date,
- Level 2 inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly, and
- Level 3 inputs for the asset or liability that are not based on observable market data

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period

Further information about the assumptions made in measuring fair values is included in the following Notes

- Note 23 – Share-based payment arrangements
- Note 28 – Business combinations
- Note 29 – Financial risk management
- Note 30 – Fair value measurements

### (f) Determination and fair value of intangibles in a business combination

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method ("MEEM") whilst the fair value of trademarks acquired in a business combination is based on a relief from royalties approach. These methods require estimates by management of future income streams, applicable royalty rates and discount rates. Refer to Note 28

### (g) Principal versus agent

SGS Motor Services provides car hire and repair services for not at fault clients, and 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 clients
- The Group cannot vary the prices set by the supplier, as it is governed by an industry framework
- The Group collects the revenue from the customer and bears all credit risk

Revenue resulting from car hire and repair services within SGS Motor Services are recognised on a gross basis

### (h) Provision for solicitor liability

Provision for solicitor liability claims relates to open claims and potential future claims as identified at the end of the reporting period. Estimates of the provision are determined based on historical data, taking into account the nature of the existing claim and expected reimbursed expense will be included. The provision determined includes the estimated maximum amount payable by the Group. Refer to Note 15

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 3: Revenue

	Note	2015 £'000	2014 £'000 Unaudited
<b>Fee Revenue</b>			
Rendering of services		127,347	90,939
Net movement in WIP		15,587	10,778
		142,934	101,717
<b>Services revenue</b>			
Ancillary Revenue		8,085	-
Commission Revenue		583	-
Services - Non Legal		2,184	-
Total services revenue		10,852	-
<b>Gain from bargain purchase</b>	28	11,709	8,733
<b>Other income</b>			
Interest		145	138
Other		2,446	1,141
		2,591	1,279

## Note 4: Profit from Continuing Activities

	Note	2015 £'000	2014 £'000 Unaudited
<b>Finance costs expense</b>			
Interest on bank overdraft and loans		4,998	3,778
Interest on deferred consideration payable to vendor on acquisitions		561	802
Interest on obligations under hire purchases		48	33
		5,607	4,613
<b>Depreciation and amortisation of non-current assets</b>			
Property, plant and equipment		891	1,121
Software development		394	65
Trademarks		959	793
		2,244	1,979
<b>Cost of sales</b>			
Ancillary revenue		7,681	-
Commission revenue		1	-
Rendering of services – non-legal		1,150	-
		8,832	-
<b>Bad and doubtful debts</b>			
Bad and doubtful debts		2,644	1,491
Bad and doubtful debts – Services		1	-
		2,645	1,491
<b>Other Expenses</b>			
Management Fees		2,827	-
Staff related		1,922	1,700
Facility		1,342	341
Sundry		88	673
		6,179	2,714
<b>Salaries and employee benefit expense</b>			
Staff costs		64,560	46,661
Share based payments expense		356	-
Post-employment benefits		1,209	-
		66,125	46,661
<b>Payments to former owners</b>			
Share based payment expense to former owners		3,916	3,035
Payments to former owners		2,996	2,061

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 5: Income Tax

	2015 £'000	2014 £'000 Unaudited
<b>Income tax expense</b>		
Current tax	1,917	3,229
Deferred tax	3,847	651
Adjustment for current tax relating to prior periods	(374)	(24)
	<b>5,390</b>	<b>3,856</b>
<b>The prima facie tax payable on profit before tax differs from the income tax expense as follows</b>	<b>(245,820)</b>	<b>20,369</b>
At the statutory income tax rate of 20.75% (2014 unaudited 22.5%)	(51,008)	4,583
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income		
Goodwill impairment non-deductible	55,830	-
Bargain gain non-taxable	(2,430)	(1,965)
Other non-allowable items	3,361	1,487
Non-assessable items	-	(290)
	<b>5,753</b>	<b>3,815</b>
Adjustments in respect of prior periods	(373)	54
Difference in overseas tax rate	(113)	-
Deferred tax assets not recognised	546	-
Other	(423)	(13)
<b>Income tax expense</b>	<b>5,390</b>	<b>3,856</b>

In the Budget on 8 July 2015, the Chancellor announced reductions in the corporation tax rate from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. These rates were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly.

In addition, the Government in the Budget of 16 March 2016 announced its intention to further reduce the UK corporation tax rate to 17% from 1 April 2020. The legislation dealing with the reduction in rates will be included in future Finance Acts.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 5: Income Tax (continued)

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom

	2015 £'000	2014 £'000 Unaudited
Deductible temporary differences	-	-
Tax losses	76,000	-
	76,000	-

Deferred tax relates to the following

	2015 £'000	2014 £'000 Unaudited
Provision for impairment	-	74
Property, plant and equipment	123	95
Maltese refundable tax credit	6,347	
Other	90	57
Revenue losses carried forward	16,380	-
Deductible goodwill	4,020	4,318
Work in progress	(17,437)	(10,811)
Intangibles	(4,956)	(506)
<b>Net deferred tax assets/(liabilities)</b>	<b>4,567</b>	<b>(6,773)</b>

Reflected in the statement of financial position as follows

Deferred tax assets	18,190	-
Deferred tax liabilities	(13,623)	(6,773)
<b>Net deferred tax assets/(liabilities)</b>	<b>4,567</b>	<b>(6,773)</b>

## Note 6: Cash

	Note	2015 £'000	2014 £'000 Unaudited
Cash at bank	20(a)	39,159	7,371

As at 30 June 2015 cash includes an amount of £1,612,093 held in escrow on behalf of the Company by solicitors in respect of an acquisition

The unutilised bank facilities at 30 June 2015 were £73,955,000

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 7. Receivables

	2015 £'000	2014 £'000 Unaudited
<b>Current</b>		
Trade debtors	146,448	32,446
Impairment of trade debtors	(37,587)	(2,460)
	108,861	29,986
Disbursements	119,387	25,894
Allowance for non-recovery	2,906	(274)
	122,293	25,620
Other receivables	1,599	136
	232,753	55,742
<b>Non-current</b>		
Disbursements	37,621	19,129
Allowance for non-recovery	(4,698)	(1,096)
	32,923	18,033
<b>Balance at end of the year</b>	<b>265,676</b>	<b>73,775</b>

## Note 8. Work in Progress

	2015 £'000	2014 £'000 Unaudited
<b>Current</b>		
Non-personal injury	4,526	6,177
Personal injury	150,097	50,488
	154,623	56,665
<b>Non-current</b>		
Personal injury	67,994	44,320
	67,994	44,320

## Note 9: Other Current Assets

	2015 £'000	2014 £'000 Unaudited
<b>Current</b>		
Prepayments	6,445	3,089
Other current assets	3,403	728
	9,848	3,817

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 10: Property, Plant and Equipment

	Note	2015 £'000	2014 £'000 Unaudited
Fixtures & fittings at cost		22,688	8,556
Less accumulated depreciation		(13,451)	(5,643)
	10(a)	9,237	2,913
Land and buildings at cost		147	-
Less accumulated depreciation		-	-
	10(b)	147	-
<b>Total plant and equipment</b>		<b>9,384</b>	<b>2,913</b>

### Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	2015 £'000	2014 £'000 Unaudited
<b>(a) Fixtures &amp; fittings</b>		
Balance at the beginning of the year	2,913	1,747
Additions	5,830	1,424
Additions through acquisition of entities	2,437	926
Reclassification of plant and equipment	(1,044)	-
Depreciation expense	(891)	(1,121)
Disposals	(8)	(63)
<b>Carrying amount at end of year</b>	<b>9,237</b>	<b>2,913</b>
<b>(b) Land and buildings</b>		
Balance at the beginning of the year	-	-
Additions through acquisition of entities	76	-
Reclassification of buildings	71	-
<b>Carrying amount at end of year</b>	<b>147</b>	<b>-</b>

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 11· Intangible Assets

	Note	2015 £'000	2014 £'000 Unaudited
Goodwill – at cost		541,405	28,842
Accumulated impairment		(269,062)	-
Net carrying amount	11(a)	272,343	28,842
Software development – at cost		14,946	734
Accumulated amortisation		(7,280)	(380)
Net carrying amount	11(b)	7,666	354
Trademarks– at cost		2,278	2,278
Accumulated amortisation		(1,752)	(793)
Net carrying amount	11(c)	526	1,485
Brand names – at cost		24,253	953
Accumulated Impairment loss		-	-
Net carrying amount	11(d)	24,253	953
Total intangible assets		304,788	31,634

### Movements in carrying amount

Movement in the carrying amounts for each class of intangible assets between the beginning and the end of the current financial year

	Note	2015 £'000	2014 £'000 Unaudited
<b>(a) Goodwill</b>			
Opening net book amount		28,842	23,007
Additions in respect of business combinations	28	512,563	5,835
Impairment		(269,062)	-
Closing net book value		272,343	28,842
<b>(b) Software development</b>			
Opening net book amount		354	92
Additions		4,845	317
Additions in respect of business combinations	28	1,888	10
Reclassification from plant and equipment		973	-
Amortisation expense		(394)	(65)
Closing net book value		7,666	354
<b>(c) Trademarks</b>			
Opening net book amount		1,485	1,678
Additions in respect of business combinations	28	-	600
Amortisation expense		(959)	(793)
Closing net book value		526	1,485
<b>(d) Brand names</b>			
Opening net book amount		953	953
Additions in respect of business combinations		23,300	-
Closing net book value		24,253	953

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 11: Intangible Assets (Continued)

Goodwill and indefinite life intangibles acquired through business combinations have been allocated to individual cash generating units ("CGUs") in the UK business for the purposes of impairment testing being the Personal Injury Law and General Law division ("SGL") and SGS

The recoverable amount of goodwill and indefinite life intangibles 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 five 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

### Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The Group performed its annual impairment test as at 30 June 2015 and a reassessment at 31 December 2015. The Group is sensitive to the recovery of fees in its legal business, and the velocity of the resolution of those files. In performing the value-in-use calculations for each CGU, the Group has applied post-tax discount rates to discount the forecast future post-tax cash flows

The key assumptions used in the estimation of the recoverable amount are set out below

- Average fees recoverable for legal matters,
- Average file velocity for legal matters, and
- Cost of capital and discount rate used

#### *Average fees recoverable for legal matters*

Average fees recoverable have been based upon an analysis of historical fee events in each of those practice areas, in conjunction with estimated fees of existing matters

Individually each of the practice group's average fee levels is immaterial to the Group result, however should there be a material negative impact upon the average fee recoverable of matters across a number of practice groups in each jurisdiction this could have a material impact upon the impairment analysis

Sensitivity analysis has been conducted on the average fees recoverable for each of the CGUs, a reasonable level of negative movement in the average fees recoverable is unlikely to give rise to additional impairment to any of the CGUs

#### *Average file velocity for legal matters*

The settlement profile of legal matters has been based upon the average settlement period for matters for each jurisdiction and practice area

The velocity of settlement of legal matters has an impact upon the sensitivity analysis. Individually a slowing of file velocity in a practice area is immaterial, however should there be a material negative impact on the settlement period of matters across a number of practice groups and jurisdictions this could have a negative impact upon the estimated future value of the CGU on a net present value basis due to the negative impact upon cash flows

Sensitivity analysis has been conducted on the average velocity of matters in each of the CGUs and a reasonable level of negative movement in the settlement period for matters is unlikely to give rise to additional impairment to any of the CGUs

#### *Cost of capital and discount rate used*

Cost of capital has been assessed per CGU. Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have been incorporated in the cash flow estimates

The discount rate has been adjusted to be a post-tax rate because in performing the value in use calculations for each CGU the Group has used forecast future attributable post-tax cash flows

The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment to the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. CGU specific risk is incorporated by applying individual beta factors and additional asset specific risk premium where appropriate. The factors that comprise the WACC are evaluated annually based on publicly available market data. Adjustments to the discount rate are made having regard to the specific amount and timing of the future tax flows in order to reflect an appropriate post-tax discount rate

For the UK PIL, UK GL and SGS CGUs a post-tax cost of capital of 9.25% 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. This cost of capital was utilised as the Company's parent has observable market data to allow an appropriate assessment of its cost of capital as a listed company on the Australian Stock Exchange

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 11: Intangible Assets (Continued)

### United Kingdom- Personal Injury Law

The recoverable amount of the UK – PIL CGU has been determined based on a value in use calculation using cash flow projections from the financial forecasts approved by senior management covering a five year period

A 5.00% (2014 unaudited 6.80%) nominal growth rate has been applied to the FY16 forecast for the periods FY17 to FY20 with a long term nominal growth rate adopted of 2.50%

The growth rates beyond the 5 year period have been determined with reference to forecast inflation rates, population and industry growth rates

The projected cash flows have been updated to reflect the acquisitions of Walker Smith Way, Leo Abse & Cohen and the personal injuries practice of Flint Bishop in FY15, increased marketing in the United Kingdom for the Slater and Gordon brand which has led to increased brand recognition and growth achieved in the Personal Injuries practice groups since acquisition

The post-tax discount rate applied to cash flow projections is 9.25% (2014 unaudited 9.10%)

Sensitivity analysis has been conducted on the key assumptions and a reasonable level of negative movement in each assumption does not cause impairment to the CGU

### United Kingdom – General Law

The recoverable amount of the United Kingdom – GL CGU has been determined based on a value in use calculation using cash flow projections from the financial forecasts approved by senior management covering a five year period

An 8.00% (2014 unaudited 6.80%) nominal growth rate has been applied to the FY16 forecast for the periods FY17 to FY20 with a long term nominal growth rate adopted of 2.50%

The growth rates beyond the 5 year period have been determined with reference to forecast inflation rates, population and industry growth rates

The projected cash flows have been updated to reflect the acquisition of Walker Smith Way, increased marketing in the United Kingdom for the Slater and Gordon brand which has led to increased brand recognition, in addition to growth achieved in the General Law practice groups since acquisition

The post-tax discount rate applied to cash flow projections is 9.25% (2014 unaudited 9.10%)

Sensitivity analysis has been conducted on the key assumptions and a reasonable level of negative movement in each assumption does not cause impairment to the CGU

### Slater Gordon Solutions

The recoverable amount of Slater and Gordon Solutions ("SGS") CGU as at 30 June 2015 has been determined based on a value in use calculation using approved forecasts covering a period of 5 years. Cash flows beyond 5 years were subject to a long term nominal growth rate of 2.5% with reference to forecast inflation rates, population and industry growth rates

The post-tax discount rate applied to cash flow projections is 9.25%

This impairment calculation, applied as at 31 December 2015 in connection with the Group's half year reporting, indicates total impairment of £401.6m. However, the forecasts that were used in the value in use calculation took account of proposed changes to UK law in relation to personal injury claims below £5,000 which were announced by the Chancellor of the Exchequer in November 2015. The impairment relating to these proposed changes to UK law, and other changes arising since 30 June 2015, has been assessed as comprising £132.5m of the total impairment of £401.6m, with the balance of £269.1m being recorded as at 30 June 2015

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 12: Payables

	2015 £'000	2014 £'000 Unaudited
<b>Current</b>		
Unsecured liabilities		
Trade creditors and accruals	100,182	40,985
Legal creditors	147,225	23,701
Intercompany creditors	69,674	63,330
Vendor liabilities – acquisitions	6,159	5,678
	<b>323,240</b>	<b>133,694</b>
<b>Non-current</b>		
Vendor liabilities – acquisitions	-	2,561

## Note 13: Borrowings

	Note	2015 £'000	2014 £'000 Unaudited
<b>Current</b>			
<i>Secured</i>			
Cash advances – bills of exchange		-	4,000
Finance lease liability		100	230
		<b>100</b>	<b>4,230</b>
<b>Non-current</b>			
<i>Secured</i>			
Cash advances – bills of exchange		307,760	40,300
Finance lease liability		48	144
		<b>307,808</b>	<b>40,444</b>

The Group leases certain of its fixed assets under finance leases. The lease terms range from 3 to 10 years (2014 unaudited 3 to 10 years). The Group has options to purchase the equipment for a nominal amount at the end of the lease terms. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rates underlying all obligations under finance leases are fixed at respective contract rates ranging from 3.20% to 7.43% (2014 unaudited 3.96% to 9.25%) per annum.

	2015 £'000		2014 £'000 Unaudited	
	Future minimum lease payment	Interest	Future Minimum lease payment	Interest
Within one year	104	(4)	240	(10)
One year or later and not later than five years	49	(1)	147	(3)
Greater than five years	-	-	-	-
	<b>153</b>	<b>(5)</b>	<b>387</b>	<b>(13)</b>

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 14: Other Current Liabilities

	2015 £'000	2014 £'000 Unaudited
<b>Current</b>		
Unsecured		
LLP member capital contributions	5,352	5,600
	<b>5,352</b>	<b>5,600</b>

## Note 15: Provisions

	Onerous Lease £'000	Deferred Consideration £'000	Solicitors Liability £'000	Total £'000
<b>Balance as at 1 July 2013 (unaudited)</b>	-	-	-	-
Charged	-	2,061	-	2,061
<b>Balance as at 30 June 2014 (unaudited)</b>	-	<b>2,061</b>	-	<b>2,061</b>
Charged	1,502	965	1,114	3,581
Utilised	(301)	(1,473)	-	(1,774)
Business combination	-	-	567	567
<b>Balance as at 30 June 2015</b>	<b>1,201</b>	<b>1,553</b>	<b>1,681</b>	<b>4,435</b>

	Onerous Lease £'000	Dilapidations £'000	Total £'000
<b>Balance as at 1 July 2013 (unaudited)</b>	-	279	279
Charged	-	290	290
Business combination	-	312	312
Utilised	-	-	-
<b>Balance as at 30 June 2014 (unaudited)</b>	-	<b>881</b>	<b>881</b>
Charged	1,939	1,421	3,360
Business combination	-	1,843	1,843
<b>Balance as at 30 June 2015</b>	<b>1,939</b>	<b>4,145</b>	<b>6,084</b>

## Note 16: Contributed Equity

	2015 Shares	2015 £'000	2014 Shares unaudited	2014 £'000 unaudited
Ordinary shares fully paid	448,170	448,170	-	-
<b>Balance at end of the year</b>	<b>448,170</b>	<b>448,170</b>	<b>-</b>	<b>-</b>

	2015 Shares	2015 £'000	2014 Shares Unaudited	2014 £'000 Unaudited
<b>Movement in Ordinary Share Capital</b>				
<b>Balance at the beginning of the year</b>	-	-	75	75
Issued during the year				
Shares issued at par and fully paid	448,170	448,170	-	-
Less capital raising costs, net of tax	-	-	(75)	(75)
<b>Balance at end of the year</b>	<b>448,170</b>	<b>448,170</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 17. Reserves

	2015 £'000	2014 £'000 Unaudited
Cash flow hedging reserve	176	145
	176	145

### Movements in carrying amount

Movement in the carrying amounts for each class of reserve between the beginning and the end of the current financial year

#### (a) Cash flow hedging reserve

Balance at the beginning of the year	145	35
Loss recognised on interest rate hedges, net of tax	31	110
Balance at the end of the year	176	145

### Nature and purpose of reserves

#### Cash flow hedging reserve

The cash flow hedging reserve represents the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred, net of tax

## Note 18: Accumulated Losses

	2015 £'000	2014 £'000 Unaudited
<b>Retained profits/Accumulated losses</b>		
Balance at the beginning of year	23,199	6,808
Net (loss)/profit attributable to ordinary equity holders	(251,345)	16,391
Total available for appropriation	(228,146)	23,199
Dividends paid	-	-
Balance at end of year	(228,146)	23,199

## Note 19: Non-Controlling Interests

	2015 £'000	2014 £'000 Unaudited
Interest in		
Reserves	130	8
Retained profits	135	122
Balance at end of year	265	130
<b>(a) Non-controlling interests</b>		
Balance at the beginning of the year	130	8
Non-controlling interest share in net profit after tax	135	122
Balance at the end of the year	265	130

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 20. Cash Flow Information

	Note	2015 £'000	2014 £'000 Unaudited
<b>(a) Reconciliation of cash</b>			
For the purposes of the consolidated statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than three months and net of bank overdrafts			
Cash at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to the related items in the statement of financial position as follows			
Cash on hand	6	39,159	7,371
		39,159	7,371
<b>(b) Reconciliation of cash flow from operations with profit after income tax</b>			
(Loss)/Profit before income tax		(245,820)	20,369
Income tax payable		(5,390)	(3,856)
(Loss)/Profit after income tax		(251,210)	16,513
<i>Non-cash flows in profit from ordinary activities</i>			
Depreciation & Amortisation	4	2,244	1,979
Goodwill Amortisation		269,062	-
Share Based Payments Expense	4	4,272	3,035
Accrual for payments to former owners	4	2,996	2,061
Costs associated with acquisition		5,525	2,074
Notional Interest on Deferred Consideration	4	561	802
Gain on bargain purchase		(11,709)	(8,733)
<i>Changes in assets and liabilities</i>			
Receivables		(21,037)	706
Other Assets		(1,308)	(167)
Plant and Equipment		10	(10,661)
Work in progress		(19,738)	5,628
Payables		19,878	149
Income tax payable		(5,059)	(2,104)
Deferred taxes		8,461	4,784
Provisions		1,253	885
Cash flows from operations		4,201	16,951

## Note 21: Commitments and Contingencies

	2015 £'000	2014 £'000 Unaudited
<b>Operating lease and non-cancellable contracts</b>		
<i>Non-cancellable operating leases and commitments (including rental of office space) contracted but not capitalised in the consolidated financial statements</i>		
Within one year	7,285	3,161
One year or later and not later than five years	21,216	5,539
Greater than five years	28,402	275
	56,903	8,975
Bank guarantees in respect of rental properties and acquisitions	7,675	2,780

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 21: Commitments and Contingencies (continued)

The Group is party to a £420,000,000 syndicated facility agreement dated 29 May 2015 pursuant to which its ultimate parent company, Slater and Gordon Limited, is a borrower (the "Facility Agreement"). Pursuant to the terms of the Facility Agreement, the Company has given a cross-guarantee (along with other Group Companies) in relation to all liabilities outstanding under the Facility Agreement in favour of the Finance Parties (as defined under the Facility Agreement). The Company is also party to a debenture dated 29 May 2015 (the "Debenture") pursuant to which the Company (together with other Group Companies) covenants with Westpac Banking Association (acting as Security Trustee for itself and the Secured Parties (as defined in the Debenture)) that it will on demand pay all liabilities outstanding under the Facility Agreement (and associated finance documents) when they are due and payable and grants security over all of its assets in favour of Westpac Banking Association (acting as Security Trustee for itself and the Secured Parties).

## Note 22: Key Management Personnel Compensations

	2015 £'000	2014 £'000 Unaudited
<b>Compensation by Category</b>		
Short-term employment benefits	1,577	1,307
Post-employment benefits	26	49
Other benefits	39	14
	1,642	1,370

## Note 23: Share-Based Payment Arrangements

Slater & Gordon Limited introduced a broad based 'share save' offer to all employees and a new Employee Equity Incentive Plan ("EIP") which was approved by the shareholders of Slater & Gordon Limited at the 2014 Annual General Meeting ("AGM")

### Employee equity incentive plan ("EIP")

The plan incorporates a tax-approved scheme to employees in the UK. The Plan gives the Group's employees the opportunity to acquire shares in Slater & Gordon Limited. Employees can make contributions from their pre-tax salary to acquire £375 (max) worth of shares. Such employee contributions are matched by the Group with a free share for every share purchased by the employee. All employees of the Group in the UK with at least 6 months service as at 14 November 2014 are entitled to participate in this Plan. Shares acquired under this plan will be held in trust by MM&K Share Plan Trustee Ltd for a period of 5 years from the date of acquisition.

#### Executive equity incentive plan

The plan introduces an ownership-based compensation scheme for executives and senior employees. In October 2014, Slater & Gordon Limited's shareholders approved the S+G Executive Equity Incentive Scheme under which grants of performance rights have been made. The EIP replaces the existing Employee Ownership Plan ("EOP"), without prejudice to the rights of current participants in the EOP.

Performance rights are granted for no consideration. Under the scheme each performance right carries an entitlement to one fully paid ordinary share in Slater & Gordon Limited subject to satisfaction of performance hurdles and/or continued employment at an exercise price of nil. These executives and senior employees are not entitled to vote or receive any dividends or attend the meeting of the shareholders during the vesting period. Performance rights may not be transferred, disposed or pledged as security. If the executive ceases to be employed by the Group within the vesting period, the rights will be forfeited, except in limited circumstances that are approved by the Board.

#### The performance hurdles are based on the following

- **Total Shareholder Return (TSR) Outperformance Hurdle** – This performance hurdle is based on Slater & Gordon Limited's total shareholder return (TSR) against the TSR of the constituent companies within the S&P/ASX 300 index (excluding resources) over the Measurement Period. The performance period shall be the period from 1 September 2014 to 31 August 2017.
- **Compound Annual Growth Rate in Earnings per Share (CAGR EPS) Hurdle** – This performance hurdle is based on the Slater & Gordon Limited's Compound Annual Growth Rate in Earnings per Share over the Measurement Period.
- **Compound Annual Growth Rate in Regional EBITDA (CAGR EBITDA) Hurdle** – This performance hurdle is based on the designated Region's Compound Annual Growth Rate in EBITDA over the Measurement Period.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 23: Share-Based Payment Arrangements (continued)

The performance conditions applying to the latest grant (FY15) were as follows

CAGR EPS Hurdle (Group Directors only)		CAGR EPS Hurdle		TSR Outperformance Hurdle		CAGR EBITDA	
Performance	% of equity to vest	Performance	% of equity to vest	Performance	% of equity to vest	Performance	% of equity to vest
< 10%	0%	< 7%	0%	< 50th percentile	0%	< 15%	0%
10% to 15%	50% to 100% pro-rata	7% to 10%	50% to 100% pro- rata	50th to 75th percentile	50% to 100% pro-rata	15% to 20%	50% to 100% pro- rata
> 15%	100%	> 10%	100%	> 75th percentile	100%	> 20%	100%

Any performance rights not vested at the end of the performance period are forfeited

The fair value of services received in return for the performance rights granted is measured by reference to the average of volume weighted average price of ordinary shares on each of 5, 10, 15 and 20 days immediately preceding the grant date. The weighted average fair values at grant date are determined using a fair valuation model which reflects the fact that vesting of the shares is dependent on meeting performance criteria based on TSR. The vesting of the shares is also subject to non-market conditions but these are not taken into account in the grant date fair value measurement of the services received. The assessed fair value of performance rights granted under this scheme as remuneration is allocated equally over the period from grant date to vesting date.

The key terms and conditions related to the performance rights granted under this plan are as follows

Grant date/employee entitled	Performance rights granted	Fair value of rights at Grant date	Vesting conditions*	Contractual life of performance rights
Group Executives in the UK (12 December 2014)	44,000	2 4799	50% subject to TSR Outperformance hurdle and 50% subject to CAGR EPS hurdle	3 years
Regional Executives in the UK (12 December 2014)	152,000	6 1997	50% subject to TSR Outperformance hurdle and 50% subject to CAGR EPS hurdle	3 years

\*All performance rights include 3 years' service condition from grant date

Number of rights granted

Grant date	Balance at beginning of the year	Granted during the year	Vested during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
31 October 2014	-	44,000	-	-	44,000	-
12 December 2014	-	152,000	-	-	152,000	-

Share-based payment expenses recognised in profit or loss are disclosed in Note 4

### Share based payment arrangements to former owners

The Group has changed its accounting treatment of deferred consideration payable for the acquisition of legal service practices. Arrangements that include contingent consideration to vendors of the business that are subject to so-called "bad leaver" provisions were previously considered as part of the consideration paid or payable for the business combination.

Included in the terms of a number of purchase agreements entered into by the Group is an arrangement whereby the payment of cash consideration to and/or the retention of share-based consideration by the vendors of acquired entities is contingent upon the relevant vendors remaining with the Group for a defined period. If a vendor ceases to remain with the Group for the prescribed period, the vendor may forfeit its entitlement to payment of the cash consideration and/or its ability to retain its share-based consideration, at the discretion of the Group.

These arrangements are now treated as a share-based payment transaction with the former owners. The transaction is measured at the fair value of the equity instruments granted and then recognised as an expense over the vesting period as agreed per each contract. The relevant expense is disclosed in the statement of comprehensive income.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 24: Auditor's Remuneration

	2015 £'000	2014 £'000 Unaudited
<b>Amounts received or due and receivable by network firms of Baker Tilly UK LLP</b>		
An audit of the financial report of the Group and review of statutory accounts	-	129
Other assurance services	-	-
	-	129
<b>Other auditors – Ernst &amp; Young LLP</b>		
An audit of the financial reports of the subsidiaries of the Company and review of statutory accounts	161	-
Due diligence investigations	2	-
	163	-
<b>Total auditor's remuneration</b>	<b>163</b>	<b>129</b>

## Note 25: Related Party Disclosures

Slater & Gordon (UK) 1 Limited is taking advantage of the exemption granted under Financial Reporting Standard No 8 "Related Party Transactions", not to disclose transactions with wholly owned group companies which are related parties

For 2015, £156,963,715 (2014 unaudited £103,626,941) is owed to the corporate member Slater & Gordon (UK) 1 Limited for loans and share of profit by S & G (UK) LLP

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 26· Group Entities

The following subsidiaries are exempt from audit requirements under section 479A of the Companies Act 2006 relating to subsidiary companies except as noted below

	Country of incorporation	Company Number	2015 Ownership Interest (%)	2014 Ownership Interest (%)
<b>Controlled entities</b>				
New Claims Direct Limited	United Kingdom	4432180	100	100
4 Legal Limited	United Kingdom	6466579	100	100
4 Legal Solutions Limited	United Kingdom	6492865	100	100
Slater & Gordon (UK) LLP**	United Kingdom	OC371153	100	100
Adroit Financial Planning Limited**	United Kingdom	7980535	100	100
Slater Gordon Trust Corporation Limited previously known as Pannone Trust Corporation Limited	United Kingdom	8185633	100	100
<i>Entities collectively referred to as Slater Gordon Solutions</i>				
iSaaS Technology Limited	United Kingdom	7434692	100	-
Compass Costs Consultants Ltd	United Kingdom	4265483	100	-
Intelligent Claims Management Limited	United Kingdom	5658734	100	-
Mobile Doctors Group Limited	United Kingdom	5383361	100	-
Medici Legal Limited	United Kingdom	4266208	100	-
Mobile Doctors Solutions Limited	United Kingdom	4215291	100	-
Mobile Doctors Limited**	United Kingdom	2446392	100	-
MDL Medical Administration Ltd	United Kingdom	3688229	100	-
React & Recover Medical Group Limited	United Kingdom	7316438	100	-
Recover Healthcare Limited	United Kingdom	6836625	100	-
React Medical Reporting Limited	United Kingdom	6872536	100	-
React Medical Management Limited	United Kingdom	7315629	100	-
Medicalaw Limited	United Kingdom	3447569	100	-
Abstract Legal Holdings Limited	United Kingdom	5107527	100	-
Accident Advice Helpline Direct Limited	United Kingdom	5107417	100	-
Legal Facilities Management & Services Limited	United Kingdom	5340220	100	-
Fast Track PPI Limited	United Kingdom	8012611	100	-
Access to Compensation Limited	United Kingdom	5107366	100	-
Cab Claims Limited	United Kingdom	5126239	100	-
Liberty Protect Limited	United Kingdom	5657846	100	-
Claim4 Limited	United Kingdom	5123360	100	-
Accident Advice Helpline Limited	United Kingdom	5121321	100	-
Claim 103 Limited	United Kingdom	5066798	100	-
Accident Advice Insurance Management Group Limited	United Kingdom	5121320	100	-
Sentinel Alliance Limited	United Kingdom	5107418	100	-
Accident Advice (IA) Limited	United Kingdom	5141227	100	-
Slater Gordon Solutions Legal Limited previously known as Quindell Legal Services Limited**	United Kingdom	7931918	100	-
Quindell ACH Limited	United Kingdom	8586650	100	-
ACH Group Management Limited	United Kingdom	6962193	100	-

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 26: Group Entities (continued)

	Country of incorporation	Company Number	2015 Ownership Interest (%)	2014 Ownership Interest (%)
<b>Controlled entities (continued)</b>				
<i>Entities collectively referred to as Slater Gordon Solutions (continued)</i>				
ACH Access Legal Limited	United Kingdom	8101562	100	-
ACH Claims Limited	United Kingdom	8085736	100	-
ACH Media Solutions Limited	United Kingdom	08101607	100	-
ACH Medical Limited	United Kingdom	08085771	100	-
ACH Broker Services Ltd	United Kingdom	08403009	100	-
ACH Quote Me Cover Me Limited	United Kingdom	08101551	100	-
Crusader Assistance Group Holdings Limited	United Kingdom	06502635	100	-
Accident & Equity Limited	United Kingdom	05264519	100	-
Crusader Group Holdings Limited	United Kingdom	05684182	100	-
Centurion Uninsured Loss Recovery Services Limited	United Kingdom	04272317	100	-
Equi-Medical Reports Limited	United Kingdom	04830506	100	-
Equi Rehab Limited	United Kingdom	04872341	100	-
Crusader Uninsured Loss Recovery Service Limited	United Kingdom	02919599	100	-
Crusader Connect Limited	United Kingdom	06777462	100	-
SGS Business Process Services (UK) Limited previously known as Quindell Business Process Services (UK) Limited**	United Kingdom	03851175	100	-
Colegate Vehicle Hire Limited	United Kingdom	01877766	100	-
Colegate Accident Assistance Ltd	United Kingdom	03700693	100	-
Auto Indemnity (UK) Limited	United Kingdom	02121818	100	-
Overland Limited	Malta	C43412	100	-
Overland Health Limited	Malta	C49864	100	-
Overland Malta (Trading) Limited	Malta	C46589	100	-
Overland Legal Limited*	Malta	C43415	75	-
Property Home Buyers Limited*	Malta	C49865	60	-

\*Entities under voluntary liquidation since November 2014

\*\*Not exempt from audit requirements under section 489A of the Companies Act 2006 relating to subsidiary companies

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 27: Capital Management

For the purpose of the Group's capital management, capital includes issued capital, and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's aim is to keep the gearing ratio between 30% and 40% in future periods. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and short-term deposits.

	2015 £	2014 £ Unaudited
Interest bearing loans	307,908	44,674
Trade and other payables	176,017	109,993
Less cash and short-term deposits	(39,159)	(7,371)
<b>Net Debt</b>	<b>444,765</b>	<b>147,296</b>
Equity	219,848	23,054
Capital and net debt	664,613	170,350
Gearing Ratio	33.1%	13.5%

## Note 28: Business Combinations

The Group has reassessed its accounting treatment of deferred consideration payable in the context of its acquisition of legal service practices. This reassessment has taken into account an analysis of historical acquisitions in Australia and the United Kingdom where cash and share-based consideration payable to the vendor principals of businesses acquired by the Group is deferred.

Historically, all cash payments and share issues to vendors, whether restrained, deferred, contingent or otherwise, have been treated as consideration for the relevant business acquisition.

The Group has now carefully considered the appropriate treatment of these payments in accordance with IFRS 3(r) *Business Combinations* with regard to the treatment of specific components of deferred consideration.

An assessment has been made in relation to those arrangements that include contingent consideration to vendors of the business that are subject to so-called "bad leaver" provisions.

Included in the terms of a number of purchase agreements entered into by the Group is an arrangement whereby the payment of cash consideration to and/or the retention of share-based consideration by the vendors of acquired entities is contingent upon the relevant vendors remaining with the Group for a defined period. If a vendor ceases to remain with the Group for the prescribed period, the vendor may forfeit its entitlement to payment of the cash consideration and/or its ability to retain its share-based consideration, at the discretion of the Group.

We now take the view that such arrangements will be deemed to be "separate transactions" for accounting purposes, the effect of which is that they are treated as payments to former owners, to be expensed in accordance with other applicable International Financial Accounting Standards.

### **Acquisition of business – Slater Gordon Solutions (SGS) (provisionally accounted)**

On 29 May 2015 the Group acquired SGS from Quindell Plc. SGS is comprised of 52 legal entities incorporated in the UK and Malta as outlined in Note 26.

The principal activities of SGS are

- I First notification of loss ("FNOL") services for various partner organisations, including insurance brokers, insurers, motoring organisations and vehicle manufacturers. These services include the facilitation of vehicle retrieval, repair and replacement vehicle hire for not at fault drivers,
- II Conducting claims on behalf of not at fault parties to road traffic accidents ("RTA"), including credit hire, repair and personal injury claims.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 28: Business Combinations (Continued)

### Acquisition of business – Slater Gordon Solutions (SGS) (provisionally accounted) (continued)

- III Conducting claims on behalf of individuals injured in the course of employment or in a public place ("EL/PL")  
One species of employers' liability claim that SGS is currently conducting are personal injury claims for a large group of people who allege noise induced hearing loss ("NIHL") as a consequence of employment and who may be entitled to compensation as a result. It is expected that these NIHL claims will be concluded in the next 1 to 3 years, and
- IV Services complementary to these claims processes, including
- A medical reporting service for claimant lawyers,
  - The assessment, triage and facilitation of rehabilitation services for not at fault parties injured in accidents, and
  - A costing service for lawyers and law firms

The strategic rationale for this business acquisition is

- to become the leading personal injury group in the UK, and
- access to a comprehensive platform of businesses, processes and infrastructure that augments the Group's existing UK operation

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

Consideration	2015 £'000
Cash Investment	469,194
Liabilities acquired from previous owner	179,256
<b>Net present value of total consideration</b>	<b>648,450</b>

Net assets acquired	Fair Value £'000
<b>Assets</b>	
- Cash and cash equivalents	2,569
- Trade and other receivables	157,132
- Work in progress	75,856
- Plant and equipment	2,449
- Intangible assets	25,225
- Current tax assets	12,153
- Deferred tax assets	18,190
- Other assets	3,893
<b>Total assets acquired</b>	<b>297,467</b>
<b>Liabilities</b>	
- Short-term borrowings	(5)
- Payables	(159,158)
- Provisions	(2,401)
<b>Total liabilities acquired</b>	<b>(161,564)</b>
<b>Net assets acquired</b>	<b>135,903</b>
<b>Goodwill on acquisition</b>	<b>512,547</b>

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 28: Business Combinations (Continued)

### *Acquisition of business – Slater Gordon Solutions (SGS) (provisionally accounted) (continued)*

The initial accounting for the acquisition of SGS has only been provisionally determined at the end of the reporting period

The key item that gave rise to the goodwill above is the capacity of SGS to underpin strategic growth of the personal injuries practice within the UK market

Since the acquisition date, SGS has contributed total revenue of £19,709,000 and loss after tax of £2,452,000 in the year ended 30 June 2015, which is included within the consolidated profit. As at the date of reporting, it is not practical to disclose the revenue and profit after tax of the combined entities as if the acquisition took place on 1 July 2014 as the Group does not have access to audited financial information for the period prior to the date of acquisition prepared on the same Group accounting policies

Acquisition-related costs for this acquisition amounting to £4,350,000 have been recognised as an expense in the year ended 30 June 2015, within the 'costs associated with acquisitions' line item in the statement of profit or loss

The acquisition of SGS has been provisionally accounted for at year end. Given the proximity of the acquisition date to the reporting date, the values of the acquired assets and liabilities of SGS are considered provisional. It is also not practical for the Group to determine an estimate of the noise-induced hearing loss ("NIHL") claims asset and associated deferred consideration. These will be updated within 12 months post-acquisition in accordance with IFRS 3 *Business Combinations*

On 5 August 2015, Quindell Plc, the vendor of SGS, published qualified financial statements in which the current directors and auditors of Quindell Plc explained, inter alia, that relevant information relating to transactions entered into by the former directors that could impact on the accounting, intention, commercial purpose or value of certain transactions was not available to them.

On 5 August 2015 the Serious Fraud Office in the United Kingdom advised that it has opened a criminal investigation into the business and accounting practices of Quindell Plc.

The acquisition of SGS was structured as an acquisition of the various entities rather than an acquisition of the common stock of Quindell Plc. Moreover, Quindell Plc provided detailed warranties to the Company in relation to the operations of the assets comprising SGS. Those warranties are secured by a Warranty Escrow account holding £50m.

The Company is confident that it has no liability as a result of the matters described above.

In the course of preparing these financial statements, the Directors have sought to identify, understand and properly account for all relevant prior transactions undertaken by entities within SGS. Despite reasonable inquiries, including of current directors of Quindell Plc, the Directors are unable to identify or rationalise every historic transaction undertaken by the former directors of the various entities and have made fair value adjustments as appropriate. The Directors believe that none of the known transactions relate to the fundamental business activities or economics of SGS and none of the known transactions are material in value or effect to the Company.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 28: Business Combinations (Continued)

### Acquisition of Flint Bishop (provisionally accounted)

Acquisition Date	Business	Location	Business Type
5 September 2014	Flint Bishop LLP	Derby, UK	Personal Injury Law

The strategic rationale for these business acquisitions is

- diversification of earnings through expansion of geographic coverage, and
- to become a dominant law firm brand in the consumer legal services market in the UK

The provisional consideration transferred and the value of the consolidated assets and liabilities assumed at the dates of acquisition are as follows

	2015
<b>Consideration</b>	<b>£'000</b>
Cash	1,110
Deferred cash consideration	813
<b>Net present value of total consideration</b>	<b>1,923</b>
<b>Net assets acquired</b>	<b>Fair Value</b>
	<b>£'000</b>
<b>Assets</b>	
- Trade and other receivables	110
- Work in progress	1,795
<b>Total assets acquired</b>	<b>1,905</b>
<b>Liabilities</b>	
- Payables	-
- Provisions	-
<b>Total liabilities acquired</b>	<b>-</b>
<b>Net assets acquired</b>	<b>1,905</b>
<b>Goodwill on acquisition</b>	<b>18</b>

The initial accounting for the acquisitions has only been provisionally determined at the end of the reporting period

The profit and loss results of the acquired businesses are not set out. It is not practicable to disclose the profit and loss results of the acquired businesses as they have been integrated into the existing operations and reporting structure of the Group.

It is also not practical to disclose the revenue and profit after tax of the combined entities as if these acquisitions took place on 1 July 2014 as the Group does not have access to audited financial information for the period prior to the dates of acquisition prepared on the same Group accounting policies.

Acquisition-related costs for these acquisitions amounting to £229,000 have been recognised as an expense in the year ended 30 June 2015, within the 'costs associated with acquisitions' line item in the statement of profit or loss.

### Acquisition of business – Leo Abse Cohen (provisionally accounted)

Acquisition Date	Business	Location	Business Type
8 May 2015	Leo Abse Cohen	Wales, UK	Personal Injury Law and Consumer Legal Services

The strategic rationale for these business acquisitions is

- diversification of earnings through expansion of geographic coverage, and
- to become a dominant law firm brand in the consumer legal services market in the UK

The provisional consideration transferred and the value of the consolidated assets and liabilities assumed at the dates of acquisition are as follows

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 28: Business Combinations (Continued)

*Acquisition of business – Leo Abse Cohen (provisionally accounted) (continued)*

	2015
<b>Consideration</b>	<b>£'000</b>
Cash	5,839
<b>Net present value of total consideration</b>	<b>5,839</b>
<b>Net assets acquired</b>	<b>Fair Value</b>
	<b>£'000</b>
<b>Assets</b>	
- Trade and other receivables	177
- Work in progress	17,453
- Prepayments	443
<b>Total assets acquired</b>	<b>18,073</b>
<b>Liabilities</b>	
- Payables	(2,138)
- Provisions	(595)
- Accrual	(211)
- Deferred tax liabilities	(1,858)
<b>Total liabilities acquired</b>	<b>(4,802)</b>
<b>Net assets acquired</b>	<b>13,271</b>
<b>Gain from bargain purchase</b>	<b>(7,432)</b>

The initial accounting for the acquisitions has only been provisionally determined at the end of the reporting period

The profit and loss results of the acquired businesses are not set out. It is not practicable to disclose the profit and loss results of the acquired businesses as they have been integrated into the existing operations and reporting structure of the Group.

It is also not practical to disclose the revenue and profit after tax of the combined entities as if these acquisitions took place on 1 July 2014 as the Group does not have access to audited financial information for the period prior to the dates of acquisition prepared on the same Group accounting policies.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 28: Business Combinations (Continued)

### Acquisition of business – Walker Smith Way Limited (provisionally accounted)

On 30 April 2015, Slater and Gordon Limited acquired the business of Walker Smith Way Limited, a personal injury and consumer law practice operating throughout Northern England and Wales. The business and assets of Walker Smith Way Limited (WSW) were transferred to Slater & Gordon (UK) LLP.

The strategic rationale for this business acquisition is

- diversification of earnings through expansion of geographic coverage, and
- to become a dominant law firm brand in the consumer legal services market in the UK

The provisional consideration transferred and the value of the consolidated assets and liabilities assumed at the dates of acquisition are as follows

Consideration	2015 £'000
Cash	303
Equity issued (665,006 shares at £3.76 per share)	2,500
<b>Net present value of total consideration</b>	<b>2,803</b>
<b>Net assets acquired</b>	<b>Fair Value £'000</b>
Assets	
- Cash and cash equivalents	1,133
- Trade and other receivables	3,881
- Work in progress	8,308
- Plant and equipment	35
<b>Total assets acquired</b>	<b>13,357</b>
Liabilities	
- Creditors	(5,253)
- Provisions	(151)
- Deferred tax liabilities	(1,030)
<b>Total liabilities acquired</b>	<b>(6,434)</b>
<b>Net assets acquired</b>	<b>6,923</b>
<b>Gain on Bargain Purchase</b>	<b>(4,120)</b>

The initial accounting for the acquisition of WSW has only been provisionally determined at the end of the reporting period.

The profit and loss result of the acquired business is not set out. It is not practicable to disclose the profit and loss results of the acquired businesses as it has been integrated into the existing operations and reporting structure of the Group.

It is also not practical to disclose the revenue and profit after tax of the combined entities as if these acquisitions took place on 1 July 2014 as the Group does not have access to audited financial information for the period prior to the date of acquisition prepared on the same Group accounting policies.

Acquisition-related costs for this acquisition amounting to £115,000 have been recognised as an expense in the year ended 30 June 2015 within the costs associated with acquisitions' line item in the statement of profit or loss.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 28. Business Combinations (Continued) 2014 (Unaudited)

### *Acquisition of business – Pannone Solicitors LLP (“Pannone”) and related entities*

On 14 February 2014, the Group acquired the business of Pannone, a law firm based in Manchester, UK. On the same day the Group also acquired two related entities, Adroit Financial Planning Limited (“Adroit”) and Pannone Trust Corporation Limited (“Pannone Trust”), now known as Slater Gordon Trust Corporation Limited. Adroit Financial Planning Limited is a financial planning business. Pannone Trust Corporation Limited is a dormant company, initially incorporated to act as the administrator of estates and other appointments having fiduciary responsibility associated with Adroit.

The strategic rationale for these business acquisitions is:

- diversification of earnings through expansion of geographic coverage, and
- to become a dominant law firm brand in the consumer legal services market in the UK

The initial accounting for the acquisition had previously been provisionally determined. The necessary fair valuation of consideration and net assets acquired have now been finalised and are reflected in the amounts detailed below.

The value of the assets and liabilities at the date of acquisition are as follows:

	2015	2014
		£'000
		Unaudited
<b>Consideration</b>		
Cash		23,575
Share consideration		90
<b>Net present value of total consideration</b>		<b>23,665</b>
<b>Net assets acquired</b>		<b>Fair Value</b>
		£'000
<b>Assets</b>		
- Cash and cash equivalents		279
- Trade and other receivables		17,152
- Work in progress	(156)	22,536
- Plant and equipment		45
- Intangible assets		599
- Other assets		1,075
<b>Total assets acquired</b>	<b>(156)</b>	<b>41,686</b>
<b>Liabilities</b>		
- Payables		(12,776)
- Provisions		(2,427)
- Deferred tax liabilities		(687)
<b>Total liabilities acquired</b>		<b>(15,890)</b>
<b>Net assets acquired</b>		<b>25,796</b>
<b>Gain from bargain purchase</b>	<b>(156)</b>	<b>(2,131)</b>

There were 37,718 shares issued as part of the consideration. The issue price of AUD4.42 is based on the average of the volume weighted average price of ordinary shares on each of the 20 business days immediately preceding the completion date.

In FY15 the Group entered into a variation deed with Pannone which reduces the deferred consideration payable for the acquisition. As a result the Group recognised a gain of £156,000 in the statement of profit or loss.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 28: Business Combinations (continued)

### Acquisition of business – Fentons Solicitors LLP ("Fentons")

On 27 September 2013, the Group acquired the business of Fentons Solicitors LLP. The value of assets and liabilities at the date of acquisition and converted using the acquisition date rate of exchange are as follows

The strategic rationale for these business acquisitions is

- diversification of earnings through expansion of geographic coverage, and
- to become a dominant law firm brand in the consumer legal services market in the UK

The initial accounting for the acquisition had previously been provisionally determined. The necessary fair valuation of consideration and net assets acquired have now been finalised and are reflected in the amounts detailed below

The value of the assets and liabilities at the date of acquisition are as follows

	2014 £'000 Unaudited
<b>Consideration</b>	
Cash	25,250
<b>Net present value of total consideration</b>	<b>25,250</b>
<b>Net assets acquired</b>	<b>Fair Value £'000</b>
<b>Assets</b>	
- Cash and cash equivalents	4
- Trade and other receivables	25,543
- Work in progress	31,915
- Plant and equipment	886
- Other assets	70
<b>Total assets acquired</b>	<b>58,418</b>
<b>Liabilities</b>	
- Payables	(23,447)
- Provisions	(2,275)
- Deferred tax liabilities	(1,621)
<b>Total liabilities acquired</b>	<b>(27,343)</b>
<b>Net assets acquired</b>	<b>31,075</b>
<b>Gain from bargain purchase</b>	<b>(5,825)</b>

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 28: Business Combinations (continued)

### Acquisition of other businesses in the UK

The Group acquired the following other businesses in the UK in 2014

<b>Acquisition Date</b>	<b>Company</b>	<b>Location</b>	<b>Business Type</b>	<b>Acquired</b>	
16 August 2013	Taylor Vinters LLP	Cambridge, UK	Personal Injury Law	Personal Injuries business operations and assets	
30 August 2013	Goodmans Law Limited	Liverpool, UK	Personal Injury Law	Business operations and assets	
29 November 2013	John Pickering & Partners LLP	Halifax, UK	Personal Injury Law	Business operations and assets	
4 December 2013	Chadwick Lawrence LLP	Yorkshire, UK	Personal Injury Law	Personal Injuries business operations and assets	
					2014 £'000 Unaudited
<b>Consideration</b>					
Cash					9,712
Equity issued					667
Fair value of deferred consideration (cash)					6,201
<b>Net present value of total consideration</b>					<b>16,580</b>
<b>Net assets acquired</b>					<b>Fair Value £'000</b>
Assets					
- Trade and other receivables					5,534
- Work in progress					8,794
- Plant and equipment					5
- Other assets					38
<b>Total assets acquired</b>					<b>14,371</b>
Liabilities					
- Payables					(3,141)
- Provisions					(485)
<b>Total liabilities acquired</b>					<b>(3,626)</b>
<b>Net assets acquired</b>					<b>10,745</b>
<b>Goodwill</b>					<b>5,835</b>
*Split as follows					
Taylor Vinters LLP					5,297
Chadwick Lawrence LLP					538
<b>Total</b>					<b>5,835</b>

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 28: Business Combinations (continued)

	2014 £'000 Unaudited
<b>John Pickering &amp; Partners LLP</b>	
<b>Consideration</b>	
Cash	1,550
<b>Net present value of total consideration</b>	<b>1,550</b>
<b>Net assets acquired</b>	<b>Fair Value £'000</b>
<b>Assets</b>	
- Cash and cash equivalents	-
- Trade and other receivables	2,008
- Work in progress	1,127
- Plant and equipment	-
- Other assets	-
<b>Total assets acquired</b>	<b>3,135</b>
<b>Liabilities</b>	
- Payables	(1,435)
- Provisions	(28)
- Deferred tax liabilities	(33)
<b>Total liabilities acquired</b>	<b>(1,496)</b>
<b>Net assets acquired</b>	<b>1,639</b>
<b>Gain from Bargain Purchase</b>	<b>(89)</b>

	2014 £'000 Unaudited
<b>Goodmans Law Limited</b>	
<b>Consideration</b>	
Cash	4,073
<b>Net present value of total consideration</b>	<b>4,073</b>
<b>Net assets acquired</b>	<b>Fair Value £ 000</b>
<b>Assets</b>	
- Cash and cash equivalents	-
- Trade and other receivables	1,442
- Work in progress	4,151
- Plant and equipment	-
- Other assets	30
<b>Total assets acquired</b>	<b>5,623</b>
<b>Liabilities</b>	
- Payables	(451)
- Provisions	(199)
- Deferred tax liabilities	(211)
<b>Total liabilities acquired</b>	<b>(861)</b>
<b>Net assets acquired</b>	<b>4,762</b>
<b>Gain from Bargain Purchase</b>	<b>(689)</b>

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 28: Business Combinations (continued)

Carrying amount of Goodwill allocated to CGUs

	SGS		SGL PI		SGL GL		Total	
	2014		2014		2014		2014	
	Unaudited	2015	Unaudited	2015	Unaudited	2015	Unaudited	2015
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Goodwill	-	243,485	24,178	24,194	4,664	4,664	28,842	272,343
Total	-	243,485	24,178	24,194	4,664	4,664	28,842	272,343

## Note 29: Financial Risk Management

The Group is exposed to a variety of financial risks comprising

- i) Credit risk
- ii) Liquidity risk
- iii) Fair values
- iv) Interest rate risk
- v) 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

	Note	2015 £'000	2014 £'000
			Unaudited
<b>Financial assets</b>			
Cash and cash equivalents	6	39,159	7,371
Loans and receivables	7	110,460	30,122
Disbursements	7	155,216	43,653
		304,835	81,146
<b>Financial liabilities</b>			
Payables	12	176,015	109,993
Borrowings	13	307,908	44,674
		483,923	154,667

### i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main exposure to credit risk in the 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 period of recognised financial assets is the carrying amount of those assets, net of any provisions against those assets, as disclosed in the statement of financial position and notes to the financial statements.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 29: Financial Risk Management (continued)

### i) Credit risk (continued)

#### *Credit risk – Slater Gordon Solutions*

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.

Credit risk is therefore spread across major UK based motor insurers in proportion to their respective share of the market. No credit insurance is taken out given the regulated nature of these entities.

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. SGS does not hold any collateral over these balances nor has the legal right of offset with any amounts owed by SGS to the receivables counterparty.

There is also credit risk associated with unrendered disbursements and trade receivables. Once client matters are billed, a significant portion of receivables related to the personal injuries business are considered low risk. This is because these receivables are collected directly from settlements paid by insurers into trust funds held on behalf of the Group's clients. As at 30 June 2015, approximately 38% of trade receivables relate to the personal injury law business.

For the non-personal injury law business, the Group is exposed to the credit risk associated with the client's ability to meet their obligations under the fee and retainer agreement. The Group minimises the concentration of this credit risk by undertaking transactions with a large number of clients.

#### *Management of credit risk*

The Group actively manages its credit risk by

- assessing the capability of a client 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.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 29: Financial Risk Management (continued)

### i) Credit risk (continued)

At 30 June 2015, the maximum exposure to credit risk for trade receivables by segment was as follows

	2015 £'000	2014 £'000
		Unaudited
UK	51,657	32,446
SGS	94,791	-
	<u>146,448</u>	<u>32,446</u>

Trade Receivables	2015 £'000	2014 £'000
		Unaudited
Not past due	59,687	-
Past due 0-30 days	29,759	16,794
Past due 31 -120 days	20,414	8,353
Past due more than-120 days	36,588	7,299
Total	<u>146,448</u>	<u>32,446</u>

	2015 £'000	2014 £'000
		Unaudited
<b>Bad debt provision reconciliation</b>		
Opening balance	2,460	954
Additions due to acquisitions	35,011	1,632
Annual increase and utilisation	116	(126)
Closing balance	<u>37,587</u>	<u>2,460</u>

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

#### Cash and cash equivalents

The Group held cash and cash equivalents of £39,159,000 at 30 June 2015 (30 June 2014 (unaudited) £7,371,000) The credit risk associated with cash and cash equivalents are considered as minimal as the cash and cash equivalents are held with reputable financial institutions in Australia and UK

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 29: Financial Risk Management (continued)

### ii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

#### Management of liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained. Refer to the statement of cash flows and Note 20 Cash Flow Information, for further information on the historical cash flows and the current borrowing facilities below

KPIs are set for practitioners relating to budgeted fee events, which are closely monitored by senior management

The Group actively reviews its funding position to ensure the available facilities are adequate to meet its current and anticipated needs

	2015 £'000	2014 £'000
		Unaudited
<b>Total banking facilities</b>		
Bank overdrafts	3,436	-
Cash advance facility	418,849	110,871
Other sundry facilities	13,513	-
<b>Total credit facilities</b>	<b>435,798</b>	<b>110,871</b>
<b>Amount utilised</b>	<b>(350,816)</b>	<b>(66,474)</b>
<b>Unused bank facilities</b>	<b>84,982</b>	<b>44,397</b>

#### Bank overdrafts

Bank overdraft facilities are arranged with Royal Bank of Scotland (National Westminster Bank) with the general terms and conditions being set and agreed to annually. The current facility is £1,000,000. Interest rates are variable and subject to adjustment.

#### Maturity analysis

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

	< 12 Months £'000	1-5 years £'000	Total contractual cash flows £'000	Carrying amount £'000
<b>2015</b>				
<b>Non-derivative financial liabilities</b>				
Payables	176,015	-	176,015	176,015
Borrowings	100	307,808	307,908	307,908
Other current liabilities	5,352	-	5,352	5,352
<b>Financial liability maturities</b>	<b>181,467</b>	<b>307,808</b>	<b>489,275</b>	<b>489,275</b>

#### 2014 Unaudited

<b>Non-derivative financial liabilities</b>				
Payables	72,924	2,561	75,485	75,485
Borrowings	4,230	40,442	44,672	44,672
Other current liabilities	5,600	-	-	-
<b>Financial liability maturities</b>	<b>82,754</b>	<b>43,003</b>	<b>120,157</b>	<b>120,157</b>

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 29: Financial Risk Management (continued)

### 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

#### Management of fair value risk in interest rate swaps

The Group measures its interest rate swaps at fair value. These fair values are based on level 2 fair value measurements, as defined in the fair value hierarchy in IFRS 13 *Fair Value Measurement* with reference to market data which can be used to estimate future cash flows and discount them to present value. Management's aim is to use and source this data consistently from period to period.

### iv) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The Group's exposure to interest rate risks and the effective interest rates of non-derivative financial assets and financial liabilities both recognised and unrecognised at the end of the reporting period are as follows:

Financial Instruments	Weighted average interest rate		Non-interest bearing		Variable interest rate		Fixed interest rate		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
			£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<i>(i) Financial</i>										
Cash	0.05%	0.88%	-	-	39,159	7,371	-	-	39,159	7,371
Trade debtors	-	-	108,861	29,986	-	-	-	-	108,861	29,986
Disbursements	-	-	155,216	43,653	-	-	-	-	155,216	43,653
Other receivables	-	-	1,599	136	-	-	-	-	1,599	136
<b>Total financial assets</b>			<b>265,676</b>	<b>73,775</b>	<b>39,159</b>	<b>7,371</b>	<b>-</b>	<b>-</b>	<b>304,835</b>	<b>81,146</b>
<i>(ii) Financial</i>										
Trade creditors and accruals	-	-	169,856	40,985	-	-	-	-	169,856	40,985
Legal creditors	-	-	147,225	23,701	-	-	-	-	147,225	23,701
Non-interest bearing vendor liabilities – acquisitions	-	-	6,159	5,190	-	-	-	-	6,159	5,190
Provisions	-	-	10,519	2,942	-	-	-	-	10,519	2,942
Other current liabilities	4.45%	4.45%	-	-	5,352	5,600	-	-	5,352	5,600
Hire purchase liability	3.59%	7.42%	-	-	-	-	148	374	148	374
Cash advances – fixed rate	1.37%	2.49%	-	-	-	-	25,000	25,000	25,000	25,000
Cash advances – variable rate	1.99%	3.02%	-	-	282,760	19,300	-	-	282,760	19,300
<b>Total financial liabilities</b>			<b>333,759</b>	<b>72,818</b>	<b>288,112</b>	<b>24,900</b>	<b>25,148</b>	<b>25,374</b>	<b>647,019</b>	<b>123,092</b>

\* = unaudited

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 29. Financial Risk Management (continued)

### iv) Interest rate risk (continued)

Maturity of notional amounts	Effective average fixed interest rate payable		Notional principal value	
	2015	2014	2015	2014
	Unaudited		£'000	£'000
0 to 2 years	1.18%	4.18%	10,000	-
2 to 5 years	1.50%	2.02%	15,000	25,000
			25,000	25,000

The net effective variable interest rate borrowings (i.e. unhedged debt) expose the Group to interest rate risk which will impact future cash flows and interest charges and are indicated by the following interest rate financial liabilities

	2015 £'000	2014 £'000
<b>Floating rate instruments</b>		
Unhedged cash advances/bills of exchanges	282,760	19,300
	282,760	19,300

Interest rate swaps are measured at fair value with gains and losses taken to the cash flow hedge reserve until such time as the profit or loss associated with the hedged risk is recognised in the consolidated statement of comprehensive income. Given the matching of the hedge settlements with the payment of interest expense on the hedged borrowings, the balance in the reserve attributable to interest rate swaps is generally minimal.

#### Interest rate sensitivity

If interest rates were to increase/decrease by 100 basis points from rates used to determine fair values as at the end of the reporting period, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows

	2015 £'000	2014 £'000
	Unaudited	
+/- 100 basis points		
Impact on profit after tax	-	-
Impact on equity	750	788

### v) 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 respective functional currencies of the Group entities. The major functional currency is Sterling (GBP).

In relation to recognised assets and liabilities denominated in a currency other than the entity's functional currency, the Group hedges all foreign currency exposures via a natural hedge.

Foreign currency net investment translation risk relating to the acquisition of Slater Gordon Solutions is partially hedged through borrowings denominated in GBP, resulting in an overall reduction in the net assets that are translated. The remaining translation exposure is not hedged.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 30. Fair Value Measurements

### i) Fair value hierarchy

Refer to Note 2 (d) for discussion on the fair value hierarchy

30 June 2015	Level 1	Level 2	Level 3	Total
Derivatives designated as hedging instruments	£'000	£'000	£'000	£'000
<i>Financial liabilities</i>				
Derivative financial instruments – interest rate swaps	-	176	-	176
	-	176	-	176

30 June 2014	Level 1	Level 2	Level 3	Total
Unaudited	£'000	£'000	£'000	£'000
<i>Financial liabilities</i>				
Derivative financial instruments – interest rate swaps	-	145	-	145
	-	145	-	145

30 June 2015	Level 1	Level 2	Level 3	Total
Financial assets at amortised cost	£'000	£'000	£'000	£'000
<i>Financial assets</i>				
Trade and other receivables	-	-	264,077	264,077
	-	-	264,077	264,077
<i>Financial liabilities</i>				
Trade Creditors*	-	-	169,856	169,856
Legal Creditors	-	-	147,225	147,225
Vendor Liabilities – acquisitions	-	-	6,159	6,159
Borrowings	-	307,760	-	307,760
Finance Lease Liability	-	148	-	148
	-	307,908	323,240	631,148

30 June 2014	Level 1	Level 2	Level 3	Total
Unaudited	£'000	£'000	£'000	£'000
<i>Financial assets</i>				
Trade and other receivables	-	-	73,639	73,639
	-	-	73,639	73,639
<i>Financial liabilities</i>				
Trade Creditors*	-	-	40,985	40,985
Legal Creditors	-	-	23,701	23,701
Vendor Liabilities – acquisitions	-	-	8,239	8,239
Borrowings	-	44,300	-	44,300
Finance Lease Liability	-	374	-	374
	-	44,674	72,925	117,599

\*Accrued expenses that are not financial liabilities are excluded

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## Note 30: Fair Value Measurements (continued)

### ii) Valuation techniques and inputs used in Level 2 and 3 fair value measurements

The fair value of the interest rate swaps is measured with reference to market data which can be used to estimate future cash flows. The key input into this valuation is the interest rate swap revaluation statement as provided by Westpac Banking Corporation and National Australia Bank.

The fair value of contingent consideration payable in a business combination is measured with reference to current fee and performance forecasts which can be used to estimate future cash flows. The key inputs into this valuation are the estimated future cash flows and the average discount rate of 9.2% used to determine the present value of the future cash flows.

### iii) Reconciliation of recurring Level 3 fair value movements

	2015 £'000	2014 £'000
<b>Contingent Consideration</b>		Unaudited
Opening balance	-	2,612
Acquisitions	-	-
Payments	-	-
Adjustment to contingent consideration	-	(2,612)
Interest	-	-
Exchange differences	-	-
Closing balance	-	-

There has been no change in the range of undiscounted contingent consideration outcomes during the year.

### iv) Sensitivity analysis for recurring Level 3 fair value measurements

A reasonable movement in the unobservable inputs would not significantly impact the fair value of contingent consideration as at the end of the reporting period and therefore not impact profit after tax and equity.

## Note 31: Subsequent Events

An impairment review has been performed at 31 December 2015 by Slater & Gordon Limited, and additional impairment has been recorded on the SGS acquisition of £132.5m (refer to note 11) and an impairment of £4.6m has been recorded on the goodwill associated with the Russell Jones and Walker acquisition. These are considered to be non-adjusting post balance sheet events.

# Company's Balance Sheet


As at 30 June 2015

	Note	2015 £'000	2014 Restated £'000
<b>Fixed assets</b>			
Intangible assets	3	132	143
Investments	4	267,277	3,587
		<b>267,409</b>	<b>3,730</b>
<b>Current assets</b>			
Debtors due in less than one year	5	290	121
Debtors due in more than one year	5	350,454	113,201
Cash at bank and in hand		4,427	104
		<b>355,171</b>	<b>113,426</b>
Creditors amounts falling due within one year	6	(3,540)	(7,097)
<b>NET CURRENT ASSETS</b>		<b>351,631</b>	<b>106,329</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>619,040</b>	<b>110,059</b>
Creditors amounts falling due after more than one year	7	(375,595)	(110,156)
<b>Net Assets/(liabilities)</b>		<b>243,445</b>	<b>(97)</b>
<b>Capital and reserves</b>			
Called up share capital	8	448,170	-
Profit and loss account	8	(204,725)	(97)
<b>Shareholders' funds/(deficit)</b>	<b>9</b>	<b>243,445</b>	<b>(97)</b>

The accompanying notes on pages 66 to 70 form an integral part of these financial statements

The financial statements were approved by the board of directors and authorised for issue on 31 March 2016

They were signed on its behalf by

  
 K Foylie  
 Director  
 Company number 07895497

31 March 2016

# Parent Company's Financial Statements

For the Year Ended 30 June 2015

## Note 1: Accounting Policies

### Accounting policies

#### (a) Basis of accounting

The financial statements are prepared under the historical cost convention

#### (b) Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated)

The company has taken advantage of the exemption in FRS1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 per cent or more of the voting rights are controlled within the group

#### (c) Going concern

The cash flow forecast has been reviewed for the period of 12 months following the signing of the financial statements. Based on this review and the net current and total assets at the period end, it is appropriate to adopt the going concern assumption in preparing these accounts

#### (d) Turnover

Management fees are recognised on a receivable basis net of VAT. The total turnover of the company for the period has been derived from its principal activity wholly undertaken in the United Kingdom

#### (e) Goodwill

Goodwill representing the excess of the consideration for an acquired undertaking, or acquired trade and assets, compared with the fair value of net assets acquired is capitalised and written off evenly over the estimated useful life of 15 years

In the opinion of the directors this represents the periods over which the goodwill is expected to give rise to economic benefits. Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

#### (f) Investments

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

#### (g) Pensions

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the period they are payable

#### (h) Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method. Deferred tax assets are only recognised where the likelihood of recovery is certain

#### (i) Foreign currency translation

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

#### (j) Operating loss

No auditors' remuneration has been charged to the company, the full group audit cost has been borne by Slater & Gordon (UK) LLP

# Parent Company's Financial Statements

For the Year Ended 30 June 2015

## Note 1: Accounting Policies (continued)

### (k) Restatement

During the year, the company reassessed its accounting treatment of deferred consideration payable in the context of its acquisition of legal service practices. This reassessment has taken into account an analysis of historical acquisitions where cash and share-based consideration payable to the vendor principals of businesses acquired is deferred.

Historically, all cash payments and share issues to vendors, whether restrained, deferred, contingent or otherwise, have been treated as consideration for the relevant business acquisition.

The company has now carefully considered the appropriate treatment of these payments by reference to the Group policy on Business Combinations with regard to the treatment of specific components of deferred consideration. Group policy requires that transactions remunerating employees or former owners of the acquired business for future services be treated as separate transactions that are not to be included in the acquisition.

An assessment has been made in relation to those arrangements that include contingent consideration to vendors of the business that are subject to so-called "bad leaver" provisions.

Included in the terms of a number of purchase agreements entered into by the LLP is an arrangement whereby the payment of cash consideration to and/or the retention of share-based consideration by the vendors of acquired entities is contingent upon the relevant vendors remaining with the LLP for a defined period. If a vendor ceases to remain with the LLP for the prescribed period, the vendor may forfeit its entitlement to payment of the cash consideration and/or its ability to retain its share-based consideration, at the discretion of the LLP.

In light of our assessment, we have now corrected and restated the accounting treatment of deferred consideration payable. These arrangements will be deemed to be "separate transactions" for accounting purposes, the effect of which is that they are treated as payments to former owners, to be expensed.

<u>Impact on Profit &amp; Loss account</u>	30 June 2014 Reported £000	Restatements £000	30 June 2014 Restated £000
Tax on profit on ordinary activities	(782)	(313)	(1,096)
Profit/(Loss) for the financial period	(972)	(313)	(1,286)
<u>Impact on the Balance Sheet</u>			
Creditors' amounts falling due within one year	(6,784)	(313)	(7,098)
NET CURRENT ASSETS	106,642	(313)	106,329
TOTAL ASSETS LESS CURRENT LIABILITIES	110,372	(313)	110,059
Net Assets	216	(313)	(97)
Profit and loss account	216	(313)	(97)
Shareholders' funds	216	(313)	(97)

## Note 2: Parent Entity Results

As permitted by the exemption in Section 408(2) of the Companies Act 2006, the Company has not presented its own profit and loss account. The loss for the year was £204.6 million (restated 2014 £1.28 million). There were no recognised gains and losses other than those recognised in the profit and loss account.

The auditor's remuneration for audit services to the Company is borne by the Group.

# Parent Company's Financial Statements

For the Year Ended 30 June 2015

## Note 3: Intangible Fixed Assets

	2015 £'000	2014 £'000
<b>Cost</b>		
At 1 July	167	167
<b>Amortisation</b>		
At 1 July	24	13
Charge for the year	11	11
<b>At 30 June</b>	<b>35</b>	<b>24</b>
<b>Net Book Value</b>	<b>132</b>	<b>143</b>

## Note 4: Investments

	Unlisted Investment 2015 £'000	Unlisted Investment 2014 £'000
<b>Cost</b>		
At 1 July	3,587	3,587
Acquisition during the period	468,141	-
Impairment	(204,451)	-
<b>Cost at 30 June</b>	<b>267,277</b>	<b>3,587</b>

The above acquisition relates to the Slater Gordon Solutions group of companies that were acquired from Quindell plc

### Holdings of more than 20%

The company holds more than 20% of the capital of the following businesses

Business name	Country of incorporation	Class	Shares held %
New Claims Direct Limited	England and Wales	Ordinary	100.0
4 Legal Solutions Limited	England and Wales	Ordinary	100.0

The company has a beneficial interest in the profits of Slater & Gordon (UK) LLP. The profit share is recognised when the Company has an unconditional right to payment.

The principal activity of these undertakings for the last financial year was as follows

Business name	Principal activity
Slater & Gordon (UK) LLP	Provision of consumer and business legal advice
New Claims Direct Limited	Holding company for rights and trademarks to the name 'Claims Direct'
4 Legal Solutions Limited	The provision of medico-legal reports

# Parent Company's Financial Statements

For the Year Ended 30 June 2015

## Note 5: Debtors

	2015 £'000	2014 £'000
Other debtors	127	89
Prepayments and accrued income	163	32
Due in less than one year	<u>290</u>	<u>121</u>
Due in greater than one year		
Amounts due from group companies	<u>350,454</u>	<u>113,201</u>

The amounts due from Slater & Gordon (UK) LLP are repayable under terms which match the bank loans and Parent Company loan. This means that the total loan is repayable after more than five years. All interest charged on these loans are recharged to Slater & Gordon (UK) LLP. During the year £ 4,920,995 (2014 - £4,137,244) of interest was recharged to Slater & Gordon (UK) LLP.

## Note 6: Creditors: amounts falling due within one year

	2015 £'000	2014 Restated £'000
Trade Creditors	222	-
Corporation tax	970	799
Other taxation and social security costs	1,299	1,022
Other creditors	1,049	204
Accruals and deferred income	-	1,072
Bank loans at average rate of 2.27% (2014: 1.7% above the LIBOR interest rate)	-	4,000
	<u>3,540</u>	<u>7,097</u>

## Note 7: Creditors: amounts falling due after more than one year

	2015 £'000	2014 Restated £'000
Bank loans at average rate of 2.27% (2014: 1.7% above the LIBOR interest rate)	307,760	40,300
Loan from Parent Company (in AUD and GBP) (2014: 2.15% above Australian Bank Base) repayable by April 2022	-	65,702
Amounts due to companies	67,835	4,154
	<u>375,595</u>	<u>110,156</u>

The bank loan of £307,760,305 is part of the Slater & Gordon Group loan facility

	2015 £'000	2014 £'000
The company's borrowings are repayable as follows		
On demand or within one year	-	4,000
Between one and two years	-	24,000
Between two and five years	307,760	16,300
After five years	-	65,702

The bank loans are also part of a syndicated facility provided to Slater & Gordon Limited by Westpac Banking Corporation and National Australia Bank. The facility is secured by a fixed and floating charge over the assets and uncalled capital of Slater & Gordon Limited, Slater & Gordon (UK) LLP and Slater & Gordon (UK) 1 Limited.

The company has entered into an interest rate swap to reduce the impact of any adverse movement in interest rates on the loans borrowed from the parent company's banks. The fair value of the swap arrangement at the balance sheet date was £176,382 (2014 - £144,699).

# Parent Company's Financial Statements

For the Year Ended 30 June 2015

## Note 7: Creditors. amounts falling due after more than one year (continued)

The amounts due from Slater & Gordon (UK) LLP are repayable under terms which match the bank loans and Parent Company loan. This means that the total loan is repayable after more than five years. All interest charged on these loans are recharged to Slater & Gordon (UK) LLP. During the year £ 4,919,995 (2014 - £4,137,244) of interest was recharged to Slater & Gordon (UK) LLP.

## Note 8: Share Capital & statement of movement in reserves

	2015 £	2014 £
Allotted, called up and fully paid		
448,170,021 Ordinary shares of £1	448,170,021	1

	2015 £'000	2014 Restated £'000
Movement in reserves		
Balance at 1 July 2014	(97)	1,189
Loss for the period	(204,628)	(1,286)
Balance at 30 June 2015	(204,725)	(97)

## Note 9: Reconciliation of movement in shareholders' funds

	2015 £'000	2014 Restated £'000
Opening shareholders' funds	(97)	1,189
Loss for the period	(204,628)	(1,286)
Shares issued	448,170	-
Balance at 30 June 2015	243,445	(97)

## Note 10: Contingent Liabilities

The Company is a part of a group VAT election and is therefore jointly and severally liable for the VAT liability of other group entities. The group liability at 30 June 2015 was £5,965,602 (30 June 2014 - £4,467,766).

The Company is party to a £420,000,000 syndicated facility agreement dated 29 May 2015 pursuant to which its ultimate parent company, Slater and Gordon Limited, is a borrower (the "Facility Agreement"). Pursuant to the terms of the Facility Agreement, the Company has given a cross-guarantee (along with other Group Companies) in relation to all liabilities outstanding under the Facility Agreement in favour of the Finance Parties (as defined under the Facility Agreement). The Company is also party to a debenture dated 29 May 2015 (the "Debenture") pursuant to which the Company (together with other Group Companies) covenants with Westpac Banking Association (acting as Security Trustee for itself and the Secured Parties (as defined in the Debenture)) that it will on demand pay all liabilities outstanding under the Facility Agreement (and associated finance documents) when they are due and payable and grants security over all of its assets in favour of Westpac Banking Association (acting as Security Trustee for itself and the Secured Parties).

## Note 11: Related party transactions

The company is taking advantage of the exemption granted under Financial Reporting Standard No. 8, "Related Party Transactions", not to disclose transactions with wholly owned group companies, which are related parties.