Staffline+
Group plc
People Skills Jobs

Annual Report 2014

For the year ended 31 December 2014

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Annual Report 2014

For the year ended 31 December 2014

Company details

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05268636

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Dame Christine Braddock (Non-Executive Director)
Diane Martyn (Group Managing Director)
Ed Barker (Non-Executive Director)
John Crabtree (Non-Executive Chairman)
Phil Ledgard (Group Finance Director)

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Phil Ledgard

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Strategic Report

Group overview for the year ended 31 December 2014

Welcome to Staffline Group plc's Annual Report 2014.

The Staffline Group was established in 1986 and since then has grown into a national organisation specialising in the provision of managed workforces to the logistics, e-retail, manufacturing, driving, agriculture, food processing and support services sectors. We use training and business improvement techniques to ensure increased levels of efficiency to give our clients a significant commercial advantage.

The acquisitions of EOS in 2012 and Avanta in 2014, both key suppliers in the welfare to work, employability and skills sectors, have created further robust business streams to complement our recruitment business. This in tandem with the development of our training businesses of Elpis and Learning Plus, has in the last year created a holistic group encompassing the entire work lifecycle. This is encapsulated in our brand message of People Skills Jobs.

Highlights

Financial

- Revenues up 20.9% to £503.2 million (2013: £416.2 million)
- Adjusted group operating profit up 50.8% to £19.4 million (2013: £12.8 million)
- Adjusted profit before tax up 48.8% to £18.6 million (2013: £12.5 million)
- Reported profit before tax up 22.1% to £10.5 million (2013: £8.6 million)
- Adjusted earnings per share up 30.2% to 60.0p (2013: 46.1p)
- Basic earnings per share down 5.1% to 31.6p (2013: 33.3p)
- Final dividend of 8.5p; total dividend of 13.5p (2013: 10.0p); increase of 35%

Operational

- On track to meet five year growth ambition of £1bn in sales
- Revenue growth achieved across all Staffing businesses, reflecting improving economy and new customer wins
- Continued organic growth of the ***OnSite*** platform
    - Increased by 41 sites during the reporting period to 235 (2013: 194)
- Acquisition of Avanta in June 2014 for a net consideration of £45m
    - Successful integration with existing Welfare to Work business, Eos, to create our Employability division
- Three major contract wins for Employability division:
    - Ministry of Justice West Mercia and Warwickshire Transforming rehabilitation contract
    - Steps to Success contract in Northern Ireland
    - Suffolk County Council MyGo three year pilot
    - All existing Work Programme contracts extended by one year
- Strong start to trading in 2015, new start-up divisions performing well and additional contract wins underpinning growth

Strategic Report

Group overview for the year ended 31 December 2014 (continued)

About Staffline

Staffline is a leading outsourcing organisation providing Staffing services to industry, supplying up to 35,000 workers every day to more than 1,300 clients. In the last five years the Group has also grown to become a leading provider of services in to the Government funded Welfare to Work and Skills arena.

The business comprises two key areas:

Staffing Services

Specialising in providing complete labour solutions in agriculture, food processing, manufacturing, e-retail, driving, and the logistics sectors, the recruitment business operates from well over 250 locations in the UK, Eire and Poland.

The Staffing brands include:

- Staffline OnSite, based on clients' premises and providing both blue and white collar, out-sourced, temporary workforces
- Select Appointments, a high street branch-based operation providing white collar office staff, operated entirely on a franchised basis by independent business owners
- Staffline Express, a high street branch based operation
- Driving Plus, providing HGV drivers to the driving industry
- Staffline Agriculture, providing workers to the UK farming and growing sectors

Employability

Comprising the Avanta and EOS brands, Government contracts include:

- Work Programme, prime contractor in four regions in England, recently extended by 12 months
- Steps to Success, prime contractor in Northern Ireland
- Youth Guarantee (MyGo Centre), helping young people find work in the greater Ipswich area
- Ministry of Justice Transforming Rehabilitation in Warwickshire and West Mercia, helping to transform rehabilitation and probation services through EOS.

The Group also provides training services through:

- Elpis, a national training consultancy,
- Learning Plus, an e-learning platform

Strategic Report

Group overview for the year ended 31 December 2014 (continued)

- Skillspoint, a procurement consultancy specialising in helping employers benefit from government-funded, work-based training

Group strategy: Growth

Our continuing Group strategy is:

- To grow the employability sector to be as strong as the OnSite recruitment services business
- To continue to be the largest provider of people in the UK blue collar market, with specialist knowledge of the food, logistics and manufacturing sectors, supported by added value services
- To develop reputation and capability and be seen as a leading organisation in the employability, skills and justice sectors
- To develop new sectors in white collar, agriculture and driving and to extend to new geographical areas by "following the client"
- To grow Select Appointments (the franchise network) to be over 100 locations
- To continue to champion and implement best practices and be actively involved with our governing bodies to help us serve our customers better
- To attract and retain the greatest talent
- To BURST THE BILLION and create stakeholder value through profitable growth

We are making significant progress in our journey through our five year growth strategy:

- 2013: a year of investing in people, new start up divisions and infrastructure;
- 2014: a year of strong growth, investment in our Welfare and Training division, and significant operational progress;
- 2015 to 2016: continual growth and expansion, securing new opportunities and talent;
- 2017: we're on track to achieve our goal of £1 billion revenues via organic growth supported by an ongoing appetite for acquisition.

Strategic Report

Group overview for the year ended 31 December 2014 (continued)

Our vision and values

Our Group vision is to build and develop the most reliable integrated workforce in the country and be the leading creator of opportunities, jobs and new ideas in the employability, skills and justice sectors.

We do this through our brand values of:

- Teamwork: working together across the business to achieve more for our customers
- Respect: taking time to understand, trust and support each other to achieve shared success
- Commitment: demonstrating a relentless and driven ambition to exceed expectations
- Reliability: fulfilling all our customer requirements, getting the job done
- Creativity: solving problems and suggesting new ideas and insights
- Integrity: doing things the right way, for the right reason, ethically, honestly, every time

These values are driven by the Board and are at the heart of all our processes and decisions.

Our principles

To achieve our vision, deliver our strategy and live our values, we follow a set of guiding principles in all that we do:

Our Team

- To provide a great place to work
- To create lots of opportunities to develop and progress
- To offer fast-paced and rewarding work
- To have an ever-changing environment. Every day brings something new
- To recognise success

Growth and Profitability

- To operate ethical, commercial practices
- To implement efficiency-driven cost models
- To create profit through building long term relationships
- To support sustainable growth
- To deliver return for our shareholders

Strategic Report

Group overview for the year ended 31 December 2014 (continued)

People

- To protect people and their interests by acting responsibly at work and in the community
- To find lots of job opportunities, every day of the week
- To provide jobs on the door step
- To offer training, apprenticeships and guidance
- To work with reputable companies

Employer Partner

- To fill every job with the right person, at the right time
- To listen, understand, respond and get results
- To do things the right way, for the right reason
- To improve performance for our customers through our added value services
- To get the job done

Corporate Social Responsibility

At Staffline we place great importance on the role we play in helping to support local communities and the environment surrounding us.

We understand the importance of integrating our business values and operations to meet the expectations of our stakeholders. These include clients, employees, flexible workers, regulators, investors, suppliers, the community and the environment.

We recognise that our social, economic and environmental responsibilities to our stakeholders are integral to our business. We aim to demonstrate these responsibilities through our actions and within our corporate policies.

In 2014 we were independently assessed and certified by EcoVardis, an international body with the aim of improving environmental and social practices of companies by leveraging the influence of global supply chains.

The Chief Executive Officer is responsible for the implementation of this policy and will make the necessary resources available to realise our corporate responsibilities. The responsibility for our performance rests with all employees.

Strategic Report

Group overview for the year ended 31 December 2014 (continued)

Our CSR focus

- We shall strive to improve our environmental performance by fostering and encouraging initiatives that reduce waste
- We shall provide, and strive to maintain, a clean, healthy and safe working environment
- We shall support and encourage our employees to help local community organisations and activities
- We shall operate an equal opportunities policy for all present and potential future employees and flexible workers
- We will offer our employees clear and fair terms of employment and provide resources to enable their continual development
- We shall provide safeguards to ensure that all employees are treated with respect and without sexual, physical or mental harassment
- We shall uphold the values of honesty, integrity and fairness on our relationships with stakeholders
- We will ensure that flexible workers engaged by the company are not subject to exploitation and are provided with work opportunities in a healthy and safe working environment fully compliant with UK legislation

Strategic Report

Combined Chairman's and Chief Executive's statement for the year ended 31 December 2014

The Group has continued to achieve a great deal of operational and financial progress in 2014. The second year of our five year growth strategy, which is targeted to grow Group revenues to over £1 billion, has now cemented our plans to achieve this. Total sales in 2014 grew 20.9% to £503.2m, achieved both via organic growth, particularly in our Staffing division, and via our largest acquisition to date of Avanta Enterpise Ltd ("Avanta") in our Employability (previously Welfare to Work) division in June 2014. This acquisition added 8.8% to Group sales in the seven months post acquisition.

We have continued to invest in a number of recent start-ups as well as our existing divisions to expand our operational reach and bring in new talent, creating a highly scalable platform. We have seen a substantial number of new customer wins in our Staffing division, with the number of ***OnSite*** locations increasing by 41 to 235, which will support further growth in the new financial year.

Our Employability division has seen significant growth, including the seven month contribution from Avanta, and has also made good organic progress, securing three new Government funded contracts during the second half of the year; Steps to Success in Northern Ireland, Transforming Rehabilitation for the Ministry of Justice and MyGo in Suffolk.

Overall, profitability in the Group has increased in line with our expectations.

Financial Review

Sales in 2014 grew by 20.9% to £503.2m (2013: £416.2m) with gross profit increasing by £22.8m, or 54.3% to £64.8m (2013: £42.0m). This increase has come from a mixture of strong organic growth and the part year effect of Avanta joining the Group. Net profit before tax, amortisation, acquisition costs and the non-cash charge for share based payment costs (SBPC) increased by 48.8%, from £12.5m to £18.6m. On this basis adjusted fully diluted EPS rose from 45.8p to 59.7p.

Our financial strength is both a major attraction and benefit for our larger ***OnSite*** clients since they can be absolutely certain of our ability to supply their temporary workers who are essential to ensure continued production. It is also essential to supporting the growth ambitions of Avanta, where it is a key criterion in the contract bidding processes.

The acquisition of Avanta for a consideration of £45.6m (net of cash acquired), was funded via a combination of additional financing and a successful placing of 2 million ordinary shares at £8.00 per share to raise £16m. Following the acquisition of Avanta net debt increased to £17.8m (2013: net cash of £4.9m) comprising a £10m four year term loan and £20m bank guaranteed vendor loan notes, due to be repaid over the next 19 months. The term loan and loan notes are expected to be repaid from the cash flow of Avanta over the next four years and therefore net debt is expected to fall quickly over coming periods.

Strategic Report

Combined Chairman's and Chief Executive's statement for the year ended 31 December 2014 (continued)

We ended the year with outstanding debtor days standing at 28.5, a reduction of 2.5 days from last year.

Operational Review
Staffing Services

All of our Staffing businesses saw growth during 2014 in a generally improving economy. Sales rose by 11.1% to £437.5m, driven entirely by organic growth from new customer wins. Our gross profit margin has marginally improved, by 0.2% to 8.8%. The segmental operating profit rose by 17.9% to £11.6m. The broader UK economy remains a highly competitive environment for many of our clients in the food processing and production sectors and therefore for our business. Despite this, we continue to generate significant opportunities for the Group to build market share in our core business. In particular, we have benefited from the trend towards further consolidation within the recruitment industry, which has enabled us to increase the net number of ***OnSites*** from which we operate by 41, ending the period with a total of 235 locations. This increase has resulted from a number of new clients choosing Staffline as well as extensions to current contracts across new and existing sectors including Manufacturing, Logistics & Distribution, Food Processing, Agriculture and Driving Plus.

Our investment in new start-up divisions has, as expected, subdued profitability within the Staffing services segment in 2014. The Group opened a number of new divisions within Staffing Services during 2013 in line with our five year growth strategy, including Driving Plus, Ireland and Agriculture, and we continued to invest during the period under review. Investment in new divisions reduced profitability by approximately £0.7m for the year (equating to £1.9m across 2013 and 2014).

We remain confident that all of the new divisions will make a positive impact on profitability in 2015. Our investment in Driving Plus is already seeing positive financial results. With demand for HGV operators now increasing strongly, fuelled by changes to driver education regulations, we anticipate resource will become even scarcer in this area. We believe significant opportunities exist within the driving recruitment sector and we will continue to support this growing division.

The Select Appointments franchise division has had a successful year, with a number of new franchisees opening in and around London and Glasgow. Three existing franchisees are also planning to open additional locations this year.

We continued to assess a number of acquisition opportunities during the year. Our strategy remains to target bolt-on acquisitions to support growth, however we did not identify any that met our strict operating and financial criteria for the recruitment division.

Strategic Report

Combined Chairman's and Chief Executive's statement for the year ended 31 December 2014 (continued)

We have seen the strengthening UK economy lead to a tightening of the labour market with shortages particularly pronounced in the driving and other skilled areas but also in the unskilled sector in certain parts of the UK. This has been exacerbated with an increased demand for labour in mainland Europe, in particular Germany where pay rates are significantly higher, which makes that country a destination of choice for migrant labour. We have been able to fulfil all of our customer requirements in 2014 and we have contingent plans to ensure that we continue to do so in 2015. However the tightening labour market is likely to lead to greater wage inflation and hence a greater cost of recruitment in 2015. Nevertheless, we are confident that our business model and new start-up divisions will maintain Staffline as a leader in our field.

Employability

The completion of the acquisition of Avanta for a net consideration of £45.6m in June 2014 significantly enhanced our position in the Employability arena. Since it has only contributed for seven months during the year, we will see the full benefits of this transaction in 2015 and beyond. Sales in the division grew by 190.8% to £65.7m, largely due to the acquisition, with gross profit increasing by 227% to £26.2m. Segmental profitability rose by 157.6% to £7.8m.

Avanta is our largest acquisition to date and was underpinned by strong strategic rationale. In particular, the transaction created the UK's third largest Welfare to Work provider, greatly enhancing our strength in bidding for future contracts and providing cross selling opportunities to our existing Onsite operations, with the aim of accelerating the Group's strategic goal of becoming the UK's leading Welfare to Work provider. The acquisition has the added benefits of balancing the revenue contribution more evenly between Welfare to Work activities and Staffline's broader Staffing services and enhancing overall Group profit margins.

As planned, we have successfully integrated our existing Work Programme and other Department of Work and Pensions contracts held within Eos into Avanta creating a larger, scaled business.

We have retained the Eos brand for contracts delivered outside of the DWP remit and intend to continue to retain both brands. Eos was successful in winning three major contracts during the second half:

1. The Ministry of Justice West Mercia and Warwickshire Transforming Rehabilitation contract. This is a seven year contract with a possible three year extension. Under the contract we will deliver Probation services to the courts and will target reducing the rates of re-offending. We are delighted to have been awarded a contract with a probation team which is one of the best performing in the country and greatly look forward to welcoming them to the Staffline Group on 1 February.

Strategic Report

Combined Chairman's and Chief Executive's statement for the year ended 31 December 2014 (continued)

2. The Steps to Success contract awarded by the Department of Employment and Learning for the Foyle area of Northern Ireland. This contract is similar to the Work Programme, working with the long term unemployed and helping them in to sustained employment.
3. The Suffolk County Council MyGo innovative three year contract, working with under-25 year olds helping prepare them to move in to sustained employment with additional training and support.

Our original training business, Elpis, has traded successfully and Learning Plus, our electronic learning platform (now 100% owned following the buy-out of our JV partner in 2013) has also developed a significant number of new training courses during the period, leading to increased profitability.

In July, we also completed the acquisition of Skillspoint, a Leicester based skills training brokerage business, which further strengthens our position in the Skills Funding Agency funded training sector, a key strategic growth area for the Group. Skillspoint offers a wide range of innovative solutions for employers, holds its own Skills Funding Agency contract and has an OFSTED level two accreditation.

This allows the company to deliver traineeships, making it one of few private training providers to be able to do so. The Group is now in the top 10 of private SFA funded providers in the UK.

We continue to see significant opportunity to grow our market share within both the Government and private training industry.

Board appointments

In July, we were delighted to announce the appointment of Dame Christine Braddock as a Non-Executive member of the Board. Until recently Christine was CEO of Birmingham Metropolitan College, a position she held for the past 17 years. In that time she oversaw its growth from a single campus on Bristol Street in Birmingham to 27 locations covering the West Midlands. Christine's experience in both this area and in her earlier career in the Prison Service will help Staffline in our aim to continue to grow our Skills and Training business.

Ed Barker joined the Group as Non-Executive Director in October, following the retirement of Nick Keegan, who had been a Non-Executive Director of the Group since we joined the AIM market 10 years ago. Ed has many years' experience in senior financial roles in the retail sector, and is currently Director of Group Finance at Sainsbury's, having qualified as a Chartered Accountant with PWC in 1998.

ISO 9001 and Investors in People ("IIP")

Staffline successfully concluded the external assessment for continued accreditation demonstrating its robust process and procedures. Formal assessments are currently underway to renew our 10 year IIP accreditation.

Strategic Report

Combined Chairman's and Chief Executive's statement for the year ended 31 December 2014 (continued)

In addition to the above, we are working towards REC accreditation for the Group for 2015 and continue to be Patrons of the Institute of Employment Professionals.

People

With the Group further expanding, we have seen an increase to 609 employees in our Staffing business and shared services with an additional 964 people employed by the combined EOS/Avanta businesses, bringing the Group's total workforce to 1,573. The Transforming Rehabilitation contract which commences on 1 February 2015 will see a further 250 people transferring to Group employment under the TUPE provisions. During the year the number of contractors paid each week grew steadily peaking at 34,636 in the lead up to Christmas.

Our residential management development programme has been delivered to 47 delegates through the Leadership Camp and has been further complemented with one to one Coaching sessions. An additional suite of Management workshops have been delivered to 107 Managers last year which has incorporated; Self Awareness together with Coaching and Motivating a Winning Team, Driving Sales through Customer Care, Effective Time Management, Advanced Communication, Commercial Awareness & Strategic Planning with additional programmes planned for 2015.

In addition to our Management development offering, a number of eLearning training solutions have been developed and rolled out towards the latter part of 2014, of which 123 have been completed. A wider Group launch commences in January 2015 across the Group offering a full complement of solutions hosted by the Group's Learning Plus solution.

Our ethos continues to support developing talent within the business at all levels and encourages self-development which in turn aids succession planning supporting the strategic growth of the Company.

We continue to place great emphasis on the training and development of our people in line with our vision and values and ambition to be an employer of choice.

Health, Safety and Environment

We take a very proactive approach to the Health, Safety and Welfare of its employees with a strong commitment to Health and Safety from Senior Management which is cascaded to all levels of the business.

Staffline has recently appointed a Chartered Member of the Institute of Occupational Safety & Health ensuring that we create an environment which allows outstanding personal safety to be delivered.

Strategic Report

Combined Chairman's and Chief Executive's statement for the year ended 31 December 2014 (continued)

Staffline actively monitors all aspects of Health & Safety using a "closed loop process". This allows all areas to be identified and documented during the audit process and shows continual development against all Health & Safety action plans with Senior Management involvement throughout.

During 2014 a full review of the Group's Health & Safety Management systems was carried out, which has resulted in updated policies and procedures being implemented. The new management systems will allow the Group to demonstrate that its corporate responsibilities are being appropriately discharged.

Health and Safety data is collated and reported monthly to the Executive Board to ensure the volume of accidents, and incidences of unsafe practice, are addressed immediately. Root cause analysis is extensively undertaken to ensure improvement activity is always ongoing.

The Group has implemented a detailed Environmental & Sustainability Policy. In addition, work has now commenced with the development of a detailed strategy, entitled The One Planet Strategy. This will focus on the following areas to allow the Group to implement appropriate systems in order to reduce our overall carbon footprint:

- Energy Consumption
- Waste
- Travel
- Sustainable Materials

Regular audits will be carried out in order to source baseline data with Key Performance Indicators and SMART targets implemented which will demonstrate the Group's ongoing environmental commitments.

IS027001

Avanta has achieved this very demanding accreditation for the security of our IT systems which represents a very important certification when dealing with the personal details of so many people.

Strategic Report

Combined Chairman's and Chief Executive's statement for the year ended 31 December 2014 (continued)

Compliance

We take compliance with legislation and industry standards extremely seriously, offering a total commitment to all of our clients to ensure that all of our workers, whether or not covered by the legislation, are recruited and supplied to the standards required by the Gangmaster Licensing Authority. This total commitment gives our clients the assurance that all UK ethical and legal standards are fully met. We operate a confidential helpline for our workers to report any concerns and conduct regular surveys to ensure we are achieving our own high standards. We are an active member and supporter of the Stronger Together initiative to help prevent exploitation and trafficking of workers.

Investing for Growth

With our five year strategic growth plan, aimed at broadening our market reach and increasing the scale of all of our divisions now firmly in place, we are on track to achieve our ambition of growing revenues to £1 billion by 2017. As part of this growth plan, in the past two years, we have invested significant sums in both new divisions and new contracts. We are confident that these divisions will develop in the coming years and contribute to driving both revenue and profit growth.

As part of our strategic plans we have continued to invest in our bespoke management information system, Infinity+, which will further improve our operating efficiency. We have also invested in excess of £400,000 in our disaster recovery system and are confident that this is now industry leading. These systems will help ensure that we have established a scalable platform able to support our growth ambitions.

Current Trading

Although only 28 days into 2015 we have started the year well, buoyed by additional contracts from existing customers which are due to start by the end of quarter one. The macro economic recovery is an opportunity for the business but will also increase challenges to find workers. Demand for our services tends to follow a seasonal dip in the first quarter and so we are finding it easier to recruit contractors at the moment but fully expect the blue collar employment market to tighten later in the year. As we have reported before, the number of available HGV qualified drivers remains very low and to try to improve the situation for our clients we have recently introduced a comprehensive training scheme, 'Warehouse to Wheels' in which we fund the training of suitably experienced contractors and client staff to enable them to become fully qualified HGV drivers. We believe initiatives such as these will set us apart from other recruiters in the sector.

Strategic Report

Combined Chairman's and Chief Executive's statement for the year ended 31 December 2014 (continued)

The integration of Avanta with our Employability division continues to progress well and we expect the Avanta business to have a significant impact financially and operationally in 2015 and beyond.

We continue to look for further bolt-on acquisitions primarily within our core Staffing business and remain in discussions with a number of companies.

Outlook

Staffline remains well positioned for continued growth. We remain confident that, with our robust business model, the success in both our key Staffing and Employability divisions during 2014 and the improving economic environment, we will be able to generate further substantial returns for our shareholders.

As an expression of our confidence in the Group's prospects, the Directors propose to increase the final dividend by 37% from 6.2p to 8.5p, this dividend will be payable on 6 July 2015 to shareholders on the register at 5 June 2015. The ex-dividend date is 4 June 2015. This will give a total dividend for the year of 13.5p, an increase of 35.0%.

Strategic Report

Finance Director's statement for the year ended 31 December 2014

Financial Highlights

Total revenue for the year increased by 20.9% to £503.2m (2013: £416.2m) reflecting a strong year of increasing demand for our services from existing customers, new business wins, and the significant acquisition of Avanta Enterprise Limited in May, contributing seven months of earnings enhancing results to the Group. Importantly, revenue includes £12.7m (2013: £4.5m) from the newer recruitment services sub-divisions that commenced in 2013. Excluding the effect of acquisitions, organic growth in 2014 was 10.9% (2013: 8.6%).

The Avanta acquisition gives rise to a significant change in the segmental split of the business, with the Employability division now representing 13% of annual revenue, 40% of annual gross margin and 40% of underlying PBITA. As intended, this enhances the profit margin performance indicators for the Group.

Our overall gross margin has increased to 12.9% (2013: 10.1%). This increase includes the increasingly significant proportion of our Group results that the higher margin Employability business segment comprises. Underlying this, is the pleasing increase in gross margin percentage for the Recruitment Services division which has increased by 18 basis points in 2014 to 8.8% reflecting the improving efficiency of our recruitment division and the favourable changing mix of the service offering therein.

Profit from operations has increased to £11.2m (2013: £8.9m). This figure includes significant non-cash charges for share based payment charges (SBPC) and for amortisation of acquired intangible assets. The key performance indicator that the Board of Directors monitors during the year is profit before interest, taxation and before SBPC and amortisation (Underlying PBITA). In addition, we have excluded from underlying PBITA the one-off costs of acquisition relating to Avanta as they are material in the context of our trading performance during the year.

Underlying PBTA grew to £18.6m (2013: £12.5m) and underlying PBTA% of revenue grew to 3.7% (2013: 3.0%). This reflects the gross margin improvements and also effective cost control across the Group. It is a strong step forward towards our long term financial strategic aspirations.

During 2014 the share price of the Group has continued to rise strongly and this in turn has given rise to another material non-cash charge for SBPC of £3.7m (2013: £2.2m). The costs of the Avanta acquisition excluded from underlying PBTA total £0.7m and following that acquisition the charge for amortisation of intangible assets has increased significantly to £3.8m (2013: £1.8m). Whilst the non-cash charge for SBPC and amortisation are important, underlying PBTA better reflects the underlying trading performance of the Group as a key performance indicator and removes the significant impact of charges which do not reflect operational success.

Strategic Report

Finance Director's statement for the year ended 31 December 2014 (continued)

Earnings per Share

Basic earnings per share decreased by 5.1% to 31.6p (2013: 33.3p) and the diluted earnings per share decreased by 5% to 31.5p (2013: 33.1p).

Removing the non-cash charges for SBPC, goodwill amortisation and the exceptional costs of acquisition (and their respective taxation impacts) results in an underlying earnings per share (basic) increase of 30.2% to 60p (2013: 46.1p) and a diluted underlying earnings per share increase of 30.3% to 59.7p (2013: 45.8p).

Acquisitions

There were two acquisitions during 2014, the largest of which, Avanta Enterprise Limited, has had a material effect on the Group's results. Details of both acquisitions are contained in note 10 to the financial statements. Avanta Enterprise Limited was acquired for a gross consideration of £65.2m, consisting of £28m cash (funded by way of a new term loan of £10m, £16m raised via an equity placement and £2m of cash reserves), £19.8m of deferred loan notes, £15m of cash acquired within Avanta and £2.5m of repaid intercompany balances. The net consideration excluding the total cash acquired and repaid intercompany balances was £45.6m.

Balance Sheet, Cash Generation and Financing

The Group balance sheet has materially changed during the year as a result of the acquisition of Avanta. Total group assets have increased by £69.8m to £183.2m (2013: £113.4m). Of this increase, £47.3m is caused by the goodwill and other intangible assets arising from the Avanta acquisition. Property, plant and equipment has increased, partly due to the acquisition, but also due to investment made in our IT infrastructure and that was required to support our new contract wins in Northern Ireland (Steps to Success) and Suffolk (MyGo).

Total group liabilities have increased by £49.6m to £117.3m. This includes the restructuring of the Group's banking facilities which supported the acquisition of Avanta and provide secured working capital facilities now until July 2018. Net borrowings (see note 16) have increased by £28.2m to £35.8m (2013: £7.6m).

Strategic Report

Finance Director's statement for the year ended 31 December 2014 (continued)

Within short term liabilities, short term borrowings described as falling due within one year, include loan notes of £11.0m which expire at the end of May 2015. The associated deferred consideration that falls due for payment at the same time will be settled by way of £3.5m cash reserves and £7.5m of a fully committed additional term loan facility which will be drawn down at that time. That additional term loan has the same terms as the existing £10m term loan drawn down in June 2014. After the repayment profile of both term loans are taken into account, the actual use of cash reserves to meet short term borrowing repayment requirements in 2015 will be £7.1m.

Other liabilities now falling due within one year include those arising from the first JSOP scheme to mature (the September 2010 scheme). Details are included in note 7 to the accounts. This liability, calculated as £5.5m as at 31 December 2014, will be met by cash generated from the disposal of shares currently jointly held by the participants and the Group's Employee Benefit Trust.

Our ratio of current assets to current liabilities, after adjusting for the above, is 1.17, a strong indicator of liquidity to take forward into 2015.

Strategic Report

Finance Director's statement for the year ended 31 December 2014 (continued)

Following the acquisition, the new Group banking facilities (including the bank guaranteed loan notes) are summarised as follows:

Facility type	Headline amount (£m)	Net borrowing as at 31 December 2014 (£m)
Term Loan (drawn in June 2014)	£10.0m	£8.75m
Term Loan (to be drawn in May 2015 to assist with payment of £11.0m deferred consideration)	£7.5m	-
Loan notes falling due in 2015	£11.0m	£11.0m
Loan notes falling due in 2016	£9.0m	£8.9m
Revolving credit facility (including overdraft facility)	£20.0m	£7.5m
Unamortised debt issue costs	-	(£0.4m)
TOTAL FACILITIES	**£57.5m**	**£35.8m**

All term loan amounts have quarterly repayments through to maturity in 2018. Interest accrues on the loan at between 1.4% and 2.4% plus LIBOR, depending upon the level of adjusted leverage. All relevant covenants have been comfortably satisfied in 2014 and are forecast to remain so throughout the foreseeable future. The unused working capital facility as at 31 December 2014 is therefore £12.5m.

The Group continues to operate on stable levels of working capital borrowing during its monthly and annual financial cycles. As a result total finance charges, including the interest costs of the term loan and loan notes, remain low at £0.6m for the year (2013: £0.4m). Total finance costs, including the unwinding of the loan note discount and the amortisation of debt issue costs are £0.8m (2013: £0.4m).

The Board believes that these renewed facilities will ensure that the Group has sufficient headroom to manage the current operations as well as supporting the continued growth of the business.

Free cash flow ('FCF') as a percentage of our underlying PBITA is 70.2% (2013: 146.4%). FCF is defined as cash generated from operating activities before financing, taxation and acquisitions. The result in 2014 is below our target level of 85% broadly due to higher capital expenditure driven by investment requirements arising from two major contract wins in 2014, both of which have mobilised and now commenced operations. FCF% across both 2013 and 2014 is 99% and the average since 2010 is 80%. Looking ahead into 2015 we anticipate free cash flow to be closer to our target of 80-85%.

Strategic Report

Finance Director's statement for the year ended 31 December 2014 (continued)

Post tax cash generation during the year has been strong and excellent credit control performance (days sales outstanding, 'DSO', reducing from 31 days to 28.5 days) has succeeded in limiting our working capital to 1.1% of revenue (2013: 1.0%).

At 31 December 2014 the Group had net debt of £17.8m (2013: net cash of £4.9m), comprising cash of £18.4m (2013: £12.5m) and borrowings of £36.2m (excluding unamortised debt issues costs) (2013: £7.5m).

Key Performance Indicators

The Group monitors a number of performance indicators both financial and non-financial:

	2014	2013
Revenue (£m)	£503.2m	£416.2m
Year on year total revenue growth (%)	20.9%	13.4%
Year on year organic revenue growth (%)	10.2%	8.6%
Gross margin as a % of revenue (%)	12.9%	10.1%
Underlying PBTA (£m)	£18.6m	£12.5m
Underlying PBTA as a % of revenue (%)	3.7%	3.0%
Free Cash Flow as a % of Adjusted PBITA (%)	70.2%	146.4%
Net (Debt)/Cash (£m)	(17.8)	4.9
DSO (days)	28.5	31.0
Highest number of temporary contractors	34,636	32,900
Number of OnSites	237	194

These indicators are discussed above and in the combined Chairman's and CEO report.

Strategic Report

Principal risks and uncertainties for the year ended 31 December 2014

The Group is exposed to a variety of potential risks and uncertainties which require on-going monitoring and management in order to mitigate against any adverse impact on long-term performance. The Board recognises that effective risk management is a critical part of achieving our strategic objectives and employs a variety of effective systems and policies to respond to these risks and uncertainties to protect the continued strategic success of the Group. Risk management is co-ordinated at its headquarters in close cooperation with the Board of Directors.

The Board reviews risks and uncertainties under three principle types:

- Strategic and market related risks and uncertainties
- Operational and compliance risks and uncertainties
- Financial risks and uncertainties

The most significant risks to which, in the opinion of the Directors, the Group is exposed are described below. Our responses to these risks are given in *italic font.*

Strategic and market related risks and uncertainties

Exposure to significant changes in the UK economy

The recovery of the UK from recession may impact the Group in both positive and negative ways.

Due to the industries in which the Group's Staffing division specialises, principally food processing, the Directors consider the Group to be relatively less affected than others in the recruitment sector during a general economic cycle (downturn or upturn). However, this sector is subject to great change and consolidation as the buying power of major retailers continues to drive the need for rationalisation and greater economies of scale. We are at risk if our clients lose business in this process. *We continue to counter this risk by diversifying our service range and expanding our client base. We can expect to gain as much business as we lose if we have a wide enough spread of clients. A recovery may provide some opportunities if clients seek to use temporary staff in lieu of replacing permanent employees.*

As unemployment rates fall, so the referral numbers to the Work Programme are at risk of reducing too. *We therefore employ a strategy of scalable operational platforms which can be flexibly increased or decreased to meet demand over time. A recovery also provides new opportunities, oriented towards Skills development for the UK economy and towards young people which will enable us to leverage our division's capabilities into the future.*

Strategic Report

Principal risks and uncertainties for the year ended 31 December 2014 (continued)

Highly competitive market places

The Group operates in the recruitment services sector where there are a significant number of competitors and barriers to entry are relatively low. The Group is therefore exposed to high levels of competition in securing new or retaining existing business. *To counter the threat of competitors seeking to win business from us the Group builds strong long term relationships with its customers through excellent service levels and through its rigorous selection and checking procedures. These ensure that all contractors provided by the Group are fully compliant with the legal requirements.*

In addition, the Group's strategy of an increasing diverse range of Staffing services further reduces the impact of any particular area of competition faced.

The OnSite model also means that we are embedded in our customer premises which aids long term relationships, retention and sustainability.

Acquiring and integrating businesses

The Group has made a number of acquisitions over recent years. There is a risk, post-acquisition, that an issue with a customer, contract or staff member may impact the value of the acquisition. *Significant legal, commercial and financial due diligence is undertaken on each acquisition before completion in line with its size and complexity. Post-acquisition, the integration into the Staffline procedures and systems is managed by an appropriate acquisition team.*

Concentration on limited number of significant customers

Dependence on key customers can lead to over reliance on a small portion of the portfolio and vulnerability should a major customer cease to buy from the Group. *Our Welfare & Training division essentially has only one customer, being the UK Government. However, this is somewhat mitigated by the fact that this division now has a number of different government contracts with several central government departments. Our Staffing division continues to add important new customers to its portfolio every year, and this increasingly reduces the proportional scale of any one customer. The top 10 customers in Staffing account for 54% of group revenue, down from 63% last year.*

Change in UK governmental and related central governmental policies

With a general election scheduled for 2015, there is a risk that a change in UK government and related central governmental policies could lead to reduced commercial opportunity for our services. *Experience shows that a change in Government policy (and therefore contract terms) would not necessarily have an adverse impact and there are only a limited number of providers who meet the criteria to secure these contracts. The Group is already preparing and delivering propositions that meet stated objectives of the various major UK political parties.*

Strategic Report

Principal risks and uncertainties for the year ended 31 December 2014 (continued)

Long term contracts and commercial terms

Long term contracts within our Welfare and Training sector provide strong revenue visibility and yet it is important to ensure that related commercial and operational terms and commitments are profitable and viable for long periods of time. *Authorisation practices for bids are well established in the Group ensuring that all material aspects of pricing and other commercial terms are reviewed by the Board or other senior management teams as appropriate. Contractual variations during the life of a contract are similarly subject to appropriate Board level reviews.*

Operational and compliance risks and uncertainties

Fulfilling our Welfare and Training commitments

Within our Welfare and Training segment our key risk is that we will be unable to find jobs for jobseekers and /or having found jobs we are unable to keep those workers in place. *Our other business segment, Staffing Services, makes us ideally placed to find suitable jobs. This, coupled with our unique tailored approach to help unemployed people back into sustainable employment, through a combination of intensive job search support, comprehensive vacancy matching services, real work experience, skills development, practical training and in-work support, acts as an effective mitigating action.*

Ensuring compliance with legislative and regulatory requirements

We face the risk that one of our members of staff may deliberately by-pass the procedures set up which ensure we fully comply with our industry legislative requirements and related best practice standards. There is a reputational and financial risk to the business should someone deliberately choose to do this. *We have put robust checks and audit procedures in place to detect and quickly respond to such acts. These are operated by our in-house compliance team. In addition, we work closely with the Gangmaster Licensing Authority (GLA) and recruitment governing bodies, such as the Recruitment and Employment Confederation (REC) and the Association of Labour Providers (ALP) to ensure that the business is up-to-date on these issues and that measures are implemented accordingly with constant review procedures in place.*

Major failure of IT systems

As with all large scale businesses, including those in the market sectors we operate in, we are reliant on our IT systems to support and operate our business. *The Group has a robust Disaster Recovery plan in place in the event of a major internal failure of our IT systems. However, as our business grows, we become ever more reliant on third party telecommunication and other providers. We have put back-ups and alternative solutions in place.*

Strategic Report

Principal risks and uncertainties for the year ended 31 December 2014 (continued)

Breach of data security policies and procedures

The Group holds personal data in respect of Staffing temporary workers, participants of our various Welfare and Training sector contracts, and our own staff. This requires robust data security measures across the Group. *Strong controls over data access are employed in the business coupled with appropriate training of those entrusted with such data. Suitable group policies and procedures are enforced and ISO27001 is maintained within the group under the stewardship of a Data Protection Officer.*

Market demand changes arising from changes in regulations

Onerous changes in the regulatory framework, driven by potential European or UK legislation, could lead to greatly increased employment costs which might lead to a reduction in demand for our temporary workers. *We actively engage and participate with principle industry bodies for our market sectors to stay abreast of all potential developments and remain confident that our strategy allows us to respond to any such threats quickly and effectively.*

Financial risks and uncertainties

Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount. Because we allow credit to our clients we are at risk if one of them runs into financial difficulties and is unable to pay their outstanding debt. *The Group has adopted a policy of carefully monitoring all customers, in particular those who lack an appropriate credit history. We have procedures to check the creditworthiness of new clients with external agencies. The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. To date these actions have been successful and the total bad debt charge to the Group in the last three years, excluding VAT, has been £1.1 million on sales of £1.3 billion, equating to 0.09]% of sales.*

Liquidity risk

The Group requires adequate and appropriate financing facilities in place at all times to fund working capital requirements, expansion and to allow for potential further acquisitions. *The Group seeks to manage financial risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Facilities are described in note 16 and are secured until July 2018. We hold regular discussions to ensure we have the bank's backing to fund strategic plans. Covenants have been negotiated to ensure they are very unlikely to trigger acceleration of our Group facilities at any time.*

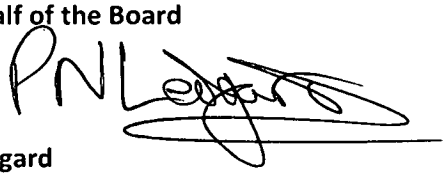
Strategic Report

Principal risks and uncertainties for the year ended 31 December 2014 (continued)

Interest rate risk

All financial liabilities of the Group owed to the Group's bankers are subject to floating interest rates which are subject to increase. *Competitive rates have been negotiated with the Group's bankers. The rate paid on bank loans and overdrafts is linked to our leverage ratio in the Group although has been 1.4% above LIBOR since the facilities were refreshed and forecasts indicate it will remain so for the foreseeable future. The Board consider that the cost of swapping this floating rate basis into a fixed rate, is not commercially warranted at this time, but will be kept under review.*

On behalf of the Board



Phil Ledgard
Finance Director
28 Jan **2015**

Governance

Corporate governance statement for the year ended 31 December 2014

Statement by the Directors on compliance with the provisions of the UK Corporate Governance Code (the Code)

As a company listed on the Alternative Investment Market of the London Stock Exchange, Staffline Group plc is not required to comply with the full requirements of the UK Corporate Governance Code. We do not therefore comply with the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider relevant to the Company and best practice. The Group supports the concept of an effective Board leading and controlling the Group and following the changes in non-executive director positions during 2014, the number of non-executives is now the same as the number of executive directors. A brief outline of the role of the Board and its Committees, together with the Group's systems of internal financial control which the Board will continue to keep under review, is given below.

The Board

The Board currently comprises the Non-Executive Chairman, the Group Chief Executive, the Group Managing Director, the Group Finance Director and two Non-Executive Directors. Biographies of the Directors appear below including who sits on which committee (A = Audit Committee, R = Remuneration Committee, N = Nominations Committee). The Non-Executive Directors, although some having small shareholdings in the Company, are considered by the Board to be independent.

Ed Barker – Non-Executive Director (A, R, N)

Ed Barker has over 11 years of experience in the retail sector working across a number of senior financial and operational functions including; Group Reporting, Financial Planning & Analysis, Tax, Pensions, Group Financial Controller and Retail & Logistics Finance. Prior to working in industry, he achieved professional ACA qualification with PwC in 1998, and was made an FCA in 2013. Following his appointment to the board in November 2014, Ed succeeded Nicholas Keegan as chairman of the Audit and Risk Management committees as well as becoming a member of the Remuneration and Nomination committees.

Governance

Corporate governance statement for the year ended 31 December 2014 (continued)

Dame Christine Braddock – Non-Executive Director (A, R, N)

Dame Christine Braddock has over thirty years' experience in Senior Leadership of Further Education organisations and has worked within the Probation Service, Home Office and Private Sector Colleges. Christine was awarded a CBE for service to Further Education and a DBE for services to the business and education community in the 2013 New Years' Honours list. Christine was the first public sector person appointed to be the President of the Greater Birmingham Chamber of Commerce and was the first woman to be appointed to the Greater Birmingham and Solihull LEP Board. She has held a number of appointments at local Regional and National Level including; Chair of the Education and Skill Engineering UK and Director of the Quality Improvement Agency and has been a West Midlands council member of the CBI and Aston University for the last ten years. Dame Christine currently holds the position of Chairman of Birmingham Children's Hospital and joined the board in July 2014.

John Crabtree OBE – Non-Executive Chairman (A, R, N)

John Crabtree joined the Board on 1 March 2005 as a Non-Executive Director and Chairman of the Remuneration Committee. He was appointed Chairman in 2011. John was the senior partner of Wragge & Co, the Birmingham based corporate law firm and whilst in this role John was responsible for the firm's evolution into a leading national and international practice. John has a number of business interests, including being Non-Executive Chairman of Real Estate Investors plc, SLR Holdings Limited, Birmingham Hippodrome Theatre Trust, TruckEast Ltd and the charity Sense.

Andy Hogarth – Chief Executive (N)

Andy has held senior roles in a wide range of businesses including retail, support services, healthcare, hospitality and construction. As Finance Director he led the MBO and subsequent trade sale in 2002 of Pipeline Constructors Group, a £100m utility services business. He is currently CEO of Staffline Group plc, sits on the board of an elderly care charity and is a Director of Hogarths Hotel, a boutique hotel in Solihull. He is a Fellow of the Association of Chartered Certified Accountants (FCCA) as well as a Master Practitioner of Neuro-Linguistic Programming (NLP) and a Certified NLP coach. He joined Staffline in 2002 as Finance Director, becoming Managing Director in 2005 and was appointed Chief Executive in 2009.

Phillip Ledgard – Finance Director (N)

Phil Ledgard FCA joined Staffline as Group Finance Director with effect from 9 October 2013. Phil worked for G4S for 10 years prior to joining Staffline, his last role being FD of the £250m Facilities Management division of G4S. Phil gained his accountancy qualification with PwC, has a BA in Accounting and Financial Analysis from Warwick Business School and is a Trustee Director of Ex Cathedra in Birmingham.

Governance

Corporate governance statement for the year ended 31 December 2014 (continued)

Diane Martyn – Group Managing Director
Diane Martyn was until 2011 CEO of Randstad Staffing in the UK, part of one of the leading human resources services providers in the world, where she was responsible for the merger of Select Appointments plc and Randstad in 2008. She has over 20 years of experience in the staffing industry where she has held senior management roles, including Chief Executive Officer of Select Appointments plc and Managing Director of Blue Arrow. Diane joined the Board of Staffline on 13 February 2012 as a Non-Executive Director and was appointed Group Managing Director on 25 February 2013.

Relations with shareholders
The Company values the views of its shareholders and recognises their interest in the Group's strategy and performance. The Annual General Meeting is used to communicate with all investors and they are encouraged to participate. The Directors are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a formal resolution to approve the Annual Report and Accounts.

Internal control
The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' interests and the Group's assets and for reviewing its effectiveness. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Remuneration Committee, chaired by John Crabtree has met five times during the year. It is responsible for determining the level of remuneration to be paid to the Executive Directors. A separate report on remuneration follows.

The Nominations Committee, chaired by John Crabtree has met three times during the year. It is responsible for ensuring that the balance of the board is appropriate to control and direct the business.

The Audit Committee, chaired by Nicholas Keegan until November 2014 and succeeded by Ed Barker, has met three times during the year and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on, as well as meeting the auditors and reviewing any reports from the auditors regarding accounts and internal control systems. Auditor independence is maintained through regular meetings with the Audit Committee with management excluded. The Audit Committee is responsible for identifying and commissioning specific internal control reviews as required.

Governance

Corporate governance statement for the year ended 31 December 2014 (continued)

The Group has several mechanisms for ensuring internal controls are operating effectively. There is an independent compliance audit team responsible for checking legality to work and compliance with relevant standards (e.g. GLA and REC). Within the payroll team we maintain appropriate levels of on-going training to ensure compliance with relevant legislation and procedures. From a financial point of view authority levels are in place and there is regular review of financial information at all management levels right up to the Board.

In addition, following the acquisition of Avanta Enterprise Limited in 2014, the group has an internal audit function. Its current role is primarily focused at monitoring compliance with industry standards and requirements of the Employability division. This will develop further in 2015 to provide a group capability for checking compliance with wider internal control policies across the group, enhancing our internal information security standards, and assisting the Board with risk management practices across the Group.

The Group tailors its approach to ensuring internal controls are operating effectively over new acquisitions – in the majority of cases the acquired business is integrated into Staffline systems from the outset. Operational responsibility is assigned from day one and the results form part of the usual regular management reporting. In special circumstances, such as large scale acquisitions continue to be run on separate systems and this is the case for the acquisition of Avanta Enterprise Limited this year.

The Directors keep a register of risks faced by the business, rating these risks on a scale of 1 to 5 for both probability and impact. These risks have been mitigated to the extent considered practical and are reviewed regularly. The principal risks and uncertainties facing the Group are included in the Strategic Report on page 23.

Going concern

In considering the on-going funding requirements of the Group, the Directors have prepared cash flow forecasts extending to July 2018 and in detail to January 2016. These indicate that the Group expects to be able to continue to operate within its renewed bank facilities and meet all of their related financial covenant tests for the foreseeable future. The Group benefits from strong working practices with its relationship banks and had net cash headroom versus its working capital facilities of £12.5m at 31 December 2014. Coupled with a strong financial performance for the year ended 31 December 2014 and a strong start to 2015 the Directors are of the view that it remains appropriate for the financial statements to be prepared on a going concern basis.

Governance

Report on remuneration for the year ended 31 December 2014

Remuneration Committee

The Company has a Remuneration Committee comprised of John Crabtree, who is the Chairman, Dame Christine Braddock and Ed Barker. Except as shareholders and Directors none of the members has any personal financial interest in the Group. The Group's current remuneration policies are set out below.

Policy on Executive Directors' remuneration

The Executive Directors' remuneration packages are designed to attract, motivate and retain Directors of the high calibre needed to help the Group successfully compete in its market place. The Group's policies are to pay Executive Directors a salary at market levels for comparable jobs in the sector whilst recognising the relative size of the Group.

The performance management of the Executive Directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Remuneration Committee. No Director plays a part in any decision about his or her own remuneration. Executive Directors are permitted to accept appointments outside the Group subject to prior Board approval. The remuneration packages for Andy Hogarth, Phil Ledgard and Diane Martyn are comprised of a basic salary and a performance related bonus as well as share-based payment schemes as described below.

The remuneration of the Directors, which was all paid by the Group, is detailed in note seven of the notes to the financial statements.

Basic salary

An individual's basic salary is reviewed by the Remuneration Committee each year and when an individual changes position or responsibility. In deciding appropriate levels the Committee takes into account objective research on comparable companies and general market conditions.

Annual bonus

Annual bonuses are awarded at the discretion of the Remuneration Committee as an incentive and to reward performance during the financial year pursuant to specific performance criteria. In exercising its discretion the Committee takes into account (amongst other things) performance against budget and performance against market expectations. The Committee believes that incentive compensation should recognise the growth and profitability of the business, which are tied to the interests of shareholders.

A total bonus of £115,000 (2013: £105,000) has been accrued in respect of the Executive Directors in recognition of performance exceeding budget, in line with the Executive Bonus Scheme approved by the Remuneration Committee.

Governance

Report on remuneration for the year ended 31 December 2014 (continued)

Directors' share options

In March 2013, share options were issued to Diane Martyn. The options vest in March 2016 on a sliding scale dependent upon the performance of adjusted diluted earnings per share over the three years ended 31 December 2015; as of 31 December 2014, the maximum criteria has been met and accordingly the full amount of shares are expected to vest.

Joint Share Ownership Plan

In 2010, the Company established a Joint Share Ownership Plan (JSOP) to provide additional incentives to senior executives.

This initial JSOP interest runs from the date of the award until 30 June 2015. During this period the right to sell the JSOP award shares is not at the discretion of the Directors but instead at the discretion of the Employee Benefit Trust. On the eventual disposal of the shares, the amount received by the Directors is calculated based on certain business performance conditions. The eventual payment to the Directors takes into account fully diluted EPS adjusted for amortisation of intangibles and share based payment charge in any financial year up to 2014 (from a minimum of 24p to a maximum of 42p) and the share price at the date of disposal.

In 2013, the Company established a further JSOP on a similar basis to the 2010 issue, but with a range of adjusted EPS of between 56p and 93.5p and 50% of the award is subject to an additional condition that total shareholder return exceeds the increase in the FTSE AIM All Share Total Return Index over the period. The JSOP runs until 30 June 2018.

The interests that the Directors acquired in the shares jointly with the Staffline Group plc Employee Benefit Trust are contained within note 7 of the notes to the financial statements.

Policy on Non-Executive Directors' Remuneration

The remuneration of the Non-Executive Directors is determined by the Board and based upon independent surveys of fees paid to Non-Executive Directors of similar companies. The Non-Executive Directors do not receive any benefits apart from their basic salaries or fees.

Service contracts

Andy Hogarth, Phil Ledgard and Diane Martyn have rolling service contracts requiring notice from either party of one year. John Crabtree, Dame Christine Braddock and Ed Barker each have contracts terminable on six months' notice given by either party.

There are no contractual termination payments other than as a result of the contractual notice period.

Governance

Report on remuneration for the year ended 31 December 2014 (continued)

Pension arrangements

The Group has a defined contribution pension scheme with Scottish Widows for all permanent employees. Executive Directors are entitled to receive a contribution from the Group equivalent to 10% of their basic salary into this or another scheme of their choice.

Benefits in kind

The Group provides private medical insurance for Andy Hogarth, Phil Ledgard and Diane Martyn. No other benefits in kind are provided to Directors.

Report of the Directors

For the year ended 31 December 2014

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2014.

A detailed review of the activities of the Group, including financial and non-financial key performance indicators, can be found in the Strategic Report.

An interim dividend of £1,227,500 (5p per share) was paid during the year (2013: £856,541, 3.8p per share). The Directors have proposed a final dividend of £2,358,542 (8.5p per share) (2013: £1,592,628, 6.2p per share) to be paid on 6 July 2015, to shareholders registered on 30 June 2015. This has not been included within creditors as it was not formally approved before the year end.

Directors

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

A Hogarth	
D Martyn	
Dame C Braddock	(appointed 14 July 2014)
E Barker	(appointed 1 November 2014)
J Crabtree OBE	
N Keegan	(resigned 30 November 2014)
P Ledgard	

Employee Involvement

The Directors recognise the value of involving employees in the business and ensure that matters of concern to them, including the Group's strategic objectives, vision, values and principles are communicated in an open and regular manner. Employees are kept aware of progress versus these objectives and key developments within the Group by regular briefings and these include communications published on the group's intranet and presentations by group and subsidiary management at conferences, roadshows and at routine office and site briefings. Senior staff participate in various bonus scheme arrangements linked to financial performance.

Disabled persons

It is the Group's policy to give full and fair consideration to suitable applications for employment from disabled persons. Once employed, disabled persons receive equal opportunities for training, career development and promotion. Opportunities exist for employees of the Group who become disabled to continue their employment or to be trained for other positions within the Group.

Report of the Directors (continued)
For the year ended 31 December 2014

Substantial shareholdings

The interests in excess of 3% of the issued ordinary share capital of the Company which have been notified as at 31 December 2014 were as follows:

	Ordinary shares of 10p each	Percentage of ordinary shares %
Octopus Investments	2,893,375	10.4
Standard Life Investments	2,091,675	7.5
Schroder Investment Management	1,765,605	6.4
Directors of the company	1,671,004	6.0
Legal and General Investment	1,519,461	5.5
Hargreave Hale – Stockbrokers	1,500,000	5.4
River and Mercantile Asset Management	1,472,000	5.3
Investec Asset Management	1,196,024	4.3
Fidelity Worldwide Investment	1,120,053	4.0
Invesco Perpetual	943,688	3.4

The shareholding for A J Hogarth excludes shares held under the Company's Joint Share Ownership Plan (JSOP) in which he is a beneficial co-owner of shares. Details of such shareholdings are given in the Report on Directors' remuneration.

During the year, as part of the JSOP, a further 60,000 shares were issued to the Employee Benefit Trust for £565,000; this represents 0.2% of the issued share capital of the company.

Report of the Directors (continued)
For the year ended 31 December 2014

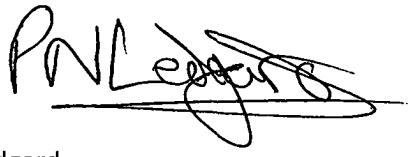
Auditors

During the year ended 31 December 2014 the Board and Audit Committee approved an extension of one year to the period of service of the Senior Statutory Auditor responsible for the audit of Staffline Group plc beyond the normal five year period set out in the APB Ethical Standards. As a result the year ended 31 December 2014 is the sixth year for which the individual has served.

The Audit Committee was satisfied that by the application of safeguards, the extension would not undermine the objectivity and independence of the auditor. Grant Thornton UK LLP agreed to this extension, which brought the total period served by the audit engagement partner to six years. For the year ended 31 December 2015 a new audit partner has been proposed by the firm.

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 489 of the Companies Act 2006.

BY ORDER OF THE BOARD



P Ledgard
Company Secretary
28 Jan 2015

Report of the Directors (continued)
For the year ended 31 December 2014

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report and Directors' Report and the consolidated 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 to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- state whether applicable IFRSs have been followed, 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's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

Independent auditor's report to the members of Staffline Group plc

For the year ended 31 December 2014

We have audited the group financial statements of Staffline Group plc for the year ended 31 December 2014 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 38, the Directors are responsible for the preparation of the group 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 group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements
In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Independent auditor's report to the members of Staffline Group plc

For the year ended 31 December 2014 (continued)

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters.

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

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters
We have reported separately on the parent company financial statements of Staffline Group plc for the year ended 31 December 2014.

Grant Thornton UK LLP

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
BIRMINGHAM

Date: 28 January 2015

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Note	2014 Before amortisation, transaction costs and share based payment charge £'000	2014 Amortisation, transaction costs and share based payment charge £'000	2014 Total £'000	2013 Total £'000
Continuing operations					
Sales revenue	4	503,167	-	503,167	416,193
Cost of sales		(438,320)	-	(438,320)	(374,171)
Gross profit		**64,847**	**-**	**64,847**	**42,022**
Administrative expenses	5	(45,478)	-	(45,478)	(29,178)
Operating profit before amortisation of intangibles, deal costs and share based payment charge		**19,369**	**-**	**19,369**	**12,844**
Administrative expenses - Share based payment charge		-	(3,665)	(3,665)	(2,154)
Administrative expenses – Transaction costs		-	(660)	(660)	-
Administrative expenses - Amortisation of intangibles		-	(3,812)	(3,812)	(1,766)
Profit from operations		**19,369**	**(8,137)**	**11,232**	**8,924**
Finance costs	6	(779)	-	(779)	(360)
Profit for the period before taxation		**18,590**	**(8,137)**	**10,453**	**8,564**
Tax expense	8	(4,342)	1,399	(2,943)	(1,165)
Net profit and total comprehensive income for the period		**14,248**	**(6,738)**	**7,510**	**7,399**
Total comprehensive income attributable to:					
Non-controlling interest				-	-
Owners of the parent				7,510	7,399
Earnings per ordinary share	9				
Basic				31.6p	33.3p
Diluted				31.5p	33.1p

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Share capital £'000	Own shares JSOP £'000	Share premium £'000	Share based payment reserve £'000	Profit and loss account £'000	Total attributable to owners of parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2014	**2,569**	**(9,211)**	**24,195**	**31**	**28,166**	**45,750**	**-**	**45,750**
Dividends	-	-	-	-	(2,750)	(2,750)	-	(2,750)
Issue of new shares to JSOP	6	(565)	559	-	-	-	-	-
Share options issued in equity settled share based payments	-	-	-	30	-	30	-	30
Issue of new shares	200	-	15,800	-	-	16,000	-	16,000
Share issue costs	-	-	(624)	-	-	(624)	-	(624)
Transactions with owners	**206**	**(565)**	**15,735**	**30**	**(2,750)**	**12,656**	**-**	**12,656**
Profit for the period	-	-	-	-	7,510	7,510	-	7,510
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**7,510**	**7,510**	**-**	**7,510**
At 31 December 2014	**2,775**	**(9,776)**	**39,930**	**61**	**32,926**	**65,916**	**-**	**65,916**

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity (continued)

For the year ended 31 December 2014

	Share capital £'000	Own shares JSOP £'000	Share premium £'000	Share based payment reserve £'000	Profit and loss account £'000	Total attributable to owners of parent £'000	Non-controlling interest £'000	Total Equity £'000
At 1 January 2013	**2,289**	**(1,157)**	**15,969**	**75**	**22,673**	**39,849**	**(40)**	**39,809**
Dividends	-	-	-	-	(1,976)	(1,976)	-	(1,976)
Issue of new shares to JSOP	188	(8,054)	7,866	-	-	-	-	-
Share options issued in equity settled share based payments	-	-	-	26	-	26	-	26
Share options exercised	92	-	360	(70)	70	452	-	452
Acquisition of non-controlling interest	-	-	-	-	-	-	40	40
Transactions with owners	**280**	**(8,054)**	**8,226**	**(44)**	**(1,906)**	**(1,498)**	**40**	**(1,458)**
Profit for the period	-	-	-	-	7,399	7,399	-	7,399
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**7,399**	**7,399**	**-**	**7,399**
Balance at 31 December 2013	**2,569**	**(9,211)**	**24,195**	**31**	**28,166**	**45,750**	**-**	**45,750**

The accompanying notes form an integral part of these financial statements.

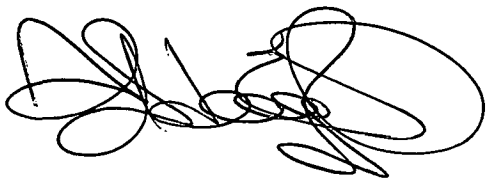
Consolidated statement of financial position

As at 31 December 2014

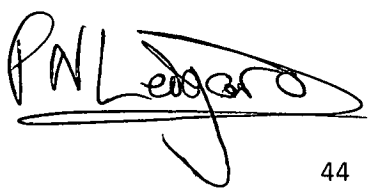
	Note	2014 £'000	2013 £'000
Assets			
Non-current assets			
Goodwill	10	**69,733**	30,971
Other intangible assets	11	**12,014**	4,005
Property, plant & equipment	12	**4,885**	2,068
Deferred tax asset	18	**1,783**	802
		88,415	**37,846**
Current			
Trade & other receivables	13	**76,414**	63,090
Cash and cash equivalents	14	**18,364**	12,485
		94,778	**75,575**
Total assets		**183,193**	**113,421**
Liabilities			
Current			
Trade and other payables	15	**70,432**	55,987
Borrowings	16	**13,363**	62
Other current liabilities	17	**5,489**	593
Current tax liabilities		**2,335**	351
		91,619	**56,993**
Non-current			
Borrowings	16	**22,401**	7,500
Other non-current liabilities	17	**1,078**	2,767
Deferred tax liabilities	18	**2,179**	411
Total liabilities		**117,277**	**67,671**
Equity			
Share capital	19	**2,775**	2,569
Own shares		**(9,776)**	(9,211)
Share premium		**39,930**	24,195
Share based payment reserve		**61**	31
Profit & loss account		**32,926**	28,166
Total equity		**65,916**	**45,750**
Total equity & liabilities		**183,193**	**113,421**

The financial statements were approved by the Board of Directors on 28 January 2015.

A Hogarth
Director



P Ledgard
Director



Consolidated statement of cash flows
For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Net cash inflow from operating activities	25	**15,104**	**17,005**
Cash flows from investing activities			
Purchases of property, plant and equipment		(2,707)	(737)
Purchase of intangibles		-	(2,040)
Sale of property, plant and equipment		14	-
Acquisition of businesses - deferred consideration for prior acquisitions		(165)	(2,511)
Acquisition of businesses - cash paid, net of cash acquired		(26,614)	(326)
Net cash used in investing activities		**(29,472)**	**(5,614)**
Cash flows from financing activities:			
New loans (net of transaction fees)		9,575	-
Loan repayments		(1,352)	(645)
Interest paid		(602)	(360)
Dividends paid		(2,750)	(1,976)
Proceeds from the issue of share capital		15,376	452
Net cash flows from financing activities		**20,247**	**(2,529)**
Net change in cash and cash equivalents		**5,879**	**8,862**
Cash and cash equivalents at beginning of period		**12,480**	**3,618**
Cash and cash equivalents at end of period	14	**18,359**	**12,480**
Net funds/(debt) at beginning of year		**4,923**	**(4,584)**
Net change in cash and cash equivalents		**5,879**	**8,862**
(Increase)/decrease in loans		**(28,566)**	**645**
Net (debt)/funds at end of period	16	**(17,764)**	**4,923**

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2014

1 Nature of operations

The principal activities of Staffline Group plc and its subsidiaries (the Group) include the provision of recruitment and outsourced human resource services to industry and services in the welfare to work arena and skills training.

2 General information and statement of compliance

Staffline Group plc, a Public Limited Company, is incorporated and domiciled in the United Kingdom. The Company acts as the holding company of the Group. The registered office and principal place of business of the Group and its subsidiary companies is disclosed on the company details page to these financial statements.

The financial statements for the year ended 31 December 2014 (including the comparatives for the year ended 31 December 2013) were approved and authorised for issue by the board of Directors on 28th January 2015.

The Group does not have an ultimate controlling related party.

3 Accounting policies

Basis of preparation

The consolidated financial statements are prepared for the 53 weeks ended 4 January 2015.

The consolidated financial statements of the Group have been prepared using the significant accounting policies and measurement bases summarised below, and in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements are prepared under the historical cost convention except for contingent consideration and cash settled share options which are measured at fair value.

Separate financial statements of Staffline Group plc ('the Company') have been prepared, on pages 84 to 94, under the historical cost convention and in accordance with UK GAAP.

Functional and presentation currency

The consolidated financial statements are presented in sterling, which is also the functional currency of the parent company.

The principal accounting policies of the Group are set out below.

Consolidation of subsidiaries

The Group financial statements consolidate those of the parent company and all of its subsidiaries as at 31 December 2014. Subsidiaries are all entities to which the Group is exposed or has rights to variable returns and the ability to affect those returns through power over the subsidiary. All subsidiaries have a reporting date of 31 December, with all subsidiary accounts prepared for the 53 weeks ended 4 January 2015.

Consolidation of subsidiaries (continued)
Acquired subsidiaries and businesses are subject to the application of the acquisition accounting method. This involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary or business prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at these fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

Material intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Business combinations
The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair value of assets transferred, liabilities incurred and the equity interests of the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

Segment reporting
The Group has two material operating segments: the provision of temporary staff to customers and the provision of welfare to work and other training services, together "Employability". Each of these operating segments is managed separately as each requires different technologies, marketing approaches and other resources. For management purposes, the Group uses the same measurement policies as those used in its financial statements.

The placement of permanent staff with customers, training and the provision of outsourced logistics services all contribute less than 10% of the Group's total revenue, profit and assets. Under the definitions contained in IFRS 8, the only material geographic area that the Group operates in is the United Kingdom.

Revenue recognition
Income from the provision of temporary contractors is recognised at the end of the completed working week based on hours worked multiplied by the contracted rate, net of rebates. Income from permanent placements is recognised when the candidates start work. Income from training provision is recognised evenly across the period of the training. In each case, revenue is only recognised when the labour or service has been provided and the Group is contractually entitled to the revenue.

Provisions for rebates are accounted for in the same period the related sales are recorded, and are calculated in accordance with the contractual arrangements in place.

Income from the provision of welfare to work services is recognised at the point the company earns the right to consideration for services performed in agreement with contracts and contractual obligations. Under the terms of the contract with the DWP, the welfare to work segment receives income when certain contractual milestones are met as each customer passes through the programme. The segment recognises revenue in the financial statements in line with when services are provided and when the milestone outcome can be assessed with reasonable certainty. The majority of income is received based upon performance against set criteria. Where income is received in advance this is initially held in the statement of financial position as deferred income and released to the statement of comprehensive income as services are provided. Accrued income is recognised where services have been provided in advance of receipt of income and based on all available evidence, the company expects to receive payment in accordance with the contract. In spreading revenue over the period services are provided, the basis of revenue recognition considers historical experience and future expectations in terms of success rates, and takes into account the anticipated length of period over which the services are ultimately provided.

Operating expenses
Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

Goodwill
Goodwill represents the excess of the fair value of the cost of a business acquisition over the Group's share of the fair value of assets and liabilities acquired as at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Intangible assets
Assets acquired as part of a business combination
In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. An independent valuation is undertaken in order to assess the fair value of intangible assets acquired in a business combination. The fair value is then amortised over the economic life of the asset as detailed below. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are not reliably measurable. Where the individual fair values of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives.

Intangible assets (continued)

Customer contracts, customer lists and licences

The fair value of acquired customer contracts, customer lists and licences is capitalised and, subject to impairment reviews, amortised over their estimated lives (estimated to be 2-5 years). The amortisation is calculated so as to write off their fair value less their estimated residual values over their estimated lives. An impairment review is undertaken when events or circumstances indicate the carrying amount may not be recoverable.

Property, plant and equipment

Freehold land and property, computer equipment and fixtures and fittings are carried at acquisition cost less subsequent depreciation and impairment losses. Depreciation is charged on the cost less estimated residual value, which is assessed annually, of these assets on a straight line basis over the estimated useful economic life of each asset.

The useful lives of property, plant and equipment can be summarised as follows:

Freehold buildings	50 years straight line
Computer equipment	3 years straight line
Fixtures and fittings	3 years straight line
Motor vehicles	25% reducing balance

Impairment

Goodwill, other intangible assets and property, plant and equipment are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Individual intangible assets or cash-generating units that include goodwill with an indefinite useful life are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any, to be borne by the lessee.

All other leases are treated as operating leases. Payments on operating lease agreements are recognised as an expense on a straight-line basis. Associated costs, such as maintenance and insurance, are expensed as incurred. The Group does not act as a lessor.

In December 2007, the Group completed the purchase, sale and leaseback of a new headquarters building for a purchase price of £1,455,000 and a sale price of £1,727,000, less costs of £101,000, which is considered by management to be above fair value. In accordance with IAS 17 the excess of proceeds over fair value was deferred and is being amortised over the remaining lease term (10 years). The subsequent leasing agreement, which has been considered separately for the land and buildings element, is treated in accordance with the Group's existing operating lease accounting policy as detailed above.

Taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognised on the initial recognition of goodwill. This applies also to temporary differences associated with shares in subsidiaries if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided for in full if material. Deferred tax assets are recognised if it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the profit or loss. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that are charged directly in other comprehensive income or equity are charged or credited directly to other comprehensive income or equity.

Pensions
Pensions to employees are provided through defined contributions to individual personal pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions to an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

Contributions recognised in respect of personal pension plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

Financial assets
The Group's financial assets include cash, trade receivables and other receivables.

All financial assets are initially recognised at fair value, plus transaction costs. They are subsequently included at amortised cost using the effective interest rate method.

Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables.

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents include cash at bank and in hand, overdrafts and short term highly liquid investments such as bank deposits less advances from banks repayable within three months from the date of advance.

Financial liabilities
The Group's financial liabilities include bank loans, loan notes, an overdraft facility, trade and other payables, including liabilities for share-based payments, and other liabilities, which include deferred and contingent consideration payable in respect of business acquisitions.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in "Finance Cost" in the statement of comprehensive income.

Bank loans are raised for support of long term funding of the Group's operations. They are recognised at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the profit or loss on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost less settlement payments.

Dividend distributions to shareholders are included in 'other short term financial liabilities' when the dividends are approved by the shareholders' meeting.

Contingent consideration is measured at fair value through profit or loss.

Other provisions and contingent liabilities
Other provisions are recognised when present obligations will probably lead to an outflow of economic resources from the Group and they can be estimated reliably. The timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured as the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long term provisions are discounted to their present values, where time value of money is material.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognised in the consolidated statement of financial position.

Equity
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Share capital is determined using the nominal value of shares that have been issued.

Own shares is determined using the nominal value of shares that were issued to the Employee Benefit Trust in relation to the Joint Share Ownership Plan (JSOP). This Trust is controlled by the Group and therefore consolidated, resulting in the 'Own shares' deducted from equity.

The share premium account represents premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

The share based payment reserve represents the value of shares granted under share based payment arrangements.

The profit and loss account includes all current and prior period results as disclosed in the statement of comprehensive income.

Share based employee remuneration
All share based payment arrangements are recognised in the consolidated financial statements. The Group operates equity settled and cash settled share based remuneration plans for remuneration of its employees.

Equity settled share based remuneration
All employee services received in exchange for the grant of any share based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share based remuneration is ultimately recognised as an expense in profit or loss in the statement of comprehensive income with a corresponding credit to the share based payment reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment is made to the expense recognised in prior periods if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

Cash settled share based remuneration
The Group has issued cash settled share based payments in respect of services provided by key employees. The share based payment is measured at the fair value of the liability at the grant date and re-measured at fair value of the liability at each subsequent balance sheet date. A financial liability is recognised for the fair value of the share based payments at the date of the grant and is re-measured at the end of each reporting period and at settlement with any changes to the fair value recognised in profit or loss in the statement of comprehensive income.

Key sources of estimation uncertainty
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are as follows:

Impairment of goodwill
The annual impairment assessment in respect of goodwill requires estimates of the value-in-use of cash generating units to which goodwill has been allocated to be calculated. As a result, estimates of future cash flows are required, together with an appropriate discount factor for the purpose of determining the present value of those cash flows. The basis of review of the carrying value of goodwill is as detailed in note 10.

Contingent consideration
As part of the acquisition process, a forecast is prepared which projects the financial performance of the business over the expected earn-out period. These forecasts are reviewed and updated based on actual performance. Part of the cost of the acquisition is dependent on the trading performance of the acquired business following the transaction. The contingent consideration is based on these estimates of the future performance of the acquired business. The contingent consideration is classified as a financial liability, measured at fair value with any changes in estimated value recognised in profit and loss in the statement of comprehensive income.

Business combinations
On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognised in profit or loss in the statement of comprehensive income in the subsequent period.

Critical judgments in applying the Group's accounting policies
The Directors consider that the only critical judgements in applying the accounting policies which are described above are:

- The fair value adjustments included in note 10 relating to the acquisition of Avanta Enterprise Limited;

- The assumptions used in the impairment review, assessing the carrying value of goodwill versus underlying value-in-use. More details are included in note 10; and

- The estimation of the probability of the vesting conditions, attached to the JSOP, being met.

Adoption of new or amended IFRS
The Group has not early adopted the following new standards, amendments or interpretations that have been issued but are not yet effective, based on EU mandatory effective dates, for periods commencing on 1st January 2014. The Group has commenced its assessment of the impact of these standards but it is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position.

- IFRS 9 Financial Instruments (IASB effective date 1 January 2018)*;
- IFRS 14 Regulatory Deferral Accounts (effective 1 January 2016)*;
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2017)*;
- IFRIC Interpretation 21 Levies (IASB effective 1 January 2014);
- Defined Benefit Plans: Employee Contributions (amendments to IAS 19) (IASB effective 1 July 2014);
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (IASB effective date 1 January 2016)*
- Clarification of Acceptable methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (IASB effective date 1 January 2016)*;
- Annual improvements to IFRSs 2010-2012 Cycle (IASB effective date generally 1 July 2014);
- Annual improvements to IFRSs 2011-2013 Cycle (IASB effective date 1 July 2014);
- Annual improvement to IFRSs 2012-2014 Cycle (effective 1 January 2016)*;

3 Accounting policies (continued)

- Amendments to IAS 16 and IAS 41: Bearer Plants (effective 1 January 2016)*;
- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective 1 January 2016)*;
- Sale or Contribution of Assets between an Investor and it Associate or Joint Ventures – Amendments to IFRS 10 and IAS 28 (effective 1 January 2016)*.

*not adopted by the EU (as at 9 January 2015)

4 Segmental reporting

Management currently identifies two operating segments: the provision of recruitment and outsourced human resource services to industry ('Staffing Services') and the provision of welfare to work services, skills training and, as of February 2015, probationary services - collectively this segment is called 'Employability'. These operating segments are monitored by the Group's Board and strategic decisions made on the basis of segment operating results.

Notes to the financial statements (continued)

For the year ended 31 December 2014

4 Segmental reporting (continued)

Segment information for the reporting period is as follows:

	Staffing Services 2014	**Employability 2014**	**Total Group 2014**	Staffing Services 2013	Employability 2013	Total Group 2013
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Segment continuing operations:						
Sales revenue from external customers	437,452	65,715	503,167	393,597	22,596	416,193
Cost of sales	(398,836)	(39,484)	(438,320)	(359,563)	(14,608)	(374,171)
Segment gross profit	**38,616**	**26,231**	**64,847**	**34,034**	**7,988**	**42,022**
Administrative expenses	(26,549)	(16,953)	(43,502)	(23,727)	(4,420)	(28,147)
Depreciation	(499)	(1,477)	(1,976)	(491)	(540)	(1,031)
Segment operating profit before amortisation of intangibles, transaction costs and share based payment charge	**11,568**	**7,801**	**19,369**	**9,816**	**3,028**	**12,844**
Administrative expenses - share based payment charge	(3,665)	-	(3,665)	(2,154)	-	(2,154)
Administrative expenses – transaction costs	(23)	(637)	(660)	-	-	-
Amortisation of intangibles	(530)	(3,282)	(3,812)	(1,313)	(453)	(1,766)
Segment profit from operations	**7,350**	**3,882**	**11,232**	**6,349**	**2,575**	**8,924**
Segment assets	**108,904**	**74,289**	**183,193**	**99,938**	**13,483**	**113,421**

During 2014, 1 customer in the Staffing Services segment contributed greater than 10% of the Group's revenues being 18.5% (£81m) of that segment's revenues (2013: two customers greater than 10%); the amount receivable from this customer at 31 December 2014 is £9.6m (2013: £8.9m). The Employability segment's main customer is the Department for Work and Pensions ('DWP'); sales to the DWP do not represent more than 10% of the Group's revenue and therefore no further disclosures are required.

Notes to the financial statements (continued)

For the year ended 31 December 2014

5 Administrative expenses

	2014 £'000	2013 £'000
Employee benefits expenses (note 7)	31,185	22,723
Depreciation	1,976	1,038
Other expenses	12,317	5,417
	45,478	**29,178**

Auditors' remuneration in their capacity as auditors of the parent company is £13,750 (2013: £8,000) and in their capacity as auditor of subsidiary companies is £120,000 (2013: £69,000). Non-audit remuneration in respect of tax compliance services totalled £15,000 (2013: £14,550) and in respect of other advice totalled £123,000 (2013: £44,000); the other advice in the current year relates to tax advice on the setting up of the JSOP and acquisition advice.

6 Finance costs

	2014 £'000	2013 £'000
Interest payable on term loan, loan notes and overdraft	602	360
Unwinding of loan note discount	115	-
Amortisation of debt issue costs	62	-
Total	**779**	**360**

7 Directors and employees remuneration

Employee benefits expense

Expense recognised for employee benefits is analysed below:

	2014 £'000	2013 £'000
Wages and salaries	**35,849**	22,523
Social security costs	**3,244**	2,226
Other pension costs - defined contribution plans	**606**	403
Share option charge - cash settled	**3,635**	2,128
Share option charge - equity settled	**30**	26
	43,364	**27,306**

	Number	Number
The average number of persons (including Directors) employed by the Group during the year was:		
- Sales and administrative	**1,611**	**807**

Notes to the financial statements (continued)

For the year ended 31 December 2014

7 Directors and employees remuneration (continued)

Of the £43,365,000 (2013: £27,306,000) total employee benefits cost above, £12,180,000 (2013: £4,583,000) relating to Eos and Avanta is included in cost of sales and therefore not reflected in administrative expenses in note 5 above.

Included in cost of sales are temporary workers' remuneration paid through the temporary payroll of subsidiary companies as follows:

	2014 £'000	2013 £'000
Wages and salaries	369,443	313,475
Social security costs	23,106	20,218
	392,549	**333,693**

	Number	Number
The average number of temporary workers contracted by the Group during the year was:	28,240	25,293

Directors' remuneration

The remuneration of the Directors, which was all paid by Staffline Recruitment Limited, the Company's wholly owned subsidiary undertaking, was as follows:

2014	**A Hogarth £'000**	**P Ledgard £'000**	**D Martyn £'000**	**N Keegan £'000**	**J Crabtree £'000**	**E Barker £'000**	**C Braddock £'000**	**Total £'000**
Salary and fees	232	152	212	32	63	5	20	716
Bonus	55	10	50	-	-	-	-	115
Benefits in kind	2	1	1	-	-	-	-	4
Subtotal	**289**	**163**	**263**	**32**	**63**	**5**	**20**	**835**
Pension contributions	22	14	20	-	-	-	-	56
Total	**311**	**177**	**283**	**32**	**63**	**5**	**20**	**891**

The Group incurred an income statement charge of £1.1m in relation to cash and equity settled share options held by the directors. The total is split as follows: A Hogarth (£857,000, 2013: £760,000), D Martyn (£205,000, 2013: £31,000) and P Ledgard (£53,000, 2013: £1,000).

Notes to the financial statements (continued)

For the year ended 31 December 2014

7 Directors and employees remuneration (continued)

2013	A Hogarth £'000	M Evans £'000	T Jackson £'000	S Brittain £'000	D Martyn £'000	N Keegan £'000	P Ledgard £'000	J Crabtree £'000	Total £'000
Salary and fees	232	27	89	25	212	35	34	63	717
Bonus	55	-	-	-	50	-	-	-	105
Benefits in kind	2	-	1	-	1	-	-	-	4
Subtotal	**289**	**27**	**90**	**25**	**263**	**35**	**34**	**63**	**826**
Pension contributions	22	3	8	3	20	-	2	-	58
Total	**311**	**30**	**98**	**28**	**283**	**35**	**36**	**63**	**884**

Share based employee remuneration

Approved Employee Share Option Plan

At 31 December 2014 the Group operates a share based payment scheme (EMI scheme) for certain employees. However as the number of employees now exceeds 250 the qualification criteria for an EMI scheme are no longer met so no further share options can be issued under the scheme.

The share option scheme was available to all full time members of staff, with the exception of the Directors, subject to the rules of the scheme, the key points of which are as follows;

- only staff with in excess of six months service are eligible;
- the number of options granted is a factor of length of service and current salary;
- options are exercisable between two and seven years of being granted;
- except in certain limited circumstances all options lapse if an employee leaves the Group; and
- exercise of options is not subject to any specific performance criteria.

Performance Related Share Option Plan

In 2013, a maximum of 100,000 performance-related share options were issued to a director, Diane Martyn. The options vest in March 2016 on a sliding scale dependent upon the performance of adjusted diluted earnings per share over the three years ended 31 December 2015; as of 31 December 2014, the maximum criteria has been met and accordingly the full amount of shares are expected to vest:

	Date of grant	At 1 Jan 2014	Granted	Exercised	At 31 Dec 2014	Exercise price
D Martyn	8 March 2013	100,000	100,000	-	100,000	348.6p

Except as noted under the Joint Share Option Plan below, all share based employee remuneration will be settled in equity. The Group has no other legal or constructive obligation to repurchase or settle the options in cash.

Notes to the financial statements (continued)

For the year ended 31 December 2014

7 Directors and employees remuneration (continued)

Share options and the weighted average exercise price are as follows for the reporting periods presented:

	Number	**Weighted average exercise price (pence) 2014**	Number	Weighted average exercise price (pence) 2013
Outstanding at start of period	**109,116**	**327**	**929,169**	**50**
Granted	-	-	100,000	349
Lapsed	**(1,855)**	**162**	(1,080)	(125)
Exercised	-	-	(918,973)	(47)
Outstanding at end of period	**107,261**	**330**	**109,116**	**327**

The Group has the following outstanding share options and exercise prices:

	Number	**Weighted average exercise price (pence) 2014**	**Weighted average contractual life (months) 2014**	Number	Weighted average exercise price (pence) 2013	Weighted average contractual life (months) 2013
Date exercisable *and (option life):*						
2009 (up to 2014)	-	-	-	1,855	162	-
2010 (up to 2015)	**2,833**	**92**	-	2,833	92	-
2011 (up to 2016)	**4,428**	**54**	-	4,428	54	-
2013 (up to 2016)	-	-	-	-	-	-
2016 (up to 2021)	**100,000**	**349**	**15**	100,000	349	27

Share options have exercise prices between 54p and 348.6p. The weighted average share price during the year was 815p (2013: 463p).

The number of share options exercisable at the end of the year was 7,261 (2013: 9,116). The weighted average price of the options exercisable at the end of the year was 69p (2013: 88p)

7 Directors and employees remuneration (continued)

Joint Share Ownership Plan

In September 2010 and July 2013 the Company established two Joint Share Ownership Plans (JSOP) to provide additional incentives to senior executives.

The directors and senior executives participating in the JSOP acquired an interest in the shares jointly with the Staffline Group plc Employee Benefit Trust. The directors' interests are detailed below:

	Award date	Participation price	Interest over (number of shares)	Date on which exercisable
A Hogarth	6 Sep 2010	92p	306,863	30/06/2015
A Hogarth	4 Jul 2013	411.5p	350,000	30/06/2018
D Martyn	4 Jul 2013	411.5p	350,000	30/06/2018
P Ledgard	2 Dec 2013	563p	170,000	30/06/2018

The JSOP shares are held jointly between the director and the Staffline Group plc Employee Benefit Trust. Under the terms of the JSOP rules the directors are eligible to receive the excess of any disposal proceeds received for the JSOP shares over the participation price. The JSOP shares do not carry dividend or voting rights whilst they are jointly held by the director and the Staffline Group plc Employee Benefit Trust. For the September 2010 award, the shares vest at the minimum number when the diluted EPS pre amortisation exceeds 24p per share in any full year up to 2014. The maximum award vests when the diluted EPS pre amortisation exceeds 42p per share in any full year up to 2014. If the diluted EPS pre amortisation does not exceed 24p per share in any full year up to 2014 the directors' interest in the shares lapses. At 31 December 2014, the EPS condition has been met and accordingly the shares will vest in full in June 2015. For the July and December 2013 awards, the shares vest at the minimum number when the diluted EPS pre amortisation exceeds 56p in any full year up to 2017. The shares vest at the maximum number when a) the diluted EPS pre amortisation equals 93.5p and b) the increase in total shareholder return exceeds the increase in the FTSE AIM All Share Total Return Index. If diluted EPS pre amortisation does not equal 56p in any full year up to 2017, the directors' interest in the shares lapses.

Diluted EPS adjusted for amortisation of intangibles is disclosed in note 9.

The JSOP is settled in cash and therefore accounted for as a cash settled scheme.

7 Directors and employees remuneration (continued)

The fair value of the liability was determined using the Binomial valuation model as at 31 December 2014. Significant inputs into the calculations were:

- share price at date of grant;
- exercise prices as detailed above;
- an average of 32.5% (2013: 32.5%) volatility based on expected and historical share price;
- risk free interest rate ranging between 0.6% and 1.22% (2013: 1.9%);
- the disposal of shares and settlement of scheme on 30 June 2015 and 30 June 2018;
- 63% pay-out ratio for the 2013 JSOPs (2013: 17.5%) and 100% (2013: 100%) for the 2010 JSOP
- 46% forfeiture rate on the 2013 JSOPs (2013: 46%) and 33% on the 2010 JSOP (2013: 33%) to account for employees that leave before the vesting date;
- dividend yield – 1.4%.

Share-based employee remuneration

In total £3,665,000 of employee remuneration expense has been included in the consolidated statement of comprehensive income for the year ended 31 December 2014 (2013: £2,154,000) which increased the share based payment reserve by £30,000 (2013: £26,000) in respect of equity settled schemes and increased the liability by £3,636,000 to £6,352,000 (2013: £2,716,000) in respect of cash settled schemes.

Key management personnel

The key management are considered to be the Board of Directors of Staffline Group plc, whose remuneration can be seen above, and the regional directors who participate in the JSOP. The aggregate remuneration for the regional directors for the year is £1,380,858 (2013: £1,320,445). Disclosures in accordance with IAS 24 are included in note 20.

Notes to the financial statements (continued)

For the year ended 31 December 2014

8 Tax expense

The relationship between the expected tax expense and the tax expense actually recognised in the statement of comprehensive income can be reconciled as follows:

	2014 £'000	**2014 %**	2013 £'000	2013 %
Result for the year before tax	**10,453**		**8,564**	
Tax rate		**21.5%**		**23.25%**
Expected tax expense	**2,247**		**1,991**	
Adjustment for non-deductible expenses relating to short term temporary differences	12		98	
Other non-deductible expenses	1,727		858	
Adjustment in respect of prior year	63		2	
Exercise of share options	-		(829)	
Brought forward losses utilised	-		(9)	
Overseas profits not subject to UK tax	(33)		(6)	
Actual tax expense	**4,016**	**38.4%**	**2,105**	**24.5%**
Tax expense comprises:				
Current tax expense	**4,016**		**2,105**	
Deferred tax (income)/expense				
- fixed asset timing differences	**271**		**82**	
- intangible asset permanent difference	**(632)**		**(360)**	
- share based payment temporary difference	**(712)**		**(662)**	
Tax expense	**2,943**		**1,165**	

Notes to the financial statements (continued)

For the year ended 31 December 2014

9 Earnings per share

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year, after deducting any own shares (JSOP). The calculation of the diluted earnings per share is based on the basic earnings per share adjusted to allow for all dilutive potential ordinary shares.

Details of the earnings and weighted average number of shares used in the calculations are set out below:

	Basic 2014	Basic 2013	**Diluted 2014**	Diluted 2013
Earnings (£'000)	**7,510**	7,399	**7,510**	7,399
Weighted average number of shares	**23,750,562**	22,242,934	**23,857,420**	22,351,311
Earnings per share (pence)	**31.6p**	33.3p	**31.5p**	33.1p
Adjusted earnings per share (pence)*	**60.0p**	46.1p	**59.7p**	45.8p

*Earnings after adjusting for amortisation, share based payment charge and transaction costs, including the tax effect.

The weighted average number of shares has been increased by 1,507,628 (2013: 628,820) shares to take account of the two million shares issued during the year as part of the equity raise.

Dividends

During the year, Staffline Group plc paid interim dividends of £1,227,500 (2013: £856,541) to its equity shareholders. This represents a payment of 5p (2013: 3.8p) per share. A final dividend of £2,358,542 has been proposed (2013: £1,522,000) but has not been accrued within these financial statements. This represents a payment of 8.5p (2013: 6.2p) per share. The final dividend for 2013 of £1,522,000 was declared and paid in 2014.

10 Goodwill

Gross carrying amount	Total £'000
At 1 January 2013	30,971
At 31 December 2013	**30,971**
Additions	38,762
At 31 December 2014	**69,733**

10 Goodwill (continued)

Additions

a) Avanta

On 15 May 2014, the Group conditionally acquired 100% of the ordinary share capital of Avanta Enterprise Limited ("Avanta"), subject to ratification by the Department for Work and Pensions; on 6 June 2014 the acquisition became unconditional.

Avanta is a leading provider of Welfare to Work and skills training services in the UK. The addition of Avanta's three Welfare to Work contracts to the Group's existing West Midlands contract has resulted in the creation of the UK's third largest Welfare to Work provider, further enhancing the Group's position in bidding for future DWP contracts. In addition, the increased number of contracts, which sit within the Employability division as discussed in note 4, will provide complimentary scale and cross selling opportunities to the Group's existing Staffing division. The acquisition accelerates the Group's strategic goal of being the UK's leading Welfare to Work provider.

The purchase consideration of £65.2m consisted of £28m cash (funded by a term loan of £10m, £15.38m raised via an equity placement net of fees and £2.6m of cash reserves), £19.76m of deferred loan notes, £15m of cash received by way of dividend from Avanta and £2.45m of repaid intercompany balances. Total cash consideration in the year was £43m.

Directly attributable acquisition costs of £637,000 were included within administrative expenses, £624,000 of equity placing fees charged against share premium and £425,000 of debt issue costs capitalised in the balance sheet against the term loan and amortised to the income statement over the term of the loan.

In accordance with IFRS 3 Business Combinations the directors have made an initial assessment of the fair values of the acquired assets and liabilities, which, along with identified fair value adjustments, are shown in the table below. Any revisions to the provisional fair values within 12 months of the acquisition date will be reflected within the carrying value of goodwill as of the acquisition date.

As part of the transaction, the Group also acquired 100% of the ordinary share capital of Broomco 4198 Limited, which prior to the acquisition owned 21.2% of Avanta, the other 88.8% being owned by the vendors and their related parties. The net assets of Broomco were immaterial and accordingly the fair values below are for the combined Avanta and Broomco consolidated position.

10 Goodwill (continued)

	Opening balance sheet	Fair value adjustments	Provisional fair value
	£'000	£'000	£'000
Investments	2,055	(2,055)	-
Property, plant and equipment	2,098	-	2,098
Trade and other receivables	12,767	(951)	11,816
Cash	17,219	-	17,219
Trade and other payables	(11,517)	(1,397)	(12,914)
Corporation tax creditor	(947)	483	(464)
Deferred tax asset	622	-	622
Borrowings	(176)	-	(176)
Deferred tax liability	-	**(2,482)**	**(2,482)**
Net assets acquired	**22,121**	**(6,402)**	**15,719**

Intangible assets identified – customer contracts (see note 11)	11,821
Goodwill	37,670
Subtotal	**65,210**

The cross selling opportunities and increased scale of the Group's Welfare to Work trade (part of the Employability segment) give rise to consolidated goodwill of £37.6m, which is not separately identifiable of other intangible assets. No goodwill is deductible for corporation tax.

On 13 November 2014, the Group agreed one year extensions to the four Welfare to Work contracts held after the acquisition of Avanta. In addition to these contract extensions were contractual amendments to the validation system and the performance metric to ensure that programme and provider performance is more accurately captured going forward and that financial controls are further improved to mutual benefit. There was an associated settlement of historical revenue claims between the Department for Work and Pensions and the Group, and other revenue receipts connected with these amendments, some of which relate to financial periods prior to the acquisition of Avanta and are therefore included within the fair value adjustments above, amounting to £0.6m within trade and other payables.

The other fair value adjustments in the table above relate to estimated bad debt provisions against trade receivables, post acquisition costs relating to pre acquisition periods, elimination of investments and a true-up of the estimated corporation tax creditor.

10 Goodwill (continued)

For the period from 6 June 2014 to 31 December 2014, Avanta had revenues of £38.1 million and profit after tax of £4.9 million. If the acquisition had occurred on 1 January 2014, the Group's revenues and profit after tax for the year ended 31 December 2014 would have been £533.9 million and £10.8 million respectively.

b) Skillspoint

On 2 July 2014, the Group purchased 100% of the ordinary share capital of Softmist Limited, trading as Skillspoint ("Skillspoint"), a training procurement consultancy. The acquisition of Skillspoint further enhances the Group's position in the training sector and is included within the Employability, segment.

Purchase consideration was cash of £950,000, with transaction fees of £23,250 recognised within administrative expenses. The fair value of the acquired assets and liabilities was a net liabilities position of £141,952. No separately identifiable intangible assets were acquired and accordingly £1,091,952 has been recognised as goodwill in the Group financial statements.

Impairment review

The breakdown of Goodwill by entity is listed below:

	Date of acquisition	Carrying value £'000
Staffline Recruitment Limited	8 December 2004	22,326
Onsite Partnership Limited*	16 March 2007	1,855
Peter Rowley Limited*	1 December 2009	764
A La Carte Recruitment Limited*	17 May 2010	744
Qubic Recruitment Solutions Limited*	5 November 2010	745
Ethos Recruitment Limited*	14 March 2011	76
Eos Works Group Limited	21 April 2011	1,585
Taskforce Recruitment Limited*	12 September 2011	1,937
Go New Recruitment Limited*	14 September 2012	939
Avanta Enterprise Limited	6 June 2014	37,670
Softmist Limited	2 July 2014	1,092

Following their acquisition, the businesses asterisked above were fully integrated into the core Staffing division. During 2014, the Welfare to Work and Skills trades of Eos Works Limited were integrated into Avanta Enterprise Limited. The remaining trades of Eos Works Limited, Softmist Limited and the combined Avanta Enterprise Limited trades make up the majority of the ESJ division. Therefore, management consider there to be two cash generating units (in line with the business segments defined in note 4, and have tested these two cash generating units for impairment.

10 Goodwill (continued)

	2014 £'000	2013 £'000
Staffing Services	29,386	29,386
Employability	40,347	1,585
Goodwill as at 31 December	**69,733**	**30,971**

For both segments the recoverable amount of goodwill was determined based on a value-in-use calculation, covering a detailed three year forecast, followed by an extrapolation of expected cash flows over the next two years at a growth rate of 10% (Staffing Services) and nil (Employability), and a pre-tax discount rate of 11% based on weighted average cost of capital. The Staffing Services growth rate is based on the continuation of historic organic growth achieved by the business over the past 3 years. This has been achieved by sales growth with both existing and new customers and acquisitions. The growth rate for Staffing exceeds the long term average growth rate for the market but this is deemed reasonable based on a) the growth experienced over the past 3 years and b) the detailed business plans for 2015-2017. The Employability growth rate is assumed to be nil due to the uncertainty around the constitution of the Work Programme 2 contracts, which begin in 2017. It is however expected that the Group will be awarded, at worst, the same number of contracts and at similar rates to existing contracts. The assumption around the granting of the new awards is based on the current level of (publicly known) performance of both the Avanta and Eos contracts in comparison to competitors.

The results of the impairment review discussed above showed significant headroom in both cash generating units and accordingly no impairment is noted. Apart from the considerations described in determining the value-in-use of the cash generating units above, the Directors do not believe that any reasonably possible changes in the assumptions used in calculating the value-in-use would result in the recoverable amount of goodwill falling below the carrying value and impairment becoming necessary.

Notes to the financial statements (continued)

For the year ended 31 December 2014

11 Other intangible assets

The Group's other intangible assets include the customer contracts and lists obtained through the acquisition of the companies in note 10 above plus the acquisition of a software licence obtained in 2013. There are no useful economic lives beyond March 2017. There are no intangible assets with restricted title.

There are three individually material intangible assets:

- the software licence which has a remaining useful economic life of 2 years;
- customer contracts in Eos Works Limited. The carrying value of the asset is £679,000 (2013: £1,132,000) and it has a remaining useful economic life of 18 months;
- customer contracts in Avanta Enterprise Limited. The carrying value of the asset is £9,672,000 and it is being amortised over 3 years.

	Licenses	Customer contracts	Customer lists	Total
	£'000	£'000	£'000	£'000
Gross carrying amount				
At 1 January 2013	**-**	**3,076**	**5,417**	**8,493**
Additions	2,040	-	-	2,040
Additions through business combinations	-	700	-	700
At 31 December 2013	**2,040**	**3,776**	**5,417**	**11,233**
Additions through business combinations	-	11,821	-	11,821
At 31 December 2014	**2,040**	**15,597**	**5,417**	**23,054**
Amortisation				
At 1 January 2013	**-**	**1,491**	**3,971**	**5,462**
Provided in year	170	452	1,144	1,766
At 31 December 2013	**170**	**1,943**	**5,115**	**7,228**
Provided in year	680	2,855	277	3,812
At 31 December 2014	**850**	**4,798**	**5,392**	**11,040**
Net book amount at 31 December 2014	**1,190**	**10,799**	**25**	**12,014**
Net book amount at 31 December 2013	1,870	1,833	302	4,005

Notes to the financial statements (continued)

For the year ended 31 December 2014

12 Property, plant and equipment

	Land and buildings £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Gross carrying amount					
At 1 January 2013	**2,041**	**1,525**	**429**	**26**	**4,021**
Additions	28	638	49	22	737
Additions - business combinations	-	9	17	-	26
At 31 December 2013	**2,069**	**2,172**	**495**	**48**	**4,784**
Additions	121	1,076	1,498	12	2,707
Additions - business combinations	-	582	1,518	-	2,100
Disposals	-	(23)	(138)	(30)	(191)
Transfer	-	-	(17)	17	-
At 31 December 2014	**2,190**	**3,807**	**3,356**	**47**	**9,400**
Depreciation					
At 1 January 2013	**648**	**787**	**225**	**18**	**1,678**
Provided in year	371	534	120	13	1,038
At 31 December 2013	**1,019**	**1,321**	**345**	**31**	**2,716**
Provided in year	281	815	865	15	1,976
Disposals	-	(22)	(127)	(28)	(177)
At 31 December 2014	**1,300**	**2,114**	**1,083**	**18**	**4,515**
Net book value					
At 31 December 2014	**890**	**1,693**	**2,273**	**29**	**4,885**
At 31 December 2013	**1,050**	**851**	**150**	**17**	**2,068**

13 Trade and other receivables

	2014 £'000	2013 £'000
Trade and other receivables	68,795	61,061
Accrued income	7,619	2,029
	76,414	**63,090**

Trade and other receivables are usually due within 14 - 30 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. The Group does not identify specific concentrations of credit risk with regards to trade and other receivables as the amounts recognised represent a large number of receivables from various customers.

The fair value of these short term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value.

There is no bad debt provision due to the cash collection history. Some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired, is as follows:

	2014 £'000	2013 £'000
Not more than three months	10,461	11,831
More than three months but no more than six months	328	151
	10,789	**11,982**

14 Cash and cash equivalents

	2014 £'000	2013 £'000
Cash and cash equivalents	18,364	12,485
Bank overdraft (see note 16)	(5)	(5)
Cash and cash equivalents per cash flow statement	**18,359**	**12,480**

Cash and cash equivalents consist of cash on hand and balances with banks only. At the year-end £18,364,000 (2013: £12,485,000) of cash on hand and balances with banks were held by subsidiary undertakings however this balance is available for use by the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2014

15 Trade and other payables

	2014 £'000	2013 £'000
Trade and other payables	39,581	31,829
Accruals	30,851	23,883
Deferred income	-	275
	70,432	**55,987**

The fair value of trade and other payables has not been separately disclosed as, due to their short duration, the Directors consider the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

16 Borrowings

Borrowings are repayable as follows:

	2014 £'000	2013 £'000
In one year or less or on demand	13,468	62
In more than one year but not more than two years	11,409	7,500
In more than two years but not more than five years	11,250	-
Unamortised transaction costs	(363)	-
	35,764	**7,562**

Notes to the financial statements (continued)

For the year ended 31 December 2014

16 Borrowings (continued)

	2014 £'000	2013 £'000
Split:		
Current liabilities:		
Term loan	2,500	57
Discounted loan notes	10,964	-
Unamortised transaction costs	(106)	-
Overdraft	5	5
	13,363	**62**
Non-current liabilities:		
Revolving credit facility	7,500	7,500
Term loan	6,250	-
Discounted loan notes	8,909	-
Unamortised transaction costs	(258)	-
	22,401	**7,500**
Total borrowings	**35,764**	**7,562**
Total borrowings excluding unamortised transaction costs	(36,128)	(7,562)
Cash (note 14)	18,364	12,485
Net debt as disclosed in consolidated statement of cashflows	**17,764**	**4,923**

The term loan, discounted loan notes and revolving credit facility (RCF) are secured by a debenture over all the assets of the Group.

A term loan of £10m was drawn down in June as part of the Avanta acquisition. The loan is repayable quarterly over 16 periods and matures in 2018. Interest accrues on the loan at between 1.4% and 2.4% plus LIBOR, depending upon the level of adjusted leverage as defined in the banking covenants. The relevant covenants have all been comfortably satisfied in 2014 and are forecast to be met comfortably in 2015.

Also as part of the Avanta acquisition, there is £20m of deferred consideration due to the vendors, £11m falling due in 2015 and £9m in 2016. The deferred consideration is in the form of bank guaranteed, coupon-bearing loan notes. The two loan notes have been discounted back to the book values disclosed above. Interest on the bank guarantees is charged at 1.4%.

The revolving credit facility is repayable in 2018 and interest accrues at the same rate as the term loan.

Notes to the financial statements (continued)

For the year ended 31 December 2014

17 Other liabilities

	2014	2013
	£'000	£'000
Due within one year		
Deferred income	17	18
Deferred consideration	-	200
Contingent consideration	-	375
Cash settled JSOP liability	5,472	-
	5,489	**593**
Due after more than one year		
Deferred income	33	51
Dilapidation provision	165	-
Cash settled JSOP liability	880	2,716
	1,078	**2,767**

The deferred income relates to the current head office building for the Group which was subject to a sale and lease back transaction in December 2007, with a sales price above fair value. The excess of proceeds over fair value has been deferred and is being amortised over the remaining lease term. The subsequent leasing agreement is treated as an operating lease. See note 21 for further information relating to details on the Group's operating lease agreements.

As required by IFRS 13, the movement in the contingent consideration in the year is:

	£'000
Balance at 1 January 2014	**375**
Released to income statement	(375)
Balance at 31 December 2014	-

Notes to the financial statements (continued)

For the year ended 31 December 2014

18 Deferred tax

Deferred tax assets/(liabilities)	1 January 2014	Recognised in profit and loss	Recognised on acquisition	**31 December 2014**
	£'000	£'000	£'000	**£'000**
Property, plant and equipment temporary timing differences	(82)	(271)	622	**269**
Other intangible assets	(329)	632	(2,482)	**(2,179)**
Share based payment liability	802	712	-	**1,514**
	391	1,073	(1,860)	**(396)**
Recognised as:				
Deferred tax asset	802	359	622	**1,783**
Deferred tax liability	(411)	714	(2,482)	**(2,179)**
	391	1,073	(1,860)	**(396)**

There are un-provided deferred tax assets amounting to £142,000 (2013: £167,000) in relation to capital allowances. The gross amount is £618,000. This amount has not been recognised as it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the financial statements (continued)

For the year ended 31 December 2014

19 Share capital

	2014 £'000	2013 £'000
Authorised		
30,000,000 ordinary 10p shares	**3,000**	3,000
Allotted and issued		
27,747,551 (2013: 25,687,551) ordinary 10p shares	**2,775**	2,569

	Year ended 31 December 2014	Year ended 31 December 2013
Shares issued and fully paid at the beginning of the period	**25,687,551**	**22,888,578**
Shares issued during the year	2,060,000	2,798,973
Shares issued and fully paid	**27,747,551**	**25,687,551**
Shares authorised but unissued	2,252,449	4,312,449
Total equity shares issued at end of period	**30,000,000**	**30,000,000**

All ordinary shares have the same rights and there are no restrictions on the distribution of dividends or repayment of capital with the exception of the 3,197,263 shares held by the EBT where the right to dividends has been waived.

Notes to the financial statements (continued)

For the year ended 31 December 2014

20 Related party transactions

The only related parties are the Group's Directors and Group undertakings. Transactions with wholly owned Group entities are exempt from disclosure.

Transactions with Group Directors

The Group Directors' personal remuneration includes the following expenses:

	2014 £'000	2013 £'000
Short-term employee benefits:		
Salaries and fees	716	886
Bonus – unpaid at year-end	115	105
Benefits in kind	4	4
Social security costs	115	118
Pension contributions	56	58
Share based employee remuneration	1,114	1,644
	2,120	**2,815**

In addition to the above, the Group spent £30,585 (2013: £18,000) in accommodation expenses at Hogarth's Hotel, which is owned by the Chief Executive. £2,558 remains outstanding at year-end (2013: nil).

21 Operating leases

The Group's aggregate minimum operating lease payments for the full remaining lives of the leases are as follows:

	2014 Land and buildings £'000	2013 Land and buildings £'000
In one year or less	285	530
Between one and five years	3,392	1,225
In five years or more	220	380
	3,897	**2,135**

Lease payments recognised as an expense during the year ended 31 December 2014 amounted to £1,849,000 (2013: £1,168,000). Operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, future leasing or additional debt. No sub-lease income is due as all assets held under lease agreements are used exclusively by the Group.

Notes to the financial statements (continued)

For the year ended 31 December 2014

22 Contingencies

The Group had no contingent assets or liabilities at 31 December 2014 or 31 December 2013, other than the contingent consideration recognised on acquisition as disclosed in note 17 (prior year only).

23 Capital commitments

The Group had no material capital commitments at either 31 December 2014 or 31 December 2013.

24 Risk management objectives and policies

The Group is exposed to a variety of financial risks through its use of financial instruments which result from both its operating and investing activities. The Group's risk management is co-ordinated at its headquarters, in close co-operation with the Board of Directors.

The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

Credit risk

Generally, the Group's maximum exposure to credit risk is limited to the carrying amount of the financial assets recognised at the balance sheet date, as summarised below:

	2014 Loans and receivables and balance sheet totals £'000	2013 Loans and receivables and balance sheet totals £'000
Trade and other receivables (note 13)	68,795	61,061
Cash and cash equivalents	18,364	12,485
Accrued income	7,619	2,029
	94,778	**75,575**

Credit risk is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. Details in respect of trade receivables at 31 December 2014 are provided in note 13.

The Group has adopted a policy of carefully monitoring all customers, especially those who lack an appropriate credit history.

Liquidity risk

The Group seeks to manage financial risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is achieved by the use of a bank overdraft facility up to £12,500,000.

24 Risk management objectives and policies (continued)

Interest rate risk

All financial liabilities of the Group are subject to floating interest rates. Competitive rates have been renegotiated with the Group's bankers and the rate paid on both the term loan and RCF has been set at 1.4% above LIBOR. The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +/- one percentage point with effect from the beginning of the year.

	2014	**2014**	2013	2013
	+1%	-1%	+1%	-1%
(Decrease)/increase in net result and equity £'000	(221)	221	(85)	85

Foreign currency sensitivity

Most of the Group's transactions are carried out in sterling. Exposure to currency exchange rates arises from the Group's overseas sales and purchases which are predominantly denominated in Polish zloty and the Euro (Republic of Ireland). These sales and purchases are immaterial to the Group's total sales and purchases. Due to the highly immaterial nature of these foreign currency transactions the Group has not entered into any foreign currency risk mitigation strategies to date. This will be kept under review as overseas business continues to grow.

24 Risk management objectives and policies (continued)

Financial liabilities

The Group's liabilities are classified as follows:

	2014 Financial liabilities at fair value through profit or loss £'000	2014 Other financial liabilities at amortised cost £'000	2014 Liabilities not within the scope of IAS 39 £'000	2014 Balance sheet total £'000
Term loan and loan notes	-	28,623	-	28,623
RCF	-	7,500	-	7,500
Overdraft	-	5	-	5
Trade and other payables	-	39,581	-	39,581
Accruals	-	30,851	-	30,851
Dilapidation provision	-	-	165	165
Deferred income	-	-	50	50
Other liabilities	-	-	6,352	6,352
Deferred tax	-	-	2,179	2,179
Corporation tax	-	-	2,335	2,335
Total	-	**106,560**	**11,081**	**117,641**

Notes to the financial statements (continued)

For the year ended 31 December 2014

24 Risk management objectives and policies (continued)

Financial liabilities (continued)

	2013 Financial liabilities at fair value through profit or loss £'000	2013 Other financial liabilities at amortised cost £'000	2013 Liabilities not within the scope of IAS 39 £'000	2013 Balance sheet total £'000
Bank loan	-	57	-	57
RCF	-	7,500	-	7,500
Overdraft	-	5	-	5
Trade and other payables	-	31,829	-	31,829
Accruals	-	23,883	-	23,883
Deferred income	-	-	344	344
Other liabilities	375	200	2,716	3,291
Deferred tax	-	-	411	411
Corporation tax	-	-	351	351
Total	**375**	**63,474**	**3,822**	**67,671**

Fair value represents amounts at which an asset could be exchanged or a liability settled on an arm's length basis.

Financial assets and financial liabilities measured at fair value are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in the fair value measurement, as follows:

- level 1 - quoted prices in active markets for identical assets and liabilities
- level 2 - inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly
- level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Group has no financial assets or liabilities in any classification (2013: level 3 for contingent consideration of £375,000).

Notes to the financial statements (continued)

For the year ended 31 December 2014

24 Risk management objectives and policies (continued)

Maturity of financial liabilities

The analysis of the maturity of financial liabilities at 31 December 2014 is as follows:

	2014 Less than one year £'000	2014 Two to five years £'000	2014 More than five years £'000	2014 Total £'000	2013 Less than one year £'000	2013 Two to five years £'000	2013 More than five years £'000	2013 Total £'000
Term loan	2,500	6,250	-	8,750	57	-	-	57
RCF	-	7,500	-	7,500	-	7,500	-	7,500
Loan notes	10,964	8,909	-	19,873	-	-	-	-
Overdraft	5	-	-	5	5	-	-	5
Trade and other payables	39,581	-	-	39,581	31,829	-	-	31,829
Accruals	30,851	-	-	30,851	23,883	-	-	23,883
Other liabilities	-	-	-	-	575	-	-	575
Total	**83,901**	**22,659**	**-**	**106,560**	**56,349**	**7,500**	**-**	**63,849**

25 Cash flows from operating activities

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit before taxation	10,453	8,564
Adjustments for:		
Finance costs	779	360
Depreciation, loss on disposal and amortisation	5,789	2,805
Operating profit before changes in working capital and share options	**17,021**	**11,729**
Change in trade and other receivables	(6,282)	(3,491)
Change in trade and other payables	3,195	9,691
Cash generated from operations	**13,934**	**17,929**
Employee cash settled share options	3,635	2,128
Employee equity settled share options	30	26
Taxes paid	(2,495)	(3,078)
Net cash inflow from operating activities	**15,104**	**17,005**

26 Capital management policies and procedures

The Board's current priorities for the Group's free cash flow are to fund Group development, maintain the strength of the balance sheet and to support a sustainable dividend policy. The Group's overall strategy remains unchanged from last year in that it manages its capital to ensure that the Group will be able to continue as a going concern through the economic cycle.

The capital structure of the Group consists of net debt, which is represented by cash and cash equivalents (note 14), bank loans, overdrafts and revolving credit facilities (note 16) and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Group is not restricted to any externally imposed capital requirements.

Staffline Group plc

Company statutory financial statements (prepared under UK GAAP)

For the year ended 31 December 2014

Company number 05268636

Directors' responsibility statement

For the year ended 31 December 2014

The Directors are responsible for preparing the Directors' Report and the company 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). 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 and profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

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

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

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

Independent auditor's report to the members of Staffline Group plc

For the year ended 31 December 2014

We have audited the parent company financial statements of Staffline Group plc for the year ended 31 December 2014 which comprise the parent company balance sheet, the principal accounting policies and the related notes. The financial reporting framework that has been applied in their preparation 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 auditors

As explained more fully in the Directors' Responsibility Statement set out on page 62, the Directors are responsible for the preparation of the parent company 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 parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit and financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the parent company financial statements:

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

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 parent company financial statements.

Independent auditor's report to the members of Staffline Group plc (continued)

For the year ended 31 December 2014

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

We have reported separately on the group financial statements of Staffline Group plc for the year ended 31 December 2014.

Grant Thornton UK LLP

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
BIRMINGHAM

Date: 28 January 2015

Principal accounting policies

For the year ended 31 December 2014

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with UK accounting standards and applicable law.

The principal accounting policies of the Company are set out below which have remained unchanged from the previous year.

Investments

Investments in the subsidiaries are included at cost less amounts written off. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of Section 612 of the Companies Act 2006 apply, cost represents the nominal value of shares issued together with the fair value of any additional consideration given and costs.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated using the effective interest method.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Intangible assets

Goodwill relates to investments that have had their trades hived up into a fellow group company. Goodwill is amortised over 20 years, which represents its expected useful life. Other intangible asset relates to the acquisition of the intellectual property rights of a software product which is being amortised over 3 years, the expected useful life.

Share based payment

The Company has issued cash settled share based payment in respect of services provided by key employees of one of its subsidiaries. The share based payment is measured at the fair value of the liability at the grant date and re-measured at the fair value of the liability at each subsequent balance sheet date. A liability is recognised for the fair value of the share based payments with the corresponding entry recognised as an increase in the investment held in the subsidiary.

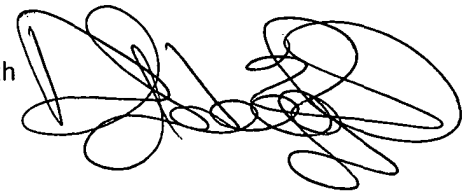
Company balance sheet

At 31 December 2014

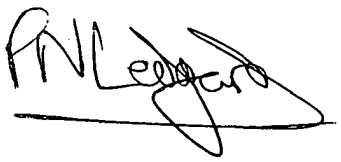
	Note	2014 £'000	2013 £'000
Fixed assets			
Intangible assets	30	2,866	3,633
Investments	29	24,884	21,248
		27,750	**24,881**
Current assets			
Amounts due from group companies	31	47,904	5,021
Cash		65	-
		47,969	**5,021**
Creditors: amounts falling due within one year	32	(18,902)	-
Net current assets		**29,067**	**5,021**
Creditors: amounts falling due after one year	33	**(15,781)**	(2,716)
Net assets		**41,036**	**27,186**
Capital and reserves			
Called up share capital	34	**2,775**	2,569
Own shares (JSOP shares)		**(9,776)**	(9,211)
Share premium account	35	**39,930**	24,195
Profit and loss account	35	**8,107**	9,633
Equity shareholder's funds		**41,036**	**27,186**

The financial statements were approved by the Board of Directors on 28 January 2015.

A Hogarth
Director



P Ledgard
Director



Notes to the UK GAAP financial statements

For the year ended 31 December 2014

27 Profit for the financial year

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's profit for the year before dividends paid was £1,224,000 (2013: £9,209,000). Auditors remuneration incurred by the Company during the year for audit services totalled £13,750 (2013: £8,000).

28 Directors and employees remuneration

As in previous years all Group Directors are remunerated by Staffline Recruitment Limited. Details of directors' remuneration is disclosed within the Report on Remuneration on page 32.

The average number of persons (including Directors) employed by the Company during the year was 5 (2013: 5).

29 Fixed asset investments

	Investment in group undertakings £'000
Cost and net book amount at 31 December 2013	21,248
Additions	3,636
Cost and net book amount at 31 December 2014	**24,884**

Notes to the UK GAAP financial statements

For the year ended 31 December 2014

29 Fixed asset investments (continued)

The Company holds interests in the following companies:

Subsidiaries	Proportion of ordinary share capital held	Country of incorporation	Nature of business
Staffline Recruitment Limited	100%	England and Wales	Recruitment
Elpis Limited*	100%	England and Wales	Dormant
A La Carte Recruitment Limited*	100%	England and Wales	Dormant
Staffline Polska Sp. zoo*	100%	Poland	Recruitment
Staffline Gliwice Sp. zoo*	100%	Poland	Recruitment
Go New Sp. Zoo *	100%	Poland	Recruitment
House of Logistics Limited*	100%	England and Wales	Dormant
Staffline Recruitment Ireland Limited	100%	Republic of Ireland	Recruitment
Eos Works Limited*	100%	England and Wales	Welfare to work
Ethos Recruitment Limited*	100%	England and Wales	Dormant
Taskforce Recruitment Limited*	100%	England and Wales	Dormant
Go New Recruitment Limited*	100%	England and Wales	Dormant
Go New Recruitment (Glos.) Limited*	100%	England and Wales	Dormant
Select Appointments Limited*	100%	England and Wales	Recruitment
Learning Plus System Limited	100%	England and Wales	Training
Staffline Holdings Limited	90%	England and Wales	Intermediary holding
Avanta Enterprise Limited*	100%	England and Wales	Welfare to Work
Softmist Limited*	100%	England and Wales	Training
Eos (Trading) Northern Ireland Limited*	100%	Northern Ireland	Training

*These companies are owned indirectly through other group companies.

Notes to the UK GAAP financial statements

For the year ended 31 December 2014

30 Intangible assets

	Goodwill £'000	Other intangible asset £'000	**Total £'000**
NBV at 31 December 2013	1,800	1,833	3,633
Amortisation provided in year	(100)	(667)	(767)
NBV at 31 December 2014	**1,700**	**1,166**	**2,866**

31 Trade and other receivables

	2014 £'000	2013 £'000
Amounts due from Group undertakings	**47,904**	5,021

32 Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Accruals	72	-
Cash settled JSOP liability	5,472	-
Term loan	2,500	-
Discounted loan notes	10,964	-
Unamortised transaction costs	(106)	
	18,902	-

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For the year ended 31 December 2014

33 Creditors: amounts falling due after one year

	2014 £'000	2013 £'000
Cash settled JSOP liability	880	2,716
Term loan	6,250	-
Discounted loan notes	8,909	-
Unamortised transaction costs	(258)	-
	15,781	**2,716**

34 Share capital

Authorised	**2014 £'000**	2013 £'000
30,000,000 (2013: 30,000,000) ordinary 10p shares	**3,000**	3,000

Allotted and issued	**2014 £'000**	2013 £'000
27,747,551 (2013: 25,687,551) ordinary 10p shares	**2,775**	2,569

During the year 6,000 shares were issued relating to the JSOP. For full details of share options and the share based payment charge calculation see note 7. An additional 200,000 shares were issued as part of the Avanta acquisition.

35 Reserves

	Share premium £'000	**Profit and loss account £'000**
At 1 January 2014	24,195	9,633
Retained profit for the year	-	1,224
JSOP shares issued	559	-
Equity raise	15,800	-
Share issue costs	(624)	-
Dividends paid	-	(2,750)
At 31 December 2014	**39,930**	**8,107**

Notes to the UK GAAP financial statements

For the year ended 31 December 2014

36 Contingent liabilities

A cross guarantee exists between all companies in the Group for all amounts payable to Lloyds. The Group amount owing to Lloyds at year-end is £27.2m.

37 Capital commitments

There were no capital commitments at 31 December 2014 or at 31 December 2013.

38 Related parties

The company has taken the FRS 8 exemption to not disclose transactions with wholly owned subsidiary undertakings. Details of related party transactions are given in note 20 to the consolidated financial statements.