

**SLATER AND GORDON UK
HOLDINGS LIMITED**

**DIRECTORS' REPORT AND
CONSOLIDATED FINANCIAL
STATEMENTS
FOR THE PERIOD ENDED
31 DECEMBER 2018**

Registered Number 10977311

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Company Information

Period ended 31 December 2018

Directors

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

Company number

10977311

Registered Office

58 Mosley Street
Manchester
England
M2 3HZ

Auditor

Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
RG1 1YE

Chief Executive's Strategic Report

Period ended 31 December 2018

Review of Business

The 2018 Accounts

These accounts represent the period from incorporation of Slater and Gordon UK Holdings Limited (“the Company”) on 22nd September 2017 to 31st December 2018. On 15th December 2017 the Company acquired the Slater and Gordon UK group of companies from their previous Australian parent under a Scheme of Arrangement with their senior lenders. Since that date the Company and all Slater and Gordon UK Companies (together “the Group”) have been operated independently.

A Successful Year

I am pleased to report 2018 was a successful year of stabilisation and restructuring allowing the Group to achieve its first year of profitability at the adjusted EBITDA¹ level of £1.0m and profit before tax of £112.2m after recording a gain on bargain purchase of £134.6m after non-recurring items² of £14.7m.

The Group generated revenues of £222.7m in the period. When the Group was formed under the scheme of arrangement on 15th December, a gain of £134.6m was recorded on the transaction (see note 21 to the accounts). This helped the Group to generate a profit before tax of £112.2m for the period. Net assets were £135.0m at 31 December 2018.

The restructuring actions taken and investment made in 2018 have allowed the business to continue its development into 2019 and generate further improvement in operating performance.

Leadership and vision

I joined the Group in January 2018 to lead the restructuring and development of the Group. To assist this process the business made a number of significant hires to strengthen the management and directorship of the business.

Martyn Beauchamp joined as Chief Customer Officer in March 2018, a new role to reflect the importance the Group places on the customer journey and needs. With 15 years of international experience delivering transformative change programmes, Martyn brings an unrelenting focus on the customer that is the cornerstone of our vision for Slater and Gordon. Our ambition is to be more than a law firm and that requires us to put the customer needs front and centre.

Alison Wilford is our new Chief Financial Officer, joining the Group in November 2018. She comes from a background of finance management for international brands, specialising in leading change and management of supplier relationships.

Our most recent addition to the Executive Team is Angus Eaton, our Chief Risk Officer, who joined in January 2019. Angus is a trained lawyer and comes from 13 years at Aviva where he was most recently Managing Director of their Commercial General Insurance business. Angus will ensure we have appropriate focus on regulatory risk during business growth and digital transformation. He will be working closely with Yvonne Ferguson, the Group's new Chief Transformation and Technology Officer. Yvonne has previously held senior management positions at Transport for London, Royal Mail, Ministry of Defence and WPP.

Our new additions join Matt Jarvis and Alicia Alinia on our Executive Team. Matt now leads our Personal Injury Services business and Alicia is our Chief People Officer. Both Matt and Alicia are lawyers who have developed through our organisation combining significant direct client and management experience with a deep understanding of the Slater and Gordon culture.

With this new team, I am confident the Group has the right set of diverse skills to drive through the changes that will enable our continued growth.

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

[2] Non-recurring items: Costs or income that have been recognised in the income statement which the Directors believe, due to their nature or size, should be disclosed separately to give a more comparable view of year on year underlying performance. In 2018 non-recurring items include costs associated with the restructuring the business including redundancies and office closures as well as legal costs related to the Watchstone case. These costs are disclosed separately as non-recurring items due to their one off nature and significance. (Refer to note 4).

Chief Executive's Strategic Report (continued)

Period ended 31 December 2018

Review of the business (Continued)

Driving technological innovation

Our mission is to provide high quality, technology driven legal services to all UK consumers. The Executive Team has been tasked with digitising and broadening legal services as part of a multi-million pound investment drive. Our focus is on developing new seamless service solutions that anticipate our customers' needs, and delivering a flexible and aspirational working environment that attracts, excites and engages our people.

For us to continue to grow, we must test, learn and challenge both ourselves and the sector. We are working on solving challenges, big and small, for colleagues and customers. This will require us to exploit and continue investment in leading technology.

In 2018 we invested £6.7m million in technology initiatives as a first phase of a wide-ranging three year technology programme. This saw a close partnership with Microsoft which enabled the Group to become the first business in the world to deploy their Microsoft Managed Desktop. Our staff now use the latest Surface Pro devices, with Microsoft automatically managing, updating and securing these devices. Surface Pros make use of facial recognition as one layer of access security, therefore reducing the risk of security breaches. This relationship enabled the business to provide a more consistent, flexible and modern approach to working. It has also permitted us to further enhance our data security through Azure which is a critical priority for our business when dealing with sensitive customer events.

In July 2018 the Group combined its two regulated "Alternative Business Structures" into one regulated entity. This allows us to go to market under one unified brand and enables a more integrated business from which to build out further service offerings. Processes have been streamlined and we have consolidated into fewer, larger regional hubs enabled by technology.

In this period the business has collaborated with a team of data scientists to harness the benefits of analytic software to help make more sense of the significant amounts of information that is captured on a daily basis in the course of routine consumer legal work. This has given the Group the insight to better resource our client work and plan more accurately for case outcomes, based on probability as well as experience.

Our ongoing investment in digitising legal services and automation ensures the Group is delivering market-leading customer experience, anticipating the expectations of customers and colleagues, and enhancing the offer the Group gives to its partners now and in the future.

People and culture

In the second half of 2018 a thorough and strategic review of the business' culture was completed. As a direct result of its findings, we have proudly introduced a new People and Culture function in our business recognising the need to offer greater support and flexibility of opportunity to our increasingly diverse workforce. The new function is headed by former Managing Director of Personal Injury, Alicia Alinia, who is rolling out a series of programmes to build on the reputation of the business externally and internally.

Opportunities

2019 offers the business an opportunity to be at the forefront of driving innovative solutions within our personal injury business as we await further Civil Claims reforms. These reforms are due to be implemented in England and Wales in April 2020, subject to the passing of the necessary Statutory Instruments and the creation of a new online portal for litigants in person. In response to this we are taking the lead in building our Road Traffic Accident strategy, investing in new technology and re-engineering our claims processes. This new strategy means we are well positioned to take advantage of the commercial opportunities that will result from the changes while ensuring our customers continue to be able to access fair compensation.

We believe the UK consumer legal services sector will continue to grow and intend to continue using technological solutions to ensure Slater and Gordon is well positioned to capture more of this growing market

Principal risks and uncertainties

We recognise that effective risk management is fundamental in helping the Group to deliver it's strategic objectives. The Group considers strategic, operational and financial risks on a regular basis and identifies actions to mitigate those risks.

Chief Executive's Strategic Report (continued)

Period ended 31 December 2018

Credit and liquidity management

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

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

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

Legal action

Slater and Gordon UK brought a claim against Watchstone Group plc (formerly Quindell plc) in June 2017 for fraudulent misrepresentation and breach of warranty in relation to the financial performance of the Professional Services Division of Quindell prior to its acquisition by Slater and Gordon in 2015. Court proceedings are scheduled to commence in October 2019.

Brexit

It is not completely clear what the impact of the UK's decision to withdraw from the European Union will be on the UK economy. The Group is keeping the developments under review and has assessed the risk to the performance of its business to be low.

Summary

2018 saw us reach the first crucial milestones in the development of Slater and Gordon, in the UK. The business separated from its Australian parent company, delivered £1m in adjusted EBITDA¹ profit, recruited a highly skilled and transformation focussed leadership team, committed to significant technological investment and laid the foundations for 2019 and beyond. All of this was achieved whilst delivering good outcomes for our customers.

We will continue this focus over the coming years to ensure we maintain our position as the leader in the UK consumer legal market.

David Whitmore
Chief Executive Officer

29 July 2019

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

Directors' Report

Period ended 31 December 2018

The Directors present their report, together with the financial report of the consolidated entity consisting of Slater and Gordon UK Holdings Limited ("the Company") and its controlled entities (jointly referred to as "the Group"), for the financial period ended 31 December 2018. This financial report has been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Directors

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

- M J Beauchamp – Appointed 18 March 2019
- B J Carne – Appointed on 22 September 2017 and resigned on 5 December 2017
- M L Drennan – Appointed on 22 September 2017 and resigned on 5 December 2017
- K J Fowle – Appointed on 5 December 2017 and resigned on 3 May 2019
- M Glengarry – Appointed 28 February 2019
- D S Neave – Appointed 1 February 2018
- S B Prew – Appointed on 5 December 2017 and resigned on 28 June 2018
- N I Stoesser – Appointed 1 February 2018
- G J White – Appointed 27 June 2019
- D J L Whitmore – Appointed 1 February 2018
- A L Wilford – Appointed 14 January 2019

Slater and Gordon UK Holdings Limited maintains liability insurance for its UK directors and officers.

Principal activities

Slater and Gordon UK Holdings Limited is the ultimate holding company of the Slater and Gordon companies in the UK and Malta. The principal activities of the Group are to provide legal, medical, motor insurance claim and complementary services.

Business mission

The mission of the Group is to provide high quality, technology driven legal services to all UK consumers.

Results

The consolidated results for the period ended 31 December 2018 are set out on page 11. No dividend has been proposed by the Company.

Political donations

During the period the Company made no political donations.

Employee involvement

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

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

Disabled persons

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

Modern slavery

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

Anti-bribery and corruption

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

Directors' Report (Continued)

Period ended 31 December 2018

Auditor

Ernst & Young LLP are deemed to be reappointed as Auditors under section 487(2) of the Companies Act 2006.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and for the Company in accordance with Financial Reporting Standard 101 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 101").

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

In the case of the FRS101 parent company financial statements, the Directors are required to prepare financial statements for each financial period that give a true and fair view of the state of the affairs of the Company.

In preparing those financial statements, the Directors are required to:

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Report (Continued)

Period ended 31 December 2018

Going Concern

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

The Company and its subsidiaries are members of the Slater and Gordon Consolidated Group whose ultimate parent entity is Slater and Gordon UK Holdings Limited, a company incorporated on 22 September 2017

At 31 December 2018, the Group had net assets of £135 million and cash of £11 million. The Group has prepared cash flow forecasts for the foreseeable future, based on key assumptions around the achievement of revenues, which demonstrate cash self-sufficiency in the Group within available funding levels. Management has considered the level of new instructions and the likely future value of this work together with the forecasts and projected cash flow patterns of the Company for the foreseeable future being a period of 12 months from the date of approval of these financial statements.

The Company's projections for the period to August 2020 including receipts and payments as well as the utilisation of agreed funding facilities in place indicate that the Group expects to be able to discharge its obligations to all stakeholders. Business activity and cash flows are monitored on a regular weekly basis and continue to be satisfactory. Regular financial forecasts are prepared to monitor the firms funding requirements through retained profits and borrowing facilities, and projected compliance with shareholders covenants.

Accordingly, the Directors have adopted the going concern basis of accounting for preparing these financial statements.

Subsequent Events

Slater and Gordon UK Holdings Limited amended its articles on 18 March 2019 to include a new class of shares (A Ordinary shares). This was with the intention of allotting shares to various Employees of the Group (including some Directors). A total of 158,670 A Ordinary Shares were issued to Slater and Gordon (UK) Nominees Limited on behalf of ten beneficial owners in the period 29 March 2019 to 5 July 2019. All A Ordinary shares were purchased in cash by the beneficial owner at their unrestricted market value as at the purchase date.

Statement of disclosure to the auditor

The Directors who were members of the board at the time of approving the directors' report are listed on page 2. Having made enquiries of fellow directors and of the Company's auditors, each of these Directors confirms that: to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and each director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the board

David Whitmore
Chief Executive Officer
29 July 2019

Alison Wilford
Chief Financial Officer
29 July 2019

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

Opinion

We have audited the financial statements of Slater and Gordon UK Holdings Limited ('the parent company') and its subsidiaries (the 'group') for the period ended 31 December 2018 which comprise Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Balance Sheet, Company Statement of Changes in Equity, the related notes 1 to 26 for the Group accounts and the related notes 1 to 9 for the Company accounts, including a summary of significant accounting policies. 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. The financial reporting framework that has been applied in preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standard (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

In our opinion:

- ▶ the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the period then ended;
- ▶ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- ▶ the parent company financial statements have been properly prepared in accordance with United Kingdom Accounting Standard (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006

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

- ▶ the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- ▶ the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Joe Yglesia (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
Date: 31 July 2019

Consolidated Statement of Comprehensive Income

For the period ended 31 December 2018

	Note	2018 £'000
Revenue	3	222,667
Cost of revenue		(55,334)
Gross Profit		167,333
Gain on bargain purchase	21	134,634
Operating expenses	4	(187,627)
Operating Profit		114,340
Net finance costs	7	(2,166)
Profit before tax		112,174
Income Tax	8	(85)
Profit and total comprehensive income for the period		112,089
Profit attributable to:		
Owners of the Company		112,089
		112,089

The Company was incorporated on 22 September 2017 and thus this is the first reporting period. Therefore, there are no comparative figures.

The accompanying notes on pages 15 to 42 form an integral part of these financial statements.

Consolidated Statement of Financial Position

For the period ended 31 December 2018

	Note	2018 £'000
Non-current assets		
Property, plant and equipment	9	5,636
Intangible assets	10	17,519
Work in progress	11	46,377
Trade and other receivables	12	39,975
Deferred tax assets	8	938
Total non-current assets		110,445
Current assets		
Work in progress	11	87,569
Trade and other receivables	12	151,587
Cash	13	11,351
Deferred tax assets	8	3,036
Total current assets		253,543
Total assets		363,988
Current liabilities		
Trade and other payables	14	184,412
Current tax		3,897
Provisions	16	15,593
Total current liabilities		203,902
Non-current liabilities		
Loans	15	22,444
Provisions	16	2,649
Total non-current liabilities		25,093
Total liabilities		228,995
Net assets		134,993
Equity		
Share premium	17	22,904
Retained earnings		112,089
Total equity attributable to equity holders in the Company		134,993

The Company was incorporated on 22 September 2017 and thus this is the first reporting period. Therefore, there are no comparative figures.

The accompanying notes on pages 15 to 42 form an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 29 July 2019.

They were signed on its behalf by:

David Whitmore
Chief Executive Officer

Alison Wilford
Chief Financial Officer

Company number: 10977311

Consolidated Statements of Changes in Equity

For the period ended 31 December 2018

Attributable to the equity holders of the Parent

	Note	Share Premium £'000	Retained Earnings £'000	Total £'000
Balance at 22 September 2017		-	-	-
Profit after tax for the period			112,089	112,089
Total comprehensive income for the period			112,089	112,089
Transactions with owners in their capacity as owners				
Issue of Ordinary Shares	17	22,904		22,904
Total transactions with owners in their capacity as owners		22,904		22,904
Balance as at 31 December 2018		22,904	112,089	134,993

Share Premium – The amount paid by the Company's shareholders, in cash or consideration, over and above the nominal value of the shares issued.

Retained earnings – This balance includes all current period retained profits.

The Company was incorporated on 22 September 2017 and thus this is the first reporting period. Therefore, there are no comparative figures.

The accompanying notes on pages 15 to 42 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the period ended 31 December 2018

	Note	2018 £'000
Cash flow from operating activities		
Net cash used in operating activities		(19,044)
Income tax received		1,065
		(17,979)
Cash flow from investing activities		
Payment for software development		(1,979)
Proceeds from sale of plant and equipment		1,220
Cash acquired through business combination		10,558
Consideration paid on acquisition		(747)
Interest received		100
Net cash provided by investing activities		9,152
Cash flow from financing activities		
Loan drawdown		20,791
Interest paid		(613)
Net cash provided by financing activities		20,178
Net increase in cash held		11,351
Cash at beginning of financial year		-
Cash at end of financial year	13	11,351

Reconciliation of cash flow from operations with profit before income tax

Profit before income tax		112,174
<i>Adjustments for:</i>		
Depreciation & amortisation	4	6,631
Interest income	7	(100)
Finance costs	7	2,266
Disposal gain/loss on disposal of property, plant and equipment	4	(30)
Gain on bargain purchase	21	(134,634)
<i>Changes in assets and liabilities</i>		
Receivables		5,885
Work in progress		8,075
Payables		(16,152)
Provisions		(3,159)
Cash flows from operations		(19,044)

The Company was incorporated on 22 September 2017 and thus this is the first reporting period. Therefore there are no comparative figures.

The accompanying notes on pages 15 to 42 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the period ended 31 December 2018

1. Statement of Significant Accounting Policies

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

(a) Basis of preparation of the financial report

Slater and Gordon UK Holdings Limited is a company limited by shares, incorporated and domiciled in the United Kingdom. The consolidated financial statements comprise the Company and its controlled entities referred to in Note 20, together referred to as the Group and individually as Group Entities.

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

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

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

Compliance with IFRS

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

Historical cost convention

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

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

Significant accounting estimates

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

Going Concern

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

The Company and its subsidiaries are members of the Slater and Gordon Consolidated Group whose ultimate parent entity is Slater and Gordon UK Holdings Limited, a company incorporated on 22 September 2017

At 31 December 2018, the Group had net assets of £135 million and cash of £11 million. The Group has prepared cash flow forecasts for the foreseeable future, based on key assumptions around the achievement of revenues, which demonstrate cash self-sufficiency in the Group within available funding levels. Management has considered the level of new instructions and the likely future value of this work together with the forecasts and projected cash flow patterns of the company for the foreseeable future being a period of 12 months from the date of approval of these financial statements.

The Company's projections for the period to August 2020 including receipts and payments as well as the utilisation of agreed funding facilities in place indicate that the Group expects to be able to discharge its obligations to all stakeholders. Business activity and cash flows are monitored on a regular weekly basis and continue to be satisfactory. Regular financial forecasts are prepared to monitor the firms funding requirements through retained profits and borrowing facilities, and projected compliance with shareholders covenants.

Accordingly, the Directors have adopted the going concern basis of accounting for preparing these financial statements.

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

1. Statement of Significant Accounting Policies (Continued)

(b) Principles of consolidation

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

The financial statements of subsidiaries are prepared using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including any unrealised profits or losses, have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

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

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

(c) Revenue

Provision of Legal Services

- *Personal Injury Law Claims*

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

In personal injury matters, contracts with customers generally comprise a single distinct performance obligation, being the provision of services in pursuit of the successful settlement of a customer's claim, and the transaction price is allocated to this single performance obligation. Some contracts contain multiple deliverables – such as legal services in respect of a statutory claim and a common law claim, or initial pre-issue work and litigation work. In such circumstances, these multiple deliverables are considered to represent a single distinct performance obligation. Management considers the methods used provide a faithful depiction of the transfer of goods or services.

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

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

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

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

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

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

1. Statement of Significant Accounting Policies (Continued)

(c) Revenue (Continued)

- *Personal Injury Law Claims (Continued)*

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

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

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

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

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

Accrued income is recorded once damages have been agreed with the defendants, prior to negotiation of the final costs.

The Group estimates fees for variable or conditional service fee arrangements using a most likely amount approach on a contract by contract basis. Management makes a detailed assessment of the amount of revenue expected to be received and the probability of success of each case. Variable consideration is included in revenue only to the extent that it is highly probable that the amount will not be subject to significant reversal when the uncertainty is resolved (generally when a matter is concluded).

- *Consumer Legal Services*

The Group also earns revenue from provision of general legal services, incorporating project litigation. Revenue for general legal services is recognised over time in the accounting period when services are rendered.

Fee arrangements from general legal services include fixed fee arrangements, unconditional fee for service arrangements ("time and materials"), and variable or contingent fee arrangements (including No Win – No Fee arrangements for services including project litigation, and some consumer and commercial litigation).

For fixed fee arrangements, revenue is recognised based on the stage of completion with reference to the actual services provided as a proportion of the total services expected to be provided under the contract. The stage of completion is tracked on a contract by contract basis using a milestone based approach, which was explained above.

In fee for service contracts, revenue is recognised up to the amount of fees that the Group is entitled to invoice for services performed to date based on contracted rates.

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

As in the case of personal injury claims, estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Group has determined that no significant financing component exists in respect of the general law services revenue streams. This has been determined on fee for service and fixed fee arrangements as the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one month or less. For No Win - No Fee arrangements this has been determined because a significant amount of the consideration promised by the customer is variable subject to the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the Group.

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

Accrued income is recorded once damages have been agreed with the defendants, prior to negotiation of the final costs.

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

1. Statement of Significant Accounting Policies (Continued)

(c) Revenue (Continued)

- *Other Legal Services*

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

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

No revenue has been recognised for Noise Induced Hearing Loss (“NIHL”) files that are in progress as at 31 December 2018 due to the low number of NIHL cases that have settled during the period and the inherent uncertainty over the consideration to be achieved in each successful matter.

Provision of Non-legal Services

- *Vehicle Hire and Repair*

Revenue from the provision of car repair is recognised at a point in time. Revenue from the provision of car hire and cost recovery services are recognised over the time that the services are performed.

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

For car hire and cost recovery services, the revenue is recognised over time, being the period between the commencement of the car hire and settlement of costs through the Third Party Insurer (“TPI”). The amount of revenue recognised is the amount as agreed in writing between the parties prior to the service being provided in the hire rental agreement.

Work in progress is only included in revenue to the extent that it is highly probable that the cumulative amount of revenue recognised in respect of a contract at the end of a reporting period will not be subject to significant reversal when a matter is concluded. A dilution rate is applied on the invoice to recognise the fact that there may be a settlement adjustment with the insurer if the insurer disputes any costs. This also takes into account the fact that some cases may not be ‘no fault’.

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

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

Revenue resulting from car hire and repair services are recognised on a gross basis.

- *Medical Reports and Rehabilitation Services*

Revenue from the provision of medical appointments and rehabilitation services is recognised at a point in time.

For medical appointments, the revenue is recognised when the medical report is received from the medical expert. The amount of revenue recognised is based on the fee structure. This value remains in work in progress until the medical report is issued to the Instructing Party (‘IP’) at which point the sales invoice is raised.

For rehabilitation services, the revenue is recognised when the course of treatment is completed, and the final assessment or discharge report is issued to the IP. The amount of revenue recognised is based on the fee structure agreed with the IP. A receivable in relation to these services is recognised when a bill has been issued, as this is the point in time that the consideration is unconditional.

(d) Cash and cash equivalents

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

Under the Solicitors Accounts Rules 2011 the Group is required to have a separate bank account to hold and receive client money. This must be under the name of the relevant entity and the name of the account must also include the word ‘client’. All client money must be held in a client account. Client monies do not appear in the financial statements.

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

1. Statement of Significant Accounting Policies (Continued)

(e) Receivables

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

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

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

Accrued income represents the revenue recognised in accordance with the group revenue recognition policy to the extent it has not been invoiced. It is recorded once damages have been agreed with the defendants, prior to negotiation of the final costs.

(f) Creditors

The Group has a funding facility in place whereby a third party will lend on expected agreed costs and paid disbursements at a given interest rate on Personal Injury (No Win - No Fee) cases.

(g) Property, plant and equipment

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

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

Depreciation

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

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rates	Depreciation method
Property, Plant & Equipment	5.00 – 66.67%	Straight Line and Diminishing Value
Leasehold Improvements	Length of lease	Straight Line

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

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

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

1. Statement of Significant Accounting Policies (Continued)

(h) Leases

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

Finance leases

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the fair value or, if lower, the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the statement of comprehensive income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely the consolidated entity will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Operating leases

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

(i) Work in progress (“WIP”)

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

Refer to note 1 (c) above and note 2 (a) below for further details.

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

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

(j) Business combinations

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

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

Goodwill is recognised initially at the excess over the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), less the fair value of the identifiable assets acquired and liabilities assumed.

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

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

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

1. Statement of Significant Accounting Policies (Continued)

(k) Intangibles and goodwill

Software development costs

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

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

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

Trademarks

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

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

Customer relationships

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

Goodwill

Goodwill is initially measured as the excess over the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), less the fair value of the identifiable assets acquired and liabilities assumed.

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

(l) Impairment of non-financial assets

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

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

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

(m) Taxation

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

Income tax

Income tax expense comprises current and deferred tax.

Current tax

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

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

1. Statement of Significant Accounting Policies (Continued)

(m) Taxation (Continued)

Deferred tax

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

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

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

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

Value Added Tax ("VAT")

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

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

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

(n) Provisions

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

The onerous lease balance is the remaining expenditure from properties that no longer derive economic benefit in the future. Provisions for onerous leases are stated at the net present value of the amounts payable under the contracts.

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

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

(o) Employee benefits

Short-term employee benefit obligations

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

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

1. Statement of Significant Accounting Policies (Continued)

(o) Employee benefits (Continued)

Defined contribution pension plan

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

Bonus plan

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

Termination benefits

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

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

(p) Borrowing costs

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

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

(q) Financial instruments

Classification

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

Non-derivative financial instruments

Non-derivative financial instruments consist of investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are initially recognised at fair value, plus directly attributable transaction costs (if any), except for instruments recorded at fair value through profit or loss. After initial recognition, non-derivative financial instruments are measured as described below.

Loans and receivables

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

Impairment of financial assets

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

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

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

1. Statement of Significant Accounting Policies (Continued)

(q) Financial instruments (Continued)

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including loans from or other amounts due to related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Non-interest bearing financial liabilities for deferred cash consideration on the acquisition of acquired firms is measured at amortised cost using the effective interest rate method. The implied interest expense is recognised in profit and loss.

(r) Foreign currency translations and balances

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

Transactions and balances

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

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

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

IFRS 9

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after 1 January 2018 bringing together all three aspects of accounting for financial instruments; classification and measurement, impairment, and hedge accounting.

The Group is performing an assessment to understand the requirements of IFRS 9 and how these differ from IAS 39 and are yet to conclude on the impact on the consolidated financial statements from the date of adoption.

IFRS 15

IFRS 15 addresses the recognition of revenue from customer contracts and impacts on the amounts and timing of the recognition of such revenue.

The Company early adopted IFRS 15 at incorporation and the Group Entities early adopted IFRS 15 from 1 July 2015, as such there is nothing to note in relation to the impact, amendments and interpretation in relation to this standard.

IFRS 16

IFRS 16 addresses the recognition of operating leases that convey a right of use asset for a period time in exchange for consideration are deemed to be of a long-term nature.

IFRS 16 will supersede the current accounting treatment and disclosure requirements for IAS 17 "Leases". The standard recognises a right of use asset at the present value of the lease liability plus any additional payments at or prior to the conclusion of the lease.

Management have performed a preliminary impact assessment in relation to adopting IFRS 16 and is still evaluating the impact on the consolidated total assets.

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

2. Critical Accounting Estimates and Judgements

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are outlined in detail within the specific note to which they relate. Noted below are the significant accounting judgements and key sources of estimation uncertainty applied in the current reporting year:

(a) Work in progress ("WIP")

Revenue Recognition – Identifying the Performance Obligation

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

The Group has some contractual arrangements outside of personal injury matters that include multiple performance obligations. In these transactions, the transaction price must be allocated to the performance obligations on a relative stand-alone selling price basis. In most cases, the price for each separate performance obligation is identified in the contract and in most cases, these prices are considered to be reflective of the stand-alone selling price of each performance obligation.

The Group notes that it is not practicable to determine and track on a case-by-case basis the elements of a transaction that should be attributed to pre- and post-acquisition performance, given the nature of the estimates of variable consideration, and the methodology adopted (based around actual historical average fees and estimates of success rates on a cohort-by-cohort rather than case-by-case basis).

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

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

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

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

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

Recognising Revenue: Measuring the Stage of Completion

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

Notes to the Consolidated Financial Statements

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For the period ended 31 December 2018

2. Critical Accounting Estimates and Judgements (Continued)

(b) Income tax

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

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

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

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method ("MEEM") whilst the fair value of trademarks acquired in a business combination is based on a relief from royalties approach. These methods require estimates by management of future income streams, applicable royalty rates and discount rates. See note 22.

(d) Provision for solicitors claims

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

3. Revenue

	2018
Revenue	£'000
Fees	155,933
Ancillary Revenue	74,695
	230,628
Net movement in work in progress	(8,075)
Other	114
	(7,961)
Total Revenue	222,667

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

4. Profit from Continuing Activities

The following items have been charged/(credited) to the statement of comprehensive income to arrive at the profit before tax.

	2018
	£'000
Amortisation and impairment of intangible assets	5,061
Depreciation of owned property, plant and equipment	1,570
Gain on disposal of property, plant and equipment	(30)
Operating lease rentals	8,981
Net foreign currency (gains)/losses	11
Auditors' remuneration	925

	2018
	£'000
Fees payable to the Company's auditor in respect of:	
Audit and audit-related services	
Audit of the Company and Group financial statements	250
Audit of the financial statements of subsidiaries of the Company	625
Other Audit Services (SRA)	50
Total Audit and audit-related services	925

	2018
	£'000
Reconciliation of Adjusted EBITDA¹ to Profit before tax	
Adjusted EBITDA ¹	991
Depreciation and amortisation	(6,631)
Non recurring items ²	(14,654)
Gain on bargain purchase	134,634
Operating profit	114,340
Net finance costs	(2,166)
Profit before tax	112,174

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

[2] Non-recurring items: Costs or income that have been recognised in the income statement which the Directors believe, due to their nature or size, should be disclosed separately to give a more comparable view of year on year underlying performance. In 2018 non-recurring items include costs associated with the restructuring the business including redundancies and office closures as well as legal costs related to the Watchstone case. These costs are disclosed separately as non-recurring items due to their one off nature and significance

Notes to the Consolidated Financial Statements

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For the period ended 31 December 2018

5. Employee Information

5.1 Employee Benefits

The aggregate employee benefit expense, including Directors, comprised;

	2018
	£'000
Wages and salaries	82,751
Social security costs	7,459
Contributions to defined contribution pension arrangements	3,200
Total aggregate employee benefits	93,410

5.2 Employee Numbers

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

	2018
	Number
Headcount by type	
Operations	1,341
Administration	858
	2,199

6. Directors' Remuneration

	2018
	£'000
Directors' emoluments	1,255
Contributions to defined contribution pension arrangements	10
Total Directors benefits	1,265

The highest paid Director received remuneration of £510,701.

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

During the year two Directors participated in the defined contribution pension arrangements.

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

7. Net Finance Costs

	2018 £'000
Interest Receivable	
On deposits	100
	100
Interest Payable	
Loan	1,653
Short term financing	613
	2,266
Net finance costs	(2,166)

8. Income Tax

	2018 £'000
Income tax expense	
Current tax	(737)
Deferred tax	934
Adjustment for current tax relating to prior periods	(26)
Adjustment for deferred tax relating to prior periods	(91)
Change in rate of deferred tax	2
Derecognition of deferred tax asset	3
	85
The prima facie tax payable on profit before tax differs from the income tax expense as follows:	
Profit before tax	112,174
At the statutory income tax rate of 19%	21,313
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:	
Expenses not deductible for tax purposes	1,703
Gain on bargain purchase not taxable	(25,579)
Other non-taxable income	(38)
	(2,601)
Adjustments in respect of prior periods	(117)
Change in tax rate on deferred tax brought forward	2
Deferred tax charged at lower rate	1
Derecognition of deferred tax asset	3
Difference in overseas tax rate	(567)
Deferred tax assets not recognised	3,364
Income tax expense	85

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

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

8. Income Tax (continued)

Unrecognised deferred tax assets

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

	2018
	£'000
Tax losses	57,082
Property, plant and equipment	2,086
Other short-term timing differences	235
Deferred tax asset not recognised	59,403

Deferred tax relates to the following:

	2018
	£'000
Maltese refundable tax credit	3,036
Other short-term timing differences	464
Property, plant and equipment	114
Revenue losses carried forward	2,378
Net deferred tax assets	5,992
Reflected in the statement of financial position as follows:	
Deferred tax assets	5,992
Deferred tax liabilities on intangibles	(2,018)
Net deferred tax assets	3,974
Current deferred tax asset	3,036
Non-current deferred tax asset	938
Net deferred tax assets	3,974

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

9. Property, Plant & Equipment

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

10. Intangible Assets

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

The customer relationships were acquired as part of a business combination (see Note 22). They are recognised at their fair value at the date of acquisition and they are subsequently amortised on a straight line basis, based on the timing of the projected cash flows on the contracts over their estimated useful economic lives.

Included within other intangibles are software licences and fair valuation adjustments for WIP acquired as part of the business combination (see Note 22). Software licences are recognised at their fair value at the date of acquisition and they are subsequently amortised on a straight line basis, based on the timing of the projected cash flows on the contracts over their estimated useful economic lives. WIP recognised as an intangible is the fair value at the date of acquisition and is calculated as the present value of its future profit. The intangible asset created is assumed to be amortised in line with the realisation of these profits.

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

10. Intangible Assets (Continued)

Indefinite life intangibles acquired through business combinations have been allocated to individual cash generating units ("CGUs") in the UK business for the purposes of impairment testing.

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

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

For all CGUs a post-tax cost of capital of 12.5% has been applied. This cost of capital has been assessed with reference to the Company's weighted average cost of capital and independent third party analysis of its cost of capital.

11. Work in Progress

	2018 £'000
Non-current	
Legal	46,377
Current	
Legal	83,597
Non Legal	3,972
	87,569

12. Trade and Other Receivables

	2018 £'000
Non-current	
Disbursements	51,685
Allowance for non-recovery	(11,710)
	39,975
Current	
Trade debtors	32,850
Accrued income	2,057
Net Debtors	34,907
Disbursements	140,552
Allowance for non-recovery	(35,728)
Net Disbursements	104,824
Prepayments	6,376
Other	5,480
	151,587

Trade debtors is reported after charging a provision for non recovery of £35,703k.

13. Cash

	2018 £'000
Cash at bank	11,351

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

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

14. Trade and Other Payables

	2018 £'000
Current	
Trade creditors	20,684
Legal creditors	110,919
Accruals & deferred income	30,995
VAT payable	6,857
Social Security & Pension payable	3,682
Other creditors	11,275
	184,412

Included in other creditors is an outstanding balance of £9.1 million in relation to the Group's arrangements for financing on costs agreed and paid disbursements.

15. Loans

As at 31 December 2018 the Group had outstanding loans payable, which can be analysed as follows:

	2018 £'000
Non-current	
<i>Amounts falling due 1-2 years</i>	
Shareholder Loan	-
<i>Amounts falling due 2-5 years</i>	
Shareholder Loan	22,444
	22,444

The Group currently has an outstanding loan of £22.4 million comprising principal of £20.8 million and interest of £1.6 million. The loan comprises two facilities; the Existing Facility Loan and the Incremental Facility Loan. At 31 December 2018 the Existing Facility Loan had an outstanding balance of £16.4 million and incurs interest at 10% p.a. The Incremental Facility Loan had an outstanding balance of £6 million and incurs interest at 17.5% p.a. The total loan is secured on all assets of the Group and is repayable in full on 22 December 2021.

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

16. Provisions

Current	Dilapidations £'000	Onerous Lease £'000	Solicitors Claims £'000	Other £'000	Total £'000
Balance as at 22 September 2017	-	-	-	-	-
Subsidiaries acquired	-	3,200	8,266	3,846	15,312
Additions	-	659	256	202	1,117
Utilisations	-	(2,128)	(1,813)	-	(3,941)
Releases	-	-	-	-	-
Transferred from/(to) non-current	3,122	(17)	-	-	3,105
Balance as at 31 December 2018	3,122	1,714	6,709	4,048	15,593

Non-current	Dilapidations £'000	Onerous Lease £'000	Solicitors Claims £'000	Other £'000	Total £'000
Balance as at 22 September 2017	-	-	-	-	-
Subsidiaries acquired	5,467	622	-	-	6,089
Additions	717	-	-	-	717
Utilisations	(488)	-	-	-	(488)
Releases	(564)	-	-	-	(564)
Transferred from/(to) current	(3,122)	17	-	-	(3,105)
Balance as at 31 December 2018	2,010	639	-	-	2,649

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

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

Onerous Lease: The provision represents the remaining expenditure from properties that no longer derive economic benefit in the future. Provisions for onerous leases are stated at the net present value of the amounts payable under the contracts.

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

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

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For the period ended 31 December 2018

17. Share Capital and Share Premium

	Number of ordinary shares at £0.000001	Share Capital £'000	Share Premium £'000	Total £'000
Balance at 22 September 2017	-	-	-	-
Issued ordinary shares	1,000,014	-	22,904	22,904
Balance at 31 December 2018	1,000,014	-	22,904	22,904

At 31 December 2018 the Company has one class of ordinary shares which carry no right to fixed income.

18. Commitments Under Operating Leases

As at 31 December 2018 the Group has future minimum amounts payable under non-cancellable operating leases and contracts, as follows:

	2018 £'000
Operating lease and non-cancellable contracts	
<i>Non-cancellable operating leases and commitments (including rental of office space) contracted but not capitalised in the consolidated financial statements:</i>	
Within one year	5,608
One year or later and not later than five years	16,398
Greater than five years	15,777
	37,783

19. Related Parties

19.1 Key Management Personnel

The key management have been assessed to be the Group's Executive Leadership Team.

During the period and at 31 December 2018 there were 8 key management personnel. The compensation paid or payable to key management for employee services is shown below:

	2018 £'000
Short-term employee benefits	
Wages and salaries	1,742
Social security costs	217
	1,959
Post-employment benefits	
Contributions to defined contribution pension arrangements	27
Total key management compensation	1,986

19.2 Transactions with group related parties

There were no other related party transactions during the period to 31 December 2018 other than the shareholder loan referred to in Note 15.

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

20: Group Entities

The following subsidiaries as well as the parent company (Slater and Gordon UK Holdings Limited) form the Group. Those subsidiaries requiring audit are marked “ * ”

	Country of incorporation	Company Number	Ownership Interest (%)	Principal Activity
Controlled entities				
New Claims Direct Limited	United Kingdom	4432180	100	Dormant
4 Legal Limited	United Kingdom	6466579	100	Dormant
4 Legal Solutions Limited	United Kingdom	6492865	100	Legal
Slater and Gordon (UK) Limited *	United Kingdom	07931918	100	Legal
Slater & Gordon (UK) 1 Limited *	United Kingdom	07895497	100	Holding Company
Slater & Gordon (UK) 2 LLP	United Kingdom	OC371153	100	Legal
Adroit Financial Planning Limited *	United Kingdom	7980535	100	Financial Services
Slater & Gordon Trust Corporation Limited	United Kingdom	8185633	100	Dormant
Pannone Napier Limited	United Kingdom	8912957	100	Dormant
Walker Smith Way Limited	United Kingdom	07016439	100	Dormant
WSW Limited	United Kingdom	07016446	100	Dormant
iSaaS Technology Limited	United Kingdom	7434692	100	Non-Legal
Compass Costs Consultants Ltd	United Kingdom	4265483	100	Dormant
Intelligent Claims Management Limited	United Kingdom	5658734	100	Non-Legal
Mobile Doctors Group Limited	United Kingdom	5383361	100	Non-Legal
Medici Legal Limited	United Kingdom	4266208	100	Non-Legal
Mobile Doctors Solutions Limited	United Kingdom	4215291	100	Non-Legal
Mobile Doctors Limited *	United Kingdom	2446392	100	Non-Legal
MDL Medical Administration Ltd	United Kingdom	3688229	100	Non-Legal
React & Recover Medical Group Limited	United Kingdom	7316438	100	Non-Legal
Recover Healthcare Limited	United Kingdom	6836625	100	Non-Legal
React Medical Reporting Limited	United Kingdom	06872536	100	Non-Legal
React Medical Management Limited	United Kingdom	07315629	100	Non-Legal
Medical law Limited	United Kingdom	03447569	100	Non-Legal
Abstract Legal Holdings Limited	United Kingdom	05107527	100	Non-Legal
Accident Advice Helpline Direct Limited	United Kingdom	05107417	100	Non-Legal
Legal Facilities Management & Services Limited	United Kingdom	05340220	100	Non-Legal
Fast Track PPI Limited	United Kingdom	08012611	100	Non-Legal
Access to Compensation Limited	United Kingdom	05107366	100	Non-Legal
Cab Claims Limited	United Kingdom	05126239	100	Dormant
Liberty Protect Limited	United Kingdom	05657846	100	Non-Legal
Claim4 Limited	United Kingdom	05123360	100	Dormant
Accident Advice Helpline Limited	United Kingdom	05121321	100	Dormant
Accident Advice Insurance Management Group Limited	United Kingdom	05121320	100	Dormant
Sentinel Alliance Limited	United Kingdom	05107418	100	Dormant
SGS Business Process Services (UK) Limited *	United Kingdom	03851175	100	Non-Legal
Overland Limited *	Malta	C43412	100	Non-Legal
Overland Health Limited *	Malta	C49864	100	Non-Legal
Overland Malta (Trading) Limited *	Malta	C46589	100	Non-Legal

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

21. Business Combinations

Current Period Business Combinations

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

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

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

(a) Legal Services

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

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

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

In addition to PI, Slater and Gordon offers a wide range of Consumer Legal Services, including family, employment, conveyancing, wills, trusts, probate and project litigation.

(b) Motor

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

(c) Health

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

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

(d) Adroit

This business, provides financial planning advice and services.

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

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

21. Business Combinations (Continued)

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

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

Gain on bargain purchase

Slater and Gordon UK Holdings Limited has determined that the fair value of the consideration transferred does not exceed the fair value of the assets and liabilities acquired therefore, a gain on bargain purchase has been recognised immediately in the consolidated statement of comprehensive income.

Under the terms of the acquisition of Slater and Gordon UK by Slater and Gordon Holdings Limited, deferred consideration is payable up to the first AUS\$40 million of the proceeds in respect of Slater and Gordon UK's existing legal proceedings against Watchstone. Such consideration is linked to and entirely dependent on, the successful outcome of legal proceedings, which is deemed to be a contingent asset and is not recognised on the balance sheet. Accordingly, in the event deferred consideration becomes payable, there will be no net cost to the company as it would be funded by proceeds from a successful outcome.

Prior to recognising this gain on bargain purchase Slater and Gordon UK Holdings Limited reassessed whether it had correctly identified all the assets acquired and all the liabilities assumed in the purchase of Slater & Gordon (UK) 1 Limited, as per the requirements of IFRS 3 paragraph 36. Slater and Gordon UK Holdings Limited were also required to consider the amount of consideration paid.

Notes to the Consolidated Financial Statements

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For the period ended 31 December 2018

21. Business Combinations (Continued)

Acquired receivables

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

Revenue and profit contribution

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

Acquisition related costs

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

22. Capital Management

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

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

	Note	2018 £'000
Interest bearing loans	15	22,444
Trade and other payables	14	184,412
Less: cash and short-term deposits	13	(11,351)
Net Debt		195,505
Equity		134,993
Capital and net debt		330,498

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For the period ended 31 December 2018

23. Financial Risk Management

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

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

The board of directors has overall responsibility for identifying and managing operational and financial risks.

The categories of financial instruments are as follows:

	Note	2018 £'000
Financial assets		
Cash and cash equivalents	13	11,351
Net trade debtors	12	34,907
Other debtors and prepayments	12	11,856
Disbursements	12	144,799
		202,913
Financial liabilities		
Payables	14	184,412
Borrowings	15	22,444
		206,856

i) Credit risk

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

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

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

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

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

23. Financial Risk Management (Continued)

Management of credit risk

The Group actively manages its credit risk by:

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

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

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

ii) Liquidity risk

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

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

Maturity analysis

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

2018	< 12 Months £'000	1-5 years £'000	Total contractual cash flows £'000	Carrying amount £'000
Non-derivative financial liabilities				
Payables	184,412	-	184,412	184,412
Borrowings	-	22,444	22,444	22,444
Provisions	15,593	2,649	18,242	18,242
Financial liability maturities	200,005	25,093	225,098	225,098

iii) Fair values

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

iv) Foreign exchange risk

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

24. Controlling Party

At 31 December 2018, there was no one party with control of Slater and Gordon UK Holdings Limited and its subsidiaries. Slater and Gordon UK Holdings Limited is the largest group for which consolidated accounts are prepared.

Notes to the Consolidated Financial Statements

(Continued)

For the period ended 31 December 2018

25. Subsequent Events

Slater and Gordon UK Holdings Limited amended its articles on 18 March 2019 to include a new class of shares (A Ordinary shares). This was with the intention of allotting shares to various Employees of the Group (including some Directors). A total of 158,670 A Ordinary Shares were issued to Slater and Gordon (UK) Nominees Limited on behalf of ten beneficial owners in the period 29 March 2019 to 5 July 2019. All A Ordinary shares were purchased in cash by the beneficial owner at their unrestricted market value as at the purchase date.

Company Statement of Financial Position

For the period ended 31 December 2018

	Note	2018 £'000
Non-current assets		
Investments	4	23,651
		23,651
Current liabilities		
Trade and other payables	5	747
Net Current Liabilities		747
Total Assets Less Current Liabilities		22,904
Net assets		22,904
Capital and reserves		
Share Premium	7	22,904
Retained earnings		-
Total Equity		22,904

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

The Company was incorporated on 22 September 2017 and thus this is the first reporting period. Therefore, there are no comparative figures.

The accompanying notes on pages 45 to 47 form an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 29 July 2019.

They were signed on its behalf by:

David Whitmore
Chief Executive Officer

Alison Wilford
Chief Financial Officer

Company number: 10977311

Company Statement of Changes in Equity

For the period ended 31 December 2018

	Note	Share Premium £'000	Retained Earnings £'000	Total £'000
Balance at 22 September 2017		-	-	-
Loss after tax for the period			-	-
Total comprehensive income for the period			-	-
Transactions with owners in their capacity as owners				
Issue of ordinary shares	7	22,904		22,904
Total transactions with owners in their capacity as owners		22,904		22,904
Balance as at 31 December 2018		22,904	-	22,904

Share Premium – The amount paid by the Company's shareholders, in cash or consideration, over and above the nominal value of the shares issued.

Retained earnings – This balance includes all current period retained profits.

The Company was incorporated on 22 September 2017 and thus this is the first reporting period. Therefore, there are no comparative figures.

The accompanying notes on pages 45 to 47 form an integral part of these financial statements.

Notes to the Company Financial Statements

For the period ended 31 December 2018

1. Authorisation of Financial Statements and Statement of Compliance with FRS 101

These financial statements were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council.

The Company's financial statements are presented in Pounds Sterling, its functional currency, generally rounded to the nearest thousand.

The principal accounting policies adopted by the Company are set out in Note 2.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments that have been measured at fair value.

2. Accounting Policies

a) Basis of preparation of financial statements

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

These are the first financial statements of the Company prepared in accordance with FRS 101. The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet for the purposes of the transition to FRS 101.

b) Investments

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

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

Notes to the Company Financial Statements (Continued)

For the period ended 31 December 2018

2. Accounting Policies (Continued)

c) Going concern

Slater and Gordon UK Holdings Limited had net assets of £22.9m and net current liabilities of £1m at 31 December 2018. The net current liabilities are the result of an intercompany payable owed to Slater and Gordon (UK) 1 Limited. The Directors of Slater and Gordon UK Holdings Limited are also the Directors of Slater & Gordon (UK) 1 Limited, to which the amount is owed, and confirm that this amount will not be recalled within 12 months of the approval of these financial statements. The Directors have prepared the company financial statements of Slater & Gordon UK Holdings Limited using the going concern basis of preparation, on the basis that the company is included within the Slater and Gordon Group of Companies in the UK and Malta. The going concern disclosure as set out in the consolidated financial statements of Slater and Gordon UK Holdings Limited are as follows:

The Company and its subsidiaries are members of the Group whose ultimate parent entity is Slater and Gordon UK Holdings Limited, a company incorporated on 22 September 2017.

At 31 December 2018, the Group had net assets of £135 million and cash of £11 million. The Group has prepared cash flow forecasts for the foreseeable future, based on key assumptions around the achievement of revenues, which demonstrate cash self-sufficiency in the Group within available funding levels. Management has considered the level of new instructions and the likely future value of this work together with the forecasts and projected cash flow patterns of the company for the foreseeable future being a period of 12 months from the date of approval of these financial statements.

The company's projections for the period to August 2020 including receipts and payments as well as the utilisation of agreed funding facilities in place indicate that Slater and Gordon expects to be able to discharge its obligations to all stakeholders. Business activity and cash flows are monitored on a regular weekly basis and continue to be satisfactory. Regular financial forecasts are prepared to monitor the firms funding requirements through retained profits and borrowing facilities, and projected compliance with shareholders covenants.

Accordingly, the Directors have adopted the going concern basis of accounting for preparing these financial statements.

3. Audit Fees

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

4. Investments

	2018 £'000
At 22 September 2017	-
Acquisition during the period	23,651
At 31 December 2018	23,651

During the period the Company acquired Slater & Gordon (UK) 1 Limited. See Note 21 in the consolidated financial statements for further details,

The Company has performed an impairment review at 31 December 2018 and does not consider there to be any impairment on its investment.

5. Other Creditors Falling Due Within One Year

	2018 £'000
Current	
Intercompany	747
	747

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

6. Related Party Transactions

The Company is taking advantage of the exemption granted under Financial Reporting Standard 101, Paragraph 8(k), "Related Party Transactions", not to disclose transactions with wholly owned group companies, which are related parties.

Notes to the Company Financial Statements (Continued)

For the period ended 31 December 2018

Disclosures related to Directors' remuneration are made within Note 6 of the consolidated accounts.

7. Share Capital and Share Premium

	Number of ordinary shares at £0.000001	Share Capital £'000	Share Premium £'000	Total £'000
Balance at 22 September 2017	-	-	-	-
Issued ordinary shares	1,000,014	-	22,904	22,904
Balance at 31 December 2018	1,000,014	-	22,904	22,904

The Company has one class of ordinary shares which carry no right to fixed income.

8. Subsequent Events

Slater and Gordon UK Holdings Limited amended its articles on 18 March 2019 to include a new class of shares (A Ordinary shares). This was with the intention of allotting shares to various Employees of the Group (including some Directors). A total of 158,670 A Ordinary Shares were issued to Slater and Gordon (UK) Nominees Limited on behalf of ten beneficial owners in the period 29 March 2019 to 5 July 2019. All A Ordinary shares were purchased in cash by the beneficial owner at their unrestricted market value as at the purchase date.