Annual Report 2013

For the year ended 31 December 2013

Staffline Group plc

Adding value to your business

Annual Report 2013

For the year ended 31 December 2013

Company details

Company registration number:
05268636

Registered office:
19–20 The Triangle
NG2 Business Park
Nottingham
NG2 1AE

Directors:
John Crabtree (Non-Executive Chairman)
Andy Hogarth (Chief Executive)
Phil Ledgard (Finance Director)
Nicholas Keegan (Non-Executive Director)
Diane Martyn (Managing Director)

Secretary:
Phil Ledgard

Nominated adviser and broker:
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Auditors:
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Contents

Combined Chairman's and Chief Executive's statement

For the year ended 31 December 2013

We are pleased to report 2013 was another year of solid progress in sales and profits and one where we also initiated a great deal of organisational change within our business. Our core ***Onsite*** operations continue to benefit from a broader trend of 'spend consolidation' by a number of clients which has enabled us to increase the number of ***OnSites*** we operate. Net growth of 15 sites during the year has taken the number of locations we operate from 179 to 194. Elsewhere EOS, our Welfare to Work division, continues to help significant numbers of the long term unemployed back into sustainable work and we have seen our investment in this division start to deliver a significant financial return for the Group.

The Group both opened and directly invested in a number of new business divisions as part of a new five year growth strategy. This strategy is designed to grow Group revenues to over a Billion pounds within 5 years, which is now referred to internally as 'Burst the Billion'. 2013 was the first year of working towards this target and we have made significant progress on our journey. These investments have, in the short-term, held back our profitability within the recruitment services segment and have not yet had sufficient time to make a meaningful impact on Group revenues. We do however firmly believe that these new initiatives coupled with our established core operations will create a diverse and highly scalable business which will return increased shareholder value.

Overall, we continue to see good levels of growth in activity across all divisions of the business with profitability in the Group increasing in line with expectations.

Financial Review

Sales in 2013 grew by 13.4% to £416.2m with gross profit increasing by £7.3m, or 21.1% to £42.0m. Net profit for the year before tax, amortisation and the non-cash charge for share based payment costs (SBPC) rose by 16.1% to £12.5m and net profit before tax rose by 0.5% to £8.6m. Similarly earnings per share (EPS) also rose, basic pre amortisation and SBPC EPS by 21.6% to 46.1p, fully diluted pre amortisation and SBPC EPS to 45.8p (24.8%).

This level of reported growth has been relatively modest compared to previous years, partly attributable to a slowdown in our M&A activity. While we continue to evaluate a number of potential acquisition targets, our 5 year growth strategy does not require any acquisitions and the board believe this can be achieved organically.

Our balance sheet has continued to strengthen, with shareholders' funds exceeding £45m for the first time and the ratio of current assets to current liabilities being in excess of 1.3. Our financial strength is a major attraction for our larger ***OnSite*** clients since they can be absolutely certain of our financial ability to supply the temporary workers who are essential to their business.

For the first time since the flotation in 2004 we had no net debt at the year end. At 31 December 2012 Net Debt was £4.6m and this became Net Cash of £4.9m at 31 December 2013. This improvement was achieved through continued profitable trading and a concentration on reducing Debtor Days, which were 31 at 31 December 2013 (2012: 34).

Operational Review

Recruitment Services

Our recruitment operations continued to make progress during 2013 despite the UK economy remaining broadly flat. Whilst much has been made of the upturn in key economic indicators, many of our customers continued to experience at best a modest recovery, particularly in the retail sector. Demand from many individual customers in the run up to Christmas 2013 was subdued, albeit peaking to record levels for the Group as a whole during December.

There continue to be opportunities for us to grow in our core business, both organically with existing and new customer wins as well as by making strategic acquisitions. We continue to assess many bolt-on acquisition opportunities, but completed only one acquisition in this period, that of Magna Staff, in December 2013. Magna is a specialist recruitment business with two separate divisions providing Driving and Industrial staffing services with an established regional footprint across the Midlands.

Following the acquisition of Select Appointments at the end of 2012 we have spent 2013 improving systems and the operating environment for our franchisees. With a new operations manual, new branding and market offering as well as a recently launched website we are now in a position to drive significant growth to the business. Our team is actively looking to recruit new franchisees who currently work in the industry in management roles but wish to significantly increase their potential earnings by opening their own business with the benefit of a well-known brand and support. We have reduced the initial Franchise fee by one third to £24,750 and have also introduced in the London area a new 'Select Light' franchise package, which allows an individual to start their own branded recruitment business from home with an initial investment of £10,000.

As part of our stated growth strategy, we have opened a number of new divisions including Driving+, Ireland, Resourcing+, Staffline Agriculture and Staffline Business Services during the period and the initial start-up costs incurred have meant that in aggregate the Recruitment segment suffered a slight reduction in profitability during the period. We fully expect profit growth to return during the 2014 financial year and believe significant opportunities exist in all these operating divisions.

Combined Chairman's and Chief Executive's statement (continued)

For the year ended 31 December 2013

Welfare to Work and Training

The contract we hold for HM Government's Work Programme in Birmingham, Solihull and the Black Country has now entered the third year of its five year term. Figures released in June 2013 by the Department of Work and Pensions ('DWP') confirmed that our contract was, in year two, the highest performing area out of the 40 providers covering the UK. This contract has now reached the point where the initial consumption of working capital is completed and the business has started to contribute positive levels of cash flow to the Group. We expect this contract to be cash positive for its remaining term and were extremely encouraged by our performance in 2013.

The two European Social Fund contracts we were awarded in October 2011 have also historically been a significant drain on our working capital, however recent changes in the way referrals and payments are made means that these contracts will become cash positive in 2014.

Our training business, Elpis, was for the first time included in the Welfare to Work offering during the period and this has resulted in significant growth of revenues for this business which we expect to lead to greater profitability in 2014.

Market Overview

Gangmaster Licencing Authority ('GLA')

We remain convinced that the GLA has done much to improve standards and drive many sub-standard operators out of the regulated sector. Recent changes in the senior management of the GLA have significantly improved the organisation's effectiveness, uncovering and stopping some of the unacceptable abuse of people being trafficked from Eastern Europe. There is much more work to be done in this area and we support the widening of the GLA's scope of activity to encompass at least the Construction, Care and Hospitality Sectors.

Marshall Evans, who was Operations Director until 25 February 2013, continues to be a member of the Board of Directors of the GLA as well as being a member of the Recruitment and Employment Confederation (REC) Council and Chairman of its Policy Committee. Andy Hogarth also sits on the Board of the Association of Labour Providers and Diane Martyn is a member of the REC Council. These roles allow us to understand and have a say in future industry trends and Government policy.

PAYE and Travel and Subsistence Schemes

We are greatly encouraged by the recent action taken by the GLA, which has resulted in two umbrella companies being unable to trade in the regulated sector, and also by HMRC which closed down one of the largest umbrella operators in the industrial sector.

We have also seen specific action by HM Treasury with new legislation effective from April 2014 which will prevent workers from being pay rolled offshore and therefore avoiding the cost of Employers National Insurance. The recent Autumn Statement by the Chancellor has also set out his objective of stopping the use of bogus self-employment to avoid Employers National Insurance contributions. Whilst during the year we lost a small number of clients to competitors operating these and other tax avoidance schemes we also won new and returning business from customers who are realising the potential liabilities they face if they allow their supplier to use these schemes unscrupulously. The heightened media interest around exploitative tax avoidance schemes has resulted in clients becoming more adverse to the potential reputational risk to their businesses if they are seen to profit from the schemes.

There has also been an increase in activity by HMRC in questioning the way schemes have been set up, particularly with regard to the types of employment contracts used.

The environment of governance and compliance offered by Staffline continues to underpin our service offering and ensures that we offer our customers the comfort of regulatory compliance helping to ensure the protection of their brand.

Health & Safety

We continue to work as efficiently and as safely as possible and external independent audits are regularly undertaken to reinforce our Health and Safety culture. Total hours worked are up 7% for this period in comparison to last year and we are pleased to report a significant decrease in the accident frequency rate for the period.

Environmental Policy

Staffline's recent policy is to identify and then reduce excessive paper usage. Staffline has introduced an online application process which will significantly reduce the need for paper based application forms, thereby reducing our paper usage. There have been over 3,000 registrations online in the last few months. In addition, the use of email payslips remains at over 88%. These steps are very encouraging as we further reduce our carbon footprint whilst continuing to grow.

People

The Group continues to expand which is reflected in an increase to 519 employees in the Recruitment Services segment. In addition a further 298 people are now employed by Eos, bringing the Group's total workforce to 817.

Combined Chairman's and Chief Executive's statement (continued)

For the year ended 31 December 2013

Developing people has continued to be an important focus for the Staffline Group. In 2013 18 employees successfully passed their Certificate in Recruitment practice. Business delivery and improvement training has resulted in 20 employees attending 'Delight the Customer' training, 12 employees completing a business writing course and 18 employees attending the six month Real Account Management programme.

Leadership and Management development remains critical to supporting Staffline Group's growth and performance objectives. Our residential management development programme has delivered Leadership and self-awareness training along with Coaching and Motivating a Winning Team with further programmes booked in for later in 2014. Additional modules in a range of key competencies including customer care have been delivered successfully and will continue throughout 2014.

A training and change management initiative was launched in 2013 for our shared services functions. This will continue to develop and deliver throughout 2014.

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

Compliance

We take compliance with legislation and industry standards extremely seriously, offering a total commitment to all of our clients to ensure that all of our workers, whether or not supplied in to the regulated sector, are recruited and supplied to the standards required by the Gangmaster Licencing Authority. This total commitment gives our clients the assurance that all UK ethical and legal standards are fully met. We operate a confidential helpline for our workers to report any concerns and conduct regular surveys to ensure we are achieving our own high standards.

Board Membership

As we reported in the results for the first half of the year Tim Jackson, Shaun Brittain and Marshall Evans have all resigned their positions on the board, Tim to pursue an opportunity in the charitable sector, Shaun to take up his position as joint MD of Staffline Recruitment Ltd and Marshall to reduce his working hours while remaining with the Group in a part-time capacity. We would like to thank each of them for their tireless support and dedication to the Group.

Diane Martyn, previously CEO of Randstad Staffing in the UK, moved from a role as non-executive director of the Group to Group Managing Director with effect from 25 February 2013.

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

Finally, Nick Keegan, who joined Staffline in December 2004, has confirmed his intention to resign from his Non-Executive role on the Board with effect from the 2014 AGM having served for over 9 years since our flotation in 2004. We are currently in the process to recruit two new Independent Directors, at least one of whom we expect to be in a position to replace Nick at the time of the AGM.

Investment

As part of our five year growth plan we have invested significant sums in both new divisions and new contracts. We are confident that these divisions will develop in the coming years and contribute to driving profit growth. As part of our strategic plans we have continued to invest in our bespoke management information system, Infinity+, which will further improve our operating efficiency. All of the Group's locations are now live with Infinity+ and we are already deriving a wide range of benefits from it. The new system will provide the platform for further development that will deliver greater efficiencies across the business.

We are currently conducting a review of our shared services facility based in Nottingham with the aim of ensuring we have the capability to sustain a £1bn turnover business in the coming years.

Growth strategy

We have now finished the first year of our new five year strategic growth plan aimed at broadening our market reach and increasing the scale of all of our divisions. This plan seeks to build on our strong market presence in blue collar recruitment and has seen Group investment in Driving, expansion into Ireland, Resourcing, Agriculture and the replication of our successful ***Onsite*** model within the Business Services recruitment arena.

We see significant opportunities to increase our market presence within Welfare to Work having already improved the operational performance of Eos in a relatively short period of time. All the major political parties are committed to supporting the Work Programme and our continuing strong performance on this contract leaves us confident we can add to our existing operations over the coming years.

Combined Chairman's and Chief Executive's statement (continued)

For the year ended 31 December 2013

Current Trading

We have started 2014 strongly, with a pipeline of confirmed customer orders which means we expect to open a number of new ***OnSites*** in the first three months. The majority of the new divisions are also in advanced discussions with potential customers and we are confident that they will start to make a positive contribution to Group profitability in 2014. We are also well placed to win further contracts in our Welfare business.

It is against this backdrop that the Board remains confident that the current financial year will continue to generate exciting and significant growth for the Group.

Finally and as an expression of our confidence in the Group's current trading prospects, the Directors propose to increase the final dividend by 24.0% from 5p to 6.2p. This dividend will be payable on 4 July 2014 to shareholders on the register at 6 June 2014. The ex-dividend date is 4 June 2014. This will result in a total dividend for the year of 10.0p per share, an increase of 23.5% on last year's dividend of 8.1p.

John Crabtree OBE
Chairman

Andy Hogarth
Chief Executive
29 January 2014

Finance Director's statement

For the year ended 31 December 2013

Financial Highlights

Total revenue for the year increased by 13.4% to £416.2m (2012: £367.0m) reflecting another year of increasing demand for our services from existing customers, new business wins and acquisitions in 2012 and 2013, and importantly includes £4m of revenue from new business sub-divisions. Excluding the effect of acquisitions, organic growth in 2013 was 8.6% (2012: 23.4%).

We have increased our overall gross margin to 10.1% (2012: 9.5%). This includes the increasingly significant proportion of our Group results that the higher margin Welfare and Training business segment comprises.

Profit from operations remains at £8.9m (2012: £8.9m). This figure includes significant non-cash charges for share based payment charges (SBPC) and for amortisation of acquired intangible assets. The key performance indicator that the Board of Directors monitors during the year is profit before taxation and before SBPC and amortisation (Underlying PBTA). Finance charges are included in this measure.

Underlying PBTA grew to £12.5m (2012: £10.7m) and underlying PBTA% of revenue grew to 3.0% (2012: 2.9%). This reflects effective cost control across the Group and is a step forward towards our long term financial strategic aspirations.

During 2013 the share price of the Group has increased significantly and this in turn has given rise to a materially higher non-cash charge for SBPC of £2.2m (2012: £0.4m). The charge for amortisation of intangible assets has remained constant at £1.8m. Whilst the non-cash charge for SBPC and amortisation are important, this KPI better reflects the underlying trading performance of the Group and removes the significant impact of charges which do not reflect short term operational success.

Revenue Recognition

As the debate continues surrounding the evolution of international revenue recognition accounting standards, it is appropriate to assist with the understanding of our financial results to comment on the Group's revenue recognition policies.

The majority (95%) of our revenue is generated from the provision of temporary contractors.

This revenue is recognised at the end of the completed working week based on client confirmed hours worked multiplied by the contracted rate.

The other key segment for reporting is that of our welfare to work and training division and in 2013 this represented 5% of income.

The great majority of income from the provision of welfare to work services is recognised when the company performs its services, thereby meeting its obligations under the relevant contracts. Under the terms of the contract with the DWP, the Welfare to Work segment receives income (cash) when certain contractual milestones are met as each customer passes through the programme.

Whilst we await the formal release of an updated Revenue Recognition standard under IFRS, we are keeping the proposals under review and do not currently anticipate an impact on our revenue results as currently reported.

Earnings per Share

Basic earnings per share increased by 12% to 33.3p (2012: 29.7p) and the diluted earnings per share increased by 15% to 33.1p (2012: 28.7p).

Removing the non-cash charges for SBPC and goodwill amortisation (and their respective taxation impacts) results in an underlying earnings per share (basic) increase of 22% to 46.1p (2012: 37.9p) and a diluted underlying earnings per share increase of 25% to 45.8p (2012: 36.7p).

Acquisitions

The Group continues to actively monitor and research acquisition targets across our business sectors. Good quality acquisition opportunities that met our strategic requirements were limited during 2013 though we completed one acquisition for consideration of £0.7m. This amount is comprised of £0.3m cash paid at completion, and further consideration of £0.4m, £0.2m of which is dependent on future profitability. In addition payments of £2.5m have been made during the year representing deferred and contingent consideration from prior year's acquisitions. All acquisition related payments have been funded from cash generated during the year.

Balance Sheet, Cash Generation and Financing

The Group balance sheet has strengthened during the year, with net current assets rising by £7.0m to £18.6m (2012: £11.6m) and a strengthened ratio of current assets to current liabilities of 1.34 (2012: 1.23).

It is pleasing to note that as an indicator of our quality of earnings, free cash flow as a percentage of our underlying PBITA is 146.4%. Free cash flow ('FCF') is defined as cash generated from operating activities before financing, taxation and acquisitions. This result of 146.4% is unusually high in 2013 and partly reflects the lower figure of 75.9% relating to 2012 (FCF% across both 2012 and 2013 being 110.4%). The average since 2010 is 84.7% and looking ahead into 2014 we anticipate free cash flow to be closer to this average as we invest in our growth and supporting infrastructure.

Post tax cash generation during the year has been strong and the focus on credit control has succeeded in limiting our working capital to 1.7% of revenue (2012: 2.4%). At 31 December 2013 the Group was in a strong net cash position of £4.9m (2012: net debt of £4.6m).

The Group continues to be focused on cash generation and ensuring a robust balance sheet to support the growth of the business. Net tangible assets (being net assets less intangible assets) have increased to £10.8m (2012: £5.8m).

The Group continues to operate on stable levels of working capital borrowing during its monthly and annual financial cycles. As a result finance charges remain low at £0.4m for the year (2012: £0.4m).

The Group's current bank facilities continue to include a revolving credit facility of up to £7.5m and an overdraft of up to £15.0m. All borrowing facility covenant obligations have been comfortably met throughout the year. The interest rates on our overdraft facility remain unchanged during the year, at 2% over bank base rate and the Revolving Credit Facility remained at 2.2% over LIBOR. The overdraft facility is renewable annually with renewal set for February 2014; the bank has confirmed their willingness to continue to provide such facilities on similar terms to last year. The Board believes that these facilities will ensure that the Group has sufficient headroom to manage the current operations as well as supporting the continued growth of the business.

Phil Ledgard
Finance Director
29 January 2014

Strategic Report

For the year ended 31 December 2013

A detailed review of the activities of the Group, including financial and non-financial key performance indicators, can be found in the Chairman, Chief Executive and Finance Director's statements.

Overview of strategy

2013 is the first year of the Group's publicly stated mid-term target of 'Burst the Billion'. In order to achieve that target, a number of new sub-divisions were opened. 2013 was therefore a year of investing in people and infrastructure and the Directors are confident that the Group is on track to achieve its target of 'Burst the Billion' by 2017.

Recruitment Services continues its growth from previous years, with (net) 15 new ***OnSites*** helping to contribute to a 10% growth in gross profit in the year. Investment in new sub-divisions and personnel, as mentioned above, has resulted in operating profit (before amortisation and share based payment charges) declining by 5%.

Within the Welfare to Work and Training segment, the Group is now in year three of the five year contract with the Department of Work and Pensions. Revenue is earned on the contract at three different stages during the programme and, as time goes by and the number of entrants into the program increases, more profit is generated on the contract. This has resulted in the segment operating profit (before amortisation and share based payment charges) increasing from £0.7m to £3m. As the contract continues, we expect similar levels of profitability.

The Group continued its strategy of acquiring businesses that either grow the core business or give the Group access to new customers, which resulted in the purchase of Magna Staff in December. The Group continues to review acquisition opportunities going forward.

Principal risks

- Because of the industries in which the Group specialises, principally food processing, the Directors consider the Group to be relatively less affected than others in the recruitment sector during a general economic downturn. However, this sector is subject to great change and consolidation as the buying power of major retailers continues to drive the need for rationalisation and greater economies of scale. We are at risk if our clients lose business in this process. We continue to counter this risk by expanding our client base and can expect to gain as much business as we lose if we have a wide enough spread of clients.
- Because we allow credit to our clients we are at risk if one of them runs into financial difficulties and is unable to pay their outstanding debt. To minimise the risks we monitor client payment patterns, subscribe to a monitoring service and employ pro-active credit control systems. To date these actions have been successful and the total bad debt charge to the Group in the last three years, excluding VAT, has been £170,000 on sales of £1,071,000,000, equating to 0.02% of sales.
- In terms of our welfare to work segment (Eos) our key risk is that we will be unable to find jobs for jobseekers and/or having found jobs we are unable to keep those workers in place. Given our other business segment, recruitment services we are ideally placed to find suitable jobs. This, coupled with Eos's unique tailored approach to help unemployed people back into sustainable employment, through a combination of intensive job search support, comprehensive vacancy matching services, real work experience, skills development and in-work support should mitigate the risk of failing to keep jobseekers in work. The fact that Eos has only one customer, the Government, is also a risk. However, this is somewhat mitigated by the fact that Eos now has a number of different Government contracts. In addition, experience shows that a change in Government policy (and therefore contract terms) would not necessarily have an adverse impact and there are only a limited number of providers who meet the criteria to secure these contracts.
- We face the risk that one of our members of staff may deliberately by-pass the procedures set up which ensure we fully comply with all legislative requirements. Although we have put robust checks and audit procedures in place that should detect such acts there is a reputational and financial risk to the business should someone deliberately choose to do this.
- Major failure of IT systems. The Group has a robust Disaster Recovery plan in place in the event of a major internal failure of our IT systems. However as our business grows we become ever more reliant on third party telecommunication and other providers, including BT, BACS and Weston Telecom. We have put back-up and alternative solutions in place but there is still a risk a major failure by any of these suppliers would prove very disruptive.
- Competition. The Group operates in the recruitment services sector where there are a significant number of competitors and barriers to entry are relatively low. To counter the threat of competitors seeking to win business from us the Group aims to build strong long term relationships with its customers through excellent service levels and through its rigorous selection and checking procedures which ensure that all contractors provided by the Group are fully compliant with the legal requirements.

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

Uncertainties

- The recovery of the UK from recession may impact the Group in both positive and negative ways. The core business model, with its emphasis on the food-production sector is considered relatively defensive as food consumption in the home should not be significantly impacted. The recovery may provide some opportunities if clients seek to use temporary staff in lieu of replacing permanent employees.
- Onerous changes in the regulatory framework, driven by potential European or UK legislation, could lead to greatly increased employment costs which might lead to a reduction in demand for our temporary workers.

BY ORDER OF THE BOARD

P Ledgard
Company Secretary
29 January 2014

Report of the Directors

For the year ended 31 December 2013

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2013.

A detailed review of the activities of the Group, including financial and non-financial key performance indicators, can be found in the Chairman, Chief Executive and Finance Director's statements.

An interim dividend of £856,541 (3.8p per share) was paid during the year (2012: £670,120, 3.1p per share). The Directors have proposed a final dividend of £1,592,628 (6.2p per share) (2012: £1,081,566, 5.0p per share) to be paid on 4 July 2014, to shareholders registered on 30 June 2014. This has not been included within creditors as it was not formally approved before the year end.

Directors

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

A Hogarth	
M Evans	(resigned 21 February 2013)
N Keegan	
J Crabtree OBE	
T Jackson	(resigned 31 July 2013)
P Ledgard	(appointed 3 November 2013)
D Martyn	
S Brittain	(resigned 21 February 2013)

Employee Involvement

Employees are kept aware of developments within the Group by regular briefings. These include presentations by subsidiary management covering their future budgets. Employee involvement with the financial performance of the Group is further encouraged by the share option scheme. However, as the number of employees now exceeds 250 the qualification criteria for an EMI scheme are no longer met so no further options can be issued under this scheme.

Disabled persons

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

Substantial shareholdings

The interests in excess of 3% of the issued ordinary share capital of the Company which have been notified as at 31 December 2013 were as follows:

	Ordinary shares of 10p each Number	Percentage of ordinary shares %
Schroder Investment Management	3,050,000	12.81
Octopus Investments	2,724,507	11.44
Legal and General Investment	1,755,461	7.37
Directors of the company	1,621,129	6.81
Investec Asset Management	1,555,000	6.53
Hargreave Hale – Stockbrokers	1,288,500	5.41
Invesco Perpetual	1,190,441	5.00
Standard Life Investments	1,120,061	4.70
ISIS Equity Partners	1,117,634	4.69
Generali Portfolio Management	840,984	3.53
JP Morgan Asset Management	833,914	3.50

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

During the year, as part of the JSOP, a further 1,880,000 shares were issued to the Employee Benefit Trust for £8,054,350; this represents 7% of the issued share capital of the company.

Financial risk management objectives and policies

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the Board of Directors, and focuses on actively securing the Group's short to medium term cash flows.

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

Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk.

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

Liquidity risk

The Group seeks to manage financial risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had gross cash of £12,480,000 at 31 December 2013 (2012: £3,618,000) but there are substantial fluctuations within the year. Short term flexibility is achieved by means of a bank overdraft facility of up to £15,000,000 and a revolving credit facility (RCF) of up to £7,500,000. The bank has indicated its intention to renew the facilities on similar terms in February 2014.

Interest rate risk

All financial liabilities of the Group owed to the Group's bankers are subject to floating interest rates. Competitive rates have been negotiated with the Group's bankers and the rate paid on term bank loans has been set at 1.5% above base rate (2012: 1% above base rate). The rate paid on the RCF is 2.2% above LIBOR plus a non-utilisation fee of 0.88%.

Details of the key risks impacting on the Group are included in the Corporate Governance statement.

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

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

The Directors confirm that:

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

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

Auditors

The audit partner has served in that capacity for five years, which is the period normally recommended to ensure independence, but is subject to Audit Committee discretion to extend for a further year.

The Audit Committee has determined that following recent Board changes, it is in the best interest of audit quality that the current audit partner should continue in his role for a further year. The Audit Committee is satisfied that by the application of safeguards, the extension does not undermine the objectivity and independence of the auditor. Grant Thornton UK LLP has agreed to this extension which will bring the total period served by the audit engagement partner to six years.

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

BY ORDER OF THE BOARD

P Ledgard
Company Secretary
29 January 2014

Corporate governance statement

For the year ended 31 December 2013

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

As a company listed on the Alternative Investment Market of the London Stock Exchange, Staffline Group plc is not required to comply with the full requirements of the UK Corporate Governance Code. We do not therefore comply with the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider relevant to the company and best practice. Due to the size of the Group the number of non-executive Directors is currently less than the number of executive Directors. The Group supports the concept of an effective Board leading and controlling the Group and a brief outline of the role of the Board and its committees, together with the Group's systems of internal financial control which the Board will continue to keep under review, is given below.

The Board

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

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

John Crabtree joined the Board on 1 March 2005 as a Non-Executive Director and Chairman of the Remuneration Committee. He was appointed Chairman in 2011. John was the senior partner of Wragge & Co, the Birmingham based corporate law firm and whilst in this role John was responsible for the firm's evolution into a practice with 100 partners and a turnover of £75m. John has a number of business interests, including being Non-Executive Chairman of Real Estate Investors plc, SLR Holdings Limited, Birmingham Hippodrome Theatre Trust, TruckEast Ltd and the charity Sense.

Andy Hogarth – Chief Executive (N)

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

Phillip Ledgard – Finance Director (N)

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

Nicholas Keegan - Non-Executive Director (A, R, N)

Nicholas is a qualified Chartered Accountant, who after spending 10 years in investment banking was Finance Director of a number of quoted and unquoted West Midlands companies, including Newman Tonks Group plc and Frederick Cooper plc. He was from 2005 until 2009 Chief Financial Officer of CompAir Holdings Limited, a venture capital backed international manufacturing business. He was a Non-Executive Director of Interserve plc from 2003 until 2009. He is currently the Finance Director of Egbert Taylor Group Limited and Honorary Treasurer of the charity Sense. He joined Staffline in November 2004 and is Chairman of the Audit Committee.

Diane Martyn – Group Managing Director

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

Relations with shareholders

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

Internal control

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

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

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

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

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

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

The Board has considered the need for an internal audit function but has decided that, given the size and complexity of the Group does not justify it at present, although it does have the independent compliance audit team referred to above. However, it will keep this decision under annual review. The Directors keep a register of risks faced by the business, rating these risks on a scale of 1 to 5 for both probability and impact. These risks have been mitigated to the extent considered practical and are reviewed regularly. The principal risks and uncertainties facing the Group are included in the Strategic Report on pages 8 and 9.

Going concern

In considering the on-going funding requirements of the Group, the Directors have prepared detailed cash flow forecasts extending to the end of January 2015 and these indicate that the Group expects to be able to continue to operate within its existing bank facilities for the foreseeable future; whilst the facilities are due for renewal in February 2014, the bank has indicated its willingness to continue to provide such facilities on similar terms to the current year The Group enjoys a strong working relationship with its bank and had undrawn overdraft facilities of £15m at 31 December 2013. Coupled with a strong financial performance for the year ended 31 December 2013 and a strong start to 2014 the Directors are of the view that it remains appropriate for the financial statements to be prepared on a going concern basis.

Report on remuneration

For the year ended 31 December 2013

Remuneration Committee

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

Policy on Executive Directors' remuneration

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

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

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

Basic salary

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

Annual bonus

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

A total bonus of £105,000 (2012: £103,000) has been accrued in respect of the Executive Directors in recognition of performance exceeding budget, in line with the Executive Bonus Scheme approved by the Remuneration Committee.

Directors' share options

In October 2009, share options were issued to Shaun Brittain, Marshall Evans, Andy Hogarth, Tim Jackson and two other senior executives.

These share options had a performance condition based on the increase in reported diluted Earnings per Share of the Group from the base of 10.7p in December 2008 to the achieved diluted EPS in the year to December 2013. The award was scaled up to a maximum of 150,000 shares for a doubling of diluted EPS.

These share options were fully exercised in the year.

Joint Share Ownership Plan

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

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

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

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

Policy on Non-Executive Directors' Remuneration

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

Service contracts

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

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

Pension arrangements

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

Benefits in kind

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

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

For the year ended 31 December 2013

We have audited the group financial statements of Staffline Group plc for the year ended 31 December 2013 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the Directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

Other matter

We have reported separately on the parent company financial statements of Staffline Group plc for the year ended 31 December 2013.

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
BIRMINGHAM
Date: 29 January 2014

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Note	2013 Before amortisation and share based payment charge £'000	2013 Amortisation and share based payment charge £'000	2013 Total £'000	2012 Total £'000
Continuing operations					
Sales revenue	4	416,193	-	416,193	366,980
Cost of sales		(374,171)	-	(374,171)	(332,268)
Gross profit		**42,022**	**-**	**42,022**	**34,712**
Administrative expenses	5	(29,178)	-	(29,178)	(23,600)
Operating profit before amortisation of intangibles and share based payment charge		**12,844**	**-**	**12,844**	**11,112**
Administrative expenses - Share based payment charge		-	(2,154)	(2,154)	(426)
Administrative expenses - Amortisation of intangibles		-	(1,766)	(1,766)	(1,802)
Profit from operations		**12,844**	**(3,920)**	**8,924**	**8,884**
Finance costs	6	(360)	-	(360)	(363)
Profit for the period before taxation		**12,484**	**(3,920)**	**8,564**	**8,521**
Tax expense	8	(2,243)	1,078	(1,165)	(2,111)
Net profit and total comprehensive income for the period		**10,241**	**(2,842)**	**7,399**	**6,410**
Total comprehensive income attributable to:					
Non-controlling interest				-	(11)
Owners of the parent				7,399	6,421
Earnings per ordinary share	9				
Basic				33.3p	29.7p
Diluted				33.1p	28.7p

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

Consolidated statement of changes in equity

For the year ended 31 December 2013

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

	Share capital £'000	Own shares JSOP £'000	Share premium £'000	Share based payment reserve £'000	Profit and loss account £'000	Total attributable to owners of parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2012	2,284	(1,157)	15,928	229	17,702	34,986	(87)	34,899
Dividends	-	-	-	-	(1,578)	(1,578)	-	(1,578)
Share options issued in equity settled share based payments	-	-	-	32	-	32	-	32
Share options exercised	5	-	41	(186)	186	46	-	46
Acquisition of non controlling interest	-	-	-	-	-	-	58	58
Transactions with owners	**5**	**-**	**41**	**(154)**	**(1,450)**	**(1,558)**	**58**	**(1,500)**
Profit for the period	-	-	-	-	6,421	6,421	(11)	6,410
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**6,421**	**6,421**	**(11)**	**6,410**
At 31 December 2012	**2,289**	**(1,157)**	**15,969**	**75**	**22,673**	**39,849**	**(40)**	**39,809**

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

Consolidated statement of financial position

As at 31 December 2013

	Note	2013 £'000	2012 £'000
Assets			
Non-current assets			
Goodwill	10	30,971	30,971
Other intangible assets	11	4,005	3,031
Property, plant & equipment	12	2,068	2,343
Deferred tax asset	18	802	140
		37,846	**36,485**
Current			
Trade & other receivables	13	63,090	59,598
Cash and cash equivalents	14	12,485	3,650
		75,575	**63,248**
Total assets		**113,421**	**99,733**
Liabilities			
Current			
Trade and other payables	15	55,987	46,678
Borrowings	16	62	678
Other current liabilities	17	593	2,928
Current tax liabilities		351	1,325
		56,993	**51,609**
Non-current			
Borrowings	16	7,500	7,556
Other non-current liabilities	17	2,767	70
Deferred tax liabilities	18	411	689
Total liabilities		**67,671**	**59,924**
Equity			
Share capital	19	2,569	2,289
Own shares		(9,211)	(1,157)
Share premium		24,195	15,969
Share based payment reserve		31	75
Profit & loss account		28,166	22,673
		45,750	**39,849**
Non-controlling interest		-	(40)
Total equity		**45,750**	**39,809**
Total equity & liabilities		**113,421**	**99,733**

The financial statements were approved by the Board of Directors on 29 January 2014.

A Hogarth
Director

P Ledgard
Director

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

Consolidated statement of cash flows

For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Net cash inflow from operating activities	25	**17,005**	**6,843**
Cash flows from investing activities			
Purchases of property, plant and equipment		(737)	(543)
Purchase of intangibles		(2,040)	-
Sale of property, plant and equipment		-	24
Acquisition of businesses - deferred consideration for prior acquisitions		(2,511)	(1,454)
Acquisition of businesses - deferred consideration for current acquisitions		-	(168)
Acquisition of businesses - cash acquired		-	315
Acquisition of businesses - cash paid		(326)	(2,810)
Net cash used in investing activities		**(5,614)**	**(4,636)**
Cash flows from financing activities:			
New loans		-	2,500
Loan repayments		(645)	(1,060)
Interest paid		(360)	(338)
Dividends paid		(1,976)	(1,578)
Proceeds from the issue of share capital		452	46
Net cash flows from financing activities		**(2,529)**	**(430)**
Net change in cash and cash equivalents		**8,862**	**1,777**
Cash and cash equivalents at beginning of period		**3,618**	**1,841**
Cash and cash equivalents at end of period	14	**12,480**	**3,618**
Net debt at beginning of year		**(4,584)**	**(4,921)**
Net change in cash and cash equivalents		**8,862**	**1,777**
Decrease in loans		**645**	**1,060**
Increase in RCF		**-**	**(2,500)**
Net funds/(debt) at end of period		**4,923**	**(4,584)**

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

Notes to the financial statements

For the year ended 31 December 2013

1 Nature of operations

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

2 General information and statement of compliance

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

The financial statements for the year ended 31 December 2013 (including the comparatives for the year ended 31 December 2012) were approved and authorised for issue by the board of Directors on 29th January 2014.

The Group does not have an ultimate controlling related party.

3 Accounting policies

Basis of preparation

The consolidated financial statements are prepared for the 52 weeks ended 29 December 2013.

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

Separate financial statements of Staffline Group plc ('the Company') have been prepared, on pages 46 to 51, under the historical cost convention and in accordance with UK GAAP.

Functional and presentation currency

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

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

Consolidation of subsidiaries

The Group financial statements consolidate those of the parent company and all of its subsidiaries as at 31 December 2013. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through voting rights and presence on the respective boards of its subsidiaries. All subsidiaries have a reporting date of 31 December, with all subsidiary accounts prepared for the 52 weeks ended 29 December 2013.

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

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

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

Business combinations

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

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

3 Accounting policies (continued)

Segment reporting

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

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

Revenue recognition

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

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

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

Operating expenses

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

Goodwill

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

Intangible assets

Assets acquired as part of a business combination

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

Customer contracts, customer lists and licences

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

3 Accounting policies (continued)

Property, plant and equipment

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

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

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

Impairment

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

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

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

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

Leases

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

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

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

Taxation

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

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

3 Accounting policies (continued)

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

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

Pensions

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

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

Financial assets

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

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

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

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

Other provisions, contingent liabilities and contingent assets

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

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

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

3 Accounting policies (continued)

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

Probable inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets and therefore not recognised.

Equity

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

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

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

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

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

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

Share based employee remuneration

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

Equity settled share based remuneration

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

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

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

Cash settled share based remuneration

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

Key sources of estimation uncertainty

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

Impairment of goodwill

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

3 Accounting policies (continued)

Contingent consideration

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

Business combinations

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

Critical judgments in applying the Group's accounting policies

The Directors consider that the only critical judgement in applying the accounting policies which are described above is:

Adoption of new or amended IFRS

The Group has not early adopted the following new standards, amendments or interpretations that have been issued but are not yet effective. The Directors anticipate that the adoption of these standards will not result in significant changes to the Group's accounting policies. The Group has commenced its assessment of the impact of these standards but it is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position.

- IFRS 10 Consolidated Financial Statements (effective 1 January 2014)
- IFRS 11 Joint Arrangements (effective 1 January 2014)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2014)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2014)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2014)
- IFRS 9 Financial Instruments (effective 1 January 2015)
- IFRIC 21 Levies (effective 1 January 2014)
- Amendments to IFRS 10, IFRS 11, IFRS 12, IAS 27, IAS 36 and IAS 39 (effective 1 January 2014)
- Amendments to IAS 19 and the annual updates to various other standards (effective 1 July 2014)

4 Segmental reporting

Management currently identifies two operating segments: the provision of recruitment and outsourced human resource services to industry and the provision of welfare to work and other training services. These operating segments are monitored by the Group's Board and strategic decisions made on the basis of segment operating results. In the prior year, other training services were included within the recruitment services segment; following an internal reorganisation, the training services were moved under the same management as the welfare to work segment. Accordingly the prior year segmental analysis has been restated for this change.

Segment information for the reporting period is as follows:

	Recruitment services 2013 £'000	Welfare to work and training 2013 £'000	Total Group 2013 £'000	Recruitment services 2012 £'000	Welfare to work and training 2012 £'000	Total Group 2012 £'000
Segment continuing operations:						
Sales revenue from external customers	393,597	22,596	416,193	352,954	14,026	366,980
Cost of sales	(359,563)	(14,608)	(374,171)	(322,017)	(10,251)	(332,268)
Segment gross profit	**34,034**	**7,988**	**42,022**	**30,937**	**3,775**	**34,712**
Administrative expenses	(23,727)	(4,420)	(28,147)	(20,208)	(2,470)	(22,678)
Depreciation	(491)	(540)	(1,031)	(360)	(562)	(922)
Segment operating profit before amortisation of intangibles and share based payment charge	**9,816**	**3,028**	**12,844**	**10,369**	**743**	**11,112**
Administrative expenses - share based payment charge	(2,154)	-	(2,154)	(426)	-	(426)
Amortisation of intangibles	(1,313)	(453)	(1,766)	(1,349)	(453)	(1,802)
Segment profit from operations	**6,349**	**2,575**	**8,924**	**8,594**	**290**	**8,884**
Segment assets	99,938	13,483	113,421	91,779	7,954	99,733

During 2013 two customers in the recruitment services segment contributed greater than 10% of the Group's revenues being 19.2% (£75m) and 11.6% (£45m) of that segment's revenues (2012: two customers greater than 10%); the amounts receivable from the two customers at 31 December 2013 were £8.9m and £5.1m respectively. The welfare to work and training segment has one large customer that accounts for 94% (£21.2m) of that segment's revenues (2012: 92%); the amount receivable from that customer was £0.5m.

5 Administrative expenses

	2013 £'000	2012 £'000
Employee benefits expenses (note 7)	22,723	16,691
Depreciation	1,038	1,015
Other expenses	5,417	5,894
	29,178	**23,600**

Auditors' remuneration in their capacity as auditors of the parent company is £8,000 (2012: £7,000) and in their capacity as auditor of subsidiary companies is £69,000 (2012: £60,500). Non-audit remuneration in respect of tax compliance services totalled £14,550 (2012: £14,550) and in respect of other advice totalled £44,000 (2012: £7,150); the other advice in the current year relates to tax advice on the setting up of the JSOP.

6 Finance costs

	2013 £'000	2012 £'000
Interest payable on bank and other loans and overdraft	**360**	**363**

Notes to the financial statements (continued)

For the year ended 31 December 2013

7 Directors and employees remuneration

Employee benefits expense

Expense recognised for employee benefits is analysed below:

	2013 £'000	2012 £'000
Wages and salaries	22,523	17,896
Social security costs	2,226	1,787
Other pension costs - defined contribution plans	403	305
Share option charge - cash settled	2,128	394
Share option charge - equity settled	26	32
	27,306	**20,414**

	Number	Number
The average number of persons (including Directors) employed by the Group during the year was:		
– administrative staff	727	632
– sales staff	80	61
	807	**693**

Of the £27,306,000 total employee benefits cost above, £4,583,000 relating to Eos is included in cost of sales and therefore not reflected in administrative expenses in note 5 above.

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

	2013 £'000	2012 £'000
Wages and salaries	313,475	300,312
Social security costs	20,218	17,993
	333,693	**318,305**

	Number	Number
The average number of temporary workers contracted by the Group during the year was:	25,293	22,223

Directors' remuneration

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

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

In addition to the above, Tim Jackson received a payment of £169,000 in lieu of notice. Further, the Group incurred an income statement charge of £1.64m in relation to cash and equity settled share options held by the directors. The total is split as follows: A Hogarth (£760,000), M Evans (£356,000), S Brittain (£496,000), D Martyn (£31,000) and P Ledgard (£1,000).

During the year, directors and other senior managers of the company exercised 900,000 share options, which gave rise to an aggregate gain on exercise of £3,495,000.

7 Directors and employees remuneration (continued)

2012	A Hogarth £'000	M Evans £'000	T Jackson £'000	S Brittain £'000	D Martyn £'000	N Keegan £'000	J Crabtree £'000	Total £'000
Salary and fees	192	146	138	138	92	35	62	803
Bonus	45	20	19	19	-	-	-	103
Benefits in kind	2	2	2	2	-	-	-	8
Subtotal	**239**	**168**	**159**	**159**	**92**	**35**	**62**	**914**
Pension contributions	18	13	12	13	5	-	-	61
Share-based employee remuneration	101	51	70	68	-	-	-	290
Total	**358**	**232**	**241**	**240**	**97**	**35**	**62**	**1,265**

Share based employee remuneration

Approved Employee Share Option Plan

At 31 December 2013 the Group operated a share based payment scheme (EMI scheme) for certain employees. However as the number of employees now exceeds 250 the qualification criteria for an EMI scheme are no longer met so no further share options can be issued under the scheme.

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

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

Performance Related Share Option Plan

The share options issued to Shaun Brittain, Marshall Evans, Andy Hogarth and Tim Jackson and two other senior executives have different conditions which are detailed below.

These share options have a performance condition based on the increase in reported Diluted Earnings per Share of the Group from the base of 10.7p in December 2008 to the achieved Diluted EPS in the year to December 2013. The award is scaled up to a maximum of 150,000 shares for a doubling of diluted EPS. At the start of the year all 900,000 options were fully vested and they were exercised at various points during the year.

Details of the Directors' share options are as follows:

	Date of grant	At 1 Jan 2013	Granted	Exercised	At 31 Dec 2013	Exercise price
A Hogarth	19 Oct 2009	150,000	-	150,000	-	47.5p
M Evans	19 Oct 2009	150,000	-	150,000	-	47.5p
S Brittain	19 Oct 2009	150,000	-	150,000	-	47.5p
T Jackson	19 Oct 2009	150,000	-	150,000	-	47.5p
D Martyn	8 March 2013	-	100,000	-	100,000	348.6p

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

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

	Number	Weighted average exercise price (pence) 2013	Number	Weighted average exercise price (pence) 2012
Outstanding at start of period	929,169	50	1,180,095	73
Granted	100,000	349	-	-
Lapsed	(1,080)	(125)	(207,263)	(176)
Exercised	(918,973)	(47)	(43,663)	(105)
Outstanding at end of period	**109,116**	**327**	**929,169**	**50**

7 Directors and employees remuneration (continued)

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

	Number	Weighted average exercise price (pence) 2013	Weighted average contractual life (months) 2013	Number	Weighted average exercise price (pence) 2012	Weighted average contractual life (months) 2012
Date exercisable and (option life):						
2008 (up to 2013)	-	-	-	3,466	126	-
2009 (up to 2014)	1,855	162	-	9,976	167	-
2010 (up to 2015)	2,833	92	-	7,991	92	-
2011 (up to 2016)	4,428	54	-	7,736	54	-
2013 (up to 2016)	-	-	-	900,000	48	-
2016 (up to 2021)	100,000	349	27	-	-	-

Share options have exercise prices between 54p and 348.6p. The weighted average share price during the year was 463p (2012: 232p).

During the year, options over 918,973 ordinary shares (2012: 43,663) were exercised and the share price on the date of exercise ranged from 409p – 588.5p (2012: 238.0p – 240.0p).

The number of share options exercisable at the end of the year was 9,166 (2012: 29,169). The weighted average price of the options exercisable at the end of the year was 88p (2012: 50p).

The fair value of options granted was determined using the Black-Scholes valuation model. Significant inputs into the calculations were:

- share price at date of grant;
- exercise prices as detailed above;
- 32.5% (2012: 30%) volatility based on expected and historical share price;
- a risk free interest rate of 1.9% (2012: 4%);
- all options are assumed to be exercised after two years from the date of grant of the options (with the exception of the Directors and senior managers options which are expected to vest after three years); and
- dividends in line with current levels.

Joint Share Ownership Plan

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

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

	Award date	Participation price	Interest over (number of shares)	Date on which exercisable
A Hogarth	6 Sep 2010	92p	306,863	30/06/2015
M Evans	6 Sep 2010	92p	145,400	30/06/2015
S Brittain	6 Sep 2010	92p	200,000	30/06/2015
T Jackson	6 Sep 2010	92p	205,000	30/06/2015
A Hogarth	4 Jul 2013	411.5p	350,000	30/06/2018
D Martyn	4 Jul 2013	411.5p	350,000	30/06/2018
S Brittain	4 Jul 2013	411.5p	225,000	30/06/2018
P Ledgard *	2 Dec 2013	563p	170,000	30/06/2018

* P Ledgard joined later in the year so the award occurred in December on the same terms as the July award, with the exception of the participation price.

7 Directors and employees remuneration (continued)

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

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

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

The fair value of the liability was determined using the Binomial valuation model as at 31 December 2013. Significant inputs into the calculations were:

- share price at date of grant;
- exercise prices as detailed above;
- an average of 32.5% (2012: 30%) volatility based on expected and historical share price;
- an average risk free interest rate of 1.9% (2012: 4%);
- the disposal of shares and settlement of scheme on 30 June 2015 and 30 June 2018;
- 17.5% pay-out ratio for the 2013 JSOPs and 100% (2012: 75%) for the 2010 JSOP based on 46% forfeiture rate on the 2013 JSOPs and 33% on the 2010 JSOP (2012: 33%) to account for employees that leave before the vesting date;
- dividend yield – 1.4%.

Share-based employee remuneration

In total £2,154,000 of employee remuneration expense has been included in the consolidated statement of comprehensive income for the year ended 31 December 2013 (2012: £426,000) which increased the share based payment reserve by £26,000 (2012: £32,000) in respect of equity settled schemes and created a liability of £2,716,000 (2012: £588,000) in respect of cash settled schemes.

Key management personnel

The key management are considered to be the Board of Directors of Staffline Group plc, whose remuneration can be seen above, and the regional directors who participate in the JSOP. The aggregate remuneration for the regional directors for the year is £1,320,445 (2012: £764,205). Disclosures in accordance with IAS 24 are included in note 20.

8 Tax expense

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

	2013 £'000	2013 %	2012 £'000	2012 %
Result for the year before tax	8,564		8,521	
Tax rate		23.25%		24.5%
Expected tax expense	1,991		2,088	
Adjustment for non-deductible expenses relating to short term temporary differences	98		13	
Other non-deductible expenses	858		587	
Adjustment in respect of prior year	2		-	
Exercise of share options	(829)		-	
Brought forward losses utilised	(9)		-	
Overseas profits not subject to UK tax	(6)		-	
Deferred tax credit	(940)		(577)	
Actual tax expense	**1,165**	**13.6%**	**2,111**	**24.8%**

	2013 £'000	2012 £'000
Tax expense comprises:		
Current tax expense	2,105	2,688
Deferred tax expense		
origination and reversal of temporary differences	(940)	(577)
Tax expense	**1,165**	**2,111**

9 Earnings per share

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

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

	Basic 2013	Basic 2012	Diluted 2013	Diluted 2012
Earnings (£'000)	7,399	6,410	7,399	6,410
Weighted average number of shares	22,242,934	21,614,114	22,351,311	22,343,159
Earnings per share (pence)	**33.3p**	29.7p	**33.1p**	28.7p
Adjusted earnings per share (pence)*	**46.1p**	37.9p	**45.8p**	36.7p

*Earnings after adjusting for amortisation and share based payment charge, including the tax effect. The prior year values have been adjusted to add back the tax effect of amortisation and share based payment charge.

The weighted average number of shares has been increased by 628,820 (2012: 729,045) shares to take account of all the share options exercised during the year, excluding own shares.

Dividends

During the year, Staffline Group plc paid interim dividends of £856,541 (2012: £670,210) to its equity shareholders. This represents a payment of 3.8p (2012: 3.1p) per share. A final dividend of £1,592,628 has been proposed (2012: £1,081,566) but has not been accrued within these financial statements. This represents a payment of 6.2p (2012: 5.0p) per share. The final dividend for 2012 of £1,119,527 was declared and paid in 2013.

10 Goodwill

Gross carrying amount	Total £'000
At 1 January 2012	**30,032**
Additions	939
At 31 December 2012	**30,971**
Additions	-
At 31 December 2013	**30,971**

Goodwill above relates to the following acquisitions:

	Date of acquisition	Original cost £'000
Staffline Recruitment Limited	8 December 2004	22,326
Onsite Partnership Limited	16 March 2007	1,855
Peter Rowley Limited	1 December 2009	764
A La Carte Recruitment Limited	17 May 2010	744
Qubic Recruitment Solutions Limited	5 November 2010	745
Ethos Recruitment Limited	14 March 2011	76
Eos Works Group Limited	21 April 2011	1,585
Taskforce Recruitment Limited	12 September 2011	1,937
Go New Recruitment Limited	14 September 2012	939

Following acquisition, with the exception of Eos, all of the businesses have been fully integrated into the core recruitment business of the group. Therefore, management consider there to be two cash generating units (in line with the business segments defined in note 4), and have tested these two cash generating units for impairment. The total net book value of other intangible assets allocated to the two cash generating units is as follows: Recruitment services: £2,873,000 (2012: £1,446,000) and Welfare to Work £1,132,000 (2012: £1,585,000).

For both segments the recoverable amount of goodwill was determined based on a value-in-use calculation, covering a detailed one year forecast, followed by an extrapolation of expected cash flows over the next ten years at a growth rate of 5% (Recruitment Services) and 2% (Welfare to Work), and a pre-tax discount rate of 11% based on weighted average cost of capital. The recruitment services growth rate is based on the continuation of historic organic growth achieved by the business over the past 10 years. This has been achieved by sales growth with existing and new customers offset partially by a reduction in gross margins.

The growth rate exceeds the long term average growth rate for the markets in which the two segments operate, but this is deemed reasonable based on the reasons noted above. Management have used a forecast period of ten years as they feel this represents the minimum period over which the business model they have developed is sustainable.

10 Goodwill (continued)

Management's key assumptions for both segments are that there will be no significant changes in the business and that turnover and profit growth will be below historic levels. In respect of the Welfare to Work segment management have assumed that the existing government contract will be replaced with like contracts over time. Management have considered internal and external market data in setting their assumptions.

Apart from the considerations described in determining the value-in-use of the cash generating units above, the Group's management are not currently aware of any other probable changes that would necessitate changes in its key estimates.

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the business combinations in which the goodwill arises as follows:

	2013 £'000	2012 £'000
Recruitment services	29,386	29,386
Welfare to work services	1,585	1,585
Goodwill as at 31 December	**30,971**	**30,971**

The Directors do not believe that any reasonably possible changes in the assumptions used in calculating the value-in-use would result in the recoverable amount of goodwill falling below the carrying value and impairment becoming necessary.

11 Other intangible assets

The Group's other intangible assets include the customer contracts and lists obtained through the acquisition of the companies in note 10 above plus the acquisition of a software licence obtained in the year. The expected remaining useful life of these assets is 1 - 5 years.

The carrying amount of the material intangible asset – Eos Work Programme contract is £1,132,000 (2012: £1,585,000). The remaining amortisation period is 2.5 years. There are no intangible assets with restricted title.

Gross carrying amount	Licenses £'000	Customer contracts £'000	Customer lists £'000	Total £'000
At 1 January 2012	-	**3,076**	**4,482**	**7,558**
Additions through business combinations	-	-	935	935
At 31 December 2012	-	**3,076**	**5,417**	**8,493**
Additions	2,040	-	-	2,040
Additions through business combinations	-	700	-	700
At 31 December 2013	**2,040**	**3,776**	**5,417**	**11,233**
Amortisation				
At 1 January 2012	-	**1,038**	**2,622**	**3,660**
Provided in year	-	453	1,349	1,802
At 31 December 2012	-	**1,491**	**3,971**	**5,462**
Provided in year	170	452	1,144	1,766
At 31 December 2013	**170**	**1,943**	**5,115**	**7,228**
Net book amount at 31 December 2013	**1,870**	**1,833**	**302**	**4,005**
Net book amount at 31 December 2012	-	**1,585**	**1,446**	**3,031**

During the year the company purchased the trade and tangible fixed assets of Magna Staff Limited and Magna Office Selection Limited. The consideration consisted of £300,000 cash, £200,000 deferred consideration, £200,000 contingent consideration and £26,000 for property, plant and equipment. As the acquisition was not material, no further disclosures are required.

12 Property, plant and equipment

Gross carrying amount	Land and buildings £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
At 1 January 2012	**1,978**	**1,143**	**361**	**46**	**3,528**
Additions	63	385	95	-	543
Additions - business combinations	-	26	38	-	64
Disposals	-	(29)	(65)	(20)	(114)
At 31 December 2012	**2,041**	**1,525**	**429**	**26**	**4,021**
Additions	28	638	49	22	737
Additions - business combinations	-	9	17	-	26
At 31 December 2013	**2,069**	**2,172**	**495**	**48**	**4,784**
Depreciation					
At 1 January 2012	**300**	**322**	**83**	**12**	**717**
Provided in year	348	479	182	6	1,015
Disposals	-	(14)	(40)	-	(54)
At 31 December 2012	**648**	**787**	**225**	**18**	**1,678**
Provided in year	371	534	120	13	1,038
At 31 December 2013	**1,019**	**1,321**	**345**	**31**	**2,716**
Net book value at 31 December 2013	**1,050**	**851**	**150**	**17**	**2,068**
Net book value at 31 December 2012	**1,393**	**738**	**204**	**8**	**2,343**

All assets stated above are secured against bank loans outstanding at the year end.

13 Trade and other receivables

	2013 £'000	2012 £'000
Trade and other receivables	61,061	58,472
Accrued income	2,029	1,126
	63,090	**59,598**

Trade and other receivables are usually due within 14 - 30 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. Other than those disclosed in note 4, the Group does not identify specific concentrations of credit risk with regards to trade and other receivables as the amounts recognised represent a large number of receivables from various customers.

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

Some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired, is as follows:

	2013 £'000	2012 £'000
Not more than three months	11,831	13,586
More than three months but no more than six months	151	293
	11,982	**13,879**

14 Cash and cash equivalents

	2013 £'000	2012 £'000
Cash and cash equivalents	12,485	3,650
Bank overdraft (see note 16)	(5)	(32)
Cash and cash equivalents per cash flow statement	**12,480**	**3,618**

Cash and cash equivalents consist of cash on hand and balances with banks only. At the year-end £12,485,000 (2012: £3,650,000) of cash on hand and balances with banks were held by subsidiary undertakings however this balance is available for use by the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2013

15 Trade and other payables

	2013 £'000	2012 £'000
Trade and other payables	31,829	27,926
Accruals	23,883	18,212
Deferred income	275	540
	55,987	**46,678**

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

16 Borrowings

Bank loans and overdrafts are repayable as follows:

	2013 £'000	2012 £'000
In one year or less or on demand	62	678
In more than one year but not more than two years	7,500	7,556
	7,562	**8,234**

	2013 £'000	2012 £'000
Split:		
Current liabilities:		
Bank loans	57	646
Overdraft	5	32
	62	**678**
Non-current liabilities:		
Bank loans and revolving credit facility	7,500	7,556
	7,562	**8,234**

The bank loans and revolving credit facility (RCF) and overdrafts are secured by a debenture over all the assets of the Group.

The bank loan is secured by a first legal charge over a freehold property and is repayable in 120 monthly capital and interest payments of £5,830 until 20 June 2015. Interest accrues on the loan at 1.5% (2012: 1.0%) above base rate. The loan is expected to be paid off in 2014 therefore the full amount is classified within current liabilities. The RCF of £7.5 million was drawn down in full on 1 July 2012. The facility is repayable at the latest on 21 July 2014, however before the year-end, the bank indicated its intention to renew the facility on similar terms for a period of at least 12 months from the balance sheet date. Interest accrues on the loan at between 2.2% above LIBOR plus a non-utilisation fee of 0.88%.

During the period repayments totalling £645,000 (2012: £1,060,000) were made against the bank loans. The bank loans contain various covenants which, if breached, could lead to the loans becoming payable on demand. The relevant covenants have all been comfortably satisfied in 2013 and 2012.

17 Other liabilities

	2013 £'000	2012 £'000
Due within one year		
Deferred income	18	17
Deferred consideration	200	1,158
Contingent consideration	375	1,753
	593	**2,928**
Due after more than one year		
Deferred income	51	70
*Cash settled JSOP liability	2,716	-
	2,767	**70**

*In the prior year the cash settled JSOP liability was incorrectly included within current trade and other payables; on the grounds of materiality, no adjustment has been made to correct the comparatives.

17 Other liabilities (continued)

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

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

	£'000
Balance at 1 January 2013	**1,753**
Released to income statement	(224)
Paid	(1,354)
Addition relating to acquisition in the year	200
Balance at 31 December 2013	**375**

18 Deferred tax

Deferred tax liabilities (assets)	1 January 2013 £'000	Recognised in profit and loss £'000	31 December 2013 £'000
- Property, plant and equipment timing differences	-	82	82
- Other intangible assets	689	(360)	329
- Share based payment liability	(140)	(662)	(802)
	549	**(940)**	**(391)**
Recognised as:			
Deferred tax asset	(140)	(662)	(802)
Deferred tax liability	689	(278)	411
	549	(940)	(391)

There are un-provided deferred tax assets amounting to £167,000 (2012: £200,000) in relation to capital allowances. The gross amount is £727,000. This amount has not been recognised as it is probable that the temporary difference will not reverse in the foreseeable future.

19 Share capital

	2013 £'000	2012 £'000
Authorised		
30,000,000 ordinary 10p shares	**3,000**	3,000
Allotted and issued		
25,687,551 (2012: 22,888,578) ordinary 10p shares	**2,569**	2,289

	Ordinary 10p shares	
	Year ended 31 December 2013 Number	Year ended 31 December 2012 Number
Shares issued and fully paid at the beginning of the period	22,888,578	22,831,629
Shares issued during the year	2,798,973	43,663
Shares previously issued paid during the year	-	13,286
Shares issued and fully paid	**25,687,551**	**22,888,578**
Shares authorised but unissued	4,312,449	7,111,422
Total equity shares issued at end of period	**30,000,000**	**30,000,000**

All ordinary shares have the same rights and there are no restrictions on the distribution of dividends or repayment of capital with the exception of the 3,137,263 shares held by the EBT where the right to dividends has been waived.

Notes to the financial statements (continued)

For the year ended 31 December 2013

20 Related party transactions

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

Transactions with Group Directors

The Group Directors' personal remuneration includes the following expenses:

	2013 £'000	2012 £'000
Short-term employee benefits:		
Salaries and fees	886	803
Bonus – unpaid at year-end	105	103
Social security costs	118	140
Benefits in kind	4	8
Pension contributions	58	61
Share based employee remuneration	1,644	290
	2,815	**1,405**

In addition to the above, the Group spent £18,000 (2012: £1,945) in accommodation expenses at Hogarth's Hotel, which is owned by the Chief Executive. No amounts are outstanding at year-end.

21 Operating leases

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

	2013 Land and buildings £'000	2012 Land and buildings £'000
In one year or less	530	101
Between one and five years	1,225	1,865
In five years or more	380	996
	2,135	**2,962**

Lease payments recognised as an expense during the year ended 31 December 2013 amounted to £1,168,000 (2012: £1,163,000).

Operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, future leasing or additional debt. No sub-lease income is due as all assets held under lease agreements are used exclusively by the Group.

22 Contingencies

The Group had no contingent assets or liabilities at 31 December 2013 or 31 December 2012, other than the contingent consideration recognised on acquisition as disclosed in note 17.

23 Capital commitments

The Group had no capital commitments at 31 December 2013 or 31 December 2012.

24 Risk management objectives and policies

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

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

24 Risk management objectives and policies (continued)

Credit risk

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

	2013 Loans and receivables and balance sheet totals £'000	2012 Loans and receivables and balance sheet totals £'000
Trade and other receivables (note 13)	61,061	58,472
Cash and cash equivalents	12,485	3,650
Accrued income	2,029	1,126
	75,575	**63,248**

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

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. Details in respect of trade receivables at 31 December 2013 are provided in note 13.

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

Liquidity risk

The Group seeks to manage financial risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is achieved by the use of a bank overdraft facility up to £15,000,000.

Interest rate risk

All financial liabilities of the Group are subject to floating interest rates. Competitive rates have been renegotiated with the Group's bankers and the rate paid on bank loans has been set at 2% above base rate, and interest accrues on the RCF at 2.2% above LIBOR. The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +/- one percentage point with effect from the beginning of the year.

	2013	2013	2012	2012
	+1%	-1%	+1%	-1%
(Decrease)/increase in net result and equity £'000	(163)	163	(85)	85

Foreign currency sensitivity

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

Notes to the financial statements (continued)

For the year ended 31 December 2013

24 Risk management objectives and policies (continued)

Financial liabilities

The Group's liabilities are classified as follows:

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

	2012 Financial liabilities at fair value through profit or loss £'000	2012 Other financial liabilities at amortised cost £'000	2012 Liabilities not within the scope of IAS 39 £'000	2012 Balance sheet total £'000
Bank loan	-	702	-	702
RCF	-	7,500	-	7,500
Overdraft	-	32	-	32
Trade and other payables	-	27,338	588	27,926
Accruals	-	18,212	-	18,212
Deferred income	-	-	627	627
Other liabilities	1,753	1,158	-	2,911
Deferred tax	-	-	689	689
Corporation tax	-	-	1,325	1,325
Total	**1,753**	**54,942**	**3,229**	**59,924**

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

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

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

The Group has financial liabilities in the level 3 classification which are as follows:

Other liabilities include £375,000 (2012: £1,753,000) of contingent consideration which has been measured using management's estimate of the likely amounts payable in respect of acquisitions made in both the current and prior year and the application of a discount rate.

24 Risk management objectives and policies (continued)

Maturity of financial liabilities

The analysis of the maturity of financial liabilities at 31 December 2013 is as follows:

	2013 Less than one year £'000	2013 Two to five years £'000	2013 More than five years £'000	2013 Total £'000	2012 Less than one year £'000	2012 Two to five years £'000	2012 More than five years £'000	2012 Total £'000
Bank loan	57	-	-	57	646	56	-	702
RCF	-	7,500	-	7,500	-	7,500	-	7,500
Overdraft	5	-	-	5	32	-	-	32
Trade and other payables	31,829	-	-	31,829	27,338	-	-	39,327
Accruals	23,883	-	-	23,883	18,212	-	-	18,212
Other liabilities	575	-	-	575	2,911	-	-	2,911
Total	**56,349**	**7,500**	-	**63,849**	**49,139**	**7,556**	-	**56,695**

25 Cash flows from operating activities

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Profit before taxation	8,564	8,521
Adjustments for:		
Finance costs	360	363
Depreciation, loss on disposal and amortisation	2,805	2,853
Operating profit before changes in working capital and share options	**11,729**	**11,737**
Change in trade and other receivables	(3,491)	(6,482)
Change in trade and other payables	9,691	4,044
Cash generated from operations	**17,929**	**9,299**
Employee cash settled share options	2,128	394
Employee equity settled share options	26	32
Taxes paid	(3,078)	(2,882)
Net cash inflow from operating activities	**17,005**	**6,843**

26 Capital management policies and procedures

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

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

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

Staffline Group plc

Company statutory financial statements (prepared under UK GAAP)

For the year ended 31 December 2013

Company number 05268636

Adding value to your business

Contents

Directors’ responsibility statement

For the year ended 31 December 2013

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

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

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

The Directors confirm that:

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

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

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

For the year ended 31 December 2013

We have audited the parent company financial statements of Staffline Group plc for the year ended 31 December 2013 which comprise the parent company balance sheet, the principal accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibility Statement set out on page 46, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit and financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matters

We have reported separately on the group financial statements of Staffline Group plc for the year ended 31 December 2013.

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
BIRMINGHAM
29 January 2014

Principal accounting policies

For the year ended 31 December 2013

Basis of preparation

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

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

Investments

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

Deferred taxation

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

Financial instruments

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

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

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

Intangible assets

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

Share based payment

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

Company balance sheet

At 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Intangible assets	30	3,633	1,900
Investments	29	21,248	18,528
Total fixed assets		**24,881**	**20,428**
Current assets – amounts due from group companies	31	5,021	1,000
Creditors: amounts falling due within one year	32	-	(770)
Net current assets		5,021	230
Creditors: amounts falling due after one year	33	(2,716)	-
Net assets		**27,186**	**20,658**
Capital and reserves			
Called up share capital	34	2,569	2,289
Own shares (JSOP shares)		(9,211)	-
Share premium account	35	24,195	15,969
Profit and loss account	35	9,633	2,400
Equity shareholder's funds		**27,186**	**20,658**

The financial statements were approved by the Board of Directors on 29 January 2014.

A Hogarth
Director

P Ledgard
Director

Notes to the UK GAAP financial statements

For the year ended 31 December 2013

27 Profit for the financial year

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's profit for the year before dividends paid was £9,209,000 (2012: £1,500,000). Auditors remuneration incurred by the Company during the year for audit services totalled £8,000 (2012: £7,000).

28 Directors and employees remuneration

As in previous years all Group Directors are remunerated by Staffline Recruitment Limited. Details of Directors' remuneration is disclosed within the Report on Remuneration on pages 16 and 17.

The average number of persons (including Directors) employed by the Company during the year was 5 (2012: 7).

29 Fixed asset investments

	Investment in group undertakings £'000
Cost and net book amount at 31 December 2012	18,528
Additions	2,720
Cost and net book amount at 31 December 2013	**21,248**

The Company holds interests in the following companies:

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

*These companies are owned indirectly through other group companies.

30 Intangible assets

	Goodwill £'000	Other intangible asset £'000	Total £'000
NBV at 31 December 2012	1,900	-	1,900
Addition	-	2,000	2,000
Amortisation provided in year	(100)	(167)	(267)
NBV at 31 December 2013	**1,800**	**1,833**	**3,633**

31 Trade and other receivables

	2013 £'000	2012 £'000
Amounts due from Group undertakings	5,021	1,000

32 Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Amounts due to Group undertakings	-	770

33 Creditors: amounts falling due after one year

	2013 £'000	2012 £'000
Cash settled JSOP liability	**2,716**	-

34 Share capital

Authorised	2013 £'000	2012 £'000
30,000,000 (2012: 30,000,000) ordinary 10p shares	**3,000**	3,000

Allotted and issued	2013 £'000	2012 £'000
25,687,551 (2012: 22,888,578) ordinary 10p shares	**2,569**	2,289

During the year 918,973 shares were issued relating to share options. A further 1,880,000 shares were issued to the JSOP. For full details of share options and the share based payment charge calculation see note 7.

35 Reserves

	Share premium £'000	Profit and loss account £'000
At 1 January 2013	15,969	2,400
Retained profit for the year	-	9,209
JSOP shares issued	7,866	-
Share options exercised	360	-
Dividends paid	-	(1,976)
At 31 December 2013	**24,195**	**9,633**

36 Contingent liabilities

A cross guarantee exists between all companies in the Group for all amounts payable to Bank of Scotland and NatWest. The maximum potential liability to the Company at year end is £7,500,000.

37 Capital commitments

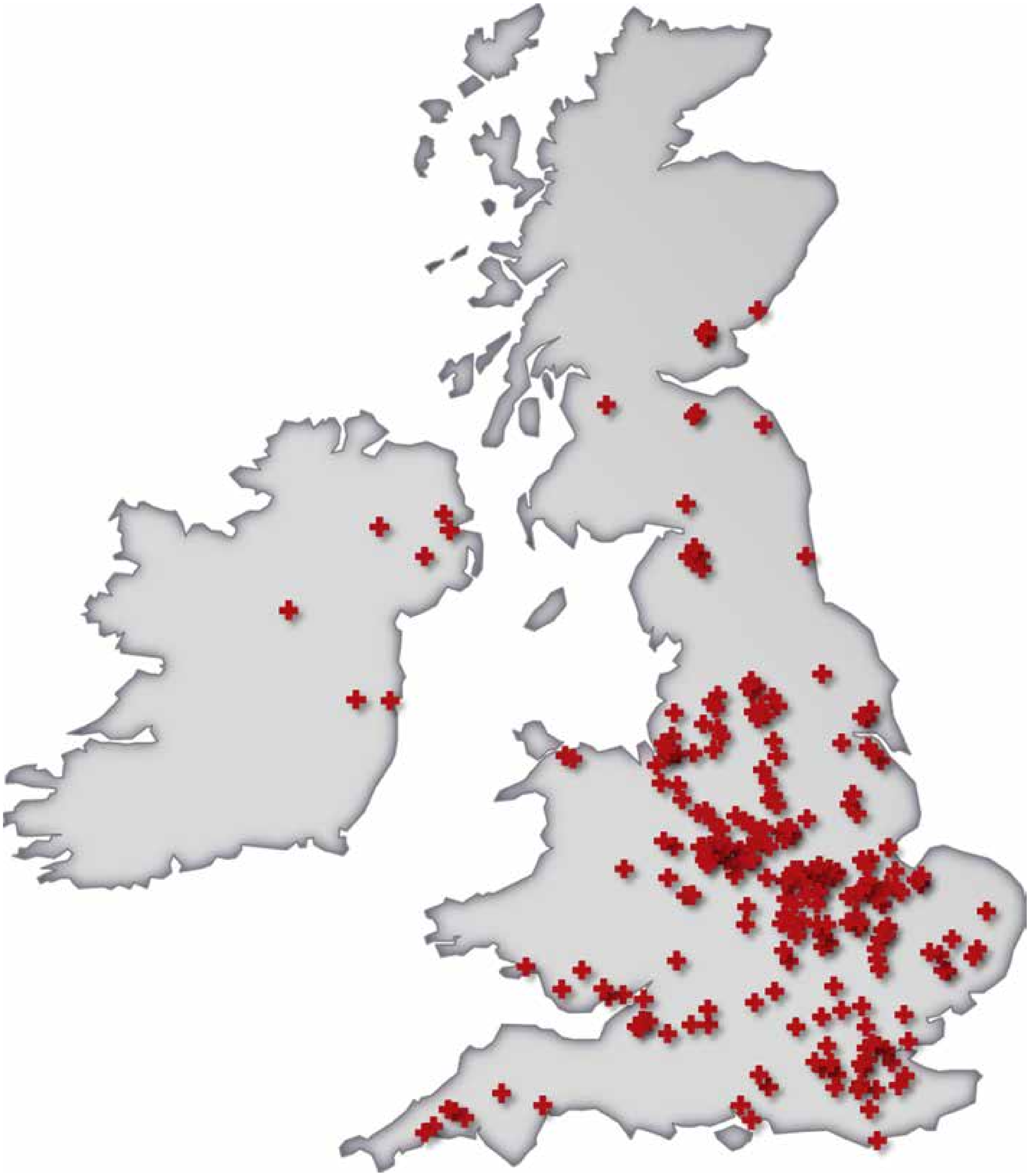
There were no capital commitments at 31 December 2013 or at 31 December 2012.

38 Related parties

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

Shareholder Notes

Staffline Group plc
Adding value to your business



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