Annual Report 2012

For the year ended 31 December 2012

Staffline Group plc

Adding value to your business

Annual Report 2012

For the year ended 31 December 2012

Company details

Company registration number:
05268636

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

Directors:
Shaun Brittain (Executive Director)
John Crabtree (Non-Executive Chairman)
Marshall Evans (Operations Director)
Andy Hogarth (Chief Executive)
Tim Jackson (Finance Director)
Nicholas Keegan (Non-Executive Director)
Diane Martyn (Managing Director)

Secretary:
Tim Jackson

Nominated adviser and broker:
Liberum Capital
Ropemaker Place
25 Ropemaker Street
London
EC2Y 9LY

Registrars:
Computershare Investor Services plc
PO Box 859
The Pavilions
Bridgewater Road
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Bankers:
Bank of Scotland
33 Old Broad Street
London
BX2 1LB

Solicitors:
Browne Jacobson LLP
Mowbray House
Castle Meadow Road
Nottingham
NG2 1BJ

Brabners Chaffe Street LLP
55 King Street
Manchester
M2 4LQ

Auditors:
Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants
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London
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Chairman's statement

For the year ended 31 December 2012

We are delighted to report that the Group grew revenue and profits during 2012, driven by a combination of organic growth and acquisitions. This good performance was achieved against a backdrop of a challenging macroeconomic outlook and an extremely competitive recruitment market. Whilst this creates many challenges at an operational level, we have continued to grow our ***OnSite*** platform, increasing sites by a further 16 this year to 179. Our move in to the Welfare to Work arena during 2011, with the acquisition of EOS, is showing early signs of success and we expect profitability from this division to grow significantly during 2013.

We also completed the acquisition of Select Appointments Limited, a long established specialist staffing services business providing office and administration staff across the UK. This transaction will see Staffline expand its services into the 'White Collar' arena for the first time, in a move which will see the Group seek to replicate the success of our 'Blue Collar' business.

Therefore, I remain confident of the Group's ability to continue to grow. We are seeing further opportunities for both acquisitions and organic growth due to on-going changes in the industry and the ever greater need of our clients to increase their productivity whilst being provided reliable and efficient staffing solutions.

John Crabtree OBE
Chairman
25 February 2013

Chief Executive's statement

For the year ended 31 December 2012

I'm pleased to report the Group has enjoyed another successful year with sales up by 27% and profit after tax up by 15%. We are particularly pleased with this performance given that we suffered the expected reduction in profitability (due to the level of investment committed to supporting our Department for Works and Pensions ("DWP") contracts) within EOS. As a result of this upfront investment, we had expected at the start of the year that net profit for the Group would remain flat, so it is particularly pleasing to be able to report an increase in operating profit for 2012. We are confident that profitable growth for the Group will continue during 2013, enabling the Board to propose an increased final dividend of 5.0p, (2011: 4.2p) making the full year dividend 8.1p, (2011: 7.1p). This represents an increase of 14% to the full year dividend and we intend to continue to grow the dividend broadly in line with earnings.

Operational Review

2012 continued in much the same vein as 2011 with the trading environment remaining difficult. Despite this, sales in our recruitment business grew by 27% and profitability grew by 18%. Sales also grew in our Welfare to Work division, by 33% but, as expected, operating profit before amortisation declined during the year by 48%. This anticipated reduction is due to the structure of the Work Programme contract we operate with the DWP and the upfront investment incurred in 2012. We are confident that profitability will be significantly improved in 2013. In addition we suffered losses on our two European Social Fund contracts due to a shortfall in expected referrals from Local Authorities. The effect on the overall Group results is that our profitability has risen by 4% at the adjusted operating profit level, from £10.3m to £10.7m but more significantly after tax and a reduced charge for amortisation of intangibles from £5.6m to £6.4m. Demand for our ***OnSite*** offering continues to generate significant market interest with a good pipeline of new business, the overall trend to outsourcing remaining prevalent for many clients.

The number of ***OnSites*** we operate from has continued to increase, from 163 in December 2011 to 179 at December 2012; this includes openings from a mixture of new and existing clients and some from acquisitions. Our ***OnSite*** model continues to be a driving factor in our success and we anticipate further growth across the UK.

Our branch network operation, Staffline Express, grew by 4 locations during the year and now operates from 22 branches.

Acquisitions during the period included the well-known British recruitment brand, Select Appointments Ltd ('Select'), from the Netherlands company Randstad. Select has been established in the UK for 30 years and specialises in both temporary and permanent placements in the white collar market. Select has for the past four years been an exclusively franchise operated business and it is our intention to continue with this model of operation which is capital light and limits the Group's business risk. We are looking to expand the number of operating branches from 30 at the time of acquisition to over 100 in the next three years, concentrating growth in the major cities and conurbations of the UK. We welcome an approach from individuals looking to operate their own recruitment business with the backing of a national organisation.

The acquisition of Select represents an exciting strategic step for the Group as we seek to further broaden our operational reach. Not only is the Select brand instantly recognisable but its established franchise network will provide a stable footing for the Group as we seek to expand our services into the white collar staffing market.

We acquired EOS Works Ltd (EOS), the Welfare to Work service provider, in April 2011 and commenced activities with the Coalition Governments new Work Programme Contract in Solihull, Birmingham and the Black Country in June 2011. In October that year, EOS was awarded two further contracts by the DWP, due to be worth £53m over three years. Both contracts are financed by the European Social Fund (ESF), with one operating in our existing Work Programme area in the Midlands and the other based in Yorkshire and Humberside. The nature of all of these contracts means that there is a significant tie up of working capital during the first 18 months which then gradually unwinds as profitability is achieved. At the 31st December 2012 the total additional working capital committed to Eos was £3.2m. Despite the significant amounts of negative publicity surrounding the Work Programme we are extremely pleased with our progress so far, with EOS appearing in the top 3 (out of 40) for all the major performance measures recorded by the DWP. To date we have helped over 8,000 long term unemployed back in to work. Regarding the ESF contracts, whilst we are again performing well against our competition they have been significantly less busy than initially expected, incurred losses in 2012, and are expected to do little more than break even during 2013 despite a number of financial changes by the DWP. This is a matter we continue to discuss with them.

Chief Executive's statement (continued)

For the year ended 31 December 2012

Market Overview

Gangmaster Licensing Authority (GLA)

We are convinced that the GLA has done much to improve standards and drive many sub-standard operators out of the regulated sector. Unfortunately there is considerable evidence that many of these Gangmasters have moved into both the Construction and Hospitality sectors, both of which are unregulated. In addition we have recently experienced an increase in the number of illegal and unlicensed people operating as labour suppliers, sometimes using indentured labour from Eastern Europe.

Marshall Evans, Operations Director, continues to be a member of the Board of Directors of the GLA as well as being a member of the REC council and the Chairman of the Policy Committee. I also sit on the board of the Association of Labour Providers. These roles allow us to understand and influence future industry trends and Government policy.

PAYE and Travel and Subsistence Schemes

We have been encouraged in our long term opposition to the abusive use of travel and subsistence schemes by a more robust response from Government agencies. Whilst during the year we continued to lose a number of clients to competitors operating these schemes we also won business from customers who are realising the potential liabilities they face if they allow their supplier to use these schemes unscrupulously.

Health & Safety

Our health and safety management system continues to develop using the HSE HSG65 – "Successful Health and Safety Management" guidance as the framework. 2012 saw yet another reduction in the Accident Frequency Rate reporting 0.16 which is a further reduction of 16% on the previous year. Staffline continues to develop its positive culture through its Safety Committee and Safety Champions.

ISO 9001 and Investors in People (IIP)

In November 2012 Staffline have successfully passed an official ISO external audit confirming continued accreditation, reaffirming our systems and processes are fully compliant with the ISO 9001 standards. As part of our continuous development culture Staffline remain the proud achievers of Investors in People status.

People

With the continued expansion of the Group, we have seen an increase to 428 employees in our recruitment business and Shared Services this year, giving average sales per employee of £827,000 compared to £763,000 in 2011. In addition a further 224 people are employed by EOS, bringing the Group's total workforce to 652.

In 2012, continuing on the great success of development in operations we enjoyed in 2011, 16 employees passed their REC Certificate in Recruitment Practice, 24 passed the Real Account Management course, 12 achieved Delight the Customer, 10 passed the external business writing course and 4 achieved the Chartered Institute of Environmental Health Level 4 exam in Food Hygiene.

In addition, within our Shared Services staff, 3 attended Advanced Certificate in Payroll Techniques, 3 First Aid at Work, 1 Professional CIMA Qualification Dip.MA, with many others attending courses in tax, credit control and other relevant subjects. We congratulate them all on their achievements.

2012 saw the introduction of our residential Leadership Development Course, attended by 20 potential senior managers of the future, which was a great success and continues with a further 20 delegates in 2013.

Compliance

We take compliance with legislation and industry standards extremely seriously, offering a total commitment to all of our clients to ensure that all of our workers, whether or not covered by the legislation, are recruited and supplied to the standards required by the Gangmaster Licencing Act. 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.

Investing for Growth

To help us achieve the highest compliance standards we are continuing to develop our new 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 in the business processes.

Agency Workers Regulations

These regulations, introduced in October 2011, require recruitment businesses to ensure that temporary contractors working alongside comparable client employed staff are, amongst other things, paid the same amount and enjoy the same holidays. The initial concern amongst some industry commentators that these regulations might cause disruption has not materialised.

Board Changes

As indicated in the announcement made on 21 February 2013, Marshall Evans has decided to retire from the Board and assume a part-time role with the Group going forward. I would like to personally thank Marshall for providing excellent help and support over the past 10 years and for playing a central role in the growth and success of Staffline. His continued availability, albeit on a part-time basis, and his decision to remain a member of the Board of the REC and the GLA, will be greatly appreciated.

I am also pleased to acknowledge the promotion of Shaun Brittain to Joint Managing Director of Staffline Recruitment Ltd. Shaun will be resigning from the Group Board following this promotion to focus on his broader day to day operational duties. Andrew Coop, currently Operations Director at Staffline, will also hold the title of Joint Managing Director of Staffline Recruitment Ltd, and will be responsible for Logistics and Distribution services.

Diane Martyn has agreed to become Group Managing Director having joined Staffline as Non-Executive Director last year. Diane will become a full time Executive Director and remain on the Group Board.

Finally I would once again thank all our employees for their dedication in ensuring we always offer the best and most innovative service to our clients.

Current Trading

The first 7 weeks of trading have started strongly and we have developed an excellent pipeline from new and existing customers for the first half of 2013. We have opened a specialised Driving division in Great Britain and in addition have committed to our existing business in Ireland with the appointment of a Divisional Director and team with responsibility for the Group's growth in that country. We have also recruited the new senior team to manage Select Appointments.

Despite the on-going threat arising from the abusive use by some competitors of Travel and Subsistence schemes , the majority of our clients appreciate the reassurance that we offer as a financially stable, ethical and fully compliant public company. Our new business pipeline continues to grow as clients increasingly search for best in class staffing solutions both from a regulatory and business perspective.

I am therefore confident that the Group will enjoy another year of substantial growth in 2013.

Andy Hogarth
Chief Executive
25 February 2013

Finance Director's statement

For the year ended 31 December 2012

Financial Highlights

The total revenues for the year increased by 27% to £367.0m (2011: £288.3m) reflecting the impact of strong demand for our services from existing customers, new business wins in 2011 and 2012 and also the impact of the acquisitions made during last year and this year. The successful growth of our ***OnSite*** business has continued albeit with increased competitive pressure on operating margins. This has resulted in a reduction in overall gross margin to 9.5% (2011: 10.8%). However, adjusted profit from operations has increased by 4% to £10.7m (2011: £10.3m). The charge for amortisation has reduced by £0.8m to £1.8m as historic acquisitions become fully amortised. The charge for employee share options has increased by £0.2m to £0.4m largely due to the share price increasing significantly during the closing months of 2012.

The investment in acquisitions, the Welfare to Work business and the growth in working capital offset by continued strong cash flow generation, has led to finance charges increasing to £0.4m (2011: £0.1m) and this has reduced interest cover to a still comfortable 24 times (2011: 60 times). The interest rates on our overdraft facility remain unchanged during the year, at 2.25% (2011: 2.0%) over bank base rate, while the rate for term borrowings remained at 1.0% (2011: 1.0%) over bank base rate and the Revolving Credit Facility at 2.25% to 2.5% over LIBOR.

Profit before tax for the year increased to £8.5m (2011: £7.5m) and profit after tax increased to £6.4m (2011: £5.6m).

Earnings per Share

The basic earnings per share increased by 15% to 29.7p (2011: 25.9p) and the diluted earnings per share increased by 14% to 28.7p (2011: 25.0p).

Dividends

The Directors propose a final dividend of 5.0p per share against 4.2p per share last year. This gives a total dividend for the year of 8.1p per share which is 14% ahead of the 7.1p per share paid in respect of 2011.

Subject to shareholder approval at the AGM, the final dividend will be paid on 3 July 2013 to shareholders on the register on 31 May 2013.

Acquisitions

During the year we completed four acquisitions for a total consideration of £5.0m. This amount is comprised of £2.8m cash paid at completion, and further potential consideration of £2.2m, £1.0m of which is dependent on future profitability. The acquisitions will add around £18.9m to turnover in a full year, and have resulted in the recognition in the Group balance sheet of additions to goodwill of £0.9m and additions to intangible assets of £0.9m. The intangible assets will be amortised over a period ranging from 1 to 2 years. The acquisitions have been funded from existing bank facilities together with an additional Revolving Credit Facility of £2.5m.

Balance Sheet

The Group balance sheet has strengthened during the year, with net current assets rising by £6.7m to £11.8m (2011: £5.1m) and a strengthened ratio of current assets to current liabilities of 1.23 (2011: 1.11). It is also pleasing to report that despite the significant growth in the business and investment in acquisitions the gearing has reduced to 12% (2011: 15%). The Group continues to be focused on cash generation and ensuring a robust balance sheet to support the growth of the business.

Financing

The Group's current bank facilities include a term loan of £0.6m, repayable in quarterly instalments up to June 2013, a revolving credit facility of up to £7.5m and an overdraft of up to £15.0m. At 31 December 2012 the Group was in a net cash position (excluding the revolving credit facility and term loans). The overdraft facility is renewable annually and was renewed in February 2013 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.

Post tax cash generation during the year has been strong and the relentless focus on debtor management has succeeded in limiting our working capital increase to £2.6m despite the 27% increase in sales. The growth and investment in the business offset by strong operational cash generation have resulted in net debt falling slightly to £4.6m (2011: £4.9m). The investment included £4.1m in acquisitions during the year covering Select Appointments Limited, Go New Recruitment Limited and 2 other businesses, and a further £0.4m investment in our systems development.

Tim Jackson
Finance Director
25 February 2013

Report of the Directors

For the year ended 31 December 2012

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2012.

Principal activity and business review

The principal activity of the Group is the provision of recruitment and outsourced human resource services to industry.

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 £670,120 (3.1p per share) was paid during the year (2011: £623,853, 2.9p per share). The Directors have proposed a final dividend of £1,081,566 (5.0p per share) (2011: £908,027, 4.2p per share) to be paid on 3 July 2013, to shareholders registered on 31 May 2013. 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
N Keegan
J Crabtree OBE
T Jackson
S Brittain
D Martyn (appointed non-executive 13 February 2012)

Substantial shareholdings

The interests in excess of 3% of the issued ordinary share capital of the Company which have been notified as at 24 January 2013 were as follows:

	Ordinary shares of 10p each Number	Percentage of ordinary shares %
Octopus Investments	3,241,269	14.16
Legal and General Investment	2,465,009	10.77
A J Hogarth	2,068,629	9.04
ISIS Equity Partners	1,917,584	8.38
Cazenove Capital Management	1,600,000	6.99
Investec Asset Management	1,555,000	6.79
Generali Portfolio Management	1,091,350	4.77
Hargreave Hale - Stockbrokers	982,716	4.29
Ennismore Fund Management	885,994	3.87

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

Payment to suppliers

It is the Group's policy to agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard terms and conditions to individually negotiated contracts and to pay suppliers according to agreed terms and conditions, provided that the supplier meets those terms and conditions. The Group does not have a standard or code which deals specifically with the payment of suppliers.

Group trade creditors at the year-end amounted to 25 days (2011: 12 days) of average supplies for the year.

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 net cash of £3,618,000 at 31 December 2012 (2011: £1,841,000) 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. These facilities have been renewed on similar terms in February 2013.

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% above base rate (2011: 1% above base rate). The rates paid on the RCFs taken out in 2011 and 2012 is between 2.2% and 2.5% above LIBOR plus a non-utilisation fee of between 0.88% and 1.0%.

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

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.

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;
- 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 auditors are 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

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

Tim Jackson
Company Secretary
25 February 2013

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Corporate governance statement

For the year ended 31 December 2012

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 Code. However, the Board of Directors has considered the effects of the Code and taken steps to comply with the Code insofar as it can be applied practically, given the size of Staffline and the nature of its operations. 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, one Executive 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.

Shaun Brittain — Executive Director

Shaun Brittain joined the Group in August 2000 and the Board in February 2009. He was one of the Group's divisional Directors, with responsibility for the largest region. He has made a significant contribution to the growth of Staffline's Onsite model and helped to shape the outsourcing development by introducing additional outsourcing services. Prior to that he spent 11 years at Blue Arrow, where he held senior roles, both operational and strategic.

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.

Marshall Evans — Executive Director

Having gained broad experience with P&O, NFC and Freightliners, Marshall spent six years as Operations Director of TIP Trailer Rental ("TIP"), joining GE Capital when that company acquired TIP in 1993. He then spent four years as part of the acquisition team which purchased and integrated ten further companies, including TLS Vehicle Rental, into GE Capital and became an Executive Director of TLS. He joined Staffline and the Board in July 2002. Marshall is a board member of both the Gangmaster Licensing Authority (GLA) and the Recruitment & Employment Confederation (REC) (the main UK trade body for recruitment agencies).

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 Chief Executive in 2009.

Tim Jackson — Finance Director

Having qualified as a Chartered Accountant with Grant Thornton, Tim spent nine years in various financial and commercial roles at Salvesen Logistics Plc. He then spent 7 years at Redbridge Holdings Limited culminating in the position of Finance Director of its food service division, Redbridge Fresh Services. As Finance Director of SG Maintenance Services Limited he was instrumental in the operational and finance side of the business and its eventual disposal, before joining Applied Language Solutions Limited, a fast growing translation business, as Finance Director. He joined Staffline as Finance Director in December 2008. He remained a non-executive Director of Applied Language Solutions Limited until its acquisition by Capita plc in December 2011.

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 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 a compliance officer role has been created during the year to ensure payroll team 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 annually. The Directors have identified the following principal risks and uncertainties facing the Group:

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 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 £85,000 on sales of £861,000,000, equating to 0.01% 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 have 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 customers, 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. The exposure to permanent recruitment is minimal as permanent appointments represent less than 1% of Group sales.
- 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.

Going concern

In considering the on-going funding requirements of the Group, the Directors have prepared detailed cash flow forecasts extending to December 2014 and these indicate that the Group expects to be able to continue to operate within its existing bank facilities for the foreseeable future. The Group enjoys a strong working relationship with its bank and had undrawn overdraft facilities of £12.3m at 31 December 2012. Coupled with a strong financial performance for the year ended 31 December 2012 and a strong start to 2013 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 2012

Remuneration Committee

The Company has a Remuneration Committee comprised of John Crabtree, who is the Chairman, Diane Martyn 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 Shaun Brittain, Marshall Evans, Andy Hogarth, Tim Jackson 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 £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 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 2012. The award is scaled up to a maximum of 150,000 shares for a doubling of diluted EPS.

These share options can be exercised between three and seven years of being granted and are detailed in note seven to the notes to the financial statements.

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 diluted EPS adjusted for amortisation of intangibles 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.

The interests that the directors acquired in the shares jointly with the Staffline Group plc Employee Benefit Trust are contained within note seven 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

Shaun Brittain, Marshall Evans, Andy Hogarth, Tim Jackson 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 Shaun Brittain, Marshall Evans, Andy Hogarth, Tim Jackson 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 2012

We have audited the group financial statements of Staffline Group plc for the year ended 31 December 2012 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 9, 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 APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on the 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 2012 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 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:

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 2012.

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

Date: 25 February 2013

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 Before amortisation £'000	2012 Amortisation £'000	2012 Total £'000	2011 Total £'000
Continuing operations					
Sales revenue	4	366,980	-	366,980	288,303
Cost of sales		(332,268)	-	(332,268)	(257,161)
Gross profit		**34,712**	**-**	**34,712**	**31,142**
Administrative expenses	5	(23,600)	-	(23,600)	(20,667)
Operating profit before amortisation of intangibles and share based charge		**11,112**	**-**	**11,112**	**10,475**
Administrative expenses - Share based payment charge		(426)	-	(426)	(209)
Administrative expenses - Amortisation of intangibles		-	(1,802)	(1,802)	(2,606)
Profit from operations		10,686	(1,802)	8,884	7,660
Finance costs	6	(363)	-	(363)	(126)
Profit for the period before taxation		**10,323**	**(1,802)**	**8,521**	**7,534**
Tax expense	8	(2,559)	448	(2,111)	(1,976)
Net profit and total comprehensive income for the period		**7,764**	**(1,354)**	**6,410**	**5,558**
Total comprehensive income attributable to:					
Non-controlling interest				(11)	(69)
Owners of the parent				6,421	5,627
Earnings per ordinary share	9				
Basic				29.7p	25.9p
Diluted				28.7p	25.0p

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

Consolidated statement of changes in equity

For the year ended 31 December 2012

	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 (audited)	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 (note 20)	-	-	-	-	(58)	(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**

	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 2011	2,264	(1,157)	15,735	198	13,512	30,552	(18)	30,534
Dividends	–	–	–	–	(1,437)	(1,437)	–	(1,437)
Share options issued in equity settled share based payments	–	–	–	31	–	31	–	31
Share options exercised	20	–	193	–	–	213	–	213
Transactions with owners	**20**	**–**	**193**	**31**	**(1,437)**	**(1,193)**	**–**	**(1,193)**
Profit for the period	–	–	–	–	5,627	5,627	(69)	5,558
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**5,627**	**5,627**	**(69)**	**5,558**
Balance at 31 December 2011	**2,284**	**(1,157)**	**15,928**	**229**	**17,702**	**34,986**	**(87)**	**34,899**

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

Consolidated statement of financial position

As at 31 December 2012

	Note	31 December 2012 £'000	31 December 2011 £'000
Assets			
Non-current assets			
Goodwill	10	30,971	30,032
Other intangible assets	11	3,031	3,898
Property, plant & equipment	12	2,343	2,811
Deferred tax asset	18	140	-
		36,485	**36,741**
Current			
Trade & other receivables	13	59,598	46,744
Cash and cash equivalents	14	3,650	3,687
		63,248	**50,431**
Total assets		**99,733**	**87,172**
Liabilities			
Current			
Trade and other payables	15	46,678	38,463
Borrowings	16	678	2,984
Other current liabilities	17	2,928	2,345
Current tax liabilities		1,325	1,519
		51,609	**45,311**
Non-current			
Borrowings	16	7,556	5,624
Other non-current liabilities	17	70	392
Deferred tax liabilities	18	689	946
Total liabilities		**59,924**	**52,273**
Equity			
Share capital	19	2,289	2,284
Own shares		(1,157)	(1,157)
Share premium		15,969	15,928
Share based payment reserve		75	229
Profit & loss account		22,673	17,702
		39,849	**34,986**
Non-controlling interest		(40)	(87)
Total equity		**39,809**	**34,899**
Total equity & liabilities		**99,733**	**87,172**

The financial statements were approved by the Board of Directors on 25 February 2013.

Andy Hogarth
Director

Tim Jackson
Director

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

Consolidated statement of cash flows

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Net cash inflow from operating activities	26	**6,843**	**402**
Cash flows from investing activities			
Purchases of property, plant and equipment		(543)	(1,115)
Sale of property, plant and equipment		24	-
Acquisition of businesses - deferred consideration for prior acquisitions		(1,454)	(1,528)
Acquisition of businesses - deferred consideration for current acquisitions		(168)	(351)
Acquisition of businesses - cash acquired		315	8,896
Acquisition of businesses - cash paid		(2,810)	(7,701)
Net cash used in investing activities		**(4,636)**	**(1,799)**
Cash flows from financing activities:			
New loans		2,500	5,000
Loan repayments		(1,060)	(809)
Interest paid		(338)	(126)
Dividends paid		(1,578)	(1,437)
Proceeds from the issue of share capital		46	213
Net cash flows from financing activities		**(430)**	**2,841**
Net change in cash and cash equivalents		**1,777**	**1,444**
Cash and cash equivalents at beginning of period		**1,841**	397
Cash and cash equivalents at end of period	14	**3,618**	**1,841**

Net debt at beginning of year	**(4,921)**	**(2,264)**
Net change in cash and cash equivalents	**1,777**	**1,444**
Decrease in loans	**1,060**	**899**
Increase in RCF	**(2,500)**	**(5,000)**
Net debt at end of period	**(4,584)**	**(4,921)**

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

Notes to the financial statements

For the year ended 31 December 2012

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 2012 (including the comparatives for the year ended 31 December 2011) were approved and authorised for issue by the board of Directors on 25 February 2013.

The Group does not have an ultimate controlling related party.

3 Accounting policies

Basis of preparation

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.

Separate financial statements of Staffline Group plc ('the Company') have been prepared, on pages 47 to 52, 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 2012. 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.

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.

Group Learner has been consolidated in the financial statements as a subsidiary despite the group holding a non-controlling interest only, of 40%, in the company. The results of Group Learner are highly immaterial to the financial statements however.

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

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

Business combinations

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

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

Segment reporting

The Group has two material operating segments: the provision of temporary staff to customers and the provision of welfare to work 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 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 and Customer Lists

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

Property, plant and equipment

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

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

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

Impairment

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

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

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

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

Leases

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

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

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

Taxation

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

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

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

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

Pensions

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

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

Financial assets

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

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

Interest and other cash flows resulting from holding financial assets are recognised in the profit or loss when receivable, regardless of how the related carrying amount of financial assets is measured.

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.

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 remeasured at fair value of the liability at each subsequent balance sheet date. Where the fair value of the services provided cannot reliably be measured, the fair value of the liability is used and the expense allocated over the vesting period. A financial liability is recognised for the fair value of the share-based payments, and remeasured at the end of each reporting period and at settlement, with any changes to the fair value recognised through the statement of comprehensive income.

Key sources of estimation uncertainty

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

Impairment of goodwill

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

Contingent consideration

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

Business combinations

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognised in profit or loss in the statement of comprehensive income in the subsequent period. Details of acquired assets and liabilities assumed are given in note 20.

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:

Provisions

Provisions for future claims or onerous contracts are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or the amount of the outflow may still be uncertain.

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 9 Financial Instruments (effective 1 January 2015)
- IFRS 13 Fair value measurement (effective 1 January 2013)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11 Joint Arrangements (effective 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2013)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013)

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 services. These operating segments are monitored by the Group's Board and strategic decisions made on the basis of segment operating results.

Segment information for the reporting period is as follows:

	Recruitment services 2012 £'000	Welfare to work 2012 £'000	Total Group 2012 £'000	Recruitment services 2011 £'000	Welfare to work 2011 £'000	Total Group 2011 £'000
Segment continuing operations:						
Sales revenue from external customers	354,121	12,859	366,980	278,631	9,672	288,303
Cost of sales	(322,201)	(10,067)	(332,268)	(251,698)	(5,463)	(257,161)
Segment gross profit	**31,920**	**2,792**	**34,712**	**26,933**	**4,209**	**31,142**
Administrative expenses	(21,256)	(1,422)	(22,678)	(17,751)	(2,219)	(19,970)
Depreciation	(360)	(562)	(922)	(251)	(446)	(697)
Segment operating profit before amortisation of intangibles and share based payment charge	**10,304**	**808**	**11,112**	**8,931**	**1,544**	**10,475**
Administrative expenses - share based payment charge	(426)	-	(426)	(209)	-	(209)
Amortisation of intangibles	(1,349)	(453)	(1,802)	(1,568)	(1,038)	(2,606)
Segment profit from operations	**8,529**	**355**	**8,884**	**7,154**	**506**	**7,660**
Segment assets	91,779	7,954	99,733	77,633	9,539	87,172

The Group purchased Eos Works Group Limited (Eos), a welfare to work provider, on 21 April 2011 thus creating two segments during the year ended 31 December 2011.

During 2012, two customers in the recruitment services segment contributed greater than 10% of that segment's revenues being 17.4% and 10.8% of that segment's revenues (2011: one customer greater than 10%). The welfare to work segment revenues relate solely to one customer.

The Group's revenues from external customers and its non-current assets all arise in the United Kingdom.

5 Administrative expenses

	2012 £'000	2011 £'000
Employee benefits expenses (note 7)	16,691	13,679
Depreciation	1,015	697
Other expenses	6,320	6,500
	24,026	**20,876**

Auditors' remuneration in their capacity as auditors of the parent company is £7,000 (2011: £7,000) and in their capacity as auditor of subsidiary companies is £60,500 (2011: £60,000). Non-audit remuneration in respect of tax compliance services totalled £14,550 (2011: £12,000) and in respect of other advice totalled £7,150 (2011: £15,500).

6 Finance costs

	2012 £'000	2011 £'000
Interest payable on bank and other loans and overdraft	**363**	**126**

7 Directors and employees remuneration

Employee benefits expense

Expense recognised for employee benefits is analysed below:

	2012 £'000	2011 £'000
Wages and salaries	17,896	14,086
Social security costs	1,787	1,461
Other pension costs - defined contribution plans	305	287
Share option charge - cash settled	394	178
Share option charge - equity settled	32	31
	20,414	**16,043**

	Number	Number
The average number of persons (including Directors) employed by the Group during the year was:		
- administrative staff	632	457
- sales staff	61	41
	693	**498**

Of the £20,414,000 total employee benefits cost above, £3,722,774 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:

	2012 £'000	2011 £'000
Wages and salaries	300,312	224,493
Social security costs	17,993	14,313
	318,305	**238,806**

	Number	Number
The average number of temporary workers contracted by the Group during the year was:	22,223	15,811

Notes to the financial statements (continued)

For the year ended 31 December 2012

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:

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**

2011	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	186	127	115	120	-	34	53	635
Bonus	98	69	62	65	-	-	-	294
Benefits in kind	2	2	2	2	-	-	-	8
Subtotal	**286**	**198**	**179**	**187**	**-**	**34**	**53**	**937**
Pension contributions	18	12	11	11	-	-	-	52
Share- based employee remuneration	47	24	33	32	-	-	-	136
Total	**351**	**234**	**223**	**230**	**-**	**34**	**53**	**1,125**

Share-based employee remuneration

Approved Employee Share Option Plan

At 31 December 2012 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 2012. The award is scaled up to a maximum of 150,000 shares for a doubling of diluted EPS.

The share options can be exercised between three and seven years of being granted. Details of the Directors' share options are as follows:

	Date of grant	At 1 Jan 2012	Granted	Exercised/ Lapsed	At 31 Dec 2012	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

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) 2012	Number	Weighted average exercise price (pence) 2011
Outstanding at start of period	1,180,095	73	1,187,799	62
Granted	-	-	200,000	179
Lapsed	(207,263)	(176)	(4,577)	(93)
Exercised	(43,663)	(105)	(203,127)	(105)
Outstanding at end of period	**929,169**	**50**	**1,180,095**	**73**

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

	Number	Weighted average exercise price (pence) 2012 £'000	Weighted average Contractual life (months) 20112 £'000	Number	Weighted average exercise price (pence) 2011 £'000	Weighted average Contractual life (months) 2011 £'000
Date exercisable and (option life):						
2007 (up to 2012)	-	-	-	1,400	94	-
2008 (up to 2013)	3,466	126	-	10,186	124	-
2009 (up to 2014)	9,976	167	-	23,101	158	-
2010 (up to 2015)	7,991	92	-	25,929	94	-
2011 (up to 2016)	7,736	54	-	19,479	54	-
2013 (up to 2016)	900,000	48	-	900,000	48	12
2016 (up to 2021)	-	-	-	200,000	179	54

Share options have exercise prices between 47.5p and 174.0p. The weighted average share price during the year was 232p (2011: 213p).

During the year, options over 43,663 ordinary shares (2011: 203,127) were exercised and the market price on the date of exercise ranged from 238.0p – 240.0p (2011: 209.5p – 223.5p).

The number of share options exercisable at the end of the year was 29,169 (2011: 80,095). The weighted average price of the options exercisable at the end of the year was 50p (2011: 73p).

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
- 30% (2011: 30%) volatility based on expected and historical share price
- a risk free interest rate of 4% (2011: 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)
- dividends in line with current levels.

Joint Share Ownership Plan

In 2010 the Company established a Joint Share Ownership Plan (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

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 diluted EPS adjusted for amortisation of intangibles in any full year up to 2014 (from a minimum of 24p to a maximum of 42p) and the share price at the date of disposal. 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 2012. Significant inputs into the calculations were:
- share price at date of grant;
- exercise prices as detailed above;
- 30% (2011: 30%) volatility based on expected and historical share price;
- a risk free interest rate of 4% (2011: 4%);
- the disposal of shares and settlement of scheme on 30 June 2015;
- 75% (2011: 62.5%) pay-out ratio based on management expectations; and
- 33.3% forfeiture rate to account for employees that leave before the vesting date.

Share-based employee remuneration

In total £426,000 of employee remuneration expense has been included in the consolidated statement of comprehensive income for the year ended 31 December 2012 (2011: £209,000) which increased the share based payment reserve by £32,000 (2011: £31,000) in respect of equity settled schemes and created a liability of £394,000 (2011: £178,000) 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 within note 7. Disclosures in accordance with IAS 24 are included in note 21.

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:

	2012 £'000	2012 %	2011 £'000	2011 %
Result for the year before tax	8,521		7,534	
Tax rate		24.5%		26.5%
Expected tax expense	2,088		1,997	
Adjustment for non-deductible expenses relating to short term temporary differences	13		20	
Other non-deductible expenses	587		390	
Adjustment in respect of prior year	-		124	
Deferred tax credit	(577)		(555)	
Actual tax expense	**2,111**	**24.8%**	**1,976**	**26.2%**

	2012	2011
Tax expense comprises:		
Current tax expense	2,688	2,531
Deferred tax expense		
- origination and reversal of temporary differences	(577)	(555)
Tax expense	**2,111**	**1,976**

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 2012	Basic 2011	Diluted 2012	Diluted 2011
Earnings (£'000)	6,410	5,558	6,410	5,558
Weighted average number of shares	21,614,114	21,446,973	22,343,159	22,223,142
Earnings per share (pence)	**29.7p**	25.9p	**28.7p**	25.0p
Earnings per share (pence) before amortisation	**35.9p**	35.1p	**34.8p**	33.9p

The weighted average number of shares has been increased by 729,045 (2011: 776,169) shares to take account of all dilutive potential ordinary shares that could be issued under the share option scheme and all shares issued during the year excluding own shares.

Dividends

During the year, Staffline Group plc paid interim dividends of £670,210 (2011: £623,853) to its equity shareholders. This represents a payment of 3.1p (2011: 2.9p) per share. A final dividend of £1,081,566 has been proposed (2011: £908,027) but has not been accrued within these financial statements. This represents a payment of 5.0p (2011: 4.2p) per share. The final dividend for 2011 was declared and paid in 2012.

10 Goodwill

Gross carrying amount	Total £'000
At 1 January 2011	**26,162**
Additions	3,870
At 31 December 2011	**30,032**
Additions	939
At 31 December 2012	**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, each of the businesses have been, or are in the process of being, 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: £1,446,000 (2011: £1,860,000) and Welfare to Work £1,585,000 (2011: £2,038,000).

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 10% 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. 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:

	2012 £'000	2011 £'000
Recruitment services	29,386	28,447
Welfare to work services	1,585	1,585
Goodwill as at 31 December	**30,971**	**30,032**

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. The expected remaining useful life of these assets is 1 - 5 years. The carrying amounts for the financial year under review can be analysed as follows:

Gross carrying amount	Customer contracts £'000	Customer lists £'000	Total £'000
At 1 January 2011	**-**	**2,350**	**2,350**
Additions through business combinations	3,076	2,132	5,208
At 31 December 2011	**3,076**	**4,482**	**7,558**
Additions through business combinations	-	935	935
At 31 December 2012	**3,076**	**5,417**	**8,493**
Amortisation	£'000	£'000	£'000
At 1 January 2011	**-**	**1,054**	**1,054**
Provided in year	1,038	1,568	2,606
At 31 December 2011	**1,038**	**2,622**	**3,660**
Provided in year	453	1,349	1,802
At 31 December 2012	**1,491**	**3,971**	**5,462**
Net book amount at 31 December 2012	**1,585**	**1,446**	**3,031**
Net book amount at 31 December 2011	**2,038**	**1,860**	**3,898**

The carrying amount of the material intangible asset – Eos Work Programme contract is £1,585,000. The remaining amortisation period is 3.5 years. There are no intangible assets with restricted title.

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 2011	**600**	**590**	**157**	**45**	**1,392**
Additions	570	464	255	-	1,289
Additions - business combinations	808	184	107	14	1,113
Disposals	-	(95)	(158)	(13)	(266)
At 31 December 2011	**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**
Depreciation					
At 1 January 2011	**36**	**116**	**124**	**-**	**276**
Provided in year	264	300	117	16	697
Disposals	-	(94)	(158)	(4)	(256)
At 31 December 2011	**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**
Net book value at 31 December 2012	**1,393**	**738**	**204**	**8**	**2,343**
Net book value at 31 December 2011	**1,678**	**821**	**278**	**34**	**2,811**

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

13 Trade and other receivables

	2012 £'000	2011 £'000
Trade and other receivables	58,472	46,744
Accrued income	1,126	-
	59,598	**46,744**

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:

	2012 £'000	2011 £'000
Not more than three months	13,586	8,585
More than three months but no more than six months	293	139
	13,879	**8,724**

14 Cash and cash equivalents

	2012 £'000	2011 £'000
Cash and cash equivalents	3,650	3,687
Bank overdraft (see note 16)	(32)	(1,846)
Cash and cash equivalents per cash flow statement	**3,618**	**1,841**

Cash and cash equivalents consist of cash on hand and balances with banks only. At the year-end £3,650,000 (2011: £3,687,000) of cash on hand and balances with banks were held by subsidiary undertakings however this balance is available for use by the Company.

15 Trade and other payables

	2012 £'000	2011 £'000
Trade and other payables	27,926	21,752
Accruals	18,212	13,624
Deferred income	540	3,087
	46,678	**38,463**

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. Trade and other payables include a share based payment liability of £588,000.

16 Borrowings

Bank loans and overdrafts are repayable as follows:

	2012 £'000	2011 £'000
In one year or less or on demand	678	2,984
In more than one year but not more than two years	7,556	603
In more than two years but not more than three years	-	5,034
In more than three years but not more than four years	-	25
	8,234	**8,646**
Debt issue costs	-	(38)
	8,234	**8,608**
Split:		
Current liabilities:		
Bank loans	646	1,138
Overdraft	32	1,846
	678	**2,984**
Non-current liabilities:		
Bank loans and revolving credit facility	7,556	5,624
	8,234	**8,608**

The bank loans and revolving credit facility (RCF) and overdrafts are secured by a debenture over all the assets of the Group. The balance of the first bank loan is repayable in one instalment of £268,000 plus one final payment of £322,000 on 30 June 2013. Interest accrues on the loan at 1.0% (2011: 1.0%) above base rate.

The second 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% (2011: 1.5%) above base rate.

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. Interest accrues on the loan at between 2.2% and 2.5% above LIBOR plus a non-utilisation fee of between 0.88% and 1%.

During the period repayments totalling £1,060,000 (2011: £809,000) 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 2011 and 2012.

On the basis of discounting the future loan repayments at a rate of 5% the theoretical fair value of the bank and other loans is £627,432 at 31 December 2012 (2011: £1,680,777). Fair values of the bank and other loans have been determined by calculating the present values at the balance sheet date of the future cash flows, using fixed effective market interest rates available to the Group.

17 Other liabilities

	2012 £'000	2011 £'000
Due within one year		
Deferred income	17	17
Deferred consideration	1,158	-
Contingent consideration	1,753	2,328
	2,928	**2,345**
Due after more than one year		
Deferred income	70	85
Contingent consideration	-	307
	70	**392**

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 22 for further information relating to details on the Group's operating lease agreements.

See note 20 for further details on the deferred consideration and contingent consideration balances which relate to acquisitions made in the current and prior year.

18 Deferred tax

Deferred tax liabilities (assets)	1 January 2012 £'000	Recognised in business combination £'000	Recognised in profit and loss £'000	31 December 2012 £'000
Non current assets				
-Other intangible assets	946	180	(437)	689
Current liabilities				
-share based payment liability	-	-	(140)	(140)
	946	**180**	**(577)**	**549**
Recognised as:				
Deferred tax asset	-			(140)
Deferred tax liability	946			689

Deferred tax liabilities (assets)	1 January 2011 £'000	Recognised in business combination £'000	Recognised in profit and loss £'000	31 December 2011 £'000
Non current assets				
-Other intangible assets	-	1,500	(554)	946
Recognised as:				
Deferred tax liability	-			946

There are unprovided deferred tax assets amounting to £200,000 (2011:£Nil) in relation to capital allowances. The gross amount is £834,000. This amount has not been recognised as it is probable that the temporary difference will not reverse in the foreseeable future.

19 Share capital

	2012 £'000	2011 £'000
Authorised		
30,000,000 ordinary 10p shares	**3,000**	**3,000**
Allotted and issued		
22,888,578 ordinary 10p shares	**2,289**	**2,264**

	Ordinary 10p shares	
	Year ended 31 December 2012	Year ended 31 December 2011
Shares issued and fully paid at the beginning of the period	22,831,629	22,628,502
Shares issued during the year	43,663	203,127
Shares previously issued paid during the year	13,286	-
Shares issued and fully paid	22,888,578	22,831,629
Shares issued but not fully paid	-	13,286
Shares issued	**22,888,578**	**22,844,915**
Shares authorised but unissued	7,111,422	7,155,085
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 1,257,263 shares held by the EBT where the right to dividends has been waived.

At 31 December 2012 all issued shares were fully paid, at 31 December 2011 13,286 shares were not fully paid.

20 Business combinations

The Company made a total of 4 acquisitions during the year. An adjustment was required to the book values of the assets and liabilities of the businesses acquired in order to present the net assets at fair values in accordance with group accounting policies. The purchases were accounted for as acquisitions. Goodwill is primarily related to growth expectations, expected future profitability, the skill and expertise of the acquired workforce, and expected cost synergies. The goodwill that arose from these business combinations is not expected to be deductible for tax purposes.

The following acquisitions were made during the year to enhance the Group's recruitment services segment:

- On 10 August 2012 a Group undertaking acquired the trade and assets of DKM Driving Limited and DKM Energy Limited, based in Nottingham;
- On 14 September 2012 a Group undertaking acquired Go New Recruitment Limited, based in Swindon and Go New Recruitment (Gloucester) Limited based in Gloucester and assumed control by acquiring 100% of the voting rights;
- On 23 October 2012 a Group undertaking acquired Select Appointments Limited and assumed control by acquiring 100% of the voting rights; and
- On 11 December 2012 a Group undertaking acquired the trade and assets of GB Resourcing Limited, based in Birmingham.

These acquisitions were individually immaterial to the Group and have, therefore, been disclosed in aggregate. The aggregate amounts in respect of the above are detailed below:

	Total Book Value at Acquisition £'000	Fair Value Adjustment £'000	Provisional Fair Value to group £'000
Intangible Assets - customer lists	-	935	935
Fixtures and fittings	16	-	16
Trade and other receivables	6,372	-	6,372
Cash at bank	315	-	315
Deferred tax asset	246	(211)	35
Deferred tax liability	-	(185)	(185)
Trade and other payables	(3,426)	-	(3,426)
Net assets at acquisition	**3,523**	**539**	**4,062**
Goodwill			939
			5,001

Satisfied by:	
Cash	2,810
Contingent consideration	1,033
Deferred consideration	1,158
	5,001

Acquisition costs recognised as expenses (included within administrative expenses) in the year amounted to £82,597 (2011: £57,000).

Consideration transferred

The acquisitions were settled in cash amounting to £2,810,000 with future consideration payable of £1,158,000. The purchase agreements included an additional contingent consideration of £1,033,000 payable only if the profits met the target level agreed by both parties. The additional consideration will be paid in accordance with the specific agreements for each acquisition. The fair value of the contingent consideration liability initially recognised also reflects management's estimate as at 31 December 2012 based on current results and forecasts.

Identifiable net assets

The fair value of trade and other receivables acquired as part of the business combination amounted to £6,372,000 which equated to the gross contractual amount.

Contribution to the Group results

The above acquisitions contributed post acquisition revenues of £3,597,000 and profits totalling £129,000. If the acquisitions had been made on 1 January 2012 revenues of £18,390,000 and an operating profit before amortisation of intangible assets of £502,000 would have been included.

Goodwill

The goodwill recognised relates to expected synergies to be achieved as a result of combining the operations of the businesses.

Acquisition of non controlling interest

On 26 July 2012 the company acquired the balance of shares that it did not already own in House of Logistics Limited for nil consideration. Following the transaction the company owns 100% of the share capital and the subsidiary became a dormant company.

21 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 undertakings not wholly owned

On 29 July 2012 the business and assets of House of Logistics Limited were transferred to a Group undertaking. Prior to that point, during the year the Group undertaking has paid for certain expenses on behalf of House of Logistics Limited during the year amounting to £424,230 (2011: £1,700,538). At 31 December 2012 there is no intercompany balance between the Group and House of Logistics Limited as this was eliminated on consolidation (2011: £382,160).

Transactions with Group directors

The Group Directors' personal remuneration includes the following expenses:

	2012 £'000	2011 £'000
Short-term employee benefits:		
Salaries and fees	803	635
Bonus – unpaid	103	294
Social security costs	140	190
Benefits in kind	8	8
Post employment benefits:		
Pension contributions	61	52
Share based payments:		
Share based employee remuneration	290	136
	1,405	**1,315**

22 Operating leases

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

	2012 Land and buildings £'000	2011 Land and buildings £'000
In one year or less	101	113
Between one and five years	1,865	1,864
In five years or more	996	1,722
	2,962	**3,699**

Lease payments recognised as an expense during the year ended 31 December 2012 amounted to £1,163,000 (2011: £477,000).

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.

23 Contingencies

The Group had no contingent assets or liabilities at 31 December 2012 or 31 December 2011.

24 Capital commitments

The Group had no capital commitments at 31 December 2012 or 31 December 2011.

25 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 coordinated at its headquarters, in close co-operation with the Board of Directors.

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

Credit risk

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

	2012 Loans and receivables and balance sheet totals £'000	2011 Loans and receivables and balance sheet totals £'000
Trade and other receivables (note 13)	58,472	46,744
Cash and cash equivalents	3,650	3,687
Accrued income	1,126	-
	63,248	**50,431**

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 2012 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 1% or 1.5% above base rate, and interest accrues on the RCF at between 2.2% and 2.5% 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.

	2012 £'000	2012 %	2011 £'000	20101 %
	+1%	–1%	+1%	–1%
(Decrease)/increase in net result and equity £'000	(85)	85	(86)	86

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. 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.

Financial liabilities

The Group's liabilities are classified as follows:

	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	-	11,989	6,223	18,212
Deferred income	-	-	540	540
Other liabilities	1,753	1,158	87	2,998
Deferred tax	-	-	689	689
Corporation tax	-	-	1,325	1,325
Total	**1,753**	**48,719**	**9,452**	**59,924**

	2011 Financial liabilities at fair value through profit or loss £'000	2011 Other financial liabilities at amortised cost £'000	2011 Liabilities not within the scope of IAS 39 £'000	2011 Balance sheet total £'000
Bank loan	-	1,762	-	1,762
RCF	-	5,000	-	5,000
Overdraft	-	1,846	-	1,846
Trade and other payables	-	21,558	194	21,752
Accruals	2,635	-	102	2,737
Deferred income	-	9,384	4,240	13,624
Other liabilities	-	-	3,087	3,087
Deferred tax	-	-	946	946
Corporation tax	-	-	1,519	1,519
Total	**2,635**	**39,550**	**10,088**	**52,273**

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 £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.

Maturity of financial liabilities

The analysis of the maturity of financial liabilities at 31 December 2012 is as follows:

	2012				2011			
	Less than one year £'000	Two to five years £'000	More than five years £'000	Total £'000	Less than one year £'000	Two to five years £'000	More than five years £'000	Total £'000
Bank loan	646	56	-	702	1,138	624	-	1,762
RCF	-	7,500	-	7,500	-	5,000	-	5,000
Overdraft	32	-	-	32	1,846	-	-	1,846
Trade and other payables	39,327	-	-	39,327	30,942	-	-	30,942
Other liabilities	2,911	-	-	2,911	2,345	290	-	2,635
Total	**42,916**	**7,556**	-	**50,472**	**36,271**	**5,914**	-	**42,185**

26 Cash flows from operating activities

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before taxation	8,521	7,534
Adjustments for:		
Finance costs	363	126
Depreciation, loss on disposal and amortisation	2,853	3,137
Operating profit before changes in working capital and provisions	**11,737**	**10,797**
Change in trade and other receivables	(6,482)	(10,324)
Change in trade and other payables	4,044	1,506
Cash generated from operations*	**9,299**	**1,979**
Employee cash settled share options	394	178
Employee equity settled share options	32	31
Taxes paid	(2,882)	(1,786)
Net cash inflow from operating activities	**6,843**	**402**

* The cash generated from operations in 2011 was lowered by £7,141,000 as a result of creditors acquired through acquisitions but paid after acquisition.

27 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 note 19.

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

28 Presentation of summarised consolidated statement of comprehensive income

The effect of the amortisation of the Group's intangible assets has been separately disclosed on the face of the consolidated statement of comprehensive income. This is reported below, together with the comparatives for 2011.

	2012			2011		
	Before amortisation £'000	Amortisation £'000	Total £'000	Before amortisation £'000	Amortisation £'000	Total £'000
Continuing operations						
Sales revenue	366,980	-	366,980	288,303	-	288,303
Cost of sales	(332,268)	-	(332,268)	(257,161)	-	(257,161)
Gross profit	**34,712**	**-**	**34,712**	**31,142**	**-**	**31,142**
Administrative expenses	(23,600)	-	(23,600)	(20,667)	-	(20,667)
Operating profit before amortisation of intangibles	**11,112**	**-**	**11,112**	**10,475**	**-**	**10,475**
Administrative expenses – share based payment charge	(426)	-	(426)	(209)	-	(209)
Amortisation of intangibles	-	(1,802)	(1,802)	-	(2,606)	(2,606)
Profit from operations	**10,686**	**(1,802)**	**8,884**	**10,266**	**(2,606)**	**7,660**
Finance costs	(363)	-	(363)	(126)	-	(126)
Profit for the period before taxation	**10,323**	**(1,802)**	**8,521**	**10,140**	**(2,606)**	**7,534**
Tax expense	(2,559)	448	(2,111)	(2,611)	635	(1,976)
Net profit and total comprehensive income for the period	**7,764**	**(1,354)**	**6,410**	**7,529**	**(1,971)**	**5,558**

The above splits out 2011 so that it is directly comparable to 2012.

Staffline Group plc

Company statutory financial statements
(prepared under UK GAAP)

For the year ended 31 December 2012

Company number 05268636

Contents

Director’s responsibility statement

For the year ended 31 December 2012

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 2012

We have audited the parent company financial statements of Staffline Group plc for the year ended 31 December 2012 which comprise the parent company balance sheet 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 47, 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 APB'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 2012;
- 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 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 2012.

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
BIRMINGHAM
Date: 25 February 2013

Principal accounting policies

For the year ended 31 December 2012

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.

During the current and previous years a technical breach of the Companies Act 2006 has been identified in relation to dividends paid in 2011 and 2012. This arose due to the previous accounts filed at Companies House not showing sufficient distributable reserves to cover the level of dividends paid. However, at the time the dividend was actually paid, sufficient additional distributable reserves had been paid up to Staffline Group plc from its subsidiaries to ensure that Staffline Group plc was able to pay the dividend. The directors will seek legal advice and will seek to remedy this breach at the earliest opportunity.

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 on a straight line basis.

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.

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 amortised over 20 years which represents its expected useful life.

Company balance sheet

At 31 December 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Investments	30	18,528	18,528
Intangible assets: Goodwill	31	1,900	2,000
Total fixed assets		**20,428**	**20,528**
Current assets – amounts due from group companies		1,000	
Creditors: amounts falling due within one year	32	770	1,316
Net current assets/(liabilities)		230	(1,316)
Total assets less current liabilities and net assets		**20,658**	**19,212**
Capital and reserves			
Called up share capital	33	2,289	**2,284**
Share premium account	34	15,969	**15,928**
Profit and loss account	34	2,400	**1,000**
Equity shareholder's funds		**20,658**	**19,212**

The financial statements were approved by the Board of Directors on 25 February 2013.

Andy Hogarth
Director

Tim Jackson
Director

28 Profit for the financial year

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's profit for the year before dividends paid was £1,500,000 (2011: £1,436,935).

Auditors remuneration incurred by the Company during the year for audit services totalled £7,000 (2011: £7,000).

29 Directors and employees remuneration

As in previous years all Group Directors are remunerated by Staffline Recruitment Limited. Details of Directors' remuneration is disclosed within the Report on Remuneration on page 14.

The average number of persons (including Directors) employed by the Company during the year was 7 (2011: 6).

30 Fixed asset investments

	Investment in group undertakings £'000
Cost and net book amount at 31 December 2011 and 31 December 2012	**18,528**

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
Peter Rowley Limited*	100%	England and Wales	Training
A La Carte Recruitment Limited*	100%	England and Wales	Recruitment
Staffline Polska Sp. zoo*	100%	Poland	Recruitment
Staffline Gliwice Sp. zoo*	100%	Poland	Recruitment
House of Logistics Limited*	100%	England and Wales	Business Consultancy
Eos Works Limited*	100%	England and Wales	Welfare to work
Ethos Recruitment Limited*	100%	England and Wales	Recruitment
Taskforce Recruitment Limited*	100%	England and Wales	Recruitment
Go New Recruitment Limited*	100%	England and Wales	Recruitment
Go New Recruitment (Glos.) Limited*	100%	England and Wales	Recruitment
Select Appointments Limited*	100%	England and Wales	Recruitment

*These companies are owned indirectly through other group companies.

Joint ventures	Proportion of ordinary share capital held	Country of incorporation	Nature of business
Group Learner Limited	40%	England and Wales	Training

The financial position and performance of Group Learner Limited for the year ended 31 December 2012 is highly immaterial to Staffline Group plc.

31 Goodwill

	£'000
Cost at 31 December 2011	2,000
Amortisation provided in year	100
Gross carrying amount at 31 December 2012	1,900

Notes to the UK GAAP financial statements (continued)

For the year ended 31 December 2012

32 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Amounts due to Group undertakings	**770**	**1,316**

33 Share capital

Authorised	2012 £'000	2011 £'000
30,000,000 (2011: 30,000,000) ordinary 10p shares	**3,000**	**3,000**

Allotted and issued		
22,888,578 (2011: 22,844,915) ordinary 10p shares	**2,289**	**2,284**

Share options

At 31 December 2012 the following ordinary share options granted were outstanding

Date of grant	Number	Exercise price	Exercise period
8 June 2006	1,908	130p	09/06/08 - 08/06/13
9 December 2006	1,558	120p	10/12/08 - 09/12/13
8 June 2007	7,613	174p	09/06/09 - 08/06/14
1 October 2007	2,363	143p	02/10/09 - 01/10/14
1 April 2008	3,822	121p	02/04/10 - 01/04/15
1 October 2008	4,169	66p	02/10/10 - 01/10/15
1 October 2009	7,736	54p	02/10/11 - 01/10/16
20 October 2009	900,000	47.5p	21/10/12 - 20/10/16

For full details of share options and the share based payment charge calculation see note 7.

34 Reserves

	Share premium £'000	Profit and loss account £'000
At 1 January 2012	15,928	1,000
Retained profit for the year	-	2,978
Share options exercised	41	-
Dividends paid	-	(1,578)
At 31 December 2012	**15,969**	**2,400**

35 Contingent liabilities

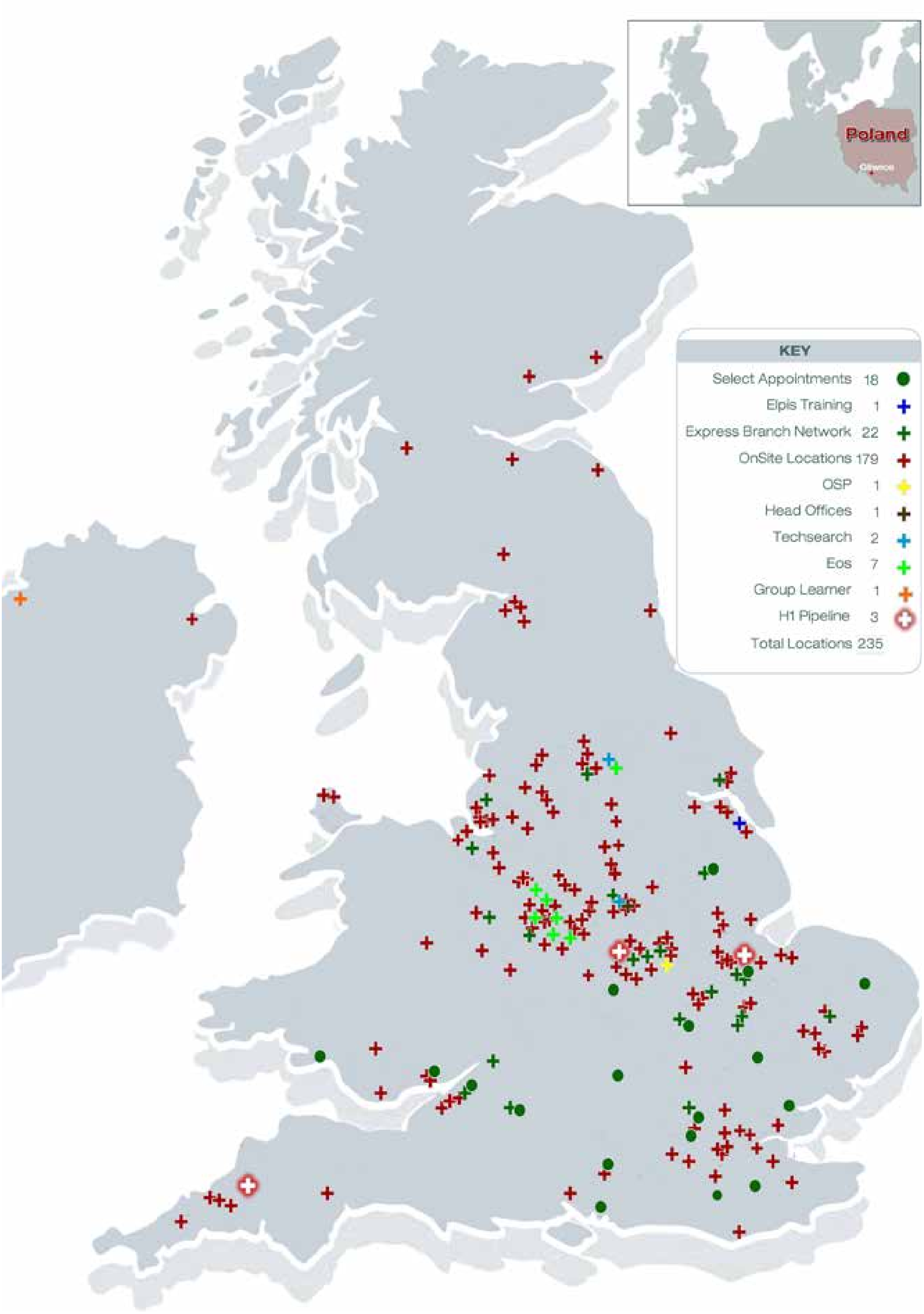
A cross guarantee exists between all companies in the Group for all amounts payable to Bank of Scotland and NatWest. The maximum potential liability to the Company at year end is £8,466,000.

36 Capital commitments

There were no capital commitments at 31 December 2012 or at 31 December 2011.

Staffline Group plc

Adding value to your business



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