SRCL Limited

Report and Financial Statements

31 December 2015

Directors
J P Johnston
C A Alutto
D Ginnetti

Auditors
Ernst & Young LLP
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Strategic report

The directors present their strategic report on the company for the year ended 31 December 2015.

Principal activities and review of the business

The principal activity of the company is the provision of services to the healthcare industry including the treatment and disposal of clinical waste, patient transport, medical courier services and communication solutions.

The financial performance of the business is summarised below:

	2015	*2014*	*Change*
	£000	*£000*	*%*
Turnover	166,029	140,208	18.4
Operating Profit before exceptional items	4,228	5,776	(26.8)
Operating Profit %	2.5%	4.1%	(39.0)

In 2015 the business has continued strong organic revenue growth particularly in the patient transportation and medical courier services under the ERS Medical brand name. Unfortunately with one of the new contracts obtained the business has had significant challenges around securing payment for services delivered which has resulted in a dispute and ERS Medical serving notice and exiting the contract in August 2016. The business is also finding there is significant disconnect between what is being procured by CCG's and what is actually required as a service delivery. This results in strain on customer relationships and contracts to be reviewed for pricing and/or sustainability. The business is conducting a thorough review in 2016 of all its patient transportation contracts to ensure their sustainability. A strategic decision has already been made to work with one of our largest customers to exit the contract in 2017 and it to be reprocured. The challenges on some contracts we face in the patient transportation business have had significant impact on the business profitability.

The financial impact to the business of exiting contracts has been significant in 2015 with costs recognised as exceptional items such as termination fees, writing down capitalised pre contract costs and provisions made for potential legal disputes following exit. The total cost of exceptional expenses is £13.8m as disclosed on the Statement of Comprehensive Income. Furthermore we have assessed the investment value of acquisitions made in the patient transportation and medical courier services and deemed it appropriate to take a provision against investments of £8.9m in the year.

The diversification of services ensures SRCL continues to aim to be a strategic partner in the healthcare industry by fulfilling customer needs whether it being medical waste compliance, patient transportation services, medical courier services, patient communication services and digital healthcare solutions.

The core business of clinical waste compliance services remain the largest proportion of the SRCL business. Although the health care sector in the UK remains a challenging market as the NHS responds to the economic environment and competition remains challenging we are successfully introducing new innovative services such as our biosystems service and digital healthcare solutions. The company continues to focus on class-leading customer service and meeting customer needs in a challenging environment and by focussing on innovative niche services such as communications, training and compliance products aims to expand operating margins with its large customer base.

Internally, the focus on operating efficiency remains firmly on our logistics operations and plant operations. A culture of continuous improvement within the business is focussed on enhancing customer satisfaction and encourages the sharing of best practice and productivity improvement across the business to enable us to provide a competitive and excellent service to our clients. SRCL is committed to working with customers to help improve their environmental performance through effective waste segregation, increased recycling and eliminating the waste sent to landfill.

SRCL continues to hold its capabilities in the hazardous waste and environmental services sector through its investment in Avanti whose environmental division provides a range of services that further enhance SRCL's sustainable service offerings, whilst giving customers a true single source solution to their waste and recycling requirements.

Strategic report (continued)

The Expert Solutions brand in Europe offers capability of recall services as well as other ancillary brand protection services and is already well placed in the USA via our parent company Stericycle Inc. We are able to offer global clients the capability of more globalised service and end to end recall solutions in Europe and Asia via our UK offices.

The directors are confident that by continued expansion of the range of services offered to the NHS and broadening the product range SRCL is set for further growth in the UK.

Principal risks and uncertainties

Principal risks include competition for new business and the integration of new activities. Management tracks competition behaviours and market conditions on a monthly basis through our marketing team. This gives intelligence on trends and behaviours allowing the business to be agile in decision making. In terms of integrating new activities we have robust project management controls and members of staff leading projects.

The company uses financial instruments, other than derivatives, comprising cash and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the company's operations.

The main risk arising from the company's financial instruments is interest rate risk. The management of this risk is by way of short term borrowing to allow market interest rates.

The company has no interest in the trade of financial instruments, interest rate swaps or forward interest rate agreements.

Currency risk

The company only maintains bank balances in Sterling and invoices and receives payment in this currency. The company is therefore not exposed to currency risk.

Liquidity risk

The company seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

On behalf of the Board

J P Johnston
Director

23 September 2016

Directors' Report

The directors present their report for the year ended 31 December 2015.

Results and dividends

The loss for the year after taxation amounted to £18,514,000 (2014 – profit of £3,630,000). The directors do not recommend a final dividend.

Future Developments

Looking forward the UK business, as a key part of the Stericycle Inc. business group, has the platform needed to drive future growth and explore new opportunities to serve our customer base capability.

Going concern

The nature of the long term relationships with key customers and suppliers gives underlying business stability and supports a positive cash flow from the medical waste business. This allows investment for the future supporting the interests of all stakeholders.

The company through access to the financial resources of its ultimate parent undertaking, Stericycle Inc., has the finance necessary to further develop its business through the foreseeable future and to refinance existing obligations including liabilities as they become due.

After making appropriate enquiries including receiving confirmation of continuing support from Stericycle Inc., the directors have the expectation that the company has adequate resources to continue in operation and to meet its liabilities as and when they fall due. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

Directors

The directors who served the company during the year were as follows:

J P Johnston
C A Alutto
D Ginnetti

Employment policy

Employment policies are based on a commitment to equal opportunities from selection and recruitment, through training, development, appraisal and promotion.

The company aims to promote an environment free from discrimination, harassment and victimisation. All decisions relating to employment are objective and based on individual merit. The company looks to use all employees' talents and abilities to the full.

Employee involvement in the company's success and profitability is encouraged through appropriate incentive schemes. Regular meetings and the company's intranet encourages employees to involve themselves in the company's activities and fully informs them on matters which concern them as employees.

It is company policy to give full and fair consideration to suitable applications for employment by disabled persons and so far as particular disabilities permit, give continued employment to an existing employee who becomes disabled.

Directors' report (continued)

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Information included in the Strategic Report

Information on financial risk management and financial instrument risk has not been included in the Directors' Report as it has been included in the Strategic Report instead, under S414C(11) of the Companies Act 2006.

On behalf of the Board

J P Johnston
Director

23 September 2016

Statement of directors' responsibilities

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

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

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

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

Independent auditor's report

to the members of SRCL Limited

We have audited the financial statements of SRCL Limited for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the related notes 1 to 28. 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), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the director; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report

to the members of SRCL Limited

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Ernst & Young LLP

Eddie Diamond (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

29 September 2016

Statement of comprehensive income

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Turnover	3	166,029	140,208
Cost of sales		(124,951)	(103,529)
Gross profit		41,078	36,679
Other operating charges	4	(36,850)	(30,903)
Operating profit before exceptional items		4,228	5,776
Exceptional items	5	(13,758)	(2,097)
Operating (loss)/profit		(9,530)	3,679
Amounts written (off)/back to investments	13	(8,893)	2,100
Interest receivable and similar income	8	22	-
Interest payable and similar charges	9	(1,205)	(1,485)
(Loss)/profit on ordinary activities before taxation		(19,606)	4,294
Tax on (loss)/profit on ordinary activities	10	1,092	(664)
(Loss)/profit for the financial year		(18,514)	3,630

All amounts relate to continuing activities.

There was no other comprehensive income or expense other than the loss attributable to the shareholders of the company of £18,514,000 in the year ended 31 December 2015 (2014 – profit of £3,630,000).

Statement of changes in equity

at 31 December 2015

	Share capital £000	Other reserve £000	Profit and loss account £000	Total share-holders' funds £000
At 1 January 2014	6,348	744	30,075	37,167
Profit for the year	-	-	3,630	3,630
Total comprehensive income for the year	6,348	744	33,705	40,797
Reserve for share-based payment (note 20)	-	-	-	-
At 31 December 2014	6,348	744	33,705	40,797
At 1 January 2015	6,348	744	33,705	40,797
Loss for the year	-	-	(18,514)	(18,514)
Total comprehensive income for the year	6,348	744	15,191	22,283
Reserve for share-based payment (note 20)	-	-	-	-
At 31 December 2015	6,348	744	15,191	22,283

The notes on pages 11 to 31 form part of these financial statements.

Statement of financial position

at 31 December 2015

	Notes	2015 £000	2014 £000
Fixed assets			
Goodwill	11	7,442	8,105
Negative goodwill	11	(968)	(1,161)
		6,474	6,944
Other intangible assets	11	158	141
Tangible assets	12	24,760	19,935
Investments	13	83,482	92,375
		114,874	119,395
Current assets			
Stock	14	1,744	1,945
Debtors	15	87,358	84,165
		89,102	86,110
Creditors: amounts falling due within one year	16	(171,079)	(152,274)
Net current liabilities		(81,977)	(66,164)
Total assets less current liabilities		32,897	53,231
Creditors: amounts falling due after more than one year	17	(10,614)	(12,434)
Net assets		22,283	40,797
Capital and reserves			
Called up share capital	19	6,348	6,348
Other reserve	20	744	744
Profit and loss account	20	15,191	33,705
Shareholders' funds		22,283	40,797

These financial statements (company registration number 03226910) were approved by the directors and authorised for issue on 23 September 2016 and are signed on their behalf by:

J P Johnston

Director

The notes on pages 11 to 31 form part of these financial statements.

Notes to the financial statements

at 31 December 2015

1. Accounting policies

Basis of preparation

SRCL Limited is a private limited company incorporated in England.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard Applicable in the United Kingdom and the Republic of Ireland, and the Companies Act 2006. The date of transition to FRS 102 was 1 January 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 28.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 2).

The presentational and functional currency is the British Pound Sterling rounded to £'000s.

Transitional relief

On transition to FRS 102 from previous UK GAAP, the company has taken advantage of transitional relief as follows:

Business combinations

The company has elected not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to FRS 102. No adjustment has been made to the carrying value of goodwill. Intangible assets subsumed within goodwill have not been separately recognised.

Share based payment transactions

The company has elected not to apply Section 26 Share based payment to equity instruments granted before the date of transition to FRS 102. FRS 20 has been applied to instruments granted prior to the date of transition

Investments in subsidiaries

The company has elected to treat the carrying amount of investments in subsidiaries under previous UK GAAP at the date of transition as deemed cost on transition to FRS 102.

Lease incentives

The company have not applied paragraphs 20.15A or 20.25A to lease incentives where the lease commenced before the date of transition to FRS 102. It has continued to recognise any residual benefit or cost associated with these lease incentives on the same basis that applied prior to transition to FRS 102.

Going concern

The nature of the long term relationships with key customers and suppliers gives underlying business stability and supports a positive cash flow from the medical waste business. This allows investment for the future supporting the interests of all stakeholders.

The company through access to the financial resources of its ultimate parent undertaking, Stericycle Inc., has the finance necessary to further develop its business through the foreseeable future and to refinance existing obligations including liabilities as they become due.

After making appropriate enquiries including receiving confirmation of continuing support from Stericycle Inc., the directors have the expectation that the company has adequate resources to continue in operation and to meet its liabilities as and when they fall due. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

Group financial statements

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group financial statements as it is exempt from the requirement to do so by section 401 of the Companies Act 2006, as it and its subsidiaries are included in the group financial statements of Stericycle Inc., a company incorporated in the United States of America.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Statement of cash flows

The company is a wholly owned subsidiary of Stericycle Inc., and is included within the consolidated financial statements which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS102 paragraph 1.12(b).

Goodwill

Goodwill is stated at cost less amortisation.

Amortisation is provided at rates calculated to write off the cost or valuation of intangible fixed assets, less their estimated residual value, on a straight line basis over their expected useful lives on the following basis:

Goodwill	–	10 to 20 years
Negative goodwill	–	20 years

Goodwill is reviewed for indicators of impairment on an annual basis for events or changes in circumstances that indicate that the carrying value may not be recoverable.

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired as part of an acquisition are not recognised where they arise from legal or other contractual rights, and where there is no history of exchange transactions. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Intangible assets are amortised on a straight line basis over their estimated useful lives. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The useful economic lives of intangible assets are as follows:

Customer lists – 10 to 17 years

Intellectual property – 10 years

If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates shall be reviewed and, if current expectations differ the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate.

Exceptional items

The Company presents non recurring operating costs as exceptional items on the face of the income statement. These are items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year. This is to facilitate comparison with prior periods and to assess better trends in financial performance.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Tangible fixed assets

All fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset on a straight line basis as follows:

Freehold property	–	20 years
Long leasehold property	–	over period of lease
Fixed plant	–	5-20 years
Moveable plant	–	3-5 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The company measures the recoverable amount by reference to the present value of expected future cash flows generated by a particular asset.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount.

Investments

Fixed asset investments are shown at cost less any provision for impairment.

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

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Specifically, revenue from the rendering of services is recognised when the service has been completed. Where customers are invoiced in advance of services, an element of this income will be deferred at the year end.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination a deferred tax liability/(asset) shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leasing commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

Pensions

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

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 so as to produce a constant rate of return on the outstanding liability.

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.

Notes to the financial statements

at 31 December 2015

1. Accounting policies (continued)

Share-based payments

Equity settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the ultimate parent undertaking (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the statement of comprehensive income, with a corresponding entry in equity.

Pre-Contract Costs

Directly attributable costs on new contracts are recognised as an asset when it is virtually certain that a contract will be obtained and the contract is expected to result in future net cash inflows. In the case of costs capitalised on contract tenders, future benefit it expected to be generated from these contracts, as the contracts are typically for a long term period, are expected to generate profits and there are no indications that any current contracts are expected to end early. Amortisation is provided straight line over the entire life of the contract.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses

2. Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Goodwill and intangible assets

The company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected usual life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Notes to the financial statements

at 31 December 2015

2. Judgements and key sources of estimation uncertainty (continued)

Impairment of non-financial assets

Where there are indicators of impairment of individual assets, the company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Material provisions

Provision is made for impairment of assets and restructuring costs. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. For property, plant and equipment an estimate of the impairment charge is based on the difference between carrying value and value in use or fair value less costs to sell. Restructuring costs are provided for as soon as there is a legal or constructive obligation arising from management decision.

In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

Onerous leases and contracts

The company has a material operational asset base which may be vulnerable to impairment in the event of trading performance being below expectations, or in case of events outside of the company's control which may result in the need to provide for the assets being written off.

The value-in-use models used to determine the amount of any impairment charge are based on assumptions including revenue forecasts, gross and operating margins and discount rates. The same judgements are used in determining whether an onerous lease provision is required and in calculating the appropriate amount of the provision. In addition, judgement is required in assessing whether there are any alternative uses for properties, which may affect the amount of onerous lease provision required.

Acquisition and fair value adjustments

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the company recognises provisional amounts for assets and liabilities following due diligence work. Any corrections to the fair value of the net assets are made in line with accounting standards to goodwill if the period since acquisition is less than 12 months; any subsequent adjustments beyond the 12 months' period are recognised in the statement of comprehensive income.

Taxation

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 18.

Contract mobilisation capitalisation

The company incurs significant costs following successful bidding on long term contracts, before the contract itself is signed, for large scoping assessments in line with NHS guidelines. These pre-contract costs are recognised as assets and the consumption of this benefit is recognised over the life of the contract, which range between 5 and 10 years.

Notes to the financial statements

at 31 December 2015

2. Judgements and key sources of estimation uncertainty (continued)

Operating lease commitments

The company has entered into commercial property leases as a lessee where it obtains use of property, plant and equipment. The classification of such leases as operating or finance lease requires the company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.

3. Turnover

The turnover and pre-tax result are attributable to the one principal continuing activity of the company. The turnover and results of the businesses that were hived up during the year (see note 13) have not been separately disclosed. This is because it is impracticable to do so since these businesses have been integrated with the company's existing business. Turnover is stated net of value added tax.

An analysis of turnover by geographical market is given below:

	2015	*2014*
	£000	*£000*
United Kingdom	166,029	140,208

All turnover is derived from the rendering of services.

4. Other operating charges

	2015	*2014*
	£000	*£000*
Administrative expenses	36,850	30,903

Notes to the financial statements

at 31 December 2015

5. Operating profit

This is stated after charging:

			2015 £000	2014 £000
Auditors' remuneration			128	102
Depreciation of owned fixed assets			4,942	4,633
Depreciation of assets held under finance leases and hire purchase contracts			506	1,422
Amortisation of intangibles			486	409
(Profit)/loss on disposal of fixed assets			(91)	156
Operating lease rentals	–	plant and machinery	10,754	6,999
	–	land and buildings	3,584	3,090

Exceptional items

The following have been charged in arriving at operating profit:

	2015 £000	2014 £000
Waiver of intercompany loan	-	(2,097)
Impairment of asset in relation to pre-contract costs	4,168	-
Onerous contract provision	692	-
Contract exit costs	4,705	-
Plant closure costs	2,057	-
Costs relating to reorganisation	1,945	-
Litigation expenses	191	-
	13,758	(2,097)

All exceptional items relate to items classed as "Other operating charges".

6. Directors' remuneration

The following amounts were paid by the company:

	2015 £000	2014 £000
Remuneration	67	184
Compensation in respect of loss of office	30	-
Company contributions paid to defined contribution pension schemes	5	18
	102	202

The number of directors who accrued benefits under company pension schemes was as follows:

	No.	No.
Money purchase schemes	1	2

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at 31 December 2015

6. Directors' remuneration (continued)

In respect of the highest paid director:

	2015	*2014*
	£000	*£000*
Remuneration	67	116
Compensation in respect of loss of office	30	-
Company contributions paid to defined contribution pension schemes	5	12
	102	128

In addition, in the current year the directors were also directors of other Stericycle Inc., companies and the remuneration of these directors was paid by those companies. The directors who performed duties in respect of this entity received a remuneration of £214,862 which was recharged to the company by way of management charge paid by this company. The directors received company contributions to defined contribution pension schemes of £nil.

7. Staff costs

	2015	*2014*
	£000	*£000*
Wages and salaries	65,226	47,575
Social security costs	6,064	4,638
Other pension costs	1,051	764
	72,341	52,977

Included in wages and salaries is an expense of share-based payments of £174,000 (2014 – £160,000) arising from transactions accounted for as equity settled share-based payment transactions.

The average monthly number of employees during the year was made up as follows:

	No.	*No.*
Plant operators	536	542
Drivers	2,110	1,421
Administrative	567	481
	3,213	2,444

8. Interest receivable and similar income

	2015	*2014*
	£000	*£000*
Interest receivable from group borrowings	22	-

Notes to the financial statements

at 31 December 2015

9. Interest payable and similar charges

	2015	*2014*
	£000	*£000*
Interest payable on bank overdraft	970	980
Other interest payable	235	505
	1,205	1,485

10. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2015	*2014*
	£000	*£000*
Current tax:		
UK corporation tax on the profit for the year	-	2,150
Adjustment in respect of prior years	-	(37)
Total current tax	-	2,113
Deferred tax:		
Origination and reversal of timing differences	(1,403)	(1,449)
Effect of change in tax rate on opening balances	310	-
Total deferred tax	(1,092)	(1,449)
Tax on profit on ordinary activities	(1,092)	664

(b) Factors affecting the total tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20.25% (2014 – 21.49%). The differences are explained below:

	2015	*2014*
	£000	*£000*
(Loss)/profit on ordinary activities before tax	(19,606)	4,294
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014 – 21.49%)	(3,969)	923
Effects of:		
Expenses not deductible for tax purposes	1,968	72
Income not taxable for tax purposes	(56)	(52)
Fixed assets differences	14	68
Other permanent differences	(93)	(110)
Change in tax rates	487	93
Adjustment in respect of prior years	557	(330)
Total tax (credit)/expense (note 10(a))	(1,092)	664

Notes to the financial statements

at 31 December 2015

10. Tax (continued)

(c) Factors that may affect future tax charges

The UK government has announced that the main UK corporation tax rate will be reduced from the current rate of 20% which became applicable from 1 April 2015 to 19% from 1 April 2017 and to 18% from 1 April 2020. The reduction in the corporation tax rates was included within the Finance Act that became substantially enacted on 26 October 2015.

In addition on 16 March 2016 the Government announced in the 2016 Budget Report that there would be a further reduction in the main rate of corporation tax from 18% to 17% from 1 April 2020. As this had not been substantively enacted at the balance sheet date these rates do not apply to the deferred tax position at 31 December 2015.

11. Intangible fixed assets

	Customer lists	*Intellectual property*	*Negative goodwill*	*Goodwill*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Cost:					
At 1 January 2015	-	150	(5,785)	13,457	7,822
Acquired during the year	33	-	-	-	33
At 31 December 2015	33	150	(5,785)	13,457	7,855
Amortisation:					
At 1 January 2015	-	(9)	4,624	(5,352)	(737)
Provided during the year	-	(16)	193	(663)	(486)
At 31 December 2015	-	(25)	4,817	(6,015)	(1,223)
Net book value:					
At 31 December 2015	33	125	(968)	7,442	6,632
At 31 December 2014	-	141	(1,161)	8,105	7,085

Amortisation of intangible assets is provided on a straight line basis over their expected useful lives:-

Goodwill	10-20 years
Negative goodwill	20 years
Other intangibles	5-10 years

Notes to the financial statements

at 31 December 2015

12. Tangible fixed assets

	Freehold property £000	*Long leasehold property £000*	*Plant and machinery £000*	*Total £000*
Cost:				
At 1 January 2015	791	8,843	60,086	69,720
Additions	-	1,164	9,542	10,706
Disposals	-	(338)	(1,904)	(2,242)
At 31 December 2015	791	9,669	67,724	78,184
Depreciation:				
At 1 January 2015	30	3,110	46,645	49,785
Charge for the year	2	637	4,809	5,448
Impairment charge	-	2	217	219
Disposals	-	(358)	(1,670)	(2,028)
At 31 December 2015	32	3,391	50,001	53,424
Net book value:				
At 31 December 2015	759	6,278	17,723	24,760
At 31 December 2014	761	5,733	13,441	19,935

The net book value of assets held under finance leases and hire purchase contracts, included above, are as follows:

	2015 £000	*2014 £000*
Plant and machinery	1,686	2,544

13. Investments

	Subsidiary undertakings £000
Cost:	
At 1 January 2015	96,055
Acquired during the year	-
At 31 December 2015	96,055
Amounts provided:	
At 1 January 2015	3,680
Amounts written down during the year	8,893
At 31 December 2015	12,573
Net book value:	
At 1 January 2015	92,375
At 31 December 2015	83,482

Notes to the financial statements

at 31 December 2015

13. Investments (continued)

Details of the investments in which the company holds 20% or more of the nominal value of any class of issued share capital are as follows:

Name of Company	*Country of Registration*	*Nature of Business*
AST Ambulance Service Limited	England and Wales	Non Emergency Patient Transport
Avanti AWS Limited	England and Wales	Hazardous waste and recycling services
Avanti Environmental Holdings Limited	England and Wales	Parent undertaking for group engaged in treatment of hazardous waste
Central Safety Services Limited	England and Wales	Non trading company
Cliniserve Holdings Limited	England and Wales	Non trading parent undertaking
Debonair Nursing Services Ltd	England and Wales	Nursing Services
Eclipse Marketing Limited	England and Wales	Automotive Recall
Ecology Scotland Limited	Scotland	Non trading company
EMAC Delta Limited	Scotland	Non trading company
ERS International Group Limited	England and Wales	Non trading company
First Practice Management Limited	England and Wales	Non trading company
G I Waste Solutions Limited	Scotland	Recycling services
Highland Waste Services Limited	Scotland	Hazardous waste services
Intercare Distribution Services Limited	England and Wales	Non trading company
IQ Med Holdings Limited	England and Wales	Healthcare IT
John Rome Limited	Scotland	Non trading company
Medical Courier Services Limited	England and Wales	Non trading company
Mediforce Limited	England and Wales	Non Emergency Patient Transport
My Surgery Website Limited	England and Wales	Non trading company
Norton Waste Services Limited	England and Wales	Non trading company
Rapid & Secure Limited	England and Wales	Non Emergency Patient Transport
Rock Highland Limited	Scotland	Hazardous waste and recycling services
Spirechem North West Limited	England and Wales	Non trading company
TextAnywhere Limited	England and Wales	Telecommunications
360CRM Limited	Scotland	Telecommunications
Internet GP	England and Wales	Non trading company
Medical Services (North-East) Limited	England and Wales	Non Emergency Patient Transport
Mediaburst Limited	England and Wales	Telecommunications
SCL Consultants Limited	England and Wales	Non trading company

The company holds 100% of the issued share capital of the above companies.

At year end indicators of impairment were identified affecting a number of investments, which resulted in a write down of £8,893,000. The trade and assets of Mediaburst Limited were transferred to SRCL Limited on 1 July 2015.

Notes to the financial statements

at 31 December 2015

14. Stocks

	2015	2014
	£000	£000
Plant spares	1,744	1,945

Stock recognised in cost of sales during the year as an expense was £3,752,000 (2014 – £4,221,000).

15. Debtors

	2015	2014
	£000	£000
Trade debtors	29,682	28,635
Amounts owed by parent undertakings	357	-
Amounts owed by subsidiary undertakings	44,530	36,213
Amounts owed by other undertakings	105	5,112
Other debtors	828	5,987
Prepayments and accrued income	7,662	5,116
Deferred tax (note 18)	4,194	3,102
	87,358	84,165

Within other debtors is included an asset of £590,000 (2014 - £3,131,000) related to pre contract costs which are amortised over the life of the contract and therefore represent a long-term debtor balance. In the year an asset with a net book value of £4,168,000 has been impaired as a result of the related contract being loss making.

16. Creditors: amounts falling due within one year

	2015	2014
	£000	£000
Bank overdraft	3,474	1,867
Trade creditors	7,735	3,226
Amounts owed by parent undertakings	59,291	55,952
Amounts owed by subsidiary undertakings	60,470	53,053
Amounts owed by other undertakings	11,300	12,290
Corporation tax	-	351
Other taxation and social security costs	4,549	4,496
Shares classed as financial liabilities (note 19)	2,359	2,359
Other creditors	2,495	4,782
Net obligations under finance leases and hire purchase contracts	507	657
Accruals and deferred income	18,899	13,241
	171,079	152,274

Notes to the financial statements

at 31 December 2015

17. Creditors: amounts falling due after more than one year

	2015	*2014*
	£000	*£000*
Amounts owed to parent undertakings	9,500	9,500
Other creditors	-	1,320
Net obligations under finance leases and hire purchase contracts	1,114	1,614
	10,614	12,434

Net obligations under finance leases and hire purchase contracts are secured on the assets concerned.

Obligations under finance leases and hire purchase contracts are payable as follows:

	2015	*2014*
Amounts payable:	*£000*	*£000*
Within one year	576	713
In two to five years	1,186	1,820
	1,762	2,533
Less: finance charge allocated to future periods	141	262
	1,621	2,271

Net obligations under finance leases and hire purchase contracts are secured on the assets concerned.

Notes to the financial statements

at 31 December 2015

18. Deferred tax

The movement in the deferred tax asset during the year was:

	2015	*2014*
	£000	*£000*
Asset at 1 January	(3,102)	(1,676)
Transfer of liability from group undertaking	-	23
Profit and loss account movement arising during the year (note 10)	(1,092)	(1,449)
Asset at 31 December	(4,194)	(3,102)

The company expects deferred tax assets of £1,770,000 and deferred tax liabilities of £nil to reverse in 2016.

The deferred tax asset consists of the tax effect of timing differences in respect of:

	2015	*2014*
	£000	*£000*
Capital allowances in advance of depreciation	(3,056)	(2,855)
Tax losses carried forward	(877)	-
Other timing differences	(261)	(247)
	(4,194)	(3,102)

Notes to the financial statements

at 31 December 2015

19. Issued share capital

Allotted, called up and fully paid	*No.*	*2015 £000*	*No.*	*2014 £000*
'A' ordinary shares of £1 each	5,671,888	5,671	5,671,888	5,671
'B' ordinary shares of £1 each	676,000	676	676,000	676
'C' ordinary shares of £1 each	500	1	500	1
Preference shares of £1 each	250,000	250	250,000	250
0.01% cumulative 'A' preference shares of £1 each	1,869,000	1,869	1,869,000	1,869
0.02% cumulative 'B' preference shares of £1 each	240,000	240	240,000	240

	2015 £000	*2014 £000*
Amounts presented in equity:		
'A' ordinary shares of £1 each	5,671	5,671
'B' ordinary shares of £1 each	676	676
'C' ordinary shares of £1 each	1	1
	6,348	6,348
Amounts presented in liabilities:		
Preference shares of £1 each	250	250
0.01% cumulative 'A' preference shares of £1 each	1,869	1,869
0.02% cumulative 'B' preference shares of £1 each	240	240
	2,359	2,359

The rights of the classes of shares are as follows:

Preference and A preference shares

A dividend and return on capital of 0.01% of the issue price. No voting rights.

B preference shares

A dividend and return on capital of 0.02% of the issue price. No voting rights.

A ordinary, B ordinary and C ordinary shares

The shares rank pari passu in all respects. Dividends can be paid once all preference share dividends have been paid. All shares have voting rights.

All classes of share capital are wholly owned by the immediate parent undertaking.

Notes to the financial statements

at 31 December 2015

20. Reserves

Other reserve

The other reserve is used to record the value of equity-settled share based payments provided to employees, including key management personnel, as part of their remuneration. Details of share based payments are set out in note 22. The movement in reserves represents the cost of equity settled transactions net of any cash contribution made by the company to its ultimate parent in respect of the options, which in both the current and prior year netted off to £nil.

Retained earnings

Reserves include all current and prior period retained profits and losses.

21. Pensions

The company operates defined contribution pension schemes for the benefit of all the employees. The assets of the schemes are administered by trustees in funds independent from those of the company. Contributions in the year were £1,051,000 (2014 – £764,000). Contributions totalling £243,375 (2014 – £146,065) were payable at the year end and are included in creditors.

22. Share-based payments

Employee share option plan

Options granted in the ultimate parent company, Stericycle Inc., to employees generally vest over five years. The following table illustrates the numbers and weighted average exercise price (WAEP) of, and movements in, share options during the year

		2015		*2014*
	No.	*WAEP*	*No.*	*WAEP*
		£		*£*
At 1 January	72,053	55.06	80,061	44.53
Exercised during the year	(16,553)	39.68	(16,601)	39.34
Forfeited during the year	(10,518)	68.36	(11,052)	69.03
Expired during the year	-	-	(500)	71.02
Granted during the year	11,770	87.75	20,145	74.34
Outstanding at 31 December	56,752	95.78	72,053	52.85
Exercisable at 31 December	23,222	70.89	27,520	34.15

For the above options outstanding at 31 December 2015, the weighted average remaining contractual life is 4.52 years. (2014 – 6.04 years).

The fair value of share options was estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used:

	2015	*2014*
Dividend yield (%)	-	-
Expected volatility (%)	16.71	17.23
Risk free interest rate (%)	1.47	1.53
Expected life of options (years)	4.79	4.76

Notes to the financial statements

at 31 December 2015

22. Share-based payments (continued)

The expected life of the options is based on an annual review of Stericycle Inc.'s options and how long they are typically held before exercise.

Expected volatility is a measure of historical volatility and implied volatility based on a quarterly review.

The risk free interest rate is the risk free ratio of return on the date of grant.

Dividend rate is used to discount the options as option holders do not receive dividends.

23. Other financial commitments

At 31 December 2015 future minimum rentals payable under non-cancellable operating leases are as follows:

		2015		*2014*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£000	*£000*	*£000*	*£000*
Within one year	3,026	8,282	2,879	6,519
In two to five years	9,628	19,715	9,596	15,163
Over five years	6,013	861	5,407	1,948
	18,667	28,858	17,882	23,630

As at 31 December 2015 the company had capital commitments amounting to £nil (2014: £380,508) in relation to plant & machinery and leasehold improvement assets.

24. Contingent liabilities

At the balance sheet date a cross guarantee exists between certain subsidiary companies of Stericycle Inc., SRCL Limited's ultimate parent undertaking. At the year end this was £68,751,246 (2014 – £93,013,140).

25. Related party transactions

The company has taken advantage of the exemption under FRS 102 from disclosing transactions with key management personnel remuneration and other wholly owned entities, which are part of the group of which Stericycle Inc., is the parent undertaking.

There are no other related party transactions requiring disclosure under FRS 102.

26. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Stericycle International Limited.

Stericycle Inc., a US incorporated company, is the ultimate parent undertaking and controlling party.

The largest and smallest group for which group financial statements have been drawn up is that headed by Stericycle Inc. Copies of these financial statements may be obtained from 28161 North Keith Drive, Lake Forest, IL 60045, USA.

Notes to the financial statements

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27. Financial instruments

Financial assets measured at amortised cost	*2015*	*2014*
	£000	*£000*
Trade debtors	29,682	28,635
Amounts owed by parent undertakings	357	-
Amounts owed by subsidiary undertakings	44,530	36,213
Amounts owed by other undertakings	105	5,112
Other debtors	828	5,987

Financial liabilities measured at amortised cost	*2015*	*2014*
	£000	*£000*
Bank overdraft	3,474	1,867
Trade creditors	7,735	3,226
Amounts owed by parent undertakings	59,291	55,952
Amounts owed by subsidiary undertakings	60,470	53,053
Amounts owed by other undertakings	11,300	12,290
Shares classed as financial liabilities (note 19)	2,359	2,359
Other creditors	2,495	6,102
Net obligations under finance leases and hire purchase contracts	1,621	2,171

Notes to the financial statements

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28. Transition to FRS 102

The company transitioned to FRS 102 from previously extant UK GAAP as at 1 January 2014. For the year ended 31 December 2014, the impact from the transition to FRS 102 is as follows:

Reconciliation of profit and loss for the year ended 31 December 2014

	£000
Profit for the year ended 31 December 2014 under previous UK GAAP	3,638
Less amortization for the year related to intellectual property	(8)
Profit for the year ended 31 December 2014 under FRS 102	3,630

Reconciliation of equity at 1 January 2014

On transition there were no differences in equity shareholders' funds compared to what was previously reported under old UK GAAP.

Reconciliation of equity at 31 December 2014

	£000
Equity Shareholders' funds at 31 December 2014 under previous UK GAAP	40,806
Less amortization for the year related to intellectual property -	(9)
Equity Shareholders' funds at 31 December 2014 under FRS 102	40,797

The company has elected to restate all acquisitions since 1 January 2014 that gave rise to the recognition of a goodwill balance; this includes the acquisition of Internet GP. Post 1 January 2014, additional intellectual property with a fair value of £150,000, has been recognised, reducing the net book value of goodwill recognised by £150,000. Additional total amortisation related to customer lists and intellectual property of £8,000 was recognised during the year to 31 December 2014. The impact of this was £nil for net assets reported at 31 December 2013 and to reduce net assets reported at 31 December 2014 by £8,000.

On transition the company has also elected to reclassify a balance of £55,233,500 at 1 January 2014 and £62,814,000 at 31 December 2014 as investments. This had previously been recognised as goodwill under old UK GAAP under a true and fair override, and related to subsidiaries where the trade and assets of those subsidiaries had historically been transferred to the company at book value. On transition to FRS102 the directors have decided to no longer invoke such a true and fair override and instead the amounts have been reinstated as investments in subsidiaries. Going forward these investments will be subject to impairment testing should any indicators of impairment be identified.