HYDROGEN GROUP PLC

Reports and accounts for the financial year ended 31 December 2014

Registered in England and Wales, Company No. 5563206

Chairman’s Statement

Restructuring for improved profitability

In 2014, following a four year period of diversification and investment, the Board took decisive action to streamline the business, reduce operating costs, leading to an improvement in sustained profitability. A comprehensive review of the business was undertaken with the aim of reducing risk and increasing performance at all levels.

The process of restructuring started with senior management changes at Executive Board level. A detailed review of sales and operational performance in all offices then followed, with the executive team prioritising areas for further investment and scaling back, or closing, underperforming businesses.

2014 Performance

Net Fee Income (“NFI”) for the full year was 11.8% lower, at £28.2m (2013: £31.9m) but, as a consequence of the actions taken in the first half, profit in the second half was delivered in line with the Board’s expectations. Despite difficult trading conditions in some regions and a high degree of change within the business, operating profit before exceptional items for the year to 31 December 2014 was maintained at £2.6m (2013: £2.5m). Reported profit before tax for the year, taking account of exceptional items, was £0.4m (2013 profit before tax: £2.4m). The Board stated at the half year stage that the payback period for the actions taken should be around 6 months and that intention was delivered. Savings of £3.8m in administration costs have been delivered for 2014 compared with 2013, offsetting the exceptional costs of £2.0m relating to the non-recurring costs of restructuring.

Hard decisions had to be made and everyone in the Group has been impacted in some way. The Board appreciates the efforts of all those who continued to deliver the standards of service expected by our clients and candidates, despite the changes going on within the business. The profit before tax delivered this year could not have been achieved without their hard work and support.

In the second half of the year, there were some positive and encouraging indicators for the future. The Group experienced growth in its Legal practice globally, more than doubled NFI from its operations in the US, and continued to invest in Malaysia by entering into an agreement with an experienced local investor.

Strategy

The 2016 strategic objectives agreed in 2012 were aimed at diversifying the business to reduce risk. Growing out of the UK to become a global recruiter, developing newer practices to address project-focused Technical and Scientific sectors and balancing the permanent and contract businesses were valid goals.

In 2014, the strategy was adjusted to refocus the business on delivering and sustaining profit. New strategic targets for 2015 were agreed by the Board at the end of the year and these are set out in the Strategic Report.

The Board now believes that the Group has sufficient opportunities to drive sustainable profit growth. Consequently, the Board does not believe it needs to diversify the Group further at this point, either by sector or by geography.

The aims for 2015 will be to deliver a consistent level of NFI and to increase EBITDA and cash generation.

Dividend

The Board has recommended a final dividend of 3.1p per share (2013: 3.1p per share), maintaining the total dividend for the year at 4.6p per share (2013: 4.6p). Subject to approval at the Annual General Meeting (“AGM”), the dividend will be paid on 29 May 2015 to shareholders on the register on 1 May 2015.

The Board

Reflecting the restructuring of the business, the Board reviewed its own composition and agreed not to seek a replacement for Barbara Anderson, who resigned with effect from 16 September 2014, after two years on the Board. We are grateful to Barbara for her service as a Non-Executive Director.

Tim Smeaton has expressed his wish to step down as CEO and his resignation from the Board will take effect on 4 March 2015, although he will remain available to the Group as needed to complete a smooth handover of responsibilities. A co-founder of Hydrogen, Tim led the international expansion of the business and the establishment of Hydrogen as a global recruitment brand was his vision. I would like to thank Tim for his contribution in building Hydrogen into the business it is today.

John Glover also signified his intention to step down after 8 years as Finance Director and the search for his successor is now under way.

The Board would like to thank Tim and John for their contributions to the Group over the years.

Ian Temple, who had stepped back from executive responsibilities in 2012 to become Chairman, was appointed as full time Chief Executive with effect from 4 March 2015. Ian, a co-founder of Hydrogen, will provide decisive leadership and continuity for the business.

Stephen Puckett was appointed as Chairman of Hydrogen Group plc with effect from 4 March 2015. Stephen was previously the Group Finance Director of Michael Page International plc (now Page Group plc) for over 11 years and had been an independent non-executive director of the Group since September 2012. Anne Baldock, who also joined the Board in September 2012, succeeded Stephen Puckett as Senior Independent Director.

These appointments preserve the separation of roles on the Board. They are in line with the Group's existing governance arrangements which take account of the guidelines contained in the QCA 2013 Corporate Governance Code for Small and Mid-Size Quoted Companies.

Current Trading and Outlook

Hydrogen's plan for 2015 is to remain focused on sustainable, profitable, business. Other than continuing to develop our business in Malaysia, no new office openings are planned and no investment in new practices is expected this year.

The well-publicised fall in the market price of oil has already had an adverse impact on hiring activity in the Oil and Gas sector. It is not yet clear whether skill sets developed in the Oil and Gas sector will be transferable to other technical projects and the full impact in 2015 is therefore unknown.

However, the Board sees opportunities for development and will continue to invest in areas where growth can be delivered at acceptable levels of profitability.

Hydrogen has been through a difficult period of restructuring and cost reductions. The Group is now firmly focused on its core opportunities. The changes implemented are intended to ensure that the Board delivers on its key objectives of improving profitability, increasing cash generation and growing the Group's revenue.

Stephen Puckett
Chairman

3 March 2015

WHAT IS HYDROGEN?

A diversified, global specialist recruitment business

Hydrogen has grown from a UK business, focused on legal, financial and technology recruitment, to a global specialist recruitment business with an international brand.

We build relationships by finding specialist candidates our clients have difficulty sourcing, placing exceptional, hard to find professionals in countries across the world, on both a contract and permanent basis. Our joined-up practice teams combine international reach with local expertise and specialist knowledge, to provide visibility of world class candidates.

OUR BUSINESS MODEL

Hydrogen's success depends on the ability of our consultants to source experienced, high quality, hard to find professionals, no matter where they are in the world, to satisfy the demands of our clients.

We add value by being able to fill vacancies which our clients cannot fill themselves. There are different circumstances behind each client's situation: there may be a shortage of specialist skills within their local area, tight time constraints on establishing a new business division or a high profile project which cannot be satisfied by direct recruitment.

Recruitment is a crowded market, with low barriers to entry. Hydrogen has focused on specialist, niche practices where clients need expert knowledge and high levels of service. We concentrate on markets where there is a shortage of supply of suitable candidates and opportunities to build strong and fruitful long term relationships with clients.

We place candidates at a mid to senior level of management, typically earning between £70,000 and £150,000 per year. In a particular market where the candidate pool is low, candidates expect to be found. They often do not have the time to seek out, apply for and negotiate new roles and particularly may not know that the right role for them exists, but in a different country. We aim to build longstanding relationships with candidates so that we can help them develop their own career and provide access to a global range of opportunities.

Meanwhile, clients see their biggest hindrance to growth being their inability to source specialist talent at mid to senior level. We make it our business to understand our clients and their markets, so that we are able to advise clients on their resourcing needs as they develop or help them to deliver major projects on time and on budget.

Hydrogen operates under a single brand, sharing information between its different offices on markets, clients and candidates in a joined up way. We believe this distinguishes us from other recruitment companies and gives us a real competitive advantage.

Operating segments

The business is structured into two principal operating segments:

Technical & Scientific (T&S)	**Professional Support Services (PSS)**
Oil and Gas	Business Transformation
Life Sciences	Finance
Power	Legal
	Technology

The two operating segments address different market sectors. Balancing the two segments in terms of their share of NFI is part of the strategy to mitigate against the risk of overexposure to one particular section of the global economy.

Specialist Practices

The global practices reflect our candidate specialisms and the areas of highest demand for resource for our clients. Operating across the world and across multiple practices means that we will be better able to withstand a downturn in a particular region or market sectors and support those practices which are more subject to cyclical change. We do not aim to operate on every street corner and we do not recruit for high volume, lower level administrative, manufacturing or distribution roles. We concentrate on specialist skill sets in markets where there is high demand, where we can provide services at a profitable pricing point.

Permanent/Contract Balance

We place candidates in both permanent and contract roles. The revenue streams and service requirements involved in filling permanent and contract roles are different. Maintaining a balance between permanent and contract placements helps to smooth the effect of fluctuations in the economic cycle.

The permanent business allows Hydrogen to generate cash during periods of growth when there is an increase in demand; by contrast the contract business has a large working capital requirement and is cash generative in the first periods of a downturn. When economic conditions are less certain, clients are more likely to fill positions on a temporary basis and the volume of contract business increases.

For permanent placements, the Group typically charges the client a fee based on the salary which will be earned by the candidate. The level of fee will take into account the specialist nature of the skills required, the strength of local markets and the difficulty of finding the right candidate within the time and budget set by the client.

Building and maintaining strong relationships with both high quality contractors and with clients, and excellent ongoing service levels, are particularly important in this part of the business. Hydrogen's contract business is supported by a highly rated contractor care division and payroll solutions which save the client administrative time and effort.

The fee structure and payment arrangements for contract roles can vary, and demand strong cashflow management. Hydrogen has maintained its level of Days of Sales Outstanding and has the bank facilities it needs to sustain a successful and growing contract business.

Clients and Candidates

Hydrogen recruitment consultants work with many of the world's leading organisations. There is a shortage of skills in many markets, particularly as project work increases and technology develops at an ever faster rate. Many mid-level roles simply cannot be filled from the local candidate pool. More senior skilled professionals may not even have considered a career move until they are approached. Despite the growth in social media and direct in-house recruitment we believe there is still a need for expert recruitment advice.

We have developed a strong, global client base and continue to win strategic clients, particularly large multi-nationals who need resource quickly to fulfil a major contract or develop a new area of business. Our business is built on long term relationships with global clients who recognise the value of our expertise in finding exceptional candidates. We would like to thank all our clients for their support over the last year.

We would also wish to pay tribute to the candidates and contractors who work with us, many of whom establish a connection with us that lasts through several years and stages of career development. Their performance in the roles which we have been entrusted to fill is important in cementing our reputation with clients as a specialist recruiter able to find, foster and channel talent.

A challenging year in 2014

The first half of 2014 proved to be very difficult, with a number of unforeseen client project freezes and new wins taking longer than expected to flow through to NFI. The Group had also previously invested in a number of incubator businesses, some of which reached the end of their start-up phase in the early part of 2014 without producing the results the Board would have liked.

The Board took swift action on leadership change, cost control and individual performance. The business needed to reduce costs to kick start the drive to deliver return on investments. That took the form of stripping the business back to basics and concentrating on core areas where the business can deliver and increase sustainable profit.

One major consequence of the closure of incubators which did not perform and concentration on profitable business was a significant reduction in headcount, from 383 at the end of 2013 to 285 at 31 December 2014. Through 2014 and into 2015 the Group has also seen leadership changes up to and including Board level.

There has been significant leadership change but also renewed investment in systems which show our consultants how they are performing and recruitment-specific training to build on sales skills already in evidence across the business.

Professional Support Services

In 2014, the Professional Support Services operating segment delivered 58% of total Group NFI (2013: 55%). There was strong growth in the Legal and Technology practices which grew their NFI by 10% and 33% respectively, year on year. Business Transformation declined during the year by 19%, almost entirely due to a reduction in the size of our largest project, but there were some notable client wins and the pipeline remains strong.

A recent study carried out by Hydrogen's Business Transformation team, looking at the banking sector in particular, noted that the amount and complexity of regulatory change continues to increase. The demand for candidates with those sorts of skills and experience across Europe, in particular, is still high and seems likely to continue.

In the UK, the outcome of the general election and economic factors will inevitably have a bearing on future recruitment plans for client companies in the UK. The financial services industry, for example, is likely to see heavier demand for transformation professionals as more competition comes into the market.

At the end of the year, we set up a dedicated "Major Accounts" function in the UK to align our consultants' and leaders' skills with the needs of our larger, strategic clients who have complex structures and higher regulatory and compliance demands.

Technical and Scientific

There is evidence that skills shortages are becoming more acute, particularly in sectors such as life sciences. A recent CBI survey showed that nearly 40% of firms looking for staff with STEM (science, technology, engineering and maths) skills have had difficulties recruiting, and about half thought the situation was only going to get worse. This situation provides us with opportunities as our investment in systems can help us to locate and deliver to client companies the candidates with the specialist skills they need, but which they cannot find for themselves.

However, the fall in oil prices in the second half of 2014 and continuing into 2015 has had an impact on our global Oil and Gas practice, with some project delays and cancellations. Furthermore, contractors have seen a significant reduction in day rates over a short period, both in the US and EMEA. A reassessment of the viability of global infrastructure projects within the Oil and Gas market is also likely to follow. NFI from Oil and Gas reduced by 17% during 2014.

International business

In 2014, we placed candidates in around 70 different countries. The UK business remained flat whilst the restructuring and the strength of Sterling reduced the size of our international business. 63% of total NFI was generated from the UK (2013: 56%).

However, we know there are significant international opportunities as our strategic clients transform and grow their own businesses. An example is Malaysia where we won a major project and the growth of financial services outsourcing means there is a higher demand for contract workers in finance, technology and business transformation. We developed our Kuala Lumpur presence in 2014 in response to client demand and, towards the end of the year, we entered into an agreement with an experienced local partner to help us develop client relationships and pursue potential business opportunities in that region.

Our Houston office, which opened in 2013, performed well in 2014 and increased its NFI by 300%, albeit from a low base. Reductions in oil prices have clearly impacted activity in that sector more recently.

Permanent and Contract

We place candidates in both permanent and contract roles. Permanent placements play to our experience in finding rare skills and satisfying the demand for niche, specialist skills. Contract provides more predictable revenue. Contract represented 54% of total NFI in 2014 (2013: 53%) and the contract book is expected to continue to exceed 50% of total NFI going forward.

Hydrogen has built up real expertise in winning and executing value added solutions for significant clients and has won a number of significant projects during the year that will provide predictable NFI, allowing the Group to align operational support more closely to sales and manage the timing of increases in administrative costs.

There was a decline in contractor renewals by our largest client following completion of one major project. However, overall the number of contractors working on-site with clients increased slightly during the year. The contract business has remained steady notwithstanding a reduction in the number of consultants working in these markets.

Clients and Candidates

The development of different recruitment practices from 2010 to 2014 helped the Group to reduce risk by diversifying away from a reliance on UK based financial businesses. We have a strong, global client list with plenty of opportunities for growth.

In the last few months, we have been successful in winning new strategic clients where demand is high and we are able to find talented professionals with the specialist skills needed by our clients – for example, highly skilled contractors for technology and business transformation projects in the UK and qualified professionals who are ready to “return home” to Asia.

We would like to thank all our clients for their support over the last year. We would also wish to pay tribute to the candidates and contractors who work with us, many of whom establish a connection with us that lasts through several years and stages of career development.

Current Trading

Hydrogen is coming through a difficult period and there are certainly continuing challenges, both from external factors such as the dramatic and sudden change in the Oil and Gas market and internal factors such as the management changes announced today.

With Oil and Gas making up around two thirds of the Technical and Scientific operating segment, it is not surprising that the pressure on NFI seen at the end of 2014 has continued into 2015. The Group remains vigilant and has the flexibility and agility to respond to potential impacts in other sectors, including skills shortages which may develop.

The business is well financed and cash generating, with a strong platform, hard working people and a solid client base capable of delivering profit.

IMPLEMENTING THE STRATEGY IN 2014

Adjusting the strategy

In 2012, strategy goals were adopted aimed at delivering growth over a four year period to December 2016. Key elements in the strategy included establishing stronger client relationships, investing in newer practices and locations and joining up practice areas under a single IT structure and global brand.

2016 Strategic Goals	Progress in 2014
Increase profitability and returns to shareholders	The Board took decisive action in 2014 to reduce costs. Executive bonuses for 2014 were not paid as profit was below target level. The Board has proposed that the 2014 final dividend should remain unchanged.
Growth of newer practice areas to balance more traditional markets such as Law and Finance	No further diversification of practices is planned. The balance in 2014 was skewed by a very strong performance by the Legal practice in the UK.
International expansion to provide a counter to potential economic downturn in one major market	NFI from the Houston office increased by 300%, albeit from a low base. Agreement was reached at the end of the year with an experienced local investor in Malaysia to develop client opportunities there. No new office openings are planned in 2015.
Strong leadership team focused on profit growth	The senior management team was restructured in 2014, with further changes at Board level in March 2015.
50/50 balance of permanent and contract recruitment to even out the effects on revenue and cash flow of changes in client budgets and skills requirements	Contract represented 54% of total NFI in 2014 (2013: 53%) The contract book is expected to continue to exceed 50% of total NFI going forward.
Maintain productivity to increase profitability in the mid to long term	Minimum productivity per head targets have been agreed and firm hiring triggers are in place for each practice.
Single platform, global infrastructure to support recruitment activity across the world and promote agility to move between areas and practices	2014 saw the roll-out of performance dashboards tailored to the needs of managers to help them monitor consultant and team progress against sales and profit targets.

The three main pillars of the 2016 strategy – to develop the Technical and Scientific operating segment, to diversify internationally and to balance contract and permanent placements – allowed Hydrogen to pinpoint the best areas for investment going forward. Having reviewed the progress made, the strategy has now been adapted to focus on sustainable profitability.

At the end of 2014, the Board agreed that the Group was not on track to deliver the 2016 strategic goals and set new strategic goals for 2015:

- Profit growth
- Company to be dividend bearing and cash neutral (in growth mode)
- Growth in existing clients
- Recruitment, development and retention of exceptional people
- Professionalism and efficiency
- Contract NFI growth; permanent business adding profit

FINANCIAL REVIEW

Revenue

Group revenue to 31 December 2014 totalled £169.4m (2013: £181.6m).

Net fee income (NFI)

NFI (shown as gross profit in the income statement) comprises the total placement fees of permanent candidates and the margin earned on placement of contract candidates.

Overall, the Group saw a reduction in NFI of 11.8% (7.5% on a like for like basis) to £28.2m (2013: £31.9m) – the fall being almost entirely attributable to international placements, which declined by 26.2% to £10.3m (2013: £13.9m), representing 37% of total Group NFI (2013: 44%)

The main factors behind this decline were falling activity levels and margins in the Oil and Gas markets, most acutely in Europe, following the fall in the price of oil; the weakness of economic activity in Australia, where stabilisation from mid-year enabled the business to return to growth and profitability; and the overall strength of Sterling throughout the period. In spite of these headwinds we continued to see NFI growth of 5% in Singapore (11% on a like for like basis) and an increase of over 300% in the recently opened Houston office in the USA. NFI in the UK was broadly unchanged at £17.9m (£18.0m).

Operating segments

On a market sector basis, NFI from the Technical and Scientific operating segment totalled £11.7m (2013: £14.3m), and contributed 42% (2013: 45%) of total NFI. As discussed above, NFI growth was held back by declining activity in the Oil and Gas sector caused by project delays and cancellations a result of the fall in oil prices. In addition, as part of the business restructuring program undertaken in the first half of 2014, the business closed incubators in power and mining that failed to meet milestone KPIs.

NFI in the Professional Support Services operating segment declined by 6.3% to £16.5m (2013: £17.6m). A strong performance by the Legal practice globally was not sufficient to offset the decline in contract NFI in the Business Transformation practice, where delays in project sign-off by a major client had an adverse impact on the number of contractors placed in the period. Despite these delays, this client continued to be the Group’s largest customer, representing approximately 12% of total NFI for 2014 (2013:13%). Other than fluctuations in client demand arising in the normal course of business, and the Group’s ability to win new clients, there is no expectation of significant change in this position in the foreseeable future. No other customer represents more than 5% of NFI.

The project delays in Business Transformation discussed above had the effect of reducing NFI from contract recruitment by 9.7% to £15.3m (2013: £16.9m). The weakness in Oil and Gas, partially offset by the strong performance in the Legal practice, had the effect of reducing fees from permanent recruitment by 14.1% to £12.9m (2013: £15.0m). Overall the balance between permanent and contract business continued to move in favour of contract, with fees from contract placements representing 54% of NFI, and permanent fees 46% of NFI (2013: 53%: 47%).

Restructuring

The Group undertook a comprehensive review of the business in the first half of 2014, with the aim of streamlining business operations, reducing complexity and increasing future profitability. The Group has taken an exceptional charge of £2.0m associated with the one-off costs of these changes. Cost savings resulted in administration costs for the year falling by £3.8m to £25.6m (2013: £29.4m), and the conversion ratio (based on operating profit before exceptional items) increased to 9.1% (2013: 7.9%).

Headcount

Total headcount at 31 December 2014 was 26% lower than 2013, at 285 (2013: 383). Average total headcount for the year was 343, 13 down on the previous year (2013: 356). Productivity inevitably suffered during the course of the review, averaging £77,100 per head for the first half of the year, based on average total employees, but rebounded to the prior year level of £89,000 for the second period, giving an average for the year of £82,073 (2013: £89,612).

Finance costs

Finance costs were broadly unchanged from the previous year at £0.2m (2013: £0.2m).

Profit before taxation

Profit before taxation for the year before exceptional items was £2.4m (2013: £2.4m).

Taxation

The tax charge for the year was £0.5m (2013: £0.9m), giving an effective tax rate of over 100% (2013: 36%). This is above the UK statutory rate of 21.5%, due to:

- overseas tax suffered, for which relief is not available against UK tax payable;
- unutilised tax losses arising in 2014 in the Group; and
- non-deductible expenses

In total, at the reporting date, the Group had unutilised tax losses of £2.4m (2013 £1.8m) available for offset against future profits, for which no deferred tax assets had been recognised.

Dividend

The Board's intention is to maintain a consistent dividend payment policy. In September 2014, the Board declared an interim dividend of 1.5p per share (2013: 1.5p) which was paid to shareholders in November 2014. A final dividend of 3.1p per share (2013: 3.1p) is proposed, maintaining the total dividend at 4.6p per share (2013: 4.6p). The proposed dividend will be paid on 29 May 2015 to shareholders on the register on 1 May 2015, subject to approval at the AGM.

Earnings per share

Basic loss per share was (0.42p) (2013: earnings 6.8p). Adjusted basic earnings per share, taking into account exceptional items, was 8.47p (2013: 6.79p).

Balance Sheet

Net assets at 31 December 2013 decreased by £1.4m (5.0%) to £25.2m (2013: £26.6m).

Tight control of working capital was maintained throughout the year; however a change in payment practice by a leading client in December resulted in a £5.0m remittance not being received until 6 January 2015. This resulted in a temporary increase in trade receivables at the end of the period to £16.2m (2013: £13.3m) or, expressed in days of sales outstanding (DSO's) an increase of 8 days to 31 days (2013: 23 days). The delay also had a knock-on impact on year end net debt, leading to an increase of £2.7m to £6.7m (2013; £4.0m).

Time worked by contractors for the month of December is accrued on a gross basis in the financial statements, with revenue to be billed included in prepayments and accrued income within current assets, and payments due to contractors included in accruals and deferred income within current liabilities. Fees recognised for permanent placements not yet invoiced or with start dates after 31 December 2014 (forward fees) are also included in prepayments and accrued income.

The Group saw a reduction of 9.5% in accrued income to £14.5m (2013: £16.1m), mainly as a result of work undertaken in the year to eliminate delays in invoicing and hence reduce levels of permanent accrued income.

Treasury management and currency risk

Approximately 83% of the Group's revenue in 2014 (2013: 84%) was denominated in Sterling. For contract revenue, the Group aims to pay and bill in the same currency to provide a natural hedge for the majority of its revenues. The Group has not utilised foreign currency options during the year to manage the foreign exchange risk on its non-Sterling fees.

Cash flow and cash position

At the start of the year the Group had net debt of £4.0m. Before investment in working capital and payment of taxes and interest costs, the Group generated cash from trading activities of £2.6m (2013: £3.4m). The delay in receipt of one remittance of £5.0m at the year end resulted in an investment in working capital of £1.9m (2013: £0.4m).

After payment of taxes of £0.3m (2013: £0.8m) and interest payments of £0.2m (2013: £0.1m), cash generated from operations before exceptional items was £0.2m (2013: £2.0m). The cash impact of exceptional items was an outflow of £1.5m (2013: nil).

£0.3m was spent on the development of CRM and management information systems (2013: £0.2m).

A final dividend for 2013 of £0.7m was paid in May 2014 and an interim dividend for 2014 of £0.3m was paid in November 2014.

At 31 December 2014 the Group had net debt of £6.7m (2013: £4.0m) as a result of a client remittance being received later than expected. The increase at the year end was reversed in January 2015.

KPIs		**2014**	2013
NFI (gross profit)	£M	**28.2**	31.9
Conversion ratio (Operating profit before exceptional items divided by gross profit)	%	**9.1**	7.9
Productivity (gross profit divided by total average headcount)	£k	**82**	90
Days of sales outstanding (DSO)	Days	**31**	23
Average headcount during the year		**343**	356
Ratio of billing headcount to support headcount (average for year)		**3.1**	3.0
Net debt at year end	£M	**6.7**	4.0

As set out on page 7, the Board has agreed strategic goals for 2015 with measurable targets, aimed at securing an improvement in profitability in the short to mid term.

Going concern

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events, which are inherently uncertain.

The Group has two revenue streams, permanent and contract recruitment. The cash flow characteristics of the two streams interact in a complementary fashion. The permanent business, which has little working capital requirement, is cash generative during the growth phase, and with tight cost control, near to cash neutral in a downturn. By contrast, the contract business has a large working capital requirement, and requires significant cash investment during a period of growth, but is cash generative in the first periods of a downturn.

A common model operated in the recruitment industry is to fund the investment in working capital by utilising the asset created as security for asset backed financing. The rate of cash investment during the growth phase can be controlled by management decisions in accepting or rejecting new business.

The Group has an Invoice Discounting Facility of £18m, which was renewed in February 2015 with a commitment to April 2018. The maximum utilisation in 2014 was 71% (2013: 80%).

During 2014, the Group also had a Revolving Credit Facility of £3m (“RCF”) for a three year term to July 2015. As a result of restructuring costs, the Group’s pre tax profit was below the level required to meet the interest cover covenant. The Group’s forecasts showed the RCF funding to be surplus to Group requirements for the foreseeable future and so the RCF was repaid and cancelled in February 2015. Further details of borrowings are given in note 15 to the accounts.

The Group has prepared financial forecasts for the period to 31 March 2016 and the directors have a reasonable expectation that the Group will have sufficient cash flow and available resources to continue operating in the foreseeable future. On these grounds the Board has continued to adopt the going concern basis for the preparation of the financial statements.

RESOURCES AND RELATIONSHIPS

Systems

The investment in resilient, Cloud-based IT systems has enabled Hydrogen to become a global recruiter, with a central database of information available to all employees, no matter where they are in the world. This accessibility provides valuable business continuity and was called into action in Hong Kong and Singapore during the year when weather conditions prevented staff from reaching the office.

Clients and Candidates

The personal relationships we build with clients and candidates over time are very significant in generating sustainable value for the Group. 2014 saw the fifth year of production of the Global Professionals on the Move report, a research study on trends, influences and perceptions affecting global recruitment, undertaken in conjunction with ESCP Europe Business School. The report provides a valuable insight for companies looking to attract top talent, no matter where they are in the world and draws on the experiences of candidates who have built their careers with Hydrogen.

The Legal practice has had significant success in filling client roles this year on the basis of its knowledge of candidates with the right post-qualification experience. In the autumn of 2014, with the benefit of nine years' experience in advising financial professionals, we also began a partnership with the Chartered Accountants Students' Society London (CASSL) to help graduates further their accountancy careers.

Employees

Following the restructuring undertaken during the year, there was a significant fall in sales headcount. The operational support needed for sales activity was proportionally lower, so the total number of employees at 31 December 2014 reduced to 285 (2013: 383). The review of underperforming areas had consequences for all employees and the Board appreciates the support of those who have worked through a difficult year to turn around the business.

The Board recognises the importance of engaging employees and supporting them through performance management initiatives. During the year, a number of managers provided valuable time and comments to help develop and roll out performance dashboards for all team leaders and those in management roles. The dashboards enable each individual to understand and monitor their own, and their team's performance so they understand the value of their contribution and what specific actions could help the business to reach set targets. The dashboards have been developed to link teams across locations, using the central information hub powered by market-leading Salesforce.com.

There continue to be regular meetings and updates at all levels of the business, from daily and weekly team sessions and monthly regional sales meetings through to an Annual Global Meeting held in January, streamed to all offices around the world, in which the best sales performances are celebrated.

The Hydrogen Group Code of Conduct

The new Code of Conduct was launched in the autumn of 2014 and is available on the Group's website for all employees and potential employees, candidates, clients, suppliers and business partners. The Code sets out expectations of business behaviour, including Hydrogen's policies on anti-corruption, equal opportunities and diversity, health and safety and use of the internet and social media.

Equal opportunities and diversity

The Group is committed to the principle of hiring based purely on individual merit, both for its own staff and for clients. Job boards and social media are used to try to attract talent from a wide range of sources and we select our staff and offer career development and promotion opportunities on a non-discriminatory basis.

This includes giving equal consideration to applications for employment and onward career development at Hydrogen from people who may have a disability. In the event of an employee becoming disabled, we will make practical changes and make every effort to enable them to continue to work for us.

The focus on individual skills and capability flows through to the records we keep of applicants and employees. We hold only such information as is needed to determine a person's suitability for their role, to ensure compliance with employment law and, in respect of candidates, to meet clients' requirements for each particular role. The Group does not intend to monitor the diversity of employees in more detail but will concentrate on capturing skills, to enable us to find the best person for any role we offer.

At the end of 2014, people employed within the Hydrogen Group, including active non-UK subsidiaries, were split as follows:

	Men	Women	Ratio
Board	5	1	83:17
Senior Managers (COOs)	1	1	50:50
Other employees	164	113	59:41
TOTAL	**170**	**115**	**60:40**

Health and Safety

The Health and Safety policy applies to all offices in the Group, with specific operational responsibility delegated to managers at each location to ensure compliance with relevant local laws and regulations. There have been no major incidents this year.

In 2013, we introduced a new crisis response system to reinforce the support given to contractors working on client projects, sometimes in difficult or unstable parts of the world. We are working with red24, a specialist crisis management assistance company which has wide experience of dealing with emergency situations. All contractors are issued with a red24 Crisis number at the start of their contract with Hydrogen, as well as having ongoing support from the in-house Contractor Care team. There is a clear procedure for responding quickly to situations where a contractor or employee may be in danger. There have been no emergency situations of this kind in 2014.

Environment

We operate from modern, serviced offices with energy efficient power and lighting systems. We do not use combustible fuels and our electricity costs are low. As a larger UK employer, Hydrogen will comply with the Government's new regulations on energy use assessment and will be participating in the Energy Savings Opportunity Scheme in respect of the headquarters office in London. The Board believes that further disclosure is not material for shareholders.

Community

Community involvement is important to Hydrogen to reinforce brand awareness among clients, candidates and potential employees. The Group's policy is to support local charities and communities in the areas where Hydrogen has a presence and to encourage individual employees participating in sporting challenges and events benefiting registered charities.

Over £20,000 (2013: £33,000) was contributed to local and international causes during 2014, including, in the UK, the Alzheimer's Society, Cancer Research UK, Macmillan and Water Aid and, in Australia, the Indigenous Marathon Project which aims to promote the health benefits of physical activity and encourage equality of opportunity.

In Singapore, 2014 saw an exciting first season for the Hydrogen-sponsored Titans Rugby Football Club, making an impact on the local community and the growth of Rugby Union in Singapore.

Hydrogen has also established a Sponsorship Fund which supports employees' own initiatives and contributions to charity and community activities. Employees in our Sydney and London offices took part in the JP Morgan Corporate Challenge, while the Houston office team ran through 5 kilometres of coloured dyes during the Color Run in aid of the Cool Kids Campaign for children with cancer.

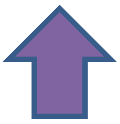
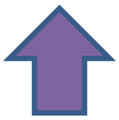
Hydrogen has made no political donations during the year and does not intend to seek authority from shareholders to do so.

Principal risks and uncertainties facing the Group

Hydrogen's business model and strategy are designed to increase placements and profitability without increasing risk beyond an acceptable limit. The profile of risks fluctuates from time to time and the actions being taken to manage and control risks are intended to mitigate the effects on the business, but cannot eliminate risks absolutely.

Strategic Report

A summary of the principal risks which would affect Hydrogen's ability to continue in business appears in the following table. Any significant changes in the potential level of risk since the end of 2014 are noted in the commentary.

Type of risk	Potential impact on business	How is this risk mitigated within the current strategy and business model?	Increase/ decrease in risk during 2014	Reasons for change
Macro-economic climate	Recruitment activity levels are strongly affected by changes in economic confidence.	The Group operates multiple practices, filling both permanent and contract roles. Exposure to industries with differing economic cycles and geographic diversification is intended to mitigate against specific sector or regional downturn.		The fall in oil prices in the second half of 2014 has affected the Oil and Gas practice. Any fall in general levels of confidence globally into 2015 could hamper job growth in other practice areas.
Internal recruitment, retention and development	For sustainable success, Hydrogen must recruit, train and develop the right people as excellent consultants, managers and future directors.	Niche practices and joined up working with established clients make Hydrogen attractive as an employer. New consultants are encouraged to develop their skills. Investment in management information systems has included built-in performance management tools for managers and team leaders.		Restructuring in 2014 reduced headcount significantly and the rate of change in teams increased the level of risk. A renewed performance management framework, a more experienced internal recruitment team and specific training programmes have been put in place to address this area of risk.
Short term profitability	The Group cannot increase NFI sufficiently and/or higher costs impact profitability.	Profit trends, NFI growth, productivity per head and cost controls are key areas of focus for the business.		Profitability was maintained as a result of management action and the focus on profit has been reinforced by new strategic targets for 2015 (see page 7). However, continuing lower oil prices could impact 2015 performance.
Changes in the recruitment market	Failure to respond to changing client demands and growing use of technology could reduce demand for standard recruitment services	Hydrogen operates in specialist, niche areas where candidates are harder to find and specific skills remain in high demand. Senior management are well connected in the recruitment industry and are able to track the progress of market developments.		Innovative, value added solutions were presented successfully to two new strategic clients in 2014 but the Group is aware of continuing challenge as procurement practices evolve.
Foreign exchange	Fluctuations in exchange rates up to the date of settlement of invoices can have an adverse impact on reported NFI and lead to foreign exchange gains/losses impacting reported profit.	For contract placements, revenue and costs are currency matched. Credit periods are minimised and transactions are carried out in local currency where possible. The Group does not hold large currency balances. Foreign exchange policy and opportunities for risk mitigation are reviewed by the Audit Committee.		The percentage of the Group's transactions based in GBP was broadly unchanged in 2014.

Relationships with clients and candidates	The Group needs both to be able to source high quality candidates who are willing to move to a new position and to develop and maintain global relationships with clients across a range of geographies and sectors.	Hydrogen recruits for mid to senior positions in carefully selected markets where it is difficult for clients to recruit directly. A single platform gives access to global candidate and client details for all consultants. Additional services offered (contractor care and payroll) are attractive to candidates and clients.		This is a continuing risk but one which is well understood within the business. A Major Accounts function was established at the end of 2014 to align recruitment skills more directly with the needs of major clients and special events have been held to appeal to specific client and candidate groups.
Liquidity	Insufficient working capital or a significant increase in debt would impact the Group's ability to do business.	Permanent and contract businesses have different working capital requirements. Credit terms and cash collections are managed carefully and cash balances and cashflow forecasts are reviewed on a monthly basis. The Group currently has sufficient credit facilities in place.		The Group experienced a temporary increase in its net debt position at the end of 2014, caused by a few days' delay in receipt of one large remittance. The Group will enjoy a £0.6m cash benefit in 2015 from the remaining 9 months' rent free period on its London property lease.
Financial control	Financial loss could result from procedures to maintain financial control across the business not being adequate.	A formal system of delegated authorities over payments is in place. The Finance function is managed centrally, with regular reporting to sales leaders. Material areas of financial control are audited annually.		In the second half of 2014, the Executive Board carried out a review of operational processes which could lead to financial loss. A specific project overseen by the Audit Committee reduced delays in invoicing and further strengthened invoicing processes.
Potential for over-extension	International growth increases the complexity of the business and requires greater management attention.	New business proposals must show evidence of existing client demand and capability. All proposals for international growth are subject to detailed review by the Executive Board and new legal entities require main Board approval.		The business has been streamlined and employees moved from some smaller spoke offices back into the Hubs. No new office openings are planned for 2015.
Customer concentration	One customer in Professional Support Services represents approximately 12% of the Group's net fee income for 2014.	The Group maintains an on-going dialogue with the client about its future plans and potential impact on Hydrogen.		The Major Accounts function has targets for increasing NFI from strategic clients, to reduce the potential impact of change in a single client's recruitment strategy.
Systems risk	In delivery of its service to clients and candidates Hydrogen is dependent on a number of technology systems and the infrastructure on which they operate. The central Hub is a vital tool for both consultants and managers.	The decision was taken to invest in Cloud-based systems and communications from reputable suppliers, with in-built "best in class" resilience and disaster recovery routines. Access to systems is password protected and fields for data entry are carefully managed to mitigate against error or misstatement.		Hydrogen has enjoyed high reliability from Cloud based systems since implementation, but is aware of the increasing potential challenge to data integrity and security from both internal and external sources.

Strategic Report

There is a clear framework of authorities within the business, up to and including a schedule of matters which can be agreed only by the Board. Hydrogen does not have any contractual arrangements with any single significant individual or company which are essential to the continuation of the business.

The Board has not delegated its responsibility for financial risk management, including the management of treasury activities. Further information on interest rate, credit, liquidity and foreign currency risks is given in note 25 to the financial statements.

The Strategic Report was approved by the Board of Hydrogen Group plc on 3 March 2015 and signed on its behalf by:

Ian Temple

Chief Executive

The Board

Stephen Puckett, Chairman

Member of the Board since 2012
Chartered Accountant
Significant knowledge of the global recruitment industry with over 11 years' experience as Group Finance Director of Michael Page International plc (now Page Group plc)
Chairs the Audit Committee and the Nomination Committee (from March 2015); member of the Remuneration Committee
Also a director of: ITE Group plc and Redcentric plc

Ian Temple, Chief Executive

Member of the Board since 2005
Co-founder of Hydrogen and experienced recruiter
Chartered Accountant
Experienced advisor to other growth companies
Consultant to: ByAlex Limited; Leading Edge Coaching Limited

Anne Baldock, Senior Independent Director

Member of the Board since 2012
Member of Audit, Remuneration and Nomination Committees
Experience of practice expansion as a former partner (and Global Head of Projects, Energy and Infrastructure) of international law firm Allen & Overy LLP
Sector experience includes power, engineering, energy and major infrastructure projects
Also a director of: Nuclear Liabilities Financial Assurance Board; Thames Tideway Tunnel Ltd; Low Carbon Contracts Company Limited and the Electricity Settlements Company Ltd; trustee of Cancer Research UK

Martyn Phillips, Non-Executive Director

Member of the Board since 2006
CIPD qualified HR and management expert
Chairs the Remuneration Committee; member of Nomination Committee and Audit Committee (from March 2015)
19 years' experience of operational management within Kingfisher plc; former UK & Ireland CEO of B&Q plc
Major focus on client views and Hydrogen's culture
Also a director of: Fractal Leadership Ltd

Directors during the year to 31 December 2014

Tim Smeaton, CEO (to 4 March 2015)

John Glover, Finance Director (to 4 March 2015)

Contents

Corporate Governance report

For the year ended 31 December 2014

Statement on Corporate Governance

Hydrogen does not seek to comply with the UK Corporate Governance Code for larger listed companies. The Company's general approach has been to put in place governance structures and provide information which would be expected for companies in the top half of the Alternative Investment Market by market capitalisation.

Hydrogen's corporate governance framework adopts most, but not all, of the recommendations of the UK Corporate Governance Code and follows the principles of the 2013 QCA Corporate Governance Code for Small and Mid-size Quoted Companies (the "QCA Code"). The QCA Code recommends that smaller companies apply its twelve principles in the way best suited to their size and market capitalisation. Hydrogen has chosen to adopt best practice in terms of Board composition, the structure and operation of Board Committees, linkage between remuneration, strategy and risk, regular communication with investors and an annual evaluation of effectiveness. More limited disclosures of non-financial information take account of the fact that Hydrogen remains a small company and those disclosures are not material to the business of the Group.

Hydrogen has a concentrated share register of investors who generally have a good understanding of Hydrogen's business and there is close alignment between shareholders and management.

The strongest focus has therefore been given to the areas of governance intended to give assurance to shareholders that decisions are taken for the benefit of the Company as a whole. These areas include having independent challenge from Non-Executive Directors, clear Terms of Reference for both the Board and its Committees and ensuring that senior remuneration is proportionate and directly linked to the success of the Company.

The Board believes the overall governance framework is strong and suitable for Hydrogen's size.

The report which follows explains the governance arrangements in more detail and include reports from the specialist Audit and Remuneration Committees, which are presented by the directors who chaired the respective Committees during 2014.

Stephen Puckett
Chairman

Ian Temple
Chief Executive

3 March 2015

Board Composition

The Board of Directors at the beginning of 2014 comprised Ian Temple (Chairman), Tim Smeaton (CEO), John Glover (Finance Director) and four Non-Executive Directors (Barbara Anderson, Anne Baldock, Martyn Phillips and Stephen Puckett).

In 2014, the skills and experience taken into account in the composition of the Hydrogen Board were:

- detailed knowledge of the recruitment industry
- financial acumen
- Board experience in listed companies and/or people businesses with international operations
- a strong understanding of the expectations of the Group's key stakeholders – investors, clients, candidates and regulatory agencies
- for non-executive director positions, professional qualifications or experience relevant to the working of the Audit, Remuneration and Nomination Committees
- credibility with employees, clients, advisers and the City community

Barbara Anderson resigned as a Non-Executive Director with effect from 16 September 2014.

Following the changes announced in March 2015, the current members of the Board are Stephen Puckett (Chairman), Ian Temple (Chief Executive) and Non-Executive Directors Anne Baldock and Martyn Phillips. Their biographies appear on page 16. A search is currently underway for a new Finance Director. Full details of all directors to be proposed for election or re-election at the AGM in May will appear in the Notice of AGM, expected to be published in April.

Board Independence

As Chairman up to 4 March 2015, Ian Temple was not considered independent because of his previous executive role, his continuing substantial shareholding and the amount of time spent within the business. With effect from 4 March 2015, Ian Temple was appointed to the full time role of Chief Executive.

Stephen Puckett, Chairman from 4 March 2015, is independent, as is Anne Baldock, the Senior Independent Director.

Martyn Phillips will have served as a director for more than nine years by the time of the next AGM in May 2015. The Board continues to benefit from Martyn's ability to challenge and test executive propositions and his understanding of client perspectives and HR processes and therefore considers that all the Non-Executive Directors are independent in thought and action. They act independently of management and are free from any substantial business relationship that could materially interfere with the exercise of their judgement. The Company Secretary maintains a register of outside interests and any potential conflicts of interest are reported to the Board.

The Non-Executive Directors are able to meet without the presence of the Executive Directors after Board or Committee meetings or otherwise, as needed. The Non-Executive Directors met separately from the full Board on three occasions during 2014.

Senior Independent Director

Stephen Puckett was the Senior Independent Director until 4 March 2015, when he was succeeded by Anne Baldock. The Senior Independent Director is the main point of contact for shareholders if there are any concerns that cannot be addressed through the Chairman or Executive Directors.

The Senior Independent Director is also available to anyone working for Hydrogen who wishes to raise a concern under the whistle-blowing procedure. Hydrogen Group operates a positive commitment and open approach to whistleblowing. Employees can contact the Senior Independent Director at any time and anonymously if they wish, via the Company Secretary.

Company Secretary

The Company Secretary is not a member of the Board. The Company Secretary is responsible for ensuring that Board procedures are followed, that the Company complies with company law and the AIM Rules and that the Board receives the information it needs to fulfil its duties effectively.

All directors have access to the Company Secretary and her appointment (or termination of appointment) is a matter for decision by the full Board.

The Board in 2014

A review of performance to date against the 2016 strategy indicated that the Group would not be able to achieve the original targets for NFI and profit set in 2012. The strategy of diversification had proved to be successful in transforming the Group's client list and reducing the risk of concentration on UK, professional services recruitment but it was agreed that the strategy should be readjusted to focus on securing sustainable profitability. Further details of the adjustments made and the strategic goals for 2015 are provided in the Strategic Report on page 7.

Continuing low levels of liquidity and a release of shares from the Group's 2009 Share Incentive Plan to employees meant that the Board increased its discussions on investor strategy. Demonstrating consistent, profitable performance is understood to be an important factor in investor confidence.

The Board believes the action taken in 2014 rebased the Group and has better aligned operating costs with expected levels of NFI going forward.

Board meetings and Committees of the Board

The Board expects to meet at least six times a year. In 2014, including full Board conference calls, the Board met ten times, including a two-day review of strategy and performance. In addition, authority was delegated to sub-committees on an ad hoc basis to deal with statutory matters such as final approval of the interim and final accounts statements and the Notice of AGM. These short sub-committee meetings are not included in the table of attendance below.

The Board has established three specialist committees (the Audit Committee, the Remuneration Committee and the Nomination Committee), in accordance with best practice recommendations. Each Committee has a majority of Non-Executive Directors and operates with defined terms of reference which are reviewed annually and are available on the Group's website: http://www.hydrogengroup.com. Directors who are not members of a particular Committee may attend by invitation of the Committee Chairman. The matters addressed by each Committee are reported on in brief at each subsequent Board meeting so that the full Board is aware of any issues arising.

Attendance by each director at full meetings of the Board and Board Committees of which they were a formal member during 2014 is summarised in the table below.

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
Ian Temple (Chairman)	10/10 (Chair)	N	N	4/4 (Chair)
Tim Smeaton	9/10	N	N	N
John Glover	9/10	N	N	N
Martyn Phillips (Non-Executive)	10/10	N	4/4 (Chair)	4/4
Stephen Puckett (Non-Executive)	10/10	4/4 (Chair)	4/4	N
Barbara Anderson* (Non-Executive)	3/5	2/3	2/4	N
Anne Baldock (Non-Executive)	9/10	3/4	4/4	4/4

N Not a member of the Committee

* *up to date of resignation from the Board*

Executive Board

Maximising the opportunities open to the Group on a day to day basis is the responsibility of the Executive Board. It acts as a separate group, under delegated authority from the Board and represents the highest level of operational management in the business. The limits of its authority are set by Terms of Reference approved by the Board.

The Executive Board's composition was simplified as part of the senior management restructuring. During 2014, it was chaired by Tim Smeaton and was composed of the CEO, the two COOs and the Finance Director. The Chairman attended meetings by invitation of the Executive Board.

Audit Committee

The Audit Committee's primary responsibilities are to review the financial statements and any changes in accounting policy; to have assurance that there are suitable internal controls and risk management systems in place; to consider the appointment of the external auditors and their independence; and to review audit effectiveness. Martyn Phillips was appointed to the audit committee to the Audit Committee with effect from 3 March 2015.

The Audit Committee is made up of independent Non-Executive Directors, Anne Baldock and Stephen Puckett, the Committee Chairman. Barbara Anderson was a member of the Committee up to the date of her resignation from the Board in September 2014.

Stephen Puckett is a Chartered Accountant and former Group Finance Director of Michael Page International plc (now Page Group plc) and therefore has recent and relevant experience of accounting and audit matters.

Ian Temple is also a Chartered Accountant. Whilst as Chairman he was not formally a member of the Audit Committee, he attended Audit Committee meetings by invitation and continues to provide additional resource for oversight of the principal financial controls operating in the business.

The Audit Committee's report on its work during the year appears on pages 24-26.

Risk management and internal control

The Board has not delegated responsibility for risk management and internal control. In line with its focus on improving profitability, the Board supported management action to reduce ongoing costs but has continued to monitor the risks arising from the changes made. A principal risk, which has continued into 2015, arises from the need to recruit, retain and develop a high level of skills within the restructured sales teams, in order to take advantage of opportunities where there is clear client demand and productivity is already above target levels.

The Group is also affected by external economic and market factors, such as the recent fall in global oil prices. A table of the principal risks which could impact the Group's operations is set out on pages 13-14.

Internal Controls

The Group's system of internal control is designed to safeguard the Group's assets and to ensure the reliability of information used within the business and for publication.

The system of controls is designed to manage, rather than eliminate the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

Examples of control procedures within the business include:

- Executive Board and PLC Board reviews of performance against annual budget at each meeting
- Monthly and quarterly meetings of the Executive Board to address operational issues
- New management information systems rolled out to enable team leaders and managers to monitor live performance
- Productivity per head targets to be achieved before hiring additional headcount
- All bank accounts and balance sheet accounts reconciled monthly
- Line manager and director approval of all purchase invoices within set authority limits
- Dual bank signatories for all payments, again within pre-determined authority limits
- All expenses reclaimed by employees require director authorisation

- Independent verification of deals by a separate Quality Assurance team before revenue is recognised in financial statements
- Restriction of user access to IT and CRM systems
- Deal information is transparent and open within the business. “Deal boards” are on public display in all offices and dashboards provide live information for managers on individual and team performance

Some assurance as to the adequacy of internal controls in the revenue cycle is provided by regular external checks of operating procedures by the Group’s bankers, carried out under the terms of the current invoice discount facility.

The independent auditor, Grant Thornton UK LLP, does not perform a comprehensive review of internal control procedures at the half year stage but reports to the Audit Committee on any deficiencies during the course of the annual audit, which covers key subsidiaries within the Group as well as the consolidated financial reporting.

Remuneration Committee

The Remuneration Committee reviews the remuneration packages for members of the Executive Board and for the Chairman, so that the Chairman does not preside over decisions about his own remuneration.

During 2014, the Chairman of the Remuneration Committee was Martyn Phillips, and the other members were Anne Baldock and Stephen Puckett. Barbara Anderson was a member of the Committee up to the date of her resignation from the Board in September 2014. The full Board has been kept up to date with changes in headcount and remuneration during the year.

Further information about the Remuneration Committee is available on the Group’s website: www.hydrogengroup.com/Remuneration_committee. The Directors’ Remuneration Report can be found on pages 27-34.

Nomination Committee

The Nomination Committee is responsible for establishing the process for any appointment of new Directors, for making recommendations on Board composition and balance and for Board succession planning. During 2014, Ian Temple chaired the Committee, with Martyn Phillips and Anne Baldock as the other members. Stephen Puckett assumed Chairmanship of the Committee with effect from 3 March 2015.

Board effectiveness

The Board considers that it has shown its commitment to leading and controlling the Group by the actions taken during 2014 and into 2015. There is a statement of senior responsibilities approved by the Board, clear delegation of authorities to Committees and the Executive Board and a formal Schedule of Matters reserved for Board decision is in operation. The Schedule of Matters reserved for Board decision and Terms of Reference for all Board Committees and for the Executive Board may be downloaded from the Group’s website: www.hydrogengroup.com

Performance evaluation

A formal evaluation of Board effectiveness was undertaken in October 2014, working from the action points agreed in 2013 and looking at the strategy for the Group going forward and the relationship between the PLC Board and Executive Board following the business restructuring in the first half of 2014.

All directors and the two COOs completed an anonymous online questionnaire, followed up in individual discussions with the Chairman. A strategic review formed part of the November 2014 Board meeting.

Outcomes from that review included:

- There was a better balance between executives and non-executives and communication had improved between the PLC and Executive Boards and between the Board and its Committees
- Responses to the questionnaire showed a good understanding of Group strategy and priorities and alignment between the Board and senior management on implementation of the strategy
- Clearer reporting was recommended to ensure all managers have a realistic view of business performance. The rolling-out of dashboards to provide live management information within teams was agreed to be an important step forward.

- The need for leadership training below Board level was confirmed and would help with talent development and succession planning. The Nomination Committee's review of planning for Board succession had been disrupted by the senior management team but would need to be re-examined in the first half of 2015. A number of changes to the Board took effect in early 2015.
- Tighter control was needed in operational areas. It was agreed at that time that Ian Temple would have greater oversight and provide additional resource for reviewing operational control processes and remuneration strategies.

Annual re-election of Directors

The Board intends that all directors should seek re-election by shareholders at each AGM. The names and details of directors who will seek election or re-election at the AGM will be confirmed in the Notice of AGM, expected to be published in April.

Dialogue with shareholders

Many of those who continue to hold shares in Hydrogen are, or have been, employed within the business. The original founders of the business still hold considerable share interests and retain a strong interest in Hydrogen's success and reputation in the market.

The split of shareholdings at the date of this report was approximately as follows:

Type of shareholder	**% of total issued share capital**
Hydrogen founders (current management)	28.94
Other Hydrogen founders	29.48
Other directors and employees/employee trusts	7.26
Institutional investors	25.68
Retail brokers	4.66
Individuals	3.8
Other (broker holdings, stock lending etc)	0.18
TOTAL	100.0

The Board seeks to build on a mutual understanding of objectives between the Group and its shareholders by communicating regularly during the year and providing information on the Group website. Investors are encouraged to attend the AGM and ask questions to make their own assessment of the Group's position and prospects.

Audit Committee Report

For the year ended 31 December 2014

The Audit Committee's work this year was directly linked to the Group's renewed focus on delivering consistent, sustainable profit.

Permanent Recruitment Revenue recognition - backouts and accrued income

The Committee addressed the underlying reasons for an increase in the provision for permanent deals where revenue has been recognised but the candidate does not take up the offer of employment and the revenue has to be subsequently backed out. The Committee tasked management with reducing the delay in invoicing of permanent placements, thereby reducing the level of accrued income in the permanent business.

Following a higher than expected level of backouts in the first half of the year, the Audit Committee requested in the autumn of 2014 that a review be undertaken of the end to end revenue recognition processes behind the placement of a permanent candidate and the level of provisioning against accrued income.

Where the period between confirmation of a placement and the start date is extended, there is a greater opportunity for either a candidate or a client to change their mind and for the deal to have to be backed out of recognised revenue. The aim of the review was to ensure that the reasons for backouts were better understood, and to work towards a reduction in the time between recognition of a deal and the receipt of client payments.

A candidate's start date is usually the point at which an invoice is generated and confirmation of start dates was a particular area of focus. The Audit Committee asked an independent firm of accountants, Smith & Williamson, who have no other relationship with the Company, to carry out an independent, external review of start dates recorded within the Group's systems and to report to the Audit Committee on their findings.

Following their initial report, the Company has reviewed in more detail the processes for how each practice communicates with clients and candidates in the first few days of a placement and how start dates are verified. These processes are expected to become of increasing importance to the Group as its operations cover more complex cross-border arrangements and project based contingent working.

While the revenue recognition policy for permanent recruitment is valid and the level of provisioning is appropriate, the Audit Committee has encouraged the management team to tighten and continue to monitor the application of the processes already existing within the business to ensure that revenue is recognised, and received, promptly.

Meetings of the Audit Committee in 2014

The membership of the Committee and its Committee's Terms of Reference are set out on the Group's website: www.hydrogengroup/Audit_committee

In addition to formal reviews of reports from the external auditor, Grant Thornton UK LLP ("Grant Thornton"), and work in the second half of the year on backouts and reducing accrued income as discussed above, the Committee discussed the following matters during 2014:

Date	Matters discussed
February 2014	**Accounting policies:** agreement on application of FRS101 (reduced disclosure framework) for UK subsidiaries' accounts; annual review of foreign exchange management policy **Going concern review**: confirmation of the renewal to February 2016 of the Company's Invoice Discounting Facility with HSBC; cashflow sensitivity analysis **Financial reporting:** proposed de-recognition of deferred tax on overseas losses; review of goodwill impairment; disclosure relating to employee share based costs and the 2013 LTIP **Audit:** initial report from the external auditor on key issues; assessment of audit effectiveness **Internal controls and risk management**: review of risk disclosure for the Annual Report; discussion on the need for a separate internal audit function

March 2014	**Audit:** receipt of final audit report; approval of standard form Letter of Representation requested by the external auditor **Financial reporting:** approval of the Audit Committee Report for inclusion in the annual report and final comments on the annual report and investor presentation; confirmation of going concern
September 2014	**Accounting policies:** review of judgment areas in application of accounting policies and provisioning **Financial reporting:** review of draft interim accounts to 30 June 2014; impact of overseas tax losses on 2014 accounts; confirmation of the exceptional nature of restructuring costs **Financial resources:** review of compliance with bank covenant reporting requirements **Financial control and risk management:** discussion on accrued permanent income and increase in backouts in 2014.
December 2014	**Accounting policies:** discussion of the linkage between the Group's revenue recognition policy and commission arrangements **Financial control and risk management:** review of the independent report from Smith and Williamson and further progress on the reduction of accrued income and enhancements to operational processes supporting the revenue recognition policy; schedule of management responsibility for key operational and financial risks and the control processes and management information designed to highlight and mitigate against increased risk; discussion on the need for an internal audit function. **Audit:** pre–audit planning and consideration of the scope of work and potential costs of the annual audit.

Time was allowed at the end of each meeting for discussion without any executives being present, to allow the external auditor to raise any issues of concern. 2014 saw a high degree of staff change and the implications for the Finance team and the control environment were discussed. The Audit Committee saw benefit to the business from the high visibility of Ian Temple as Chairman and his ability to provide additional resource on remuneration, control and process reviews.

Risk and internal control

The Board has not delegated responsibility for the overall task of managing risk and control. A table explaining how the changes in strategy in the year are helping to mitigate principal substantial risks to the business is included within the Strategic Report.

The Audit Committee reviews internal controls and risk management procedures in the context of any issues which arise during the external audit process, or if concerns are raised by a member of the Board or by an employee under the "whistle blowing" procedures. Included in the review is consideration of the need for an internal audit function.

The Board has discussed the need for a full internal audit function and will keep the matter under review. The Audit Committee can, and does, ask for particular control areas to be reviewed – whether by management, the compliance and quality assurance team, by independent accountants or by the external auditors as part of the annual audit.

External Audit

The Committee has primary responsibility for the relationship between the Company and its external auditor. Representatives from Grant Thornton are invited to attend Committee meetings and the Chairman of the Committee meets less formally with the lead audit partner, as needed.

The independence of the auditor is kept under review and is reported on twice a year, as part of the Key Issues Memorandum presented to the Committee by the auditor.

Grant Thornton's procedures provide for regular refreshing of audit teams. The partner who has led the Hydrogen audit since March 2013 also participated in audits before that date he will therefore rotate from the account following signature of these accounts.

The Committee monitors the external auditor's proposed scope of work and the value of fees paid, to ensure that independence is not compromised. In the year to 31 December 2014, audit fees for the Group totalled £91,000 (2013: £86,000), compared with non-audit fees, including advice on international tax, of £36,000 (2013: £39,000). This reflects additional tax advice on the incorporation of subsidiaries in the US, Germany, Netherlands, Switzerland and Malaysia and advice on the significant restructuring of the business during the year.

The Committee is satisfied with the independence, objectivity and efficiency of the external auditor and the Committee has not felt it necessary at this stage to propose re-tendering of the audit contract. A resolution for the re-appointment of Grant Thornton UK LLP as the statutory auditor will therefore be proposed at this year's AGM.

Whistle-blowing and anti-corruption measures

There were no "whistle blowing" (public interest) disclosures during the year. A revised Code of Conduct issued in September 2014, available on the Group website, includes an updated anti-corruption policy, and new training has been rolled out from the Executive Board downwards.

This report was approved by the Audit Committee and the Board on 3 March 2015 and was signed on its behalf by:

Stephen Puckett
Chairman of the Audit Committee

Statement of policy on directors' remuneration

Hydrogen Group plc's remuneration policy is

i) to provide a remuneration package to attract, retain and motivate directors and senior managers with the appropriate leadership skills and experience to realise the Group's strategic objectives;

ii) to pay fairly; and

iii) to reward performance in a way which seeks to align the interests of management with those of shareholders.

The Role of the Remuneration Committee

The membership of the Committee and its Terms of Reference are made public on the Group's website: www.hydrogengroup.com/Remuneration_Committee. The Terms of Reference were adopted in December 2013 and were reviewed and updated in February 2015.

The Remuneration Committee in 2014

The Remuneration Committee's work in 2014 fell within four main headings:

- Contractual issues and setting expectations for remuneration following the senior management changes in Spring 2014
- Significant updating of service contracts for the Chairman, CEO and Finance Director
- Monitoring the effectiveness of share based schemes for employees and, in particular, the ongoing value of the 2013 LTIP
- Encouraging management to strengthen the link between remuneration structures and the strategic focus on high performance and delivering sustainable profitability

The Committee met separately on four occasions during the year, in February, March, May and September. The full Board discussed remuneration as a significant topic in September and December. Full Board items did not include discussion of the individual remuneration packages of the Chairman, CEO or Finance Director.

Leadership change

The full Board supported proposals in the first quarter of the year to simplify the leadership structure and appoint two new COOs with clear accountability for the performance of the business in their respective regions. The necessary termination arrangements for outgoing Regional Managing Directors were made in accordance with contractual obligations.

In approving the new COOs' remuneration packages in May 2014, the Committee confirmed that all Executive Board members would work to the same profit target for the year. No bonuses would be paid for financial performance below the target already set at the beginning of the year for the CEO and Finance Director.

In line with the Board's focus on performance, the Remuneration Committee also agreed a formal list of goals for 2014 for Ian Temple, as Chairman, in the areas of strategy, business performance and investor communication. The objectives set for the Chairman were not linked to his remuneration.

Contracts

An exercise to review directors' service contracts had already begun at the end of 2013. The process of updating, negotiation and agreement was disrupted by the business restructuring but was completed in early November 2014.

Ian Temple's contract reflects his continuing employment status, with 12 months' notice of termination required from either party. His remuneration in 2014 was based on an expectation of three working days each week. As Chairman, he was not entitled to participate in any annual bonus, performance-related or long term share incentive schemes (other than exercising any share options which have already vested).

The contracts for Tim Smeaton as CEO and John Glover as Finance Director also provided for 12 months' notice to be given.

Restrictive covenants apply for six months following termination for the Finance Director. Tim Smeaton's covenants restrict him from working for any competing business for a period of six months following termination of employment, but non-solicitation covenants cover a longer period of nine months. These restrictions are designed to protect the Group's client, candidate and supplier relationships and future business operations.

On termination, any compensation payments due to a director would be calculated in accordance with normal legal principles and take into account bonuses accrued up to the final date of employment and payable by reference to the terms and performance conditions of the remuneration scheme already agreed for that year. There are no additional compensation payments and any departing director would be expected to abide by the common law duty to mitigate losses.

Share based incentives

Approximately 118,000 shares were released to employees in July 2014, having been held for five years in the Company's tax-approved Share Incentive Plan. A review showed that offering shares generally to employees had not fulfilled its aim of retaining talent. Taking into account this review and the greater complexity of providing equality of treatment for employees, no matter where they work, the Remuneration Committee agreed that there should be no new all-employee share schemes in the foreseeable future.

The Committee also reviewed the progress of the 2013 LTIP, under which share options had been offered to Executive Board members. A number of options lapsed and options over 50,000 shares were granted as a result of the senior management restructuring. Following the changes in Executive Board membership, the principal performance criteria of growth in Group NFI and profit before tax remained unchanged, but the targets for regional growth were adjusted between the two COOs and new targets were set for growth of contract business in each region.

A review of performance in December 2014 indicated that it would not be possible for participants to achieve "Target" level profit and NFI by 31 December 2016. On that basis, no provision for share based costs has been made. The Committee will continue to keep under review the small probability that elements of individual and regional performance could reach the "Threshold" level by 31 December 2017 and will reassess at periodic intervals the likelihood of any share options vesting in March 2018.

The Committee remains keen to keep the interests of senior employees and shareholders aligned and to maintain a high proportion of variable performance-related pay within executive remuneration packages.

Linking reward to business strategy

Remuneration remains the biggest single cost to the business. The business restructuring focused on improving performance and notable savings were delivered not only from headcount reduction but also incidental costs such as commissions, benefits and travel costs. In the second half of the year the management team, led by Ian Temple as Chairman, began a detailed review of remuneration structures to make sure that they reward profitable growth and drive the right behaviours. The impact of changes in overall remuneration arrangements will continue to be matters for full Board discussion and approval.

Information and Advice

The Committee did not undertake formal benchmarking of directors' remuneration in 2014. The Company does not have retention agreements with any external remuneration consultants and no consultants were used by the Committee this year. Advice was taken from external lawyers Hine Legal in relation to the updating of directors' service contracts. Limited advice on taxation aspects of share schemes was provided by Grant Thornton UK LLP, independently of their audit of the annual accounts.

The Committee does not consult with employees on remuneration policy for directors.

Executive Directors' Remuneration

The remuneration package for executive directors is made up of:

1) base salary;
2) benefits, including a company car allowance, a contribution towards a Group-sponsored defined contribution pension arrangement which meets the requirements for auto-enrolment, private medical insurance and life cover;
3) a discretionary bonus; and
4) long term, share-based incentives which are subject to performance conditions linked to the financial performance of the Group over a number of years

Base salaries in 2014

Remuneration packages for 2014 were reviewed and formally approved in March 2014. No increases in base pay were agreed for the Chairman, CEO or Finance Director.

Discretionary bonus

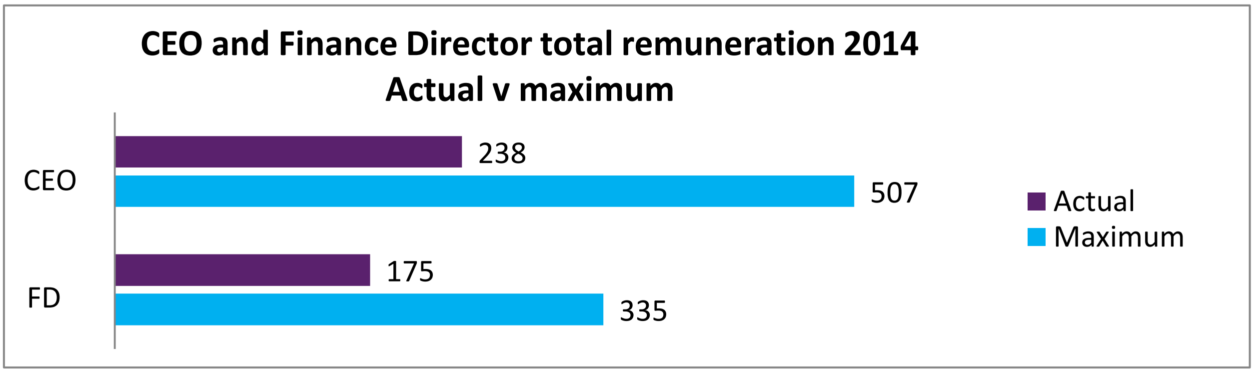
The principal criteria for payment of a discretionary bonus to executive directors in 2014 was meeting a profit before tax target. The CEO and Finance Director would have been eligible to receive a proportion of any profit achieved above £2.7 million. The maximum potential bonus for 2014 for the CEO, Tim Smeaton, was 125% of salary. The maximum potential bonus payable for 2014 for John Glover as Finance Director was 100% of salary. As the profit target set by the Remuneration Committee was not achieved, no performance related bonus for 2014 was awarded to any member of the Executive Board.

Pension

The Group contributes to a third party defined contribution pension scheme for senior managers and directors. The Group makes no recommendations on individual investment decisions and there is no guarantee of the final pension amount which may result from those investments.

Outside appointments

The Board's general policy is that Executive Directors may accept Non-Executive Director roles with other companies, so long as there is no conflict of interest and their effectiveness is not impaired. Any proposed new appointment must be approved by the Board. In such cases, the Executive would be permitted to retain any external director fees. Neither of the Executive Directors currently holds any external directorships.



Non-Executive Directors' Remuneration and Terms of Service

Non-Executive Directors serve under the terms of a Letter of Appointment. The standard form letter expects directors to serve for a period of one or two terms of three years, which may be extended for a further three years by mutual consent. The Letter sets out the time commitment and duties expected of each individual. A copy of a standard form of Letter is available on the Group's website at www.hydrogengroup.com.

The appointments of Barbara Anderson, Anne Baldock and Stephen Puckett were all made on this basis, taking effect on 7 September 2012. Payment in lieu of one month's notice was made in respect of the termination of Barbara Anderson's directorship in September 2014.

Martyn Phillips' Letter of Appointment, effective from 1 January 2006, does not include a fixed period of office but specifies that three months' notice of termination must be given by either party.

The Group's policy is to pay Non-Executive Directors at a rate which is competitive with similar companies and reflects their experience and time commitment. Additional fees are paid for Chairmanship of the Audit and Remuneration Committees. Stephen Puckett replaced Martyn Phillips as Senior Independent Director during the year and this is reflected in the payments made to both of them, as shown in the table on page 34.

As Non-Executive Directors are not employees, they do not receive benefits or pension contributions and they are not entitled to participate in any of the Group's short term bonus or long term incentive plans.

Directors' insurance and indemnity

Directors' and officers' liability insurance is provided at the cost of the Group for all directors and officers. Article 174 of the Articles of Association provides for the Company to indemnify directors against losses and liabilities properly incurred in the execution of their duties.

Link between Directors' Remuneration and Group Strategy

The following table sets out the key elements of the Group's remuneration policy for executive directors and the linkage between directors' remuneration and the Group's renewed strategic focus on sustainable profit.

	Objective and link to strategy	**Key features**	**Comments and performance criteria and assessment**
Service contracts	Contracts provide clarity for both parties and protect both the individual and the Group's interests.	Contracts were updated in 2014. Executive directors' contracts specify a 12 month notice period and contain restrictive covenants to protect the Group's interests.	The Group will not normally make non-contractual payments on termination.
Base salary	Level of base salary recognises individual responsibilities, leadership and significant contribution to the business.	Contractual obligation - reviewed annually by the Remuneration Committee.	Annual salary review takes account of the current and forecast financial performance of the Group, individual performance and published remuneration information for similar companies. Base salaries were not increased in 2014.
Benefits	Benefits are competitive and promote continued service. The costs of providing benefits are reviewed regularly.	Contractual benefits include a company car allowance, life assurance and private health insurance.	Benefits are also available to managers below Board level, depending on seniority.
Pension contribution	Encourages provision for the future in a cost efficient way which meets auto-enrolment requirements and does not increase risk to the Group.	Matching contribution of up to 5% of salary into an externally provided defined contribution pension arrangement.	Matching contribution is also available to managers below Board level. No difference in operation for directors.
Annual bonus	Every employee participates in some form of short term incentive scheme. The schemes aim to focus attention on short term actions which will drive improved performance.	Awarded at the discretion of the Remuneration Committee subject to achievement of performance conditions.	Profit target applies to all Executive Board bonuses. The target for 2014 profit was not achieved and therefore no performance related bonus was paid to any member of the Executive Board.

Share options	The Company historically used EMI and Unapproved share option schemes to retain and reward employees and directors. 2013 LTIP options have been awarded only to Executive Board members who have direct influence over Group performance. Performance criteria for the exercise of these awards were directly aligned with the 2016 strategic goals but profit remains the key driver.	Awards are made by the Remuneration Committee on behalf of the Board. The level of awards made was within dilution limits. Awards were planned to vest in two tranches, split equally to avoid a cliff edge effect. The rules of the 2013 LTIP permit the Committee to clawback amounts from participants in certain limited circumstances.	Vesting of awards depends on compound annual growth in Group NFI and PBT over the performance period and achievement of a relevant Key Performance Indicator ("KPI") for each individual. For Tim Smeaton, as CEO, the KPI was balance between permanent and contract business; for John Glover, Finance Director, the KPI related to working capital. Awards could start to vest from March 2017, at the discretion of the Committee, if performance reaches target levels by 31 December 2016. However, significant growth in both profit and NFI would need to be made in 2015 and 2016 for these targets to be achieved. The Board's assessment at 31 December 2014 is that no options will vest at 31 December 2016. On that basis no provision has been made for share-based costs relating to the 2013 LTIP. The Board will continue to assess the need for such a provision. A sustained improvement in performance would be needed up to 31 December 2017 to enable participants to reach the lower "Threshold" level required for vesting of a reduced number of options in March 2018.
Shareholding Policy	The policy is intended to align the interests of executive directors and Executive Board members with those of external shareholders.	The Remuneration Committee will take into account the value of each individual's personal holding of Hydrogen Group shares when making any future share-based awards.	Executive Board members will be expected to hold shares equivalent in value to 50% of their base salary in order to qualify for any future grant of share options.

Directors' interests in shares

Directors' beneficial interests in the shares of the Company at 31 December 2014 were as follows:

	Ordinary shares of 1p each held at 31 Dec 2014	Percentage of issued share capital at 31 Dec 2014	Ordinary shares of 1p each held at 31 Dec 2013	Percentage of issued share capital at 31 Dec 2013
Ian Temple	4,048,726	16.95%	4,048,726	17.07%
Tim Smeaton	2,863,177	11.99%	2,828,177	11.93%
Martyn Phillips	18,850	0.08%	18,850	0.09%
Stephen Puckett	50,000	0.21%	50,000	0.21%

There were no changes in the share interests of Directors between 31 December 2014 and 3 March 2015.

Share option schemes

In 2013 the Group introduced a long term incentive plan (2013 LTIP) for senior leaders within the Company. The participants included the two executive directors of the Company, Tim Smeaton (CEO) and John Glover (Finance Director). The purpose of the 2013 LTIP was to align long term incentives for senior executives and directors with Hydrogen's 2016 strategy and performance targets (see note 17).

No options were granted to directors in 2014. Details of share options granted to directors of the Company and outstanding at the year end are set out in the table below:

	Year of issue	Options outstanding 1 January	Granted during the year	Forfeit during the year	Options outstanding 31 December	Earliest exercise date	Latest exercise date	Exercise price per option (£)
2014								
EMI Options								
Tim Smeaton	2006	124,200	-	-	124,200	29/09/06	29/09/16	0.805
	2009	6,709	-	-	6,709	31/03/13	20/10/19	0.01
Ian Temple	2009	12,000	-	-	12,000	31/03/13	20/10/19	0.01
John Glover	2007	26,404	-	-	26,404	01/09/10	12/07/17	0.01
	2009	28,808	-	-	28,808	31/03/13	20/10/19	0.01
		198,121	-	-	198,121			
Unapproved options								
Tim Smeaton	2009	5,291	-	-	5,291	31/03/13	20/10/19	0.01
	2011	138,000	-	-	138,000*	31/03/17	21/02/21	0.01
	2012	138,000	-	-	138,000*	31/03/17	05/06/23	0.01
	2013	74,000	-	-	74,000	31/03/17	05/06/23	0.01
Ian Temple	2011	38,000	-	(38,000)	-	31/03/14	21/02/21	0.01
	2012	38,000	-	-	38,000	31/03/15	03/04/22	0.01
John Glover	2007	4,312	-	-	4,312	01/09/10	12/07/17	0.01
	2009	9,192	-	-	9,192	31/03/13	20/10/19	0.01
	2011	38,000	-	-	38,000*	31/03/17	21/02/21	0.01
	2012	38,000	-	-	38,000*	31/03/17	03/04/22	0.01
	2013	174,000	-	-	174,000	31/03/17	05/06/23	0.01
		694,795	-	(38,000)	656,795			
		892,916	**-**	**(38,000)**	**854,916**			
2013								
EMI Options								
Tim Smeaton	2006	124,200	-	-	124,200	29/09/06	29/09/16	0.805
	2009	22,362	-	(15,653)	6,709	31/03/13	20/10/19	0.01
Ian Temple	2009	40,000	-	(28,000)	12,000	31/03/13	20/10/19	0.01
John Glover	2007	26,404	-	-	26,404	30/09/10	30/09/17	0.01
	2009	28,808	-	-	28,808	31/03/13	20/10/19	0.01
		241,774	-	(43,653)	198,121			
Unapproved options								
Tim Smeaton	2009	5,291	-	-	5,291	31/03/13	20/10/19	0.01
	2011	138,000	-	-	138,000	31/03/17	21/02/21	0.01
	2012	138,000	-	-	138,000	31/03/17	05/06/23	0.01
	2013	-	74,000	-	74,000	31/03/17	06/06/23	0.01
Ian Temple	2011	38,000	-	-	38,000	31/03/14	21/02/21	0.01
	2012	38,000	-	-	38,000	31/03/15	03/04/22	0.01

John Glover	2007	4,312	-	-	4,312	30/09/10	30/09/17	0.01
	2009	9,192	-	-	9,192	31/03/13	20/10/19	0.01
	2011	38,000	-	-	38,000	31/03/17	21/02/21	0.01
	2012	38,000	-	-	38,000	31/03/17	03/04/22	0.01
	2013	-	174,000	-	174,000	31/03/17	05/06/23	0.01
		446,795	248,000	-	694,795			
		688,569	248,000	(43,653)	892,916			

*Performance conditions and earliest vesting date extended to align with options issued in 2013

Performance criteria
The performance criteria for executive directors' share options are as follows:

Options issued in 2006:
Options vested in full on admission of Hydrogen Group plc to the AIM market in 2006.

Options issued in 2007:
Options vested in three tranches in the period 2008-2011 dependent on the profitability of Hydrogen Group plc in each of these three years. The performance criteria were met on 60% of the options, the remaining 40% lapsed.

Options issued in 2009:
Options vested in 2013 dependent on the profitability of Hydrogen Group plc in the period 2011 to 2012. The performance criteria were met on 53% of the options; the remaining 47% lapsed.

Options issued in 2011:
Options issued to Ian Temple in 2011 were due to vest in 2014 dependent on Group NFI and profitability in 2013. As these targets were not met, the options lapsed.

Options issued in 2011 to Tim Smeaton and John Glover had their vesting date and performance criteria extended during 2013. The earliest vesting date was extended to March 2017, dependent on performance conditions for the financial year 2016, consistent with options issued in 2013 under the Hydrogen Executive Long Term Incentive Plan.

Options issued in 2012:
Options issued to Ian Temple in 2012 were dependent on the achievement of performance criteria linked to growth in Group NFI and profitability up to 2014. As the targets were not met, these options will not vest in 2015.

Options issued in 2012 to Tim Smeaton and John Glover had their vesting date and performance criteria extended during 2013. The earliest vesting date was extended to March 2017, dependent on performance conditions for financial year 2016, consistent with options issued in 2013 under the Hydrogen Executive Long Term Incentive Plan.

Emoluments

The aggregate emoluments of the directors for the year were as follows:

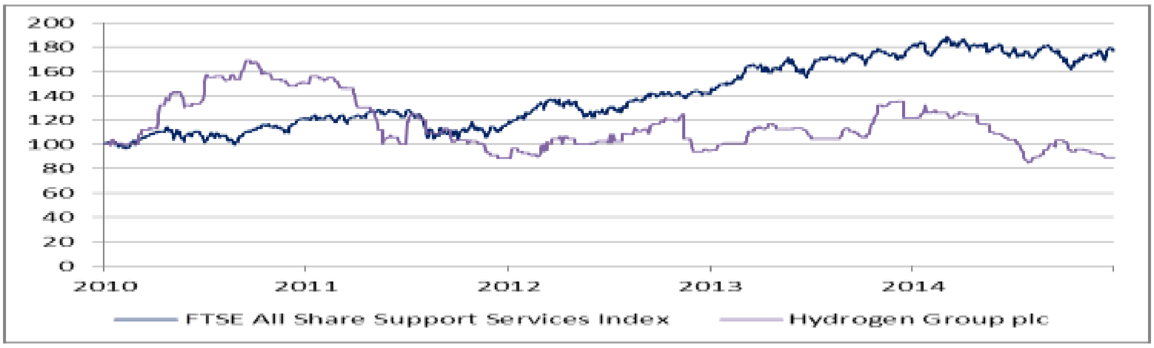
	Salary and fees £'000	Benefits £'000	Bonuses £'000	Total £'000	Pension £'000	Total £'000
2014						
Executive Directors:						
Tim Smeaton	225	2	-	227	11	238
Ian Temple	139	4	-	143	-	143
John Glover	167	-	-	167	8	175
Non-Executive Directors:						
Martyn Phillips*	36	-	-	36	-	36
Stephen Puckett*	36	-	-	36	-	36
Barbara Anderson†	21	-	-	21	-	21
Anne Baldock	27	-	-	27	-	27
Aggregate emoluments	**651**	**6**	**-**	**657**	**19**	**676**
2013						
Executive Directors:						
Tim Smeaton	225	2	28	255	6	261
Ian Temple	139	3	-	142	-	142
John Glover	167	1	17	185	4	189
Non-Executive Directors:						
Martyn Phillips*	37	-	-	37	-	37
Stephen Puckett*	35	-	-	35	-	35
Barbara Anderson	27	-	-	27	-	27
Anne Baldock	27	-	-	27	-	27
Aggregate emoluments	**657**	**6**	**45**	**708**	**10**	**718**

**Committee Chair*

† Up to date of resignation

Share price chart

Set out below is a graph of the Company's share price performance over the last five years, benchmarked against the FTSE All Share Support Services index.



Source: London Stock Exchange provided by Datastream

Shareholder resolution at the AGM

Shareholders will be given the opportunity to vote on the directors' remuneration report at the AGM. The Company's Remuneration Policy will not be put to a vote as this is not yet required under the AIM Rules.

The Directors' Remuneration Report was approved by the Remuneration Committee and by the Board on 3 March 2015 and was signed on its behalf by:

M Phillips
Chairman, Remuneration Committee

Directors' Report

The directors submit their report and the audited Group financial statements of Hydrogen Group plc for the year ended 31 December 2014. Hydrogen Group is a public listed company, incorporated and domiciled in England, and its shares are quoted on the Alternative Investment Market (AIM) of the London Stock Exchange.

Substantial shareholders

At 3 March 2015, other than the directors' interests shown in the Directors' Remuneration Report, the Company was aware of, or had been notified under the Disclosure and Transparency Rules, of the following interests:

Shareholder	Interest in issued share capital at 3 March 2015
Chris Cole	10.32%
AXA Investment Managers SA	9.63%
Charles Marshall	6.94%
Daniel Church	5.47%
Majedie Asset Management	5.02%
Hydrogen Group Employee Benefit Trust (EBT)	4.87%
Barnaby Parker	3.44%
Nicola Parker	3.31%

The factors important for shareholders to understand the development, performance and position of the Company's business are set out in the Strategic Report. The following table shows where other information required by the Companies Act 2006 to be shown in the directors' report can be found in this document:

Names of directors	Biographies of current directors appear on page 16; the names of directors during the year are listed in the Corporate Governance Report on page 19.
Directors' interests and indemnity provisions	Directors' Remuneration Report, page 30.
Results and dividends	Financial Review, pages 8-10.
Going concern confirmation	Financial Review, pages 8-10.
Subsidiaries	Notes to the parent company accounts, page 74.
Capital structure	Note 18 to the accounts, page 63.
Expected future developments	Strategic Report, pages 3-7.
Use of financial instruments	Note 25 to the Accounts, page 68-50.
Information on employees, environment and community activities and confirmation that no political donations have been made	Strategic Report, pages 11-12.

AGM

The AGM will be held on Thursday 21 May 2015 at 12 noon at 30 Eastcheap, London, EC3M 1HD. All shareholders are encouraged to attend. The resolutions to be put forward are detailed in the Notice of AGM, which will be published on the website and circulated to shareholders in April 2015.

Authority to purchase own shares

The directors were given authority at last year's AGM to purchase through the market up to 10% of the Company's issued share capital, subject to restrictions on price as recommended by investor institutions. No shares were purchased during the year. A request for renewal of the authority is included in the resolutions for this year's AGM. The Company has no current intention to use this authority.

There were no transactions in 2014 between the Company and the Employee Benefit Trust.

Auditors

Grant Thornton UK LLP offer themselves for re-appointment in accordance with Section 489 of the Companies Act 2006.

Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. The directors have confirmed that they have taken appropriate steps to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

By order of the Board

Helen Perkins
Company Secretary

Hydrogen Group plc
Registered office: 30-40 Eastcheap
London EC3M 1HD
Registered in England and Wales, no: 5563206

3 March 2015

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the Company financial statements, 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 Group and 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 its Group and enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is 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 Hydrogen Group plc

We have audited the group financial statements of Hydrogen Group plc for the year ended 31 December 2014 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the parent company balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows, the accounting policies and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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 Statement of directors' responsibilities on page 37, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

Marc Summers, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants, London
3 March 2015

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Note	**2014** **£'000**	2013 £'000
Revenue	1	**169, 430**	181,603
Cost of sales		**(141,279)**	(149,701)
Gross profit	1	**28,151**	31,902
Administration expenses		**(25,599)**	(29,372)
Operating profit before exceptional items	1	**2,552**	2,530
Exceptional items	4	**(1,988)**	-
Operating profit		**564**	2,530
Finance costs	2	**(196)**	(189)
Finance income	3	**17**	13
Profit before taxation	5	**385**	2,354
Income tax expense	7	**(479)**	(850)
(Loss)/profit for the year	21	**(94)**	1,504
Other comprehensive losses:			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(69)**	(423)
Other comprehensive losses for the year, net of tax		**(69)**	(423)
Total comprehensive (loss)/income for the year		**(163)**	1,081
Attributable to:			
Equity holders of the parent		**(163)**	1,081
Earnings per share			
Basic (loss)/earnings per share (pence)	20	**(0.42)p**	6.79p
Diluted (loss)/earnings per share (pence)	20	**(0.41)p**	6.46p

The above results relate to continuing operations.

HYDROGEN GROUP PLC

Consolidated statement of financial position

As at 31 December 2014

	Note	2014 £'000	2013 £'000
Non-current assets			
Goodwill	8	**13,658**	13,658
Other intangible assets	9	**1,212**	1,098
Property, plant and equipment	10	**1,536**	1,936
Deferred tax assets	11	**52**	182
Other financial assets	12	**278**	261
		16,736	17,135
Current assets			
Trade and other receivables	12	**31,114**	29,704
Cash and cash equivalents	13	**5,975**	3,559
		37,089	33,263
Total assets		**53,825**	50,398
Current liabilities			
Trade and other payables	14	**15,416**	15,836
Borrowings	15	**12,704**	7,574
Current tax liabilities		**80**	117
Provisions	16	**308**	247
		28,508	23,774
Non-current liabilities			
Deferred tax liabilities	11	**34**	34
Provisions	16	**60**	29
		94	63
Total liabilities		**28,602**	23,837
Net assets		**25,223**	26,561
Equity			
Called-up share capital	18	**239**	237
Share premium account	21	**3,520**	3,519
Merger reserve	21	**16,100**	16,100
Own shares held	19	**(1,338)**	(1,338)
Share option reserve	21	**2,041**	2,184
Translation reserve	21	**(196)**	(127)
Retained earnings	21	**4,857**	5,986
Total equity		**25,223**	26,561

The financial statements on pages 39 to 70 were approved by the Board of Directors and authorised for issue on 3 March 2015 and were signed on its behalf by:

Ian Temple
Chief Executive

HYDROGEN GROUP PLC

Consolidated statement of changes in equity

As at 31 December 2014

	Called-up share capital £'000	Share premium account £'000	Merger reserve £'000	Own shares held £'000	Share option reserve £'000	Trans-lation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2013	235	3,512	16,100	(1,338)	2,060	296	5,436	26,301
Dividends	-	-	-	-	-	-	(1,003)	(1,003)
Share option charge	-	-	-	-	124	-	-	124
Tax on share option charge	-	-	-	-	-	-	49	49
Shares issued from EBT	2	7	-	-	-	-	-	9
Transactions with owners	2	7	-	-	124	-	(954)	(821)
Profit for the year	-	-	-	-	-	-	1,504	1,504
Other comprehensive losses:								
Foreign currency translation	-	-	-	-	-	(423)	-	(423)
Total comprehensive income for the year	-	-	-	-	-	(423)	1,504	1,081
At 31 December 2013	237	3,519	16,100	(1,338)	2,184	(127)	5,986	26,561
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(1,032)**	**(1,032)**
Share option charge reversal	**-**	**-**	**-**	**-**	**(143)**	**-**	**-**	**(143)**
Tax on share option charge	**-**	**-**	**-**	**-**	**-**	**-**	**(3)**	**(3)**
New shares issued	**2**	**1**	**-**	**-**	**-**	**-**	**-**	**3**
Transactions with owners	**2**	**1**	**-**	**-**	**(143)**	**-**	**(1,035)**	**(1,175)**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(94)**	**(94)**
Other comprehensive loss:								
Foreign currency translation	**-**	**-**	**-**	**-**	**-**	**(69)**	**-**	**(69)**
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**(69)**	**(94)**	**(163)**
At 31 December 2014	**239**	**3,520**	**16,100**	**(1,338)**	**2,041**	**(196)**	**4,857**	**25,223**

HYDROGEN GROUP PLC

Consolidated statement of cash flows

For the year ended 31 December 2014

	Note	**2014 £'000**	2013 £'000
Net cash (used in)/generated from operating activities	23a	**(1,296)**	2,043
Investing activities			
Finance income		**17**	13
Proceeds from disposal of property, plant and equipment		**23**	26
Purchase of property, plant and equipment	10	**(18)**	(1,778)
Purchase of software assets	9	**(348)**	(178)
Net cash used in investing activities		**(326)**	(1,917)
Financing activities			
Proceeds on issuance of ordinary shares		**3**	9
Increase in borrowings	15	**5,130**	2,112
Equity dividends paid	6	**(1,032)**	(1,003)
Net cash generated from financing activities		**4,101**	1,118
Net increase in cash and cash equivalents		**2,479**	1,244
Cash and cash equivalents at beginning of year	13	**3,559**	2,704
Effect of foreign exchange rate changes		**(63)**	(389)
Cash and cash equivalents at end of year	13	**5,975**	3,559

Nature of operations

Hydrogen Group plc ("the Company") and its subsidiaries' (together "the Group") principal activity is the provision of recruitment services for mid to senior level professional staff. The Group consists of two operating segments offering both permanent and contract specialist recruitment consultancy for large and medium sized organisations. The Group recruits for roles in Professional Support Services (including legal, finance and technology placements) and in Technical and Scientific market sectors (engineering, power, mining, oil and gas and life sciences). Historically the Group has operated predominantly in the United Kingdom, but is becoming increasingly international, with operations in Australia, Hong Kong, Norway, Singapore and the USA, plus a number of internationally focused teams based in the UK.

Basis of preparation

Hydrogen Group plc is the Group's ultimate parent company. The Company is a limited liability company incorporated and domiciled in the United Kingdom. The registered office address and principal place of business is 30 Eastcheap, London, EC3M 1HD, England. Hydrogen Group plc's shares are listed on the AIM Market.

The consolidated financial statements of Hydrogen Group plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union and also comply with IFRIC interpretations and Company Law applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention. The Group's accounting policies, as set out below, have been consistently applied to all the periods presented.

The factors considered by the Directors in exercising their judgment of the Group's ability to continue to operate in the foreseeable future are set out in the Financial Review on pages 8-10 and in the table of principal risks on pages 13-14. The Group has prepared financial forecasts for the period to 31 March 2016 and the directors have a reasonable expectation that the Group will have sufficient cash flow and available resources to continue operating in the foreseeable future. Consequently, the Board has continued to adopt the going concern basis for the preparation of the financial statements (see page 10).

The consolidated financial statements for the year ended 31 December 2014 (including comparatives) are presented in GBP '000, and were approved and authorised for issue by the Board of Directors on 3 March 2015.

International Accounting Standards (IAS/IFRS) and interpretations in issue but not yet adopted

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group (except for the Amendments to IAS1 noted above):

New standards and interpretations currently in issue (as at 30 January 2014) but not effective for accounting periods commencing on 1 January 2014 are:

- IFRS 9 Financial Instruments (IASB effective date 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (IASB effective date 1 January 2017)
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (IASB effective date 1 January 2016)
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (IASB effective date 1 January 2016)
- Annual Improvements to IFRSs 2010-2012 Cycle (IASB effective date generally 1 July 2014)
- Annual Improvements to IFRSs 2011-2013 Cycle (IASB effective date 1 July 2014)
- Annual Improvements to IFRSs 2012-2014 Cycle (IASB effective date 1 July 2016)
- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective 1 January 2016)

Basis of consolidation

The consolidated financial information incorporates information concerning Hydrogen Group plc and all of its subsidiary undertakings made up to 31 December each year. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. Inter-company transactions and balances on transactions between Group companies are eliminated on consolidation.

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs of acquisition are recognised as an expense when incurred. Goodwill arising on business combinations prior to 1 January 2006, the date of transition to IFRS, is stated at the previous UK GAAP carrying amount.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date at which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentational currency.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account within the consolidated statement of comprehensive income.

On consolidation, the results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each year end presented are translated at the closing rate of that year end;

(ii) income and expenses for each statement of comprehensive income are translated at the average rates;

(iii) all resulting exchange differences are recognised in other comprehensive income.

Segment reporting

Operating segments have been identified on the basis of internal reports that are regularly reviewed by the Chief Operating Decision Maker to allocate resources and assess performance.

Revenue

Revenue, which excludes value added tax, comprises the fair value of the consideration received or receivable for services undertaken by the Group under its principal activity, which is the provision of recruitment consultancy services. This broadly consists of:

- revenue from contractor placements, representing fees received and receivable for the services of contractor staff including the salary cost of these staff, being recognised when the service has been provided;

- revenue from permanent placements, representing fees received and receivable as a percentage of the candidate's remuneration package, being recognised when a candidate accepts an offer of employment

In the supply of contractors the Group's contractual arrangements mean that it operates as principal and not in an agency capacity. As such, it bears all the risks and rewards of the income derived from placements, and accordingly includes in turnover both commission and salary costs of staff supplied.

Revenue not invoiced at the year end is included within accrued income. An adjustment or back out provision, based on past experience, is made against accrued income on account of possible cancellations of placements before the commencement of employment.

Cost of sales

Cost of sales consists of charges from contractors and other direct costs, principally advertising costs.

Gross profit

Gross profit is represented by revenue less cost of sales.

Finance costs

All borrowing costs are recognised in profit and loss in the period in which they are incurred.

Goodwill

Goodwill, comprising the difference between the fair value of consideration transferred and the fair value of the identifiable net assets acquired, is capitalised at cost and is subsequently measured at cost less any accumulated impairment losses. It is reviewed annually for impairment, and any impairment is recognised immediately in profit and loss and is not subsequently reversed. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Other intangible assets

Software costs are stated at cost less accumulated amortisation less provision for impairment. Amortisation is calculated to write off the cost in equal annual instalments over three years.

Internal costs incurred on the projects relating to the introduction or design of new systems or improvement of the existing systems are only capitalised as intangible assets if capitalisation criteria under IAS 38 'Intangible Assets' are met, i.e. where the related expenditure is separately identifiable, the costs are measurable and management are satisfied as to the ultimate technical and commercial viability of the project such that it will generate future economic benefits based on all relevant available information. Capitalised development costs are amortised from the date the system is available for use over their expected useful lives.

Other costs linked to development projects that do not meet the above criteria are recognised as an expense as incurred.

Trademark costs are stated at cost less accumulated amortisation less provision for impairment. Amortisation is calculated to write off the cost in equal annual instalments over three years.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation less provisions for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less estimated residual value on a straight line basis over their estimated useful lives, as follows:-

Computer and office equipment	33% straight line
Motor vehicles	25% straight line
Leasehold improvements	Remaining life of lease

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Computer software

Costs incurred on the development and enhancement of computer systems in operation in the Group are only capitalised as intangible assets if the criteria laid out in IAS 38 'Intangible Assets' are met. Capitalised software costs, included with Computer Software, are amortised from the date that the system is commissioned over their expected useful life, which is currently estimated at 7 years.

Impairment of assets

At each year end, the Group reviews the carrying amounts of its other intangible and tangible assets to determine whether there is any evidence that those assets have suffered an impairment loss. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except those arising from the initial recognition of goodwill.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is measured at the tax rates that are expected to apply in the periods in which temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the reporting date. Deferred income tax is measured on a non-discounted basis. Deferred income tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred income tax is also dealt with in other comprehensive income.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Leased assets and obligations

All of the Group's leases are operating leases and the annual rentals are charged to profit or loss on a straight line basis over the lease term. The benefit of rent-free periods received for entering into an operating lease is spread evenly over the lease term.

Pensions

During the year the Group introduced a defined contribution pension scheme for UK based managers and senior employees. The Group matches employee contributions up to a maximum of 5% of annual basic salary. The pension costs charged to profit or loss represent the contributions payable by the Group during the year.

Share Incentive Plan

Under the Hydrogen Group plc Share Incentive Plan (the SIP) shares are held in trust on behalf of employees for a minimum of three years.

The finance costs and administration costs relating to the SIP are charged to the profit or loss account. Dividend income arising on own shares is excluded in arriving at profit before taxation and deducted from aggregate dividends paid and proposed. The shares are ignored for the purposes of calculating the Company's earnings per share.

Other share-based payments

The fair value of the employee services received in exchange for the grant of the share options is charged to the profit or loss account over the vesting period of the share option, based on the number of options which are expected to become exercisable.

A corresponding adjustment is made to the share option reserve. Fair value is measured by use of a binomial model. At each year end, the Group revises its estimates of the number of options that are expected to become exercisable and recognises the impact of any revision of original estimates in profit or loss with a corresponding adjustment to equity.

When the options are exercised the proceeds received are credited to share capital and share premium, where appropriate.

Where the conditions attached to share options are modified but without any change to the value of the award to the employee then the Group recognises the amount that would have been recognised for the award if it had remained in place on its original terms. Where the modification increases the value of the award to the employee then the increase is spread over the period from the date of the modification until the vesting date of the modified award.

Employee Benefit Trust

The Hydrogen Group plc Employee Benefit Trust (EBT) is funded by contributions from the Company. Under the terms of the EBT, shares are held in trust for the benefit of employees.

Administration costs and the assets and liabilities of the EBT are consolidated into the Hydrogen Group plc financial statements. Shares in the EBT are held at acquisition cost and deducted from shareholders' equity. Any assets held by the EBT cease to be recognised on the Group statement of financial position when the assets vest unconditionally to identified beneficiaries. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group profit or loss.

If there is deemed to be a permanent diminution in value this is reflected by a transfer to retained earnings. The trustees have waived their rights to dividends on the shares held by the EBT.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group's financial assets comprise cash and various other receivable balances that arise from its operations. Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets are assessed for impairment at each balance sheet date, and are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss account. If in a subsequent period the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit and loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents includes cash in hand and bank deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts are classified with current liabilities in the statement of financial position.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire; or it transfers the financial asset and substantially all of the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the asset, the Group recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Financial liabilities and equity instruments are initially measured at fair value and are classified according to the substance of the contractual arrangements entered into. Financial liabilities are subsequently measured at amortised cost.

The Group's financial liabilities comprise trade payables, borrowings, bank overdrafts and other payable balances that arise from its operations. They are classified as 'financial liabilities measured at amortised cost'. Finance charges are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying amount of the investment to the extent they are not settled in the period in which they arise. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

Dividends

A final dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividend is approved by the Company's shareholders. Interim dividend distributions are recognised in the period in which they are approved and paid.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the year end, and are discounted to present value where the effect is material. Where the Group has entered into contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it then a provision has been recognised based on the Directors' best estimate of future unavoidable costs.

Net debt

Net debt comprises cash and cash equivalents as defined in note 13, less long and short term borrowings.

Invoice discounting

When trade receivables are discounted the gross amount receivable from customers is included as a current asset within trade receivables with the advances received from the financier included as borrowings within current liabilities.

Equity and reserves

A detailed description of all components of equity is given in note 21.

Exceptional items

Material and non-recurring items of income and expense are disclosed in the consolidated statement of total comprehensive income as 'exceptional items'. Examples of items which may give rise to disclosure as exceptional items include disposal of assets, costs of restructuring and reorganisation and asset impairment.

Significant management judgement in applying accounting policies

In the process of applying the Group's accounting policies the subjects requiring management estimation and judgement that have the most significant risk of causing material adjustments to the amounts recognised in the financial statements are described below:

Judgement and estimation:

Goodwill impairment

The Group's determination of whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill is allocated. This requires estimation of future cash flows and the selection of a suitable discount rate.

Accrued income

In making an accrual for time worked by contractors in December, management have had to estimate the time worked based on the number of working days in the month, and experience in previous years.

Revenue recognition

Revenue from permanent placements is recognised when a candidate accepts an offer of employment and a start date has been determined. There are circumstances where a candidate never takes up the offer of employment and the revenue has to be backed out in subsequent periods. A provision for back-outs is made at the time of revenue recognition, based on an estimate of the number of employment offers that will not be taken up, and deducted from reported revenue. During 2014 the provision for back outs was increased from 5% to 10% of permanent accrued income as a result of increased incidence of candidates not starting over the previous 24 months.

Deferred tax

The Group has not recognised a deferred tax asset for any losses incurred to date. The decision to recognise the deferred tax asset is dependent on the Group's forecasts on future profitability.

Share based payments

The fair value of equity settled share based payments involves estimation of such factors as lapse rates and achievement of performance criteria. With the exception of the 2013 LTIP scheme, all outstanding share options had past their vesting date and no further accounting entries were required. For the 2013 LTIP scheme the directors are of the opinion that performance conditions at even the lowest level of award will not be achieved, and all share based charges, including those recorded in previous periods, were reversed in 2014.

Bad debt provision

In deciding the level of bad debt provision required management exercises judgement based on the age of the debt, knowledge of any known disputes surrounding the debt, the credit rating and Group's past trading experience of trading with the client.

Provisions

Provisions are held for obligations relating to dilapidations and onerous contracts for surplus property. Significant management judgement has been involved in assessing the likely outcome of various events and future cash flows, and the provisions recognised represents management's best estimates of the current value of the obligations.

1 Segment reporting

Segment operating profit is the profit earned by each operating segment excluding the allocation of central administration costs, and is the measure reported to the Group's Board, the Group's Chief Operating Decision Maker, for performance management and resource allocation purposes.

(a) Revenue, gross profit and operating profit by discipline
For management purposes, the Group is organised into the following two operating segments:
- **Professional Support Services** (the operating segment includes legal, finance and technology recruitment),
- **Technical and Scientific** (the operating segment includes oil and gas, mining, power and life sciences recruitment).

The operating segments noted reflect the information that is regularly reviewed by the Group's Chief Operating Decision Maker (CODM) which is the Board of Hydrogen Group plc. Both of these operating segments have similar economic characteristics.

	2014				2013			
	Professional support services £'000	**Technical and scientific £'000**	**Non-allocated £'000**	**Total £'000**	Professional support services £'000	Technical and scientific £'000	Non-allocated £'000	Total £'000
Revenue	**116,586**	**52, 844**	**-**	**169,430**	127,507	54,096	-	181,603
Gross profit (Net Fee income)	**16,456**	**11,695**	**-**	**28,151**	17,588	14,315	(1)	31,902
Depreciation and Amortisation	**325**	**250**	**-**	**575**	351	307	-	658
Operating profit/(loss) before exceptional items	**3,685**	**302**	**(1,435)**	**2,552**	2,625	1,192	(1,287)	2,530
Finance costs				**(196)**				(189)
Finance income				**17**				13
Profit before tax and exceptional items				**2,373**				2,354

Non-allocated costs represent central management costs that are not allocated to operating segments.

Revenue reported above represents revenue generated from external customers. There were no sales between segments in the year (2013: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described above. Segment profit represents the profit earned by each segment without allocation of central administration costs, finance costs and finance income.

There is one external customer that represented 32% of the entity's revenues, with revenue of £53,800,000, and approximately 12% of the Group's NFI, included in the Professional Support Services segment (2013: one customer, revenue £65,449,000, Professional Support Services segment).

(b) Revenue and gross profit by geography

	Revenue		Gross profit	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
UK	**136,393**	142,630	**17,888**	17,991
Rest of world	**33,037**	38,973	**10,263**	13,911
	169,430	181,603	**28,151**	31,902

(c) Revenue and gross profit by recruitment classification

	Revenue		Gross profit	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Permanent	**12,897**	15,016	**12,897**	15,012
Contract	**156,533**	166,587	**15,254**	16,890
	169,430	181,603	**28,151**	31,902

The information reviewed by the Chief Operating Decision Maker, or otherwise regularly provided to the Chief Operating Decision Maker, does not include information on total assets and liabilities. The cost to develop this information would be excessive in comparison to the value that would be derived.

2 Finance costs

	2014 £'000	2013 £'000
Interest on invoice discounting	**122**	81
Interest on bank overdrafts and loans	**74**	108
	196	189

3 Finance income

	2014 £'000	2013 £'000
Bank interest receivable	**10**	13
Other income	**7**	-
	17	13

4 Exceptional items

Exceptional items are costs that are separately disclosed due to their material and non-recurring nature. They have arisen as a result of the comprehensive review of the Group's operations and actions taken to reduce the Group's administration costs:

	2014 £'000	2013 £'000
Redundancy costs	**1,186**	-
Property costs	**634**	-
Tangible asset write down and disposal	**69**	-
Advisors costs	**66**	-
Other	**33**	-
Total	**1,988**	-

5 Profit on ordinary activities before taxation

Profit before taxation for the year has been arrived at after charging/(crediting):

	2014 £'000	2013 £'000
Amortisation of software assets	**233**	200
Depreciation of property, plant and equipment		
- owned assets	**342**	441
Staff costs (note 22)	**16,465**	21,230
Operating lease rentals on land and buildings	**1,115**	1,303
Foreign exchange losses	**267**	189
Loss/(gain) on disposal of assets	**(24)**	135
The analysis of auditor's remuneration is as follows:		
Audit fees		
Fees payable to the Company's auditor for the audit of the Company and Group annual accounts	**40**	39
Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation	**51**	47
Total audit fees	**91**	86
Non-audit fees		
- Other services	**-**	4
- Tax services (compliance and general tax advice)	**36**	35
Total non-audit fees	**36**	39

6 Dividends

	2014 £'000	2013 £'000
Amounts recognised and distributed to shareholders in the year		
Interim dividend for the year ended 31 December 2014 of 1.5p per share (2013: 1.5p per share)	**337**	335
Final dividend for the year ended 31 December 2013 of 3.1p per share (2012: 3.0p per share)	**695**	668
	1,032	1,003

An interim dividend of 1.5p (2013: 1.5p) per share was paid on 7 November 2014 to shareholders on the register at the close of business on 10 October 2014. The interim dividend was approved by the Board on 15 September 2014.

The final dividend in relation to 2013 was recommended on 28 March 2014, and was not recognised as a liability in the year ended 31 December 2013.

The Board proposes a final dividend of 3.1p per ordinary share for the year ended 31 December 2014 (2013: 3.1p), to be paid on 29 May 2015 to shareholders on the register as at 1 May 2015, subject to approval at the AGM. The proposed final dividend has not been approved by shareholders at 31 December 2014. No income tax consequences are expected to arise at the Hydrogen Group plc level as a result of this transaction.

7 Tax

(a) Analysis of tax charge for the year:

The charge based on the profit for the year comprises:	**2014 £'000**	2013 £'000
Corporation tax:		
UK corporation tax on profits for the year	**171**	790
Adjustment to tax charge in respect of previous periods	**(20)**	(174)
	151	616
Foreign tax:		
Current tax	**201**	-
Total current tax	**352**	616
Deferred tax:		
Origination and reversal of temporary differences	**108**	(103)
Adjustments in respect of previous periods	**19**	337
Total deferred tax	**127**	234
Tax charge on profit for the year	**479**	850

UK corporation tax is calculated at 21.5% (2013: 23.25%) of the estimated assessable profits for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

(b) The charge for the year can be reconciled to the profit per the Consolidated Statement of Comprehensive Income as follows:

Profit before tax	**385**	2,354
Tax at the UK corporation tax rate of 21.5% (2013: 23.25%)	**83**	547
Effects of:		
Expenses not deductible for tax purposes	**97**	91
Tax losses arising in the year not relieved	**131**	191
Profits charged at (lower) rates of tax	**(46)**	(56)
Adjustment to tax charge in respect of prior periods	**1**	163
Share-based payments	**5**	(125)
Other	**7**	39
Foreign tax suffered	**201**	-
Tax charge for the year	**479**	850

There has been a deferred tax charge of £3,000 relating to share options charged directly to equity (2013: credit of £49,000) (see note 11).

In total, at the reporting date, the Group had tax losses of £2,426,000 (2013: £1,752,000) available for offset against future profits, for which no deferred tax assets have been recognised.

8 Goodwill

	2014 **£'000**	2013 £'000
Cost		
At 1 January and 31 December	**19,228**	19,228
Accumulated impairment losses		
At 1 January and 31 December	**(5,570)**	(5,570)
Carrying amount at 31 December	**13,658**	13,658
Allocation of goodwill to cash generating units (CGU):		
Professional Support Services	**13,658**	13,658

Goodwill arising on business combinations is tested annually for impairment or more frequently if there are indications that the value of goodwill may have been impaired. Goodwill has been tested for impairment by comparing the carrying value with the recoverable amount.

The recoverable amount is determined on a value-in-use basis utilising the value of cash flow projections over eight years, which is estimated by management to be the duration of the recruitment cycle. The first year of the projections is based on detailed budgets prepared as part of the Group's performance and control procedures. Subsequent years are based on extrapolations using the key assumptions listed below. Cash flows are discounted by the cash generating unit's weighted average cost of capital. Management believes that no reasonably possible change to the key assumptions given below would cause the carrying value to materially exceed the recoverable amount.

Management determines that there has been no further impairment in the carrying value of goodwill.

The key assumptions for revenue growth rates and discount rates used in the impairment review are stated below:

	Growth rates			
Professional Support Services	**2015 %**	**2016-2020 %**	**2021-2022 %**	**Discount rate %**
Net fee income growth rate	N/A	5.0%	2.3%	10.5%

Revenue for 2015 has been taken from the Group's detailed operating budgets, taking into account information on specific client projects and hiring plans for the coming year. Overall growth rate assumptions have not been utilised in generating revenue forecasts.

The revenue growth rates for 2015-20 are the Group's own internal forecasts, supported by external industry reports predicting improving conditions in the industry, with demand for the industry's services anticipated to pick up.

The revenue growth rates for 2021 and 2022 are based on long term average growth rates for the UK economy.

The discount rate used is an estimate of the Group's weighted average cost of capital, based on the risk adjusted average weighted cost of its debt and equity financing.

9 Other intangible assets

	Domain names & trademarks £'000	Computer software £'000	Total £'000
Cost			
At 1 January 2013	30	2,053	2,083
Additions	-	178	178
Disposals	(30)	(595)	(625)
At 31 December 2013	-	1,636	1,636
Additions	**-**	**348**	**348**
Disposals	**-**	**(1)**	**(1)**
At 31 December 2014	**-**	**1,983**	**1,983**
Amortisation			
At 1 January 2013	30	933	963
Charge for the year	-	200	200
Disposals	(30)	(595)	(625)
At 31 December 2013	-	538	538
Charge for the year	**-**	**233**	**233**
Disposals	**-**	**-**	**-**
At 31 December 2014	**-**	**771**	**771**
Net book value at 31 December 2014	**-**	**1,212**	**1,212**
Net book value at 31 December 2013	-	1,098	1,098

Amortisation on intangible assets is charged to Administration expenses in the Consolidated Statement of Comprehensive Income.

10 Property, plant and equipment

	Computer and office equipment £'000	Motor vehicles £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 January 2013	1,647	182	1,522	3,351
Additions	314	-	1,464	1,778
Disposals	(1,103)	(75)	(942)	(2,120)
Exchange difference	(23)	-	(68)	(91)
At 31 December 2013	835	107	1,976	2,918
Additions	**15**	**-**	**3**	**18**
Disposals	**(27)**	**(66)**	**(269)**	**(362)**
Exchange difference	**(4)**	**-**	**(2)**	**(6)**
At 31 December 2014	**819**	**41**	**1,708**	**2,568**
Accumulated depreciation and impairment				
At 1 January 2013	1,422	102	1,021	2,545
Charge for year	171	31	239	441
Disposals	(1,101)	(66)	(792)	(1,959)
Exchange difference	(13)	-	(32)	(45)
At 31 December 2013	479	67	436	982
Charge for the year	**143**	**16**	**183**	**342**
Impairment loss	**37**	**-**	**-**	**37**
Disposals	**(28)**	**(59)**	**(242)**	**(329)**
At 31 December 2014	**631**	**24**	**377**	**1,032**
Net book value at 31 December 2014	**188**	**17**	**1,331**	**1,536**
Net book value at 31 December 2013	356	40	1,540	1,936

Depreciation on property, plant and equipment is charged to Administration expenses in the Consolidated Statement of Comprehensive Income.

The impairment loss on computer and office equipment and leasehold improvements relate to surplus facilities at the Group's Eastcheap premises.

The Group has pledged all of its assets to secure banking facilities granted to the Group (see note 15).

11 Deferred tax

Deferred tax asset	Other £'000	Unutilised losses £'000	Accelerated depreciation £'000	Share based payments £'000	Total £'000
At 1 January 2013	31	277	77	27	412
Exchange differences	-	-	(2)	-	(2)
Credited/(charged) to profit or loss	(10)	(277)	(113)	123	(277)
Credited to reserves	-	-	-	49	49
At 31 December 2013	21	-	(38)	199	182
Charged to profit or loss	**(6)**	**-**	**(61)**	**(60)**	**(127)**
Charged to reserves	**-**	**-**	**-**	**(3)**	**(3)**
At 31 December 2014	**15**	**-**	**(99)**	**136**	**52**

Deferred tax (liability)	Accelerated capital allowances £'000
At 1 January 2013	(71)
Exchange differences	(10)
Credited/(charged) to profit or loss	47
At 31 December 2013 and 31 December 2014	**(34)**

No reversal of deferred tax is expected within the next twelve months (2013: Nil).

In total, at the reporting date, the Group had unutilised tax losses of £2.4m (2013: £1.8m) available for offset against future profits, for which no deferred tax assets had been recognised.

12 Trade and other receivables

Trade and other receivables are as follows:	**2014 £'000**	2013 £'000
Trade receivables	**16,186**	13,267
Allowance for doubtful debts	**(109)**	(111)
Accrued income	**14,537**	16,063
Prepayments	**455**	432
Other receivables:		
- due within 12 months	**55**	53
- due after more than 12 months	**278**	261
Total	**31,392**	29,965
Current	**31,114**	29,704
Non current	**278**	261

As at 31 December 2014, the average credit period taken on sales of recruitment services was 31 days (2013: 23 days) from the date of invoicing, and the receivables are predominantly non-interest bearing. An allowance of £109,000 (2013: £111,000) has been made for estimated irrecoverable amounts. Due to the short-term nature of trade and other receivables, the Directors consider that the carrying value approximates to their fair value. Bad debt expense recognised in the year was £102,000 (2013: £47,000).

Accrued income principally comprises accruals for amounts to be billed for contract staff for time worked in December, and amounts to be billed for permanent placements with a start date in 2015. Other receivables due after more than 12 months are predominantly rental deposits on leasehold properties.

The Group does not provide against receivables solely on the basis of the age of the debt, as experience has demonstrated that this is not a reliable indicator of recoverability. The Group provides fully against all receivables where it has positive evidence that the amount is not recoverable.

The Group uses an external credit scoring system to assess the creditworthiness of new customers. The Group supplies mainly FTSE 100 and other major companies and major professional partnerships.

Included in the Group's trade receivable balances are receivables with a carrying amount of £6,536,000 (2013: £5,708,000) which are past due date at the reporting date for which the Group has not provided as the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of past due but not impaired trade receivables: (Number of days overdue)	**2014 £'000**	2013 £'000
0-30 days	**3,790**	3,340
30-60 days	**1,192**	1,257
60-90 days	**706**	611
90+ days	**848**	500
31 December	**6,536**	5,708

Movement in allowance for doubtful debts:	**2014 £'000**	2013 £'000
1 January	**(111)**	(172)
Impairment losses recognised on receivables	**(102)**	(47)
Previous impairment losses reversed	**84**	101
Amounts written off the trade receivables ledger as uncollectable	**20**	7
31 December	**(109)**	(111)

In determining the recoverability of trade receivables the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Directors believe that there is no further credit provision required.

There are no individually impaired trade receivables that have been placed in administration or liquidation included in the allowance for doubtful debts. (2013: £68,000).

Ageing of impaired trade receivables:	**2014** **£'000**	2013 £'000
30-60 days	**-**	36
60-90 days	**-**	20
90+ days	**109**	55
31 December	**109**	111

As at 31 December trade receivables to a value of £9,295,000 have been invoice discounted (2013: £6,655,000).

13 Cash and cash equivalents

Cash and cash equivalents are as follows:	**2014** **£'000**	2013 £'000
Short-term bank deposits	**5,975**	3,559
	5,975	3,559

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, less bank overdrafts repayable on demand. The carrying amount of these assets approximates their fair value.

14 Trade and other payables

Trade and other payables are as follows:	**2014** **£'000**	2013 £'000
Trade payables	**310**	776
Other taxes and social security costs	**928**	898
Other payables	**805**	1,198
Accruals	**13,373**	12,964
	15,416	15,836

Accruals principally comprise accruals for amounts owed to contract staff for time worked in December.

The average credit period taken on trade purchases, excluding contract staff costs, by the Group is 13 days (2013: 18 days), based on the average daily amount invoiced by suppliers. Interest is charged by suppliers at various rates on payables not settled within terms. The Group has procedures to ensure that payables are paid to terms wherever possible. Due to the short-term nature value of trade and other payables, the Directors consider that the carrying value approximates to their fair value.

15 Borrowings

	2014 £'000	2013 £'000
Invoice discounting (repayable on demand)	**9,704**	4,574
Revolving credit facility	**3,000**	3,000
	12,704	7,574

All borrowing is at floating interest rates. Interest on the invoice discounting facility is charged at 2.35% over UK Base Rate on actual amounts drawn down, and the margin is fixed to April 2018. The weighted average interest rate for the year charged on amounts drawn down on invoice discounting was 2.35% (2013: 2.35%).

In September 2012 the Group agreed a £3 million revolving credit facility (RCF) with its bankers for a three year period. Interest on the revolving credit facility is charged at 2.45% over the London Inter-Bank Offered Rate (LIBOR) on actual amounts drawn down. There is a non-utilisation charge of 1.23% over LIBOR. The weighted average interest rate for the year charged on the RCF was 3.03% (2013: 3.03%).

The RCF is subject to the following covenants:
- pre-tax profit will not be less than 400% of interest charges,
- net debt excluding invoice finance drawdown shall not exceed 250% of EBITDA

As a result of restructuring costs the Group's pre tax profit was below the level required to meet the interest cover covenant. As the Group's forecasts showed the RCF funding to be surplus to Group requirements for the foreseeable future it was repaid and cancelled in February 2015.

16 Provisions

	Leasehold dilapidations £'000	Onerous contracts £'000	Total £'000
At 1 January 2013	237	-	237
Foreign exchange	(4)	-	(4)
New provision	57	-	57
Utilised	(14)	-	(14)
At 31 December 2013	276	-	276
New provision	**40**	**435**	**475**
Unutilised provision released	**(203)**	**-**	**(203)**
Utilised	**(53)**	**(127)**	**(180)**
At 31 December 2014	**60**	**308**	**368**
Current	**-**	**308**	**308**
Non-current	**60**	**-**	**60**

The unutilised dilapidations provision released relates to the Group previous London HQ, which it had occupied since 2001, and vacated in August 2013. Advisors for the Group consider the likelihood of that the Group will be required to pay a dilapidations charge to be low, consequently the provision has been released.

The dilapidations provisions relate to the Group's current leased offices in London and Singapore.

The onerous lease contracts relate to surplus accommodation within the Group's London HQ at 30 Eastcheap. Following discussions with advisors the Group has taken an exceptional charge for 18 months' costs, starting from 1 July 2014, relating to this space to cover the marketing void and rent free incentive that is assumed would be required to sublet this space. No rent shortfall/surplus has been assumed for the duration of any sub-lease eventually granted.

17 Share-based payments

All share-based payment arrangements are equity-settled.

Grants in 2014

In 2013 the Group introduced a long term incentive plan (2013 LTIP) for senior executives and Directors (the Hydrogen Executive Long Term Incentive Plan). The purpose of the 2013 LTIP is to align long term incentives for senior executives and Directors with Hydrogen's 2016 strategy and performance targets.

Under the scheme, in 2014 one senior executive was awarded options over 50,000 Hydrogen Group ordinary shares.

The number of outstanding options that will vest is dependent on the achievement of a number of key performance measures of the Group, primarily profit, measured at a regional and consolidated level, for the financial years 2016 and 2017.

Achievement of 'target' performance level is required for 100% vesting of options granted in 2013, measured for financial year 2016 and, if not achieved, again for financial year 2017. The earliest date options can vest, subject to achievement of 'target' performance for financial year 2016, is the date following announcement of the Group's audited results for the year ended 31 December 2016. The maximum number of options that can vest on this date is 50% of the 2013 grant, with any balance vesting one year later. If 'target' performance is not achieved until financial year 2017 then both vesting dates will be a year later.

In instances of significant over-performance ('stretch') against key performance measures for financial years 2016 or 2017, the 2013 LTIP makes provision for award of additional share option in the range 20%-50% of amounts granted in 2013, to be issued in the relevant year. Vesting for these awards will be immediate. If for financial year 2017 performance is between target and stretch additional awards will be calculated on a straight line basis.

A minimum performance level ('threshold') has been set for financial year 2017, where 50% of the share options granted in 2013 will vest, with the remaining 50% being forfeit. Vesting date will be the date following announcement of the Group's audited results for the year ended 31 December 2017. The maximum number of options that can vest on this date is 25% of the options granted in 2013, with the remaining 25% vesting one year later. If for financial year 2017 performance is between threshold and target additional awards will be calculated on a straight line basis.

All share options granted under the 2013 LTIP carry an exercise price of £0.01 (nominal value) and may be exercised up to 10 years from date of grant, after which they expire. Options are forfeit if the employee leaves the Group before options vest, except where the employee leaves for qualifying reasons.

The fair value of the employee services received in exchange for the grant of the share options is charged to the profit or loss account over the vesting period of the share option, based on the number of options which are expected to become exercisable.

Forfeit in 2014

Under the 2013 LTIP scheme, 650,000 options issued in 2014 lapsed as a consequence of senior executives leaving the business as part of the restructuring program. In addition, 154,150 options issued in 2011 lapsed as the performance criteria were not met, and 4,000 issued in 2009 lapsed on an employee leaving the business.

A summary of the share options outstanding at the end of the year under all Group share option schemes and the movements in options during the year are shown below:

	Number of shares 2014	**Weighted average exercise price 2014 £**	Number of shares 2013	Weighted average exercise price 2013 £
Outstanding at 1 January	**2,449,624**	**0.087**	2,116,475	0.102
Granted during the year	**50,000**	**0.010**	1,066,000	0.010
Forfeited during the year	**(808,150)**	**0.010**	(568,999)	0.010
Exercised during the year	**(166,856)**	**0.013**	(163,852)	0.052
Outstanding at 31 December	**1,524,618**	**0.134**	2,449,624	0.087
Exercisable at 31 December	**436,618**	**0.441**	572,623	0.342

The range of exercise prices for options outstanding in all share option schemes at the end of the year was as follows:

	31 December 2014				31 December 2013			
	Range of exercise price (p)	**Number of Options**	**Weighted average exercise price(p)**	**Weighted average remaining life**	Range of exercise price (p)	Number of Options	Weighted average exercise price (p)	Weighted average remaining life
2006 award	**73p-81p**	**236,883**	**80.5p**	**1.0 years**	73p-81p	237,515	80.5p	2.0 years
2007 award	**1p**	**43,685**	**1p**	**2.5 years**	1p	100,497	1p	3.5 years
2008 award	**1p**	**-**	**1p**	**3.5 years**	1p	44,612	1p	4.5 years
2009 award	**1p**	**140,000**	**1p**	**4.5 years**	1p	186,000	1p	5.5 years
2011 award	**1p**	**250,050**	**1p**	**7.6 years**	1p	485,000	1p	8.6 years
2012 award	**1p**	**272,000**	**1p**	**8.3 years**	1p	330,000	1p	9.3 years
2013 award	**1p**	**532,000**	**1p**	**8.5 years**	1p	1,066,000	1p	9.5 years
2014 award	**1p**	**50,000**	**1p**	**9.5 years**	-	-	-	-
		1,524,618				2,449,624		

The weighted average share price at the date of exercise for share options exercised during the period was £0.99 (2013: £0.96).

For options issued in 2006, the fair value of employee services received in exchange for share options was valued using a binomial option pricing model. The inputs into the binomial model are given below.

Options issued in 2006	
Share price at date of grant (p)	251p
Exercise price (p)	80.5p
Fair value per option at grant date (p)	16p – 18p
Expected volatility	20% - 50%
Expected option life at date of grant	2/3 year – 21/2 years
Risk free interest rate	4.08% - 4.75%
Expected dividend yield	1% - 2%

Options issued in subsequent years were all granted at nominal value:

Year of issue	Exercise price p	Fair value per option at grant date p
2014 award	1p	97p
2013 award	1p	99p – 116p
2012 award	1p	92p
2011 award	1p	132p
2009 award	1p	56p – 90p
2008 award	1p	203p
2007 award	1p	293p

As Hydrogen was not a listed share when 2006 options were valued, expected volatility was determined by reference to the average historical volatility of the share price of a number of competitors.

Share Incentive Plan (SIP)

During the first six months of 2014, 7,287 shares were exercised. On 1 July 2014 the 2009 SIP reached its fifth anniversary and the remaining 118,179 shares were automatically released from trust, giving a total of 125,466 shares exercised for the year (2013: 44,759). 211,414 (2013: 336,880) shares were held in the Hydrogen Group SIP Plan at the year end.

The Group recognised a credit of £143,000 (2013: expense £126,000) relating to equity-settled share based payment transactions in the year. Charges taken in 2013 relating to the 2013 award were reversed as, in the opinion of the Directors, there is low probability of the performance conditions required for vesting being achieved.

18 Share capital

The share capital at 31 December 2014 and 2013 was as follows:

	2014		2013	
Ordinary shares of 1p each	Number of shares	£'000	Number of shares	£'000
Authorised				
At 1 January and 31 December	**40,000,000**	**400**	40,000,000	400
Issued and fully paid:				
At 1 January	**23,714,238**	**237**	23,550,386	235
Issuance of new shares for employee share schemes	**166,856**	**2**	163,852	2
31 December	**23,881,094**	**239**	23,714,238	237

During 2014, 166,856 options were exercised (2013: 163,852), as set out in note 17, all of which were satisfied by the issuance of new shares (2013: 163,852).

At 31 December 2014, 1,185,451 (2013: 1,185,451) shares were held in the EBT (see note 19).

At 31 December 2014, 211,414 (2013: 336,880) ordinary shares were held in the Hydrogen Group plc Share Incentive Plan trust for employees (see note 17).

Capital structure

The Company has one class of ordinary shares which carry no right to fixed income, and which represent 100% of the total issued nominal value of all share capital. Each share carries the right to one vote at general meetings of the Company. No person has any special rights of control over the Company's share capital and all its issued shares are fully paid.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 17. 166,856 shares were issued during the year following exercises of options under the Company's share option plans. No votes are cast in respect of shares held in the Hydrogen Employee Share Trust or the Hydrogen Group Share Incentive Plan.

Pursuant to shareholder resolutions at the AGM of the Company held on 22 May 2014, the Company has the following authorities during the period up to the next AGM:

- to issue new/additional ordinary shares to existing shareholders through a rights issue up to a maximum nominal amount of £79,050, representing one third of the then current issued share capital of the Company;
- to issue new/additional ordinary shares to new shareholders up to a maximum nominal amount of £79,050, representing one third of the then current issued share capital of the Company;
- to allot equity securities for cash, without the application of pre-emption rights, up to a maximum nominal amount of £11,857, representing 5% of the then current issued share capital of the Company; and
- to purchase through the market up to 10% of the Company's issued share capital, subject to restrictions on price as recommended by investor institutions.

Shareholders will be asked to renew and update these authorities at the AGM in 2015.

19 Own shares

During the year there was no movement in the number of shares held by the EBT.

At 31 December 2014, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	**2014**	2013
Number of shares	**1,185,451**	1,185,451
	£'000	£'000
Nominal value	**12**	12
Carrying value	**1,338**	1,338
Market value	**925**	1,263

20 (Loss)/earnings per share

(Loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue.

Fully diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares by existing share options and share incentive plans, assuming dilution through conversion of all existing options and shares held in share plans.

From continuing operations	**2014** **£'000**	2013 £'000
Earnings		
(Loss)/profit attributable to equity holders of the parent	**(94)**	1,504
Adjusted earnings		
(Loss)/profit for the year	**(94)**	1,504
Add back: exceptional costs	**1,988**	-
	1,894	1,504
Number of shares		
Weighted average number of shares used for basic and adjusted earnings per share	**22,361,997**	22,141,885
Dilutive effect of share plans	**588,529**	1,129,433
Diluted weighted average number of shares used to calculate diluted and adjusted diluted earnings per share	**22,950,526**	23,271,318
Basic (loss)/earnings per share (pence)	**(0.42p)**	6.79p
Diluted (loss)/earnings per share (pence)	**(0.41p)**	6.46p
Adjusted basic (loss)/earnings per share (pence)	**8.47p**	6.79p
Adjusted diluted (loss)/earnings per share (pence)	**8.25p**	6.46p

21 Equity

Share capital

The balance of share capital represents the aggregate nominal value of all ordinary shares in issue.

Share premium

The balance on the share premium reserve represents the amounts received in excess of the nominal value of the ordinary shares.

Merger reserve

The balance on the merger reserve represents the fair value of the consideration given in excess of the nominal value of the ordinary shares issued on the acquisition of Hydrogen International Limited and Professionals Group Limited.

Own shares

The balance on the own shares reserve represents the cost of shares in Hydrogen Group plc purchased by the Employee Benefit Trust to meet the Group's future requirements under its share option schemes.

Share option reserve

This reserve represents the cumulative amounts charged to profit or loss in respect of employee share-based payment arrangements for employees, and includes amounts previously disclosed in 'other reserve'.

Translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations into the presentation currency of the group accounts.

Retained earnings

The balance held on this reserve is the accumulated retained profits of the Group.

22 Employees

The monthly average number of employees (including Directors) during the year and the total number of employees at 31 December 2014 was as follows:

	Average no. 2014	Average no. 2013	**31 December 2014**	31 December 2013
Client services	**260**	267	**211**	294
Administration	**79**	85	**70**	85
Management	**4**	4	**4**	4
	343	356	**285**	383

Staff costs (including Directors' costs) are as follows and have been included in Administration Expenses in the Consolidated Statement of Comprehensive Income.

	2014 £'000	2013 £'000
Wages and salaries	**14,601**	19,002
Social security costs	**1,572**	1,824
Other pension costs	**435**	278
Share-based (income)/payments (see note 17)	**(143)**	126
	16,465	21,230

Directors' emoluments

	2014 £'000	2013 £'000
Emoluments for qualifying services	**676**	718
	676	718

Information on Directors' emoluments and interests, which form part of these audited financial statements, is given in the Directors' Remuneration Report. There were no payments made to past Directors in the year.

Emoluments disclosed above include the following amounts paid to the highest paid Director:

	2014 £'000	2013 £'000
Emoluments for qualifying services	**238**	261
	238	261

The Directors did not exercise any share options during the year (2013: nil).

Remuneration of key management

	2014 £'000	2013 £'000
Short term employee benefits (excluding social security costs)	**2,487**	2,430
Share-based (income)/payments	**(144)**	133
Post-employment benefits	**51**	34
	2,394	2,597

Key management includes Executive Directors above and senior divisional managers.

23 Notes to the cash flow statement

a. Reconciliation of profit before tax to net cash inflow from operating activities

	2014 £'000	2013 £'000
Profit before taxation and exceptional items	**2,373**	2,354
Adjusted for:		
Depreciation and amortisation	**575**	641
(Decrease) in provisions	**(343)**	(14)
(Gain)/loss on sale of property, plant and equipment	**(24)**	135
Share-based (income)/payments	**(143)**	126
Net finance costs	**179**	176
Operating cash flows before movements in working capital	**2,617**	3,418
Increase in receivables	**(1,445)**	(1,487)
(Decrease)/increase in payables	**(481)**	1,060
Cash generated from operating activities	**691**	2,991
Income taxes paid	**(308)**	(812)
Finance costs	**(196)**	(136)
Net cash inflow from operating activities before exceptional items	**187**	2,043
Cash flows arising from exceptional costs	**(1,483)**	-
Net cash (outflow)/inflow from operating activities	**(1,296)**	2,043

b. Reconciliation of net cash flow to movement in net debt:

	2014 £'000	2013 £'000
Increase in cash and cash equivalents in the year	**2,416**	855
Increase in net debt resulting from cash flows	**(5,130)**	(2,112)
Increase in net debt during the year	**(2,714)**	(1,257)
Net debt at the start of the year	**(4,015)**	(2,758)
Net debt at the end of the year	**(6,729)**	(4,015)

24 Operating lease commitments

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2014 £'000	2013 £'000
Within one year	**513**	433
Between one and five years	**3,186**	3,250
After five years	**1,254**	1,621
	4,953	5,304

Operating lease payments represent rentals payable by the Group for its office properties. Leases are negotiated for an average term of 13.1 years and rentals are fixed for an average of 4.7 years. The Group has a small amount of serviced office space, on annual agreements, excluded from the above.

25 Financial risk management

Capital risk management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as set out in note 21.

The Group monitors capital on the basis of the gearing ratio.

The Board of Directors regularly reviews the capital structure of the Group. Over the long term the Group has a target gearing ratio in the range of 25%-30% as determined as net debt to equity, but makes adjustments to it in the light of changes in economic circumstances or Group structure. There have been no other significant changes in capital structure implemented in the year ended 31 December 2014.

The gearing ratio at the year end is as follows	2014 £'000	2013 £'000
Debt	**(12,704)**	(7,574)
Cash and cash equivalents	**5,975**	3,559
Net debt	**(6,729)**	(4,015)
Equity	**25,223**	26,561
Net debt to equity ratio	**26.7%**	15.1%

Debt is defined as long and short-term borrowings.
Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

Externally imposed capital requirements

Other than the covenants over term debt (see note 15), the Group is not subject to externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies section of the financial statements. There have been no significant changes in accounting policy in the year ended 31 December 2014.

Categories of financial instruments

The Group's financial instruments are summarised below. The purpose of these instruments is to finance the Group's operations, from which they arise. They are predominately short term in nature, and hence their carrying value approximates to their fair value.

	2014 £'000	2013 £'000
Financial assets		
Loans and receivables		
Trade and other receivables net of impairment provision	**16,077**	13,156
Other receivables	**333**	314
Accrued income	**14,537**	16,063
Cash and cash equivalents	**5,975**	3,559
	36,922	33,094
Financial liabilities at amortised cost		
Trade and other payables	**1,115**	1,974
Borrowings	**12,704**	7,574
	13,819	9,548

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk.

Foreign currency risks

The Group publishes its consolidated financial statements in Sterling and approximately 80% of its revenues are in Sterling. For the contract business, the Group endeavours to pay and bill in the same currency to provide a natural hedge. The Group periodically uses currency options to manage any remaining exposure to foreign currency risk.

The functional currencies of the Group's main operating subsidiaries are Sterling, the Singapore, Hong Kong, Australian and US dollar and the Norwegian Krone. The Group's subsidiaries generally raise invoices and incur expenses in their local currencies.

The Group is exposed to foreign currency translation differences in accounting for its investment in overseas operations. The settlement of intercompany balances held with foreign operations is neither planned nor likely to occur in the foreseeable future. Therefore, exchange differences arising from the translation of the net investments are recognised in Other Comprehensive Income.

Interest rate risk

The Group's exposure to interest rate risk arises on its drawdown on its UK invoice discounting facility and revolving credit facility. Given the current low level of interest rates, and the high level of variability in the amount and duration of its drawdown, the Group does not actively manage its exposure to interest rate fluctuations.

Credit risk

The Group's principal financial assets are bank balances and cash, and trade and other receivables. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit losses.

The Group does not hold any security as collateral against these financial assets.

The Group's credit risk arises primarily on its trade receivables. The Group transacts with a large number of customers across a variety of industry sectors. On-going credit evaluation and management of exposures is undertaken, utilising external credit ratings. At the year end one customer represented 30% of the total balance of trade receivables, which was settled in full in January 2015. No other customer represented more than 5% of the total balance of trade receivables.

It is the Directors' opinion that no further provision for doubtful debts is required.

Liquidity risk

The Group manages its liquidity risk by maintaining adequate reserves, banking and borrowing facilities, by continuously monitoring forecast and actual cash flows on a regular basis and matching the maturity profiles of financial assets and liabilities to determine whether the Group has sufficient cash and credit facilities to meet future working capital requirements and to take advantage of business opportunities.

The Group has a £18m invoice discounting facility committed to April 2018 and this is considered adequate to meet the Group's funding requirements.

Apart from its bank borrowings disclosed in note 15, the Group has no financial liabilities other than short-term trade payables and accruals disclosed in note 14, all due within one year of the year end.

26 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The Directors receive remuneration from the Company, which is disclosed in the Directors' Remuneration Report. Total remuneration for members of key management, which includes the Directors, is given in note 22. As shareholders, the Directors who are shareholders also receive dividends from the Company:

	2014 **£'000**	2013 £'000
Dividends paid to Directors	**317**	309

No single party has ultimate control of the company.

HYDROGEN GROUP PLC

Parent company balance sheet

As at 31 December 2014

	Note	**2014 £'000**	2013 £'000
Fixed assets			
Investments	4	**7,273**	7,088
		7,273	7,088
Current assets			
Debtors due in more than 12 months	5	**7,143**	5,458
Debtors due within 12 months	5	**341**	310
Cash at bank and in hand		**3,109**	114
		10,593	5,882
Creditors: amounts falling due within one year	6	**2,036**	2,360
Net current assets		**8,557**	3,522
Total assets less current liabilities		**15,830**	10,610
Net assets		**15,830**	10,610
Called up share capital	7	**239**	237
Own shares held	8	**(1,338)**	(1,338)
Share premium account	9	**3,520**	3,519
Share option reserve	9	**100**	100
Other reserve	9	**211**	306
Profit and loss account	9	**13,098**	7,786
Equity shareholders' funds		**15,830**	10,610

The financial statements on pages 71 to 77 were approved by the Board of Directors and authorised for issue on 3 March 2015 and were signed on its behalf by:

Ian Temple
Director

Hydrogen Group plc
Registered office: 30-40 Eastcheap, London.
EC3M 1HD
Registered in England and Wales no: 5563206

Notes to the parent company financial statements

1 Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies used in the preparation of the Company financial statements are summarised below. They have all been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries are stated at cost less provision for impairment.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividend is approved by the Company's shareholders. An interim dividend distribution is recognised in the period in which it is approved and paid.

Foreign exchange

The Company has advanced intercompany loans to a number of subsidiaries, which are not intended to be settled in the foreseeable future, as part of the net investment in the relevant subsidiary. These loans are denominated in the functional currency of the relevant subsidiary, and exchange gains or losses arising on their period revaluation are taken direct to reserves.

Share-based payments

Where options were awarded after 7 November 2002 and were unvested as of 1 January 2006, the fair value of the employee services received in exchange for the grant of the share options is charged to profit and loss over the vesting period of the share option, based on the number of options which are expected to become exercisable. A corresponding adjustment is made to equity. Fair value is measured by use of a binomial model. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable and recognises the impact of any revision of original estimates in the profit and loss account with a corresponding adjustment to equity.

Where the conditions attached to share options are modified but without any change to the value of the award to the employee then the Group recognises the amount that would have been recognised for the award if it had remained in place on its original terms,

When the options are exercised the proceeds received are credited to share capital and share premium.

Where options are issued to employees of subsidiary companies the expense and corresponding adjustment to equity are recorded in the financial statements of the relevant subsidiary.

Notes to the parent company financial statements

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 its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classified 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.

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 directly to profit and loss reserves.

2 Profit for the year

As permitted by Section 408 of the Companies Act 2006 the profit and loss account for the Company is not presented as part of these financial statements. Hydrogen Group plc reported a profit for the financial year ended 31 December 2014 of £6,387,000 (2013: £133,000).

The auditor's remuneration for audit of the Company is £10,000 (2013: £10,000).

Fees payable to Grant Thornton UK LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

3 Dividend

	2014 £'000	2013 £'000
Amounts recognised and distributed to shareholders in the year		
Interim dividend for the year ended 31 December 2014 of 1.5p per share (2013: 1.5p per share)	**337**	335
Final dividend for the year ended 31 December 2013 of 3.1p per share (2012: 3.0p per share)	**695**	668
	1,032	1,003

An interim dividend of 1.5p (2013: 1.5p) per share was paid on 7 November 2014 to shareholders on the register at the close of business on 10 October 2014. The interim dividend was approved by the Board on 15 September 2014.

The final dividend in relation to 2013 was recommended on 28 March 2014, and was not recognised as a liability in the year ended 31 December 2013.

The Board proposes a final dividend of 3.1p per ordinary share for the year ended 31 December 2014 (2013: 3.1p), to be paid on 29 May 2015 to shareholders on the register as at 1 May 2015, subject to approval at the AGM. The proposed final dividend has not been approved by shareholders at 31 December 2014. No income tax consequences are expected to arise at the Hydrogen Group plc level as a result of this transaction.

4 Fixed asset investments

	2014 £'000	2013 £'000
Subsidiary undertakings at cost		
At 1 January and 31 December	**7,088**	7,088
Additions	**185**	-
At 31 December	**7,273**	7,088

Notes to the parent company financial statements

Subsidiaries

The main trading subsidiaries are Hydrogen UK Limited and Hydrogen International Limited in the UK, Hydrogen Group Pty Ltd in Australia, Hydrogen Group Pte Ltd in Singapore, Hydrogen Group Ltd in Hong Kong, Hydrogen Norge AS in Norway and Hydrogen Group LLC in USA.

Subsidiary:	Country of incorporation	Nature of activities	% ordinary share capital and voting rights
Hydrogen UK Limited*	United Kingdom	Recruitment	100%
Hydrogen International Limited	United Kingdom	Recruitment	100%
Hydrogen Group Pty Limited	Australia	Recruitment	100%
Hydrogen Group Pte Limited	Singapore	Recruitment	100%
Hydrogen Group Limited	Hong Kong	Recruitment	100%
Hydrogen Norge AS	Norway	Recruitment	100%
Hydrogen Group LLC	USA	Recruitment	100%
Hydrogen Group Staffing LLC*	USA	Recruitment	100%
Hydrogen Group Sdn. Bhd	Malaysia	Recruitment	100%
Hydrogen Oil & Gas Sdn. Bhd*	Malaysia	Recruitment	100%
Hydrogen Services Sdn Bhd*	Malaysia	Recruitment	100%
Hydrogen Group AG	Switzerland	Recruitment	100%
Hydrogen Group BV	Netherlands	Recruitment	100%
Hydrogen Group GmbH	Germany	Recruitment	100%
Professionals Group Limited	United Kingdom	Dormant	100%
Hydrogen Employee Share Company Limited	United Kingdom	Trustee of Share Incentive Plan	100%
Hydrogen Academy Limited	United Kingdom	Dormant	100%
Target Partners Limited*	United Kingdom	Dormant	100%
Hydrogen Consulting Limited*	United Kingdom	Dormant	100%
Law Professionals Limited*	United Kingdom	Dormant	100%
Audit Professionals Limited*	United Kingdom	Dormant	100%
Technology Professionals Limited*	United Kingdom	Dormant	100%
Sales Professionals Limited*	United Kingdom	Dormant	100%
Human Resources Professionals Limited*	United Kingdom	Dormant	100%
Taxation Professionals Limited*	United Kingdom	Dormant	100%
Finance Professionals Limited*	United Kingdom	Dormant	100%
Professional Recruitment Organisation Limited*	United Kingdom	Dormant	100%
Pro Source International Limited*	United Kingdom	Dormant	100%
Partners Group Limited*	United Kingdom	Dormant	100%
Timetorecruit Limited*	United Kingdom	Dormant	100%
Reflect Limited*	United Kingdom	Dormant	100%
Commerce Partners Limited*	United Kingdom	Dormant	100%
Project Partners Limited*	United Kingdom	Dormant	100%
Finance Partners Limited*	United Kingdom	Dormant	100%
Partners Search and Selection Limited*	United Kingdom	Dormant	100%
Eurisko Search Limited*	United Kingdom	Dormant	100%
Darwin Park Limited*	United Kingdom	Dormant	100%
Pro Limited	United Kingdom	Dormant	100%
Propartners Limited	United Kingdom	Dormant	100%
Hydrogen Business Solutions Limited	United Kingdom	Dormant	100%
Hydrogen Recruitment Limited	United Kingdom	Dormant	100%

*held indirectly

Notes to the parent company financial statements

4 Debtors

	2014 £'000	2013 £'000
Due within one year:		
Other taxation and social security	**301**	**289**
Other debtors and prepayments	**40**	**21**
	341	**310**
Due after more than one year:		
Amounts owed by Group companies	**9,217**	**5,389**
Less: impairment provision	**(2,153)**	**-**
	7,064	**-**
Deferred tax		
- accelerated depreciation	**1**	**2**
- share based costs	**78**	**67**
	79	**69**
	7,143	**5,458**
	7,484	**5,768**

5 Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Trade creditors	**72**	**56**
Amounts owed to group companies	**1,856**	**2,213**
Corporation tax	**-**	**40**
Accruals and deferred income	**108**	**51**
	2,036	**2,360**

Notes to the parent company financial statements

6 Share capital

The share capital at 31 December 2014 and 2013 was as follows:

	2014		2013	
Ordinary shares of 1p each	Number of shares	£'000	Number of shares	£'000
Authorised				
At 1 January and 31 December	**40,000,000**	**400**	40,000,000	400
Issued and fully paid:				
At 1 January	**23,714,238**	**237**	**23,550,386**	235
Issuance of new shares for employee share schemes	**166,856**	**2**	**163,852**	2
31 December	**23,881,094**	**239**	**23,714,238**	237

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

7 Own shares

During the year there were was no movement in the number of shares held by the EBT.
At 31 December 2014, the total number of ordinary shares held in the EBT and their values were as follows:

Shares held for share option schemes	**2014**	2013
Number of shares	**1,185,451**	1,185,451
	£'000	£'000
Nominal value	**12**	12
Carrying value	**1,338**	1,338
Market value	**925**	1,263

Notes to the parent company financial statements

8 Reserves

	Own shares held £'000	Share premium £'000	Share option reserve £'000	Other reserve £'000	Retained earnings £'000
Balance at 1 January 2014	**(1,338)**	**3,519**	**100**	**306**	**7,786**
Profit for the year	**-**	**-**	**-**	**-**	**6,387**
Dividends paid	**-**	**-**	**-**	**-**	**(1,032)**
Share option charge reversal	**-**	**-**	**-**	**(95)**	**-**
Exchange (loss)/gain	**-**	**-**	**-**	**-**	**(43)**
New shares issued	**-**	**1**	**-**	**-**	**-**
Balance at 31 December 2014	**(1,338)**	**3,520**	**100**	**211**	**13,098**

9 Reconciliation of movement in shareholders' funds

	2014 £'000	2013 £'000
Profit for the financial year	**6,387**	133
Dividends paid	**(1,032)**	(1,003)
Share option (income)/charge	**(95)**	87
Increase in share capital	**2**	2
Increase in share premium	**1**	7
Exchange loss	**(43)**	(602)
Net addition/(deduction) to shareholders' funds	**5,220**	(1,376)
Opening shareholders' funds	**10,610**	11,986
Closing shareholders' funds	**15,830**	10,610

10 Contingent liabilities

The Company has entered into a cross guarantee in respect of the banking facilities of its subsidiary undertakings which amounted to £12,704,000 (2013: £7,573,000) at the balance sheet date.

11 Related parties

As permitted by FRS 8 the Company has not disclosed transactions with subsidiaries in its own accounts as these accounts are presented together with the consolidated group financial statements.

The Directors receive remuneration from the Company, which is disclosed in the Directors' Remuneration Report. As shareholders, the Directors who are shareholders also receive dividends from the Company:

	2014 £'000	2013 £'000
Dividends paid to Directors	**317**	309

Directors and advisors

Directors and advisors

(March 2015)

Directors

Stephen Puckett (Chairman)

Ian Temple (Chief Executive

Anne Baldock (Non-Executive) - Senior Independent Director

Martyn Phillips (Non-Executive)

Secretary

Helen Perkins

Company number

5563206

Registered office

30-40 Eastcheap, London EC3M 1HD

Auditor

Grant Thornton UK LLP Chartered Accountants Grant Thornton House Melton Street London NW1 2EP

Solicitor

Travers Smith 10 Snow Hill London EC1A 2AL

Banker

HSBC 60 Queen Victoria Street London EC4N 4TR

Registrar

Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

Nominated adviser and broker

Shore Capital and Corporate Limited Bond Street House 14 Clifford Street London W1S 4JU