ANNUAL REPORT 2016

For the year ended 31 December 2016

Staffline Group plc
People Skills Jobs

Visit our website to stay up to date with our latest news:

www.staffline.co.uk

Company details

Company registration number:
05268636

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

Directors:
Ed Barker (Non-Executive Director)
John Crabtree OBE (Non-Executive Chairman)
Andy Hogarth (Group Chief Executive)
Tracy Lewis (Non-Executive Director)
Diane Martyn (Group Managing Director)
Chris Pullen (Chief Financial Officer)

Secretary:
Paul Collins

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

Joint broker:
Berenberg
60 Threadneedle Street
London
EC2R 8HP

Registrars:
Computershare Investor Services plc
PO Box 859
The Pavilions
Bridgewater Road
Bristol
BS99 1XZ

Bankers:
Lloyds Bank plc
33 Old Broad Street
London
BX2 1LB

HSBC Bank plc
Grove Park
Penman Way
Enderby
LE19 1SY

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

Gowling WLG (UK) LLP
2 Snow Hill
Birmingham
B4 6WR

Statutory Auditors:
PricewaterhouseCoopers LLP
Chartered Accountants
and Statutory Auditors
19 Cornwall Street
Birmingham
B3 2DT

Financial and trade Public Relations:
Buchanan Communications
107 Cheapside
London
EC2V 6DN

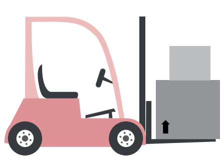
Contents

Strategic Report
Group Overview 04-05
Group Strategy (including Corporate Social Responsibility) 06-07
Chairman's and Chief Executive's Statement 08-13
Chief Financial Officer's Statement 14-17
Principal risks and uncertainties 19-21

Governance
Corporate Governance Statement 22-24
Report on Remuneration 25
Report of the Directors 26-27
Independent Auditors' Report 28

Consolidated Financial Statements
Consolidated Financial Statements 30-33
Notes to the Consolidated Financial Statements 34-63

Company Financial Statements
Independent Auditors' Report 65-66
Company Financial Statements 67-68
Notes to the Company Financial Statements 69-77



Strategic Report

Group overview

for the year ended 31 December 2016

Welcome to Staffline Group plc's Annual Report 2016

The Staffline Group was established in 1986 and since then has grown into a national organisation specialising in the provision of managed workforces to the logistics, e-retail, manufacturing, driving, agriculture, food processing and support services sectors. We use training and business improvement techniques to ensure increased levels of efficiency to give our clients a significant commercial advantage.

The acquisitions and combinations of EOS in 2012, Avanta in 2014, and A4e in 2015 has created a second business stream, rebranded PeoplePlus, to complement our Staffing business. This has created a holistic group encompassing welfare to work, communities and training for peoples entire work lifecycle. This is encapsulated in our brand message of People-Skills-Jobs.

Highlights

Financial

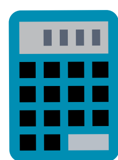
- Revenues up 26% to £882.4m (2015: £702.2m)
- Group gross profit up 24% to £124.9m (2015: £100.9m)
- Underlying profit before tax* up 30% to £36.7m (2015: £28.3m)
- Reported profit before tax up by 244% to £18.9m (2015: £5.5m)
- Underlying diluted Earnings Per Share* up 23% to 114.0 pence (2015: 92.4 pence)
- Reported diluted Earnings Per Share up 378% to 58.8 pence (2015: 12.3 pence)
- Net debt** significantly reduced from £63.1m at the end of FY 2015 to £36.7m at the end of FY 2016, equal to 0.8 x 2016 underlying EBITDA of £44.9m
- Final dividend of 15.3 pence; total dividend for the year of 25.8 pence, an increase of 29% (2015: 20.0 pence)

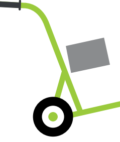
* Underlying excludes amortisation of intangible assets arising on business combinations, acquisition and exceptional reorganisation costs and the non-cash charge/credit for share based payment costs (see note 5).

** Net debt including unamortised transaction costs

Operational

- Record year within Staffing division:
  - OnSites grew by 52 locations; total locations now 357 (2015: 305) – making Staffline the clear market leader
  - Further success with one more white-collar OnSites established
  - Newer divisions, Driving Plus, Ireland and Agriculture, each had an excellent year
  - Continuing strong pipeline of further opportunities
- PeoplePlus (previously Employability) achieved significant improvements as a fully integrated business:
  - Contract performance now in top quartile
  - 22 other contracts won or extended within Employability division
  - Only provider to secure inclusion on framework for all of the Government's new welfare to work contracts
- Positive outlook for 2017 and on track to achieve ambitious five-year £1 billion revenue target





About Staffline

Staffline is a leading outsourcing organisation providing services, mainly in the UK, to both Government and commercial customers. The Staffing division supplies up to 51,000 workers per day to more than 1,500 clients. Using the skills we have developed and learned within Staffing we have developed a second division, PeoplePlus, and have become a leading provider to both Central and Local Government, offering a wide range of services to help and support in the Employability (Welfare to Work), Communities and Skills arenas.

Staffing Services

Specialising in providing complete labour solutions in agriculture, food processing, manufacturing, e-retail, driving and the logistics sectors, the recruitment business operates from over 350 locations in the UK, Eire and Poland.

The Staffing brands include:

- Staffline OnSite, based on clients' premises and providing both blue and white collar, out-sourced, temporary workforces
- Select Appointments, a high street branch-based operation providing white collar office staff, operated entirely on a franchised basis by independent business owners
- Staffline Express, a high street branch based operation
- Driving Plus, providing HGV drivers to the driving industry
- Staffline Agriculture, providing workers to the UK farming and horticulture sectors

PeoplePlus (previously Employability)

Trading under the PeoplePlus brand, Government contracts include:

- Work Programme, prime contractor in nine regions and sub-contractor in three regions in England
- Steps to Success, prime contractor in Northern Ireland
- Youth Guarantee (MyGo Centre), supporting youth employment in the Ipswich area
- Building Employment through Education, working in Schools in Northern Ireland

Training services:

- Skillspoint, a procurement consultancy specialising in helping employers benefit from government-funded, work-based training
- Prime contractor to the Skills Funding Agency delivering Apprenticeships and Classroom Based Learning across the UK.

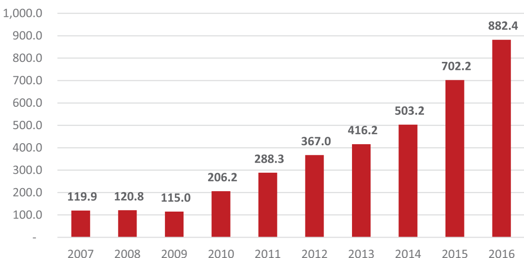
Community services:

- Ministry of Justice, Transforming Rehabilitation in Warwickshire and West Mercia, helping to transform rehabilitation and probation services
- OLASS, delivery of training to prisoners in nine prisons in the East of England
- Independent Living Services, supporting 3,000 disabled people lead independent lives
- Visitor Centres for the Northern Ireland Prison Service
- Careers Hubs in Stoke and Staffordshire

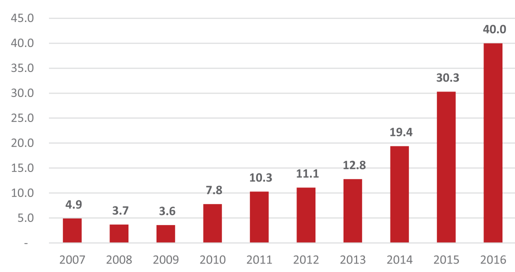
Ten Year Summaries

The following five charts demonstrate the strong long term growth in the Group's turnover, profitability, earnings per share and dividends:

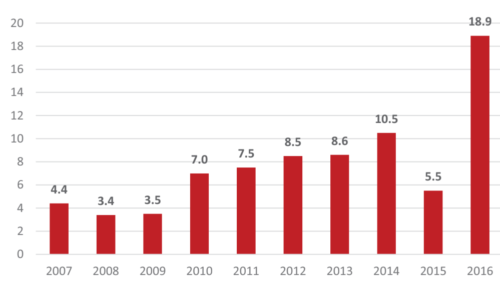
Annual turnover £m - 10 year trend: compound annual growth of 25%



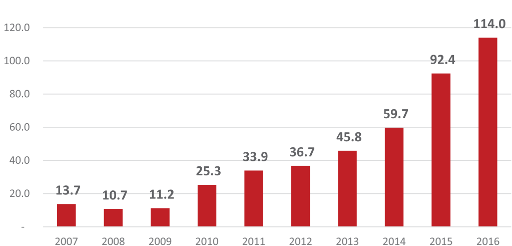
Annual underlying operating profits £m - 10 year trend: compound annual growth of 26%



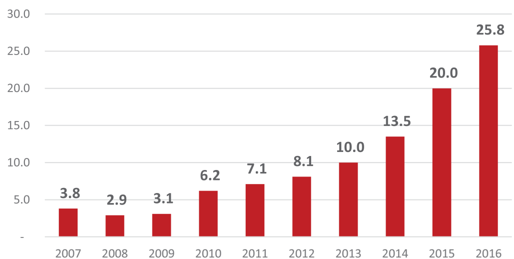
Annual reported profit before tax £m - 10 year trend: compound annual growth of 18%



Annual diluted underlying earnings per share pence - 10 year trend: compound annual growth of 27%



Annual dividends per share pence - 10 year trend: compound annual growth of 24%



Group strategy

Growth

Our continuing Group strategy is:

- To grow the employability sector of the PeoplePlus division to be as strong as the OnSite recruitment services business
- To continue to be the largest provider of people in the UK blue collar market, with specialist knowledge of the food, logistics and manufacturing sectors, supported by added value services
- To develop reputation and capability and be seen as a leading organisation in the employability, skills and justice sectors
- To develop new sectors in white collar, agriculture and driving and to extend to new geographical areas by "following the client"
- To grow Select Appointments (the franchise network) to be over 100 locations
- To continue to champion and implement best practices and be actively involved with our governing bodies to help us serve our customers better
- To attract and retain the greatest talent
- To BURST THE BILLION in 2017 and create stakeholder value through continued profitable growth

We are making significant progress in our journey through our five year growth strategy:

- 2013: a year of investing in people, new start up divisions and infrastructure
- 2014: a year of strong growth, investment in our Welfare and Training division, and significant operational progress
- 2015: our 10th year as a member of AIM and a transformational year of organic and acquisitive growth
- 2016 to 2017: we're on track to achieve our goal of £1 billion revenues via organic growth supported by an ongoing appetite for strategic acquisitions

Our principles

To achieve our vision, deliver our strategy and live our values, we follow a set of guiding principles in all that we do:

Our team

- To provide a great place to work
- To create lots of opportunities to develop and progress
- To offer fast-paced and rewarding work
- To have an ever-changing environment. Every day brings something new
- To recognise success

Growth and profitability

- To operate ethical, commercial practices
- To implement efficiency-driven cost models
- To create profit through building long term relationships
- To support sustainable growth
- To deliver returns for our shareholders

People

- To protect people and their interests by acting responsibly at work and in the community
- To find lots of job opportunities, every day of the week
- To provide jobs on the door step
- To offer training, apprenticeships and guidance
- To work with reputable companies

Employer partner

- To fill every job with the right person, at the right time
- To listen, understand, respond and get results
- To do things the right way, for the right reason
- To improve performance for our customers through our added value services
- To get the job done

Our vision and values

Our Group vision is to build and develop the most reliable integrated workforce in the country and be the leading creator of opportunities, jobs and new ideas in the employability, skills and justice sectors. We do this through our brand values of:

- Teamwork: working together across the business to achieve more for our customers
- Respect: taking time to understand, trust and support each other to achieve shared success
- Commitment: demonstrating a relentless and driven ambition to exceed expectations
- Reliability: fulfilling all our customer requirements, getting the job done
- Creativity: solving problems and suggesting new ideas and insights
- Integrity: doing things the right way, for the right reason, ethically, honestly, every time

These values are driven by the Board and are at the heart of all our processes and decisions.

Our CSR focus

- We shall strive to improve our environmental performance by fostering and encouraging initiatives that reduce waste
- We shall provide, and strive to maintain, a clean, healthy and safe working environment
- We shall support and encourage our employees to help local community organisations and activities
- We shall operate an equal opportunities policy for all present and potential future employees and flexible workers
- We will offer our employees clear and fair terms of employment and provide resources to enable their continual development
- We shall provide safeguards to ensure that all employees are treated with respect and without sexual, racial, physical or mental harassment
- We shall uphold the values of honesty, integrity and fairness in our relationships with stakeholders
- We will ensure that flexible workers engaged by the company are not subject to exploitation and are provided with work opportunities in a healthy and safe working environment, fully compliant with UK legislation

Paul Collins
Company Secretary
24 January 2017

Corporate Social Responsibility ("CSR")

At Staffline we place great importance on the role we play in helping to support local communities and the environment surrounding us. We understand the importance of integrating our business values and operations to meet the expectations of our stakeholders. These include clients, employees, flexible workers, regulators, investors, suppliers, the community and the environment.

We recognise that our social, economic and environmental responsibilities to our stakeholders are integral to our business. We aim to demonstrate these responsibilities through our actions and within our corporate policies. The Group has implemented a robust Environmental and Sustainability Management system, "One Planet", which is supported by the following policies, strategies and commitments:

- One Planet Strategy
- One Planet Development Plan
- Company Impact Register
- Legislation Register

This system is continually reviewed to ensure it remains aligned to business objectives. The Group continues to implement a detailed Environmental and Sustainability Policy. In addition, the Energy Saving Opportunity Scheme ("ESOS") audit results are being reviewed and the opportunities highlighted in the report to reduce the Group's environmental impact are being acted upon, which will flow into the Group's One Planet Strategy. This will continue to focus on the following areas:

- Energy Consumption
- Waste
- Travel
- Sustainable Materials

Staffline Group plc continues to carry out extensive building audits and 100% energy audits in order to identify areas for improvement and reduce our CO2 footprint. The Group Chief Executive is responsible for the implementation of this policy and will make the necessary resources available to fulfil our corporate responsibilities. The responsibility for our performance rests with all employees. We continue to be independently assessed and certified by EcoVadis, an international body with the aim of improving environmental and social practices of companies by leveraging the influence of global supply chains.

> “We remain on track with current market expectations and are confident of continued growth in shareholder value.”

Strategic Report

Combined Chairman’s and Chief Executive’s statement

for the year ended 31 December 2016

Andy Hogarth
Group Chief Executive

John Crabtree OBE
Non-Executive Chairman

Trading in 2016 continued to be very strong, in particular with our Staffing division achieving further significant organic growth and another record in total OnSites. Our PeoplePlus division meanwhile has made good progress as a fully integrated business now rebranded following the acquisition of A4e in April 2015.

2016 was the fourth year into our five year plan to ‘Burst the Billion’, aiming to grow Group revenues to over £1 billion by 2017, and the financial performance this year means that we remain on track to achieve this. Total sales in 2016 grew 26% to £882.4m (2015: £702.2m), with about half of this growth being organic, derived from winning new business from both new and existing customers. Underlying profit before tax, amortisation of intangible assets arising on business combinations, acquisition and exceptional re-organisation costs in PeoplePlus and the non-cash credit/charge for share based payment costs (“SBPC”) increased by 30% to £36.7m (2015: £28.3m). Reported profit before tax increased by 244% to £18.9m (2015: £5.5m).

Our Staffing business has continued to go from strength to strength, achieving considerable organic growth and ending the year with a record 357 OnSites (December 2015: 305). This performance was underpinned by our investment in a number of start-up opportunities in the past few years, as well as in our existing divisions, to expand our operational reach and bring in new talent, extending our highly scalable platform.

Our PeoplePlus division, which underwent a significant expansion following the acquisition of A4e in April 2015, is the largest provider to the Department for Work and Pensions of Work Programme contracts in the UK. Whilst 2016 was a relatively quiet year for new contracts being tendered, we continued to focus on operational and management changes. PeoplePlus has now started to outperform most of our competitors on the Work Programme and seven of our nine prime contracts have achieved top quartile performance during the period. Our efforts in this regard were recognised recently when PeoplePlus was confirmed as having qualified for the bidding process in every region for

the new welfare to work programme, the only provider to achieve such qualification. Whilst the positive economic backdrop has continued to negatively impact referral levels across our Work Programme contracts (since there are very nearly one million less unemployed people than when the current contracts started), we have continued to reduce overheads related to these contracts through 2016 to ensure they maintain their expected profitability.

It is now six months since the citizens of the UK voted to leave the European Union ("EU"). In that period we have not seen a reduction in demand for our services or the availability of contractors. Whilst it is too early to tell what the long-term impact of "Brexit" may be, as the market-leading provider of blue collar temporary workers, our scale and capability has enabled us to manage a period of gradual tightening of the labour market and gives us confidence that we will continue to do so. Staffline benefits from a reliable workforce of over 292,000 contractors on our database. Furthermore, any tightening in the labour market is also likely to help the Employability side of our business as this may make our Work Programme candidates easier to place.

Overall, we are pleased to report that both Group sales and profitability have increased in line with the Board's and the market's expectations.

Financial review

Sales in 2016 grew by 26% to £882.4m (2015: £702.2m) with gross profit increasing by £24.0m, or 24% to £124.9m (2015: £100.9m). This increase has come from a mixture of strong organic revenue growth (up 12%) and the full-year contribution of the A4e, Diamond Recruitment and Milestone Operations acquisitions in 2015. The Group's gross profit margin, at 14.2%, was 0.2% lower than last year (2015: 14.4%), primarily due to the impact of the National Living Wage ("NLW") in our Staffing division where pricing is on a price per hour basis, not percentage of wages. Underlying profit before tax, excluding amortisation of intangible assets arising on business combinations, acquisition and exceptional re-organisation costs in PeoplePlus and the non-cash credit/charge for Share Based Payment Charges, increased by 30%, from £28.3m in 2015 to £36.7m. On this basis, adjusted diluted earnings per share rose by 23% to 114.0p (2015: 92.4p). Reported profit before tax from continuing operations increased by 244% to £18.9m (2015: £5.5m) and reported diluted earnings per share from continuing operations rose by 378% to 58.8p (2015: 12.3p).

As previously indicated, as a result of the high levels of organic growth and a full year benefit from acquisitions in 2015, we were able to pay down net debt (including unamortised transaction costs) significantly by the year end to £36.7m, 42% lower than the £63.1m at the 2015 year end. With improving free cash flow levels, debt is expected to continue to fall quickly in the coming year, with a net cash position expected by the end of 2017.

Our robust financial position and strong cash generation support both our Staffing and PeoplePlus activities. Not only do they underpin our Staffing clients' confidence in our ability to supply their temporary workers, who are essential to ensuring continued production, but financial strength is also a key criterion in the contract bidding processes for employability sector contracts.

Following on from 2015, when we were the first company quoted on AIM, and the first recruitment company, to be awarded the Fair Tax Mark, recognising that we are open and honest in ensuring we pay the amount of tax due on our profits, this accreditation has since been reconfirmed and renewed. As set out in note 8, our tax charge for the year is £3.9m (2015: £2.4m), an effective rate of 20.6% (2015: 43.8%) of our reported profit before taxation, not significantly different to the UK corporation tax rate of 20.0%.

Operational review

Staffing services

All of our onsite Staffing businesses saw growth during 2016 despite some uncertainty in the macro-economic backdrop. Sales rose by 34% to £740.8m (2015: £554.5m), driven by organic growth of 21% and the full year benefit from the acquisitions in late 2015 of both Diamond Recruitment in Northern Ireland and Milestone Operations. Our gross profit margin has marginally declined by 0.2% to 8.3% (2015: 8.5%), driven by the on-boarding costs of such a significant number of new OnSite locations together with the impact of the rise in National Living Wage ("NLW") which increased our sales but had no impact on our gross profit (thus reducing the % gross profit margin). The segmental underlying operating profit rose by 42% to £18.8m (2015: £13.2m). Reported operating profit totalled £19.7m (2015: £3.5m).

We continue to build market share in our core business, underpinned by our reputation in the industry for being reliable and ethical. This is despite the marketplace for many of our clients remaining competitive, especially in the food processing and production sectors, and therefore for our business. The recruitment industry continues to consolidate and as a leading provider of temporary workers, we are

Combined Chairman's and Chief Executive's statement continued...

able to leverage our scale and capabilities to support an increase in the net number of OnSites from which we operate by a total of 52, ending the year with a record total of 357 locations. This increase has resulted from a number of new clients choosing Staffline as well as extensions to current contracts. Our newer white-collar OnSites business won a further location in 2016 (making a total of 3 currently), the customer being a large international bank. This is an encouraging development, although somewhat later than we had originally hoped, and the growth of this division is a priority for 2017 and beyond.

We have also expanded our presence in sectors including Manufacturing, Logistics and Distribution, Food Processing, Agriculture and Driving Plus. Having established a number of new divisions within Staffing Services during 2013 as part of our five year growth strategy, including Driving Plus, Ireland and Agriculture, we continued to invest during the period under review. As anticipated, all three divisions made a positive contribution during the year.

We have continued to see the strengthening of the UK economy lead to a tightening of the labour market, with shortages particularly pronounced in driving and other skilled areas, but also in the unskilled sector in certain parts of the UK. We have been able to fulfil all of our customer requirements in 2016 and we have plans in place to ensure that we continue to do so in 2017. However the tightening labour market is likely to lead to greater wage inflation, supporting further demand for our flexible labour services.

The introduction of the NLW, increasing the minimum wage from £6.70 to £7.20 in April 2016, is likely to have encouraged more people to enter the labour market. Further increases are due to be introduced in the period until 2020 when the NLW is due to be at least £9 per hour. Whilst this significant increase in UK wages may encourage an increase in migration from Europe (while workers are still able to), it is also likely to further widen the supply pool of indigenous labour, thus helping Staffline to continue to grow.

PeoplePlus (previously Employability)

The completion of the A4e acquisition in April 2015 significantly enhanced our position in the employability arena. The combined PeoplePlus business benefits from significant scale within the Work Programme, the main contract for Department of Work and Pensions ("DWP"). With nine prime contracts and five sub-contracts, PeoplePlus is the largest provider by both the number of contracts and referrals. Our performance in the nine prime contracts improved hugely during 2016 and our current performance puts all of them in the top half of the league tables.

In addition, A4e brought us a number of other contracts, including OLASS 4, delivering training for prisoners in nine prisons in the East of England, and Independent Living Services, all of which are performing well.

The Transforming Rehabilitation contract, awarded by the Ministry of Justice, is also showing positive results, having successfully commenced in the first half of 2015. The only published metrics to date show that we received the highest user satisfaction rating of all the 21 providers and we are in the top quartile for reducing re-offending.

We have made good progress in developing our new Apprenticeship Levy offering ahead of its launch in April 2017. In 2016, we have been appointed by a number of customers to support the delivery of bespoke apprenticeship programmes, helping customers to implement new schemes whilst achieving cost savings through operational efficiencies. 2017 will see even more opportunities to help our clients in this way, with a number of further customer opportunities already in the pipeline.

Revenues in the PeoplePlus division fell by 4% to £141.6m (2015: £147.7m). Due to the improving economy and employment landscape, referrals (and consequently revenues) were lower in the year, more than offsetting the full year effect on revenue of the A4e acquisition (acquired in April 2015) and a number of new contract wins. Having said this, profitability of the enlarged PeoplePlus division has been in line with our initial expectations, supported by our continued focus on delivering operational efficiencies. Gross profit increased by 18% to £63.6m (2015: £54.0m). Underlying segmental operating profitability rose by 24% to £21.2m (2015: £17.1m). Reported operating profits totalled £2.5m (2015: £4.0m).

The number of referrals we receive on the Work Programme has steadily declined over the last two years and revenues for the remaining three months of the contract and the follow-on 24 months' run-off will be lower than originally

expected. The segment has continued to be successful in making claims and receiving monies for prior year work performed, but not previously recognised. In addition, we expect that the operational efficiencies gained from the integration of our three brands will maintain the profitability of the business. Significant reductions in both headcount and the number of properties occupied, in the second half of 2016, will ensure a much smaller and more efficient cost base in 2017. Reorganisation costs of £8.0m (2015: £3.2m) were incurred during the year in relation to the headcount and property reductions, and were treated as non-underlying expenses.

We are also pleased to confirm that we won or extended 22 contracts during the year, all working for either local or central government. Whilst all were of relatively small value, the largest being £4m over 18 months, we are confident that the delay caused by the EU Referendum will be resolved during 2017 and that these wins demonstrate our unique positioning in the market which should lead to further opportunities becoming available to us.

In addition, we are delighted to confirm that we have successfully tendered for the Umbrella Agreement for Employment and Health Related Services ("UAEHRS"), the next iteration of the DWP's welfare to work programme (previously referred to as the Work and Health Programme). This enables us to bid for all contracts that are put out to tender in all six geographic areas of England and Wales so far awarded, the only provider to achieve this.

ISO 9001, ISO 27001 and Investors in People ("IIP") accreditations

Our organisation has grown significantly over the last decade, both organically and through acquisition. To ensure that we maintain control over our processes we have introduced both ISO 9001, a certified management system, and IIP, to ensure that we continue to motivate and develop our staff. In addition PeoplePlus has achieved the very demanding accreditation ISO 27001 for the security of our IT systems, which represents a very important certification given that we deal with the personal details of many hundreds of thousands of people.

People

We continue with our focus on enhancing and growing the capabilities of our people, driving a high-performance culture whilst harnessing talent which enables us to be more agile. Even though the Group continues to grow its revenues and profitability, the number of employees in our Staffing business has remained stable, but, by merging three businesses together to form PeoplePlus in 2016, with the consequent consolidation of headcount of that business, the Group's total workforce at 31 December 2016 of 2,485 (full time equivalents) has seen a reduction of 809 on the 3,294 reported at the end of December 2015.

Developing our people is key to us as an organisation and we have many ways of encouraging this. Our ethos supports nurturing talent within the business at all levels and encourages self-development which in turn aids succession planning, supporting the strategic growth of the Group. We continue to place great emphasis on the training and development of our people, and we review our training needs on an ongoing basis in line with our vision, values and ambition to be an employer of choice.

Our key residential management development programme, The Leadership Camp, has now

This year's Staffing highlights

Continued expansion of the OnSite model, increased by **52 sites** during the period. Which takes the total to **357**

Integrated **Milestone Operations** and **Diamond Recruitment Group**, acquisitions in 2015, making us dominant in the UK Driving sector and in Ireland

Supplied **74 million hours** of temporary labour to more than **1,600 clients**

51,100 temporary workers placed at 'peak'

2,290,000 timesheets processed; an increase of **29%** over 2015

Checked the ID's of **144,100** candidates

Combined Chairman's and Chief Executive's statement continued...

been delivered to nearly 150 delegates across the Staffline Group since its launch in 2012 and continues to be further enhanced through continued one to one Coaching sessions for all delegates.

An additional suite of management workshops has been delivered across the Group and 145 staff attended this year, incorporating:

- Self-Awareness together with Coaching and Motivating a Winning Team
- Driving Sales through Customer Care
- How to Delight your Customer
- Effective Time Management
- Managing for Success
- Advanced Communication
- Commercial Awareness and Strategic Planning
- Getting the Best from your Team
- Finance for Non-Financial Managers

People Management Workshops have been delivered across the entire business in various formats and these have been complemented with the launch of Management Toolkits covering all areas of People Management. Over 300 managers have attended these sessions during 2016.

Our Staffing division continues to champion Recruitment and Employment Confederation ("REC") accreditations, 17 team members having completed level two and a further 47 having completed level three, and we continue to explore how we might enhance our offering across the business with other qualifications.

Our PeoplePlus division has launched a new Performance and Development Review Process to support team members' development and put in place managers to create and lead high performing teams. All 1,800 team members have been involved in this during 2016.

We believe that Apprenticeships will play a key part in enhancing the skills and development of our teams across the Group and we are working closely with our Skills division of PeoplePlus to ensure we offer appropriate apprenticeships to the various divisions of the business, in line with the introduction of the Apprenticeship Levy. During 2016 we had over 50 employees completing Apprenticeships and expect this to increase to over 200 during 2017.

Health, safety and environment

Staffline continues to take a proactive approach to the health, safety and welfare of its employees and contractors. Our strong commitment to Health and Safety is demonstrated by the regular Senior Management reviews taking place, the outcomes of which are cascaded across the business. In addition, the Head of Staffline's Health and Safety Team has been awarded Fellowship status within the International Institute of Risk and Safety Management, in addition to his Chartered Member of the Institute of Occupational Safety and Health membership, further supporting the development of a culture of Health and Safety across all business units.

Staffline actively monitors all aspects of Health and Safety using a "closed loop management process". This allows all areas to be identified and documented during the audit process and shows continual development against all Health and Safety action plans with Senior Management involvement throughout.

Following a review of the Group's Health and Safety management systems during 2015, a number of updated policies and procedures have been implemented during 2016. The Health and Safety management systems continue to allow the Group to demonstrate that its corporate responsibilities are being appropriately discharged. As Staffline has grown, the Health and Safety team has also increased in size to provide information, advice and guidance.

The Group continues to implement a detailed Environmental and Sustainability Policy. In addition, the Energy Saving Opportunity Scheme ("ESOS") audit results are being reviewed and the opportunities highlighted in the report to reduce the Group's environmental impact are being acted upon which will flow into the Group's The One Planet Strategy. This will continue to focus on the following areas:

- Energy consumption
- Waste
- Travel
- Sustainable materials

In addition to ESOS, 2015 saw regular audits carried out to create baseline data with Key Performance Indicators and SMART targets implemented. 2016 has seen our environmental impact being reported against these targets, continuing to demonstrate the Group's ongoing positive environmental commitment.

Compliance

We take compliance with legislation and industry standards extremely seriously, offering a total commitment to all of our clients to ensure that all of our workers, whether or not they are working in areas covered by the legislation, are recruited and supplied to the standards required by the Gangmaster Licensing Abuse Authority ("GLAA"). This total commitment gives our clients the assurance that all UK ethical and legal standards are fully met. We operate a confidential helpline for our workers to report any concerns and conduct regular surveys to ensure we are achieving our own high standards. We are an active member and supporter of the Stronger Together initiative to help prevent exploitation and trafficking of workers.

Investing for growth

Our five year strategic growth plan, aimed at broadening our market reach and increasing the scale of all of our divisions, is now moving into its fifth and final year and we are on track to achieve our ambition of growing revenues to £1 billion by 2017. As part of this growth plan, in the past four years, we have invested significant sums in both new divisions and new contracts. We are already seeing the fruits of these investments and we are confident that the newer divisions will continue to develop in the coming years and contribute to driving both revenue and profit growth.

As part of our strategic plans, we have continued to invest in our bespoke customer relationship management ("CRM") system, Infinity+, which will further improve our operating efficiency alongside investment in mobile technology, which seeks to simplify how we interact with our customers and clients.

We have continued to invest in our technical infrastructure, which has greatly improved our business continuity capability, and are confident that this is now industry leading, and leaves the Group well placed going forward.

Over the next 12 months, we plan to upgrade our payroll and billing system alongside the development of a new data warehouse. These upgrades are scheduled to start to go live during quarter two of 2017, with project completion anticipated by the end of quarter three. These upgrades will provide better analytics on which to forecast and refine our product offerings, allowing us to provide ever more added value to our customers.

Current trading

Nearly one month into the new financial year, we have started well, buoyed by additional contracts, largely from existing Staffing customers which are due to start by the end of the first quarter. We also have a sales pipeline which is larger than ever before and we are focused on maintaining our strong track record of organic growth by supporting our clients' requirements effectively and efficiently. Meanwhile our PeoplePlus division is well placed to benefit as new contract opportunities come through this year, both in welfare to work, thanks to our success in tendering for UAEHRS, and as a consequence of the Apprenticeship Levy. In addition to driving organic growth, we continue to look for further bolt-on acquisitions primarily within our core Staffing division and remain in discussions with a number of companies.

Outlook

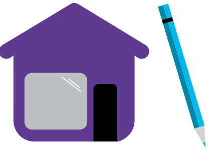
The outlook for Staffline remains positive. Having made significant progress in 2016, we are well placed to deliver ongoing growth in the coming year. In Staffing, we will continue to leverage our industry-leading reputation and capabilities to help our clients manage their workforce as effectively as possible, together with further opportunities across a number of strategic initiatives and the potential for bolt-on acquisitions. In PeoplePlus, we remain focused on combining strong operational performance and efficiency to cement the improvements made in 2016. This will support our ability to secure new contracts as and when the opportunities arise. Therefore, we remain on track with current market expectations and are confident of continued growth in shareholder value.

As an expression of our confidence in the Group's prospects, the Directors propose to increase the final dividend by 22% from 12.5 pence to 15.3 pence. This dividend will be payable on Tuesday 4 July 2017 to shareholders on the register at Friday 2 June 2017. The ex-dividend date is Thursday 1 June 2017. This will give a total dividend for the 2016 financial year of 25.8 pence, an increase of 29% (2015: 20.0 pence).

John Crabtree OBE
Non-Executive Chairman

Andy Hogarth
Group Chief Executive

24 January 2017



Strategic Report

Chief Financial Officer's statement

for the year ended 31 December 2016

Financial highlights

2016 was a very strong year of growth with total revenue for the year increasing by 26% to £882.4m (2015: £702.2m). The financial result includes the full year effect of a number of acquisitions in 2015 and strong organic revenue growth of 12%. The underlying Staffing business also grew significantly in 2016 with a total of 52 additional OnSites and increased demand from our existing customer base and the full benefits of this performance will come through in 2017. Revenues grew by £186.3m (34%) in our Staffing division, an organic growth of 21% excluding the full year benefit of acquisitions in 2015.

Chris Pullen
Chief Financial Officer

In the reporting of its financial performance, the Group uses certain measures that are not defined under IFRS, the Generally Accepted Accounting Principles ("GAAP") under which the Group reports. The Directors believe that these non-GAAP measures assist with the understanding of the performance of the business. These non GAAP measures are not a substitute for, or superior to, any IFRS measures of performance but they have been included as the Directors consider them to be an important means of comparing performance year-on-year and they include key measures used within the business for assessing performance. We acknowledge that the adjustments made to arrive at underlying profit may not be comparable to those made by other companies, mainly in respect of the adjustment for share based payment charges including both equity and cash settled components. It should be noted that whilst the amortisation of acquisition related intangible assets has been added back, the revenue from those acquisitions has not been eliminated.

Our overall gross profit has increased by 24% to £124.9m (2015: £100.9m) with gross profit margins remaining strong at 14.2% (2015: 14.4%). Within this result is the movement in gross margin % for the Staffing division which has decreased in 2016 to 8.3% (2015: 8.5%) reflecting two trading trends. Firstly, the increasing National Living Wage has the effect of increasing revenue but not changing actual gross margin, meaning that the gross margin % reduces. This factor has become a regular feature of our Staffing gross margin profile. Secondly, the Staffing division has invested in resources to support the mobilisation of the high number of OnSite wins during the year - this is a short term effect and these additional costs will reverse in 2017.

One of the key performance indicators that the Board of Directors monitors during the year is profit before taxation. Profit before taxation grew by 244% to £18.9m (2015: £5.5m) whilst underlying profit before taxation grew in line with expectations by 30% to £36.7m (2015: £28.3m) and underlying profit before taxation as a percentage of revenue grew to 4.2% (2015: 4.0%).

Non-underlying administrative charges

Non underlying administrative charges have reduced by £5.0m to £17.8m in 2016 (2015: £22.8m). These charges are regarded as recurring or non-recurring items of income or expenditure of a particular size and/or nature relating to the operations of the business that, in the Directors' opinion, require separate identification. These items included in "total" reported results but are excluded from "underlying" results. These items can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the Group's underlying performance.
They include exceptional restructuring costs of forming and reorganising the PeoplePlus division, Share Based Payment charges and credits and the amortisation of intangible assets arising on business combinations, being either non-recurring or material in the context of our trading performance during the year:

	2016 (£m)	2015 (£m)
Amortisation of intangible assets arising on business combinations	12.4	9.8
Share based payment (credit)/charges	(2.9)	8.9
Transaction costs	0.1	0.9
Reorganisation costs	6.6	3.2
Impairment of tangible fixed assets (reorganisation related)	1.6	-
	17.8	**22.8**

The reorganisation costs noted above relate to the integration of EOS, Avanta and A4e acquisitions into the newly formed PeoplePlus division. This process was started in 2015 and continued in 2016. These costs are principally the reduction in headcount and the exiting of properties no longer required. The share based payment credit in 2016 arose due to both the reduction in the company's share price during the year and the lapsing of interests on the resignation of certain executives.

Earnings per share

Statutory basic earnings per share increased to 59.1p (2015: 12.4p) and the diluted earnings per share increased to 58.8p (2015: 12.3p) due to the increased underlying profit before taxation (£8.4m higher in 2016) and reduced costs of Share Based Payment Charges (£11.8m lower in 2016), only partially offset by the increase in exceptional costs of forming (last year) and further reorganising (this year) the PeoplePlus division.

Removing non-cash charges for Share Based Payment Charges, amortisation of intangible assets arising on business combinations and the exceptional costs of reorganisation (and their respective taxation impacts) results in an adjusted basic earnings per share increase of 24% to 114.7p (2015: 92.8p) and an adjusted diluted earnings per share increase of 23% to 114.0p (2015: 92.4p).

Statement of Financial Position, Cash Generation and Financing

The Group Statement of Financial Position has not changed significantly during the year. Total group assets have decreased by £14.0m to £250.3m (2015: £264.3m as restated), due mainly to the amortisation of intangible assets arising from the business acquisitions in 2015 and 2014. Trade and other receivables reduced by £13.7m despite the 26% increase in sales, resulting in cash and bank balances being £14.7m higher this year.

Post tax cash generation during the year has been strong with a continued excellent credit control performance. Days Sales Outstanding ("DSO") at 31 December 2016 within Staffing Services remained low at 23 days (31 December 2015: 29 days).

Total Group liabilities have decreased by £24.5m to £166.6m (2015: £191.1m as restated). Total borrowings (see note 18) reduced by £11.7m, from £68.1m at the end of 2015 to £56.4m at the end of 2016. The Group's headroom versus available banking facilities as at 31 December 2016 was £41.8m (31 December 2015: £20.0m) as set out below:

	2016 (£m)	2015 (£m)
Cash at bank	19.7	5.0
Overdraft facility	15.0	15.0
Additional Revolving Credit Facility	7.5	-
Bank Guarantee	(0.4)	-
Banking Facility Headroom	**41.8**	**20.0**

Throughout the year the Company remained comfortably within its banking facilities. Group banking facilities are summarised as follows:

Facility type	Headline amount	Net borrowing as at 31 December 2016	Net borrowing as at 31 December 2015
Term Loan (drawn in May 2015)	£35.0m	£21.9m	£33.7m
Loan notes falling due in 2016	-	-	£9.0m
Revolving credit facility (including overdraft facility)	£57.5m	£35.0m	£26.0m
Unamortised transaction costs	-	(£0.5m)	(£0.6m)
Total Facilities	**£92.5m**	**£56.4m**	**£68.1m**
Less cash held		£19.7m	£5.0m
Net Debt (including unamortised transaction costs)		**£36.7m**	**£63.1m**

All term loan amounts are repayable quarterly through to maturity in 2019. Interest accrues on the term loan at between 1.4% and 2.4% plus LIBOR or Bank Base Rate, depending upon the level of adjusted leverage (see below). Total finance charges, including the interest costs of the term loan and loan notes were £3.4m for the year (2015: £1.9m).

During the year ended 31 December 2016, there was headroom against each of the four banking covenants below at each of the four quarter ends when covenants are formally assessed:

1. Cash flow cover – being the ratio of cash generated to debt servicing costs
2. Interest cover – being the ratio of EBITDA, excluding share based payment charges, to interest costs
3. Adjusted leverage – being the ratio of net debt to EBITDA excluding share based payment charges (as adjusted for acquisitions)
4. Asset cover – being the ratio of trade debtors to net debt

The Directors have reviewed reasonable possible outcomes within the next financial year, in accordance with IAS 1 paragraph 129, and have concluded that the outcomes which were reasonably possible would not involve either a covenant or banking facility breach during 2017. Cash flows are monitored on a daily basis against forecasts that are updated each month, to ensure that the Company continues to operate within its banking facilities. It is expected that our free cash flow levels will support the swift reduction in net debt in the coming periods.

Key performance indicators

The Group monitors a number of performance indicators, both financial and non-financial. These indicators are discussed above and in the combined Chairman's and Chief Executive's Statement.

	2016	2015
Revenue	£882.4m	£702.2m
Year on year total revenue growth	25.6%	39.6%
Organic revenue growth	11.7%	16.6%
Gross margin as a % of revenue	14.2%	14.4%
Underlying Profit Before Tax	£36.7m	£28.3m
Underlying Profit Before Tax as a % of revenue	4.2%	4.0%
Net Debt excluding unamortised transaction costs	(£37.2m)	(£63.7m)
Staffing Services DSO (days) – year end	23.3	29.1
Highest number of Staffing temporary contractors (per week)	51,100	45,001
Number of Staffing OnSites – year end	357	305

Prior year adjustment: December 2015 Consolidated Statement of Comprehensive Income

Following the completion of the integration of the trades of A4e and Avanta Enterprise businesses into the PeoplePlus division, and standardisation of reporting, a more appropriate split of costs between cost of sales and administrative expenses has now been identified. To reflect this new split, the December 2015 financial year costs have been restated, with £14.1m now being shown as administrative expenses whereby they were originally reported under cost of sales. In respect of the December 2015 year end results, the gross profit of the PeoplePlus division, and therefore the group, has increased by £14.1m. The December 2015 financial year gross profit margin of the PeoplePlus division has increased from the previously reported 27.0% to the restated 36.6%, with the group gross profit margin increasing from the previously reported 12.4% to the restated 14.4%. There is no impact on either total costs or on operating profit.

Prior year adjustment: December 2015 Consolidated Statement of Financial Position

During the year end 31 December 2015, the Group acquired the entire share capital of A4e Limited in April 2015 and Milestone Operations Limited in September 2015. In accordance with IFRS 3 Business Combinations, the directors made an initial assessment of the fair values of the acquired assets and liabilities, resulting in Goodwill assets of £15.6m and £3.0m respectively being created in the consolidated statement of financial position. During April 2016 and September 2016 respectively (i.e. within 12 months of the acquisition date), the Directors undertook a review of the provisional fair values, with adjustments being reflected within the carrying value of Goodwill as at the acquisition date.

Net adjustments of £0.9m for A4e Limited and £1.3m for Milestone Operations Limited were made this year, increasing the respective Goodwill assets, shown as a prior year restatement of the Consolidated Statement of Financial Position. Principally this related to the non-recoverability of trade debtors and adjustments to the provision for onerous property leases and other liabilities. 31 December 2015 net assets are unaffected by this adjustment, remaining at the £73.2m as previously reported.

As at 31 December 2015, provisions for property dilapidation charges were reported within both Accruals (£2.1m) and Other Non-Current Liabilities (£1.4m). During the current financial year, this was corrected as a prior year adjustment, with Other Non-Current Liabilities in respect of property dilapidation charges as at 31 December 2015 being restated to £3.5m, with a corresponding reduction in Accruals.

Financial Reporting Council ("FRC")

On 7th September 2016, the Company received a letter from the FRC seeking clarification of certain disclosures, and non-disclosures, within the December 2015 Annual Report and Accounts. Following correspondence between the two parties, the Company accepted the recommendations made by the FRC and agreed to expand certain of its disclosures, which it has done in this Annual Report. On 8th December 2016 the FRC informed the Company that it had closed its enquiries on the December 2015 Annual Report and Accounts.

The FRC review was based on our Annual Report and Accounts and does not provide any assurance that they are correct in all, material respects. The FRC role is not to verify the information provided but is to consider compliance with reporting requirements.

“ 2016 was a very strong year of growth with total revenue for the year increasing by 26% to £882.4m. ”

Strategic Report

Principal risks and uncertainties

for the year ended 31 December 2016

The Staffline Group plc board of directors has completed a robust and detailed assessment of the Group's risk management processes and the Group's risk register.

The Group is exposed to a variety of potential risks and uncertainties which require on-going monitoring and management in order to mitigate against any adverse impact on long-term performance. The Board recognises that effective risk management is a critical part of achieving our strategic objectives. It employs a variety of systems and policies to respond effectively to these risks and uncertainties to protect the continued strategic success of the Group.

The Board reviews risks and uncertainties under four principle types:

- **Strategic and market related**
- **Operational and compliance**
- **Reputational**
- **Financial**

Four new key risks are included this year, being a shortage of Staffing resource, pressure on margins, the UK's proposed exit from the European Community and the termination of existing Work Programme contracts in March 2017. The six most significant risks to which, in the opinion of the Directors, the Group is exposed are described below. Our responses to these risks are given in *italic font.*

Strategic and market related

Shortage of staffing resource

With UK unemployment rates falling below 5% and issues around Brexit and foreign labour, there is a risk that our Staffing division will not be able to obtain sufficient resource to fulfil its contractual obligations.

In addition, there is an industry wide shortage of qualified drivers with, as above, the risk that our Staffing division will not be able to obtain sufficient resource to fulfil its contractual obligations.

The Group monitors national and regional labour statistics and has further developed its overseas recruitment function. The Group promotes new driver apprenticeships and continues to improve the relationship between its PeoplePlus and Staffing divisions, with PeoplePlus providing labour resource to Staffing.

The directors consider that this risk has increased during 2016.

UK's proposed exit from the European Union

The referendum vote in June 2016 has led to the UK's decision to leave the EU which creates uncertainty around the free movement of labour between the EU and the UK.

The overall impact on the UK economy is uncertain, which in itself is a risk to the group.

The Group continues to monitor the timing of the invocation of Article 50 and the UK government's negotiations with EU members to understand how the free movement of labour will be effected. The Group continues to maintain a strong UK based candidate pool. Until clarity over the UK's exit is available, the Group continues to focus on the domestic market for new business, where 70% of Staffing's revenues are from the domestic food sector and 10% from e-retail, both of which are non-cyclical. Finally, should the UK economy head towards recession, higher unemployment would lead to more referrals to the Work and Health Programme.

The directors consider that this risk has increased during 2016, primarily as a result of wider macro - economic volatility following the UK vote to leave the EU.

Principal risks and uncertainties continued...

Operational and compliance

Business Interruption – information security breach or cyber-attack

There are two issues the directors focus on with regard to this risk:

1. **Major IT failure** - As with all large scale businesses, including those in the market sectors in which we operate, we are reliant on our IT systems to support and operate our business.

2. **Business Interruption – Breach of security (Cyber-Crime)** - The Group holds sensitive personal information in respect of temporary workers, participants of our various PeoplePlus contracts, and our own staff. There is increased evidence of cyber-crime.

Breaches or attacks could lead to potential reputational damage with a potential resultant loss of revenue, financial penalties for the Group and diversion of management time.

The Group has an appropriate Disaster Recovery plan in place in the event of a major internal failure of our IT systems.

The Group's IT systems in the two divisions are segregated, enabling divisional Business Continuity Plans which include the utilisation of the other division's physical locations. A back-up replica system has been put in place, maintained by a third party company and back-up connections are also in place in both divisions. The Group has insurance in place for business interruption and has in place suitable group policies and procedures. ISO 27001 is maintained within our group under the stewardship of a Data Protection Officer. The Group has contracted a third party to carry out security penetration testing on our systems and set up a project team to review the outcomes. Further measures are being reviewed to enhance the degree of staff awareness and training of this risk across the group.

The directors consider that this risk has increased during 2016.

Pressure on margins by customers

Recent trends have seen Staffing revenues increase but with lower increases in gross profit margins. Margins per hour have been declining in both absolute terms and in comparison to last year, in part due to the increasing cost of resourcing labour. We understand that this is a trend across the Recruitment sector.

Staffing use a pricing model to ensure no offer is quoted or accepted which would put unacceptable pressure on margins. Margins are reported across the division on a weekly basis. New business wins improves efficiency (overheads spread over larger base) and reduce the impact of one customer demanding lower margins. Finally, the division will continue to provide an excellent service and seek to achieve a high new customer win rate.

The directors consider that this risk has remained the same as in the prior year.

Principal risks and uncertainties continued...

Operational and compliance continued...

Termination of Department for Work and Pensions ("DWP") contracts in March 2017

The end of the Work Programme ("WP") and transition across to Work & Health Programme ("W&HP") will reduce the potential revenue accessible given the reduction in the size of the programme.

The Staffline Group could be faced with large scale redundancy and property closure costs associated with the end of the WP contract should the new W&HP contract not be at the same scale or locations.

The Group successfully tendered for the Umbrella Agreement for Employment and Health Related Services ("UAEHRS"), the next iteration of the DWP's welfare to work programme (previously referred to as the Work and Health Programme). The Group restructured its PeoplePlus division in 2016 to ensure it has a much smaller and more efficient cost base in 2017.

The directors consider that this risk has increased during 2016.

Financial

Compliance with banking facility agreements

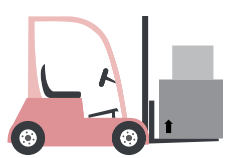
The Group has a number of covenants both of a financial and information undertaking nature. Breaking any one of these covenants can technically trigger an acceleration of payment of the group's debt facilities.

Financial covenants are forecast up to three years in advance. Sufficient headroom has been agreed as part of the covenant limits being set, and these headroom limits are re-forecast on a regular basis. The group finance team forecast and monitor cash flows and banking facilities on a daily basis and comply with the other information undertakings required by our senior facility agreement and, where required, obtain written agreement to any short term waiver requirements. The Group's relationship with our bankers remains strong.

The directors consider that this risk has reduced during 2016 due to the reduction in net debt.

On behalf of the Board

Chris Pullen
Chief Financial Officer
24 January 2017



Governance

Corporate governance statement

for the year ended 31 December 2016

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

As a company listed on the Alternative Investment Market of the London Stock Exchange, Staffline Group plc is not required to, and has not, complied with the full requirements of the UK Corporate Governance Code (the Code). However, we have reported on certain of our Corporate Governance arrangements by drawing upon best practice available. The number of non-executive Directors equals the number of executive Directors. The Group supports the concept of an effective Board leading and controlling the Group and a brief outline of the role of the Board and its Committees, together with the Group's systems of internal financial control which the Board will continue to keep under review, is on page 24.

The Board

The Board currently comprises the Non-Executive Chairman, the Group Chief Executive, the Group Managing Director, the Chief Financial Officer and two Non-Executive Directors. Biographies of the Directors appear opposite including who sits on which committee (A = Audit Committee, R = Remuneration Committee, N = Nominations Committee). The Non-Executive Directors are considered by the Board to be independent.

Ed Barker
Non-Executive Director (A, R, N)

Ed Barker has over 12 years of experience in the retail sector working across a number of senior financial and operational functions including; Group Reporting, Financial Planning & Analysis, Tax, Pensions, Group Financial Controller and Retail & Logistics Finance. Prior to working in industry, he achieved his professional ACA qualification with PwC in 1998, and was made an FCA in 2013. Following his appointment to the board in November 2014, Ed is chairman of the Audit Committee as well as being a member of the Remuneration and Nomination committees.

Andy Hogarth
Group Chief Executive (N)

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

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

John Crabtree joined the Board on 1 March 2005 as a Non-Executive Director. He was appointed Chairman in 2011. John was the senior partner of Wragge & Co, the Birmingham based corporate law firm and whilst in this role John was responsible for the firm's evolution into a leading national and international practice. John has a number of business interests, including being Non-Executive Chairman of Real Estate Investors plc, SLR Holdings Limited, Birmingham Hippodrome Theatre Trust, and the charity Sense. With effect from 3 January 2017, John was appointed as Her Majesty's Lord-Lieutenant for the West Midlands.

Tracy Lewis
Non-Executive Director (A, R, N)

Tracy Lewis has over 30 years' experience within the retail and manufacturing sectors having held a number of senior positions. She has considerable experience in leadership roles as well as sales, marketing, product and business development functions. Tracy was CEO of Wacoal Europe (formerly Eveden Group), a leading designer, manufacturer and global distributor of premium lingerie and swimwear brands and oversaw its sale to Japanese headquartered Wacoal Holdings Corp. in 2012. Her previous executive roles included management positions at Marks & Spencer Plc, Mothercare Plc and Next Plc. Tracy was also a Non-Executive Director of Original Additions (Beauty) Ltd. Following her appointment to the board in August 2016, Tracy is chair of the Nomination and Remuneration committees and is also a member of the Audit committee.

Diane Martyn
Group Managing Director

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

Chris Pullen
Chief Financial Officer (N)

Chris joined Staffline in September 2015 and was initially responsible for Group Mergers and Acquisitions. He was appointed Group Chief Financial Officer and an Executive member of the Board in April 2016. Chris joined the Group from Regus plc, the FTSE 250 listed provider of flexible working solutions, where he was Global Managing Director of its core Office division. He has previously held the role of CEO of APCOA Parking (UK) Ltd, which provides parking services across the UK, where he led a turnaround and subsequent significant growth, as well as senior management positions at itc Legal Services Ltd and National Car Parks Limited. Chris was formerly an officer in the Coldstream Guards and holds an MBA from the University of Durham Business School.

Corporate Governance statement continued...

Relations with shareholders

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

Internal control

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

The Remuneration Committee, chaired by Tracy Lewis (previously chaired by Dame Christine Braddock) has met twice during the year. It is responsible for determining the level of remuneration to be paid to the Executive Directors and key members of senior management. A separate report on remuneration follows.

The Nominations Committee is responsible for ensuring that the balance of the Board is appropriate to control and direct the business. It has met once during 2016.

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

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

The Group tailors its approach to ensuring internal controls are operating effectively over new acquisitions – in the majority of cases the acquired business is integrated into Staffline systems from the outset. Operational responsibility is assigned from day one and the results form part of the usual regular management reporting. In special circumstances, such as when they are large scale, acquisitions continue to be run on separate systems as was the case for the acquisition of A4e Limited in 2015.

The Directors keep a register of risks faced by the business, rating these risks on a scale of 1 to 5 for both probability and impact. These risks have been mitigated to the extent considered practical and are reviewed regularly. The principal risks and uncertainties facing the Group are included in the Strategic Report on page 19.

Going concern

The net debt position of the Group, discussed on page 15 of the Chief Financial Officer's report, has fallen during 2016 from £63.1m to £36.7m.

The Directors have reviewed forecasts for the next three years and detailed forecasts covering the period up to the end of Q1 2018. These forecasts demonstrate that the Group is expected to be able to operate fully within its banking facilities for at least twelve months from the approval of this Annual Report, with significant headroom being noted across all financial covenants.

With improving free cash flow levels, debt is forecast to continue to fall in 2017, with the Group expected to have a net cash position by the end of 2017.

With strong financial performance for the year ended 31 December 2016 and a strong start to 2017 the Directors are of the view that it is appropriate for the financial statements to be prepared on a going concern basis.

Governance

Report on remuneration

for the year ended 31 December 2016

Remuneration Committee

The Company has a Remuneration Committee comprising Tracy Lewis, who is the Chairperson, John Crabtree OBE and Ed Barker. Except as shareholders and Directors none of the members has any personal financial interest in the Group. The Group's current remuneration policies are set out below:

Policy on Executive Directors' remuneration

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

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

The remuneration of the Directors, which was all paid by the Group, is detailed in note 7 of the notes to the financial statements.

Basic salary

Salaries for the Executive Directors are reviewed by the Remuneration Committee at specific times or when an individual changes position or responsibility. In deciding appropriate levels the Committee takes into account objective research on comparable companies, general market conditions and performance. Since January 2013 the Committee has held salary levels flat, but acknowledge that a full review will take place in January 2017, given the significant business growth and additional responsibilities taken by the Executive team.

Annual bonus

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

A total bonus of £135,000 (2015: £115,000) has been accrued in respect of the current Executive Directors in recognition of group profitability meeting budget, in line with the Executive Bonus Scheme approved by the Remuneration Committee. The bonus for Executive Directors is based on achieving targeted Group underlying profit for the year before taxation. For the full year, achievement of 100% of target will result in 25% of base salary being paid, payments being made on a graduated basis from achievement of 95% of target (below which no bonus is payable) up to 150%. Target for the year was £37.6m. The actual figure was £36.7m. Thus 97% of the target was achieved, resulting in bonuses of 24.1% of base salary being payable to Andy Hogarth, Diane Martyn and Chris Pullen.

Directors' share options

In 2013, a maximum of 100,000 performance-related share options were issued to a director, Diane Martyn. The options vested in March 2016 on a sliding scale dependent upon the performance of adjusted diluted earnings per share over the three years ended 31 December 2015; as of 31 December 2016, the maximum criteria had been met and accordingly the full amount of shares have vested.

On 17 June 2016, a maximum of 100,000 performance-related share options were issued to a director, Chris Pullen. The options vest in June 2019 dependent upon the performance of adjusted diluted earnings per share for the year ended 31 December 2018; diluted underlying earnings per share must be equal to, or greater than, 115.5p for the shares to vest. As at 31 December 2016, the relevant earnings per share measure was 114.0p so it is considered likely that the full amount of shares will vest.

Joint Share Ownership Plan

In June 2013, the Company established a Joint Share Ownership Plan ("JSOP") to provide additional incentives to certain senior executives.

That JSOP runs from the date of the award until 30 June 2018. During this period the right to sell the JSOP award shares is not at the discretion of the executives but instead at the discretion of the Employee Benefit Trust. On disposal of the shares, the amount received by the executives is calculated based on certain business performance conditions, as follows:

1. A range of underlying diluted Earnings Per Share ("EPS") of between 56.0p and 93.5p required in any of financial years 2014 to 2017 inclusive (maximum 50% of the award).
2. 50% of the award is subject to an additional condition that total shareholder return exceeds the increase in the FTSE AIM All Share Total Return Index over the period (nil award if minimum EPS requirement above not achieved).

The interests that Andy Hogarth, Diane Martyn and Phil Ledgard acquired in the shares jointly with the Staffline Group plc Employee Benefit Trust are contained within note 7 of the notes to the financial statements.

Policy on Non-Executive Directors' remuneration

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

Service contracts

Andy Hogarth, Chris Pullen and Diane Martyn have rolling service contracts requiring notice from either party of one year. John Crabtree, Ed Barker and Tracy Lewis each have contracts terminable on six months' notice given by either party. There are no contractual termination payments other than as a result of the contractual notice period.

Pension arrangements

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

The Group operates a defined benefit pension scheme although no Directors are members of the scheme.

Benefits in kind

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

Governance

Report of the Directors

for the year ended 31 December 2016

The Directors present their annual report for the Group and the Company together with the audited financial statements for the year ended 31 December 2016.

A detailed review of the activities of the Group, including financial and non-financial key performance indicators, can be found in the Strategic Report, along with details on the Group's future developments. Financial Risk Management is detailed in note 26 of the financial statements.

An interim dividend of £2,663,000 (10.5 pence per share) was paid during the year (2015: £1,901,000, 7.5 pence per share). The Directors have proposed a final dividend of £3,906,000 (15.3 pence per share) (2015: £3,170,000, 12.5 pence per share) to be paid on 4 July 2017, to shareholders registered on 2 June 2017. This has not been included within creditors as it was not formally approved before the financial year end.

Directors

The Directors who held office during the year and up to the date of approval of the Annual Report were:

E Barker

Dame C Braddock (resigned 19 May 2016)

J Crabtree OBE (Chairman)

A Hogarth

P Ledgard (resigned 31 May 2016)

T Lewis (appointed 19 August 2016)

D Martyn

C Pullen (appointed 18 April 2016)

Qualifying third party indemnity provisions

A qualifying third party indemnity provision as defined in Section 232(2) of the Companies Act 2006 is in force at the date of approval of the financial statements for the benefit of each of the Directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the company maintained a directors' and officers' liability insurance policy throughout the financial year.

Employee involvement

The Directors recognise the value of involving employees in the business and ensure that matters of concern to them, including the Group's strategic objectives, vision, values and principles are communicated in an open and regular manner. Employees are kept aware of progress versus these objectives and key developments within the Group by regular briefings and these include communications published on the group's intranet and presentations by group and subsidiary management at conferences, roadshows and at routine office and site briefings. Senior staff participate in various bonus scheme arrangements linked to financial performance.

Disabled persons

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

Substantial shareholdings

The Company's issued share capital consists of 27,749,389 ordinary shares with a nominal value of 10 pence each ("Ordinary Shares"), each share having equal voting rights.

The interests in excess of 3.0% of the issued ordinary share capital of the Company which have been notified as at 31 December 2016 were as follows, representing 62.5% of the total issued ordinary share capital:

	Ordinary shares of 10p each	Percentage of ordinary shares %
Octopus Investments	3,423,270	12.3
Employee Benefit Trust	2,220,400	8.0
Standard Life Investments	1,882,776	6.8
River and Mercantile Asset Management	1,728,627	6.2
Directors of the company	1,651,504	5.9
Hargreave Hale – Stockbrokers	1,400,000	5.1
Legal and General Investment	1,300,610	4.7
Invesco Perpetual	1,141,310	4.1
Living Bridge	875,634	3.2
Slater Investments	862,465	3.1
Investec Asset Management	852,357	3.1

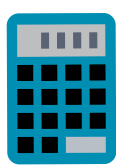
The shareholding for Directors of the company disclosed above excludes shares held under the Company's Joint Share Ownership Plan ("JSOP") in which they are beneficial co-owner of shares. Details of such shareholdings are given in the Directors' remuneration disclosures in note 7 to the financial statements. In accordance with the AIM Rule 26, in so far as the Company is aware, the number of shares and the percentage of the Company's issued share capital that is not in public hands is 3,871,904 and 13.9% respectively. This percentage comprises the holdings of Directors of the company and the Employee Benefit Trust (the Company's Joint Share Ownership Plan).

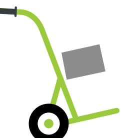
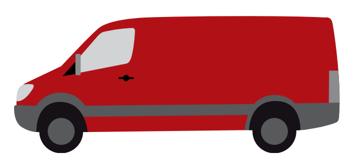
Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors will be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

Paul Collins
Company Secretary
24 January 2017



Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards, including FRS 101 "Reduced Disclosure Framework".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

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

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.

Each of the Directors confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group: and
- the Strategic Report includes a fair review of the development and performance of the business and position of the Group, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to the External Auditor

So far as the Directors are aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the Company's External Auditor is unaware. 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 Company's External Auditor is aware of that information.

Governance

Independent auditors' report to the members of Staffline Group plc

for the year ended 31 December 2016

Report on the group financial statements

Our opinion

In our opinion, Staffline Group plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of the financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.
If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.
With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the company financial statements of Staffline Group plc for the year ended 31 December 2016.

Steven Kentish
Senior Statutory Auditor
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

Date: 24 January 2017

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 Underlying £'m	2016 Non underlying* £'m	2016 Total £'m	2015 Underlying (restated) £'m	2015 Non underlying* £'m	2015 Total (restated) £'m
Continuing operations							
Revenue	4	882.4	-	882.4	702.2	-	702.2
Cost of sales	5	(757.5)	-	(757.5)	(601.3)	-	(601.3)
Gross profit		**124.9**	**-**	**124.9**	**100.9**	**-**	**100.9**
Administrative expenses	5	(84.9)	(17.8)	(102.7)	(70.6)	(22.8)	(93.4)
Operating profit		**40.0**	**(17.8)**	**22.2**	**30.3**	**(22.8)**	**7.5**
Finance costs	6	(3.3)	-	(3.3)	(2.0)	-	(2.0)
Profit for the year before taxation		**36.7**	**(17.8)**	**18.9**	**28.3**	**(22.8)**	**5.5**
Tax expense	8	(7.6)	3.7	(3.9)	(5.2)	2.8	(2.4)
Profit from continuing operations		**29.1**	**(14.1)**	**15.0**	**23.1**	**(20.0)**	**3.1**
Profit/(Loss) after tax on discontinued operations	9			0.8			(0.7)
Profit for the year				**15.8**			**2.4**
Items that will not be reclassified to the profit and loss account - actuarial (losses) and gains, net of deferred tax				(1.1)			0.5
Items that may be reclassified to the profit and loss account – cumulative translation loss, net of tax				-			(0.1)
Net profit and total comprehensive income for the year, net of tax				**14.7**			**2.8**
Earnings per ordinary share	10						
Continuing operations:							
Basic				59.1 pence			12.4 pence
Diluted				58.8 pence			12.3 pence
Discontinued operations:							
Basic				3.2 pence			(2.9 pence)
Diluted				3.1 pence			(2.8 pence)
Underlying:							
Basic				114.7 pence			92.8 pence
Diluted				114.0 pence			92.4 pence

The accompanying notes 1-28 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Share capital £'m	Own shares JSOP £'m	Share premium £'m	Share based payment reserve £'m	Profit and loss account £'m	Total equity £'m
At 1 January 2016	**2.8**	**(9.0)**	**39.9**	**0.1**	**39.4**	**73.2**
Dividends (note 10)	-	-	-	-	(5.8)	(5.8)
Sale of Joint Share Ownership Plan ("JSOP") shares no longer required	-	0.1	-	-	1.4	1.5
Share options issued in equity settled share based payments	-	-	-	0.1	-	0.1
Share options vested in the year				(0.1)	0.1	-
Transactions with owners	**-**	**0.1**	**-**	**-**	**(4.3)**	**(4.2)**
Profit for the year	-	-	-	-	15.8	15.8
Actuarial losses	-	-	-	-	(1.1)	(1.1)
Cumulative translation adjustments	-	-	-	-	-	-
Total comprehensive income for the year, net of tax	**-**	**-**	**-**	**-**	**14.7**	**14.7**
At 31 December 2016	**2.8**	**(8.9)**	**39.9**	**0.1**	**49.8**	**83.7**

	Share capital £'m	Own shares JSOP £'m	Share premium £'m	Share based payment reserve £'m	Profit and loss account £'m	Total equity £'m
At 1 January 2015	**2.8**	**(9.8)**	**39.9**	**0.1**	**31.5**	**64.5**
Dividends (note 10)	-	-	-	-	(4.0)	(4.0)
Vesting of Joint Share Ownership Plan ("JSOP") shares	-	0.8	-	-	9.1	9.9
Share options issued in equity settled share based payments	-	-	-	-	-	-
Issue of new shares	-	-	-	-	-	-
Transactions with owners	**-**	**0.8**	**-**	**-**	**5.1**	**5.9**
Profit for the year	-	-	-	-	2.4	2.4
Actuarial gains	-	-	-	-	0.5	0.5
Cumulative translation (loss)	-	-	-	-	(0.1)	(0.1)
Total comprehensive income for the year, net of tax	**-**	**-**	**-**	**-**	**2.8**	**2.8**
At 31 December 2015	**2.8**	**(9.0)**	**39.9**	**0.1**	**39.4**	**73.2**

The accompanying notes 1-28 form an integral part of these financial statements.

Consolidated statement of financial position

as at 31 December 2016

	Note	2016 £'m	2015 (restated) £'m
Assets			
Non-current assets			
Goodwill	11	91.6	91.5
Other intangible assets	12	25.8	36.7
Property, plant and equipment	13	8.0	9.3
Deferred tax asset	20	0.9	0.9
		126.3	**138.4**
Current			
Trade and other receivables	14	103.1	116.8
Retirement benefit asset	15	1.2	2.4
Current assets held for sale	9	-	1.7
Cash and cash equivalents	16	19.7	5.0
		124.0	**125.9**
Total assets		**250.3**	**264.3**
Liabilities			
Current			
Trade and other payables	17	97.5	101.3
Borrowings	18	8.6	20.7
Current liabilities held for sale	9	-	2.5
Other current liabilities	19	0.5	3.0
Current tax liabilities		2.5	0.4
		109.1	**127.9**
Non-current			
Borrowings	18	47.8	47.4
Other non-current liabilities	19	6.2	9.7
Deferred tax liabilities	20	3.5	6.1
		57.5	**63.2**
Total liabilities		**166.6**	**191.1**
Equity			
Share capital	21	2.8	2.8
Own shares		(8.9)	(9.0)
Share premium		39.9	39.9
Share based payment reserve		0.1	0.1
Profit and loss account		49.8	39.4
Total equity		**83.7**	**73.2**
Total equity & liabilities		**250.3**	**264.3**

Please see notes 3 and 11 for details on the 2015 restatement. The accompanying notes 1-28 form an integral part of these financial statements.
The financial statements were approved by the Board of Directors on 24 January 2017.

A Hogarth
Director

C Pullen
Director

Consolidated statement of cash flows

for the year ended 31 December 2016

	Note	2016 £'m	2015 £'m
Cash flows from operating activities	27	**46.9**	**14.4**
Taxation paid		(5.6)	(5.0)
Taxation received		1.6	-
Net cash inflow from operating activities		**42.9**	**9.4**
Cash flows from investing activities			
Purchases of property, plant and equipment	13	(3.6)	(3.9)
Sale of property, plant and equipment		-	-
Purchase of intangible assets - software	12	(3.3)	(0.5)
Acquisition of businesses - cash paid, net of cash acquired		-	(20.1)
Net cash used in investing activities		**(6.9)**	**(24.5)**
Cash flows from financing activities:			
New loans (net of transaction fees)		8.9	53.1
Loan repayments		(11.9)	(35.3)
Acquisition of businesses - deferred consideration for prior year acquisitions		(10.9)	(11.0)
Interest paid		(3.1)	(1.8)
Dividends paid	10	(5.8)	(4.0)
Proceeds from sale of Joint Share Ownership Plan shares		1.5	9.8
Settlement of Joint Share Ownership Plan liability		-	(9.1)
Proceeds from the issue of share capital		-	-
Net cash flows (used in)/generated from financing activities		**(21.3)**	**1.7**
Net change in cash and cash equivalents		**14.7**	**(13.4)**
Cash and cash equivalents at beginning of year		**5.0**	**18.4**
Cash and cash equivalents at end of year	16	**19.7**	**5.0**

The accompanying notes 1-28 form an integral part of these financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2016

1. Nature of operations

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

2. General information and statement of compliance

Staffline Group plc, a Public Limited Company listed on AIM, is incorporated and domiciled in the United Kingdom. The Company acts as the holding company of the Group. The registered office and principal place of business of the Group and its subsidiary companies is disclosed on the company details page to these financial statements. The company registration number is 05268636.

The financial statements for the year ended 31 December 2016 (including the comparatives for the year ended 31 December 2015) were approved and authorised for issue by the board of Directors on 24 January 2017.

The Company does not have an ultimate controlling related party.

3. Accounting policies

Basis of preparation

The consolidated financial statements are prepared for the year ended 31 December 2016. The consolidated financial statements of the Group have been prepared on a going concern basis using the significant accounting policies and measurement bases summarised below, and in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements are prepared under the historical cost convention except for contingent consideration and cash settled share options which are measured at fair value.

Separate financial statements of Staffline Group plc ('the Company') have been prepared, on pages 64 onwards, under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The consolidated financial statements are presented in sterling, which is also the functional currency of the parent company. The principal accounting policies of the Group are set out below.

Consolidation of subsidiaries

The Group financial statements consolidate those of the parent company and all of its subsidiaries as at 31 December 2016 in accordance with IFRS 10. Subsidiaries are all entities to which the Group is exposed or has rights to variable returns and the ability to affect those returns through power over the subsidiary. All PeoplePlus subsidiaries have a reporting date of 31 December 2016 (2015: 31 December 2015), with all Staffing subsidiary accounts prepared for the 52 weeks ended 1 January 2017 (2015: 52 weeks ended 3 January 2016). The results of subsidiaries whose accounts are prepared in a currency other than Sterling, are translated at the average rates of exchange during the year and their year end balances at the year-end rate. Translation adjustments are taken to the profit and loss reserves.

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

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

Prior year adjustment: December 2015 Consolidated Statement of Comprehensive Income

Reclassification of PeoplePlus costs between cost of sales and administrative expenses

Following the completion of the integration of the trades of A4e and Avanta Enterprise businesses into the PeoplePlus division, and standardisation of reporting, a more appropriate split of costs between cost of sales and administrative expenses has now been identified. To reflect this new split, the December 2015 financial year costs have been restated, with £14.1m now being shown as administrative expenses whereby they were originally reported under cost of sales.

In respect of the December 2015 year end results, the gross profit of the PeoplePlus division, and therefore the group, has increased by £14.1m. The December 2015 financial year gross profit margin of the PeoplePlus division has increased from the previously reported 27.0% to the restated 36.6%, with the group gross profit margin increasing from the previously reported 12.4% to the restated 14.4%.

There is no impact on total costs or operating profit.

Prior year adjustment: December 2015 Consolidated Statement of Financial Position

Finalisation of fair value adjustments in respect of 2015 acquisitions

During the year end 31 December 2015, the Group acquired the entire share capital of A4e Limited in April 2015 and Milestone Operations Limited in September 2015. In accordance with IFRS 3 Business Combinations, the directors made an initial assessment of the fair values of the acquired assets and liabilities, resulting in Goodwill assets of £15.6m and £3.0m respectively being created in the consolidated statement of financial position. During April 2016 and September 2016 respectively (i.e. within 12 months of the acquisition dates), the Directors undertook a review of the provisional fair values, with adjustments being reflected within the carrying value of Goodwill as at the acquisition date.

Net adjustments of £0.9m for A4e Limited and £1.3m for Milestone Operations Limited were made this year, increasing the respective Goodwill assets, shown as a prior year restatement of the Consolidated Statement of Financial Position. Principally this related to the non-recoverability of trade debtors and adjustments to the provision for onerous property leases and other liabilities. 31 December 2015 net assets are unaffected by this adjustment, remaining at the £73.2m as previously reported.

Reclassification of dilapidation provisions

As at 31 December 2015, provisions for property dilapidation charges were reported within both Accruals (£2.1m) and Other Non-Current Liabilities (£1.4m). During the current financial year, this was corrected as a prior year adjustment, with Other Non-Current Liabilities in respect of property dilapidation charges as at 31 December 2015 being restated to £3.5m, with a corresponding reduction in Accruals. There is no effect on either total liabilities or net assets.

Underlying profit – non GAAP measures of performance

In the reporting of its financial performance, the Group uses certain measures that are not defined under IFRS, the Generally Accepted Accounting Principles (GAAP) under which the Group reports. The Directors believe that these non-GAAP measures assist with the understanding of the performance of the business. These non GAAP measures are not a substitute for, or superior to, any IFRS measures of performance but they have been included as the Directors consider

them to be an important means of comparing performance year-on-year and they include key measures used within the business for assessing performance. We acknowledge that the adjustments made to arrive at underlying profit may not be comparable to those made by other companies, mainly in respect of the adjustment for share based payment charges including both equity and cash settled components. It should be noted that whilst the amortisation of acquisition related intangible assets has been added back, the revenue from those acquisitions has not been eliminated.

Non-underlying charges are regarded as recurring or non-recurring items of income or expenditure of a particular size and/or nature relating to the operations of the business that, in the Directors' opinion, require separate identification. These items are included in "total" reported results but are excluded from "underlying" results. These items can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the Group's underlying performance. They include exceptional restructuring costs of forming and reorganising the PeoplePlus division, share based payment charges and credits and the amortisation of intangible assets arising on business combinations, being either non-recurring or material in the context of our trading performance during the year.

Business combinations

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

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

Segment reporting

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

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

Revenue recognition

Staffing Services

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

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

The Staffing business has a limited number of second tier arrangements whereby another recruitment company will provide contractors to the Group to enable the Group to fulfil a customer's requirement. Where this arrangement constitutes an agency relationship rather than principal, no sale or cost of sale is recognised in the income statement.

PeoplePlus

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

As a standard part of the contracts with the DWP, the division receives quarterly payments, in arrears, where it has earned the right to make a claim for payment but has not done so within the required time frames. Revenue for these payments, which relates to services already performed, is recognised once the division has an expectation that these payments will be received. The amount of revenue recognised is based upon the amounts expected to be recovered by these future payments, which is based upon the historic evidence of such payments.

Operating expenses

Operating expenses are recognised in profit or loss in the statement of comprehensive income when incurred and are classified according to their nature.

Goodwill

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

Intangible assets

Assets acquired as part of a business combination

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

Customer contracts, customer lists and licences

The fair value of acquired customer contracts, customer lists and licences is capitalised and, subject to impairment reviews, amortised over their estimated lives (estimated to be 2-5 years). The amortisation is calculated so as to write off their fair value less their estimated residual values over their estimated lives. An impairment review is undertaken

Notes to the consolidated financial statements (continued)

Intangible assets (continued)

when events or circumstances indicate the carrying amount may not be recoverable.

Computer software

Computer software is carried at acquisition cost less subsequent amortisation and impairment losses. Amortisation is charged on the cost less the estimated residual value, which is assessed annually, of these assets on a straight line basis over the estimated useful economic life of each asset.

The useful lives of computer software is 3-5 years and are amortised on a straight line basis.

Property, plant and equipment

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

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

Freehold buildings	50 years straight line
Computer equipment	3-5 years straight line
Fixtures and fittings	3-5 years straight line
Motor vehicles	25% reducing balance

Impairment

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

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

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

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

Leases

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

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

In December 2007, the Group completed the purchase, sale and leaseback of a new headquarters building for a purchase price of £1.5m and a sale price of £1.7m, less costs of £0.1m, which is considered by management to be above fair value. In accordance with IAS 17 the excess of proceeds over fair value was deferred and is being amortised over the remaining lease term (10 years). The subsequent leasing agreement, which has been considered separately for the land and buildings element, is treated in accordance with the Group's existing operating lease accounting policy as detailed above.

Taxation

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

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

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

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

Pensions

The group contributes to a number of pension arrangements. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The group has both defined contribution and defined benefit plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Defined benefit

The asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefits obligation is determined by discounting the estimated

future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Defined contribution

A defined contribution plan is a pension plan under which the Group pays fixed contributions to an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. Contributions recognised in respect of personal pension plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

Financial assets

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

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

Dividend distributions to shareholders are included in 'other short term financial liabilities' when the dividends are approved by the shareholders' meeting but remain unpaid at the year end.

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

Other provisions and contingent liabilities

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

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

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

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

Equity

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

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

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

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

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

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

Dividends

Final dividends are recognised as a distribution in the period in which they are approved by the shareholders. Interim dividends are recorded in the period in which they are paid. Distributions to owners of the Company are not recognised in the statement of comprehensive income under IFRS, but are disclosed as a component of the statement of changes in equity.

Share based employee remuneration

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

Equity settled share based remuneration

All employee services received in exchange for the grant of any share based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). All share based remuneration is ultimately recognised as an expense in profit or loss in the statement of comprehensive income with a corresponding credit to the share based payment reserve, net of deferred tax where applicable.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently

Notes to the consolidated financial statements (continued)

revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment is made to the expense recognised in prior periods if fewer share options ultimately are exercised than originally estimated.

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

Cash settled share based remuneration

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

Critical judgments and estimate uncertainty in applying the Group's accounting policies

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

- IAS 19, together with IFRIC 14 ("The limit on a defined pension asset"), regulations only allow a surplus to be recognised as an asset in the balance sheet to the extent that it can be recovered through reduced contributions in the future or through refunds from the scheme. The amount that can be recognised is affected by the value of future accruals or benefits and future payments to be made under the Recovery Plan. Having reviewed the pension scheme rules, the Directors have considered it is correct to recognise the pension scheme asset. The Directors note that there are proposals that may lead to the modification of IFRIC 14 which the directors will keep under review as it may impact the recognition of a surplus arising where the trustees have discretionary rights to enhance benefits from the pension scheme on winding up. The directors will consider appropriate disclosures of the impact of such a modification to the standard as appropriate.

The Directors consider that the estimate uncertainties in applying the accounting policies which are described above are:

- The fair value adjustments included in note 11 relating to the acquisitions during the prior year. On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognised in profit or loss in the statement of comprehensive income in the subsequent period.
- The assumptions used in the impairment review, assessing the carrying value of goodwill versus underlying value-in-use. More details are included in note 11;
- The estimation of the probability of the vesting conditions, attached to the JSOP, being met; and
- Revenue recognition is an area of significant judgement. Within the PeoplePlus division judgement is required in relation to the amount of revenue recognised for monies that will be paid to the division, based upon prior work performed, but not invoiced at the year-end. The key judgements within these estimates relate to the quantum of claims that will be paid (at a reduced rate) and the percentage of these where successful claims can be made (and payment is made at the full contracted rate). Revenue has been recognised based upon the historical data for the applicable contracts. In arriving at this judgement management have based their assessment of revenues on historical percentages of outcomes. This historical percentage may not reflect the future claims percentage. If the rate of future claims reduced by 10%, compared to the historical estimate, revenues and profits before tax would reduce by £0.7m. Conversely if the percentage of successful claims were to increase by 10%, against management expectations, then additional revenues and profits before tax of £0.7m would be recorded as at 31 December 2016.
- The Group calculates the provisions for rebates based on contractual arrangements. There is an element of judgement included in this calculation, with the Group taking into account historical experience and future expectations.
- The Group considers Goodwill and other Intangible Assets to be recoverable based on the three year budget to 2019. By its nature this is therefore an estimate uncertainty. The annual impairment assessment in respect of goodwill requires estimates of the value-in-use of cash generating units to which goodwill has been allocated to be calculated. As a result, estimates of future cash flows are required, together with an appropriate discount factor for the purpose of determining the present value of those cash flows. The basis of review of the carrying value of goodwill and other intangible assets is as detailed in note 11.
- The Group has dilapidation provisions against its leased property estate. The provision is determined based on an independent valuation of the estimated total cost payable on expiry of the respective lease. The timing and value of the costs are uncertain due to exit date and the final liability will be subject to negotiation and is therefore an estimate uncertainty.

Adoption of new or amended IFRS

The Group has not early adopted the following new standards, amendments or interpretations that have been issued but are not yet effective, based on EU mandatory effective dates, for periods commencing on 1 January 2017. The Group will look at the impact of the new standards in the coming months and will provide an update of their impact at the half year.

- IFRS 2 Share- based payment: Amendments to clarify the classification and measurement of share-based payment transactions (IASB effective date 1 January 2018);
- IFRS 9 Financial Instruments (IASB effective date 1 January 2018);
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018);
- IFRS 16 Leases (effective 1 January 2017)*;
- IAS 7 Statement of Cash Flows: Amendment as a result of Disclosure Initiative (effective 1 January 2017)*;
- Annual improvement to IFRSs 2014-2016 Cycle (effective 1 January 2017)*;
- IFRIC 14 Limit of Defined Benefit Asset: The impact of this is disclosed within critical judgments.

*not endorsed by the EU (as at 24 January 2017)

4. Segmental reporting

Management currently identifies two operating segments: the provision of recruitment and outsourced human resource services to industry ('Staffing Services') and the provision of welfare to work services, skills training and probationary services – collectively this segment is called 'PeoplePlus'. These operating segments are monitored by the Chief Operating Decision Maker, the Group's Board, and strategic decisions are made on the basis of segment operating results.

4. Segmental Reporting (continued)

Segment information for the reporting period is as follows:

	Staffing Services 2016	PeoplePlus 2016	Total Group 2016	Staffing Services (restated – see note 3) 2015	PeoplePlus (restated – see note 3) 2015	Total Group (restated – see note 3) 2015
	£'m	£'m	£'m	£'m	£'m	£'m
Segment continuing operations:						
Sales revenue from external customers	740.8	141.6	882.4	554.5	147.7	702.2
Cost of sales	(679.5)	(78.0)	(757.5)	(507.6)	(93.7)	(601.3)
Segment gross profit	**61.3**	**63.6**	**124.9**	**46.9**	**54.0**	**100.9**
Administrative expenses	(41.8)	(38.2)	(80.0)	(33.2)	(33.8)	(67.0)
Depreciation, software amortisation	(0.7)	(4.2)	(4.9)	(0.5)	(3.1)	(3.6)
Segment underlying operating profit *	**18.8**	**21.2**	**40.0**	**13.2**	**17.1**	**30.3**
Administrative expenses – share based payment credit/(charge)	2.9	-	2.9	(8.9)	-	(8.9)
Administrative expenses – reorganisation costs	(0.2)	(8.0)	(8.2)	-	(3.2)	(3.2)
Administrative expenses – transaction costs	(0.1)	-	(0.1)	(0.2)	(0.7)	(0.9)
Amortisation of intangibles arising on business combinations	(1.7)	(10.7)	(12.4)	(0.6)	(9.2)	(9.8)
Segment profit from operations	**19.7**	**2.5**	**22.2**	**3.5**	**4.0**	**7.5**
Finance costs	(3.1)	(0.2)	(3.3)	(1.8)	(0.2)	(2.0)
Segment profit before taxation	**16.6**	**2.3**	**18.9**	**1.7**	**3.8**	**5.5**
Tax expense	(2.8)	(1.1)	(3.9)	(2.1)	(0.3)	(2.4)
Segment profit from continuing operations	**13.8**	**1.2**	**15.0**	**(0.4)**	**3.5**	**3.1**
Total non-current assets	68.7	57.6	126.3	37.6	100.8	138.4
Total current assets	95.9	28.1	124.0	92.3	33.6	125.9
Total assets	164.6	85.7	250.3	129.9	134.4	264.3
Total liabilities	139.6	27.0	166.6	149.7	41.4	191.1
Capital expenditure including software	1.4	5.5	6.9	0.6	3.8	4.4

* Segment underlying operating profit stated before amortisation of intangibles arising on business combinations, acquisition costs, reorganisation costs and share based payment credits/charges.

All head office costs are allocated to the Staffing Services division in the above results. This results from the historical nature of the Group with the PeoplePlus division only being acquired in the past couple of years and reflects where the costs are predominantly incurred.

During 2016, one customer in the Staffing Services segment contributed greater than 10% of the Group's revenue, representing £93m or 12.6% of that segment's revenues (2015: one customer representing £83m or 15.1%); the amount receivable from this customer at 31 December 2016 is £13.6m (2015: £11.0m). The PeoplePlus segment has no customer contributing more than 10% of the Group's revenue during 2016 (2015: one customer, representing £98m or 66% of that segment's revenues; the amount receivable from this customer at 31 December 2015 was £0.9m).

Notes to the consolidated financial statements (continued)

5. Expenses by nature

Expenses by nature are as follows:

Underlying expenses

	2016 £'m	2015 (restated see note 3) £'m
Employee benefits expenses – cost of sales	684.2	517.0
Employee benefits expenses – administrative expenses	39.2	33.5
Depreciation and software amortisation	4.9	3.6
Operating lease expenses	7.6	6.2
Other expenses	106.5	111.6
	842.4	**671.9**
Disclosed as:		
Cost of sales	757.5	601.3
Administrative expenses - underlying	84.9	70.6
	842.4	**671.9**

Auditors' remuneration in their capacity as auditors of the parent company is £13,750 (2015: £13,750) and in their capacity as auditor of subsidiary companies is £181,250 (2015: £254,250). Non-audit remuneration in respect of tax compliance services totalled £27,000 (2015: £40,000) and in respect of other advice totalled £44,000 (2015: £nil); the other advice this year relates to a review of the Group's responses to the Financial Reporting Council enquiries, certification of year-end covenant reporting and assistance in the liquidation of dormant companies.

Non-underlying administrative expenses

	2016 £'m	2015 £'m
Amortisation of intangible assets arising on business combinations (licences, customer contracts)	12.4	9.8
Share based payment (credit)/charges	(2.9)	8.9
Transaction costs	0.1	0.9
Reorganisation costs	6.6	3.2
Impairment of tangible fixed assets (reorganisation related)	1.6	-
	17.8	**22.8**
Tax credit on above non underlying expenses	(3.7)	(2.8)
Post taxation effect on above non underlying costs	**14.1**	**20.0**

The reorganisation costs noted above relate to the integration of the acquisition of EOS, Avanta and A4e into the newly formed PeoplePlus division. This process was started in 2015 and continued in 2016 – principally being due to the reduction in headcount and the exiting of properties no longer required. The share based payment credit arose due to both the reduction in the company's share price during the year and the lapsing of interests on the resignation of certain executives.

6. Finance costs

	2016 £'m	2015 £'m
Interest payable on financing arrangements (includes term loan, loan notes, overdraft and amortisation of debt issue costs)	3.4	1.9
Unwinding of loan note discount	-	0.1
Pension interest (income)/cost	(0.1)	-
Total	**3.3**	**2.0**

7. Directors and employees remuneration

Employee benefits expense

Expense recognised for employee benefits is analysed below:	2016 £'m	2015 £'m
Wages and salaries	79.9	84.2
Social security costs	7.7	7.6
Other pension costs - defined contribution plans	2.0	2.1
Other pension costs – defined benefit plan service cost	0.2	0.2
	89.8	**94.1**
Share option (credit)/charge - cash settled	(3.0)	8.9
Share option charge - equity settled	0.1	-
	86.9	**103.0**
Included in administrative expenses (note 5)	39.2	33.5
Included in PeoplePlus cost of sales	50.6	60.6
Share option (credit)/charge	(2.9)	8.9
	86.9	**103.0**

	Number	Number
The average monthly number of persons (including Directors) employed by the Group during the year was:		
- Sales and administrative	**2,793**	**3,768**

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

	2016 £'m	2015 £'m
Wages and salaries	598.9	431.4
Social security costs	34.7	25.0
	633.6	**456.4**

	Number	Number
The average monthly number of temporary workers contracted by the Group during the year was:	**40,894**	**35,869**

Directors' remuneration

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

2016	A Hogarth £'000	D Martyn £'000	C Pullen £'000	P Ledgard £'000	J Crabtree £'000	E Barker £'000	C Braddock £'000	T Lewis £'000	Total £'000
Salary and fees	232	220	149	63	63	30	20	10	**787**
Bonus	53	48	34	-	-	-	-	-	**135**
Benefits in kind	2	1	1	-	-	-	-	-	**4**
Subtotal	**287**	**269**	**184**	**63**	**63**	**30**	**20**	**10**	**926**
Pension contributions	22	9	14	6	-	-	-	-	51
Total	**309**	**278**	**198**	**69**	**63**	**30**	**20**	**10**	**977**

In addition, P Ledgard received a payment of £19,000 in respect of loss of office. The Group received an income statement credit of £0.8m (2015: charge of £4.6m) in relation to cash and equity settled share options held by the directors. The total is split as follows: A Hogarth (£0.2m credit, 2015: charge of £3.1m), D Martyn (£0.2m credit, 2015: charge of £1.1m) and P Ledgard (£0.4m credit, 2015: charge of £0.4m).

Notes to the consolidated financial statements (continued)

7. Directors and employees remuneration (continued)

2015	A Hogarth £'000	D Martyn £'000	P Ledgard £'000	J Crabtree £'000	E Barker £'000	C Braddock £'000	Total £'000
Salary and fees	232	212	152	63	30	35	724
Bonus	55	50	10	-	-	-	115
Benefits in kind	2	1	1	-	-	-	4
Subtotal	**289**	**263**	**163**	**63**	**30**	**35**	**843**
Pension contributions	22	20	14	-	-	-	56
Total	**311**	**283**	**177**	**63**	**30**	**35**	**899**

Share based employee remuneration

Approved Employee Share Option Plan

At 31 December 2016 the Group operates a share based payment scheme (EMI scheme) for certain employees. However as the number of employees exceeds 250 the qualification criteria for an EMI scheme are no longer met so no further share options can be issued under the scheme.

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

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

Performance Related Share Option Plan

In 2013, a maximum of 100,000 performance-related share options were issued to a director, Diane Martyn. The options vested on a sliding scale dependent upon the performance of adjusted diluted earnings per share over the three years ended 31 December 2015; as of 31 December 2016, the maximum criteria has been met and accordingly the full amount of shares vested in March 2016. As at 31 December 2016 these options had not been exercised.

On 17 June 2016, a maximum of 100,000 performance-related share options were issued to a director, Chris Pullen. The options vest in June 2019 dependent upon the performance of adjusted diluted earnings per share for the year ended 31 December 2018; diluted underlying earnings per share must be equal to, or greater than, 115.5p for the shares to vest. As at 31 December 2016, the similar earnings per share was 114.0p so it is considered likely that the full amount of shares will vest:

	Date of grant	At 1 Jan 2016 Number	Granted Number	Exercised Number	At 31 Dec 2016 Number	Exercise price
D Martyn	8 March 2013	100,000	-	-	100,000	348.6p
C Pullen	20 June 2016	-	100,000	-	100,000	991.5p

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

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

	Number 2016	Weighted average exercise price (pence) 2016	Number 2015	Weighted average exercise price (pence) 2015
Outstanding at start of year	**104,428**	**336**	**107,261**	**330**
Granted	100,000	991	-	-
Lapsed	(4,428)	-	(995)	-
Exercised	-	-	(1,838)	92
Outstanding at end of year	**200,000**	**670**	**104,428**	**336**

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

	Number 2016	Weighted average exercise price (pence) 2016	Weighted average remaining contractual life (months) 2016	Number remaining 2015	Weighted average exercise price (pence) 2015	Weighted average remaining contractual life (months) 2015
Date exercisable and (option life):						
2011 (up to 2016)	**-**	**-**	**-**	4,428	54	-
2016 (up to 2021)	**100,000**	**349**	**-**	100,000	349	3
2019 (up to 2024)	**100,000**	**991**	**30**	-	-	-

Share options have exercise prices between 349pence and 991pence. The weighted average share price during the year was 1,066pence (2015: 1,215pence).

The number of share options exercisable at the end of the year was 100,000 (2015: 4,428). The weighted average price of the options exercisable at the end of the year was 349pence (2015: 54pence).

Joint Share Ownership Plan

In September 2010 and July 2013 the Company established two Joint Share Ownership Plans ("JSOP") to provide additional incentives to senior executives. During 2015, the September 2010 JSOP scheme vested and no interests remain.

The directors and senior executives participating in the JSOP acquired an interest in the shares jointly with the Staffline Group plc Employee Benefit Trust. The directors' interests are detailed below (during the year the interests of P Ledgard were reduced from 170,000 to 50,000 on his resignation as a director):

	Award date	Participation price	31 December 2016 Interest over number of shares	Date on which exercisable
A Hogarth	4 Jul 2013	411.5p	350,000	30/06/2018
D Martyn	4 Jul 2013	411.5p	350,000	30/06/2018
P Ledgard	2 Dec 2013	563.0p	50,000	30/06/2018

The JSOP shares are held jointly between the director and the Staffline Group plc Employee Benefit Trust. Under the terms of the JSOP rules the directors are eligible to receive the excess of any disposal proceeds received for the JSOP shares over the participation price. The JSOP shares do not carry dividend or voting rights whilst they are jointly held by the director and the Staffline Group plc Employee Benefit Trust. For the July 2013 award, the shares vest at the minimum number when the underlying diluted Earnings Per Share ("EPS") before non-underlying net charges exceeds 56p in any full financial year up to 2017. The shares vest at the maximum number when a) the underlying diluted EPS before non-underlying net charges equals 93.5p in any full financial year and b) the increase in total shareholder return exceeds the increase in the FTSE AIM All Share Total Return Index. If underlying diluted EPS before non-underlying net charges does not equal 56p in any full year up to and including December 2017, the directors' interest in the shares lapses. If the increase in total shareholder return does not exceed the increase in the FTSE AIM All Share Total Return Index, the shares only vest at 50% of the maximum number.

Underlying diluted Earnings Per Share ("EPS") before non-underlying net charges is disclosed in note 10. The figure for 2016 was 114.0p so the EPS condition has been achieved. From 4th July 2013 to 31 December 2016, the Staffline Group plc share price has increased by 110% compared to an increase of 22% over the same period in the FTSE AIM All Share Total Return Index. The expectation is therefore that the maximum number of shares will vest in June 2018.

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

The fair value of the liability was determined using the Binomial valuation model as at 31 December 2016. Significant inputs into the calculations were:

- Share price at date of grant;
- Exercise prices as detailed above;
- An average of 35.6% (2015: 35.0%) volatility based on expected and historical share price;
- Risk free interest rate of 0.003% (2015: 0.980%);
- The disposal of shares and settlement of scheme on 30 June 2018; and
- Assumption that no further relevant employees will leave before the vesting date (liability calculated based on existing employees, with exception of P Ledgard as noted above) and excludes those who have left the group and whose entitlements have been forfeited.

Notes to the consolidated financial statements (continued)

7. Directors and employees remuneration (continued)

Share based employee remuneration

In total a credit of £2.9m of employee remuneration expense has been included in the consolidated statement of comprehensive income for the year ended 31 December 2016 (2015: charge of £8.9m) which increased the share based payment reserve by £nil (2015: £30,000) in respect of equity settled schemes and reduced the liability by £2.9m (2015: increased liability by £8.9m) in respect of cash settled schemes.

Key management personnel

The key management are considered to be the Board of Directors of Staffline Group plc, whose remuneration can be seen above, and the divisional directors who participate in the JSOP. The aggregate remuneration for the divisional directors for the year is £1.6m (2015: £1.3m). In addition compensation payments of £0.3m (2015: £nil) were made on the departure of three divisional directors during the year. Disclosures in accordance with IAS 24 are included in note 22.

8. Tax expense

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

	2016 £'m	2016 %	2015 £'m	2015 %
Profit for the year before taxation	**18.9**		**5.5**	
Tax rate		20.0%		20.2%
Expected tax expense	**3.8**		**1.1**	
Other non-deductible expenses (net)	(0.2)		1.8	
Adjustment in respect of prior years	0.3		(0.5)	
Overseas profits not subject to UK tax	-		-	
Actual tax expense	**3.9**	**20.6%**	**2.4**	**43.8%**

Tax expense comprises:

	2016 £'m	2016 %	2015 £'m	2015 %
Current tax expense	**6.3**		**5.2**	
Deferred tax (income)/expense				
- fixed asset timing differences	0.1		(0.8)	
- intangible fixed asset permanent difference	(2.4)		(1.9)	
- other temporary difference	(0.1)		(0.1)	
Actual tax expense	**3.9**		**2.4**	

The Board continues to improve the transparency and communication of the Group's tax affairs. In 2015 the Group issued a tax policy and achieved the Fair Tax Mark. A copy of the Group's policy is available at *www.staffline.co.uk/investors/group-tax-policy*. The following disclosures are given to comply with the commitments made in that policy.

	Note	2016 £'m	2015 £'m
UK corporation tax on profits for the year		6.0	5.7
Adjustment in respect of prior years		0.3	(0.5)
UK current tax charge		**6.3**	**5.2**
Deferred tax			
Timing differences arising in the year		(2.4)	(2.8)
UK deferred tax (credit)		**(2.4)**	**(2.8)**
Total UK tax charge for the year		**3.9**	**2.4**
Tax reconciliation:			
Profit before taxation		18.9	5.5
Tax due if paid at UK corporation tax rate 20.00 % (2015: 20.25%)		3.8	1.1
Adjusting items:			
Depreciation in excess of capital allowances – current year	(i)	0.4	0.8
Expenses not deductible	(ii)	1.8	3.8
Adjustment in respect of prior years		0.3	(0.5)
Current tax charge for the year		**6.3**	**5.2**
Adjustments relating to deferred taxation:			
Depreciation in excess of capital allowances	(i)	0.1	(0.8)
Permanent difference on consolidated intangible asset amortisation	(ii)	(2.4)	(1.9)
Other short term timing differences (net)	(ii)	(0.1)	(0.1)
Total deferred taxation credit for the year		**(2.4)**	**(2.8)**
Total UK tax charge for the year		**3.9**	**2.4**
Effective underlying current tax rate for the year	(iii)	21.0%	21.2%
Effective underlying total tax rate for the year	(iv)	20.6%	18.3%

(i) capital allowances are tax relief provided in law for expenditure the Group makes on fixed assets (including software). In 2016, the rate at which fixed assets have been depreciated in the statement of comprehensive income is in excess of the capital allowances claimed, giving rise to an additional current tax charge. Conversely, this treatment results in an increase in the tax written down value of the assets and a corresponding deferred tax asset is both recognised and increased. This deferred tax asset will be recovered in the future when capital allowances claimed exceed the depreciation charge.

(ii) certain transaction costs relating to the acquisitions during the year, the amortisation charge relating to intangible assets arising on business combinations and the JSOP profit and loss credit (2015: charge) are not allowable under UK corporation tax and are therefore excluded from taxable profits. A deferred tax liability is recognised in respect of consolidated intangible assets. This liability is reduced each year in line with amortisation charge, giving rise to a deferred tax credit each year. No deferred tax is recognised on the JSOP charges.

(iii) the effective current tax rate for the year is calculated as the current tax expense on underlying profit before taxation i.e. excluding the non-underlying charges as described in note 5. These charges are not included in the underlying effective tax rate as they are not routine trading charges.

(iv) the effective total tax rate is greater than (2015: lower than) the UK corporation tax rate of 20.0% for the year due to the tax charge relating to the prior year of £0.3m (2015: credit £0.5m).

There are no material profits arising overseas and accordingly no disclosures relating to overseas' tax are included within the financial statements.

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. On 16 March 2016 it was announced in the Chancellor's Budget that the UK Corporation Tax main rate from 1 April 2020 will be reduced to 17%. There is no material impact on deferred tax.

Notes to the consolidated financial statements (continued)

9. Assets held for sale and discontinued operations

During the prior year, the Board decided to dispose of its interests in PeoplePlus Enterprises Pty Limited (formerly A4e Pty Limited - "A4e Australia") and its related subsidiaries. In accordance with 'IFRS 5 Non-current assets held for sale and discontinued operations', the post- acquisition results of A4e Australia are disclosed in the income statement as discontinued operations – breakdown included in the table below.

The total assets and total liabilities of A4e Australia were held as current assets held for sale and current liabilities held for sale respectively as at 31 December 2015. The sale was completed in April 2016 for net proceeds of £nil. In addition to the £0.8m of net liabilities reported as held for resale as at 31 December 2015, operating losses of £0.2m were incurred this financial year to the date of disposal. Thus a net profit of £1.0m was reported this year on disposal of the A4e Australia (£nil proceeds, £1.0m net liabilities at date of disposal). The cash flows of A4e Australia are consistent with the operating results.

	2016 £'m	2015 £'m
Sales	1.7	2.3
Cost of sales	(1.7)	(2.4)
Gross result/(loss)	-	(0.1)
Administrative expenses	(0.2)	(0.6)
Operating loss	**(0.2)**	**(0.7)**
Profit on disposal of subsidiary	1.0	-
Profit/ (Loss) before and after taxation – discontinued operations	**0.8**	**(0.7)**
Property, plant and equipment	-	0.7
Trade and other receivables	-	0.9
Deferred taxation asset	-	0.1
Current assets held for sale	**-**	**1.7**
Trade and other payables	-	(2.5)
Current liabilities held for sale	**-**	**(2.5)**

10. Earnings per share and dividends

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year, after deducting any shares held in the JSOP – "own shares". The calculation of the diluted earnings per share is based on the basic earnings per share as adjusted to take into account the potential issue of ordinary shares resulting from share options granted to certain senior management.

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

	Basic 2016	Basic 2015	Diluted 2016	Diluted 2015
Earnings on continuing operations (£'m)	**15.0**	3.1	**15.0**	3.1
Earnings on discontinued operations (£'m)	**0.8**	(0.7)	**0.8**	(0.7)
Weighted average number of shares (000)	**25,367**	24,883	**25,520**	24,990
Earnings per share (pence):				
Continuing	**59.1p**	12.4p	**58.8p**	12.3p
Discontinued	**3.2p**	(2.9p)	**3.1p**	(2.8p)
Underlying earnings per share (pence)*	**114.7p**	92.8p	**114.0p**	92.4p

*Underlying earnings after adjusting for amortisation of intangibles arising on business combinations, share based payment credits/charges, acquisition related costs and reorganisation costs including the tax effect.

The weighted average number of shares (basic) has been increased by 484,000 (2015: 1,132,000) shares to take account of the full year effect of the 807,000 shares exercised under the 2010 JSOP during the prior year and the effect of the 170,000 shares sold by the 2010 JSOP scheme this year as no longer required.

Dividends

During the year, Staffline Group plc paid dividends of £5.8m (2015: £4.0m) to its equity shareholders:

	2016 £'m	2015 £'m	2016 per share (pence)	2015 per share (pence)
Interim 2016 paid November 2016 (Interim 2015 paid November 2015)	2.7	1.9	10.5p	7.5p
Final 2015 paid July 2016 (Final 2014 paid July 2015)	3.1	2.1	12.5p	8.5p
Total paid during the year	**5.8**	4.0	**23.0p**	16.0p

A final dividend for 2016 of £3.9m has been proposed (2015: £3.1m – paid July 2016) but has not been accrued within these financial statements. This represents a payment of 15.3 pence (2015: 12.5 pence) per share. The final dividend for 2016 is proposed for payment in July 2017.

11. Goodwill

Gross carrying amount	Total (restated see note 3) £'m
At 1 January 2015	**69.7**
Additions – A4e Limited £15.6m, Milestone Operations Limited £3.0m, Diamond Recruitment Group £1.0m	19.6
At 31 December 2015 as reported	**89.3**
Adjustments – A4e Limited £0.9m, Milestone Operations Limited £1.3m (see below)	2.2
At 31 December 2015 as restated	**91.5**
Additions – Paragon Training (NI) Limited	0.1
At 31 December 2016	**91.6**

Additions

a) A4e Limited

On 27 April 2015 the Group announced the purchase of A4e Limited ('A4e'). The Group paid £22.4m for the entire issued share capital and assumed A4e's net debt of £11.0m, which therefore, including other deal related costs, results in an effective consideration of £34.5m. The purchase consideration was funded by a £35.0m term loan. Directly attributable acquisition costs of £0.7m were included within administrative expenses (non-underlying) and £0.4m of debt issue costs were capitalised in the statement of financial position against the term loan and are being amortised to the statement of comprehensive income over the term of the loan.

In accordance with IFRS 3 Business Combinations, the directors made an initial assessment of the fair values of the acquired assets and liabilities, which, along with identified fair value adjustments, are shown in the table below. During April 2016 (i.e. within 12 months of the acquisition date), the Directors undertook a review of the provisional fair values, with adjustments being reflected within the carrying value of goodwill as at the acquisition date.

Net adjustments of £0.9m were made this year, which has been shown as a prior year restatement. Principally this related to the non-recoverability of amounts due to A4e.

Notes to the consolidated financial statements (continued)

11. Goodwill (continued)

	Provisional fair value 31 December 2015 £'m	Adjustments	Final fair value 31 December 2015 £'m
Goodwill	-		
Property, plant and equipment	8.9	-	8.9
Trade and other receivables	8.6	-	8.6
Accrued income	11.9	(0.9)	11.0
Provision against recoverability of accrued income	(2.7)	0.3	(2.4)
Cash	9.5	-	9.5
Pension asset	1.9	-	1.9
Trade and other payables	(30.6)	(0.3)	(30.9)
Corporation tax recoverable	2.0	-	2.0
Deferred tax liability	(0.6)	-	(0.6)
Borrowings	(19.8)	-	(19.8)
Deferred tax liability on acquired intangibles	(4.4)	-	(4.4)
Net liabilities acquired	**(15.3)**	**(0.9)**	**(16.2)**
Intangible assets identified – customer contracts	22.1	-	22.1
Goodwill (not tax deductible)	15.6	0.9	16.5
Consideration	**22.4**	**-**	**22.4**

b) Milestone Operations Limited and Diamond Recruitment Group

On 28 September 2015 the Group announced the acquisition of Milestone Operations Limited ("Milestone"), a recruitment business specialising in temporary and permanent jobs for professional drivers, warehouse staff and industry experts within the transport, distribution, industrial and utilities sectors.

On 12 October 2015 the Group announced the acquisition of the trade and assets of Diamond Recruitment Group ("Diamond"), a leading recruitment agency based in Northern Ireland. Diamond specialises in temporary and permanent recruitment solutions and has expertise in a number of Staffline's core business sectors.

Consideration for the acquisitions included cash on completion of £7.9m and deferred consideration of £3.0m. This gave rise to consolidated goodwill of £4.0m, which is not separately identifiable of other intangible assets. The combined acquired assets and liabilities of Milestone and Diamond are immaterial to the Group and accordingly the table below shows the combined fair value of the assets and liabilities acquired.

In accordance with IFRS 3 Business Combinations, the directors made an initial assessment of the fair values of the acquired assets and liabilities, which, along with identified fair value adjustments, are shown in the table below. During September 2016 (i.e. within 12 months of the acquisition dates), the Directors undertook a review of the provisional fair values, with adjustments being reflected within the carrying value of goodwill as at the acquisition date.

Net adjustments of £1.3m were made this year, which has been shown as a prior year restatement. Principally this related to adjustments to the provision for onerous property leases and other liabilities and the write off of debtor balances not recoverable.

	Provisional fair value 31 December 2015 £'m	Adjustments	Final fair value 31 December 2015 £'m
Property, plant and equipment	0.2	-	0.2
Trade and other receivables	13.1	(0.4)	12.7
Cash	0.2	-	0.2
Trade and other payables	(7.9)	(0.7)	(8.6)
Corporation tax debtor	0.2	(0.2)	-
Borrowings	(5.5)	-	(5.5)
Deferred tax liability	(1.0)	-	(1.0)
Net liabilities acquired	**(0.7)**	**(1.3)**	**(2.0)**
Intangible assets identified – customer contracts	7.6	-	7.6
Goodwill (not tax deductible)	4.0	1.3	5.3
Consideration	**10.9**	**-**	**10.9**

c) Paragon Training (NI) Limited

On 15 February 2016, the Group acquired the entire issued share capital of Paragon Training (NI) Limited ("Paragon"), a training company based and operating in Northern Ireland. Initial consideration of £0.3m was paid with a further £0.1m payable by March 2018 if certain trading conditions are met. No provision has been made for the potential deferred consideration. The value of net assets acquired totalled £0.2m, of which £0.2m was cash at bank, so £0.1m of intangible assets arose on acquisition. On 15 February 2016, the trade of Paragon was transferred to a fellow subsidiary company, PeoplePlus (Works) NI Limited. For the 10.5 month post-acquisition period from 15 February 2016 to 31 December 2016, a turnover of £0.6m and loss before taxation of £0.1m was attributed to the acquired trade.

Impairment review

The breakdown of Goodwill by entity is listed below:

	Date of acquisition	31 December 2016 £'m	31 December 2015 £'m
Staffline Recruitment Limited	8 December 2004	22.3	22.3
Onsite Partnership Limited*	16 March 2007	1.9	1.9
Peter Rowley Limited*	1 December 2009	0.8	0.8
A La Carte Recruitment Limited*	17 May 2010	0.7	0.7
Qubic Recruitment Solutions Limited*	5 November 2010	0.7	0.7
Ethos Recruitment Limited*	14 March 2011	0.1	0.1
Taskforce Recruitment Limited*	12 September 2011	1.9	1.9
Go New Recruitment Limited*	14 September 2012	0.9	0.9
Milestone Operations Limited*	29 September 2015	4.3	4.3
Diamond Recruitment Group*	13 October 2015	1.0	1.0
Staffing Services division		**34.6**	**34.6**
Eos Works Group Limited	21 April 2011	1.6	1.6
PeoplePlus Group Limited (formerly Avanta Enterprise Limited)	6 June 2014	37.7	37.7
Softmist Limited	2 July 2014	1.1	1.1
A4e Limited	27 April 2015	16.5	16.5
Paragon Training (NI) Limited	15 February 2016	0.1	-
PeoplePlus division		**57.0**	**56.9**
Total		**91.6**	**91.5**

Following their acquisition, the businesses asterisked above were fully integrated into the core Staffing Services division. A4e along with Eos Works, Avanta Enterprise and Softmist make up the trade of the People Plus division. Therefore, management consider there to be two cash generating units (in line with the business segments defined in note 4) and have tested these two cash generating units for impairment.

Notes to the consolidated financial statements (continued)

11. Goodwill (continued)

For both segments the recoverable amount of goodwill was determined based on a value-in-use calculation, covering a detailed three year forecast, followed by an extrapolation of expected cash flows over the next two years with a pre-tax discount rate of 10.7% (2015: 9.8%) based on weighted average cost of capital. The organic Staffing Services annual profit growth rates for the three year forecasts are between 10% and 14% and are based on the continuation of historic organic growth achieved by the business over the past 3 years. This has been achieved by sales growth from both existing and new customers and acquisitions. The growth rate for Staffing Services exceeds the long term average growth rate for the market but this is deemed reasonable based on a) the growth experienced over the past 3 years and b) the detailed business plans for 2017-2019. Beyond the three year forecast, no growth has been included in the calculation on the grounds of prudence. The PeoplePlus annual profit growth rate is assumed to be nil due to the uncertainty around the constitution of the Work and Health Programme contracts, which begin in late 2017. It is however expected that the Group will be awarded, at worst, the same number of contracts and at similar rates to existing contracts. The assumption around the granting of the new awards is based on the current level of (publicly known) performance of both the Avanta and A4e contracts in comparison to competitors. Margins for both divisions have been forecast to follow current trends.

The results of the impairment review discussed above showed significant headroom in both cash generating units and accordingly no impairment is noted. Apart from the considerations described in determining the value-in-use of the cash generating units above, the Directors do not believe that any reasonably possible changes in the assumptions used in calculating the value-in-use would result in the recoverable amount of goodwill falling below the carrying value and impairment becoming necessary.

The review also indicates that no provision is required to write down the carrying value of other intangible assets and tangible fixed assets (2015: £nil).

12. Other intangible assets

The Group's other intangible assets include the customer contracts and lists obtained through the acquisition of the companies in note 11 above plus the acquisition of a software licence obtained in 2013 and acquired software. There are no intangible assets with restricted title.

As at 31 December 2016, there are five individually material other intangible assets:

i. Customer contracts in A4E Limited. The carrying value of the asset is £12.7m (2015: £18.4m) which is being amortised over the remaining life of the main contract, 27 months.

ii. Customer contracts in Milestone Operations Limited. The carrying value of the asset is £3.6m (2015: £4.5m) which is being amortised over 5 years.

iii. Software developed for the Ministry of Justice contract. The carrying value of the asset is £2.9m (2015: £0.5m) which is being amortised over 5 years.

iv. Software developed for the Work Programme contract. The carrying value of the asset is £2.4m (2015: £4.0m) which is being amortised over 4 years.

v. Customer contracts in Diamond Recruitment Group. The carrying value of the asset is £2.2m (2015: £2.7m) which is being amortised over 5 years.

	Software £'m	Licenses £'m	Customer contracts £'m	Customer lists £'m	Total £'m
Gross carrying amount					
At 1 January 2015	**-**	**2.0**	**15.6**	**5.5**	**23.1**
Additions	0.5	-	-	-	0.5
Additions through business combinations	-	-	29.8	-	29.8
Transfer from property, plant and equipment	5.1	-	-	-	5.1
At 31 December 2015	**5.6**	**2.0**	**45.4**	**5.5**	**58.5**
Additions	3.3	-	-	-	3.3
At 31 December 2016	**8.9**	**2.0**	**45.4**	**5.5**	**61.8**
Amortisation					
At 1 January 2015	**-**	**0.8**	**4.8**	**5.5**	**11.1**
Charged in the year	-	0.7	9.1	-	9.8
Transfer from property, plant and equipment	0.9	-	-	-	0.9
At 31 December 2015	**0.9**	**1.5**	**13.9**	**5.5**	**21.8**
Charged in the year	1.8	0.5	11.9	-	14.2
At 31 December 2016	**2.7**	**2.0**	**25.8**	**5.5**	**36.0**
Net book amount at 31 December 2016	**6.2**	**-**	**19.6**	**-**	**25.8**
Net book amount at 31 December 2015	4.7	0.5	31.5	-	36.7

13. Property, plant and equipment

	Land and buildings £'m	Computer equipment £'m	Assets in course of construction £'m	Fixtures and fittings £'m	Motor vehicles £'m	Total £m
Gross carrying amount						
At 1 January 2015	**2.2**	**3.8**	**-**	**3.4**	**-**	**9.4**
Additions	0.9	1.6	0.7	0.7	-	3.9
Additions - business combinations	1.3	7.4	-	0.3	0.1	9.1
Disposals	(0.2)	(0.6)	-	(0.6)	-	(1.4)
Reclassification – assets for resale*	(0.6)	(0.1)	-	-	-	(0.7)
Transfer to other intangible assets**	-	(5.1)	-	-	-	(5.1)
Currency translation differences	-	(0.1)	-	-	-	(0.1)
At 31 December 2015	**3.6**	**6.9**	**0.7**	**3.8**	**0.1**	**15.1**
Additions	2.6	1.7	(0.7)	-	-	3.6
Reclassification	(0.8)	-	-	0.8	-	-
Disposals	(0.2)	-	-	-	-	(0.2)
At 31 December 2016	**5.2**	**8.6**	**-**	**4.6**	**0.1**	**18.5**
Depreciation						
At 1 January 2015	**1.3**	**2.1**	**-**	**1.0**	**0.1**	**4.5**
Charged in the year	0.3	2.3	-	1.0	-	3.6
Disposals	(0.3)	(0.5)	-	(0.6)	-	(1.4)
Transfer to other intangible assets**	-	(0.9)	-	-	-	(0.9)
Currency translation differences	-	-	-	-	-	-
At 31 December 2015	**1.3**	**3.0**	**-**	**1.4**	**0.1**	**5.8**
Charged in the year - operating	0.4	1.7	-	1.0	-	3.1
Charged in the year - impairment	-	1.3	-	0.3	-	1.6
Disposals	-	-	-	-	-	-
At 31 December 2016	**1.7**	**6.0**	**-**	**2.7**	**0.1**	**10.5**
Net book value						
At 31 December 2016	**3.5**	**2.6**	**-**	**1.9**	**-**	**8.0**
At 31 December 2015	**2.3**	**3.9**	**0.7**	**2.4**	**-**	**9.3**

* as described in note 9, the tangible fixed assets of A4e Australia were reclassified during 2015 as current assets held for sale in accordance with IFRS 5.

**Acquired Software assets previously disclosed as Computer Equipment were reclassified as Intangible Software assets during 2015.

Notes to the consolidated financial statements (continued)

14. Trade and other receivables

	2016 £'m	2015 (restated see note 3) £'m
Trade and other receivables	91.2	99.0
Accrued income	11.9	17.8
	103.1	**116.8**

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

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

Included in the trade and other receivables balance above is a bad debt provision of £0.1m (2015: £nil). Some of the trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired, is as follows:

	2016 £'m	2015 £'m
Not more than three months	12.1	10.3
More than three months but no more than six months	1.0	0.8
More than six months	0.2	-
	13.3	**11.1**

15. Retirement benefit asset

One of the Group's subsidiaries operates a defined benefit pension scheme for its staff. The scheme is closed to new entrants. Given that the fair value of plan assets is only £9.0m (2015: £8.3m) only significant disclosures are reported below.

The amounts recognised in the balance sheet are determined as follows:

	2016 £'m	2015 £'m
Present value of funded obligations	(7.8)	(5.9)
Fair value of plan assets	9.0	8.3
Net asset in the balance sheet at 31 December	**1.2**	**2.4**

The movement in the defined benefit obligation over the year is as follows:

	2016 £'m	2015 £'m
Balance at 1 January	5.9	-
Acquired obligation	-	6.6
Interest cost	0.2	0.2
Service cost – current accrual cost	0.2	0.2
Benefits paid	(0.2)	(0.2)
Actuarial loss/(gain) on change in assumptions	1.7	(0.9)
Liability in the balance sheet at 31 December	**7.8**	**5.9**
Membership numbers (active 2016: 26, 2015: 32)	**275**	**286**

The liabilities have been calculated using the following principal actuarial assumptions:

	2016	2015
Inflation rate (RPI)	3.3%	3.1%
Inflation rate (CPI)	2.5%	2.3%
Salary increase	3.3%	3.1%
Discount rate (derived from AA rated corporate bonds yield curve) and expected rate of return	2.9%	4.0%
Future pension increases for leavers	3.3%	3.1%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. Mortality assumptions are based on the following mortality tables (i) S2NMA (ii) S2NFA with medium cohort adjustments subject to a minimum annual improvement rate of 1.0% (Dec 2015: 1.0%) for males and 0.75% (Dec 2015: 0.75%) for females. The mortality assumptions used were as follows:

	2016 years	2015 years
Longevity at age 65 (2015: age 65) for current pensioners		
- men	22.5	22.3
- women	24.2	24.4
Longevity at age 65 (2015: age 65) for future pensioners		
- men	23.8	23.6
- women	25.3	25.5

The movement in the fair value of the plan assets over the year is as follows:

	2016 £'m	2015 £'m
Balance at 1 January	8.3	-
Acquired assets	-	8.5
Expected return	0.3	0.2
Contributions	0.3	0.1
Benefits paid	(0.2)	(0.2)
Actuarial gain/(loss) on asset return	0.3	(0.3)
Asset in the balance sheet at 31 December	**9.0**	**8.3**

At 31 December 2016, the Scheme's assets, at market value, were distributed as follows:

Bonds (59% of assets as at 31 December 2016)	5.3	4.9
Equities (36% of assets as at 31 December 2016)	3.2	2.5
Cash (5% of assets as at 31 December 2016)	0.5	0.9
Asset in the balance sheet at 31 December	**9.0**	**8.3**

There are £nil (2015: £nil) contributions unpaid at the year-end.

Notes to the consolidated financial statements (continued)

15. Retirement benefit asset (continued)

All investments are managed by the investment advisers and Standard Life within the Standard Life 'wrap investment' portfolio where the investments are held within Dimensional Funds at the year end. All funds are passively managed. The funds held by the Scheme are all pooled investment vehicles and therefore the investment manager is responsible for appointing an independent custodian. The objective of each of these funds is to match the investment return in a particular investment market subject to an acceptable degree of tracking-error that is monitored by the Trustees.

A charge of £0.2m (2015: £0.2m) is included within the income statement within administrative expenses being employers contributions to the scheme; a net actuarial loss, after deferred taxation, of £1.1m (2015: gain of £0.5m) is included within other comprehensive income.

16. Cash and cash equivalents

	2016 £'m	2015 £'m
Cash and cash equivalents	19.7	5.0
Bank overdraft	-	-
Cash and cash equivalents per cash flow statement	**19.7**	**5.0**

Cash and cash equivalents consist of cash on hand and balances with banks only. At the year-end £19.7m (2015: £5.0m) of cash on hand and balances with banks were held by subsidiary undertakings, however this balance is available for use by the Company. £0.9m (2015: £1.3m) of the year-end cash balance was held at the Bank of Ireland, outside of the group overdraft facility with Lloyds Banking Group and HSBC Bank. Long term credit ratings for the three banks are currently as follows:

	Fitch	Standard & Poors
HSBC	AA-	AA-
Lloyds Banking Group	A+	BBB+
Bank of Ireland	BBB-	BBB

The group's banking facility headroom versus available bank facilities is as follows:

	2016 £'m	2015 £'m
Cash at bank	19.7	5.0
Overdraft facility	15.0	15.0
Additional Revolving Credit Facility	7.5	-
Bank guarantee	(0.4)	-
Banking Facility Headroom	**41.8**	**20.0**

17. Trade and other payables

	2016 £'m	2015 (restated see notes 3 & 11) £'m
Trade and other payables	13.1	17.7
Accruals	37.6	44.1
Other taxation and social security	46.8	39.5
	97.5	**101.3**

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

18. Borrowings

Borrowings are repayable as follows:

	2016 £'m	2015 £'m
In one year or less or on demand	8.8	20.9
In more than one year but not more than two years	8.8	8.7
In more than two years but not more than five years	39.3	39.1
Unamortised transaction costs	(0.5)	(0.6)
Total borrowings	**56.4**	**68.1**

	2016 £'m	2015 £'m
Split:		
Current liabilities:		
Term loan	8.8	11.9
Discounted loan notes (repaid during 2016)	-	9.0
Unamortised transaction costs	(0.2)	(0.2)
Bank overdraft	-	-
	8.6	**20.7**
Non-current liabilities:		
Revolving credit facility	35.0	26.0
Term loan	13.1	21.8
Unamortised transaction costs	(0.3)	(0.4)
	47.8	**47.4**
Total borrowings	**56.4**	**68.1**
Total borrowings excluding unamortised transaction costs	56.9	68.7
Less: Cash (note 16)	19.7	5.0
Net debt as disclosed in consolidated statement of cash flows	**37.2**	**63.7**

The term loan, discounted loan notes and revolving credit facility ("RCF") are secured by a debenture over all the assets of the Group.

A term loan of £35m was drawn down in June 2015 as part of the A4e acquisition. The loan is repayable quarterly and matures in 2019. Interest accrues on the loan at between 1.4% and 2.4% plus LIBOR, depending upon the level of adjusted leverage as defined in the banking covenants.

As part of the Avanta acquisition in 2014, there was £20m of deferred consideration due to the vendors, £11m was paid in 2015 and £9m paid in 2016. The deferred consideration was in the form of bank guaranteed, coupon-bearing loan notes. The two loan notes were discounted back to the book values disclosed above. Interest on the bank guarantees was charged at 1.4%.

The RCF of £35.0m is repayable in 2019 and interest accrues at the same rate as the term loan. In 2016 the group secured a further £7.5m of working capital facility, available to be drawn down with two days' notice (not included in the borrowings above as not drawn down as at 31 December 2016).

Notes to the consolidated financial statements (continued)

19. Other liabilities

	2016 £'m	2015 (restated see note 3) £'m
Due within one year (Current)		
Deferred income	-	-
Deferred consideration	0.5	3.0
Cash settled JSOP liability	-	-
	0.5	**3.0**
Due after more than one year (Non-current)		
Deferred income	-	-
Dilapidation provision (note 20)	3.0	3.5
Cash settled JSOP liability	3.2	6.2
	6.2	**9.7**

The deferred income relates to the current head office building for the Group which was subject to a sale and lease back transaction in December 2007, with a sales price above fair value. The excess of proceeds over fair value has been deferred and is being amortised over the remaining lease term. The subsequent leasing agreement is treated as an operating lease. See note 23 for further information relating to details on the Group's operating lease agreements.

The dilapidation provision in the prior year has been reclassified from accruals to other liabilities to more accurately reflect the nature of the cost.

20. Provisions for liabilities

	Dilapidation provision £'m	Deferred taxation £'m	Total £'m
At 1 January 2016 (restated – see note 3)	3.5	5.2	**8.7**
Additions to the income statement	-	(2.4)	**(2.4)**
Additions to the statement of changes in equity	-	(0.2)	**(0.2)**
Amount utilised	(0.4)	-	**(0.4)**
Unused amounts reversed to the income statement	(0.1)	-	**(0.1)**
At 31 December 2016	**3.0**	**2.6**	**5.6**

Dilapidation provision

The dilapidations provision covers all of the Group's leased property estate. The provision is determined based on an independent valuation of the estimated total cost payable on expiry of the respective lease. The timing and value of the costs are uncertain due to exit date and the final liability will be subject to negotiation.

Deferred taxation

Deferred tax assets/(liabilities)	1 January 2016 £'m	Recognised in Comprehensive Income - current £'m	Recognised in Comprehensive Income - prior year £'m	Pensions – statement of changes in equity £'m	31 December 2016 £'m
Property, plant and equipment temporary timing differences	**0.7**	0.4	(0.3)	-	**0.8**
Acquired intangible assets	**(5.7)**	2.4	-	-	**(3.3)**
Retirement benefit asset	**(0.4)**	-	-	0.2	**(0.2)**
Share based payment liability	**0.2**	(0.1)	-	-	**0.1**
	(5.2)	2.7	(0.3)	0.2	**(2.6)**
Recognised as:					
Deferred tax asset	**0.9**	0.3	(0.3)	**-**	**0.9**
Deferred tax liability	**(6.1)**	2.4	-	0.2	**(3.5)**
	(5.2)	2.7	(0.3)	0.2	**(2.6)**

There are no material deferred tax assets that have not been recognised (2015: nil).

21. Share capital

	2016 £'m	2015 £'m
Authorised		
30,000,000 (2015: 30,000,000) ordinary 10pence shares	**3.0**	3.0
Allotted and issued		
27,749,389 (2015: 27,749,389) ordinary 10pence shares	**2.8**	2.8

	2016 Number	2015 Number
Shares issued and fully paid at the beginning of the year	**27,749,389**	**27,747,551**
Shares issued during the year	-	1,838
Shares issued and fully paid at the end of the year	**27,749,389**	**27,749,389**
Shares authorised but unissued	2,250,611	2,250,611
Total equity shares authorised at end of the year	**30,000,000**	**30,000,000**

All ordinary shares have the same rights and there are no restrictions on the distribution of dividends or repayment of capital with the exception of the 2,220,400 shares (31 December 2015: 2,390,400 shares) held at 31 December 2016 by the Employee Benefit Trust where the right to dividends has been waived.

Notes to the consolidated financial statements (continued)

22. Related party transactions

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

Transactions with Group Directors

The Group Directors' personal remuneration includes the following expenses:

	2016 £'000	2015 £'000
Short-term employee benefits:		
Salaries and fees	787	724
Bonus – unpaid at year-end	135	115
Benefits in kind	4	4
Social security costs	91	99
Pension contributions	51	56
Share based employee remuneration (credit)/charge	(832)	4,598
	236	**5,596**

Transactions with Key Management Personnel

The Group Key Management Personnel's personal remuneration, which includes the Group Directors' remuneration disclosed above, includes the following expenses:

	2016 £'000	2015 £'000
Short-term employee benefits:		
Salaries and fees	1,854	1,727
Bonus – unpaid at year-end	411	199
Benefits in kind	13	13
Social security costs	262	250
Pension contributions	121	127
Compensation payments on resignation	300	-
Share based employee remuneration (credit)/charge	(2,982)	8,948
	(21)	**11,264**

In addition to the above, the Group spent £25,600 (2015: £28,000) in accommodation expenses at Hogarths Hotel, which is owned by a person connected to the Group Chief Executive. £200 remains outstanding at the year-end (2015: £3,000). During the prior year, a director loaned £2.0m to the company. This attracted no interest charges and was repaid in full prior to 31 December 2015.

23. Operating leases

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

	2016 Land and buildings £'m	2015 Land and buildings £'m
In one year or less	3.5	6.0
Between one and five years	5.7	7.2
In five years or more	1.9	2.7
	11.1	**15.9**

Lease payments recognised as an expense during the year ended 31 December 2016 amounted to £7.6m (2015: £6.2m). Operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, future leasing or additional debt. No sub-lease income is due as all assets held under lease agreements are used exclusively by the Group.

24. Contingencies

A cross guarantee exists between all companies in the Group for all amounts payable to Lloyds Banking Group and HSBC Bank. The Group amounts owing to Lloyds Banking Group and HSBC Bank at the 2016 year-end are £38.1m (2015: £65.0m).

The Group has no other material contingent assets or liabilities at either 31 December 2016 or 31 December 2015.

25. Capital commitments

The Group had no material capital commitments at either 31 December 2016 or 31 December 2015.

26. Risk management objectives and policies

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

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

Credit risk

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

	2016 Loans and receivables and balance sheet totals £'m	2015 Loans and receivables and balance sheet totals (restated see note 11) £'m
Trade and other receivables (note 14)	91.2	99.0
Cash and cash equivalents (note 16)	19.7	5.0
Accrued income (note 14)	11.9	17.8
	122.8	**121.8**

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

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. Details in respect of trade receivables at 31 December 2016 are provided in note 14. Substantially all of the trade within the PeoplePlus division is with local government, therefore the credit risk with these customers is considered low.

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

Notes to the consolidated financial statements (continued)

26. Risk management objectives and policies (continued)

Liquidity risk

The Group seeks to manage financial risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is achieved by the use of a bank overdraft facility of up to £15.0m (31 December 2015: £15.0m) and the use of a working capital facility of £7.5m (31 December 2015: £nil) that was secured during the year.

Interest rate risk

All financial liabilities of the Group are subject to floating interest rates. Competitive rates have been renegotiated with the Group's bankers and the rate paid on both the term loan and Revolving Credit Facility ("RCF") has been set at 1.4% above LIBOR. The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +/- one percentage point with effect from the beginning of the year.

	2016	**2016**	2015	2015
	+1%	-1%	+1%	-1%
(Decrease)/increase in net result and equity £'m	(0.6)	0.6	(0.9)	0.9

Foreign currency sensitivity

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

Financial liabilities

The Group's liabilities are classified as follows:

	2016 Financial liabilities at fair value through profit or loss £'m	**2016 Other financial liabilities at amortised cost £'m**	**2016 Liabilities not within the scope of IAS 39 £'m**	**2016 Balance sheet total £'m**
Term loan and loan notes	-	21.9	-	**21.9**
Revolving Credit Facility	-	35.0	-	**35.0**
Trade and other payables	-	13.1	-	**13.1**
Taxation and social security	-	46.8	-	**46.8**
Accruals	-	37.6	-	**37.6**
Deferred consideration	-	-	0.5	**0.5**
Dilapidation provision	-	-	3.0	**3.0**
Deferred income	-	-	-	**-**
Other liabilities - JSOP	-	-	3.2	**3.2**
Corporation tax	-	-	2.5	**2.5**
Total	**-**	**154.4**	**9.2**	**163.6**

It is considered that the fair value of the Group's financial assets and liabilities equal the book value.

	2015 Financial liabilities at fair value through profit or loss £'m	2015 Other financial liabilities at amortised cost £'m	2015 Liabilities not within the scope of IAS 39 £'m	2015 Balance sheet total £'m
Term loan and loan notes	-	42.7	-	**42.7**
Revolving Credit Facility	-	26.0	-	**26.0**
Trade and other payables	-	17.7	-	**17.7**
Taxation and social security	-	39.5	-	**39.5**
Accruals	-	44.1	-	**44.1**
Deferred consideration	-	-	3.0	**3.0**
Dilapidation provision	-	-	3.5	**3.5**
Deferred income	-	-	-	**-**
Other liabilities -JSOP	-	-	6.2	**6.2**
Corporation tax	-	-	0.4	**0.4**
Total	**-**	**170.0**	**13.1**	**183.1**

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

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

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

The Group has no financial assets or liabilities in any of the above classifications.

Maturity of financial liabilities

The analysis of the maturity of financial liabilities within the scope of IAS 39 at 31 December 2016 is as follows:

	2016 Less than one year £'m	2016 Two to five years £'m	2016 More than five years £'m	**2016 Total £'m**	2015 Less than one year £'m	2015 Two to five years £'m	2015 More than five years £'m	**2015 (restated see note 11) Total £'m**
Term loan	8.8	13.1	-	**21.9**	11.9	21.8	-	**33.7**
Revolving Credit Facility	-	35.0	-	**35.0**	-	26.0	-	**26.0**
Loan notes	-	-	-	**-**	9.0	-	-	**9.0**
Trade and other payables	13.1	-	-	**13.1**	17.7	-	-	**17.7**
Taxation and social security	46.8	-	-	**46.8**	39.5	-	-	**39.5**
Accruals	37.6	-	-	**37.6**	44.1	-	-	**44.1**
Total	**106.3**	**48.1**	**-**	**154.4**	**122.2**	**47.8**	**-**	**170.0**

Notes to the consolidated financial statements (continued)

26. Risk management objectives and policies (continued)

The analysis of the maturity of contractual undiscounted financial liabilities at 31 December 2016 is as follows:

	2016 Less than one year £'m	2016 Two to five years £'m	2016 More than five years £'m	**2016 Total £'m**	2015 Less than one year £'m	2015 Two to five years £'m	2015 More than five years £'m	**2015 (restated see note 11) Total £'m**
Term loan	9.1	13.3	-	**22.4**	12.4	22.4	-	**34.8**
Revolving Credit Facility	0.7	35.5	-	**36.2**	0.5	27.2	-	**27.7**
Loan notes	-	-	-	**-**	9.0	-	-	**9.0**
Trade and other payables	13.1	-	-	**13.1**	17.7	-	-	**17.7**
Taxation and social security	46.8	-	-	**46.8**	39.5	-	-	**39.5**
Accruals	37.6	-	-	**37.6**	44.1	-	-	**44.1**
Total	**107.3**	**48.8**	**-**	**156.1**	**123.2**	**49.6**	**-**	**172.8**

27. Cash flows from operating activities

	2016 £'m	**2015 £'m**
Profit before taxation	18.9	5.5
Adjustments for:		
Operating loss on discontinued operations	(0.2)	(0.7)
Finance costs	3.3	2.0
Depreciation, loss on disposal and amortisation - underlying	5.1	3.6
Depreciation, loss on disposal and amortisation – non underlying	14.0	9.8
Operating profit before changes in working capital and share options	**41.1**	**20.2**
Change in trade and other receivables	13.2	(7.1)
Change in trade, other payables and provisions	(4.5)	(6.9)
Cash generated from operations	**49.8**	**6.2**
Additional pension contributions	-	(0.7)
Employee cash settled share options (non-cash (credit)/charge)	(2.9)	8.9
Employee equity settled share options	-	-
Net cash inflow from operating activities	**46.9**	**14.4**

	2016	2015
Movement in net debt	£'m	£'m
Net debt at 1 January 2016 (excluding transaction fees)	(63.7)	(17.8)
Acquired debt	-	(25.3)
New loans (excluding transaction fees)	-	(53.5)
Unwinding of discount on loan notes	(0.1)	(0.1)
Loan repayments	11.9	46.3
Change in cash and cash equivalents	14.7	(13.3)
Net debt at 31 December 2016 (excluding transaction fees)	**(37.2)**	**(63.7)**
Represented by:	£'m	£'m
Cash and cash equivalents (note 16)	19.7	5.0
Current borrowings (note 18)	(8.6)	(20.7)
Non-current borrowings (note 18)	(47.8)	(47.4)
Net debt including transaction fees	**(36.7)**	**(63.1)**
Transaction fees	(0.5)	(0.6)
Net debt at 31 December 2016 (excluding transaction fees)	**(37.2)**	**(63.7)**

Non-cash items included above represent employees cash settled share options, the unwinding of the discount on loan notes and the movement of transaction costs in relation to debt issue fees.

28. Capital management policies and procedures

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

The capital structure of the Group consists of net debt, which is represented by cash and cash equivalents (note 16), bank loans, overdrafts and revolving credit facilities (note 18) and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The only restrictions on the Group's capital relates to the covenants attached to the debt facilities.

During the year, there was headroom against each of the four banking covenants below at each of the four quarter ends when covenants are formally assessed:

1. Cash flow cover – being the ratio of cash generated to debt servicing costs
2. Interest cover – being the ratio of EBITDA, excluding share based payment charges, to interest costs
3. Adjusted leverage – being the ratio of net debt to EBITDA excluding share based payment charges (as adjusted for acquisitions)
4. Asset cover – being the ratio of trade debtors to net debt

The directors have reviewed reasonable possible outcomes within the next financial year, in accordance with IAS 1 paragraph 129, and have concluded that the outcomes which were reasonably possible would not involve either a covenant or banking facility breach during 2017. Cash flows are monitored on a daily basis against forecasts that are updated each month, to ensure that the Group continues to operate within its banking facilities.

Staffline Group plc

Company statutory financial statements

for the year ended 31 December 2016

Company number 05268636

Independent auditors' report to the members of Staffline Group plc

for the year ended 31 December 2016

Report on the company financial statements

Our opinion

In our opinion, Staffline Group plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the company statement of financial position as at 31 December 2016;
- the company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Staffline Group plc (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of the financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the group financial statements of Staffline Group plc for the year ended 31 December 2016.

Steven Kentish (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

Date: 24 January 2017

Company statement of changes in equity

for the year ended 31 December 2016

	Share capital £'m	Own shares JSOP £'m	Share premium £'m	Profit and loss account £'m	Total equity £'m
At 1 January 2016	**2.8**	**(9.0)**	**39.9**	**17.7**	**51.4**
Dividends (see note 10)	-	-	-	(5.8)	(5.8)
Disposal of Joint Share Ownership Plan ("JSOP") shares	-	0.1	-	1.4	1.5
Transactions with owners	**-**	**0.1**	**-**	**(4.4)**	**(4.3)**
Profit for the year	-	-	-	5.4	5.4
Total comprehensive income for the year, net of tax	**-**	**-**	**-**	**5.4**	**5.4**
At 31 December 2016	**2.8**	**(8.9)**	**39.9**	**18.7**	**52.5**

	Share capital £'m	Own shares JSOP £'m	Share premium £'m	Profit and loss account £'m	Total equity £'m
At 1 January 2015	**2.8**	**(9.8)**	**39.9**	**8.2**	**41.1**
Dividends (see note 10)	-	-	-	(4.0)	(4.0)
Vesting of Joint Share Ownership Plan ("JSOP") shares	-	0.8	-	9.1	9.9
Issue of new shares	-	-	-	-	-
Transactions with owners	**-**	**0.8**	**-**	**5.1**	**5.9**
Profit for the year	-	-	-	4.4	4.4
Total comprehensive income for the year, net of tax	**-**	**-**	**-**	**4.4**	**4.4**
Balance at 31 December 2015	**2.8**	**(9.0)**	**39.9**	**17.7**	**51.4**

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

Company statement of financial position

as at 31 December 2016

	Note	2016 £'m	2015 £'m
Assets			
Non-current assets			
Other intangible assets	31	-	0.5
Investments	32	55.0	58.0
		55.0	**58.5**
Current			
Trade and other receivables	33	30.0	41.3
Cash and cash equivalents		-	-
		30.0	**41.3**
Total assets		**85.0**	**99.8**
Liabilities			
Current			
Trade and other payables	34	7.9	0.1
Borrowings	35	8.6	20.7
Other current liabilities	36	-	-
		16.5	**20.8**
Non-current			
Borrowings	35	12.8	21.4
Other non-current liabilities	36	3.2	6.2
		16.0	**27.6**
Total liabilities		**32.5**	**48.4**
Equity			
Share capital	37	2.8	2.8
Own shares		(8.9)	(9.0)
Share premium		39.9	39.9
Profit and loss account		18.7	17.7
Total equity		**52.5**	**51.4**
Total equity & liabilities		**85.0**	**99.8**

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's profit for the year before dividends paid was £5.4m (2015: £4.4m).

The financial statements were approved by the Board of Directors on 24 January 2017.

A Hogarth
Director

C Pullen
Director

Notes to the company financial statements

For the year ended 31 December 2016

Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed elsewhere in this note.

The transition to Financial Reporting Standard 101 has been made in accordance with International Financial Reporting Standard 1 "First-time adoption of International Financial Reporting Standards".

The company previously reported under IFRS. Accordingly, the transition has not resulted in any amendments to the profit for the financial year ended 31 December 2015 or the statement of financial position as at 31 December 2015 or 31 December 2014, as previously reported.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16;
  - paragraph 118(e) of IAS 38;
  - requirements of paragraphs 62 and B64 of IFRS3 Business Combinations;
  - paragraph 33(c) of IFRS5
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), (statement of cash flows)
  - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 40A-D (requirements for a third statement of financial position
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation); and
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Investments

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

Deferred taxation

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the financial statements with their respective tax bases.

Notes to the company financial statements (continued)

Deferred taxation (continued)

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

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

Intangible assets

Other intangible assets relate to the fair value of acquired intellectual property rights of a software product which is subject to impairment reviews and is being amortised over 3 years, the expected useful life. The amortisation is calculated so as to write off the fair value less the estimated residual values over the estimated useful life. An impairment review is undertaken when events or circumstances indicate the carrying amount may not be recoverable.

Share based payment

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

Financial assets

The Company's financial assets include cash and amounts due from group companies.

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

Financial liabilities

The Company's financial liabilities include bank loans and loan notes.

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

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

Dividend distributions to shareholders are included in 'other short term financial liabilities' when the dividends are approved by the shareholders' meeting but remain unpaid at the financial year end.

29. Profit for the financial year

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's profit for the year before dividends paid was £5.4m (2015: £4.4m). Auditors remuneration incurred by the Company during the year for audit services totalled £13,750 (2015: £13,750).

30. Directors and employees remuneration

As in previous years all Group Directors are remunerated by Staffline Recruitment Limited, a 100% owned subsidiary company. Details of directors' remuneration is disclosed within note 7 and within the Report on Remuneration on page 25.

The average number of persons (including Directors) employed by the Company during the year was 6 (2015: 6). Employee costs were £nil (2015: £nil).

31. Intangible assets

The Intangible asset relates to a software license.

	Total £'m
Net book value at 31 December 2015	0.5
Amortisation charged in the year	(0.5)
Net book value at 31 December 2016	**-**

32. Fixed asset investments

	Investment in group undertakings £'m
Cost and net book amount at 31 December 2015	58.0
Movement in JSOP investment	(3.0)
Cost and net book amount at 31 December 2016	**55.0**

The net credit to the investments relates to the movement in relation to the Joint Share Ownership Plan. As the liability has decreased, part of the initial capital contribution made by the Company to its subsidiaries has now been returned.

The Company holds interests in the following companies:

Subsidiaries	Proportion of ordinary share capital held	Country of incorporation	Nature of business
Staffline Recruitment Limited *(1)*	100%	England and Wales	Recruitment
Elpis Limited* *(1)*	100%	England and Wales	Dormant
A La Carte Recruitment Limited* *(1)*	100%	England and Wales	Dormant
Staffline Polska Sp. Zoo* *(2)*	100%	Poland	Recruitment
Staffline Gliwice Sp. Zoo* *(2)*	100%	Poland	Recruitment
Go New Sp. Zoo* *(2)*	100%	Poland	Recruitment
JFDI Group Limited *(1)*	100%	England and Wales	Dormant
Staffline Recruitment Limited *(3)*	100%	Republic of Ireland	Recruitment
Eos Works Group Limited *(1)*	100%	England and Wales	Dormant
Eos Works Limited* *(1)*	100%	England and Wales	Welfare to work
Ethos Recruitment Limited* *(1)*	100%	England and Wales	Dormant
Taskforce Recruitment Limited* *(1)*	100%	England and Wales	Dormant
Go New Recruitment Holdings Limited* *(1)*	100%	England and Wales	Dormant
Go New Recruitment Limited* *(1)*	100%	England and Wales	Dormant
Go New Recruitment (Gloucester) Limited* *(1)*	100%	England and Wales	Dormant
Select Appointments Limited* *(1)*	100%	England and Wales	Recruitment
Learning Plus System Limited *(1)*	100%	England and Wales	Training
Staffline Holdings Limited *(1)*	100%	England and Wales	Intermediary holding

Notes to the company financial statements (continued)

32. Fixed asset Investments (continued)

Subsidiaries	Proportion of ordinary share capital held	Country of incorporation	Nature of business
PeoplePlus Group Limited* *(1)*	100%	England and Wales	Welfare to Work
Softmist Limited* *(1)*	100%	England and Wales	Training
PeoplePlus (Works) NI Limited* *(4)*	100%	Northern Ireland	Training
Paragon Training (NI) Limited* *(4)*	100%	Northern Ireland	Training
A4e Limited *(1)*	100%	England and Wales	Welfare to Work
Milestone Operations Limited* *(1)*	100%	England and Wales	Dormant
Milestone Logistics Limited *(1)*	100%	England and Wales	Dormant
Staffline Limited *(1)*	100%	England and Wales	Dormant
Driving Plus Limited* *(1)*	100%	England and Wales	Dormant
Onsite Partnership Limited *(1)*	100%	England and Wales	Dormant
Broomco (4198) Limited* *(1)*	100%	England and Wales	Intermediary holding
Warwickshire and West Mercia Community Rehabilitation Company Limited* *(5)*	100%	England and Wales	Welfare to Work
Mercia Community Action CIC* *(5)*	100%	England and Wales	Welfare to Work
Network Projects Limited* *(1)*	100%	England and Wales	Dormant
TNG Limited* *(1)*	100%	England and Wales	Dormant
A4e Management Limited* *(1)*	100%	England and Wales	Welfare to Work
A4e Enterprise Limited* *(1)*	100%	England and Wales	Welfare to Work
A4e Wales Limited* *(1)*	100%	England and Wales	Dormant
PeoplePlus Scotland Limited* *(6)*	100%	Scotland	Dormant
A4e Ireland Limited* *(7)*	100%	Northern Ireland	Dormant
A4e Europe Limited* *(1)*	100%	England and Wales	Dormant
A4e Worldwide Limited* *(1)*	100%	England and Wales	Dormant
A4e Employee Trustee Limited* *(1)*	100%	England and Wales	Dormant
A4e Insight Limited* *(1)*	100%	England and Wales	Dormant
Action For Employment Trustees Limited* *(1)*	100%	England and Wales	Dormant
Qubic Recruitment Solutions Limited* *(1)*	100%	England and Wales	Dormant
Agency Plus Limited* *(1)*	100%	England and Wales	Dormant
Techsearch Technology Limited* *(1)*	100%	England and Wales	Dormant
Skillspoint Limited* *(1)*	100%	England and Wales	Dormant
Staffline Trustees Limited* *(1)*	100%	England and Wales	Dormant

* These companies are owned indirectly through other group companies.

The registered office of the above subsidiaries are:
(1) 19-20 The Triangle, NG2 Business Park, Nottingham, NG2 1AE
(2) ul. Fryderyka Chopina 2, 44-100 Gliwice, Poland
(3) Fitzwilliam Hall, Ballsbridge, Dublin 2
(4) 38a Mallusk Road, Newtownabbey, Northern Ireland, BT36 4PP
(5) Elgar House, Shrub Hill Road, Worcester, England, WR4 9EE
(6) Southern Exchange House, 34 Earl Grey Street, Edinburgh, EH3 9BN
(7) 8 Meadowbank Road, Suite 6, 7 & 9, Carrickfergus Enterprise, Carrickfergus, County Antrim, BT38 8YF

33. Trade and other receivables

	2016 £'m	2015 £'m
Other debtors	0.2	1.5
Amounts due from Group undertakings	29.8	39.8
	30.0	**41.3**

Amounts due from Group undertakings are non-interest bearing, unsecured and repayable on demand.

34. Trade and other payables

	2016 £'m	2015 £'m
Accruals	0.1	0.1
Amounts due to Group undertakings	7.8	-
	7.9	**0.1**

Amounts due to Group undertakings are non-interest bearing, unsecured and repayable on demand.

35. Borrowings

Borrowings are repayable as follows:

	2016 £'m	2015 £'m
In one year or less or on demand	8.8	20.9
In more than one year but not more than two years	8.8	8.7
In more than two years but not more than five years	4.4	13.1
Unamortised transaction costs	(0.6)	(0.6)
	21.4	**42.1**
Split:		
Current liabilities:		
Term loan	8.8	11.9
Discounted loan notes	-	9.0
Unamortised transaction costs	(0.2)	(0.2)
	8.6	**20.7**
Non-current liabilities:		
Term loan	13.2	21.8
Unamortised transaction costs	(0.4)	(0.4)
	12.8	**21.4**
Total borrowings	**21.4**	**42.1**
Total borrowings excluding unamortised transaction costs	22.0	42.7
Cash	-	-
Net debt excluding unamortised transaction costs	**22.0**	**42.7**

The term loan and discounted loan notes are secured by a debenture over all the assets of the Group.

A term loan of £35m was drawn down in June 2015 as part of the A4e acquisition. The loan is repayable quarterly and matures in 2019. Interest accrues on the loan at between 1.4% and 2.4% plus LIBOR, depending upon the level of adjusted leverage as defined in the banking covenants.

As part of the Avanta acquisition in 2014, there was £20m of deferred consideration due to the vendors, £11m which was paid in 2015 and £9m was paid in 2016. The deferred consideration was in the form of bank guaranteed, coupon-bearing loan notes. The two loan notes were discounted back to the book values disclosed above in the comparative year. Interest on the bank guarantees was charged at 1.4%.

Notes to the company financial statements (continued)

36. Other liabilities

	2016 £'m	2015 £'m
Due within one year		
Cash settled JSOP liability	-	-
	-	**-**
Due after more than one year		
Cash settled JSOP liability	3.2	6.2
	3.2	**6.2**

37. Share Capital

Authorised	2016 £'m	2015 £'m
30,000,000 (2015: 30,000,000) ordinary 10p shares	**3.0**	3.0

Allotted and issued	2016 £'m	2015 £'m
27,749,389 (2015: 27,749,389) ordinary 10p shares	**2.8**	2.8

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

38. Risk management objectives and policies

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

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

Credit risk

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

	2016 Loans and receivables and balance sheet totals £'m	2015 Loans and receivables and balance sheet totals £'m
Amounts due from group companies	29.8	39.8
Cash and cash equivalents	-	-
Other debtors	0.2	1.5
	30.0	**41.3**

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

Liquidity risk

The Company seeks to manage financial risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Interest rate risk

All financial liabilities of the Company are subject to floating interest rates. Competitive rates have been renegotiated with the Company's bankers and the rate paid on the term has been set at 1.4% above LIBOR. The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +/- one percentage point with effect from the beginning of the year.

	2016	**2016**	2015	2015
	+1%	-1%	+1%	-1%
(Decrease)/increase in net result and equity £'m	(0.4)	0.4	(0.7)	0.7

Foreign currency sensitivity

The Company's transactions are mostly carried out in sterling. The company also operates a franchise in Saudi Arabia who pay the license and franchise fees in United Arab Emirates Dirhams ("AED"). The Company has not entered into any foreign currency risk mitigation strategies to date. The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in exchange rates of +/- one percentage point with effect from the beginning of the year.

	2016	**2016**	2015	2015
	+1%	-1%	+1%	-1%
(Decrease)/increase in net result and equity £'m	-	-	-	-

Notes to the company financial statements (continued)

38. Risk management objectives and policies (continued)

Financial liabilities

The Company's liabilities are classified as follows:

	2016 Financial liabilities at fair value through profit or loss £'m	2016 Other financial liabilities at amortised cost £'m	2016 Liabilities not within the scope of IAS 39 £'m	2016 Balance sheet total £'m
Term loan and loan notes (excluding unamortised transaction costs)	-	22.0	-	22.0
Accruals	-	0.1	-	0.1
Amounts due to Group undertakings	-	7.8	-	7.8
Other liabilities - JSOP	-	-	3.2	3.2
Total	**-**	**29.9**	**3.2**	**33.1**

The Company consider that the fair value of the Company's financial assets and liabilities equal the book value.

	2015 Financial liabilities at fair value through profit or loss £'m	2015 Other financial liabilities at amortised cost £'m	2015 Liabilities not within the scope of IAS 39 £'m	2015 Balance sheet total £'m
Term loan and loan notes (excluding unamortised transaction costs)	-	42.7	-	42.7
Accruals	-	0.1	-	0.1
Other liabilities - JSOP	-	-	6.2	6.2
Total	**-**	**42.8**	**6.2**	**49.0**

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

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

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

The Company has no financial assets or liabilities in any of the above classifications.

Maturity of financial liabilities

The analysis of the maturity of financial liabilities at 31 December 2016 is as follows:

	2016 Less than one year £'m	2016 Two to five years £'m	2016 More than five years £'m	2016 Total £'m	2015 Less than one year £'m	2015 Two to five years £'m	2015 More than five years £'m	2015 Total £'m
Term loan	8.8	13.2	-	22.0	11.9	21.9	-	33.8
Loan notes	-	-	-	-	9.0	-	-	9.0
Amounts due to Group undertakings	7.8	-	-	7.8	-	-	-	-
Accruals	0.1	-	-	0.1	0.1	-	-	0.1
Total	**16.7**	**13.2**	**-**	**29.9**	**21.0**	**21.9**	**-**	**42.9**

The analysis of the maturity of contractual undiscounted financial liabilities at 31 December 2016 is as follows:

	2016 Less than one year £'m	2016 Two to five years £'m	2016 More than five years £'m	2016 Total £'m	2015 Less than one year £'m	2015 Two to five years £'m	2015 More than five years £'m	2015 Total £'m
Term loan	9.1	13.3	-	22.4	12.4	22.4	-	34.8
Loan notes	-	-	-	-	9.0	-	-	9.0
Amounts due to Group undertakings	7.8	-	-	7.8	-	-	-	-
Accruals	0.1	-	-	0.1	0.1	-	-	0.1
Total	**17.0**	**13.3**	**-**	**30.3**	**21.6**	**22.4**	**-**	**43.9**

39. Contingent liabilities

A cross guarantee exists between all companies in the Group for all amounts payable to Lloyds Banking Group and HSBC. The Group amounts owing to Lloyds Banking Group and HSBC Bank at the 2016 year-end are £38.1m (2015: £65.0m).

40. Capital commitments

There were no capital commitments at 31 December 2016 or at 31 December 2015.

41. Related parties

The company has taken advantage of the exemptions contained in FRS 101 Reduced Disclosure Framework and has therefore not disclosed transactions or balances with wholly owned subsidiaries of Staffline Group plc. Details of related party transactions are given in note 22 to the consolidated financial statements.

42. Transition to FRS 101

The transition to Financial Reporting Standard 101 has been made in accordance with International Financial Reporting Standard 1 "First-time adoption of International Financial Reporting Standards".

The company previously reported under IFRS. Accordingly, the transition has not resulted in any amendments to the profit for the financial year ended 31 December 2015 or the statement of financial position as at 31 December 2015 or 31 December 2014, as previously reported.

Notes:

19-20 The Triangle | NG2 Business Park | Nottingham | NG2 1AE

staffline.co.uk 0115 9500 885 enquiries@staffline.co.uk @StafflineGroup