Staffline
Group PLC

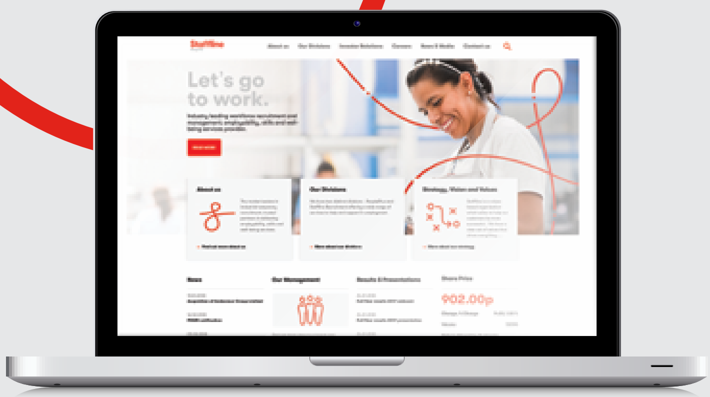
Enabling the future of work™

Staffline

Staffline Group plc
Annual Report 2017

Welcome to Staffline Group plc

Established in 1986 the Group has two business Divisions: Staffline Recruitment and PeoplePlus.



Visit www.stafflinegroupplc.co.uk

Staffline is a leading workforce recruitment and management organisation providing services, mainly in the UK and Eire, to both Government and commercial customers.

Staffline Recruitment ("Recruitment") supplied up to 52,000 workers per day in 2017 to more than 1,500 clients. Specialising in providing complete labour solutions in agriculture, food processing, manufacturing, e-retail, driving and the logistics sectors, the Recruitment business operates from over 400 locations in the UK, Eire and Poland. Key priorities for 2018 are as follows:

- Continued organic growth – focus on our core business
- Continued strong cash conversion – focus on margin and payment terms
- Bolt on acquisitions – enhancing continued organic growth
- New digital platform – differentiation in a tight labour market

PeoplePlus is built on three key themes of helping people to:

- Transform lives – through our work in Justice Services and Adult Social Care
- Get jobs and keep jobs – through our work with youth employment programmes, employability programmes across the UK, including helping people set up their own businesses
- Develop careers – through our work in Apprenticeships and Adult Education

It is a trusted partner in delivering employability, skills and well-being services. Contracts span Central, Local and Devolved Government and the Private Sector. Key priorities for 2018 are as follows:

- Optimisation of Work Programme business
- Deliver growth in our Prisons' Offender Learning and Skills Services contracts
- Develop and grow private skills market business through the Apprenticeship Levy
- Develop and grow our presence in Wales, Scotland and local government
- Develop new market propositions in health and wellbeing and corporate learning and development

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2017 highlights

Financial highlights

Revenue

£957.8m

Up +8.5% (2016: £882.4m)

Recruitment £843.3m up +13.8% (2016: £740.8m)
PeoplePlus £114.5m down 19.1% (2016: £141.6m)

Profit before tax

£24.1m

Up +27.5% (2016: £18.9m)

Recruitment £11.9m down 28.3% (2016: £16.6m)
PeoplePlus £12.2m up +430.4% (2016: £2.3m)

Underlying profit before tax*

£36.3m

Down 1.1% (2016: £36.7m)

Recruitment £17.4m up +10.8% (2016: £15.7m)
PeoplePlus £18.9m down 10.0% (2016: £21.0m)

Diluted earnings per share ("EPS")

71.1p

Up +20.9% (2016: 58.8p)

Underlying diluted earnings per share*

112.6p

Down 1.2% (2016: 114.0p)

Total dividend per share

26.7p

Up +3.5% (2016: 25.8p)

Net debt**

£16.5m

Reduction of £20.2m (2016: £36.7m)

* 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

The below charts show the split of Underlying operating profit between the two divisions for the last three years.

Underlying operating profit 2017

51.7% Recruitment
48.3% PeoplePlus

Underlying operating profit 2016

47.0% Recruitment
53.0% PeoplePlus

Underlying operating profit 2015

43.6% Recruitment
56.4% PeoplePlus

Operational highlights

- **Record year within the Recruitment division:**
  - OnSites grew by 38 locations; total locations now 395 (2016: 357) – making Staffline the clear market leader
  - Successful integration of acquisitions in Scotland and Republic of Ireland
  - The newer Driving Plus, Ireland and Agriculture divisions all had an excellent year
  - Continuing strong pipeline of new business opportunities

- **Positive trading outlook for 2018. On track to be in a net cash position in 2018**

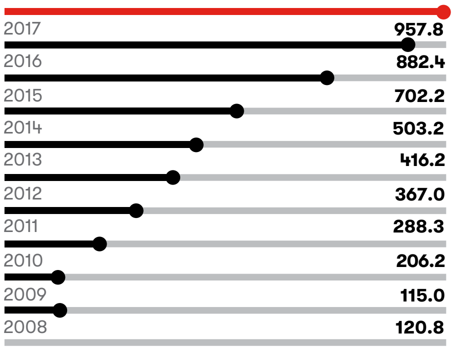
- **Senior management changes**

- **Operational efficiencies and top performance within PeoplePlus division:**
  - Continued cost efficiencies leading to improved margins
  - New business bid win rate doubled. £54m of new business won in 2017, including £24m for Scotland Work Programme (“Fair Start”) and over £10m Adult Education funding
  - Our work to help the long term unemployed into work remains highly successful. All nine of our Work Programme contracts are in the top ten (out of 39) nationally for performance
  - Adult Education division awarded a 2 rating (“Good”) by Ofsted during 2017

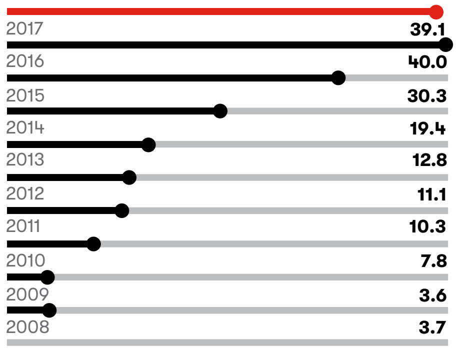
Ten year summaries

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

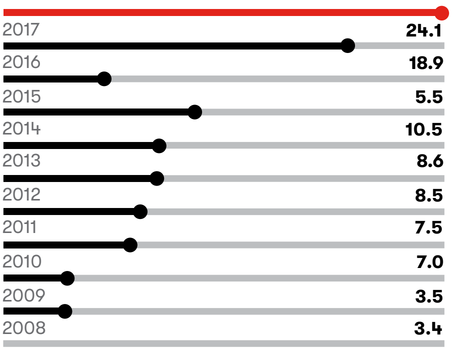
Annual turnover £’m – ten year trend: compound annual growth of 26%



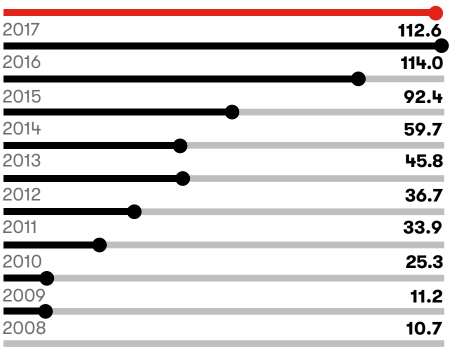
Annual underlying operating profits £’m – ten year trend: compound annual growth of 30%



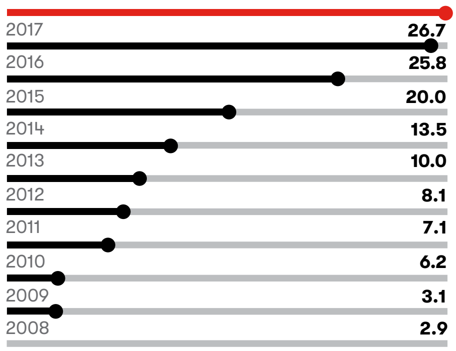
Annual reported profit before tax £’m – ten year trend: compound annual growth of 24%



Annual diluted underlying earnings per share pence – ten year trend: compound annual growth of 30%



Annual dividends per share pence – ten year trend: compound annual growth of 28%



Company overview

People. Skills. Jobs.

Staffline is a leading workforce recruitment and management organisation providing services, mainly in the UK and Eire, to both government and commercial customers. The Recruitment division (previously "Staffing" division) supplied up to 52,000 workers per day in 2017 to more than 1,500 clients. The PeoplePlus division is a leading provider to both central and local government, as well as commercial customers, offering a wide range of services to help and support in the Employability (Welfare to Work), Justice, Communities and Skills arenas.

Locations across UK, Eire and Poland

400+

UK market share

9%

Recruitment

Strong growth potential:
Specialising in providing complete labour solutions in agriculture, food processing, manufacturing, e-retail, driving and the logistics sectors, the Recruitment business operates from over 400 locations in the UK, Eire and Poland.

The Recruitment services include:

- Staffline OnSite, based on clients' premises and providing both blue and white collar, managed, temporary workforces
- Driving Plus, providing HGV drivers to the driving industry
- Staffline Agriculture, providing workers to the UK farming and horticulture sectors
- Staffline Express, our high street branch based operation
- Brightwork, a recruitment business based in Scotland specialising in temporary and permanent jobs to the drinks industry
- Diamond Recruitment, one of the largest providers of recruitment services in Northern Ireland

Priorities for next five years:

- Continue run rate double-digit growth and increase market share from 9% to 15%
- Maintain focus on core blue collar industrial temp staffing
- Use technology to enhance competitive position
- Appropriate expansion into adjacent verticals and geographies

Work Programme performance

All 9 contracts in top 10 nationally

New contract wins in 2017

£54m

PeoplePlus

Established platform, strong credentials:
A trusted partner in delivering employability, skills and well-being services. Contracts span Central, Local and Devolved Government and the Private Sector, including:

Employability:
- Work Programme, prime contractor in nine regions and sub-contractor in three regions in England and Wales
- Fair Start Scotland, prime contractor in two regions commencing April 2018
- New Enterprise Allowance (business start-up support), prime contractor in three regions of England and Scotland and a sub-contractor in Wales
- Steps to Success, prime contractor in Northern Ireland, an employment programme to build skills
- Tackling youth unemployment through the MyGo service in Suffolk, the Youth Promise Plus in Birmingham and the Wirral Youth Employment Gateway
- Building employment through education, working in schools in Northern Ireland

Education and training services:
- Prime contractor to the Education and Skills Funding Agency, Welsh Government and Skills Development Scotland, providing adult education and apprenticeships
- Delivering apprenticeships programmes for the private sector, via the Apprenticeship Levy and non-levy programmes

Justice and community services:
- Ministry of Justice, Transforming Rehabilitation in Warwickshire and West Mercia, delivering rehabilitation services
- Delivery of education and training to prisoners in ten prisons in the east of England and London
- Independent Living Services, supporting 3,500 disabled people lead independent lives
- Access To Work, a national contract providing adaptation in the workplace for people with disabilities
- Support for the users of Prison Visitor Centres for the Northern Ireland Prison Service
- Carers Hubs in Stoke and Staffordshire

Priorities for next five years:
- Firmly establish replacement revenue streams in place of the Work Programme
- Continue to build a balanced portfolio of contracts of various sizes and run-off profile
- Reduce dependence on central government policy by expanding into the private sector and local/devolved government

Chairman's statement

A year of growth

John Crabtree OBE
Chairman

Revenue growth

+8.5%

Dividend growth

+3.5%

Our Recruitment division has again seen significant organic revenue growth, of 10%, and, with two further acquisitions in 2017, their total revenue has increased by 14%, achieved against the backdrop of uncertainty around Brexit and the impact that it has had on lowering migration. Our PeoplePlus division has met the challenge of delivering the final years of the existing Work Programme, continuing to be the best performing supplier to the DWP and positioning itself to become a leading supplier of Apprenticeship Levy training. Other opportunities during 2017 included winning the Fair Start programme in Scotland.

Performance

2017 was the final year of our five-year plan to "Burst the Billion", aiming to grow Group revenues to over £1bn by 2017. Group revenues of £957.8m (2016: £882.4m), up 9%, leaves us just short of this target. However, the exiting run rate of 2017 exceeds this target and remains a significant achievement compared to the starting point of revenues of £367m in 2012, when the five-year plan began. The five-year underlying operating profit target of £30m was comfortably exceeded, being achieved two years early, in 2015.

Underlying profit before tax* reduced by 1% to £36.3m (2016: £36.7m). Whilst a reduction, this is a good achievement given the Work Programme run-off in PeoplePlus that began in March 2017. Reported profit before tax increased by 28% to £24.1m (2016: £18.9m), primarily due to exceptional reorganisation costs incurred in 2016 not being repeated in 2017.

Cash generation was again strong, with free cash flows (being EBITDA plus working capital movement, less tax paid and capex) amounting to £37.9m. Net debt** fell by £20.2m, from £36.7m at the end of December 2016 to £16.5m at the end of December 2017. This provides the Group with a solid base from which to continue to generate shareholder value into the future.

* Underlying profit before tax 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 ("SBPC")

** Net debt including unamortised transaction costs

Dividends

The Group is in a robust financial position with good cash generation and a strong balance sheet. Our financial position at the end of 2017 and confidence for the future enables us to propose an increased final dividend of 15.7p (2016: 15.3p), payable on Tuesday 3 July 2018. The Group's dividend policy, whilst in a net debt position, is to maintain a dividend cover ratio of between 4.0 and 4.5 times our underlying diluted EPS. Our proposed final dividend will ensure the full year dividend cover is within this range at 4.22 times. Further details on the Group's dividend policy can be found within the Chief Financial Officer's Report on page 23.

Board changes and senior management overview

I am pleased to announce that, with effect from 24 January 2018, Chris Pullen is appointed as Chief Executive of Staffline Group plc. Chris succeeds Andy Hogarth who will step down from his current role while remaining on the Board as a Non-Executive Director.

Andy Hogarth has been Chief Executive of Staffline Group plc since 2003, during which time the Group has grown to almost £1bn in revenue. The Recruitment business is now the largest blue collar OnSite business in the UK. The PeoplePlus business supports a large portfolio of contracts across central, local and devolved government, focusing on People, Skills and Jobs, and is the largest provider of the Work Programme in the country. I am delighted that Andy will continue to lend his considerable experience and insight to Chris and the Board in his new role as a Non-Executive Director.

Chris Pullen joined the Group in 2015 from Regus plc to develop the Group's Mergers and Acquisition strategy and became Group Chief Financial Officer in June 2016. In these roles, Chris has made a significant contribution to the development of the Group and now has an excellent insight into the Group's overall operations. He is ideally positioned to lead the business through its next stage of strategic development.

I can also report that Diane Martyn, Group Managing Director, is stepping down from the Board on 24 January 2018, but will continue to work with the Group on a part-time basis to support the strategic goals of the business. Diane has also made an immense contribution to the Group's success, and we are delighted she will continue to be part of it.

Mike Watts is appointed as Group Chief Financial Officer with effect from 24 January 2018. He joined our PeoplePlus division as Finance Director in February 2017 where he has already made an excellent contribution to the business. Prior to Staffline, Mike was at Capita plc where he was Finance Director of a number of businesses. Mike is a Chartered Accountant, having qualified with PwC and has a Ph.D from Cambridge University in Materials Science.

The Group has developed an extremely experienced senior management team under the PLC Board, and has the right leadership capability in place to achieve the strategic objectives of our Recruitment and PeoplePlus divisions.

Simon Rouse joined the Group in November 2017 as Managing Director of PeoplePlus from Capita, where he was a Portfolio Managing Director, leading a number of contracts across both the private and public sector.

Mark Underwood joined the Group in 2012 and has been Managing Director of the Specialist Recruitment Businesses (Driving Plus, Agriculture and Branch network operations). These have been key to the success of Recruitment's "new division" strategy. Mark is now appointed as Managing Director of our Recruitment division.

I am delighted that we have an experienced management team in place to deliver the Group's next development plan. Most members of the team have worked together for a considerable time and have vast knowledge of Staffline, our customers and the markets in which we operate. I would also like to thank the whole team for all their continued efforts, support and contribution.

Key priorities for the two divisions in 2018 are:

Recruitment:
- Continued organic growth – focus on our core business
- Continued strong cash conversion – focus on margin and payment terms
- Bolt on acquisitions – enhancing continued organic growth
- New digital platform – differentiation in a tight labour market

PeoplePlus:
- Optimisation of Work Programme business
- Deliver growth in our Prisons' Offender Learning and Skills Services contracts
- Develop and grow private skills market business through the Apprenticeship Levy
- Develop and grow our presence in Wales, Scotland and local government
- Develop new market propositions in health and wellbeing and corporate learning and development

Outlook

For a number of years now, the Group has maintained its objective of being the largest provider of people in the UK blue collar market, with specialist knowledge of the food, logistics/driving and manufacturing sectors. The Board and I are confident that the Recruitment division can continue to grow its market share through further organic growth, as well as suitable acquisitions which strengthen our offering.

The restructuring of PeoplePlus has positioned the division well to provide a strong Apprenticeship Levy offering, as well as being agile enough to take advantage of other opportunities in the employability, justice and wellbeing sectors. Similar to 2017, 2018 is seen as a transitional year for this division, with the Work Programme revenues tailing off and the further development of our Skills, Employability and Health and Wellbeing offering.

Despite the change in sales mix within PeoplePlus, we expect the Group's 2018 profit to be slightly higher than in 2017. Continued strong cash generation should either result in net debt being eliminated in 2018 or provide the resources to acquire additional businesses. The Group is in an excellent position to continue to generate shareholder value through growing cashflows in future years.

John Crabtree OBE
Chairman
23 January 2018

Group strategy

Our strategy, vision and values

Enabling the future of work™

Provision of more flexible workforces.
Building a skilled workforce for the future.

Through our Recruitment division:
- Helping society as people increasingly want to work with more flexibility, when they want and where they want. We provide this flexibility and choice
- Helping our customers to be more efficient by providing flexible workforces, when they want and where they want. Underpinned with strong compliance and ethical standards

Through our PeoplePlus division:
- Helping people into sustainable work
- Building a skilled workforce for the future and developing careers
- Rehabilitating offenders into society and the workplace
- Enabling a healthy and diverse workforce and support for independent living

Staffline is a values-based organisation which exists to help our customers be more successful. We have a clear set of values that drives everything we do. These values influence the way we act, interact with staff, clients and candidates on a daily basis and can be measured in the strong results that we consistently achieve. Our ultimate aim is to ensure that doing business with us is simple and enjoyable, whether you're a jobseeker or employer.

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 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 doorstep
- 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

Chief Executive Officer's statement

Delivering great results

Andy Hogarth
Chief Executive Officer

Trading

Sales in 2017 grew by 9% to £957.8m (2016: £882.4m). A change in the sales mix between the two divisions, with Recruitment accounting for 88% of the 2017 revenue (2016: 84%), has had a comparative impact on the Group's gross profit margin, with a reduction from 14.2% in 2016 to 11.9% in 2017. Underlying profit before tax* reduced by 1% to £36.3m (2016: £36.7m). On this basis, adjusted diluted earnings per share fell to 112.6p (2016: 114.0p), a reduction of 1%. However, reported profit before tax from continuing operations increased by 28% to £24.1m (2016: £18.9m) and reported diluted earnings per share from continuing operations rose by 21% to 71.1p (2016: 58.8p).

* Underlying profit before tax excludes amortisation charges from intangible assets arising on business combinations, acquisition and exceptional re-organisation costs, and the non-cash charge/credit for share based payment costs ("SBPC")

Key Performance Indicators ("KPIs")

The Group monitors a number of performance indicators both financial and non-financial. These indicators are discussed in this report, and are set out in the table below.

KPIs

	2017	2016
Revenue	£957.8m	£882.4m
Year-on-year total revenue growth	8.5%	25.6%
Organic revenue growth	4.9%	11.7%
Gross profit margin as a % of revenue	11.9%	14.2%
Recruitment division gross profit	£66.1m	£61.3m
Recruitment division gross profit margin to sales	7.8%	8.3%
Underlying Profit Before Tax*	£36.3m	£36.7m
Underlying Profit Before Tax as a % of revenue	3.8%	4.2%
Net Debt including unamortised transaction costs	£16.5m	£36.7m
Recruitment services DSO (days) – year end	23.4	23.3
Highest number of temporary contractors	52,400	51,100
Number of Recruitment OnSites (year end)	395	357

Recruitment

Recruitment sales rose by 14%, to £843.3m (2016: £740.8m), driven both by organic growth of 9.5% and by the acquisitions of Driver and Labour Recruit Limited (trading as "Oak Recruitment") in the Republic of Ireland and Brightwork Limited ("Brightwork") in Scotland in the first half of 2017. All our OnSite divisions saw good organic growth in the year.

Our Recruitment gross profit margin, expressed as a percentage of sales, decreased by half a percent from 8.3% to 7.8% – more than half of which was due to an increase in the minimum wage. A more meaningful metric is the cash margin per hour which rose in the year by +1.2%. The increase in margin per hour reflects the increased scale and diversity of our customer base. The above factors resulted in gross margin increasing by 7.8% from £61.3m to £66.1m. During the year, we invested heavily within Recruitment, specifically on IT infrastructure and new senior talent, which saw overheads rise by 7.9%, the net result of which is that underlying operating profit, before finance charges, increased by 7.4%, to £20.2m (2016: £18.8m).

We continue to generate significant opportunities for the Group to build market share in our core business, underpinned by our rigid adherence to compliance, ethical approach and ability to deliver to our customers. Customers are increasingly looking for suppliers with scale and added value products, such as worker retention models, apprenticeships and bespoke training. This has meant that we have continued to win new business in line with prior year levels of growth. The number of OnSite locations from which we operate grew by net 38, ending the period with a total of 395 locations. 14 of those wins were within our core OnSite divisions, with 17 in our newer divisions (Agriculture, Driving, Ireland) and seven acquired with Brightwork. This demonstrates that Staffline's geographical and operational scale means we remain the go-to supplier across most industry sectors.

The ongoing uncertainty around the final Brexit outcome has had an impact on UK consumer spend, specifically within the fashion and food sectors. This has made supermarket and high-street store demand volatile. As a result, our growth in these areas has slowed down. This has meant that our 10% organic growth has been achieved through new customers in both the core and newer divisions. For example, our largest single-site customer (by volume) was a brand new Staffline customer in 2016, where our business has continued to grow in 2017 due to our excellent service levels.

The uncertainty around the final Brexit outcome has also seen a reduction in the number of EU citizens coming to the UK and an increase in those returning to their homelands. In addition, UK unemployment rates at 42-year lows have impacted on our ability to attract candidates. However, our scale of operations, our excellence in both candidate attraction and retention and our ability to offer additional training through PeoplePlus have meant that we have been able to mitigate any temporary shortfalls in available candidates.

As we face the challenges of a tightening labour market and the competition for talent intensifies, we are placing even greater emphasis on the job seeker experience. Customer experience and employee engagement are at the heart of our business model, and job seekers are increasingly choosing Staffline due to the emphasis we place on using our scale for good. By using our vast network and resources to provide fast, flexible and long-term employment across thousands of roles, we offer applicants unprecedented choice and variety of work assignments as we introduce thousands of job seekers to the most suitable employers via simple and easy to use applications. We have invested in a digital transformation programme which reflects changes in job seeker behaviour with emphasis on search engine optimisation, and we anticipate a considerable return on this investment during 2018, by way of increased applications and brand awareness from both active and passive job seekers.

Recruitment division revenue growth

9.5%

Recruitment division gross profit

£66.1m

(2016: £61.3m)

Highest number of temporary contractors (per week)

52,400

Number of Recruitment OnSites (year end)

395

(2016: 357)

Chief Executive Officer's statement Continued

PeoplePlus revenue

£114.5m

(2016: £141.6m)

PeoplePlus underlying operating profit

£18.9m

(2016: £21.2m)

PeoplePlus reported operating profit

£12.2m

(2016: £2.5m)

PeoplePlus

PeoplePlus revenues decreased by 19% to £114.5m (2016: £141.6m) in 2017. This has been driven by the much-publicised start of the wind down of the Work Programme following the end of referrals in March 2017.

Gross profit reduced by £15.9m to £47.7m (2016: £63.6m), with the gross profit margin falling from 45% to 42%. We have successfully managed overhead costs, saving £13.6m year on year. This has mostly offset the fall in revenues, with operating profit, before finance charges, only reducing by £2.3m (11%) from 2016, improving the operating margin to 16.5% (2016: 15.0%).

PeoplePlus is built on three key themes of helping people to:

- Transform lives – through our work in justice services and adult social care
- Get jobs and keep jobs – through our work with youth employment programmes, employability programmes across the UK, including helping people set up their own businesses
- Develop careers – through our work in Apprenticeships and Adult Education

On the Work Programme, following the end of referrals in March 2017, we have focused on effective and efficient operational delivery to counter the revenue decline through to March 2021. Our focus on delivery has resulted in our nine contracts being in the top ten performers nationally, a further improvement on the prior year's strong performance. The revenue reduction was forecast, and this allowed us to make significant savings in overheads through changes in our operating model. This has allowed us to maintain strong profitability in the Work Programme during 2017, which we expect to continue in 2018.

The Apprenticeship Levy, introduced in April 2017, has created a huge new market for apprenticeship delivery. Whilst the overall market growth in apprenticeship numbers is significantly below government expectations, we feel that this market still represents an excellent growth opportunity, and we have aligned ourselves accordingly. Our strong offering has seen us sign a number of new contracts in 2017, and we are continuing to build a strong pipeline into 2018. These existing clients will provide organic year-on-year growth. This, coupled with expected new wins in 2018, will allow us to take advantage of a growing market, estimated to be worth £3bn per annum. We also believe this will create a good foothold for us into the private sector market overall, where we want to develop new market propositions.

The Adult Education division was given a 2 rating ("Good") by Ofsted during 2017, a clear reflection of the very high quality of our training provision. Business performance has been strong, with growth in existing contracts following the government re-tender and our ability to deliver against these remains high positioning us well for further growth. We were awarded over £10m of new Adult Education Budget funding during the year.

Our Independent Living Services ("ILS") and Carers Hubs have continued to perform well, with ILS managing £40m of direct payments from councils on behalf of local care recipients; enabling them to live more independently. With demand on adult social care growing and representing a challenging budget area for local authorities, we continue to seek opportunities to further develop our services in this area.

Our focus on new business has allowed us to secure £54m (2016: £13m) of new business in 2017, with an improved win rate of 1 in 3 (2016: 1 in 6). This includes £24m for Fair Start Scotland, the Scottish Government's key employability programme, which commences in April 2018, and New Enterprise Allowance 2 at £9m, which supports individuals wishing to start in self-employment.

Our Community Rehabilitation Company ("CRC") contract continues to perform well against its contractual targets, and is evolving in line with HMIP recommendations and contractual changes being introduced by the Ministry of Justice. The Offender Learning and Skills Services ("OLASS") contract has seen us draw down the maximum revenue available against a challenging environment, and reflects the quality of our delivery and strong relationships with prison service leadership. This high level of performance will put us in a strong position for the next iteration of these contracts, which are a strategic priority for us as we look to grow in the offender learning and skills market.

PeoplePlus Northern Ireland has successfully tendered for, and been awarded, European Social Funding. This project will further develop our skills and employability offering across the province. Existing programmes in Employability, Community and Justice sectors continue to perform at projected levels. Our Apprenticeship Northern Ireland provision is realising growth, with several national branded businesses committing to work in sole partnership to upskill their workforces across Northern Ireland. There is a strong pipeline of new opportunities for further growth in the apprentice market.

PeoplePlus Wales performed strongly throughout 2017, exceeding our expectations in all areas, including Youth Programmes, and expects to be confirmed as the top performing provider in Wales when government learner outcome reports are published. This positions PeoplePlus Wales well for the 2018 round of tendering by the Welsh Government of youth and adult programmes.

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 renewed our accreditations to both ISO 9001, accreditation for our management systems, and Investors in People ("IIP" – Recruitment division), to ensure that we continue to motivate and develop our staff. The PeoplePlus business has achieved ISO 27001 "Cyber Essentials Plus" accreditation during the year for the security of its IT systems, which represents an important certification given that we deal with the personal details of many hundreds of thousands of people.

People

Our focus on driving a high-performance culture continues and, as we see our talent pipeline develop, the Group continues to review succession planning at all levels to support our agility and to enable further growth. As a commercially focused business, we regularly review our headcount to ensure that our lean operating model is fit for purpose. The consolidation of headcount across the business at 31 December 2017, shows a permanent workforce total of 2,265 people (full-time equivalents), a net reduction of 220 compared to 2,485 as at 31 December 2016 (movement includes an increase of 80, relating to acquisitions in Scotland and the Republic of Ireland during the year). Average monthly headcount has fallen by a net 16% during the year, from 2,793 in 2016 to 2,357 in 2017.

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 first Peak Performance Camp was held with senior leaders across the business in February 2017. This has resulted in some strategic projects taking place to explore more business opportunities for growth. A master class event was held in our PeoplePlus business during November 2017 to enhance the understanding and knowledge of our senior managers in growing their individual business areas. Our next annual Leadership Camp for our leaders of the future will take place in February 2018.

As the Apprenticeship Levy came into force this year, Recruitment and PeoplePlus divisions have worked collaboratively to develop our programme, with our first 60 delegates embarking on a three-day residential at Nottingham University to start off on their apprenticeship programmes in June 2017. 24 new delegates joined the programme in November 2017 with a further 40 planned for January 2018. These apprenticeships are aimed at our first line managers, enhancing their skills and capability to be the best they can be, delivering results through others, learning more about business improvement techniques and customer excellence. A Level 5 management development programme is also planned for 12 delegates in early 2018 to support our current "high potential" managers grow to become leaders of the future.

Chief Executive Officer's statement Continued

Gender Pay Gap Reporting ("GPGR")
Our April 2017 GPGR review has almost been completed and we are aiming to put the results on our website by no later than the middle of February 2018.

Health, safety and environment
Staffline continues to take a proactive approach to the health, safety and welfare of its employees and contractors. Our commitment to health and safety is strong, and is demonstrated by the regular reviews taking place by senior management; the outcomes of which are cascaded across the business.

Staffline actively monitors all aspects of health and safety using "closed loop management processes". 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. The Group's health and safety management systems are reviewed annually to ensure they remain aligned to the needs of the business, and allow the Group to know and demonstrate that our corporate responsibilities are being appropriately discharged.

Compliance
We take compliance with legislation and industry standards extremely seriously. We offer a total commitment to all our clients, ensuring that all our workers, whether or not they are working in areas covered by the legislation, are recruited and supplied to the standards required by the Gangmasters and Labour Abuse Authority ("GLAA"). Our commitment gives our clients the assurance that all UK ethical and legal standards are met in full at all times. 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 a business partner, active member and supporter of the "Stronger Together" initiative to help prevent exploitation and trafficking of workers. We actively work with our clients to encourage strong partnerships with the authorities to collaborate to help reduce the risk of modern slavery in our supply chains. We are also actively engaged with anti-slavery networks to collaborate to help reduce modern slavery taking place in the UK.

General Data Protection Regulation ("GDPR")
Staffline will comply with applicable GDPR regulations when they take effect in 2018, including as a data processor, while also working closely with our providers of finance, customers and partners to meet contractual obligations for our procedures, products and services.

Our governance measures will be comprehensive but proportionate, with the aim of minimising the risk of breaches and to uphold the protection of personal data. Our Data Protection Officer will inform and monitor compliance, and the Company will implement tools as appropriate that support the process, provide necessary security and ongoing delivery of objectives.

Work is currently underway to build transition plans for all our systems and processes to ensure that the changes are managed effectively and without causing interruption to our normal business routines. Internal awareness campaigns and staff training activities will launch at the start of 2018.

Events after the balance sheet date
There were no events between the balance sheet date of 31 December 2017 and the approval of these accounts on 23 January 2018 that are required to be bought to the attention of the shareholders.

Five-year plan
Although we narrowly missed our internal target set in 2013 of achieving £1bn revenue in 2017, we significantly exceeded the underlying operating profit target of £30m. The past five years has seen significant growth in both revenue and underlying operating profit:

- Turnover up £591m, a Compound Annual Growth Rate ("CAGR") of 21%
- Underlying operating profit up £28m, a CAGR of 29%

It is worth highlighting that the current run rate based on revenues in the second half of the year is in excess of £1bn.

Last five years underlying operating profit CAGR

29%

Next five years targeted underlying diluted EPS growth

77%

Our new plan, the fourth since we became a listed Company, is during the next five years to grow underlying diluted Earnings Per Share to 200p, a 77% increase on the 112.6p reported this year. To achieve this target, we will continue to achieve strong organic growth. In addition, we will continue to seek further acquisitions in either current or complimentary new sectors.

Current trading

Nearly one month into the new financial year, we have started well, buoyed by additional contracts, largely from existing Recruitment customers, all of 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, in Welfare to Work, Justice with OLASS, Wellbeing 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 Recruitment division, and remain in discussions with a number of companies.

On a personal note, this is my 15th and final annual Chief Executive's Statement. I am delighted that Staffline has such an excellent internal successor to me in Chris Pullen. We have worked closely for the past two years and share a vision for the continued success of the Group and the people who work with it, and I wish him and his executive team all the best for the future. I will continue to support both the business and the executive team in any way I can in my new role as a Non-Executive Director.

Andy Hogarth
Chief Executive Officer
23 January 2018

Recruitment

“We are a leading workforce recruitment and management organisation, specialising in labour solutions in agriculture, food processing, manufacturing, e-retail, driving and the logistics sectors.”

Our vision is to Enable the Future of Work by helping society as people increasingly want to work with more flexibility, when they want and where they want and helping our customers to be more efficient by providing flexible workforces, when they want and where they want

Revenue

£843.3m

Up +13.8% (2016: £740.8m)

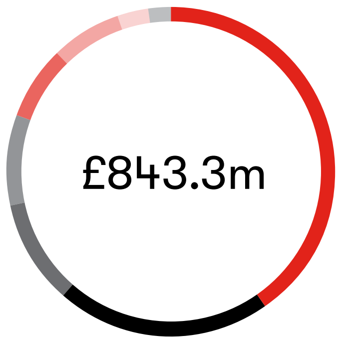
Underlying operating profit

£20.2m

Up +7.4% (2016: £18.8m)

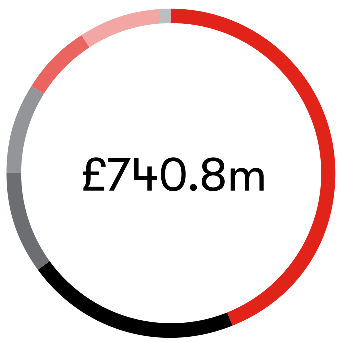
- Continued expansion of the OnSite model, increased by **38** sites during the year.
- Takes the total to **395** (December 2016: 357)
- Integrated Brightwork (Scotland) and Oak Recruitment (Republic of Ireland) acquisitions in 2017, increasing our market presence in both countries.
- Supplied **76.4m** hours of temporary labour (2016: 67.2m) to more than 1,500 clients.
- **52,400** temporary workers placed at 'peak'.
- **2,440,000** contractors placed during the year (weekly average 46,850); an increase of 6% on 2016.
- Checked the ID's of **150,400** candidates, a 4% increase on 2016.

Recruitment revenue profile 2017



- **40%** Food, agriculture
- **21%** Logistics
- **10%** Driving
- **9%** Manufacturing, automotive
- **7%** Ireland
- **7%** Express
- **3%** Brightwork
- **3%** Others

Recruitment revenue profile 2016



- **44%** Food, agriculture
- **21%** Logistics
- **10%** Driving
- **9%** Manufacturing, automotive
- **7%** Ireland
- **8%** Express
- **0%** Brightwork
- **1%** Others

PeoplePlus

"Our vision is to be the leading creator of opportunities, jobs and new ideas in the employability, skills and justice sectors."

In 2017 Ofsted awarded PeoplePlus a Strong Grade 2 rating

Revenue

£114.5m

Down (19.1%) (2016: £141.6m)

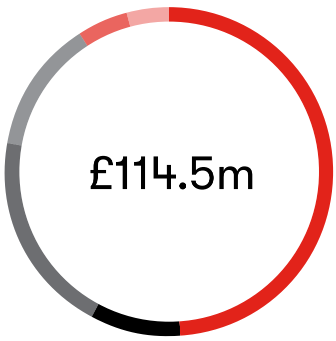
Underlying operating profit

£18.9m

Down (10.8%) (2016: £21.2m)

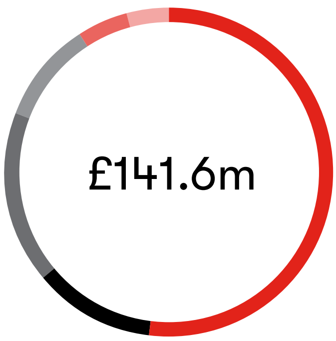
- WayOut TV learning service now available to over **12,000** prisoners.
- Assisted over **6,800** people in starting a new business during the year.
- Supported **5,100** young people (16-24) into employment.
- Over **30,000** learners trained during the year.

PeoplePlus revenue profile 2017



- **49%** Work programme
- **9%** Employability
- **20%** Justice services
- **13%** Skills services
- **5%** Independence services
- **4%** Northern Ireland

PeoplePlus revenue profile 2016



- **52%** Work programme
- **12%** Employability
- **17%** Justice services
- **10%** Skills services
- **5%** Independence services
- **4%** Northern Ireland

Chief Financial Officer's statement

Chris Pullen
Chief Financial Officer

2017 has been a year of steady growth, with total revenue for the year increasing by 9% to £957.8m (2016: £882.4m). Of this revenue growth, 5% is organic, despite PeoplePlus revenues falling by 19% year on year, attributable to the existing Work Programme closing to new job seekers from March 2017. The remaining revenue growth has been achieved through the continued increase in the number of Recruitment OnSites and from the strategic acquisitions of Brightwork Limited in Scotland and Driver & Labour Recruit Limited in the Republic of Ireland. Both acquisitions increase our presence in their respective countries. Revenues in our Recruitment division grew by £102.5m (up 14%), of which £70.2m (up 10%) is organic growth.

A year of steady growth

Cash exceptional costs

Nil

(2016: £6.7m)

Underlying diluted earnings per share

112.6p

(2016: 114.0p)

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 intangible assets arising on business combinations has been added back, the revenue from those acquisitions has not been eliminated.

Our overall gross profit has decreased by 9% to £113.8m (2016: £124.9m), with gross profit margins reducing to 11.9% (2016: 14.2%). This reduction is a result of the change in sales mix, with PeoplePlus revenues falling (divisional margin of 41.7%) and Recruitment revenues growing (divisional margin of 7.8%). The Recruitment division gross margin has declined to 7.8% (2016: 8.3%), primarily as a result of the National Living Wage increase in April 2017 (no effect on absolute gross profit). This factor has become a regular feature of our Recruitment gross margin profile and will continue, with the Government planning to increase the National Living Wage from the current £7.50 for over 25s to £9.00 by 2020.

Reported profit before taxation grew by 28% to £24.1m (2016: £18.9m), primarily due to exceptional reorganisation costs incurred in 2016 not being repeated in 2017, whilst underlying profit before taxation reduced marginally, in line with expectations, by 1% to £36.3m (2016: £36.7m), and underlying profit before taxation as a percentage of revenue fell to 3.8% (2016: 4.2%).

Non-underlying administrative charges

Non-underlying administrative charges have reduced by £5.6m to £12.2m in 2017 (2016: £17.8m). 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 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 in 2016 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.

Banking facility headroom

£54m

(2016: £42m)

Free cash flow conversion of underlying operating profits

97%

(2016: 90%)

Year-end net debt

£16.5m

(2016: £36.7m)

Non-underlying administrative charges

	2017 £'m	2016 £'m
Amortisation of intangible assets arising on business combinations	8.8	12.4
Share based payment charges/(credit)	3.4	(2.9)
Transaction costs	–	0.1
Reorganisation costs	–	6.6
Impairment of tangible fixed assets (reorganisation related)	–	1.6
	12.2	17.8

The charge for amortisation of intangible assets arising on business combinations in 2017 relates principally to the acquisition of the A4e business (£5.6m charge: asset will be fully amortised by February 2019), Milestone (£1.0m charge: asset will be fully amortised by September 2020) and Diamond (£0.6m charge: asset will be fully amortised by September 2020) businesses in 2015, together with the Avanta business acquired in 2014 (£1.1m charge: asset fully amortised by the end of 2017). The share based payment charge in 2017 arose principally due to the 23% increase in the Company's share price during the year from £8.45 to £10.40. The reorganisation costs noted above for 2016 relate to the integration of acquisitions to form the PeoplePlus division. This process was started in 2015 and completed in 2016.

Earnings per share

Statutory basic earnings per share increased by 21% to 71.4p (2016: 59.1p) and the diluted earnings per share increased to 71.1p (2016: 58.8p). A lower underlying profit before tax (£0.4m lower than 2016) and higher share based payment charges (£6.3m higher in 2017) were more than offset by a lower charge for the amortisation of intangible assets arising as business combinations (£3.6m lower than 2016) and no exceptional reorganisation related charges in 2017 (£8.2m lower than 2016). In addition, our finance charges have reduced (£0.5m lower than 2016) as we repay our term loan, but our tax charge is higher than 2016 by £1.9m due primarily to the tax allowability of the exceptional reorganisation costs in 2016 (no charges in 2017).

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 decrease of 1% to 113.2p (2016: 114.7p) and an adjusted diluted earnings per share decrease of 1% to 112.6p (2016: 114.0p).

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 increased by £13.2m to £263.5m (2016: £250.3m), due to increased cash (up £11.6m) and trade and other receivable balances (up £4.5m). The trade and other receivables increase is due to balances acquired on the purchases of Brightwork and Oak Recruitment businesses during the year. Days Sales Outstanding ("DSO") at 31 December 2017 within the Recruitment division remained low at 23.4 days (31 December 2016: 23.3 days).

Free cashflows, being underlying EBITDA plus working capital movement, less tax paid and capex, amount to £37.9m in 2017 (2016: £36.0m). The Group's free cash conversion of 97% (2016: 90%) continues to be strong, enabling the swift repayment of the Group's debt and providing the Group with funds for reinvestment. Free cash conversion is calculated as free cash flows as a percentage of underlying operating profit. Cash conversion is expected to be at comparable levels in 2018.

Total Group liabilities have increased marginally, by £1.1m to £167.7m (2016: £166.6m). Total borrowings (see note 20) reduced by £8.6m, from £56.4m at the end of 2016 to £47.8m at the end of 2017, partially offset by an increase in JSOP liabilities. The Group's headroom versus available banking facilities as at 31 December 2017 was £53.8m (31 December 2016: £41.8m) as set out below:

Banking facility headroom

	2017 £'m	2016 £'m
Cash at bank and hand	31.3	19.7
Overdraft facility	15.0	15.0
Additional Revolving Credit Facility	7.5	7.5
Bank guarantee	(0.0)	(0.4)
	53.8	41.8

Chief Financial Officer's statement
Continued

Dividend per share

26.7p
(2016: 25.8p)

Net debt reduction

£20.2m

Throughout the year, the Company remained comfortably within its banking facility. Group banking facilities are summarised in the table below.

Negotiations to renew the banking facilities have yet to commence but it is anticipated that discussions will start before the end of March 2018.

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 £2.8m for the year (2016: £3.3m).

Net debt

We have ended the year with net debt of £16.5m (including unamortised transaction costs), significantly lower than the £36.7m at the end of 2016. This was short of our aim of being in a net cash position at the year end, due in part to delayed receipts from customers and the acquisitions of Brightwork and Oak Recruitment businesses. However, the significant improvement is expected to continue and the Board anticipate that, with all things being equal, the Group will report a net cash position at the end of 2018.

During the year ended 31 December 2017, 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 2018. Cash flows are monitored daily 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.

Facility type	Facility expiry date	Headline amount	**Net borrowing as at 31 December 2017**	Net borrowing as at 31 December 2016
Term Loan (drawn in May 2015)	Apr 2019	£35.0m	**£13.1m**	£21.9m
Revolving Credit Facility (including overdraft facility)	Apr 2019	£57.5m	**£35.0m**	£35.0m
Unamortised transaction costs		–	**(£0.3m)**	(£0.5m)
Total facility		£92.5m	**£47.8m**	£56.4m
Less cash held (see note 18)			**(£31.3m)**	(£19.7m)
Net debt, including unamortised transaction costs			**£16.5m**	£36.7m

Taxation

The tax charge on statutory profits was £5.8m (2016: £3.9m), an effective tax rate of 24.1% (2016: 20.6%), higher than the average actual composite UK corporation tax rate of 19.25% due the non-tax allowability of JSOP charges. The tax charge on underlying profits was £7.3m (2016: £7.6m), an effective tax rate of 20.1% (2016: 20.6%), not significantly different to the average actual composite UK corporation tax rate of 19.25% (2016: 20.00%). During 2015, we were the first Company quoted on AIM, and the first recruitment Company, to be awarded the Fair Tax Mark, for ensuring that our tax disclosures are transparent and that we are open and honest in ensuring we pay the correct amount of tax due on our profits. We are delighted that this status was renewed in both 2016 and in 2017.

Dividend policy

The Group's current dividend policy is to maintain a dividend cover of between 4.0 and 4.5 times of underlying diluted earnings per share ("EPS"). Underlying diluted EPS is calculated as earnings per share adjusted for amortisation of intangibles arising on business combinations, share based payment charges/credits, acquisition related costs and reorganisation costs including the tax effect. The Group's proposed final dividend will ensure the full year dividend cover is within this range at 4.22 times. The Group has maintained this dividend cover for over five years and reviews the cover annually. With our net debt reducing, and our expectation that by the end of 2018, all things being equal, we will be in a net cash position, the Group expects dividend growth in the coming years to reduce the cover towards 2.5 to 4.0 times.

Reserves of the Company are reviewed at least twice a year to ensure that it has adequate distributable reserves available to enable it to declare and pay dividends as they fall due.

Going concern

The net debt position of the Group, as discussed earlier, has fallen during 2017 from £36.7m to £16.5m.

The Directors have reviewed forecasts for the next three years and detailed forecasts covering the period up to the end of Q1 2019. These forecasts demonstrate that the Group is expected to be able to operate fully within its banking facilities for at least 12 months from the approval of this Report, with significant headroom being noted across all financial covenants.

With improving free cash flow levels, debt is forecast to continue to fall in 2018, with the Group expected to have a net cash position by the end of 2018.

With strong financial performance for the year ended 31 December 2017 and a strong start to 2018, the Directors are of the view that it is appropriate for the financial statements to be prepared on a going concern basis.

Changes to International Financial Reporting Standards

2018 marks the year for implementing two new significant International Financial Reporting Standards (IFRS), being IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

IFRS 15 Revenue from Contracts with Customers

During 2017, a project has been undertaken within both divisions to understand the impact of IFRS 15 Revenue from contracts with customers on our revenue recognition policies. Our Recruitment division revenue accounting policy, detailed within the accounting policies section of this Annual Report, is unaffected by the application of this new standard as we currently recognise revenue once a performance obligation has been delivered.

Our PeoplePlus division has several contracts, all of which have different performance obligations. Our finance team have reviewed the contracts and concluded that, in most cases, our accounting policy is unaffected by the application of this new standard. We have a number of similar contracts where our contractual obligation relates to helping individuals gain employment and stay in employment for a specified period of time. Payments under these contracts are staged in relation to the number of weeks the individual is employed. Currently revenue is recognised as and when a stage payment is due. Under IFRS 15 this single obligation will be settled over time and therefore all revenues will be recognised over the period specified in the contract. This amendment at transition in 2018 will result in an estimated increase in our 31 December 2017 revenue by £0.5m, an increase of £0.5m in our profit before taxation from £24.1m to £24.6m and a reduction in the Group's net assets by £1.0m to £94.8m.

IFRS 9 Financial Instruments

In 2017, a review of the impact to the Group of applying IFRS 9 Financial Instruments was undertaken. The classification and measurement of the Group's trade receivables will change due to the fact that some of these balances are factored. This will change the classification of these trade receivables, estimated to be £4.8m at 31 December 2017, which will be classified as fair value through the Income Statement. However, based on current analysis, this will not impact on the Income Statement or the Statement of Financial Position. An Expected Credit Loss ("ECL") model has been prepared for both divisions as at 31 December 2017 and again will not have an impact on the Income Statement or the Statement of Financial Position. The Group has not hedged in 2016 or 2017, therefore the changes to hedge accounting under IFRS 9 will not apply to the Group at transition.

IFRS 16 Leases

IFRS 16 Leases is effective for accounting periods beginning on or after 1 January 2019. However, the Group has begun a review of the impact the new standard would have on its financial reporting. As at 31 December 2017, the Group has 131 operating leases and recognised the rental expense in the Income Statement as it falls due. Under IFRS 16, a significant number of these leases would lead to the recognition of a fixed asset and a financial liability. A small number of leases would continue to be recognised through the Income Statement as short-term leases i.e. leases with a maximum lease term of no more than 12 months.

Had the standard been applicable for the year ended 31 December 2017 the estimated impact on the Group's reported profit before tax would have been less than £0.1m, on underlying profit, being operating profit excluding amortisation of intangible assets arising on business combinations, acquisition and exceptional reorganisation cost and non-cash charge/credit for share based payment costs, of between £0.1m-£0.2m and on EBITDA between £1.5m-£2.0m. Current analysis indicates the recognised assets and liabilities would have been in the range of £5.0m – £7.5m.

Chris Pullen
Chief Financial Officer
23 January 2018

Principal risks and uncertainties

Managing our risk

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.

Risk management framework
The Group is exposed to a variety of potential risks and uncertainties which require ongoing 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. Risk registers are maintained within both divisions of the Group, which are consolidated twice a year, with the output formally reviewed by the Audit Committee.

The Board reviews risks and uncertainties under four principal types:

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

The six most significant risks to which, in the opinion of the Directors, the Group is exposed are described here:

The Board's view of direction of travel of risk:

- **Increased since prior year**
- **Reduced since prior year**
- **Similar to prior year**

Strategic

Shortage of staffing resource in our Recruitment division

Risk

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

Our response

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 Recruitment divisions, with PeoplePlus providing labour resource to Recruitment.

Strategic

PeoplePlus business development strategy

Risk

The winding down of the Work Programme ("WP") will reduce the potential revenue accessible to the PeoplePlus division. The division is looking to its Skills and Communities/Justice revenue streams for future growth, to minimise the financial effects of the winding down of the WP. In particular, the growth in Apprenticeship Levy revenue is considered a key part of the division's future plans.

There is a risk that the existing business development strategy within the division is not structured and aligned appropriately to the planned future sales mix. This could lead to poor financial bidding, resulting in a failure to meet the growth targets and objectives of the division.

Our response

The PeoplePlus division's business development strategy is now structured to achieve a better-balanced range of contracts, including Apprenticeship Levy, Adult Education Budget and Prison Education.

A new Business Development Director commenced in their role shortly before the end of 2017, with a new Divisional Managing Director appointed in November 2017. The business development strategy will be thoroughly reviewed to ensure it is appropriately aligned with the planned future activity mix. The division already has a strong pipeline of a number of contracts with smaller values, which should provide a better balanced range of contracts whilst covering the shortfall from the winding down of the WP.

Work Programme revenue as a % of PeoplePlus revenues

49%

(2016: 52%)

Principal risks and uncertainties
Continued

Operational

Business Interruption – information security breach or cyber-attack

Risk

There are two issues the Group focuses 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 – 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 new General Data Protection Regulation ("GDPR") has further focussed the Group's attention on this risk.

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

Our response

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. During 2017, the Group has migrated the hosting of materially all of its systems to a third party specialist IT company. The Group has insurance in place for business interruption and has in place suitable Group policies and procedures. ISO27001 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. A GDPR steering committee has been set up to review the impact of the new regulation, with a programme of data security improvements due to be rolled out in Q1 2018.

Operational

Pressure on margins by customers

Recent trends have seen Recruitment revenues increase but with lower increases in gross profit. On some contracts, 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.

Recruitment uses 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 improve 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 Board's view of direction of travel of risk:

- Increased since prior year
- Reduced since prior year
- Similar to prior year

Operational

	Risk	Our response
Recruitment mobilisation project teams become overstretched (Increased since prior year)	The Recruitment division's continued OnSite growth can lead to significant pressure on the mobilisation project teams during periods of significant growth. There is a risk that this leads to poorly implemented new wins.	The Group continues to monitor the effectiveness of the mobilisation project teams and the performance of new OnSites once the team have handed over to operations. Operations continue to consider seconding experienced staff to new OnSites to help bed them in. **Number of Recruitment OnSites (year-end)** **395** (2016: 357)

Reputational

	Risk	Our response
Loss of Gangmasters Labour Abuse Authority ("GLAA") license (Similar to prior year)	The Group is licensed with the GLAA and works closely with the Authority to maintain high standards of compliance controls. However, the Group faces the risk that a member of staff deliberately bypasses controls or that an employee is involved in gangmaster activity.	The Group has a strong compliance team which operates a robust system of checks on every contractor. The team carry out regular site audits and works closely with the GLAA and/or police if issues are identified. The Group has good training processes in place for all new starters and supervisors to ensure everybody in the Recruitment division is aware of indicators of inappropriate activities. **New starter ID checks** **150,400** (2016: 144,100)

Corporate social responsibility

Building a sustainable future

At Staffline, we place great importance on the role we play in helping 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 and suppliers. 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 monitoring system, which is supported by a clear strategy and development plan.

In addition, our Energy Saving Opportunity Scheme ("ESOS") audit results are continually being reviewed and the opportunities to reduce our environmental impact are being acted upon. This will continue to focus on our energy consumption, waste, travel and use of sustainable materials. We carry out building and energy audits on an ongoing basis, to identify areas for improvement and opportunities to reduce our carbon footprint.

In conjunction with our General Data Protection Regulation compliance work, we are striving to move towards paper-less offices and have put measures in place to significantly reduce both printing and postage usage and costs. We continue to work closely with our suppliers and customers to improve the efficiency of distribution process and thus reduce their carbon footprint.

On behalf of the Board

Chris Pullen
Chief Financial Officer
23 January 2018

Our focus

"Our clients and workers depend on us for strong compliance and ethical standards".

We shall strive to improve our environmental performance by fostering and encouraging initiatives that reduce waste

We will offer our employees clear and fair terms of employment and provide resources to enable their continual development

We shall uphold the values of honesty, integrity and fairness on our relationships with stakeholders

We shall provide, and strive to maintain, a clean, healthy and safe working environment

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

We shall support and encourage our employees to help local community organisations and activities

We shall provide safeguards to ensure that all employees are treated with respect and without sexual, racial, physical or mental harassment

We shall operate an equal opportunities policy for all present and potential future employees and flexible workers

Board of Directors

Our leadership team

John Crabtree
Non-Executive Chairman (r,n)

Appointed to the Board in March 2005 as a Non-Executive Director and was appointed Chairman in 2011. A member of the Remuneration and Nomination Committees.

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 and the charity Sense. John was appointed as Her Majesty's Lord-Lieutenant for the West Midlands in January 2017.

Andy Hogarth
Chief Executive Officer (n)

Appointed to the Board in November 2004 as Finance Director, becoming Managing Director in 2005 and was appointed Group Chief Executive in 2009. A member of the Nomination Committee.

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 currently sits on the board of an elderly care charity, is a Governor of two RSA academy schools and is the Non-Executive Chairman of the Birmingham Hippodrome, the UK's largest theatre. He is also 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.

Chris Pullen
Group 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 June 2016. A member of the Nomination Committee.

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.

As set out in the Chairman's Report on page 7, the following changes are to be made with effect from 24 January 2018: Andy Hogarth to be replaced by Chris Pullen as Chief Executive Officer, Andy Hogarth to remain on the Board as a Non-Executive Director, Diane Martyn to step down from the Board and Michael Watts to be appointed as Chief Financial Officer.

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 below, including who sits on which committees

(a) = Audit Committee,
(r) = Remuneration Committee
(n) = Nominations Committee

The Non-Executive Directors are considered by the Board to be independent.

Diane Martyn
Group Managing Director

Appointed to the board in February 2012 as a Non-Executive Director and was appointed Group Managing Director in February 2013.

Diane 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.

Ed Barker
Non-Executive Director [a, r, n]

Appointed to the board in November 2014. Chairman of the Audit Committee and member of the Remuneration and Nomination Committees.

Ed has over 13 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.

Tracy Lewis
Non-Executive Director [a,r, n]

Appointed to the board in August 2016. Chair of the Nomination and Remuneration Committees and a member of the Audit Committee.

Tracy 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 is currently Executive Chairman of tech marketing company ITG Topco Limited. She 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.

Corporate governance
The Board and Committees for the year ended 31 December 2017

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 given below.

Board meetings

The Board met 11 times during 2017.
The members of the Board are as follows:

	Member for full period	Number of meetings held / Number of meetings attended
John Crabtree (chair)*	Yes	**
Andy Hogarth	Yes	
Diane Martyn	Yes	
Chris Pullen	Yes	
Ed Barker*	Yes	**
Tracy Lewis*	Yes	

* Non-Executive Directors.
** John Crabtree missed one meeting due to illness, Ed Barker missed one meeting due to other commitments.

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 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 industry body standards (e.g. GLAA and REC). Within the payroll team we maintain appropriate levels of ongoing 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.

Committee structures

As part of the Group's internal controls, supporting the Board of Directors, the group have three principal Committees in place, described below.

Audit and Risk Committee

The Audit and Risk Committee, chaired by Ed Barker, has met four times during the year.

	Member for full period	Number of meetings held / Number of meetings attended
Ed Barker	Yes	
Tracy Lewis	Yes	

The Audit and Risk Committee has responsibility for:

1. The Company's financial reporting.
2. Narrative reporting ensuring that the financial performance of the Group is properly monitored and reported on.
3. Whistleblowing arrangements.
4. Internal financial controls – identifying and commissioning specific internal control reviews.
5. Appointment of external auditors.
6. The external audit process – meeting the external auditors and reviewing any reports from them regarding accounts and internal control systems.
7. The approval of external disclosures.

It also oversees:

1. The Group's Risk Register, risk appetite and tolerance.
2. Developments in relevant legislation and regulation.
3. The Group's system of internal controls and risk management.

The Group's Risk Register details all significant risks faced by the Group, 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 24.

The Committee, having taken account of PwC's confirmation, is satisfied that PwC is independent of the Group and its subsidiaries.

The Committee met four times during 2017, with the following key agenda items:

January Key agenda items

Auditor's presentation of year-end findings, review of Letter of Representation, review of preliminary 2016 results announcement. Review of appropriateness of applying Going Concern basis of preparation to the results.

April Key agenda items

Review of register of Risks and Uncertainties, agree interim reporting timetable, review auditor's performance.

July Key agenda items

Interim reporting accounting judgements and decisions, involvement of auditors in interim reporting.

October Key agenda items

Review of register of Risks and Uncertainties, Auditor's presentation of 2017 audit strategy plan, proposed audit fees, year-end timetable. Review of the carrying value of Goodwill and Intangible assets. Review of recognition of exceptional costs in the 2017 results.

In addition, the Committee met in January 2018 to review the 2017 Annual Report and results:

January Key agenda items

Auditor's presentation of year-end findings, review of Letter of Representation, review of preliminary 2017 results announcement. Review of appropriateness of applying Going Concern basis of preparation to the results.

Corporate governance
The Board and Committees for the year ended 31 December 2017

Remuneration Committee

The Remuneration Committee ensures that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of senior executives in a manner that is aligned to shareholder interests, while also complying with the requirements of regulation. In addition to reviewing and agreeing Directors' remuneration, the Committee also approves remuneration changes for all employees where basic gross salary is £100,000 or above.

The members of the Committee are all Non-Executive Directors. Except as shareholders and Directors, none of the members has any personal financial interest in the Group:

	Member for full period	Number of meetings held / Number of meetings attended
Tracy Lewis (chair)	Yes	
Ed Barker	Yes	
John Crabtree	Yes	

* John Crabtree missed one meeting due to illness.

The Committee, chaired by Tracy Lewis, met four times during 2017, with the following key agenda items:

January Key agenda items

Approval of Executive Directors 2016 bonuses, approval of basic salary increases for two senior executives, approval of Executive Directors' 2017 bonus scheme.

May Key agenda items

Approval of basic salary increase for one senior executive, approval to offer agreed package to a prospective senior executive.

October Key agenda items

Approval of five year Joint Share Ownership Plan commencing in 2018.

December Key agenda items

Approval of executive directors' 2018 bonus scheme, approval of remuneration changes for Executive Directors.

In addition, the Committee met in January 2018 to review the following key agenda items:

January Key agenda items

Approval of Executive Directors' and eight senior executives 2017 bonuses, approval of basic salary increases for eight senior executives, approval of the 2018 bonus schemes for seven senior executives.

The Group's current remuneration policies are set out in the Report on Remuneration on pages 35 to 37.

Nominations Committee

The Nominations Committee reviews the structure and composition of the Board and its Committees, in particular the skills, knowledge and experience of Directors. Specifically, succession planning and the approval of Board appointments form an important part of the Committee's responsibilities.

The members of the Committee are as follows:

	Member for full period	Number of meetings held / Number of meetings attended
Tracy Lewis (chair)	Yes	
Andy Hogarth	Yes	
Chris Pullen	Yes	
Ed Barker	Yes	
John Crabtree	Yes	

The Committee, chaired by Tracy Lewis, met once in 2017 with the following key agenda items:

December Key agenda items

Approval of proposed management changes to take effect in 2018. Approval of communications to be issued in connection with these changes.

Corporate governance
Report on remuneration for the year ended 31 December 2017

Remuneration Committee
The Remuneration Committee is described in detail on page 34.

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 marketplace. 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 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 on pages 35 to 37 below.

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 had held salary levels flat, but given the significant business growth and additional responsibilities taken by the executive team, the following increases were approved with effect from 1st January 2017:

Director	Previous Salary £000 p.a.	Increase £000 p.a.	Current salary £000 p.a.
A Hogarth	220	75	295
D Martyn	200	75	275
C Pullen	200	75	275

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 the underlying profit before taxation performance against budget. 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 £422,500 (2016: £135,000) has been accrued in respect of the 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 of £36.0m. For the full year, achievement of 100% of target will result in 50% of basic salary being paid, payments being made on a graduated basis from achievement of 90% of target (below which no bonus is payable) up to 110% at which 100% of basic salary will be paid as a bonus (each additional 5% of bonus therefore required an additional £0.36m of profit). The actual figure was £36.3m. Thus 50% of the target was achieved, resulting in bonuses of 50.0% (2016: 24.1%) of base salary being payable to Andy Hogarth, Diane Martyn and Chris Pullen.

Directors' share options – over the Company's ordinary 10p shares (audited)

During March 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 in the best of the three years ended 31 December 2015. The range was from 35 pence up to 45 pence. The maximum criteria had been met and accordingly the full amount of shares vested. On 27 January 2017, the Company issued 100,000 new ordinary shares of 10p each in the capital of the Company following an exercise of share options by Diane Martyn at a price of 348.6 pence per ordinary share. On 27 January 2017, Diane Martyn sold 100,000 ordinary shares of 10p each in the capital of the Company at an average price of 1,032.5 pence per ordinary share.

During 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 2017, the relevant earnings per share measure was 112.6p.

In October 2017, Staffline granted options to employees as part of its Save As You Earn ("SAYE") share scheme for 2017. Eligible employees were invited to subscribe for options over Staffline's ordinary shares of 10p each ("Ordinary Shares") with an exercise price of £9.32, a 20% discount to the closing middle market price on the trading day before the invitation to participate was made. The options have a contract start date of 1 December 2017 and are exercisable between 1 December 2020 and 31 May 2021. Two directors, Andy Hogarth and Chris Pullen, are participants in the Company's SAYE scheme. Their individual option grant pursuant to this year's SAYE scheme is 1,931 shares and 1,931 shares respectively.

Directors' performance-related (exc SAYE) share options – over the Company's ordinary 10p shares (audited)

	Date of grant	Remaining contractual life (mths)	Exercise price	At 1 Jan 2017 Number	Granted Number	Exercised Number	At 31 Dec 2017 Number
D Martyn	8 March 2013	–	348.6p	100,000	–	(100,000)	–
C Pullen	20 June 2016	18	991.5p	100,000	–	–	100,000
Total				**200,000**	**–**	**(100,000)**	**100,000**

Corporate governance continued Report on remuneration for the year ended 31 December 2017

Joint Share Ownership Plan 2013

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

That JSOP runs from the date of the award until 30 June 2018, based on trading and share price performances for the five years ended 31 December 2017. 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). The EPS criteria was met in the year ended 31 December 2016 (114.0p reported).
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). For the 4.5 years ended 31 December 2017, the Company's share price has risen by 153%, from 411p at 1 July 2013 to 1,040p as at 31 December 2017, in excess of the 52% increase over the same period by the FTSE AIM All Share Total Return Index (1 July 2013 692, 31 December 2017 1,050).

It is therefore anticipated that the maximum number of shares will be allocated to the relevant Directors and senior executives.

The Directors and senior executives participating in the JSOP acquired an interest in the shares jointly with the Staffline Group plc Employee Benefit Trust. The Directors' interests, which have been audited, are detailed below (including those of Directors who have resigned but retain an interest in the Plan):

	Award date	Participation price	31 December 2017 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 amounts receivable by the individuals is payable in two equal tranches, in June 2018 and in June 2019.

Joint Share Ownership Plan 2018

A Plan covering the five-year period ended 31 December 2022 has been approved by the Remuneration Committee. The amount receivable by the individuals is calculated based on certain business performance conditions, as follows:

1. A range of underlying diluted Earnings Per Share ("EPS") of between 180.0p and 200.0p required in the financial year 2022 (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).

Chris Pullen (maximum of 275,000 shares) has interests in the 2018 Plan.

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.

Director	Previous fee or salary £000 p.a.	Increase £000 p.a.	Current fee or salary £000 p.a.
J Crabtree	63	17	80
E Barker	30	–	30
T Lewis	30	–	30

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. A cash allowance of 10% of basic salary is paid in lieu of Company pension contribution at the request of the Director.

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

Other benefits and benefits in kind

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

Directors' remuneration summary (audited)

The table below sets out the remuneration received by the Directors in respect of the year ended 31 December 2017 and for the year ended 31 December 2016:

£000	Year	Salary, fees	Annual bonus	Car allowance	Pension	Others	Total
Executive Directors							
A Hogarth	**2017**	**295**	**148**	**12**	**29**	**2**	**486**
	2016	220	53	12	22	2	309
D Martyn	**2017**	**275**	**137**	**12**	**28**	**1**	**453**
	2016	200	48	12	17	1	278
C Pullen *	**2017**	**275**	**137**	**12**	**28**	**2**	**454**
	2016	141	34	8	14	1	198
P Ledgard ***	2016	58	–	5	6	19	88
Chairman (Non-Exec)							
J Crabtree	**2017**	**80**	**–**	**–**	**–**	**–**	**80**
	2016	63	–	–	–	–	63
Non-Executive Directors							
E Barker	**2017**	**30**	**–**	**–**	**–**	**–**	**30**
	2016	30	–	–	–	–	30
T Lewis **	**2017**	**30**	**–**	**–**	**–**	**–**	**30**
	2016	10	–	–	–	–	10
C Braddock ****	2016	20	–	–	–	–	20
2017		**985**	**422**	**36**	**85**	**5**	**1,533**
2016		742	135	37	59	23	996

* C Pullen was appointed to the board on 18 April 2016
** T Lewis was appointed to the board on 19 August 2016
*** P Ledgard resigned from the board on 31 May 2016
**** C Braddock resigned from the board on 19 May 2016

Others represents medical insurance for A Hogarth, D Martyn and C Pullen and, additionally in 2016, compensation for loss of office for P Ledgard. Pensions include both Company contributions and cash allowances where the Directors have elected not to have contributions paid into a pension fund.

In addition, the Group received an income statement charge of £2,052,000 (2016: credit of £832,000) in relation to cash and equity settled share options held by the Directors. The total is split as follows:

£000	**2017 charge**	2016 (credit)
A Hogarth	**969**	(232)
D Martyn	**969**	(232)
P Ledgard	**114**	(368)
	2,052	**(832)**

The above charges and credits were principally driven by movements in the Company's share price as follows:

	2017	2016
Opening share price (pence)	**845**	1,464
Closing share price (pence)	**1,040**	845
% increase (decrease) during the year	**23%**	(42%)

Report of the Directors
For the year ended 31 December 2017

The Directors present their annual report for the Group and the Company together with the audited financial statements for the year ended 31 December 2017.

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 of the Group's future developments. Financial Risk Management is detailed in note 28 of the financial statements.

An interim dividend of £2,819,000 (11.0 pence per share) was paid during the year (2016: £2,663,000, 10.5 pence per share). The Directors have proposed a final dividend of £4,025,000 (15.7 pence per share) (2016: £3,906,000, 15.3 pence per share) to be paid on 3 July 2018, to shareholders registered on 1 June 2018. 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
J Crabtree OBE (Chairman)
A Hogarth
T Lewis
D Martyn
C Pullen

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 27,849,389 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 2017, were as follows, representing 66.2% of the total issued ordinary share capital:

	Ordinary shares of 10p each	Percentage of ordinary shares %
Octopus Investments	4,203,146	15.1
Cat Rock Capital Management	2,254,111	8.1
Employee Benefit Trust	2,220,400	8.0
Aberdeen Standard Investments (Standard Life)	1,587,617	5.7
Directors of the Company (see below)	1,549,629	5.6
River and Mercantile Asset Management	1,483,600	5.3
Legal and General Investment	1,323,929	4.8
Invesco Perpetual	1,059,534	3.8
Living Bridge	929,134	3.3
Slater Investments	916,775	3.3
Hargreave Hale – Stockbrokers	901,680	3.2

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 on page 36 in the Report on Remuneration. In accordance with AIM Rule 26, in so far as the Company is aware, the percentage of the Company's issued share capital that is not in public hands is 3,770,029 and 13.5% respectively. This percentage comprises the holdings of Directors of the Company and the Employee Benefit Trust (the Company's Joint Share Ownership Plan).

Directors' shareholdings
The beneficial holdings of the Directors in the Company's issued share capital at 31 December 2017 are as follows:

	Ordinary shares of 10p each	% of total in issue
Andy Hogarth	1,513,629	5.4%
John Crabtree OBE	20,250	0.1%
Diane Martyn	3,750	–
Chris Pullen	12,000	–
	1,549,629	5.6%

In addition, a pension fund established for the benefit of Andy Hogarth holds 46,875 shares in the Company.

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
23 January 2018

Statement of Directors' responsibilities in respect of the financial statements

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Annual Report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

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

By Order of the Board

Paul Collins
Company Secretary
23 January 2018

Independent auditors' report to the members of Staffline Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Staffline Group plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company statements of financial position as at 31 December 2017; the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity and the Consolidated statement of cash flows for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

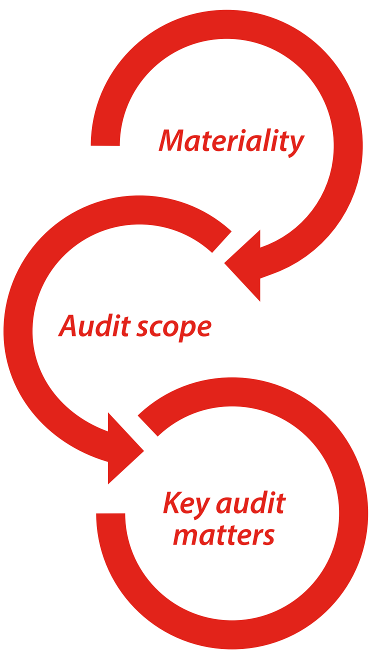
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall Group materiality: £1,500,000 (2016: £1,500,000), based on 4% of underlying profit before taxation.
- Overall Company materiality: £800,000 (2016: £800,000), based on 1% of total assets.

- Full scope audit procedures were performed over the Staffline Recruitment Limited and PeoplePlus Group Limited subsidiaries as they represented 15% or more of Group revenues and/or underlying profits before tax.
- This resulted in coverage of 88% for revenue, 73% for underlying profits before taxation and 85% of total assets.

- Impairment of intangible assets (Group).
- Contract accounting (Group).
- Complex customer contracts (Group).
- Impairment of investments (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment of intangible assets (Group) Refer to note 3 (Accounting policies – Critical accounting judgements and estimates) and Note 11 (Goodwill). The Group has completed a number of acquisitions over the past decade, each of which has resulted in the recognition of goodwill and intangible assets. Underperformance within these acquired businesses could impact the impairment reviews performed on a Cash Generating Unit level. This could therefore result in impairments being required to these assets.	Management performed a detailed impairment assessment for each Cash Generating Unit. We audited these assessments by checking an appropriate model had been used, that the inputs into the model were accurate and we confirmed the integrity of the model. We performed sensitivity analysis on the key estimates within the model. This did not identify a reasonable change in assumptions which would result in a material change to the valuations. We found the inputs to the model to be appropriate and consistent with our knowledge of the business. Based on the results of our audit work, we concluded that the impairment assessment performed by management was appropriate and consistent with the requirements of IAS 36.
Contract accounting (Group) Refer to note 3 (Accounting policies – Critical accounting judgements and estimates). Within the PeoplePlus segment there are a number of significant contracts which include key performance measures, bonus and/or penalty clauses. In recognising revenue under these contracts, a number of significant estimates are required to be made by management, most notably the level of expected bonuses/penalty charges which will be settled post-year end, relating to pre-year end activities. In addition to the above, there is a timing difference between the performance of the obligations within the contracts, and the receipt of cash for the services provided. At each period end, management are required to estimate the value of accrued revenues.	We compared the outcome of the prior year estimates to actual outcomes during 2017, in order to establish the accuracy of management's prior estimates. For accrued and deferred income, we audited management's calculations by validating the integrity of their models and tracing the inputs into the models back to source data. We performed sensitivity analysis on the key estimates within the model. This did not identify a reasonable change in assumptions which would result in a material change to the revenues accrued or deferred. We also considered the completeness of accrued and deferred revenues by reviewing the significant contracts to validate that the revenues were being recorded in line with the contract terms and IFRSs. The above highlighted no material concerns over the accounting for revenues under contracts.

Independent auditors’ report to the members of Staffline Group plc
Continued

Key audit matter	How our audit addressed the key audit matter
Complex customer contracts (Group) Refer to note 3 (Accounting policies – Critical accounting judgements and estimates). Within the Recruitment segment there are a number of complex customer contracts. These include rebate clauses which result in retrospective changes being made to agreed prices, depending on key metrics over the contract life. At the end of each reporting period, management make an assessment as to the proportion of revenue which should be deferred in relation to these agreements, together with an assessment of whether any advanced discounts are recoverable.	We have reviewed customer contracts to verify the existence of these clauses and that management’s calculations are in line with the contractual position. Where individual balances are material, we have confirmed the amounts with the counterparty. To confirm completeness of the listing provided by management we have examined other contracts and also agreed cash settlements by other customers to ascertain if there were any undisclosed agreements. Our audit procedures highlighted no material concerns over the recording of complex customer contracts.
Impairment of investments (Company) Refer to note 13 (Investments). The Company has significant investments in subsidiary companies. An impairment to these investments could result in an inability to pay dividends as well as representing a significant financial loss to the Company.	We have audited management’s impairment assessment for each subsidiary company. This has included validating the integrity of the model, validating the inputs and performing sensitivity analysis over the key estimates within the model. This did not identify a reasonable change in assumptions which would result in a material change to the valuation. We found the assumptions adopted to be appropriate and consistent with our knowledge of the business. No issues were noted from our testing.

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

Staffline Group plc’s operations is split into two operating segments, Recruitment and PeoplePlus. These segments have separate finance and management teams who report into the head office finance team. Each segment includes a number of subsidiary companies, all of which are managed by the respective segment finance/management teams. All companies report their financial results and position using the Group accounting policies.

In setting our audit scope, we included any individual subsidiary which contributed more than 15% to revenues or the underlying profit before taxation. This resulted in two subsidiaries being included in full scope audit for the Group opinion, Staffline Recruitment Limited and PeoplePlus Group Limited. These two subsidiaries combined represent 88% of the consolidated revenues, 73% of underlying profits before taxation and 85% of total assets.

We then considered whether sufficient coverage had been obtained on an individual financial statement line item basis and concluded that sufficient coverage was obtained through the two in scope subsidiaries. We considered whether the remaining subsidiaries had any additional risks which could represent a material risk at the Group level and concluded that due to their relative size and complexity of operations that there were no additional risk factors which would require the other subsidiaries to be included in our audit scope.

At the Group reporting stage, analytical review procedures were performed over all out-of-scope subsidiaries, to Group materiality. All audit work was completed by a single audit team.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures, and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£1,500,000 (2016: £1,500,000).	£800,000 (2016: £800,000).
How we determined it	4% of underlying profit before taxation.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, underlying profits is the primary measure used by the shareholders and management in assessing the performance of the Group, and is a generally accepted auditing benchmark.	We believe that total assets is an appropriate benchmark due to the Company being a holding company.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The materiality allocated to components was £1,350,000, this was capped at a local statutory materiality level below overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £75,000 (Group audit) (2016: £75,000) and £40,000 (Company audit) (2016: £50,000), as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:
- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Staffline Group plc
Continued

Strategic Report and Report of the Directors
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' responsibilities on page 39, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
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.

Other required reporting

Companies Act 2006 exception reporting
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
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Steven Kentish
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
23 January 2018

Consolidated statement of comprehensive income
For the year ended 31 December 2017

	Note	2017 Underlying £'m	2017 Non-underlying* £'m	2017 Total £'m	2016 Underlying £'m	2016 Non-underlying* £'m	2016 Total £'m
Continuing operations							
Revenue	4	**957.8**	**–**	**957.8**	882.4	–	882.4
Cost of sales	5	**(844.0)**	**–**	**(844.0)**	(757.5)	–	(757.5)
Gross profit		**113.8**	**–**	**113.8**	124.9	–	124.9
Administrative expenses	5	**(74.7)**	**(12.2)**	**(86.9)**	(84.9)	(17.8)	(102.7)
Operating profit/(loss)		**39.1**	**(12.2)**	**26.9**	40.0	(17.8)	22.2
Finance costs	6	**(2.8)**	**–**	**(2.8)**	(3.3)	–	(3.3)
Profit/(loss) for the year before taxation		**36.3**	**(12.2)**	**24.1**	36.7	(17.8)	18.9
Tax expense	8	**(7.3)**	**1.5**	**(5.8)**	(7.6)	3.7	(3.9)
Profit/(loss) from continuing operations		**29.0**	**(10.7)**	**18.3**	29.1	(14.1)	15.0
Profit after tax on discontinued operations	9			**–**			0.8
Profit for the year				**18.3**			15.8
Items that will not be reclassified to the profit and loss account – actuarial gains and (losses), net of deferred tax				**0.2**			(1.1)
Items that may be reclassified to the profit and loss account – cumulative translation loss				**(0.1)**			–
Net profit and total comprehensive income for the year				**18.4**			14.7

	Note	2017	2016
Earnings per ordinary share	10		
Continuing operations:			
Basic		**71.4 pence**	59.1 pence
Diluted		**71.1 pence**	58.8 pence
Discontinued operations:			
Basic		**–**	3.2 pence
Diluted		**–**	3.1 pence
Underlying:			
Basic		**113.2 pence**	114.7 pence
Diluted		**112.6 pence**	114.0 pence

* the non-underlying result includes amortisation of intangible assets arising on business combinations, acquisition costs, exceptional reorganisation costs and the non-cash credit/charge for share-based payment costs.

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

Consolidated statement of changes in equity
For the year ended 31 December 2017

	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 (note 17)	–	–	–	–	(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
Dividends (note 10)	**–**	**–**	**–**	**–**	**(6.7)**	**(6.7)**
Issue of new shares – share options exercised	**–**	**–**	**0.4**	**–**	**–**	**0.4**
Share options issued in equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**–**
Transactions with owners	**–**	**–**	**0.4**	**–**	**(6.7)**	**(6.3)**
Profit for the year	**–**	**–**	**–**	**–**	**18.3**	**18.3**
Actuarial gains (note 17)	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Cumulative translation adjustments	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Total comprehensive income for the year, net of tax	**–**	**–**	**–**	**–**	**18.4**	**18.4**
At 31 December 2017	**2.8**	**(8.9)**	**40.3**	**0.1**	**61.5**	**95.8**

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

Company statement of changes in equity
For the year ended 31 December 2017

	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 (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
Dividends (note 10)	**–**	**–**	**–**	**(6.7)**	**(6.7)**
Issue of new shares – share options exercised	**–**	**–**	**0.4**	**–**	**0.4**
Transactions with owners	**–**	**–**	**0.4**	**(6.7)**	**(6.3)**
Profit for the year	**–**	**–**	**–**	**26.7**	**26.7**
Total comprehensive income for the year, net of tax	**–**	**–**	**–**	**26.7**	**26.7**
At 31 December 2017	**2.8**	**(8.9)**	**40.3**	**38.7**	**72.9**

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

Consolidated and Company statements of financial position
As at 31 December 2017

	Note	Consolidated 2017 £'m	Consolidated 2016 £'m	Company 2017 £'m	Company 2016 £'m
Assets					
Non-current assets					
Goodwill	11	**94.2**	91.6	**–**	–
Other intangible assets	12	**20.8**	25.8	**–**	–
Investments	13	**–**	–	**58.3**	55.0
Property, plant and equipment	15	**7.7**	8.0	**–**	–
Deferred tax asset	22	**0.5**	0.9	**–**	–
		123.2	126.3	**58.3**	55.0
Current					
Trade and other receivables	16	**107.6**	103.1	**64.1**	30.0
Retirement benefit net asset	17	**1.4**	1.2	**–**	–
Cash and cash equivalents	18	**31.3**	19.7	**–**	–
		140.3	124.0	**64.1**	30.0
Total assets		**263.5**	250.3	**122.4**	85.0
Liabilities					
Current					
Trade and other payables	19	**103.0**	97.5	**30.2**	7.9
Borrowings	20	**8.6**	8.6	**8.6**	8.6
Other current liabilities	21	**5.1**	0.5	**3.3**	–
Current tax liabilities	8	**3.4**	2.5	**–**	–
		120.1	109.1	**42.1**	16.5
Non-current					
Borrowings	20	**39.2**	47.8	**4.2**	12.8
Other liabilities inc. provisions	21	**5.7**	6.2	**3.2**	3.2
Deferred tax liabilities	22	**2.7**	3.5	**–**	–
		47.6	57.5	**7.4**	16.0
Total liabilities		**167.7**	166.6	**49.5**	32.5
Equity					
Share capital	23	**2.8**	2.8	**2.8**	2.8
Own shares		**(8.9)**	(8.9)	**(8.9)**	(8.9)
Share premium		**40.3**	39.9	**40.3**	39.9
Share-based payment reserve		**0.1**	0.1	**–**	–
Profit and loss account		**61.5**	49.8	**38.7**	18.7
Total equity		**95.8**	83.7	**72.9**	52.5
Total equity and liabilities		**263.5**	250.3	**122.4**	85.0

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 £26.7m (2016: £5.4m). The accompanying notes form an integral part of these financial statements. The financial statements were approved by the Board of Directors on 23 January 2018 and signed on their behalf by:

A Hogarth
Director

C Pullen
Director

Consolidated statement of cash flows
For the year ended 31 December 2017

	Note	**2017 £'m**	2016 £'m
Cash flows from operating activities	29	**47.9**	46.9
Taxation paid	8	**(6.7)**	(5.6)
Taxation received	8	**0.5**	1.6
Net cash inflow from operating activities		**41.7**	42.9
Cash flows from investing activities – trading			
Purchases of property, plant and equipment	15	**(2.7)**	(3.6)
Sale of property, plant and equipment		**–**	–
Purchase of intangible assets – software	12	**(1.1)**	(3.3)
Free cash from operations		**37.9**	36.0
Cash flows from investing activities – acquisitions			
Acquisition of businesses – cash paid, net of cash acquired	30	**(8.1)**	–
Cash flows from financing activities:			
New loans (net of transaction fees)		**–**	8.9
Loan repayments		**(8.8)**	(11.9)
Acquisition of businesses – deferred consideration for prior year acquisitions		**(0.4)**	(10.9)
Interest paid		**(2.6)**	(3.1)
Dividends paid	10	**(6.7)**	(5.8)
Proceeds from sale of Joint Share Ownership Plan ("JSOP") shares		**–**	1.5
Proceeds from the issue of share capital		**0.3**	–
Net cash flows (used in) financing activities		**(18.2)**	(21.3)
Net change in cash and cash equivalents		**11.6**	14.7
Cash and cash equivalents at beginning of year		**19.7**	5.0
Cash and cash equivalents at end of year	18	**31.3**	19.7
Underlying operating profit		**39.1**	40.0
% free cash conversion of underlying profit		**97%**	90%

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

Notes to the financial statements
For the year ended 31 December 2017

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 ("the Company"), is incorporated and domiciled in the United Kingdom. The Company acts as the holding company of the Group. The registered office and principal place of business of the Group and its subsidiary companies is disclosed on the Company details page to these financial statements, page 82. The Company's registration number is 05268636.

The financial statements for the year ended 31 December 2017 (including the comparatives for the year ended 31 December 2016) were approved and authorised for issue by the board of Directors on 23 January 2018.

The Company does not have an ultimate controlling party.

3 Accounting policies
Basis of preparation
The consolidated financial statements are prepared for the year ended 31 December 2017. 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.

The financial statements of Staffline Group plc have been prepared 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 and Group. 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 2017 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 2017 (2016: 31 December 2016), with all Recruitment subsidiary accounts prepared for the 52 weeks ended 31 December 2017 (2016: 52 weeks ended 1 January 2017). 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.

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. The Directors 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 intangible assets arising on business combinations 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 the Statement of Comprehensive Income immediately.

Segment reporting
The Group has two material operating segments: the provision of recruitment and outsourced human resource services to industry "Recruitment" (previously "Staffing Services") and the provision of welfare to work, skills training and probationary 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
Recruitment division
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 hourly 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 Recruitment 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 division
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.

Notes to the financial statements Continued
For the year ended 31 December 2017

3 Accounting policies Continued

Revenue recognition Continued

As a standard part of the contracts with the DWP, the division receives payments when an individual is assigned to one of our programmes. These are recognised as revenue when received as there is no ongoing obligation. Additional payments are only then made once the individual has obtained employment and then after set periods of time have passed, if they remain in employment. When an individual has gained employment, revenues for this are recognised when there is an expectation that this will last for the minimum periods required (based upon historical evidence). The additional payments for sustained employment are only recognised as revenue once the time periods specified within the contract have passed. In addition, there are bonuses and penalties within the contracts relating to the performance of each contract. These are recognised over the period of the contract based upon historical evidence of compliance/attainment.

Operating expenses

Operating expenses are recognised 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 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 estimated useful economic 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

Assets in the course of construction are not depreciated until they are available for use.

Impairment assessment
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 units 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.

Investments
Investments in subsidiary undertakings 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.

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.

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.

Notes to the financial statements Continued
For the year ended 31 December 2017

3 Accounting policies Continued

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 plan

The asset recognised in the balance sheet 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 plan

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' meetings prior to the financial 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 deemed to be 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 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.

Notes to the financial statements Continued
For the year ended 31 December 2017

3 Accounting policies Continued

Cash-settled share-based remuneration

The Group has in place certain issued 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 judgements 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 recognised retirement benefit net asset is £1.4m (2016: £1.2m).

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

- Revenue recognition is an area of significant estimate. Within the PeoplePlus division there are two areas where management must estimate 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. These relate to the expected level of bonuses/penalties that will be received/paid by the division and the level of income to be accrued relating to unclaimed job outcome and sustainments. The key assumption within the accrued and deferred revenue relating to bonus/penalty claims relates to the level of these, based upon historical evidence, as they are often settled six to 12 months in arrears. Management have based their current estimates on the underlying data, the limits specified within the contracts and historical trends. In relation to deferred income, if the level of historic claims increased/decreased by 10% then this would have an impact of reducing/increasing revenue and profits by £0.4m.

  The key assumptions in relation to the accrued income relating to unclaimed job outcomes and sustainments relates 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 estimate, 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 £0.3m. Conversely, if the percentage of successful claims were to increase by 10%, against management expectations, then additional revenues and profits before tax of £0.3m would be recorded as at 31 December 2017.

- The Group considers goodwill and other intangible assets to be recoverable based on the three-year budget to 2020. 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 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;
- 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 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; and
- The fair value adjustments included in note 11 relating to the acquisitions during the 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.

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 2018.

- 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 2019)*; and
- IFRIC 14 Limit of Defined Benefit Asset: The impact of this is disclosed within critical judgments.

* Not endorsed by the EU (as at 23 January 2018)

The impact of accounting standards IFRS 9, IFRS 15 and IFRS 16 has been considered by the Group in detail given their potential to impact the financial results. The relevant impacts have been disclosed on page 23 of the Chief Financial Officer's Report.

4 Segmental reporting
Management currently identifies two operating segments: the provision of recruitment and outsourced human resource services to industry ("Recruitment") 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 and the Group's Board, and strategic decisions are made on the basis of segment operating results.

Segment information for the reporting year is as follows:

	Recruitment 2017 £'m	**PeoplePlus 2017 £'m**	**Total Group 2017 £'m**	Recruitment 2016 £'m	PeoplePlus 2016 £'m	Total Group 2016 £'m
Segment continuing operations:						
Sales revenue from external customers	**843.3**	**114.5**	**957.8**	740.8	141.6	882.4
Cost of sales	**(777.2)**	**(66.8)**	**(844.0)**	(679.5)	(78.0)	(757.5)
Segment gross profit	**66.1**	**47.7**	**113.8**	61.3	63.6	124.9
Administrative expenses (underlying)	**(45.1)**	**(25.2)**	**(70.3)**	(41.8)	(38.2)	(80.0)
Depreciation, software amortisation	**(0.8)**	**(3.6)**	**(4.4)**	(0.7)	(4.2)	(4.9)
Segment underlying operating profit*	**20.2**	**18.9**	**39.1**	18.8	21.2	40.0
Administrative expenses – share-based payment (charge)/credit	**(3.4)**	**–**	**(3.4)**	2.9	–	2.9
Administrative expenses – reorganisation costs	**–**	**–**	**–**	(0.2)	(8.0)	(8.2)
Administrative expenses – transaction costs	**–**	**–**	**–**	(0.1)	–	(0.1)
Amortisation of intangibles arising on business combinations	**(2.1)**	**(6.7)**	**(8.8)**	(1.7)	(10.7)	(12.4)
Segment profit from operations	**14.7**	**12.2**	**26.9**	19.7	2.5	22.2
Finance costs	**(2.8)**	**–**	**(2.8)**	(3.1)	(0.2)	(3.3)
Segment profit before taxation	**11.9**	**12.2**	**24.1**	16.6	2.3	18.9
Tax expense	**(3.3)**	**(2.5)**	**(5.8)**	(2.8)	(1.1)	(3.9)
Segment profit from continuing operations	**8.6**	**9.7**	**18.3**	13.8	1.2	15.0
Total non-current assets	**75.3**	**47.9**	**123.2**	68.7	57.6	126.3
Total current assets	**108.5**	**31.8**	**140.3**	95.9	28.1	124.0
Total assets (consolidated)	**183.8**	**79.7**	**263.5**	164.6	85.7	250.3
Total liabilities (consolidated)	**147.6**	**20.1**	**167.7**	139.6	27.0	166.6
Capital expenditure inc. software	**2.5**	**1.3**	**3.8**	1.4	5.5	6.9

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

Notes to the financial statements Continued
For the year ended 31 December 2017

4 Segmental reporting Continued
All head office costs are allocated to the Recruitment division in the above results. This results from the historical nature of the Group, with the PeoplePlus division only being formed in the past couple of years, and reflects where the costs are predominantly incurred.

During 2017, one customer in the Recruitment segment contributed greater than 10% of the Group's revenue, representing £101m or 12.0% of that segment's revenues (2016: one customer representing £93m or 12.6%); the amount receivable from this customer at 31 December 2017 is £12.3m (2016: £13.6m). The PeoplePlus segment had no customer contributing more than 10% of the Group's revenue during either 2017 or 2016.

5 Expenses by nature
Expenses by nature are as follows:

Underlying expenses

	2017 £'m	2016 £'m
Employee benefits expenses – cost of sales	**815.5**	733.4
Employee benefits expenses – administrative expenses	**39.7**	39.2
Depreciation and software amortisation	**4.4**	4.9
Operating lease expenses (note 25)	**5.6**	7.6
Other expenses	**53.5**	57.3
	918.7	842.4
Disclosed as:		
Cost of sales	**844.0**	757.5
Administrative expenses – underlying	**74.7**	84.9
	918.7	842.4

Auditors' remuneration in their capacity as auditors of the Parent Company is £13,750 (2016: £13,750) and in their capacity as auditor of subsidiary companies is £166,250 (2016: £181,250). Non-audit remuneration in respect of potential acquisitions totalled £75,000 (2016: £nil), in respect of tax compliance services totalled £11,000 (2016: £27,000) and in respect of other advice totalled £50,000 (2016: £44,000). The other advice this year relates to assistance with IFRS changes, certification of year-end covenant reporting and assistance in the liquidation of dormant companies.

A further £49.2m of 2016 costs has been reclassified this year, from Other expenses to Employee benefits expenses (cost of sales) to better reflect the nature of the expense.

Non-underlying administrative expenses

	2017 £'m	2016 £'m
Amortisation of intangible assets arising on business combinations (licences, customer contracts)	**8.8**	12.4
Share-based payment charges/(credit) – directors	**2.1**	(0.8)
Share-based payment charges/(credit) – other senior executives	**1.3**	(2.1)
Transaction costs	–	0.1
Reorganisation costs	–	6.6
Impairment of tangible fixed assets (reorganisation related)	–	1.6
	12.2	17.8
Tax credit on above non-underlying expenses	**(1.5)**	(3.7)
Post taxation effect on above non-underlying expenses	**10.7**	14.1

The charge for amortisation of intangible assets arising on business combinations in 2017 relates principally to the acquisition of A4e (£5.6m charge: asset fully amortised in February 2019), Milestone (£1.0m charge) and Diamond (£0.6m charge) businesses in 2015 together with the Avanta business acquired in 2014 (charge £1.1m: asset fully amortised by the end of 2017).

The share-based payment charge this year arose due principally to the 23% increase in the Company's share price during the year.

The reorganisation costs noted above for 2016 relate to the integration of acquisitions to form the PeoplePlus division. This process was started in 2015 and completed in 2016.

6 Finance costs

	2017 £'m	2016 £'m
Interest payable on financing arrangements (includes term loan, loan notes, overdraft and amortisation of debt issue costs)	**2.9**	3.4
Pension interest (income)	**(0.1)**	(0.1)
Total	**2.8**	3.3

7 Directors' and employees' remuneration

Employee benefits expense – consolidated

Expense recognised for employee benefits is analysed below:

	2017 £'m	2016 £'m
Wages and salaries	**72.3**	79.9
Social security costs	**6.7**	7.7
Other pension costs – defined contribution plans	**2.0**	2.0
Other pension costs – defined benefit plan service cost	**0.2**	0.2
	81.2	89.8
Share-based payment charge/(credit) – cash settled	**3.3**	(3.0)
Share-based payment charge – equity settled	**0.1**	0.1
	84.6	86.9

Included in administrative expenses (note 5)	**39.7**	39.2
Included in cost of sales	**41.5**	50.6
Share-based payment charge/(credit)	**3.4**	(2.9)
	84.6	86.9

	2017 Number	2016 Number
The average monthly number of persons (including Directors) employed by the Group during the year was:		
– Sales and administrative	**2,357**	2,793

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

	2017 £'m	2016 £'m
Wages and salaries	**733.0**	648.1
Social security costs	**41.0**	34.7
	774.0	682.8

	Number	Number
The average monthly number of temporary workers contracted by the Group during the year was:	**43,415**	40,894

A further £49.2m has been reclassified in 2016 into Wages and salaries to better reflect the nature of the expense.

The average number of persons (including Directors) employed by the Company during the year was 6 (2016: 6). Employee costs were £nil (2016: £nil). All directors of the Group are remunerated through a subsidiary of the Company for their services to the Group as a whole. No direct recharge was made to the Company during the year (2016: £nil).

Directors' remuneration is detailed on pages 35 to 37 of the Report on Remuneration.

Notes to the financial statements Continued
For the year ended 31 December 2017

7 Directors' and employees' remuneration Continued

Share-based employee remuneration

Save As You Earn ("SAYE") share option plan

In October 2017, Staffline granted options to employees as part of its Save As You Earn ("SAYE") share scheme for 2017. Eligible employees were invited to subscribe for options over Staffline's ordinary shares of 10p each ("Ordinary Shares") with an exercise price of £9.32, a 20% discount to the closing middle market price on the trading day before the invitation to participate was made. The options have a contract start date of 1 December 2017 and are exercisable between 1 December 2020 and 31 May 2021. A total of 290 employees elected to participate, and, pursuant to these elections, a total of 148,276 options over Ordinary Shares were granted on 26 October 2017, equating to 0.53% of the current issued share capital of 27,849,389 shares. These shares will be issued to participants from the 2,220,400 ordinary 10p shares currently held by the Employee Benefit Trust, issued by the Group in accordance with Joint Share Ownership Plans ("JSOP") on 6 September 2010 and 4 July 2013.

Performance Related Share Option Plan

Other than options granted to Diane Martyn and Chris Pullen (both directors of the Company), details of which are fully disclosed within the Report on Remuneration on pages 35 to 37, no other performance related share options have been granted.

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.

Joint Share Ownership Plan

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

The Directors and senior executives participating in the JSOP acquired an interest in the shares jointly with the Staffline Group plc Employee Benefit Trust ("EBT"). At the end of the financial year, the EBT held 2,220,400 (2016: 2,220,400) ordinary 10p shares to satisfy participants interests when the Scheme vests in June 2018:

	Number of participants remaining	31 December 2017 Interest over (number of shares)	31 December 2016 Interest over (number of shares)	Date on which exercisable
Directors	**3**	**750,000**	750,000	30/06/2018
Other executives	**6**	**425,000**	425,000	30/06/2018
No longer required		**1,045,400**	1,045,400	30/06/2018
	9	**2,220,400**	2,220,400	

The Directors' interests are detailed in the Report on Remuneration on pages 35 to 37. 1,045,400 shares held by the EBT but no longer required to satisfy interests in the 2013 JSOP scheme (due to employee leavers) will be used to satisfy requirements under future JSOP schemes and SAYE plans.

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 year up to and including 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 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 for the five-year period to June 2018, 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 2017, the Staffline Group plc share price has increased by 153% compared to an increase of 52% 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 Joint Share Ownership Plan ("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 2017. Significant inputs into the calculations were:

- share price at date of grant (July 2013 grant of 1,085,000 shares at 411.5 p per share, December 2013 grant of 90,000 shares at 563p per share);
- exercise prices based on the December 2017 year-end share price of 1,040p per share;
- an average of 30.9% (2016: 35.6%) volatility based on expected and historical share price;
- risk free interest rate of 0.364% (2016: 0.003%);
- the disposal of shares by EBT on 30 June 2018 (50% settlement of scheme to participants in July 2018, balance in July 2019); 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 earlier) and excludes those who have left the Group and whose entitlements have been forfeited.

Share-based employee remuneration

In total, a charge of £3.4m of employee remuneration expense has been included in the consolidated statement of comprehensive income for the year ended 31 December 2017 (2016: credit of £2.9m) which increased the share-based payment reserve by £nil (2016: £nil) in respect of equity-settled schemes and increased the liability by £3.4m (2016: reduced liability by £2.9m) 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 in the Report on Remuneration on pages 35 to 37, and the divisional Directors who participate in the JSOP. The aggregate remuneration for the divisional Directors for the year is £1.1m (2016: £1.6m). In addition, compensation payments of £nil (2016: £0.3m) were made on the departure of three divisional Directors during the prior year. Disclosures in accordance with IAS 24 are included in note 24.

8 Tax expense

The tax charge on the profit for the year consists of:

	2017 £'m	2016 £'m
UK corporation tax at 19.25% (2016: 20.00%)	**6.9**	6.0
Adjustments in respect of prior years	**0.1**	0.3
UK current tax charge	**7.0**	6.3
Deferred tax		
Timing differences arising in the year	**(1.6)**	(2.4)
Adjustments in respect of prior years	**0.4**	–
UK deferred tax (credit)	**(1.2)**	(2.4)
Total UK tax charge for the year	**5.8**	3.9

The net adjustments in respect of prior years' charge of £0.5m (current £0.1m, deferred £0.4m) arose largely from a reassessment of the level of tax provisions required and a reassessment of the tax deductability of amortisation on certain intangible fixed assets (2016: charge of £0.3m – current).

The charge can be further analysed by division and by underlying/non-underlying trading as follows:

	2017 £'m	2016 £'m
Recruitment division	**3.3**	2.8
PeoplePlus division	**2.5**	1.1
Total UK tax charge for the year	**5.8**	3.9
Underlying trading	**7.3**	7.6
Non-underlying trading (credit)	**(1.5)**	(3.7)
Total UK tax charge for the year	**5.8**	3.9

Notes to the financial statements Continued
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8 Tax expense Continued

The tax charge for the year, as recognised in the statement of comprehensive income, is higher than the standard rate of corporation tax in the UK of 19.25% (2016: 20.00% higher), being the weighted average annual corporation tax rate for the full financial year (nine months at 19.00% and three months at 20.00%). The differences are explained below:

	2017 £'m Current tax	2017 £'m Deferred tax	2017 £'m Total	2016 £'m Total
Profit for the year before taxation	24.1	–	24.1	18.9
Tax rate	19.25%	–	19.25%	20.00%
Tax on profit for the year at the standard rate	4.6	–	4.6	3.8
Effect of:				
Depreciation charge in excess of capital allowances	0.2	0.3	0.5	0.4
Amortisation of intangible assets arising on business combinations	1.6	(1.6)	–	–
JSOP charges/(credits) not taxable	0.6	–	0.6	(0.6)
Change in deferred tax rate to 17.00%	–	(0.3)	(0.3)	–
Adjustments in respect of prior years	0.1	0.4	0.5	0.3
Others net	(0.1)	–	(0.1)	–
Actual tax expense	7.0	(1.2)	5.8	3.9
On underlying profit	7.0	0.3	7.3	7.6
On non-underlying profit	–	(1.5)	(1.5)	(3.7)
Actual tax expense	7.0	(1.2)	5.8	3.9
Underlying pre-tax profit for the year			36.3	36.7
Effective underlying current tax rate for the year			19.3%	21.0%
Effective underlying total tax rate for the year			20.1%	20.6%
Effective total tax rate for the year			24.1%	20.6%

The effective total tax rate of 24.1% is greater than the UK corporation tax rate of 19.25% for the year due to the tax charge adjustment relating to the prior year of £0.5m and due to the JSOP profit and loss charge not being deductible under UK corporation tax and therefore added back to taxable profits.

Changes to the UK corporation tax rates were announced in the Chancellor's Budget in July 2015 (legislation passed in November 2015). These include reductions to the main rate to reduce the rate from 20.0% to 19.0% from 1 April 2017. In March 2016, it was further announced in the Chancellor's budget that the UK corporation main tax from 1 April 2020 will be reduced from 19% to 17% (legislation enacted in September 2016). As a result of this change, UK deferred tax balances have been remeasured at 17.0% (2016: 19.0%).

The Board continues to seek to improve the transparency and communication of the Group's tax affairs. In 2017, the Group was delighted to be re-awarded its Fair Tax Mark. A copy of the Group's tax strategy is available at www.stafflinegroupplc.co.uk/investorrelations/grouptaxstrategy.

The amortisation charge relating to intangible assets arising on business combinations and the JSOP profit and loss charge (2016: credit) are not deductible under UK corporation tax and are therefore added back to taxable profits. A deferred tax liability is recognised in respect of consolidated intangible assets. This liability is reduced each year in line with the amortisation charge, giving rise to a deferred tax credit each year. No deferred tax is recognised on the JSOP charges.

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

The current tax liability at the end of 2017 of £3.4m (2016: £2.5m) can be analysed as follows:

	2017 £'m	2016 £'m
Liability at the beginning of the year	**2.5**	0.4
Charge on profits for the year	**7.0**	6.3
Paid in the year (net of repayments)	**(6.2)**	(4.0)
Liabilities on business acquisitions/others	**0.1**	(0.2)
Liability at the end of the year	**3.4**	2.5
Balance of 2017 tax year liabilities	**3.4**	–
Balance of 2016 tax year liabilities	–	1.7
Balance of 2015 tax year liabilities	–	0.8
Liability at the end of the year	**3.4**	2.5

The 2017 year-end liability is scheduled to be paid in two equal instalments in January and April 2018.

9 Assets held for sale and discontinued operations

During 2015, 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 were disclosed in the 2016 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 in 2016 to the date of disposal. Thus a net profit of £1.0m was reported in 2016 on the disposal of A4e Australia (£nil proceeds, £1.0m net liabilities at date of disposal). The cash flows of A4E Australia were consistent with the operating results.

	2017 £'m	2016 £'m
Sales	–	1.7
Cost of sales	–	(1.7)
Gross result	–	–
Administrative expenses	–	(0.2)
Operating loss	–	(0.2)
Profit on disposal of subsidiary	–	1.0
Profit before and after taxation – discontinued operations	–	0.8

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 Joint Share Ownership Plan or ("JSOP") – "own shares" (2017 year end 2,220,400 shares; 2016 year end 2,220,400 shares). The calculation of the diluted earnings per share is based on the basic earnings per share as adjusted to further take into account the potential issue of ordinary shares resulting from share options granted to certain Directors and share options granted to employees in 2017 under the SAYE scheme.

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10 Earnings per share and dividends Continued

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

	Basic 2017	Basic 2016	**Diluted 2017**	Diluted 2016
Earnings from continuing operations (£'m)	**18.3**	15.0	**18.3**	15.0
Earnings from discontinued operations (£'m)	**–**	0.8	**–**	0.8
Weighted average number of shares (000)	**25,621**	25,367	**25,756**	25,520
Earnings per share (pence):				
Continuing	**71.4p**	59.1p	**71.1p**	58.8p
Discontinued	**–**	3.2p	**–**	3.1p
Underlying earnings from continuing operations (£'m)	**29.0**	29.1	**29.0**	29.1
Underlying earnings per share (pence)*	**113.2p**	114.7p	**112.6p**	114.0p

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

The weighted average number of shares (basic) has been increased by 254,000 (2016: 484,000) shares to take account of the full-year effect of the 170,000 shares sold by the 2010 JSOP scheme in December 2016 as no longer required and the 100,000 of new shares issued in January 2017 to satisfy the exercising of share options by D Martyn, a director of the Company.

Dividends

During the year, Staffline Group plc paid dividends of £6.7m (2016: £5.8m) to its equity shareholders:

	2017 £'m	2016 £'m	**2017 per share (pence)**	2016 per share (pence)
Interim 2017 paid November 2017 (Interim 2016: paid November 2016)	**2.8**	2.7	**11.0p**	10.5p
Final 2016 paid July 2017 (Final 2015: paid July 2016)	**3.9**	3.1	**15.3p**	12.5p
Total paid during the year	**6.7**	5.8	**26.3p**	23.0p

A final dividend for 2017 of £4.0m has been proposed (2016: £3.9m – paid July 2017) but has not been accrued within these financial statements. This represents a payment of 15.7 pence (2016: 15.3 pence) per share. The final dividend for 2017 is proposed for payment in July 2018.

11 Goodwill

Gross carrying amount – Group	**Division**	**Total £'m**
At 31 December 2015		91.5
Additions – Paragon Training (NI) Limited	PeoplePlus	0.1
At 31 December 2016		**91.6**
Additions – Driver & Labour Recruit Limited (see (a) below)	**Recruitment**	**–**
Additions – Brightwork Limited (see (b) below)	**Recruitment**	**2.6**
At 31 December 2017		**94.2**

The breakdown of goodwill carrying value by division is noted below:

	31 December 2017 £'m	31 December 2016 £'m
Recruitment division	**37.2**	34.6
PeoplePlus division	**57.0**	57.0
Total	**94.2**	91.6

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.

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 11.0% (2016: 10.7%) based on weighted average cost of capital. The Recruitment annual profit growth rates for the three-year forecasts are between 12% and 20% and are based on the continuation of historic organic growth achieved by the business over the past three years and planned acquisitions. This has been achieved by sales growth from both existing and new customers and acquisitions. The growth rate for Recruitment exceeds the long-term average growth rate for the market but this is deemed reasonable based on a) the growth experienced over the past three years and b) the detailed business plans for 2018–2020. 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 also assumed to be nil beyond the 2018–2020 three-year forecast, due to the uncertainty around the run-off of the DWP Work Programme contracts and the growth of other contracts including Apprenticeships. 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 (2016: £nil).

As at 31 December 2017 the Company had no Goodwill (2016: £nil).

Additions

a) Driver & Labour Recruit Limited

On 5 March 2017, the Recruitment division of the Group acquired 100% of the issued ordinary share capital of Driver & Labour Recruit Limited, a staffing recruitment company trading as Oak Recruitment in the Republic of Ireland. Initial consideration of £0.3m was paid with a further £0.3m deferred consideration payable in four quarterly instalments commencing June 2017 and ending in March 2018 (£0.2m paid out this financial year with £0.1m provided for at the financial year end). £0.1m of net assets were 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, all subject to further fair value review.

A summary of the acquisition is as follows:

	Balance sheet as at 5 March 2017 £'m	Fair value adjustments £'m	**Provisional fair value 31 December 2017 £'m**
Intangible fixed assets – software	–	–	**–**
Property, plant and equipment	–	–	**–**
Trade and other receivables	0.9	–	**0.9**
Accrued income	–	–	**–**
Cash and bank	0.1	–	**0.1**
Trade and other payables	(0.4)	(0.1)	**(0.5)**
Corporation tax payable	–	–	**–**
Invoice financing loan	(0.4)	–	**(0.4)**
Net assets/(liabilities) acquired	0.2	(0.1)	**0.1**
Intangible assets identified – customer contracts/lists			**0.6**
Deferred tax liability on acquired intangibles			**(0.1)**
Goodwill (not tax deductible)			**–**
Consideration			**0.6**

At 5 March 2017, the trade and other receivables balance in the table above amounts to gross receivables of £0.9m and provisions of £nil.

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11 Goodwill Continued
b) Brightwork Limited

On 15 May 2017, the Recruitment division of the Group acquired 100% of the issued share ordinary capital of Brightwork Limited, a staffing recruitment company based in Scotland. Initial consideration of £2.5m was paid, with a further £2.7m deferred consideration payable in five quarterly instalments commencing August 2017 and ending in August 2018 (£1.1m paid out this financial year with £1.6m provided for at the financial year end). £0.2m of net liabilities were 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, all subject to further fair value review. A summary of the acquisition is as follows:

	Balance sheet as at 15 May 2017 £'m	Fair value adjustments £'m	**Provisional fair value 31 December 2017 £'m**
Intangible fixed assets – software	0.1	(0.1)	–
Property, plant and equipment	0.2	(0.2)	–
Trade and other receivables	6.5	(0.2)	**6.3**
Accrued income	0.8	–	**0.8**
Cash and bank	1.8	–	**1.8**
Trade and other payables	(3.1)	(0.4)	**(3.5)**
Corporation tax payable	(0.1)	–	**(0.1)**
Invoice financing loan	(5.5)	–	**(5.5)**
Net assets/(liabilities acquired)	0.7	(0.9)	**(0.2)**
Intangible assets identified – customer contracts/lists			**3.5**
Deferred tax liability on acquired intangibles			**(0.7)**
Goodwill (not tax deductible)			**2.6**
Consideration			**5.2**

At 15 May 2017, the trade and other receivables balance in the table above amounts to gross receivables of £6.5m and provisions of £nil.

Together, Oak Recruitment and Brightwork contributed revenues of £32.3m and profit after tax of £0.7m in the period from date of respective acquisitions to 31 December 2017.

If the acquisitions of Oak Recruitment and Brightwork Limited had occurred on 1 January 2017, the Group's revenues and profit after tax for the year ended 31 December 2017 would have increased by £12.8m and £nil respectively, to £970.6m and £18.3m respectively.

12 Other intangible assets

The Group's other intangible assets include the customer contracts and lists obtained through the acquisition of businesses plus acquired software. There are no intangible assets with restricted title.

Gross carrying amount	Software £'m	Licenses £'m	Customer contracts £'m	Customer lists £'m	Total £'m
At 1 January 2016	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**
Additions	**1.1**	–	–	–	**1.1**
Additions through business combinations (see note 11)	–	–	**4.1**	–	**4.1**
Transfer from property, plant and equipment	**0.2**	–	–	–	**0.2**
At 31 December 2017	**10.2**	**2.0**	**49.5**	**5.5**	**67.2**
Amortisation					
At 1 January 2016	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**
Charged in the year	**1.6**	–	**8.8**	–	**10.4**
At 31 December 2017	**4.3**	**2.0**	**34.6**	**5.5**	**46.4**
Net book amount at 31 December 2017	**5.9**	–	**14.9**	–	**20.8**
Net book amount at 31 December 2016	6.2	–	19.6	–	25.8

As at 31 December 2017, there are six individually material other intangible assets:

	Software £'m	Licenses £'m	Customer contracts £'m	Customer lists £'m	Total £'m
Customer contracts in A4e Limited	–	–	7.1	–	7.1
Customer contracts in Brightwork	–	–	3.1	–	3.1
Customer contracts in Milestone Operations	–	–	2.6	–	2.6
Software developed for the Ministry of Justice contract	2.9	–	–	–	2.9
Payroll and Credit Control software developed for Recruitment division	1.5				1.5
Software developed for the Work Programme contract	1.3	–	–	–	1.3
Others	0.2	–	2.1	–	2.3
Net book amount at 31 December 2017	**5.9**	**–**	**14.9**	**–**	**20.8**

The Company's intangible asset relates to a software license which has been written down to £nil net book value:

	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	**–**
Amortisation charged in the year	–
Net book value at 31 December 2017	**–**

13 Fixed asset investments – Company

	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**
Movement in JSOP investment	**3.3**
Cost and net book amount at 31 December 2017	**58.3**

The net charge (2016: credit) to the investments carrying value relates to the movement in relation to the Joint Share Ownership Plan. As at 31 December 2017, the Company holds interests in the following companies:

Subsidiaries	Proportion of ordinary share capital held	Country of incorporation	Nature of business
Registered office: 19-20 The Triangle, NG2 Business Park, Nottingham, NG2 1AE			
A4e Limited	100%	England and Wales	Welfare to Work
A La Carte Recruitment Limited*	100%	England and Wales	Dormant
Broomco (4198) Limited*	100%	England and Wales	Intermediary holding
Eos Works Group Limited	100%	England and Wales	Intermediary holding
Learning Plus System Limited	100%	England and Wales	Training
PeoplePlus Group Limited*	100%	England and Wales	Welfare to Work
Softmist Limited*	100%	England and Wales	Training
Staffline Appointments Limited (formerly Select Appointments Limited)*	100%	England and Wales	Recruitment
Staffline Holdings Limited	100%	England and Wales	Intermediary holding
Staffline Recruitment Limited	100%	England and Wales	Recruitment

Notes to the financial statements Continued
For the year ended 31 December 2017

13 Fixed asset investments – Company Continued

Subsidiaries	Proportion of ordinary share capital held	Country of incorporation	Nature of business
Registered office: 19-20 The Triangle, NG2 Business Park, Nottingham, NG2 1AE (continued)			
A4e Enterprise Limited*	100%	England and Wales	Dormant
A4e Wales Limited*	100%	England and Wales	Dormant
A4e Europe Limited*	100%	England and Wales	Dormant
A4e Worldwide Limited*	100%	England and Wales	Dormant
Action For Employment Trustees Limited*	100%	England and Wales	Dormant
Agency Plus Limited*	100%	England and Wales	Dormant
Driving Plus Limited *	100%	England and Wales	Dormant
Eos Works Limited*	100%	England and Wales	Dormant
Eos Services Limited (formerly Taskforce Recruitment Limited)*	100%	England and Wales	Dormant
JFDI Group Limited	100%	England and Wales	Dormant
Network Projects Limited*	100%	England and Wales	Dormant
Onsite Partnership Limited	100%	England and Wales	Dormant
Skillspoint Limited*	100%	England and Wales	Dormant
Staffline Limited	100%	England and Wales	Dormant
Staffline Trustees Limited*	100%	England and Wales	Dormant
Techsearch Technology Limited*	100%	England and Wales	Dormant
Registered office: ul. Fryderyka Chopina 2, 44-100 Gliwice, Poland			
Staffline Polska Sp. zoo*	100%	Poland	Recruitment
Staffline Recruitment Gliwice Sp. zoo*	100%	Poland	Recruitment
Go New Sp. Zoo *	100%	Poland	Recruitment
Registered office: Fitzwilliam Hall, Ballsbridge, Dublin 2			
Staffline Recruitment Limited	100%	Republic of Ireland	Recruitment
Registered office: 38a Mallusk Road, Newtownabbey, Northern Ireland, BT36 4PP			
PeoplePlus (Works) NI Limited*	100%	Northern Ireland	Training
Paragon Training (NI) Limited*	100%	Northern Ireland	Training
Registered office: 20 Stafford Street, Edinburgh, Scotland, EH3 7BD			
Brightwork Limited*	100%	Scotland	Recruitment
Brightwork Specialist Recruitment Limited*	64%	Scotland	Dormant
Registered office: Elgar House, Shrub Hill Road, Worcester, England, WR4 9EE			
Warwickshire and West Mercia Community Rehabilitation Company Limited*	100%	England and Wales	Welfare to Work
Mercia Community Action CIC*	100%	England and Wales	Welfare to Work
Registered office: Southern Exchange House, 34 Earl Grey Street, Edinburgh, EH3 9BN			
PeoplePlus Scotland Limited*	100%	Scotland	Dormant
Registered office: 3A Cleve Business Park, Monahan Road, Cork, T12KWK1			
Driver & Labour Recruit Limited*	100%	Republic of Ireland	Recruitment
Registered office: 34 Habarzel Street, Rarnat Hahayal, Tel Aviv, 69710, Israel			
Amin (A4e – Aman) Limited*	100%	Israel	Dormant
Registered office: Weberstrasse 65, 45879 Gelsenkirchen, Germany			
A4e Deutschland GmbH*	100%	Germany	Dormant

* These companies are owned indirectly through other Group companies.

14 Subsidiaries exempt from audit

The following UK subsidiaries will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006 for the year ending 31 December 2017:

Subsidiaries	Proportion of ordinary share capital held	Country of incorporation	Nature of business
A4e Enterprise Limited	100%	England and Wales	Dormant
Broomco (4198) Limited	100%	England and Wales	Intermediary holding
Eos Works Group Limited	100%	England and Wales	Intermediary holding
Eos Works Limited	100%	England and Wales	Dormant
Learning Plus System Limited	100%	England and Wales	Training
Network Projects Limited	100%	England and Wales	Dormant
Staffline Appointments Limited	100%	England and Wales	Recruitment

The Directors of Staffline Group plc have confirmed that the Company will provide a financial guarantee under Section 479C of the Companies Act 2006 in relation to the subsidiaries listed above. No liability is expected to arise from the giving of this obligation.

15 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 – Group						
At 1 January 2016	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**
Additions	**–**	**2.5**	**–**	**0.2**	**–**	**2.7**
Transfer to software intangible assets*	**–**	**(0.2)**	**–**	**–**	**–**	**(0.2)**
Disposals	**–**	**(1.8)**	**–**	**(2.9)**	**–**	**(4.7)**
At 31 December 2017	**5.2**	**9.1**	**–**	**1.9**	**0.1**	**16.3**
Depreciation						
At 1 January 2016	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
At 31 December 2016	**1.7**	**6.0**	**–**	**2.7**	**0.1**	**10.5**
Charged in the year – operating	**0.4**	**1.7**	**–**	**0.7**	**–**	**2.8**
Disposals	**–**	**(1.8)**	**–**	**(2.9)**	**–**	**(4.7)**
At 31 December 2017	**2.1**	**5.9**	**–**	**0.5**	**0.1**	**8.6**
Net book value						
At 31 December 2017	**3.1**	**3.2**	**–**	**1.4**	**–**	**7.7**
At 31 December 2016	3.5	2.6	–	1.9	–	8.0

* Acquired software assets previously disclosed as Computer equipment were reclassified as Intangible software assets during 2017.
** The impairment charge of £1.6m in 2016 related to the reorganisation of the PeoplePlus division and the exiting of leased properties no longer required.

As at 31 December 2017, the Company had no property, plant and equipment assets (2016: none).

Notes to the financial statements Continued
For the year ended 31 December 2017

16 Trade and other receivables

	2017 Group £'m	2017 Company £'m	2016 Group £'m	2016 Company £'m
Trade and other receivables	**95.9**	**0.5**	91.2	0.2
Amounts due from Group undertakings	**–**	**63.6**	–	29.8
Accrued income	**11.7**	**–**	11.9	–
	107.6	**64.1**	103.1	30.0

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.

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

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 (2016: £0.1m). 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:

	2017 £'m	2016 £'m
Not more than three months	**10.7**	12.1
More than three months but no more than six months	**1.6**	1.0
More than six months	**0.1**	0.2
	12.4	13.3

17 Retirement benefit net asset

One of the Group's subsidiaries operates a defined benefit pension scheme for its staff. The scheme is closed to new entrants. The last actuarial valuation of the scheme was at 30 May 2017. Given that the fair value of plan assets is only £9.8m (2016: £9.0m), only significant disclosures are reported below.

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

	2017 £'m	2016 £'m
Fair value of plan assets	**9.8**	9.0
Present value of funded obligations	**(8.4)**	(7.8)
Net asset in the balance sheet at 31 December	**1.4**	1.2
% funding ratio	**117%**	115%
Actuarial gains and (losses) during the year	**0.2**	(1.1)

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

	2017 £'m	2016 £'m
Balance at 1 January	**9.0**	8.3
Expected return – interest on assets	**0.3**	0.3
Contributions – employer and member	**0.2**	0.3
Benefits paid	**(0.1)**	(0.2)
Actuarial gain on asset return	**0.4**	0.3
Asset in the balance sheet at 31 December	**9.8**	9.0

At 31 December 2017, the Scheme's assets, valued at market value, were distributed as follows:

	2017 £'m	2016 £'m
Bonds (58% of assets as at 31 December 2017)	**5.6**	5.3
Equities (38% of assets as at 31 December 2017)	**3.8**	3.2
Cash (4% of assets as at 31 December 2017)	**0.4**	0.5
Asset in the balance sheet at 31 December	**9.8**	9.0

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.

The movement in the present value of defined benefit funding obligations over the year is as follows:

	2017 £'m	2016 £'m
Balance at 1 January	**7.8**	5.9
Interest cost on liabilities	**0.2**	0.2
Service cost – current accrual cost	**0.3**	0.2
Benefits paid – net of member contributions	**–**	(0.2)
Actuarial loss on change in assumptions	**0.1**	1.7
Liability in the balance sheet at 31 December	**8.4**	7.8
Membership numbers (active 2017: 25; 2016: 26)	**274**	275

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

	2017	2016
Inflation rate (RPI)	**3.1%**	3.3%
Inflation rate (CPI)	**2.1%**	2.5%
Salary increase	**3.1%**	3.3%
Discount rate (derived from AA-rated corporate bonds yield curve) and expected rate of return	**2.5%**	2.9%
Future pension increases for leavers	**3.1%**	3.3%

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:

- Pre-retirement mortality: 100% of SAPS "S2" Normal tables
- Post-retirement mortality: 100% of SAPS "S2" Normal tables

Future improvements in longevity are as based on the following:

- Pre-retirement mortality: CMI 2016 projections with a long-term trend of 0.0% per annum
- Post-retirement mortality: CMI 2016 projections with a long-term trend of 1.25% per annum

The mortality assumptions used were as follows:

	31 Dec 2017 years	31 Dec 2016 years
Average expected future life at age 60 for a:		
– male currently aged 60	**26.6**	26.5
– female currently aged 60	**28.7**	28.3
– male currently aged 40	**28.1**	27.8
– female currently aged 40	**30.2**	29.5

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For the year ended 31 December 2017

17 **Retirement benefit net asset** Continued

Members are assumed to retire at the earliest age where there would be no reduction. It is also assumed that members commute 75% of the maximum HMRC allowance based on current commutation factors. There are £nil (2016: £nil) contributions unpaid at the year-end.

A charge of £0.3m (2016: £0.2m) is included within the statement of comprehensive income within administrative expenses, being employers contributions to the scheme. A net actuarial gain, after deferred taxation, of £0.2m (2016: loss of £1.1m) is included within the consolidated statement of changes in equity.

At 31 December 2017, the Company had no pension balances (2016: £nil).

18 **Cash and cash equivalents**

	2017 £'m	2016 £'m
Cash and cash equivalents	**31.3**	19.7
Bank overdraft	**–**	–
Cash and cash equivalents per cash flow statement	**31.3**	19.7

Cash and cash equivalents consist of cash on hand and balances with banks only. At the year-end, £31.3m (2016: £19.7m) of cash on hand and balances with banks were held by subsidiary undertakings, however this balance is available for use by the Group. £0.0m (2016: £0.9m) 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 Bank plc	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:

	2017 £'m	2016 £'m
Cash at bank	**31.3**	19.7
Overdraft facility	**15.0**	15.0
Additional Revolving Credit Facility	**7.5**	7.5
Bank guarantee	**–**	(0.4)
Banking facility headroom	**53.8**	41.8

With the exception of £10,000, all of the bank guarantees as at 31 December 2016 expired during 2017.

As at 31 December 2017, the Company had cash balances of £nil (2016: £nil).

19 **Trade and other payables**

	2017 Group £'m	**2017 Company £'m**	2016 Group £'m	2016 Company £'m
Trade and other payables	**9.2**	**–**	13.1	–
Accruals and deferred income	**41.7**	**–**	37.6	0.1
Amounts due to Group undertakings	**–**	**30.2**	–	7.8
Other taxation and social security	**52.1**	**–**	46.8	–
	103.0	**30.2**	97.5	7.9

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.

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

20 Borrowings

Borrowings are repayable as follows:

	2017 Group £'m	2017 Company £'m	2016 Group £'m	2016 Company £'m
In one year or less or on demand	**8.8**	**8.8**	8.8	8.8
In more than one year but not more than two years	**39.3**	**4.3**	8.8	8.8
In more than two years but not more than five years	**–**	**–**	39.3	4.4
Unamortised transaction costs	**(0.3)**	**(0.3)**	(0.5)	(0.6)
Total borrowings	**47.8**	**12.8**	56.4	21.4

	2017 Group £'m	2017 Company £'m	2016 Group £'m	2016 Company £'m
Split:				
Current liabilities:				
Term loan	**8.8**	**8.8**	8.8	8.8
Unamortised transaction costs	**(0.2)**	**(0.2)**	(0.2)	(0.2)
Bank overdraft	**–**	**–**	–	–
	8.6	**8.6**	8.6	8.6
Non-current liabilities:				
Revolving credit facility	**35.0**	**–**	35.0	–
Term loan	**4.3**	**4.3**	13.1	13.1
Unamortised transaction costs	**(0.1)**	**(0.1)**	(0.3)	(0.3)
	39.2	**4.2**	47.8	12.8
Total borrowings	**47.8**	**12.8**	56.4	21.4
Total borrowings excluding unamortised transaction costs	**48.1**	**13.1**	56.9	22.0
Less: Cash (note 18)	**31.3**	**–**	19.7	–
Net debt as disclosed in consolidated statement of cash flows	**16.8**	**13.1**	37.2	22.0

The term loan 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.

The Revolving Credit Facility 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. This was not drawn down at either year end and was not utilised at all during 2017.

21 Other liabilities including provisions

	2017 Group £'m	2017 Company £'m	2016 Group £'m	2016 Company £'m
Due within one year (Current)				
Deferred consideration	**1.8**	**–**	0.5	–
Cash-settled JSOP liability	**3.3**	**3.3**	–	–
	5.1	**3.3**	0.5	–
Due after more than one year (Non-current)				
Dilapidation provision (see below)	**2.5**	**–**	3.0	–
Cash-settled JSOP liability	**3.2**	**3.2**	3.2	3.2
	5.7	**3.2**	6.2	3.2

Of the JSOP liability, half is due to be settled in July 2018, with the remaining balance payable in July 2019.

Notes to the financial statements Continued
For the year ended 31 December 2017

21 Other liabilities including provisions Continued

Dilapidation provisions

	2017 Group £'m	2016 Group £'m
At 1 January	**3.0**	3.5
Additions to the income statement	**0.9**	–
Amount utilised	**(1.7)**	(0.4)
Acquired on business combinations	**0.3**	–
Unused amounts reversed to the income statement	**–**	(0.1)
At 31 December 2017	**2.5**	3.0

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 leases. The timing and value of the costs are uncertain due to exit date and the final liability will be subject to negotiation.

As at 31 December 2017, the Company had no dilapidation provisions (2016: £nil).

22 Deferred taxation

	2017 Group £'m	2017 Company £'m	2016 Group £'m	2016 Company £'m
Deferred taxation assets	**0.5**	**–**	0.9	–
Deferred taxation liabilities	**2.7**	**–**	3.5	–

The table below shows the movement in net deferred taxation during the year.

Deferred tax assets/(liabilities)	1 January 2017 £'m	Recognised in comprehensive income – current year £'m	Recognised in comprehensive income – prior year £'m	Others £'m	31 December 2017 £'m
Property, plant and equipment temporary timing differences	0.8	(0.3)	–	–	0.5
Acquired intangible assets	(3.3)	2.0	(0.4)	(0.8)	(2.5)
Retirement benefit asset	(0.2)	–	–	–	(0.2)
Share-based payment liability	0.1	(0.1)	–	–	–
	(2.6)	1.6	(0.4)	(0.8)	(2.2)
Recognised as:					
Deferred tax asset	0.9	(0.4)	–	–	0.5
Deferred tax liability	(3.5)	2.0	(0.4)	(0.8)	(2.7)
	(2.6)	1.6	(0.4)	(0.8)	(2.2)

The current year credit of £1.6m includes a £0.3m credit relating to a change in the deferred tax rate from 19.0% in 2016 to 17.0% in 2017. "Others" represent the £0.8m effect of intangibles acquired relating to Brightwork and Oak Recruitment this year.

There are no material deferred tax assets that have not been recognised (2016: nil).

As at 31 December 2017, the Company has deferred tax balances of £nil (2016: £nil).

23 Share capital

	2017 £'m	2016 £'m
Authorised		
30,000,000 (2016: 30,000,000) ordinary 10p shares	**3.0**	3.0
Allotted and issued		
27,849,389 (2016: 27,749,389) ordinary 10p shares	**2.8**	2.8

	2017 Number	2016 Number
Shares issued and fully paid at the beginning of the year	**27,749,389**	27,749,389
Shares issued during the year	**100,000**	–
Shares issued and fully paid at the end of the year	**27,849,389**	27,749,389
Shares authorised but unissued	**2,150,611**	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 2016: 2,220,400 shares) held at 31 December 2017 by the Employee Benefit Trust where the right to dividends has been waived.

On 27 January 2017, the Company issued 100,000 new ordinary shares of 10p each in the capital of the Company following an exercise of share options by Diane Martyn, Group Managing Director, at a price of 348.6 pence per ordinary share.

24 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:

	2017 £'000	2016 £'000
Short-term employee benefits:		
Salaries and fees (inc. car allowance)	**1,021**	779
Bonus – unpaid at year end	**422**	135
Benefits in kind	**5**	4
Compensation for loss of office	**–**	19
Social security costs	**130**	91
Pension contributions (inc. pension allowance)	**85**	59
Share based employee remuneration charge/(credit)	**2,052**	(832)
	3,715	255

On 27 January 2017, the Company issued 100,000 new ordinary shares of 10p each in the capital of the Company ("the New Shares") following an exercise of share options by Diane Martyn, Group Managing Director, at a price of 348.6 pence per ordinary share. On 27 January 2017, Diane Martyn sold 100,000 ordinary shares of 10p each in the capital of the Company at an average price of 1,032.5 pence per ordinary share.

On 14 March 2017, Andy Hogarth, Chief Executive Officer, sold 55,000 ordinary shares of 10p each in the capital of the Company at an average price of 1,150.0 pence per ordinary share.

Excluding interests in share options (Andy Hogarth and Chris Pullen, Chief Financial Officer) and Joint Share Ownership Plans (Andy Hogarth and Diane Martyn), which are fully disclosed in the Remuneration Report on pages 35 to 37, the beneficial interests of the Directors in the shares of the Company are fully disclosed in the Report of the Directors on page 38.

Notes to the financial statements Continued
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24 Related party transactions Continued

Transactions with Key Management Personnel

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

	2017 £'000	2016 £'000
Short-term employee benefits:		
Salaries and fees (inc. car allowance)	**1,765**	1,854
Bonus – unpaid at year end	**602**	411
Benefits in kind	**14**	13
Social security costs	**224**	262
Pension contributions	**128**	121
Compensation payments on resignation	**–**	300
Share-based employee remuneration charge/(credit)	**3,350**	(2,982)
	6,083	(21)

In addition to the above, the Group spent £23,000 (2016: £25,600) in accommodation expenses at Hogarth's Hotel, which is owned by a person connected to the Group Chief Executive. £nil remains outstanding at the year end (2016: £200).

25 Operating leases

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

	2017 Land and buildings £'m	2016 Land and buildings £'m
In one year or less	**2.9**	3.5
Between one and five years	**4.5**	5.7
In five years or more	**1.4**	1.9
	8.8	11.1

Lease payments recognised as an expense during the year ended 31 December 2017 amounted to £5.6m (2016: £7.6m). 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.

26 Contingencies

A cross guarantee exists between all companies in the Group for all amounts owing to Lloyds Banking Group and HSBC Bank. The Group amounts owing to Lloyds Banking Group and HSBC Bank at the 2017 financial year end are £16.8m (2016: £38.1m).

The Company will provide a financial guarantee under Section 479C of the Companies Act 2006 in relation to the subsidiaries listed in note 14, which will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006.

The Group has no other material contingent assets or liabilities at either 31 December 2017 or 31 December 2016.

27 Capital commitments

The Group had no material capital commitments at either 31 December 2017 or 31 December 2016.

28 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:

	2017 Loans and receivables and balance sheet totals £'m	2016 Loans and receivables and balance sheet totals £'m
Trade and other receivables (note 16)	**95.9**	91.2
Cash and cash equivalents (note 18)	**31.3**	19.7
Accrued income (note 16)	**11.7**	11.9
	138.9	122.8

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 2017 are provided in note 16. Substantially all of the trade within the PeoplePlus division is with local and central 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.

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 2016: £15.0m) and the use of a working capital facility of £7.5m (31 December 2016: £7.5m) that was secured during 2016. The working capital facility was not utilised during 2017.

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.

	2017	**2017**	2016	2016
	+1%	**–1%**	+1%	–1%
(Decrease)/increase in net result and equity £'m	**(0.5)**	**0.5**	(0.6)	0.6

Foreign currency sensitivity

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

Notes to the financial statements Continued
For the year ended 31 December 2017

28 Risk management objectives and policies Continued
Financial liabilities

The Group's liabilities are classified as follows:

	2017 Financial liabilities at fair value through profit or loss £'m	2017 Other financial liabilities at amortised cost £'m	2017 Liabilities not within the scope of IAS 39 £'m	2017 Balance sheet total £'m
Term loan	–	13.1	–	13.1
Revolving Credit Facility	–	35.0	–	35.0
Trade and other payables	–	9.2	–	9.2
Taxation and social security	–	52.1	–	52.1
Accruals	–	39.6	–	39.6
Deferred income	–	–	2.1	2.1
Deferred consideration	–	–	1.8	1.8
Provisions	–	–	2.5	2.5
Other liabilities – JSOP	–	–	6.5	6.5
Corporation tax	–	–	3.4	3.4
Total	–	149.0	16.3	165.3

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

	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	–	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
Provisions	–	–	3.0	3.0
Other liabilities – JSOP	–	–	3.2	3.2
Corporation tax	–	–	2.5	2.5
Total	–	154.4	9.2	163.6

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; and
- 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 2017 is as follows:

	2017 Less than one year £'m	2017 One to five years £'m	2017 More than five years £'m	2017 Total £'m	2016 Less than one year £'m	2016 One to five years £'m	2016 More than five years £'m	2016 Total £'m
Term loan	8.8	4.3	–	13.1	8.8	13.1	–	21.9
Revolving Credit Facility	–	35.0	–	35.0	–	35.0	–	35.0
Trade and other payables	9.2	–	–	9.2	13.1	–	–	13.1
Taxation and social security	52.1	–	–	52.1	46.8	–	–	46.8
Accruals	39.6	–	–	39.6	37.6	–	–	37.6
Total	109.7	39.3	–	149.0	106.3	48.1	–	154.4

The analysis of the maturity of contractual undiscounted financial liabilities (including interest) at 31 December 2017 is as follows:

	2017 Less than one year £'m	2017 One to five years £'m	2017 More than five years £'m	2017 Total £'m	2016 Less than one year £'m	2016 One to five years £'m	2016 More than five years £'m	2016 Total £'m
Term loan	9.1	4.5	–	13.6	9.1	13.3	–	22.4
Revolving credit facility	0.7	35.5	–	36.2	0.7	35.5	–	36.2
Trade and other payables	9.2	–	–	9.2	13.1	–	–	13.1
Taxation and social security	52.1	–	–	52.1	46.8	–	–	46.8
Accruals	39.6	–	–	39.6	37.6	–	–	37.6
Total	110.7	40.0	–	150.7	107.3	48.8	–	156.1

29 Cash flows from operating activities – Consolidated

	2017 £'m	2016 £'m
Profit before taxation (continuing operations)	24.1	18.9
Adjustments for:		
Operating loss on discontinued operations	–	(0.2)
Finance costs	2.8	3.3
Depreciation, loss on disposal and amortisation – underlying	4.4	5.1
Depreciation, loss on disposal and amortisation – non-underlying	8.8	14.0
Operating profit before changes in working capital and share options	40.1	41.1
Change in trade and other receivables	3.5	13.2
Change in trade, other payables and provisions	1.0	(4.5)
Impact of foreign exchange loss on operating activities	(0.1)	–
Cash generated from operations	44.5	49.8
Employee cash-settled share options (non-cash charge/(credit))	3.3	(2.9)
Employee equity-settled share options	0.1	–
Net cash inflow from operating activities	47.9	46.9

Notes to the financial statements Continued
For the year ended 31 December 2017

29 Cash flows from operating activities – Consolidated Continued

Movement in net debt	2017 £'m	2016 £'m
Net debt at 1 January 2017 (excluding transaction fees)	**(37.2)**	(63.7)
Unwinding of discount on loan notes	**–**	(0.1)
Loan repayments	**8.8**	11.9
Change in cash and cash equivalents	**11.6**	14.7
Net debt at 31 December 2017 (excluding transaction fees)	**(16.8)**	(37.2)
Represented by:	**£'m**	£'m
Cash and cash equivalents (note 18)	**31.3**	19.7
Current borrowings (note 20)	**(8.6)**	(8.6)
Non-current borrowings (note 20)	**(39.2)**	(47.8)
Net debt including transaction fees	**(16.5)**	(36.7)
Transaction fees (unamortised balance)	**(0.3)**	(0.5)
Net debt at 31 December 2017 (excluding transaction fees)	**(16.8)**	(37.2)

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.

30 Acquisition of businesses – cash paid, net of cash acquired

Cashflows in relation to the acquisition of Brightwork Limited and Driver & Labour Recruit Limited are as follows:

	Brightwork £'m	Driver & Labour Recruit £'m	2017 £'m	2016 £'m
Total Consideration (note 11)	**5.2**	**0.6**	**5.8**	–
Consideration deferred (note 11)	**(1.6)**	**(0.1)**	**(1.7)**	–
Cash acquired (note 11)	**(1.8)**	**(0.1)**	**(1.9)**	–
Loans and overdrafts acquired (note 11)	**5.5**	**0.4**	**5.9**	–
Acquisition of businesses	**7.3**	**0.8**	**8.1**	–

31 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 18), bank loans, overdrafts and revolving credit facilities (note 20) 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 2018. 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.

Unaudited five-year summary of financial data

	Financial reporting years ended 31 December £'m					
Weeks	**2017** **52**	2016 52	2015 52	2014 53	2013 52	% annual compound growth
Comprehensive income						
Turnover	**957.8**	882.4	702.2	503.2	416.2	23%
Underlying operating profit	**39.1**	40.0	30.3	19.4	12.8	32%
% margin	**4.1%**	4.5%	4.3%	3.9%	3.1%	
Reported operating profit	**26.9**	22.2	7.5	11.2	8.9	
Net profit after taxation	**18.4**	14.7	2.8	6.8	7.4	
Underlying earnings per share (diluted)	**112.6**	114.0p	92.4p	59.7p	45.8p	25%
Declared dividend per share	**26.7p**	25.8p	20.0p	13.5p	10.0p	28%
Dividend cover vs underlying diluted EPS	**4.2x**	4.4x	4.6x	4.4x	4.6x	
Financial position						
Goodwill	**94.2**	91.6	91.5	69.7	31.0	
Intangible assets	**20.8**	25.8	36.7	12.0	4.0	
Property, plant and equipment	**7.7**	8.0	9.3	4.9	2.1	
Trade and other receivables	**107.6**	103.1	116.8	76.4	63.1	
Cash and cash equivalents	**31.3**	19.7	5.0	18.4	12.5	
Trade and other payables	**(103.0)**	(97.5)	(101.3)	(69.5)	(56.0)	
Borrowings (excl. deal fees)	**(48.1)**	(56.9)	(68.7)	(36.2)	(7.6)	
Deferred tax net (liability)/asset	**(2.3)**	(2.6)	(5.1)	(1.9)	0.4	
Other (net liabilities)	**(12.4)**	(7.5)	(8.6)	(8.9)	(3.7)	
Net assets	**95.8**	83.7	73.2	64.5	45.8	
Net (debt)/cash excl. deal fees	**(16.8)**	(37.2)	(63.7)	(17.8)	4.9	
Goodwill, intangibles	**115.0**	117.4	128.2	81.7	35.0	
Other net assets	**(2.4)**	3.5	8.7	0.6	5.9	
Cash flows						
Underlying operating profit	**39.1**	40.0	30.3	19.4	12.8	
Non–underlying cash costs	–	(6.6)	(4.1)	(0.7)	–	
Depreciation, amortisation	**4.4**	4.9	3.6	2.0	1.0	
Working capital movements	**4.4**	8.7	(14.0)	(3.1)	6.2	
Capital expenditure, inc. software	**(3.8)**	(6.9)	(4.4)	(2.7)	(2.8)	
Taxation paid (net)	**(6.2)**	(4.0)	(5.0)	(2.5)	(3.1)	
Free cash from operations	**37.9**	36.1	6.4	12.4	14.1	
Dividends and interest paid	**(9.3)**	(8.9)	(5.8)	(3.3)	(2.4)	
Business acquisitions inc. debt acquired	**(8.5)**	(1.9)	(45.4)	(46.8)	(2.8)	
Issue of share capital, share sales	**0.3**	1.5	–	15.4	0.5	
Others	–	(0.3)	(1.1)	(0.4)	0.1	
Reduction/(increase) in net debt	**20.4**	26.5	(45.9)	(22.7)	9.5	

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Tracy Lewis (Non-Executive Director)
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