Staffline
Group PLC

Enabling the future of work™

Staffline

Staffline Group plc
Annual Report 2018

Introduction

Welcome to Staffline Group plc's Annual Report 2018.

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

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

Visit www.stafflinegroupplc.co.uk

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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 by 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 ex-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. During the completion of the financial statements we were made aware of allegations against the Company – see pages 19 and 20 for further comments.

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

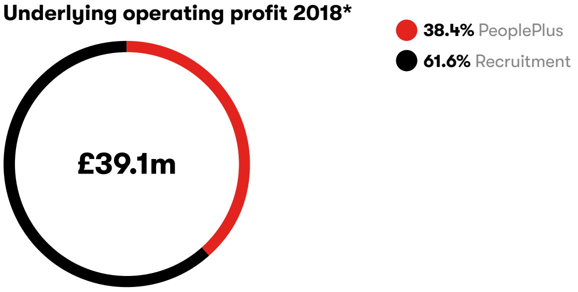
People
- To protect people and their interests by acting responsibly at work and in the community
- To find lots of job opportunities, every day of the week
- To provide jobs on the doorstep
- To offer training, apprenticeships and guidance
- To work with reputable companies

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

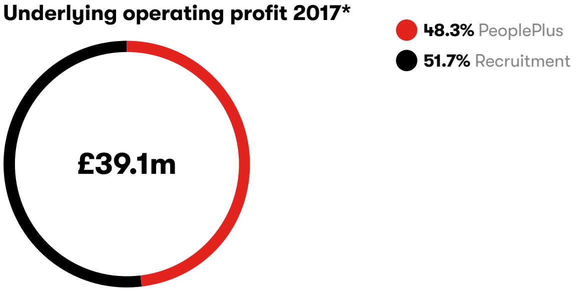
Highlights 2018

Financial

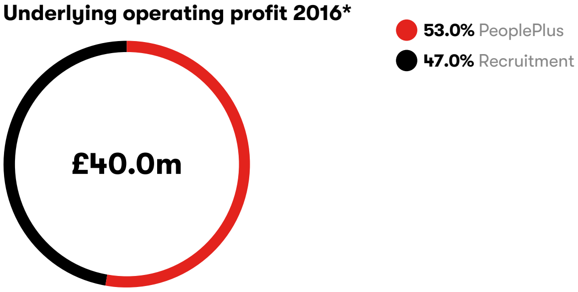
Underlying operating profit 2018*



Underlying operating profit 2017*



Underlying operating profit 2016*



Turnover

£1,127m

(up 18%)

Reported (loss) before tax

(£9.6m)

(2017: profit £24.1m)

Underlying profit before tax

£36.0m

(down 1%)

Non-underlying charges

£45.6m

(2017: £12.2m)

Underlying profit after tax down

1%

Reported profit after tax down

£26.8m

Net debt increased by £47m to

£63m

Business acquisitions in the year

7

(spend £48.0m)

Underlying diluted earnings down 2%

110.1p

(2017: 112.6p)

* Underlying profit before tax excludes amortisation charges on intangible assets arising on business combinations, acquisition and exceptional reorganisation costs, exceptional NMW remediation and financial penalties, revised audit scope and increased audit fees and the non-cash charge/credit for share-based payment costs ("SBPC")

Operational highlights

Read about our six business acquisitions on page 9

Read about our contract wins on page 25

Read about our LearnDirect acquisition on page 9

Recruitment

Read more on page 22

- **Acquired and integrated six businesses during the year,** which has provided an expanded footprint in the core blue collar vertical. These acquisitions have contributed to the overall Recruitment division revenue growth of 21% and collectively performed better than expected in the year.
- **Significant investment in the Group's proprietary digital platforms** which is both increasing candidate attraction and retention capability, whilst providing unrivalled insights that enable us to improve worker and customer experience. Our worker engagement strategy is providing strong service differentiation and driving worker and customer loyalty.
- **Strong performance in the Logistics vertical** where the Group continues to expand, both through new and existing clients, offsetting macro-economic headwinds in the retail and automotive sectors.
- New business wins (Wiggle, Pukka Pies, PepsiCo, Argos, Ocado, Huntapac, Hermes) whilst growing our presence with existing customers (Asda, Royal Mail, Morrisons, Muller, Lidl, Bakkavor). **Our new business pipeline remains strong.**
- **Exceptional costs** of £15.1m have been recorded in relation to the historical non-compliance with the National Minimum Wage ("NMW") regulations. See note 3 to the financial statements for further comments.

PeoplePlus

Read more on page 24

- **Close to completing the transformation away from the Work Programme** and towards being the UK's leading skills and training provider.
- **Acquisition of LearnDirect Apprenticeships** has enabled Staffline to create the UK's leading Apprenticeship Levy business with significant progress in securing Apprenticeship Levy wins.
- **The Work Programme contract** ended in March 2019, following an agreement with the Department for Work and Pensions ("DWP").
- **Significant exceptional costs** have been incurred in 2018 relating to the structural reorganisation of the division into the UK's leading skills and training business, all of which have been taken in the Consolidated statement of comprehensive income in 2018. The Board does not anticipate any further exceptional costs in relation to the reorganisation of the PeoplePlus division.
- **Multiple contract wins in the year,** driving a strategic step change for the business, notably New Enterprise Allowance extension, Gloucestershire Carers Hub and, at the end of the year, a doubling of our Prison Education contract.
- Now have a **diversified set of contracts** and customers with multiple end dates.

Group

- On 29 January 2019, the group auditor received an anonymous e-mail which made allegations, including items relating to payroll and invoicing practices. A full legal investigation has now been completed with exceptional costs of £1.8m relating to increased audit fees being recorded. See pages 19 and 20 for further comments.

Company overview

Established in 1986 the Group has two business divisions:

Recruitment

Specialising in providing complete labour solutions in agriculture, food processing, manufacturing, e-retail, driving and the logistics sectors.

Recruitment revenue by sector 2018

- **70%** Food and related
- **14%** Retail non-food
- **11%** Manufacturing
- **5%** Express/branch

Investment case

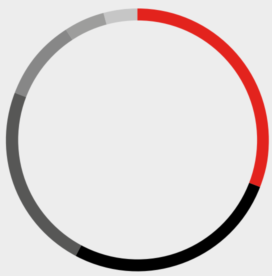
Staffline is an ambitious growth company. We are focused on quality of earnings and cash generation.

Key characteristics include:
- Market-leading positions in sectors in which we operate
- Low operational gearing
- Strong cash conversion
- Focused allocation of capital to drive growth, both organically and with a strong track record of strategic acquisitions
- Low capital expenditure requirements
- Low central overhead
- Defensive Recruitment business, 70% concentrated in food production
- Broad and diversified contract base across public and private sectors

PeoplePlus

The leading adult skills and training provider in the UK, delivering apprenticeships, adult education, prison education and skills-based employability programmes across the country.

PeoplePlus revenue by sector 2018



- **31%** Skills
- **27%** Work Programme
- **23%** Justice
- **10%** Employability
- **5%** Communities
- **4%** Other

OnSite
Staffline Recruitment's OnSite services include supporting the food production, logistics, manufacturing and automotive sectors, where we are located on over 460 sites in the UK and Ireland and find work for up to 60,300 people every day. We support the major supermarkets including Tesco and Sainsbury's and work with some of the biggest fashion and high street names such as Boohoo and Marks and Spencer.

Agriculture
Supporting the farming and horticulture industry with specialist, mobile workforce services.

Ireland
A generalist recruitment solutions provider, operating in a branch network covering all major cities across Ireland, supplying public and private sector employers with candidates in both industrial and commercial roles. Also operates a Specialist HR division.

Driving
Dedicated to the specialist supply of LGV drivers to logistics and transport operations throughout the UK, we are the UK's number one provider of OnSite managed drivers. We recruit, train and manage a flexible workforce across more than 40 OnSite locations, serving customers such as Hermes and DHL.

Express
Our large branch network supports clients through our brands of Staffline Express, Brightwork (Scotland) and Diamond Recruitment (Northern Ireland). Techsearch is our specialist technical recruitment business, based in Leeds, and covering all the UK.

Apprenticeships
Market-leading provider of training courses for private sector apprenticeships.

Skills and prison education
Market-leading provider of Government-funded adult skills programmes. Education and training services for prisoners and ex-offenders.

Employability
Supporting Government programmes providing back-to-work education and support services to the unemployed. Government's leading provider of support for business start-ups from unemployment.

Health and social care
Largest independent provider of a range of crucial support services to disabled people and their carers across a growing number of local authorities.

HR solutions
Offering a fast-developing range of employer HR solutions.

Statistics

Sites in UK and Ireland

463
(2017: 333)

Workforce every day (at peak)

60,300
(2017: 52,400)

Increase in website candidate applications

120%

Share of Apprenticeship Levy market

10%

Share of prison education market

25%

Number of jobseekers helped over the Work Programme life

460,000

Market review

There are significant long-term growth drivers in our markets.

Share of recruitment market

11%

Share of Apprenticeships Levy market

10%

Share of prison education market

25%

Fragmented recruitment market

2018 has been a strong year of growth for Recruitment, despite headwinds in the retail and automotive sectors. We have seen a further tightening of the labour market as unemployment reached record lows. This, combined with increasing Brexit uncertainty, has served to generate an uncertain market as we look forwards to 2019. Notwithstanding this short-term uncertainty, we maintain our focus on supporting the medium-term structural shift in the UK towards a more flexible labour market. This market was estimated to be worth in excess of £35bn in the UK in 2018 and we expect continued growth across the industry in the medium term, as employers look for increasing support with skills shortages and the challenges of a tight labour market.

Recruitment candidate type

Wage growth is also now firmly in the ascendency, driven by mandatory increases (notably the National Minimum Wage), together with increasing skills and labour shortages. This presents a considerable opportunity for Staffline, with our market-leading position and candidate acquisition strategy, which features technology-led multi-channel marketing, enabling us to source candidates in circumstances where competitors cannot, and hence increasingly enabling us to command a price premium in the future.

Recruitment sector offer

Working with over 1,600 of the UK's best-known brands ensures that we provide a preferable job search listing in each of our specialisms and our online applications have reached record numbers via our highly search-optimised website – www.staffline.co.uk.

Acquisitions 2018

January

M&B Staff Services

Division
Recruitment

Location
Republic of Ireland

Activities
Staffing recruitment company

February

UK Distribution Personnel Limited

Division
Recruitment

Location
South East of England

Activities
Specialist driving recruitment agency

March

Endeavour Group Limited

Division
Recruitment

Location
East of England

Activities
Blue-collar recruitment business, focusing on the food, agriculture and logistics sectors

June

One Call Recruitment Limited

Division
Recruitment

Location
East of England

Activities
Staffing recruitment company

July

LearnDirect Apprenticeships

Division
PeoplePlus

Location
UK

Activities
Market-leading Apprenticeship Levy provider

July

Grafton Recruitment Limited

Division
Recruitment

Location
Northern and Republic of Ireland

Activities
Provider of recruitment and employment services

September

Passionate About People Limited

Division
Recruitment

Location
West of England

Activities
Provider of blue-collar, flexible, staffing solutions to the aerospace, automotive, and other sectors. Provider of recruitment process outsourcing solutions

Our Recruitment model

Drawing on key resources and relationships

Brands and customers
Working with over 1,600 of the UK's best-known brands ensures that we provide preferable job search listings in each of our specialisms. We support the major supermarkets including Tesco and Sainsbury's and work with some of the biggest fashion and high street names such as Boohoo and Marks and Spencer. We are the UK's number one provider of OnSite managed drivers. We recruit, train and manage a flexible driving workforce across more than 40 OnSite locations, serving customers such as Hermes and DHL.

Network
Staffline Recruitment's OnSite services include supporting the food production, logistics, manufacturing and automotive sectors, where we are located on over 460 sites in the UK and Ireland and find work for up to 60,300 people every day. Our size and scale are a great advantage for our clients as we are able to balance peaks and troughs in overall demand for labour. Our network increased during 2018 with the acquisition of six businesses.

Technology
During 2018, we have implemented a number of new technologies including the AI chatbot, delivering 'always on' communication, the Universe platform (our bespoke game-changing candidate engagement platform), and our industry-leading customer experience management programme 'Have your Say'. These innovations drive our customer-centric approach and have ensured we maintain best practice within the industry, delivering the highest standards of fulfilment, retention and worker engagement.

Government and regulators
The Group is licensed by, and works closely with, the Gangmasters Labour Abuse Authority ("GLAA") to maintain high standards of compliance controls.

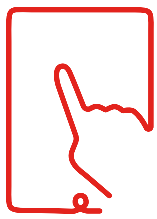
Employees
We find work for up to 60,300 people every day.

and our differentiated proposition

Sectors
Concentration in defensive food, logistics and e-retail

Acquisitions
Portfolio management and disciplined M&A

Worker attraction
Digital platforms drive candidate resourcing



Customer experience
Data and insights improving customer insights

Underpinned by – financial

Our model has evolved from opportunistic consolidation of a fragmented market to active acquisition and integration.

drives our competitive advantage

Geographic scale
Our pan UK operations and locations attract a quality customer base

Customer quality
Our diverse range of blue-chip customers drives candidate attraction

Candidate catchment
Our wide reach enables us to manage a flexible and reactive workforce

capability, strong governance, culture

and delivers the following outcomes

Superior candidate attraction

Better candidate retention

Optimised resource allocation

Unrivalled network coverage

Workers at peak
60,300

Improvement in staff attrition
23%

Revenues food related
70%

Candidate application via web
+120%

Businesses acquired in 2018
6

Our PeoplePlus model

Drawing on key resources and relationships

01 Longstanding client and employer relationships in all markets

02 Our unique PartnerPlus stakeholder model

03 Clearly defined organisational values represented in our 'trademarks'

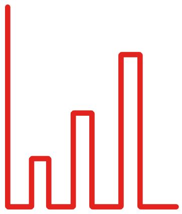
04 A national footprint with multi-regional presence

05 A trusted and extensive network of complementary delivery partners

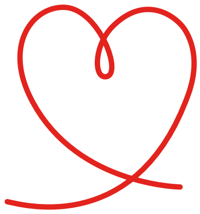
and our differentiated proposition

National coverage
The breadth of our market-leading services and operations across central/regional/local Government and the private sector.

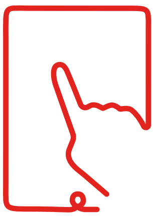
Reputation
Track record of performance excellence across all our markets.



Creating brighter futures
Our passion to transform people's lives, enable to them to get jobs and progress in their careers.



Technology
Supported by value-adding digital learning and engagement technologies which are unique in our core markets.



Underpinned by – financial

Our model has transitioned from being Work Programme centric to becoming a leading Skills and Training provider.

drives our competitive advantage

Getting people back to work
Largest, and by some distance, the highest performing provider on the Work Programme and Apprenticeship Levy in the UK

Support services
Largest independent provider of a range of crucial support services to disabled people and their carers across a growing number of local authorities and the Government's leading provider of support for business start-ups from unemployment

Adult education
The UK's largest independent provider of prison education and provider of skills and training across adult education, apprenticeships and employability services

HR solutions
Offering a fast-developing range of employer HR solutions

capability, strong governance, culture

and delivers the following outcomes

Market-leading results, consistently

Apprentices worked with in 2018

7,000

Service innovation

Customers

1/2m

Actionable insights for performance and policy improvement

Sustainment rates

80%

Unique engagement and support tools for our service users

Success rates in prison education

90%

Client-focused services which exceed expectation

Strategic progress

Recruitment

Customer experience strategy

Ensuring Staffline is an employer and partner of choice.

Experience management is at the heart of our offering.

- Our digital platform Universe collects and analyses feedback from all levels of our workforce, with a view to making improvements. Using surveys sent to workers' smartphones at key touchpoints, we learn exactly what people think of their workplace. This valuable, authentic feedback becomes actionable information, allowing Staffline and our clients to implement the right changes resulting in better places to work, increases in employee satisfaction, retention, accuracy and productivity, as well as business profitability.
- Knowing the importance of customer experience is one thing, but during 2018 we have put in place the tools and processes required to enhance our focus in this area. Our world-class experience management programme, Have Your Say, measures objectives at each key touchpoint using a combination of Net Promoter Score ("NPS") and Customer Satisfaction ("CSAT"). Through insights and analysis, we are able to effectively identify the improvements that will have the biggest impact for each of our customers and help them drive cultural change – in short, this valuable data becomes actionable.
- The customer and worker experience is at the heart of everything we do, which is why we give all our staff access to customer feedback dashboards, empowering them towards a single, customer-focused goal. These dashboards are a key part of our own performance measurements, reflecting the service profit chain as well as our awareness that engaged workers are more productive, and more inclined to stay with the company long term.
- We have made a significant investment in our people team, strengthening this area of the business to ensure we continue to attract, develop and retain the best talent in the market and we have introduced new "know how frameworks" as well as learning and development programmes to complement our long-standing successful leadership programmes.

Bolt-on acquisitions

- Six acquisitions during the year have provided footprint expansion in our core blue collar vertical, further increasing our scale. These acquisitions have contributed to our overall Recruitment division revenue growth of 21%. Although the acquisitions collectively performed ahead of expectations during 2018, trading so far in 2019 has been disappointing, with activity levels below forecast.

Digital

- In the Recruitment division we have invested in digital platforms which are both increasing our candidate attraction and retention capability, whilst providing unrivalled insights that enable us to improve the worker and customer experience. Our proprietary worker engagement strategy is providing strong service differentiation and driving worker and customer loyalty.
- During 2018 we have implemented a number of new technologies including the AI chatbot, delivering 'always on' communication, the Universe platform, our bespoke game-changing candidate engagement platform, and our industry-leading customer experience management programme, Have Your Say. These innovations drive our customer-centric approach and have ensured we maintain best practice within the industry delivering the highest standards of fulfilment, retention and worker engagement.

PeoplePlus

Continued increase in the number of customer locations

463

(December 2017: 333)

Acquisitions during the year

6

Market share increased to

11%

(2017: 9%)

Unique website visits by candidates

+50%

Grow presence in Wales, Scotland and local government

- "Fair Start Scotland", which commenced in April 2018, has become well established – with PeoplePlus' two contract delivery areas regularly ranking number one and two on job outcomes versus all other providers. Our LearnDirect Apprenticeship acquisition also significantly grew our skills and apprenticeship provision in Scotland and is key to our position as the leading UK-wide provider of such services to the private and public sector.
- In Wales, we believe we are well placed for success in the Welsh Government's procurement for its next generation of Employability and Skills programme, "Working Wales", and expect the commissioning results in late 2019.

Develop new market propositions

share of growing Apprenticeship Levy market; worked with over 7,000 people during 2018

10%

- Within the PeoplePlus division, the transition away from the Work Programme and towards being the UK's leading skills and training provider has almost been completed. The acquisition of LearnDirect Apprenticeships has enabled Staffline to create the UK's leading Apprenticeship Levy business.
- The Work Programme contract ended in March 2019, following an agreement with the Department of Work and Pensions. Significant exceptional costs have been incurred in downscaling the Work Programme operations to allow a clean exit, all of which have been taken in the P&L in 2018. We foresee no further exceptional costs in relation to this.
- The PeoplePlus division has had multiple contract successes during 2018, notably New Enterprise Allowance extension, Gloucestershire Carers Hub and at the end of the year, a doubling of our Prison Education contract. These, plus the Apprenticeship Levy, will provide PeoplePlus with a diversified set of contracts and customers with multiple end dates.

Deliver growth in OLASS propositions

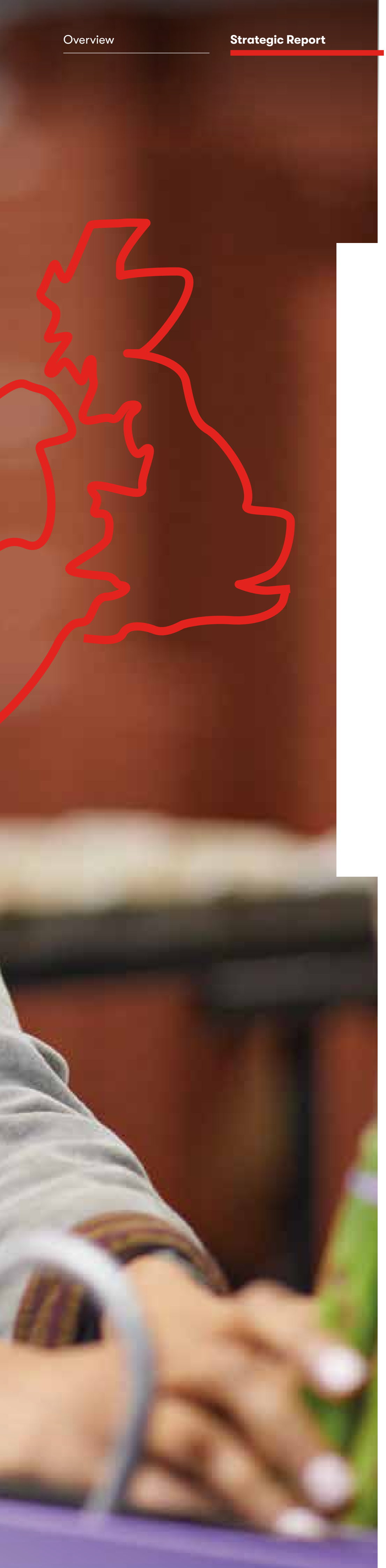
Prison education market share

25%

- We have seen a strong performance from our Prison Education and Training business – the largest independent operation on the UK – providing services to some 10,000 learners with achievement rates in excess of 90%.
- We are a leading innovator in the sector, with further investments in digital platforms and delivery made during the year and our in-cell learning proposition, Wayout TV, continuing to grow. It now operates in 30 prisons across the UK, reaching 25,000 UK prisoners.
- We see further opportunities for growth in the deployment of our prison technology provision in 2019.

Our business model in action

Expanding our reach



Through acquisitions

The acquisition of complementary bolt-on businesses delivers strategic benefits by broadening our UK footprint whilst accelerating the growth of the Recruitment division.

In addition, acquisitions can give us access to new customers and sectors, as well as increasing our market share in specific areas, whilst further strengthening our market-leading position.

Strategic rationale:
- Broader geographic presence
- Increased sector coverage
- New service offer

Acquisition criteria
Staffline seeks to add scale in complementary geographies where there is the potential to bring significant new clients to the customer base. Historically these have been funded through existing cash facilities and the target is to ensure that there is a strong cultural fit and returns are better than the average existing portfolio.

Benefits
- Better sector capability
- Increased worker attraction
- Balanced labour provision across regions
- Improved quality of business

Future
Our recent refinancing of borrowings provides further funds and greater flexibility for the Group to continue to acquire companies which, alongside continued organic growth, will help achieve our EPS growth target.

Vital Recruitment acquisition

The acquisition supports Staffline Recruitment's vision

"To be the trusted market leader, providing a single destination for blue-collar workers and employers to connect across the UK."

Acquisition Rationale
Staffline provides a national staffing solution for many of the UK's best-known brands and as our network has grown we have increasingly found the East of England to be one of the more challenging areas of the country. This is in part due to it being a less developed area of our network with operations for our existing customers as well as it being a predominately rural region.

Vital is by far the largest provider of workers in the East of England and had been able to increase its market share by, amongst other things, offering transport from two operations in the region.

Clients new to Staffline

17

Located in two large recruitment hubs – Peterborough and Boston – supported by smaller recruitment centres and OnSite operations across the East of England, Vital was an attractive proposition as this infrastructure alone was a significant enhancement to our existing resources in this area. In addition, the business came with a number of new customers (17 of the top 20 clients are new to Staffline), extending the Staffline network.

Post-acquisition
We completed the acquisition in March 2018 extending our average workers deployed in the East of England by 4,000 and up to 8,000 during peak periods, as well as significantly strengthening our food division and market share in agriculture. In the latter part of the year we have begun to realise a number of synergies through reductions in the support functions which have been absorbed by our shared service centre in Nottingham. There are further synergies identified as we fully integrate the business during 2019. The transport service and other resources will be utilised by existing Staffline operations in the area to benefit our customers.

Chief Executive Officer's Statement

A year of transformation building the platforms for future growth.

For Staffline, 2018 was a year of transformation across both of our operating divisions as we set the foundations for the clearly identifiable future growth opportunities within both of these divisions.

In Recruitment, we have completed a fundamental cultural change and created a highly differentiated operating model based on Experience Management, putting the worker at the heart of everything we do. Better engaged workers stay with us longer and are more productive. Our unique methodology is producing measurable improvements in worker engagement, which is resulting in defined improvements in retention and productivity, enabling us to maintain the highest levels of fulfilment despite the tightness of the labour market. In addition, we have transformed our candidate attraction methods to being entirely digitally led, based on cutting-edge social media integration. These two strategies together form a compelling response to the market challenges derived from Brexit uncertainty combined with the lowest unemployment rates in over 40 years.

Group Financial Review

Revenue

£1,127.5m

(2017: £957.8m)

Underlying profit before tax*

£36.0m

down £0.3m

Reported (loss) before tax

(£9.6m)

down £33.7m

At the same time, as part of our cultural shift change, the business overhauled its approach to compliance and, put simply, renewed its approach with an obsession for always "doing the right thing". Staffline Recruitment aims to lead the industry as exemplars in what we call the Flexible Worker Revolution. We are committed to developing Flexible Work, fully endorsing the spirit of the Good Work Review*. In fact, our aim is that over time flexible work is seen to be better than permanent work as increasingly society wants to work more flexibly. In this respect, we are "Enabling the Future of Work™". We are doing this by:

- 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 successful by providing flexible workforces, when they want and where they want. Underpinned by strong compliance and ethical standards.

As a result of these initiatives, Staffline Recruitment is increasingly differentiated from its wider competitive environment. We expect the benefits to come through over time, facilitating further market consolidation and opportunities for improved commercial terms. Whilst market conditions remain challenging largely arising from Brexit uncertainty, we believe that our highly differentiated proposition provides an excellent platform for future growth.

In PeoplePlus, 2018 was a year of transformation. The previous long-term core of the business has been the Government's Work Programme. Since 2011, PeoplePlus has supported over 460,000 Work Programme customers on their journeys from long-term unemployment, back into work. In doing so, we have been a top performing operator of the scheme. Following its success and the current historically low levels of unemployment, the scheme went into a wind-down phase in 2018 with the last customers finishing in March 2019. PeoplePlus' strategy has been to leverage the core skills and competences within the organisation to fully repurpose as a skills and training business. This ambitious transformation has almost been completed and PeoplePlus is now the UK's leading skills and training provider. From a financial performance perspective, 2019 will be a transitional year as the final months of Work Programme revenue has been earned and numerous new contracts are started under the new operating model of skills and training. We already have good visibility of 2020 contracted revenue and are well on the way to fully replacing 2018 Work Programme revenue.

Delay to the publication of results

The Group had planned to release its unaudited results for the year ended 31 December 2018 on 30 January 2019. On the evening of 29 January 2019, the Group auditors received an anonymous email which made various allegations in relation to payroll and invoicing practices and associated VAT liabilities and accruals/provisions. The same email was also purportedly sent to various regulatory authorities. A sub-committee of the Board – the Investigation Committee – consisting of the Chairman and three Non-Executive Directors, was immediately established in order to consider the allegations and oversee the Group's response. In light of the anonymous email and the preliminary findings from extended audit procedures, the Investigation Committee recommended that an independent legal investigation be conducted, and separate independent expert advice obtained on the Group's obligations with regard to compliance with National Minimum Wage ("NMW") regulations. The independent legal investigation was conducted by Osborne Clarke LLP. Independent expert advice in respect of the NMW was provided by KPMG LLP.

Following the conclusion of the legal investigation there was no material adjustment required to the underlying results. The statutory result was affected by an increase in the NMW provision. The most significant and time-consuming area of the investigation related to the Group's historical compliance with NMW legislation. Liabilities in relation to this have been booked as exceptional, non-underlying charges on the basis of their nature, magnitude and the fact that they relate to a period of six years including and prior to 2018 (the years 2013 to 2018). After a detailed investigation of the Group's self-review and with the benefit of further expert legal advice and independent specialist advice, the Group has further reviewed its obligations and liabilities in respect of this matter. As a result of this further review, the Group assessed that its NMW liabilities were higher than initially estimated. In recent years, NMW compliance has emerged as a highly complex area which has affected a significant number of businesses across industry and retail, in particular. The Group's non-compliance was initially identified by a self-review process as part of HMRC's compliance review. It related to a limited number of food production facilities and the payment for preparation time, which is generally the time spent donning workwear. In these cases, the Group was following its end customers' operational procedures for clocking in and out. These procedures have now been rectified so that all work-related time is paid in accordance with legislation. Going forward, any additional time paid is charged to the customer in the same way as all other hours supplied. However, the additional costs incurred in relation to historical non-compliance are not recoverable from customers. The nature, complexity and volume of data to be analysed as part of the additional independent specialist review, and the subsequent audit of this information, was a very significant undertaking which took several months to complete. This was a significant contributor to the delay in finalising the results.

In relation to payroll practices, the legal investigation identified some non-compliance with relevant employment legislation and regulations including Working Time Regulations 1998, in respect of payments due to leavers. Going forward, the Group has rectified these issues and believes there is no material liability in relation to this matter. The Group is taking all steps necessary to ensure ongoing compliance with relevant legislation and regulations.

The legal investigation considered the allegations in relation to certain invoicing practices including associated VAT liabilities and accruals/provisions and found that the Company was operating in compliance with relevant legislation and regulations. The legal investigation also identified that certain customer disputes and other claims had not been properly accounted for, and that certain staff had not been transparent in disclosing relevant information to our external auditors. The correction of these matters did not have a material impact on the underlying results for the current and prior year.

* Good work: The Taylor review of modern working practices July 2017

Chief Executive Officer's Statement continued

Delay to the publication of results (continued)

Finally, the independent review also highlighted areas for required improvement in internal controls and governance in the Group and its Recruitment business. This extends to the conduct of certain individuals employed by the wider Group. The Group will deal with this aspect of the review in the appropriate manner. The Group has taken further independent advice in relation to these areas and will implement the recommendations to a best practice standard.

The detailed and thorough nature of the investigation and the completion of the related audit procedures, albeit time consuming, reflects the Group's commitment to operating to the very highest standards of ethics and compliance. It is therefore all the more disappointing that, as a result of the independent review, the Group has identified serious issues. Where issues are raised, they will be thoroughly reviewed. Looking forwards, the Group will benefit from having comprehensively addressed these issues and will act as an exemplar to the wider industry. The Group is committed to its future leadership role within the industry in driving standards and raising ethics.

There has been no material impact on the financial statements of the year ended 31 December 2017, or prior periods, and therefore no prior period adjustments are required.

The Directors sincerely apologise for the delay in the publication of the 2018 results. Recognising this difficult period in the Group's circumstances, the Executive Directors have voluntarily waived all bonus entitlements in relation to 2018.

Trading

Sales in 2018 grew by 17.7% to £1,127.5m (2017: £957.8m). A change in the sales mix between the two divisions, with Recruitment accounting for 90% of the 2018 revenue (2017: 88%), has had an impact on the Group's gross profit margin, with a reduction from 11.9% in 2017 to 10.8% in 2018.

Underlying profit before tax* decreased by 0.8% to £36.0m (2017: £36.3m). On the same basis, underlying diluted earnings per share fell to 110.1p (2017: 112.6p), a reduction of 2.2%. The reported loss before tax from continuing operations of £9.6m (2017: profit of £24.1m) shows a decrease in performance of £33.7m and reported diluted earnings per share from continuing operations decreased to (32.5p) (2017: 71.1p) – both due to a £33.4m increase in non-underlying charges, principally relating to the structural reorganisation of our PeoplePlus division into the UK's leading skills and training business and remediation and financial penalties related to NMW non-compliance.

Dividends

The Group has suffered a number of trading headwinds during the first half of 2019, together with significant one-off exceptional costs which are higher than previously estimated. As a consequence, cash headroom is forecast to be limited during 2019 and 2020. Whilst this remains the case, the Company cannot pay a dividend. This situation will be kept under constant review and at such time as the Board believes that it is appropriate to reinstate the payment of a dividend, we intend to revert to the pre-existing dividend policy. This policy is that, whilst in a net debt position, of maintaining a dividend cover ratio of between 4.0 and 4.5 times our underlying diluted EPS. Details on the Group's dividend policy can be found within the Chief Financial Officer's Report.

Events after the balance sheet date

With the exception of the following contract wins, and post year end events in relation to the allegations and subsequent changes in NMW provisions, there were no events not disclosed elsewhere, between the balance sheet date of 31 December 2018 and the approval of these accounts on 26 June 2019, that are required to be brought to the attention of shareholders:

On 7 January 2019 it was announced that the PeoplePlus division had been successful in the latest round of Prison Education tenders, securing contracts worth a total of £104.6m over a four-year period, retaining all of its existing contracts and adding significant further delivery, notably in the East and North Midlands.

* Underlying profit before tax excludes amortisation charges on intangible assets arising on business combinations, acquisition and exceptional reorganisation costs, exceptional NMW remediation and financial penalties, revised audit scope and increased audit fees and the non-cash charge/credit for share-based payment costs ("SBPC")

Events after the balance sheet date (continued)

On 13 March 2019, it was announced that the PeoplePlus division had been successful in the latest round of Education and Skills Funding Agency's ("ESFA") European Social Fund competition, securing contracts worth a total of £35m over a 27-month period, commencing in April 2019. The contracts cover ten Local Enterprise Partnership ("LEP") areas across England. PeoplePlus currently delivers equivalent European Social Fund contracts worth £14m, so these wins represent an increase of 250% and make PeoplePlus the largest provider of Skills Support for the Unemployed with a market share of c.47%.

Post year end, the market capital capitalisation of the Company dropped significantly below Group net assets. Details regarding our impairment reviews are included in note 10. The covenants attached to the debt were also breached post year end as disclosed in note 3. Both of the above represent non-adjusting post balance sheet events.

Trading outlook for 2019

The Group's outlook for 2019 remains challenging but following a weak start to 2019, we are trading in line with revised expectations. The delay to the publishing of the 2018 results resulted in materially less new business won in the first quarter than in previous years.

Recruitment

The ongoing Brexit uncertainty is impacting the UK labour market and led to a number of customers transferring a significant volume of their temporary workforce into permanent employment to mitigate the risk of that labour market tightening. Typically, this reaction to uncertainty tends to reverse over time, but we expect it will continue to impact temporary worker demand throughout the current year.

A proportion of these "temp to perm" transfers have occurred in the higher margin driving sector, resulting in an overall margin dilution. In addition, we are seeing further challenges in the higher margin automotive sector and associated supply chain where reductions in demand have been greater than expected.

There has also been a slowdown in new contract momentum in the current financial year, which the Group largely attributes to the impact of the delay in publication of the 2018 full year results.

Notwithstanding these current headwinds, the Recruitment division is beginning to see the definitive benefits from the division's market-leading approach to worker engagement and digitally enabled candidate attraction. Management expects this strategy to result in increasing differentiation and to support future growth.

PeoplePlus

In PeoplePlus, the successful transition from a Work Programme provider to the UK's leading skills and training company is almost complete. With c. 60% of 2020 revenues already contracted, the Group maintains a positive outlook for PeoplePlus in 2020 under its new operating model. However, performance in 2019 will be affected by continued delays in apprenticeship new starts. This is partially as a result of the slow take-up of the Apprenticeship Levy scheme nationally, but also a reflection of the current economic uncertainty. Sectors such as retail, for example, are delaying apprenticeships whilst store restructure programmes are completed. Nevertheless, management remains confident that this market is attractive, notwithstanding this timing effect. However, the other elements of PeoplePlus, which are expected to contribute c.85% of PeoplePlus revenue in 2020, continue to develop well.

Chris Pullen
Chief Executive Officer
26 June 2019

Key performance indicators

The Group monitors a number of performance indicators both financial and non-financial. These indicators are discussed above and in the Chief Financial Officer's statements.

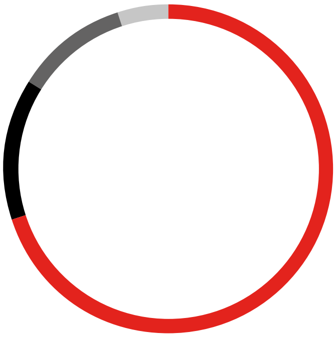
	2018	2017
Revenue	£1,127.5m	£957.8m
Year on year total revenue growth	17.7%	8.5%
Organic revenue growth	0.3%	4.9%
Gross profit margin as a % of revenue	10.8%	11.9%
Recruitment division gross profit	£81.5m	£66.1m
Recruitment division gross profit margin to sales	8.0%	7.8%
Reported (loss)/profit before tax	(£9.6m)	£24.1m
Underlying profit before tax*	£36.0m	£36.3m
Underlying profit before tax as a % of revenue	3.2%	3.8%
Net debt including unamortised transaction costs	£63.0m	£16.5m
Recruitment trade debtors outstanding (days) – year end	26.8	23.4
Highest number of temporary contractors (per week)	60,300	52,400

* Underlying profit before tax excludes amortisation charges on intangible assets arising on business combinations, acquisition and exceptional reorganisation costs, exceptional NMW remediation and financial penalties, revised audit scope and increased audit fees and the non-cash charge/credit for share-based payment costs ("SBPC")

Recruitment segmental review

A shift to a more flexible labour market has underpinned our strong growth.

Recruitment revenue by sector 2018



- **70%** Food and related
- **14%** Retail non-food
- **11%** Manufacturing
- **5%** Express/branch

Revenue

£1,020m

(2017: £843.3m)

Underlying operating profit*

£24.1m

(2017: £20.2 m)

Increase in candidate applications via the website

+120%

* Underlying profit before tax excludes amortisation charges on intangible assets arising on business combinations, acquisition and exceptional re-organisation costs, exceptional NMW remediation and financial penalties, revised audit scope and increased audit fees and the non-cash charge/credit for share-based payment costs ("SBPC")

2018 has been a strong year of growth for Recruitment, despite headwinds in the Retail and Automotive sectors. We have seen a further tightening of the labour market as unemployment reached record lows. This, combined with increasing Brexit uncertainty, has served to generate an uncertain market as we look forwards to 2019. Notwithstanding this short-term uncertainty, we maintain our focus on supporting the medium-term structural shift in the UK towards a more flexible labour market. This market was estimated to be worth in excess of £35bn in the UK in 2018 and we expect continued growth across the industry in the medium term, as employers look for increasing support with skills shortages and the challenges of a tight labour market.

Wage growth is also now firmly in the ascendency, driven by mandatory increases (notably the National Minimum Wage), together with increasing skills and labour shortages. This presents a considerable opportunity for Staffline. Our market-leading position and candidate acquisition strategy, which features technology-led multi-channel marketing, enables us to source candidates in circumstances where competitors cannot, and hence increasingly enabling us to command a price premium in the future.

Working with over 1,600 of the UK's best-known brands ensures that we provide a preferable job search listing in each of our specialisms. This has resulted in online applications reaching record numbers via our highly search-optimised website – www.staffline.co.uk.

Opportunities also come from our size and scale which are becoming of increasing importance and a great advantage for our clients as we are able to balance peaks and troughs in overall demand for labour.

Financial performance

Recruitment sales rose by 21.0% to £1,020.0m (2017: £843.3m) driven both by organic growth of 1.9% and by the six acquisitions made in 2018 (see paragraph below for details). Organic growth has been slower than in prior years, reflecting the more challenging environment, in some sectors, for example, automotive and high street retail clients.

Our concentration in the more defensive sectors such as food, together with continued strong growth in online retail, has provided good mitigation against these headwinds.

Through 2018 we have continued to win new business (Wiggle, UK Mail, PepsiCo, Huntapac, Hermes) along with growing our presence with existing customers (Ocado, Royal Mail, Morrisons, Muller, Lidl). Our pipeline into 2019 remains strong.

Our Recruitment gross profit margin, expressed as a percentage of sales, increased from 7.8% to 8.0%, driven by higher margins reported by the six acquisitions made in 2018. Cash margin per hour rose in the year by +2.3%, reflecting the increased scale and diversity of our customer base. The above factors resulted in gross margin increasing by 23.3% from £66.1m to £81.5m. In addition to the effects of the six business acquisitions, we invested heavily within Recruitment, specifically on IT infrastructure and new senior talent, which in total saw overheads rise by £11.5m.

Despite this investment, underlying operating profit, before finance charges, increased by 19.3%, to £24.1m (2017: £20.2m).

Gross margin increase

+23.3%

Gross margin to sales

8.0%

(2017: 7.8%)

Priorities for 2019

- Continued organic growth – focusing on developing our existing client relationships whilst looking to add new blue-chip customers.
- Maintain good cash conversion – ongoing focus on margin and payment terms.
- Utilise technology to improve customer and worker experience – leverage our digital platform and proprietary worker engagement strategy, continue to work closely with clients and our workers to maximise engagement, retention and productivity.

Priorities for the next five years

- Continue run rate double digit growth and increase market share from 11% to 15%.
- Maintain focus on core blue-collar industrial temp staffing.
- Use technology to enhance competitive position.
- Appropriate expansion into adjacent verticals and geographies.

Our new digital strategy

During the first half of 2018, the Recruitment division launched its new digital strategy. This included:

i. Candidate attraction – A new consumer-facing front end platform, optimised for search and a streamlined candidate journey from initial landing page to on-boarding. Enhanced by AI (Artificial Intelligence), a coherent social media strategy and optimised web content.

ii. Customer experience – The execution of a unique engagement strategy. Using a proprietary methodology together with a feedback platform, we are able to gather sentiment and verbatim feedback from our workforce to provide unrivalled insights for use by us and our end customer on a site by site basis. This insight is already allowing us to improve candidate attraction and retention, the benefits of which are flowing through to our customers through reduced churn and greater productivity.

We are confident that this digital strategy differentiates us from competitors through the breadth and depth of insight we can gather and will accelerate our consolidation of the market in which we already have a strong leadership position. These initiatives are a first for our industry and enable clients to use our size and scale for their benefit to provide them with insights and analysis about their working environments, thus creating better productivity and staff retention as well as an improved service to their customers.

Acquisitions

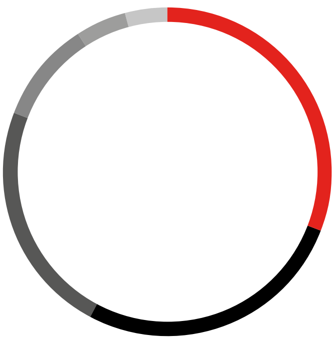
Further investment has been made through six acquisitions. These acquisitions provide increased footprint in specific geographies, giving access to an extended workforce and customer base. The acquisitions are the trade of M&B Staff Services Limited in the Republic of Ireland, UK Distribution Personnel Limited based in South East England, Endeavour Group Limited and One Call Recruitment Limited both based in the East of England, Grafton Recruitment Limited which operates in both Northern Ireland and the Republic of Ireland, and Passionate about People Limited in the South West of England.

In addition to the acquisition costs, additional working capital levels have been required due to the acquisitions during the year having certain customer sales contracts at higher than core recruitment contract terms, thus increasing the overall division year end debtor days metric.

PeoplePlus segmental review

Transformation to a leading provider of skills and training.

PeoplePlus revenue by sector 2018



- **31%** Skills
- **27%** Work Programme
- **23%** Justice
- **10%** Employability
- **5%** Communities
- **4%** Other

Revenue

£107.5m

(2017: £114.5m)

Underlying operating profit*

£15.0m

(2017: £18.9 m)

Bid win rate (by value)

49%

Non-Work Programme revenue growth

31%

Jobseekers assisted through the Work Programme

460,000

* Underlying profit before tax excludes amortisation charges on intangible assets arising on business combinations, acquisition and exceptional re-organisation costs, exceptional NMW remediation and financial penalties, revised audit scope and increased audit fees and the non-cash charge/credit for share-based payment costs ("SBPC")

PeoplePlus revenues decreased by 6.1% to £107.5m (2017: £114.5m) in 2018. This has been driven by the wind-down of the Work Programme. Gross profit reduced by £7.3m to £40.4m (2017: £47.7m) with the gross profit margin falling from 41.7% to 37.6%. We have successfully managed overhead costs, (being underlying administrative, depreciation and software amortisation charges) saving £3.4m year on year. This has partially offset the fall in revenues, with operating profit, before finance charges, reducing by £3.9m (20.6%) to £15.0m from 2017, the operating margin reducing to 14.0% (2017: 16.5%).

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

Apprenticeships

We continue to view the Apprenticeship Levy market as a key strategic growth opportunity and in 2018 took a significant step towards positioning ourselves as the leading provider in this market with the acquisition of the business of LearnDirect Apprenticeships ("LDA"). Through this purchase we acquired what we believe to be the leading management team operating in the market, strong sector positioning and many high-profile clients including Marks and Spencer, Lloyds Banking Group, Sainsbury's and Co-op. The integration of LDA was successfully completed by the end of the third quarter 2018 with all major clients retained.

We have seen strong year on year organic growth from our existing client portfolio and two key clients - Lloyds Banking Group and Co-op Funeral Care - were retained though successful reprocurement processes post the LDA transaction. Major new Levy client wins in 2018 included Royal Mail, Boden, William Hill and Warwickshire and West Mercia Police.

We have upgraded our Learner support capabilities through the introduction of market-leading engagement and tracking technologies to enable us to further differentiate our offer and the value we can add to Apprenticeship Levy clients. We are now strategically well positioned for further significant growth in 2019 as the Apprenticeship Levy market continues to mature and grow.

Skills

During 2018, PeoplePlus strengthened its position as a market leader in UK Adult Education - with over 10,000 learners and success rates above 90%, all supported by our strong Ofsted Grade 2 rating.

Business growth was primarily delivered though new European Social Funding ("ESF") contracts and we secured further extensions to existing contract provision (volumes and contractual period) during the year.

As noted on page 21 (post balance sheet events), in respect of the ESFA ESF contracts, we have secured contracts worth a total of £35m over a 27-month period which commenced in April 2019. PeoplePlus currently delivers equivalent European Social Fund contracts worth £14m, so these wins represent an increase of 250% and make PeoplePlus the largest provider of Skills Support for the Unemployed with a market share of c.47%.

Our major development focus has been on ensuring we are prepared for the commissioning of the Devolved Adult Education Budget contracts across the English Combined Authorities which will commence in August 2019. Our proposition for commissioners includes a market-leading virtual learning platform; powerful technology-based learner recruitment, engagement, Information Advice & Guidance ("IAG") and tracking capabilities which are unique to the sector and new labour market intelligence services developed in association with Staffline Recruitment.

Prison education

We have seen a strong performance from our prison education and training business – the largest independent operation in the UK, providing services to some 10,000 learners with achievement rates in excess of 90%. We are a leading innovator in the sector, with further investments in digital platforms and delivery made during the year and our in-cell learning proposition, Wayout TV, continuing to grow. It now operates in 30 prisons across the UK, reaching 25,000 UK prisoners. We see further growth opportunity in our prison technology provision in 2019.

PeoplePlus' successful track record of success has enabled it to more than double the size of its footprint – following the conclusion of the Prison Education Framework procurement, with PeoplePlus retaining all its existing contracts in the East of England and gaining significant new contracts in the East and North Midlands areas. From April 2019, PeoplePlus has grown its market share from c. 10% to 25%, and from operating in ten prisons to delivering learning in 22 prisons across England. This further strengthens PeoplePlus' positioning as the leading provider of learning and skills in the UK.

Priorities for 2019

- Continue to advance our leadership position in the Apprenticeship Levy market.
- Significantly enhance our digital learning and engagement capabilities across all services, existing and new.
- Apply our unique experience and scale to support learners, employers and public bodies in the effective development of the devolved skills strategies.
- Retain a close focus on our programme of continuous contract improvement.
- Scale our new service propositions in employer HR business solutions and beyond.

Priorities for the next five years

- Continue to diversify our revenue mix to drive high-quality earnings, further reducing our dependence on central Government.
- Revenue growth across all core markets.
- Align our key capabilities in people, technology and content to play our full role in supporting the public and private sectors in tackling the UK productivity gap.
- Consolidate our position of market leader in our chosen sectors as defined by customer ratings and market share.
- Exploit our distinctive technology propositions.

Employability

2018 saw PeoplePlus complete its repositioning as a skills and training provider and key to this was the transition away from the Work Programme. To enable this, we agreed a new payment structure with DWP in 2018 which has brought the contract to a final close in 2019 and enabled us to accelerate our programme wind-down, including our exit from premises and other supporting infrastructure. The Work Programme has been a tremendous success for PeoplePlus and a key influencer of our reputation as a trusted provider of services to the public sector. By the conclusion of the programme, we will have assisted 460,000 jobseekers and our nine contract delivery areas were placed in the 'top ten' national performers in every month throughout 2018. Alongside this, we have continued our focus on efficient and effective operational delivery to maintain strong profitability from the programme. We have also continued to grow our delivery of locally commissioned programmes in 2018, both through local Job Centre Plus procurement and local authority programmes.

Scotland and Wales

In both Scotland and Wales our businesses have performed strongly and are well positioned for further growth.

"Fair Start Scotland", which commenced in April 2018, has become well established – with PeoplePlus' two contract delivery areas regularly ranking 'number one and two' on job outcomes versus all other providers. Our LDA acquisition also significantly grew our skills and apprenticeship provision in Scotland and is key to our position as the leading UK-wide provider of such services to the private and public sector.

In Wales, we believe we are well placed for success in the Welsh Government's procurement for its next generation of employability and skills programme, "Working Wales", which we expect to be procured during late 2019.

Enterprise

Our Enterprise business, which enables people to establish their own businesses, often from a position of long-term unemployment, continues to thrive. We recently secured a two-year extension on our New Enterprise Allowance ("NEA") contracts and confirmation that PeoplePlus was the top performing NEA provider in 2018. Start Smart in Manchester and the Flexible Learning Fund contracts have both exceeded expectations and we recently secured a further extension to the Start Smart contract. PeoplePlus Enterprise worked with over 7,000 individuals in the year, to progress self-employment opportunities.

Communities

In 2018 we focused on the delivery of financial capability, direct payments and carers' support, retaining and winning new contracts at a steady rate. Our knowledge, experience and expertise in this sector provide our customers, some of the most vulnerable groups in society, with relevant and constructive Information, Advice & Guidance ("IAG") to help them live healthily and independently and to participate in their communities as fully as possible. We expect the continued pressure on local authorities in this area to present growth opportunities for our delivery model. As a demonstration of this opportunity, we successfully secured a major new contract to deliver an Adult carers' support service across Gloucestershire, which commenced in April 2019.

New business

Our focus on new business has allowed us to secure £121m (2017: £54m) of new business in 2018 with an improved win rate of one in two by value (2017: one in three). This includes £105m for Ministry of Justice prison education, which was announced on 7 January 2019.

Our business model in action

Getting people on board

Through worker attraction

Our approach to candidate attraction includes the very latest technology through our partnership with the UK's leading technology-led marketing services company, bringing us fresh thinking, industry-leading best practice and innovative candidate acquisition strategies spanning multi-channel marketing, machine learning and artificial intelligence.

Recent market disruptions in online job searches are playing to our strengths as search engines are becoming more reliable at presenting search listings in an order of relevance. Our size and scale, combined with being the chosen workforce provider for over 1,600 of the UK's best-known brands, are continually increasing our presence online and particularly in search engine listings as they identify Staffline as the authority in each of our blue-collar sectors. We see this trend continuing in the coming years as search algorithms favour our campaigns over more generic job websites.

Our website (www.staffline.co.uk) is the most visited blue-collar workforce provider job site in the UK and is fully search engine optimised with engaging video content helping to further increase applications from visitors. We create an online persona for a candidate which is used to ensure content is delivered to each person in a unique way, addressing their wants and needs.

Our candidate engagement platform provides one hub for all the candidates' data, enabling highly targeted remarketing communications to our active database of 500,000 candidates. Our AI chatbot is there to reach out, understanding and processing natural language. It communicates to candidates by text or email to support applications through all stages of the process.

We utilise a comprehensive approach to promoting roles and attracting candidates, with our website, social media, paid advertising, search engines and more traditional networks all playing key roles. We ensure content is delivered to each person in a way that addresses their individual needs.

The best person for the right job
After a comprehensive screening process, including a face-to-face interview, we use facial recognition software linked to the Home Office to check rights and eligibility to work. The candidate's secure 'Selfie' is held on the worker's record and used in conjunction with biometrics for monitoring time and attendance. Once hired, workers are issued with electronic contracts and briefed on potential assignments, as well as receiving a full induction to our vision, values, ways of working, and health and safety. All records are held electronically in the workers portal optimising the worker experience.

Our new digital platform, Universe, uses algorithms to identify who is the best fit for each role based on a combination of factors including previous assignment history, location, skills, previous productivity and attendance records. This makes sure we get the most out of our workforce and we select the most suitable workforce for each assignment. The advancements of our digital transformation will continue to create further opportunities during 2019 as our Universe system enables us to continue to improve the optimisation of our workforce to maximise fulfilment rates as well as increase hours and lengths of service. This optimisation combined with our worker experience strategy are key differentiators which will be of increasing value in a tight labour market.

Hear about job
- Word of mouth
- Social media
- Search Engine Optimisation ("SEO")
- Pay per click adverts

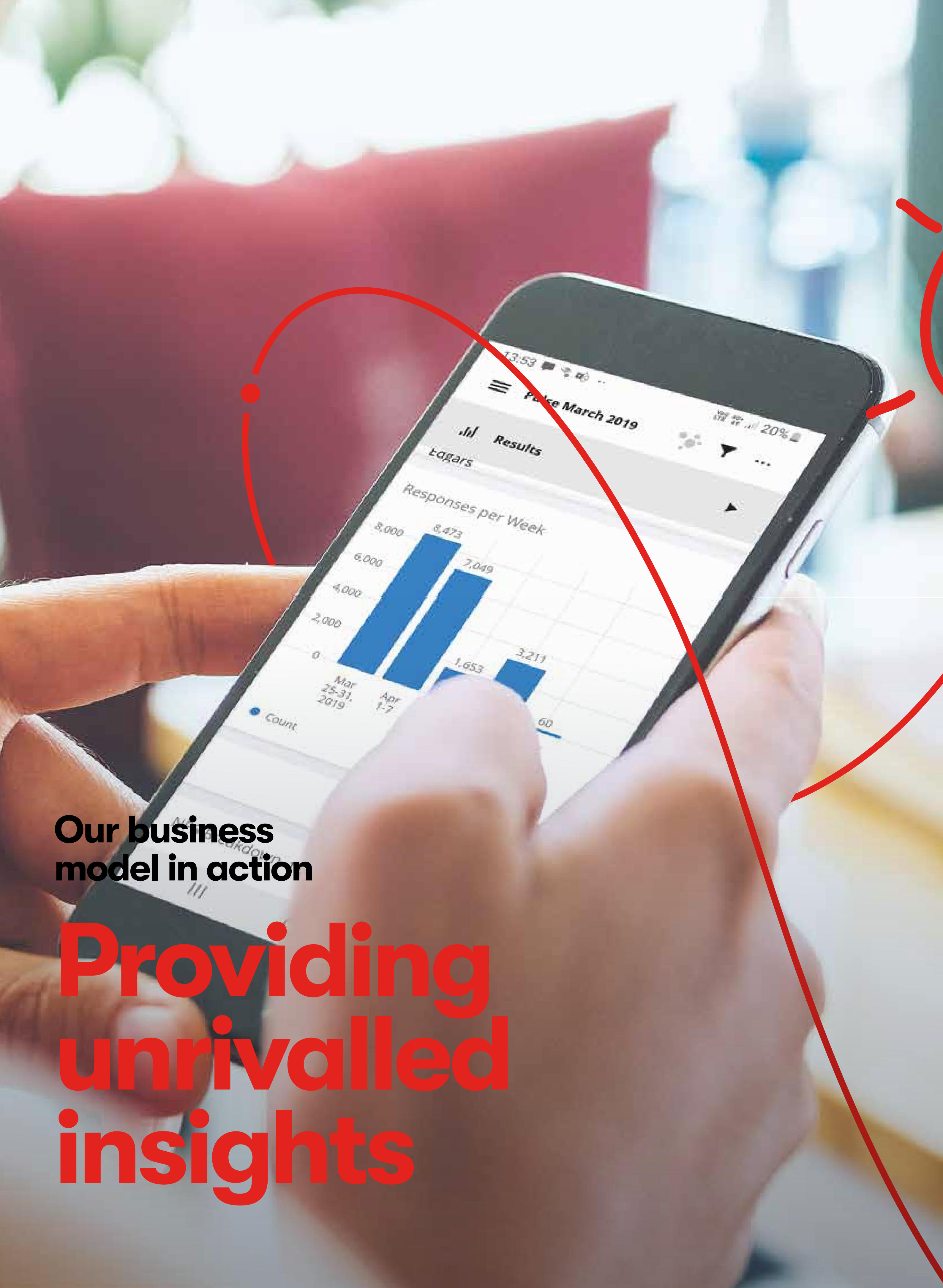
Convert to action
- staffline.co.uk
- Universe outreach
- Comparison jobs
- Campaign

Selection & interview screening
- F2F (Face to face)
- ID check
- Heading

Hired
- Contract
- Assignment
- Induction

Labour planning
- Worker pool optimisation

Assignment
- Food
- Logistics
- Agriculture etc.



Our business model in action

Providing unrivalled insights

Through customer experience

Staffline is a customer-centric business with experience management at the heart of our offering. Have Your Say is our industry-leading experience management programme, which collects and analyses feedback from all levels of our workforce, with a view to making improvements.

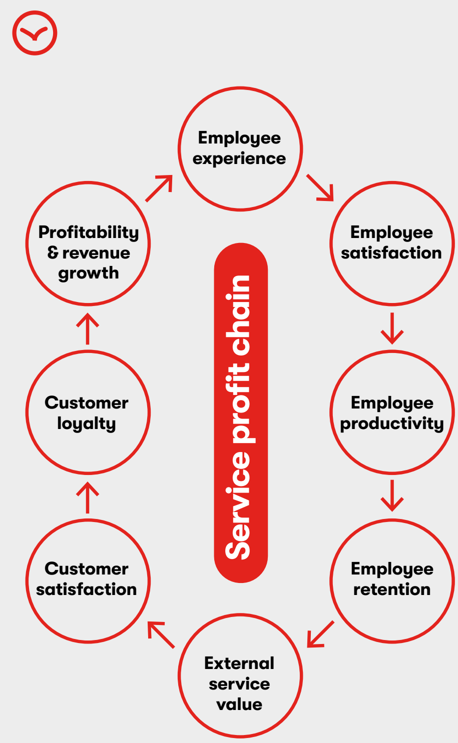
Using 30-second surveys sent to workers' smartphones at key touchpoints, we learn exactly what people think of their workplace. Through our digital platform, Staffline Universe, this valuable, authentic feedback becomes actionable information, allowing Staffline and our clients to implement the right changes.

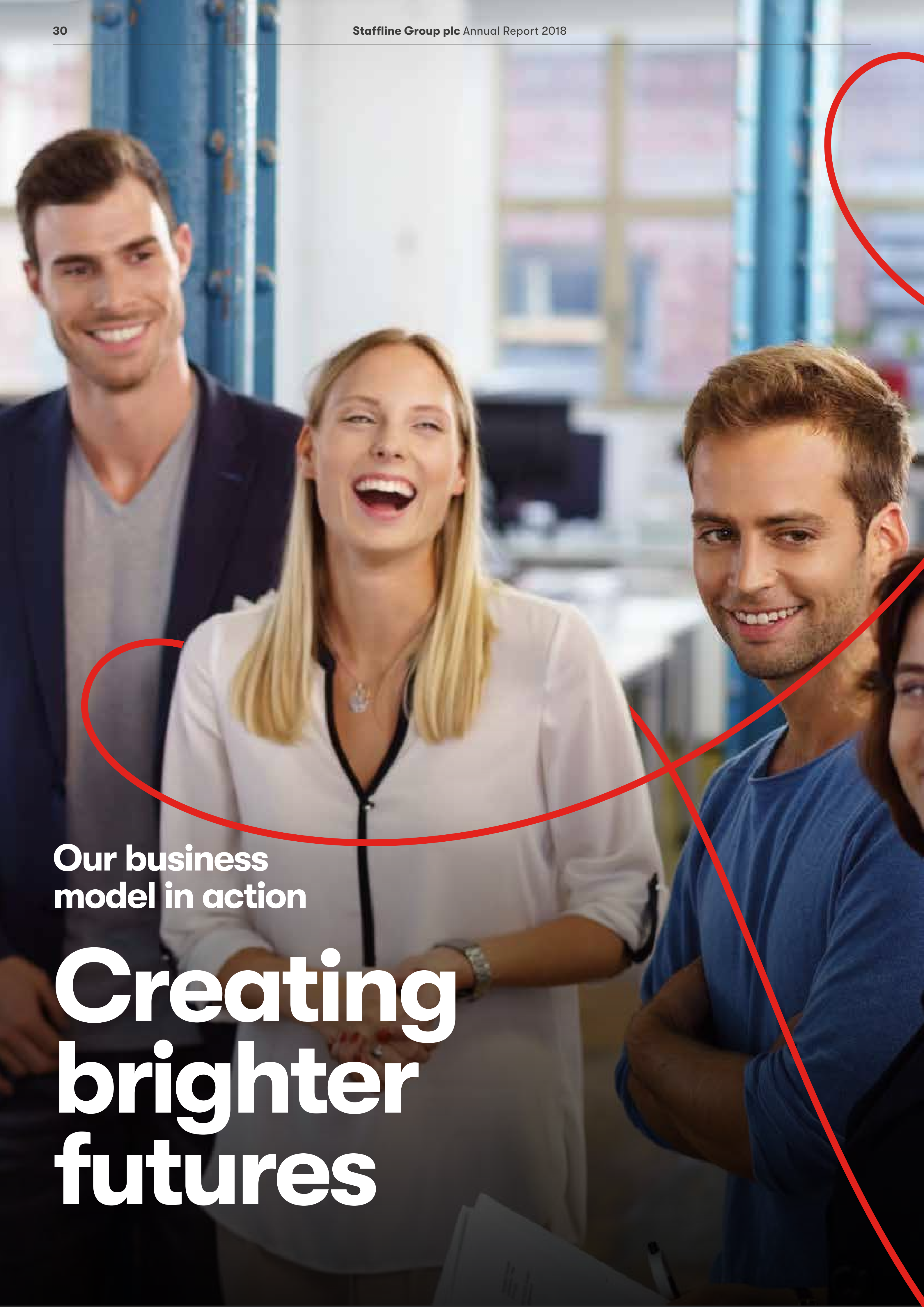
Collecting and analysing feedback
Feedback alone isn't enough, which is why we use analytical tools to make sense of this data by identifying key trends and areas for improvement. Our size and scale mean our data pool is vast and our findings are statistically robust. This allows our clients to effectively benchmark themselves against comparable competitors, establish areas for improvement and implement best practice as part of our consultative approach.

Our platform drives actionable information
In short, Have Your Say reflects how company culture and policies affect the front line, enabling employers to create the best workplace environment in which their employees can succeed.

Through insights and analysis, we can effectively identify the improvements that will have the biggest impact and drive cultural change – because engaged workers are more productive and stay with the company longer.

Service profit chain





Our business model in action

Creating brighter futures

Through apprenticeships

PeoplePlus currently helps Lloyds Banking Group ("LBG") to deliver 1,200 apprenticeship programmes.

1,200

Dedicated PeoplePlus delivery team size

52

PeoplePlus currently helps Lloyds Banking Group ("LBG") to deliver 1,200 apprenticeship programmes across all devolved nations. We have a dedicated PeoplePlus delivery team of 52 which help enrich the learning and development journey for apprentices, putting on bespoke events and incorporating professional qualification opportunities.

Apprenticeship achievement rates are impressive and LBG has been consistently recognised as a Top 100 Apprenticeship Employer. The Group is actively engaged with a significant number of different apprenticeship programmes, 60% of which are delivered in partnership with PeoplePlus.

As a key part of its apprenticeship strategy, LBG has chosen to use PeoplePlus as its Managed Service Provider ("MSP"). With a tailored approach, LBG believes that the PeoplePlus MSP model will support how its business effectively manages the delivery of apprenticeships. The approach will benefit key areas, including standardisation and consistency in management information reporting and support with sourcing and managing a diverse range of training providers.

Eniko's story

Eniko Kacaniova is a Lloyds Bank Customer Advisor:

"Working for Lloyds Banking Group is really rewarding, and I've been with the Company for several years now. I love my job and as a development path, I was offered the opportunity to sign up and complete an apprenticeship. Choosing an apprenticeship really appealed to me and I knew it would help develop my skills and build my confidence in the workplace. I am so happy I was given the opportunity to do an apprenticeship and it makes me proud to work for Lloyds Banking Group.

PeoplePlus supported and helped me progress throughout my apprenticeship and my coach Tara was amazing, always being on hand whenever I needed her.

As a result, I feel more motivated to support more customers, as I now understand the difference I can make and the value I can add through my learning. My future is looking bright, and I'm really looking forward to developing my career within Lloyds Banking Group and progressing further."

Eniko Kacaniova
Lloyds Bank Customer Advisor

Chief Financial Officer's Statement

A year of strategic acquisitions.

Financial highlights

2018 has been a year of strong revenue growth with total revenue for the year increasing by 17.7% to £1,127.5m (2017: £957.8m), with revenues in our Recruitment division growing by £176.7m (21.0%), but PeoplePlus revenues decreasing by £7.0m (-6.1%). Of the total revenue growth, 0.3% is organic, with Recruitment +£16.3m (+1.9%) but PeoplePlus falling by £13.5m (-11.8%) year on year, reflecting the wind-down of the Work Programme and the ceasing of new referrals in March 2017 (non-Work Programme revenues grew by 20% organically). The remaining revenue growth has been achieved through the seven strategic acquisitions during the year (six in our Recruitment division and one in our PeoplePlus division).

Our overall gross profit has increased by 7.1% to £121.9m (2017: £113.8m) with gross profit margins reducing to 10.8% (2017: 11.9%). This margin reduction is a result of the change in sales mix with PeoplePlus (9.5% of Group revenues compared to 12.0% in 2017) revenues falling (divisional margin of 37.6%) and Recruitment (90.5% of Group revenues compared to 88.0% in 2017) revenues growing (divisional margin of 8.0%). The Recruitment division gross margin has increased to 8.0% (2017: 7.8%) primarily as a result of the businesses acquired during the year having higher margins. These acquisitions offset the negative effect on the percentage margin as a result of the National Living Wage increase in April 2018 (no effect on the gross profit level). This dynamic 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 £8.21 per hour (April 2019) for over 25s to at least £9.00 by 2020.

Reported profit before taxation decreased by £33.7m to a loss of £9.6m (2017: profit of £24.1m). Whilst underlying profit before tax at £36.0m was only marginally lower than 2017, non-underlying charges were £33.4m higher, principally comprising the structural reorganisation of our PeoplePlus division and a provision for HMRC settlement costs in respect of historic National Minimum Wage ("NMW") breaches (further detail found within the non-underlying administrative charges section below). Underlying profit before taxation as a percentage of revenue fell to 3.19% (2017: 3.79%).

Financial highlights (continued)

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.

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.

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.

Non-underlying administrative charges

Non-underlying administrative charges have increased by £33.4m to £45.6m in 2018 (2017: £12.2m). 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 2018 relating to the fundamental transformation of the PeoplePlus division from a predominantly Work Programme business to a skills and training business, NMW remediation and financial penalties, share-based payment charges 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.

Non-underlying administrative charges (see note 5)	2018 £'m	2017 £'m
Reorganisation costs	**10.6**	–
Impairment of intangible fixed assets (reorganisation related)	**2.5**	–
Impairment of tangible fixed assets (reorganisation related)	**0.7**	–
NMW remediation and financial penalties	**15.1**	–
Revised audit scope and increased audit fees	**1.8**	–
Transaction costs	**1.9**	–
Total non-recurring charges	**32.6**	–
Amortisation of intangible assets arising on business combinations	**11.8**	8.8
Share-based payment charges (equity and cash-settled)	**1.2**	3.4
Total non-underlying charges	**45.6**	12.2

Revenue growth

17.7%

Underlying profit before tax

£36.0m

(2017: £36.3m)

Non-underlying charges

£45.6m

(2017: £12.2m)

Spend on acquisitions

£49.6m[1]

(2017: £8.5m)

1 Includes £1.6m deferred consideration relating to acquisitions in 2017.

Chief Financial Officer's Statement continued

Non-underlying administrative charges (continued)

Reorganisation costs noted above relate to the transformation of the PeoplePlus division away from a predominantly Work Programme driven business to a skills and training business, within which PeoplePlus will have a wider range of clients across both Government and commercial sectors. This will also provide a broader and more balanced portfolio of contracts with multiple run-off dates. The acquisition of LearnDirect Apprenticeships enabled the division to accelerate this transition to create the UK's leading Apprenticeship Levy business. Significant costs have been incurred during the year to reduce both the number of employees and number of locations within the division, along with associated IT costs.

Impairment of tangible and intangible fixed assets relates to the impact of the decision by the Ministry of Justice ("MoJ") to terminate all Community Rehabilitation Company ("CRC") contracts in September 2020, ahead of the contract end date of January 2022, with compensation payable by the MoJ for early termination. At the end of December 2018, the net book value of related intangible and tangible fixed assets was £2.5m and £1.4m respectively. In light of the contract variation, we have considered expected future cash flows from this contract, together with any expected compensation receivable from the MoJ, and concluded that an impairment charge for certain of these assets was appropriate.

During the year, HMRC commenced a review into the Recruitment division's compliance with NMW Regulations. The payment of the NMW is a legal requirement, covering all working time including preparation time. As a relatively new initiative, HMRC has conducted a wide-ranging review across industry, including looking back at prior periods. The review of Recruitment has yet to be finalised but a number of breaches have been identified, based on end-user custom and practice for prior periods. The HMRC review relates to the years 2013 to 2018 and we are confident that, following the steps that we have put in place, the business is fully compliant and has robust controls to ensure no further non-compliance. The timing of any financial penalty has yet to be finalised but a provision of £15.1m has been made at the year end.

Following the allegations made on 29 January 2019, as detailed earlier in the Chief Executive Officer's statement, a revised audit scope with increased audit fees was agreed with PwC. The £1.8m of fees are regarded as one-off in nature.

During the year the Group acquired seven businesses, incurring significant professional fees. This level of activity is much higher than in previous years – an average of two transactions per annum completed over the previous three years.

The charge for amortisation of intangible assets arising on business combinations in 2018 relates principally to the acquisitions of the A4e business (£5.6m charge: asset fully amortised by February 2019), Vital Recruitment (charge £2.0m: acquired March 2018, asset will be fully amortised by February 2023), Milestone (£1.0m charge: asset will be fully amortised by September 2020) and Brightwork (charge £0.7m: acquired May 2017, asset will be fully amortised by April 2022).

The share-based payment charge in 2018 principally arose due to the 19% increase in the Company's share price during the year from £10.40 to £12.40. The charge is split between Directors (£0.6m) and other senior executives (£0.6m).

Earnings per share

Statutory basic earnings per share decreased by 103.9p to (32.5p) (2017: 71.4p) and the diluted earnings per share decreased to (32.5p) (2017: 71.1p). Although underlying profit after tax at £28.8m was only £0.2m lower than 2017, the post-tax effect of non-underlying charges were £37.3m higher, principally due to the structural reorganisation of our PeoplePlus division and NMW settlement costs as noted above. In addition, the basic number of shares used to calculate the earnings per share figure has increased by 546,000 to take into account the effect of the 1,175,000 shares sold by the 2013 Joint Share Ownership Plan ("JSOP") scheme in July 2018 to satisfy their requirements on the vesting of that scheme on 30 June 2018. Removing the non-underlying charges, and their respective taxation impacts, results in an underlying basic earnings per share decrease of 3% to 110.1p (2017: 113.2p) and an underlying diluted earnings per share decrease of 2% to 110.1p (2017: 112.6p).

Statement of financial position, cash generation and financing

Although the overall (i.e. total equity level) Consolidated statement of financial position has not changed significantly during the year, total assets and liabilities have both increased.

Total Group assets have increased by £79.9m to £343.4m (2017: £263.5m), due to increased goodwill/other intangibles (up £44.2m) and trade and other receivable balances (up £50.1m). The intangible and trade and other receivables increase is due to the seven business acquisitions during the year. Trade debtors outstanding (days) at 31 December 2018 within the Recruitment division remained low at 26.8 days (31 December 2017: 23.4 days), the increase due to acquisitions during the year having certain customer contracts at higher than core Recruitment credit terms.

Total Group liabilities have increased by £84.7m to £252.4m (2017: £167.7m). Total borrowings (see note 19) increased by £31.4m, from £47.8m at the end of 2017 to £79.2m at the end of 2018. In addition, there is the effect of the seven acquisitions made during 2018 and increased provisions for non-underlying charges, partially offset by a reduction in JSOP liabilities.

Adjusted free cashflows, being underlying EBITDA (being underlying operating profit adding back underlying depreciation and software amortisation charges) plus working capital movement, less tax paid and capex and excluding the settlement of cash-settled JSOP liabilities (totalling £7.1m), amount to £7.4m in 2018 (2017: £37.9m). The Group's adjusted free cash conversion of underlying operating profit of 19% (2017: 97%) was lower this year due to non-underlying cash charges in 2018 relating to the fundamental restructuring of the PeoplePlus division and NMW settlement costs and increased working capital levels, primarily due to the timing of collections and payments. Free cash conversion in 2019 is expected to be impacted by the settlement of non-underlying liabilities accrued as at 31 December 2018, together with the lower profits now forecast.

The Group's headroom versus available committed banking facilities as at 31 December 2018 was £52.4m (31 December 2017: £53.8m) as set out below:

	2018 £'m	2017 £'m
Cash at bank	**16.2**	31.3
Cash at bank held outside of facility	**(3.8)**	–
Overdraft facility	**25.0**	15.0
Committed revolving credit facility unutilised	**15.0**	7.5
Bank guarantee	**–**	–
Banking facility headroom	**52.4**	53.8

In addition, there is a £30.0m non-committed Accordion revolving credit facility available.

Throughout the year the Group remained comfortably within its banking facilities.

Bank facilities of £105.0m were due to be renewed in May 2019. As indicated in the 2017 Annual Report, discussions with our bankers led to an early agreement being reached in July 2018 to increase the facilities to £150.0m. The term is for four years. This new facility supports our five-year growth strategy and provides appropriate supporting resources.

Group banking facilities are summarised as follows:

Facility type	Facility expiry date	Headline amount	Net borrowing as at 31 December 2018	Net borrowing as at 31 December 2017
Term loan*	Expired	–	–	£13.1m
Revolving credit facility ("RCF") (including £25m overdraft facility)	July 2022	£120.0m	£80.0m	£35.0m
Accordion revolving credit facility	July 2022	£30.0m	–	–
Unamortised transaction costs	–	–	(£0.8m)	(£0.3m)
Total facilities	**–**	**£150.0m**	**£79.2m**	**£47.8m**
Less cash held	–	–	(£16.2m)	(£31.3m)
Net debt, including unamortised transaction costs	**–**	**–**	**£63.0m**	**£16.5m**

* The £35.0m term loan was drawn down in May 2015 and repaid in full in July 2018, leaving no balance outstanding at the 2018 year end

Banking facilities available

£150m

Year end banking facility headroom

£52m

(£82m including non-committed facility)

Earnings per share (adjusted diluted)

110.1p

(2017: 112.6p)

Chief Financial Officer's Statement continued

All borrowings that are currently drawn down are repayable on a monthly basis. Interest accrues on the borrowings at between 1.4% and 2.0% plus LIBOR or Bank Base Rate, depending upon the level of adjusted leverage (see below). In addition, a commitment charge of 40% of the interest liability is made on all of the revolving credit facility (excluding the £25.0m overdraft facility) not utilised. At the year end the unutilised amount totalled £15.0m.

Total finance charges, including the interest costs of the term loan and loan notes, were £3.1m for the year (2017: £2.8m).

Net debt

We have ended the year with net debt of £63.0m (including unamortised transaction costs) compared to the £16.5m at the end of 2017. This increase was principally due to £49.6m being spent on acquisitions during the year (on 2017 acquisitions £1.6m; on 2018 acquisitions £48.0m – Endeavour Group Limited, Grafton Recruitment Limited and Passionate About People Limited, in particular), non-underlying charges incurred in fundamentally restructuring our PeoplePlus division and the timing of our working capital requirements. On an underlying basis, the Group remains cash generative.

During the year ended 31 December 2018, there was headroom against each of the three banking covenants below at each of the four quarter ends when covenants are formally assessed:

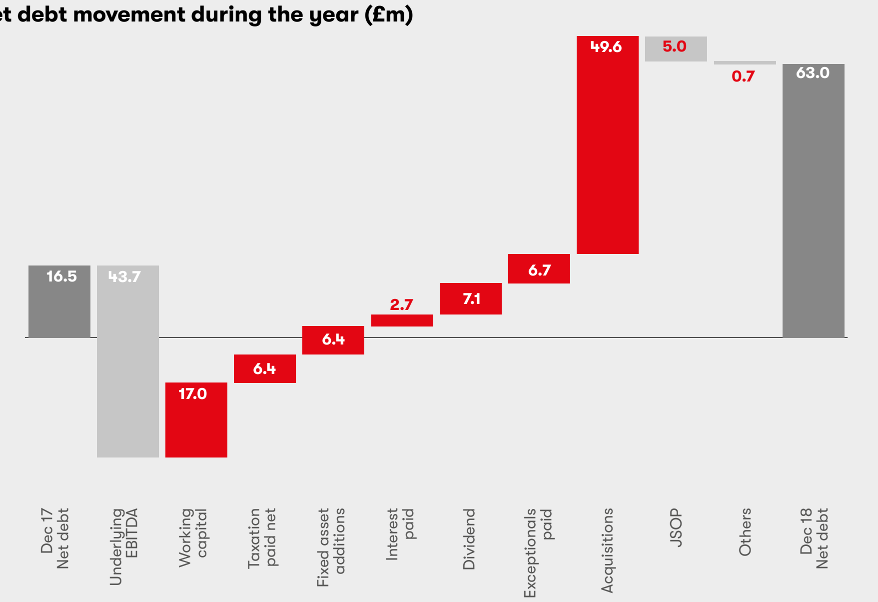
1. Interest cover – being the ratio of underlying EBITDA to interest costs: headroom of £33m as at 31 December 2018
2. Adjusted leverage – being the ratio of net debt to underlying EBITDA (as adjusted for acquisitions): headroom of £56m as at 31 December 2018
3. Asset cover – being the ratio of trade debtors to net debt: headroom of £58m as at 31 December 2018

Headroom against each covenant was also reported in the quarterly report at the end of March 2019. In addition, there was headroom against the following banking covenant at each of the two quarter ends when that covenant applied (March and June 2018 – covenant removed when new banking facilities negotiated in July 2018):

1. Cash flow cover – being the ratio of cash generated to debt servicing costs

As noted in the Going Concern section on page 37, the reduction in expected profits and increased NMW-related liabilities (to be settled during 2019), are expected to result in certain lending covenants being breached in 2019.

Net debt movement during the year (£m)



Net debt (continued)

Waivers and the relaxation of financial covenants relating to adjusted leverage have therefore been agreed with our lenders, as explained in more detail in the Going Concern section. In addition, the launch of an equity capital raise of c.£30m is expected to be announced on 27 June 2019.

Taxation

The tax credit on statutory profits was £1.1m (2017: charge of £5.8m), an effective tax rate of 11.5% (2017: 24.1%), lower than the average actual composite UK corporation tax rate of 19.00% (2017: 19.25%) due to the non-tax allowability of JSOP charges and elements of other non-underlying charges (acquisition and HMRC settlement-related costs). The tax charge on underlying profits was £7.2m (2017: £7.3m), an effective tax rate of 20.0% (2017: 20.1%), not significantly different to the average actual composite UK corporation tax rate of 19.00% (2017: 19.25%). 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 again renewed in 2018.

Dividend policy

The Company's current dividend policy is to maintain a dividend cover of between 4.0 and 4.5 times of underlying Group 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. As noted earlier, no final dividend is proposed for the year, with no dividend proposed to be paid out during either 2019 or 2020.

The 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 (including unamortised transaction costs), as discussed earlier, has risen during 2018 from £16.5m to £63.0m and is expected to be in the range of £89m to £94m as at 30 June 2019.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's business review on pages 18 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 34 to 37. In addition, note 28 to the financial statements include the Company's objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

As described in the Chief Executive Officer's Statement on page 20, the Company has reported an operating loss for the year following significant exceptional costs in restructuring the PeoplePlus division and to remedy historical pay issues in relation to the NMW regulations in our Recruitment division. In addition, the Directors consider that the outlook presents significant challenges in terms of sales volumes over the coming months. Brexit-related uncertainties, well documented issues within the automotive sector and a slow down in new contracts and apprenticeship starts are all impacting on sales volumes. Whilst the Directors have instigated measures to manage cash, these circumstances create material uncertainties over future trading results and cash flows.

The Directors believe they can continue to operate within existing lending levels for the foreseeable future. A reduction in non-business critical spend, tight control over the timing of payments and a continued drive to further improve cash collections will ensure that lending limits are not breached. However, due to the expected reduction in profits in 2019 and the increase in net debt, a future breach of lending covenants is anticipated, based on previously agreed covenant limits. As a result of the expected covenant breaches, the Directors have been in discussions with the Group's lenders to waive/reset its adjusted leverage covenant through to March 2020.

Chief Financial Officer's Statement continued

Going concern (continued)

To assess these requests, an independent business review was commissioned by the lenders. As a result of this, unconditional June 2019 covenant waivers have been received, along with future relaxation of certain covenants, although the latter is subject to an equity capital raise of at least £30m.

In relation to submitting financial statements by 30 April 2019 the Group has obtained a formal written waiver from the lenders.

The amended facilities agreement has several new conditions which include additional authorisations being required for acquisitions, no dividends being declared for 2019 or 2020 and subsequently only once the liquidity tests are met, and certain funds to be held in escrow for use only in relation to certain items (such as NMW settlement).

The Directors have launched an equity capital raise process which is expected to be completed by mid July. The outcome of this is not yet known, but the Directors along with their advisors are confident that this will raise a minimum of £30m of additional funding, which will be used to deleverage the Company, settle the NMW obligations and provide further liquidity to cover unforeseen adverse working capital movements or higher than expected settlement of the NWM provisions.

Without the equity capital raise, and the ongoing support from the lenders, the Group would likely be unable to operate within its banking facilities due to covenant breaches.

A further equity capital raise of £7m is being conducted at the same time but is not a condition of the amended facilities agreement.

The Directors have concluded that the combination of these circumstances represents a material uncertainty which may cast significant doubt upon the Group and the Company's ability to continue as a going concern and that, therefore, the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. The Group and Company financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

Impact of amendments 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 9 Financial Instruments

The adoption of IFRS 9 has not resulted in any change to the previously reported results or net assets of the Group as at 1 January 2018. Whilst the adoption of the standard has resulted in some trade receivable balances (£4.9m as at 31 December 2018) now being classified within the financial assets note as assets held to sell (as opposed to assets held to collect) this has no impact on the reported financial position or result as at 31 December 2018 or 31 December 2017.

An Expected Credit Loss ("ECL") model has been prepared for both divisions as at 31 December 2018 and 1 January 2018 and there was no impact on the Consolidated statement of comprehensive income or the Consolidated and Company statement of financial position. The Group does not hedge, therefore the changes to hedge accounting under IFRS 9 do not apply to the Group.

IFRS 15 Revenue from Contracts with Customers

During 2017, a project was undertaken within both of our divisions to understand the impact of IFRS 15 Revenue from Contracts with Customers on our revenue recognition policies.

Our Recruitment division's revenue recognition policy, detailed within the Accounting Policies section of the 2018 Annual Report, is unaffected by the application of this new standard as we have always only recognised revenue once a performance obligation has been delivered.

IFRS 15 Revenue from Contracts with Customers (continued)
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. Previously revenue was recognised as and when a stage payment was 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 has resulted in a reduction to the Group's opening 1 January 2018 net assets and equity by £1.0m to £94.8m (see the Consolidated statement of changes in equity on page 72).

Impact of future amendments to International Financial Reporting Standards

IFRS 16 Leases
IFRS 16 Leases is effective for accounting periods beginning on or after 1 January 2019. However, the Group's review of the impact the new standard would have on its financial reporting is near to completion. As at 31 December 2018 the Group has 205 operating leases and has recognised the rental expense in the Consolidated statement of comprehensive income as it falls due. Of these 205 leases, 65 have remaining lease terms greater than 12 months as at 31 December 2018. Under IFRS 16, it is these 65 leases that would lead to the recognition of a right of use fixed asset and a financial liability. A small number of leases would continue to be recognised through the Consolidated statement of comprehensive income as short-term leases i.e. leases with a maximum lease term remaining of no more than 12 months.

Had the standard been applicable for the year ended 31 December 2018, the estimated impact on the Group's reported profit before tax would have been to reduce it by between £0.1m-£0.3m. On underlying operating profit before tax (i.e. before financing charges), being operating profit excluding amortisation of intangible assets arising on business combinations, business acquisition costs, exceptional reorganisation costs, exceptional financial penalties and the non-cash charge/credit for share-based payment costs, the estimated impact would have been to increase it by £0.1m-£0.3m. On EBITDA, the estimated impact would have been to increase it by £2.0m-£3.0m. Current analysis indicates that the recognised assets and liabilities would have been in the range of £9.8m-£11.9m.

Mike Watts
Chief Financial Officer
26 June 2019

Principal risks and uncertainties

Managing our risks

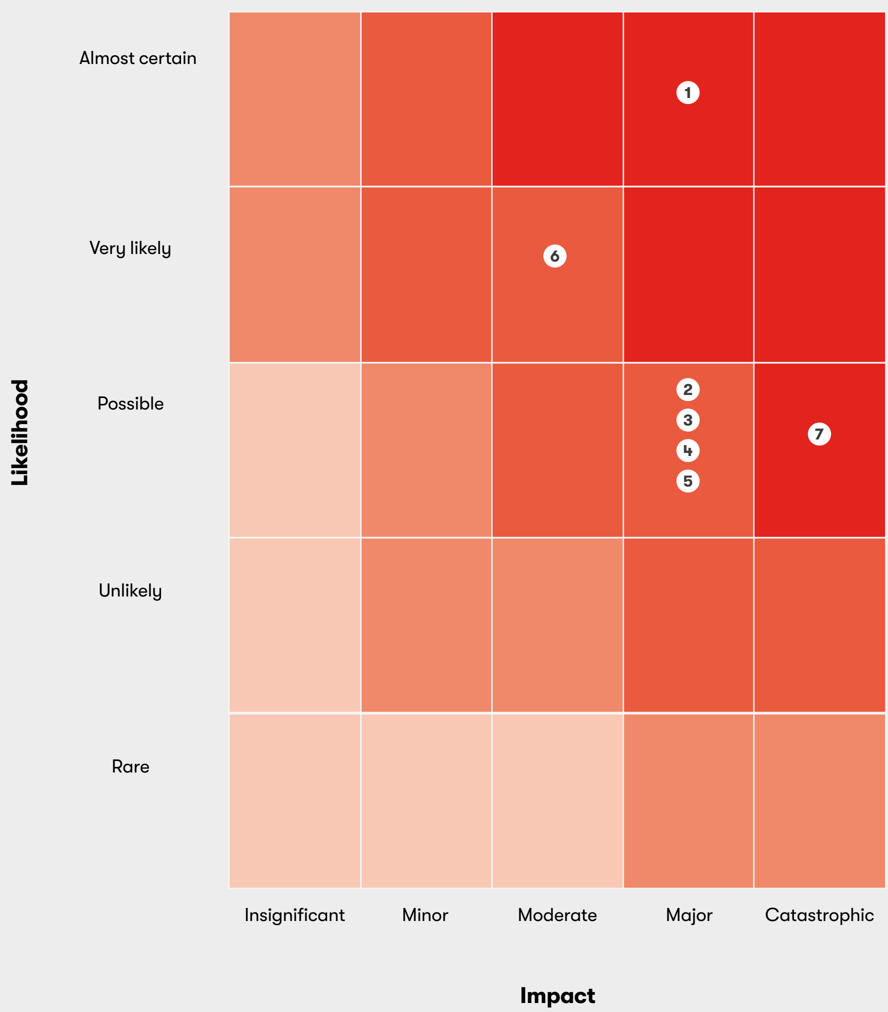
The Staffline Group plc Board of Directors has completed a robust and detailed assessment of the Group's risk management processes and the Group's risk register.

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 and Risk Committee.

The Board reviews risks and uncertainties under four principal types:

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

A heat map of our top risks is as follows:



1. National Minimum Wage compliance
2. Shortage of staffing resource
3. Business interruption – information security breach or cyber-attack
4. PeoplePlus development strategy
5. Ofsted Grade 2 rating not maintained
6. Brexit
7. Loss of Gangmasters and Labour Abuse Authority licence

The most significant risks to which, in the opinion of the Directors, the Group is exposed are described below.

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

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

Operational

1. National Minimum Wage compliance

Risk

The payment of the National Minimum Wage ("NMW") is a legal requirement which must cover all working time including preparation time, security checks and the provision of personal protective equipment. The payment of the NMW is regulated by HMRC which is tasked with enforcing compliance with the regulations. This can include site audits to check compliance.

During the year, HMRC commenced a market-wide review into compliance with the NMW regulations. Staffline has been included within this review and breaches have been identified relating to prior years, based on end-user custom and practice. The timing of any financial penalty has yet to be finalised but a provision of £15.1m has been made at the December 2018 financial year end.

National Minimum Wage

£7.83 per hour

(increased by 4.9% to £8.21 in April 2019)

Mitigation

Staffline continues to ensure that all employees have been educated on the NMW regulations. This covers both existing and new employees. We regularly audit sites that pay the NMW to ensure that practice is compliant with the regulations, including preparation time with a focus on high-risk sites. We have invested in our compliance team to facilitate this. We also actively engage with customers to discuss the requirements of the regulations. The HMRC enforcement relates to prior years and we are confident that, following the steps we have put in place, the business is fully compliant and has robust controls to ensure no further non-compliance.

Strategic

2. Shortage of staffing resource

Risk

Candidate attraction remains challenging. With UK unemployment rates remaining at around 4% (the lowest levels since 1975), record employment rates and continued uncertainties around Brexit and foreign labour leading to a reduction in net migration, there is a risk that our Recruitment division will not be able to obtain sufficient resource to fulfil its contractual obligations.

UK unemployment rate (source: ONS)

3.8%

Mitigation

Through the investment in our market-leading customer experience platform, providing worker attraction and retention technology, we believe we will continue to attract the highest-quality temporary labour workers in the right volumes to supply our customers' needs now and in the future. In addition, we are supporting our EU nationals in the UK with regard to maintaining their UK status. The Group also monitors national and regional labour statistics and has further developed its overseas recruitment function.

UK employment rate (source: ONS)

76.1%

Principal risks and uncertainties continued

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

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

Operational

3. Business interruption – information security breach or cyber-attack

Risk

There are two issues the Group focuses on with regard to this risk:

- **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.
- **Business interruption – breach of security** (cyber-crime): The Group holds sensitive personal information in respect of temporary workers, participants of our various PeoplePlus contracts, and our own staff. There is increased evidence of cyber-crime. Breaches or attacks could lead to potential reputational damage with a potential resultant loss of revenue, financial penalties for the Group and diversion of management time. The new GDPR has further focused the Group's attention on this matter.

Mitigation

The Group has an appropriate Disaster Recovery Plan in place in the event of a major internal failure of our IT systems. The Group's IT systems in the two divisions are segregated, enabling divisional Business Continuity Plans which include the utilisation of the other division's physical locations. A back-up replica system has been put in place, maintained by a third-party company and back-up connections are also in place in both divisions. The Group has engaged a third party to carry out regular checks on its IT security health and on its infrastructure and systems and we continue to update and upgrade our systems to match security risk and new targeted threats. The Group has insurance in place for business interruption and has in place suitable Group policies and procedures.

Strategic

4. PeoplePlus business development strategy

Risk

During 2018 the PeoplePlus division has undergone a fundamental transformation, from being Work Programme ("WP") centric to being the UK's leading skills and training provider. With the reliance on a long-term contract gone, and a change in strategic direction, new contracts are required to support this change and replace the Work Programme revenues and profits.

Mitigation

In advance of the planned winding down of the WP, the PeoplePlus division's business development strategy was restructured in the prior year to achieve a better-balanced range of contracts, including Apprenticeship Levy, adult education budget and prison education. This included the appointment of a new Business Development Director and a new Divisional Managing Director appointed at the end of 2017. The business development strategy continues to be thoroughly reviewed to ensure it is appropriately aligned with the planned future activity mix.

In addition, the acquisition of the LearnDirect Apprenticeships business in July 2018 has accelerated the development of the division into a market-leading provider of Apprenticeship Levy services.

Non-Work Programme revenue growth

31%

(organic growth 20%)

Bid win rate (by value)

49%

Reputational

5. PeoplePlus – Ofsted Grade 2 rating not maintained

Risk	Mitigation
PeoplePlus is regulated by Ofsted for the quality of provision of teaching across a number of contracts, including the Apprenticeship Levy. Ofsted grades the quality of the teaching from 1 (Outstanding) to 4 (Inadequate). A rating of 4 can result in a loss of Government funding and removal from the register of apprenticeship training providers ("RoATP").	PeoplePlus achieved an Ofsted rating of 2 ('Good') for the apprenticeship and adult education business in England in July 2017. We have a dedicated Quality Director to ensure quality is maintained and standards across the business remain high. We have an independent Chair of our Quality Improvement Board to provide external scrutiny. Key business policies and processes are designed and operated to help achieve this. In February 2019 Ofsted undertook a further short monitoring inspection. This was a very successful visit and concluded that PeoplePlus had continued to make further reasonable progress in the delivery of its apprenticeship and adult education delivery from this Grade 2.

Strategic

6. Brexit

The outcome of the UK referendum to leave the EU has created an environment of uncertainty in the Recruitment industry.

This ongoing Brexit uncertainty is impacting the UK labour market and led to some customers transferring a significant volume of their temporary workforce into permanent employment to mitigate the risk of that labour market tightening. Typically, this reaction to uncertainty tends to reverse over time, but we expect it will continue to impact temporary worker demand throughout the current year.

A proportion of these "temp to perm" transfers have occurred in the higher margin driving sector, resulting in an overall margin dilution.

These and other potential Brexit risks, such as future immigration policy, are regularly discussed by the Board of Directors as part of the wider pre-existing risk assessment process.

Whilst the departure from the EU creates multiple uncertainties and potential risks, the likelihood and full impact of which are unknown at present, we feel that through our investment in technology, the size of our geographic footprint and our expertise in sourcing new labour, that Staffline is in a strong position to continue to prosper in the future.

It is also possible that Brexit will impact on other key pre-existing risks, potentially increasing their likelihood and/or impact although we do not expect Brexit to lead to unforeseen adjustments to our business model.

Risk	Mitigation
The potential downside risks of Brexit are disclosed below: 1 **A further tightening of the labour market** – the uncertainty over the final Brexit outcome has led to a reduction in the number of EU citizens coming to the UK for employment. This trend is likely to continue unless the final Brexit outcome includes membership of the customs union – which would necessitate continued free movement. A further tightening of the labour market would reduce the overall pool of blue-collar workers available, but the impact would be greater on Staffline's competitors that have less engaged workforces. Furthermore, as referred to earlier, the "temp to perm" reaction to Brexit of some customers has reduced the demand for temporary labour.	The investment Staffline has made in its customer experience platform, to make it the provider of choice for blue-collar temporary workers in the UK, is intended to mitigate this risk. Within the UK there are currently c. 3.6m EU migrant workers doing jobs that need to be done, within the context of 40-year record low unemployment. Discussions with the Home Office indicate that it is expected that a significant proportion of these migrant workers will achieve Settled Status. Indeed, a stated target of the Home Secretary is that 100% of the EU migrant workers currently in the UK will remain, having achieved Settled Status. Staffline is working closely with the Home Office in support of this outcome. During 2018, Staffline has deployed a unique worker engagement strategy that is driven by a sophisticated IT platform. Through our market-leading worker attraction and retention methodology, we will continue to attract the highest-quality temporary workers from this pool of existing workers in sufficient volumes to supply our customers' needs. We believe that in all Brexit scenarios we are uniquely positioned to continue to supply our customers with the workforces that they require.
2 **Economic uncertainty** – the Brexit process has created economic uncertainty. This cannot be readily quantified, particularly whilst the Brexit outcome is yet to be finalised. Political uncertainty hinders legislation and policy creation (for example, National Minimum Wage changes); Economic uncertainty leads to unreliable and/or volatile future growth rates and a reduction in business confidence which may delay key strategic or operational decisions; and a lack of consumer confidence reduces consumer spend, creating volatile demand which may have a knock-on impact on the demand for Staffline services. With a relative concentration in food production and distribution, we regard Staffline as relatively defensive.	Staffline works closely with its customers to understand their future needs. There is a continued structural shift towards more flexible labour forces as supply chains become more competitive. The use of temporary labour allows our customers the flexibility they need to meet their end customers' demands. We believe that flexible labour resourcing becomes more important as a mitigation strategy against uncertainty. Staffline's market-leading scale, together with its highly differentiated technology-driven engagement strategy, provides resilience against market and economic uncertainty.

Principal risks and uncertainties continued

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

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

Reputational

7. Recruitment – Loss of Gangmasters and Labour Abuse Authority ("GLAA") licence

Risk

The Group is licensed with the GLAA and works closely with the authority to maintain high standards of compliance controls. Regulation within the recruitment sector has increased year on year and we have seen the powers and resources at the GLAA and other regulatory bodies increase. We face the risk that one of our members of staff may deliberately bypass the procedures set up which ensure we fully comply with our industry legislative requirements and related best practice standards.

Mitigation

The Group has a strong compliance team which operates a robust system of checks on every contractor. The team carries out regular site audits (each site is audited at least once a year) and works closely with the GLAA and/or police if issues are identified. The Group has training processes in place for all new starters and supervisors to ensure everybody in the Recruitment division is aware of indicators of inappropriate activities. During 2018 the compliance team's capability has been significantly increased such that it covers five main areas: operational audit, fraud and modern slavery investigations, GDPR audit, Health and Safety audit and compliance checks.

New starter ID checks

165,900

(2017: 150,400)

Corporate and Social Responsibility

We understand the importance of integrating our business values and operations to meet the expectations of our stakeholders.

Corporate and Social Responsibility ("CSR")

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, Government departments, 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 paperless 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 the distribution process and thus reduce their carbon footprint.

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 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.

Corporate and Social Responsibility continued

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

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

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

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

People

Our focus on driving a high-performance culture continues and, as we see our talent pipeline develop, the Group continues to review talent and 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 2018 shows a permanent workforce total of 2,560 people (full-time equivalents), a net increase of 295 (+13%) compared to the 2,265 as at 31 December 2017 (increases relating to the seven business acquisitions during the year being offset by reductions at our PeoplePlus division). Average monthly headcount has increased by a net 80 (+3%) during the year, from 2,357 in 2017 to 2,437 in 2018.

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. We are an accredited centre of the Recruitment and Employment Confederation ("REC"), offering internal fast track training programmes for REC Level 2 Certificate in Recruitment Resourcing and REC Level 3 Certificate in Recruitment Practice. The opportunity to gain a professional qualification that is industry specific demonstrates our commitment to invest and develop our colleagues personally and professionally.

A number of leadership development events have been held in both divisions throughout 2018. The aim of these is to ensure our management population fully understand the aims and objectives of our business in order to enhance their knowledge and engagement, empowering them to work within these parameters to grow their individual business areas. In addition to our established annual Leadership Camps, we ran a two-day leadership event at Warwick University for our top 50 leaders, led by a renowned professor from London Business School.

Gender pay gap reporting ("GPGR")

Full disclosures of our 2018 gender pay gap, which were released on 15 February 2019, can be found on our website at: www.stafflinegroupplc.co.uk/about-us/gender-pay-gap-report/.

On 5 April 2018, in total Staffline employed c. 2,500 monthly paid permanent employees and c. 44,600 weekly paid temporary contractors. Overall, amalgamating all business areas and including our temporary workforce, our mean gender pay gap is 2.3% (2017: 3.3%). These results are affected by 95% of employees being contractors. 64% of our contractors are male and 36% female. On their own, the temporary workers mean the gender pay gap is 5.2% (2017: 6.1%) and none receives any bonus. All are paid the same hourly rate for the same work, irrespective of gender. However, the small gap is explained by those workers involved in the higher paid driving sector being predominantly male. In the opinion of the Directors, it is more meaningful to report data for the permanent employees only. For this group of employees, the mean gender pay gap is 17.4%, with the proportion of males and females receiving a bonus differing by 9.0%.

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 help reduce the risk of modern slavery in our supply chains. We are also actively engaged with anti-slavery networks to help reduce modern slavery taking place in the UK.

Gender pay gap

2.3%

(2017: 3.3%)

We have taken on board the lessons learned and findings from the legal investigation and audit report and will appropriately address these.

General Data Protection Regulation ("GDPR")

In the 18 months ahead of the GDPR regulations coming into force on 25 May 2018, the Group undertook a review of its data handling processes. This included a dedicated IT team confirming the stability and security of our systems and infrastructure and giving the Group the tools to prevent data breaches. Supplier and customer contracts have also been updated to give the Group appropriate protection where data is shared.

Our governance measures are comprehensive but proportionate, and focus on minimising the risk of breaches and upholding the protection of personal data. Our Data Protection Officer will inform and monitor compliance and the Group will implement tools as appropriate that support the process, and will provide necessary security and ongoing delivery of objectives.

The Strategic Report on pages 8 to 47 was approved by the Board and signed on its behalf by:

Mike Watts
Chief Financial Officer
26 June 2019

Governance

Corporate governance statement for the year ended 31 December 2018

Compliance with QCA Code.

I am pleased to present the Group's Corporate Governance Report for the financial year ended 31 December 2018.

Chairman's introduction

I am pleased to present the Group's Corporate Governance Report for the financial year ended 31 December 2018. As highlighted in the Chief Executive Officer's Statement earlier in this report, 2018 was a year of transformation across both of our operating divisions. In Recruitment, we have completed a fundamental cultural change and created a highly differentiated operating model based on Experience Management, putting the worker at the heart of everything we do. In PeoplePlus the ambitious transformation, from a predominantly Work Programme focused business to become the UK's leading skills and training provider, was completed in 2018.

As noted in more detail within the Chief Executive Officer's statement, on the evening of 29 January 2019, the Group auditors received an anonymous email which made various allegations. A sub-committee of the Board, the Investigation Committee, consisting of myself and the three Non-Executive Directors, was immediately established in order to consider the allegations and oversee the Group's response. In light of the anonymous email and the preliminary findings from extended audit procedures, the Investigation Committee recommended that an independent legal investigation be conducted, and separate independent expert advice obtained with regard to the Group's obligations with regard to compliance with National Minimum Wage ("NMW") regulations. The independent legal investigation was conducted by Osborne Clarke LLP. Independent expert advice in respect of the NMW was provided by KPMG LLP.

The detailed and thorough nature of the investigation reflects the Group's commitment to operating to the very highest standards of ethics and compliance. Where issues have been raised, they will be thoroughly reviewed. Looking forwards, the Group will benefit from having comprehensively addressed these issues and will act as an exemplar to the wider industry. The Group is committed to its future leadership role within the industry, driving standards and raising ethics.

The independent review also highlighted areas for required improvement in internal controls and governance in the Group and its recruitment business. This also extends to the conduct of certain individuals employed by the wider Group. The Group will deal with this aspect of the review in the appropriate manner. The Group has taken further independent advice in relation to these areas and will implement the recommendations to a best practice standard.

Your Board believes that sound governance, both in the boardroom and throughout the Group, is fundamental to the long-term success of the business. It remains committed to high standards of governance and the fostering of an effective governance framework. Collectively and individually the Board is committed to act in a way which it considers, in good faith, to be most likely to promote the success of the Company and the Group for the benefit of its members as a whole and in doing so have regards (amongst other matters) to:

1. The likely consequences of any decision on the long term;
2. The interest of the Group's employees;
3. Fostering business relationships with suppliers, customers and others;
4. The impact of operations on the community and the environment;
5. Maintaining a reputation for high standards of business conduct;
6. The need to act fairly between members of the Company.

This underpins the Board's ability to set the overall strategic direction of the Staffline Group and support its core values, policies and procedures, which in turn, creates an environment in which our business and employees can act with integrity and effectiveness, whilst driving profitable growth. The following pages of this Corporate Governance Report set out how the Group has complied with the UK's Quoted Companies Alliance Corporate Governance Guidelines for Small and Mid-Size Quoted Companies (the "QCA Code"), the work and activities of each Board Committee and the annual evaluation process.

Our full Governance report can be found on our website at: www.stafflinegroupplc.co.uk/about-us/corporate-governance/.

We have continued to build a strong and well-balanced Board with the appointment of Dawn Ward as a Non-Executive Director of the Company in October 2018. Dawn brings extensive experience to the Staffline Group Board, having held a variety of general management roles in companies operating in the skills, training and education sectors. The skills and experience of Dawn complement those of the other Board members, providing a more balanced Board. Meanwhile, Tracy Lewis will assume the role of Senior Independent Director with effect from 1 July 2019.

In addition, Mike Watts was appointed to the Board in January 2018 as Chief Financial Officer. His appointment was fully covered in our 2017 Annual Report.

Our vision and values

Our Group vision is to build and develop the most reliable integrated workforce in the country and to 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.

Diane Martyn stepped down from the Board in January 2018 and, in June 2018, Andy Hogarth also decided to step down from the Board. I would like to thank both Diane and Andy for their contributions to the Company.

I was appointed Chairman in May 2011 and had already informed the Board that it was my intention to stand down at the 2020 AGM. A succession plan is accordingly in place, noting Tracy Lewis as my potential successor. The Chief Executive Officer also advised in his Statement that the Group would be dealing with the required improvement in internal controls and governance highlighted by the independent review, to a best practice standard. It is my view that the Chairman should bear full responsibility for the manner in which we have fallen short of the high expectation and standards the Board had set for the Group and, therefore, as part of this review, I will be recommending to the Board that we initiate our succession plan immediately.

I hope you find our Corporate Governance Report informative. I will be available at the 2019 Annual General Meeting to respond to any questions you may have on this report.

John Crabtree OBE
Chairman
26 June 2019

Corporate Governance Code

Staffline Group plc (the "**Company**") is an AIM listed company and is committed to maintaining the highest standards of corporate governance throughout its operations and ensuring that all of its practices are conducted transparently, ethically and efficiently. The Company believes that scrutinising all aspects of its business and reflecting, analysing and improving its procedures will result in the continued success of the Company and improve shareholder value.

Therefore, and in compliance with the updated AIM Rules for Companies, the Company has chosen to formalise its governance policies by complying with the UK's Quoted Companies Alliance Corporate Governance Guidelines for Small and Mid-Size Quoted Companies (the "**QCA Code**"). Staffline Group plc, being a UK registered and listed company, is subject to the City Code on Takeovers and Mergers.

Accordingly, the Company has established specific Committees and implemented certain policies, to ensure that:

1. It is led by an effective Board which is collectively responsible for the long-term success of the Company;
2. The Board and the Committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively;
3. The Board establishes a formal and transparent arrangement for considering how it applies the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditors; and
4. There is a dialogue with shareholders based on the mutual understanding of objectives.

In addition, the Company has adopted policies in relation to:

1. Anti-corruption and bribery;
2. Whistleblowing;
3. Health and safety;
4. Environment and community;
5. IT, communications and systems; and
6. Social media

so that all aspects of the Company are run in a robust and responsible way.

Board of Directors

Our leadership team

John Crabtree OBE
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 Nominations Committees.

John was the senior partner of Wragge & Co, the Birmingham-based corporate law firm and whilst in this role he 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 and is also Chair of the Birmingham Organising Committee for the 2022 Commonwealth Games.

Chris Pullen
Group Chief Executive 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. He was appointed Group Chief Executive in January 2018. A member of the Nominations 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.

Mike Watts
Group Chief Financial Officer (N)

Mike was appointed Group Chief Financial Officer and an Executive member of the Board in January 2018. Mike initially joined Staffline in February 2017 as the Finance Director of PeoplePlus, one of the two Staffline trading divisions. A member of the Nominations Committee.

Prior to Staffline Mike was at Capita Plc where he was Finance Director of Trustmarque, an IT software provider, and formally Finance Director of FERA, a food and environmental research establishment. Before Capita Plc Mike was at Experian Plc, where he was Finance Director for its Marketing Services division where he was instrumental in returning the division to growth. Mike is a chartered accountant, having qualified with PricewaterhouseCoopers and has a PhD from Cambridge University in Materials Science.

The Board

The Board currently comprises the Non-Executive Chairman, the Group Chief Executive Officer, the Group Chief Financial Officer and three Non-Executive Directors. Biographies of the Directors appear below, including who sits on which Committees:

- A = Audit and Risk Committee
- R = Remuneration Committee
- N = Nominations Committee

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

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

Appointed to the Board in August 2016. Chair of the Nominations and Remuneration Committees and a member of the Audit and Risk 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 a non-executive director of Bluebella Limited. Until March 2019 she was 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 Japan-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.

Dawn Ward CBE
Non-Executive Director (A, R, N)

Appointed to the Board in October 2018. A member of the Audit and Risk, Remuneration and Nominations Committees.

Dawn has focused on further education throughout her career, holding a number of senior positions in the sector and is currently Chief Executive at Burton and South Derbyshire College of Further and Higher Education, a position she has held since 2008. Previously she was Principal and Chief Executive of Royal Forest of Dean College (2005-08). Dawn is also Deputy Chair of the Chartered Institution for Further Education, a member of the D2N2 Local Enterprise Partnership Board, a Governor at Repton School and a member of the Greater Birmingham and Solihull Chambers of Commerce.

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

Appointed to the Board in November 2014. Chairman of the Audit and Risk Committee and a member of the Remuneration and Nominations Committees.

Ed was appointed Chief Financial Officer of Superdry plc on 5 July 2018 and resigned on 2 April 2019. Ed has over 15 years of experience in the retail sector, including ten years at J Sainsbury plc ("Sainsbury's"), most recently as the Group Finance Director, 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. Before joining Sainsbury's, Ed worked as Group Financial Controller at Burberry Group plc. Prior to working in industry, he achieved his professional ACA qualification with PricewaterhouseCoopers in 1998, and was made an FCA in 2013.

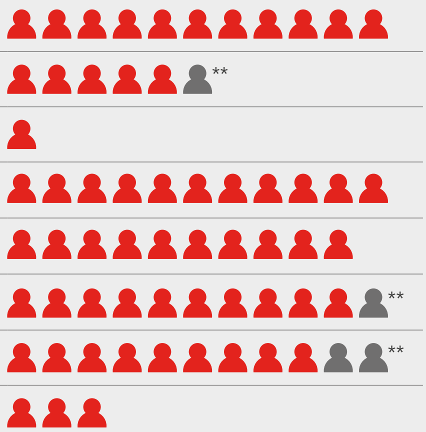
Corporate governance

The Board and Committees for the year ended 31 December 2018

Board meetings

The Board met 11 times during 2018.
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* Resigned 30 Jun 18	**
Diane Martyn Resigned 24 Jan 18	
Chris Pullen Yes	
Mike Watts Appointed 24 Jan 18	
Ed Barker* Yes	**
Tracy Lewis* Yes	**
Dawn Ward* Appointed 5 Oct 18	



* Non-Executive Directors (Andy Hogarth from 24 January 2018)
** Ed Barker and Andy Hogarth each missed one meeting due to other commitments, whilst Tracy Lewis missed two meetings for similar reasons

Engagement and 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.

During the past year a dedicated email address, investors@staffline.co.uk, was set up to enable all current and prospective shareholders to contact the Group directly.

During the past year, our Chief Executive Officer, Chris Pullen, supported by our Chief Financial Officer, Mike Watts, has met with many shareholders, both existing and prospective, to set out the Group's strategy for the next five years.

In addition to the formal institutional and retail investor meetings held at the interim and year end, we have continued to meet existing and prospective investors throughout the year as part of the ongoing investor relations engagement strategy. As well as meeting UK-based investors, visits have been made to many countries during the year, including:

- USA – three of our top ten shareholders are based in the USA
- Germany
- France
- Italy
- Netherlands
- Switzerland
- Norway
- Denmark

The Chairman, assisted by the Company Secretary, has had meetings with key shareholders during the year to discuss corporate governance issues and to listen to any concerns that they may have. Wherever possible we have addressed these concerns.

Our Corporate Governance Framework

The Board
The Board's role is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls which enable risk to be assessed and managed. It has a formal schedule of matters reserved for its decision.

Read more on pages 50 to 51

Chief Executive Officer ("CEO")
Key responsibility is to develop and deliver the Group's strategy within the policies and values established by the Board.

Chief Financial Officer ("CFO")
Responsible for managing the financial risks, reporting and planning of the Group.

Nominations Committee
Responsible for ensuring that the Company has the executive and non-executive Board leadership it requires.

Read more on page 55

Executive Board
The Executive Board is chaired by the CEO and includes the CFO. The Executive Board is responsible for overseeing operations in our divisions and for overseeing business operational functions Group-wide.

Audit and Risk Committee
Responsible for the integrity of the Company's financial statements and performance, ensuring the necessary internal controls and risk management systems are in place and effective.

Read more on page 54

Company Secretary
Responsible for ensuring the Board complies with all legal, regulatory and governance requirements.

Remuneration Committee
Responsible for the review, recommendation and implementation of the Group's remuneration strategy, its framework and costs.

Read more on page 55

Following the May 2018 AGM, our Company Secretary entered into discussions with two of our largest shareholders to understand their abstention and/or voting against the following two resolutions:

- Approval of Directors' Remuneration report
- Authority to make market purchases of ordinary shares of £0.10 each in the capital of the Company

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' interests, 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's 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.

Our Principal Risks and Uncertainties report, including our Risk Map, can be found on pages 40 to 44 of the Annual Report.

Re-election of Directors

With effect from the 2019 AGM, all Directors will put themselves up for re-election annually.

Results of the 2018 AGM

The results of the 11 resolutions put to the meeting are set out on our website at:
www.stafflinegroupplc.co.uk/investor-relations/shareholder-information/agm/. The Board was encouraged to see that all resolutions were approved by 90% or greater of the votes cast. The increased shareholder engagement was also welcomed with 65% of shares being voted in 2018 compared to 47% in 2017.

Directors' shareholdings

All Directors are encouraged to have a direct interest in the ownership of the Company and a target of 1x basic salary to the market value of the shares held has been set. It is acknowledged that, whilst some Directors already exceed this ratio, it will take a few years for the policy to be fully implemented.

Based on the share price of £12.40 as at 31 December 2018, ratios are as follows:

Evaluation of Board performance

Each year the Chairman, assisted by the Company Secretary, conducts an internal review process to evaluate Board performance. A questionnaire was used focusing on the remit and key issues facing the Board. In particular, the Board considered how it was discharging its strategic remit and reviewed key issues facing the Group and its businesses. The process requires each Director to consider and complete a questionnaire based on the Corporate Governance Code that has been developed by the Quoted Company Alliance ("QCA") which has set out the following 12 principles of corporate governance:

Delivering growth in long-term shareholder value:

1. Setting out the vision and strategy;
2. Managing and communicating risk and implementing internal control;
3. Articulating strategy through corporate communications and investor relations;
4. Meeting the needs and objectives of shareholders;
5. Meeting stakeholder and social responsibilities;
6. Using cost-effective and value-added arrangements.

Maintaining a flexible, efficient and effective management framework within an entrepreneurial environment:

7. Developing structures and processes;
8. Being responsible and accountable;
9. Having balance on the Board;
10. Having appropriate skills and capabilities on the Board;
11. Evaluating Board performance and development; and
12. Providing information and support.

QCA also characterises an effective Board as one which:

1. Works as a team led by the Chairman;
2. Has a Chairman who demonstrates his responsibility for corporate governance;
3. Develops and clearly articulates the strategy of the Company;
4. Evaluates its performance and acts on the conclusions;
5. Regularly informs and engages with shareholders; and
6. Has a balance of skills, experience and independence.

Completed questionnaires were submitted to and reviewed by the Chairman. A summary of findings were presented to the Board in a manner that did not identify individual specific responses, ensuring that the follow-up discussion with the entire Board was open. Based on the results of the questionnaire, a summary was produced highlighting the highest and lowest scores and where differences were evident between the responses of executive and Non-Executive Directors. These issues were discussed at our Board meeting in December and an action plan was put in place to address the key concerns highlighted by Directors. The responses showed that the Board welcomed the process and that, overall, the Board was content with the progress during the year and that the Board and its Committees continue to function well.

Director	Basic salary 31 December 2018 (£000)	Shares held 31 December 2018	Share value (£000)	Ratio, share value to basic salary
Chris Pullen	295	20,659	256	0.87
Mike Watts	180	–	–	–
John Crabtree	80	25,305	314	3.93
Ed Barker	30	1,104	14	0.47
Tracy Lewis	30	–	–	–
Dawn Ward	30	–	–	–
	645	**47,068**	**584**	**0.91**

Corporate governance continued

The Board and Committees for the year ended 31 December 2018

Committee structure

As part of the Group's internal controls supporting the Board of Directors, the Group has three principal Committees in place:

Audit and Risk Committee

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

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; and
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; and
3. The Group's system of internal controls and risk management.

The Group's Risk Register details all significant risks faced by the Group 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 pages 40 to 44.

The Committee, having taken into account our auditors, Pricewaterhousecoopers' ("PwC") confirmation, is satisfied that PwC is independent of the Group and its subsidiaries.

The members of the Committee are all Non-Executive Directors:

	Member for full period	Number of meetings held Number of meetings attended
Ed Barker (Chair)	Yes	
Tracy Lewis	Yes	
Dawn Ward	Appointed 5 Oct 18	

The Committee met four times during 2018, with the following key agenda items:

January Key agenda items

Auditor's presentation of year end audit 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. Review of key accounting judgements within the annual results.

April Key agenda items

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

July Key agenda items

Review of key 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 2018 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 2018 results.

In addition, the Committee met in January 2019 to review the 2018 Annual Report and results and subsequently met four times in 2019 to review the findings, and any actions required, of the Investigation Committee, as noted in the Chief Executive Officer's Statement on page 19 of the Annual Report:

January Key agenda items

Auditor's presentation of year end audit findings, review of Letter of Representation, review of preliminary 2018 results announcement. Review of appropriateness of applying the going concern basis of preparation to the results. Review of key accounting judgements within the annual results. Review of size and appropriateness of the exceptional items.

February Key agenda items

Auditor's presentation of updated year end findings and review of the proposal for extended audit work required to complete the audit.

April Key agenda items

Review of management's papers in relation to invoicing and payroll practices; National Minimum Wage; proposed treatment of exceptional items; supplier disputes; and other key judgements. Auditor's presentation of extended audit work and findings. Update on audit fees.

June Key agenda items

Review of management's papers in relation to National Minimum Wage; review of appropriateness of applying the going concern basis of preparation to the results; review of the carrying value of goodwill and intangible assets; proposed treatment of exceptional items. Auditor's presentation of extended audit work and findings, update on audit fees, wording of the audit opinion and review of the draft 2018 Annual Report.

Final meeting on 24 June 2019 to review final Annual Report and update on audit completion.

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 proposed remuneration packages for new appointments and remuneration changes for all employees where their 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	*
Dawn Ward	Appointed 5 Oct 18	

* John Crabtree missed one meeting due to illness

The Committee met seven times during 2018, with the following key agenda items:

January Key agenda items

Approval of 2017 bonuses for three Executive Directors and nine senior executives. Approval of basic salary increases for seven senior executives. Approval of leaving agreement for a senior executive.

February Key agenda items

Approval to offer agreed remuneration package to a prospective senior executive.

April Key agenda items

Approval to offer agreed remuneration package to two prospective senior executives.

June Key agenda items

Approval of leaving agreement for Andy Hogarth, a Non-Executive Director.

July Key agenda items

Approval to settle 2013 JSOP net vesting proceeds to six participants in one tranche in July 2018 (original agreement was to settle 50% this year and 50% in June 2019).

September Key agenda items

Approval to offer agreed remuneration package to a prospective senior executive.

November Key agenda items

Approval of Executive Directors' 2019 bonus scheme, approval of remuneration changes for Executive Directors (effective January 2019). Approval of remuneration changes for eight senior executives (effective January 2019).

In addition, the Committee met in January 2019 to review the following key agenda items:

January Key agenda items

Approval of 2018 bonuses for the two Executive Directors (as noted on page 56, the directors subsequently voluntarily waived their bonuses). Approval to offer remuneration package to a proposed senior executive appointment.

The Group's current remuneration policies are set out in the Report on Remuneration on pages 56 to 58.

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 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*	Resigned 30 Jun 18	
Chris Pullen	Yes	
Mike Watts	Appointed 24 Jan 18	
Ed Barker*	Yes	
John Crabtree*	Yes	
Dawn Ward*	Appointed 5 Oct 18	

* Non-Executive Directors (Andy Hogarth from 24 January 2018)

The Committee met once in 2018 with the following key agenda items:

September Key agenda items

Approval of appointment of Dawn Ward as a Non-Executive Director.

Corporate governance continued

Report on remuneration for the year ended 31 December 2018

Policy on Executive Directors' remuneration

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

The performance management of the Executive Directors and key members of senior management and the determination of their annual remuneration package are 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 of the two current Executive Directors, Chris Pullen and Mike Watts, are comprised of a basic salary, pension and car allowances and a performance-related bonus as well as share-based payment schemes as described below. The remuneration packages, to the date of their resignations, of Andy Hogarth and Diane Martyn comprised of a basic salary, pension and car allowances as well as share-based payment schemes as described below. No performance-related bonus schemes were in place for either Director during 2018.

The remuneration of the Directors, which was all paid by the Group, is detailed on page 58 of these financial statements.

Basic salary

Salaries for the Executive Directors are reviewed by the Remuneration Committee at specific times or when an individual changes position or responsibility. In deciding appropriate levels the Committee takes into account objective research on comparable companies, general market conditions and business and personal performance. Given the additional responsibilities taken on by the smaller Executive team, the following increases were approved with effect from 24 January 2018:

Director	Previous salary £000 p.a.	Increase £000 p.a.	Current salary £000 p.a.
C Pullen	275	20	295
M Watts	Salary on appointment		180

With effect from 1 January 2019, the following increases were approved by the Remuneration Committee, reflective of responsibility and both business and personal performance:

Director	Previous salary £000 p.a.	Increase £000 p.a.	Current salary £000 p.a.
C Pullen	295	30	325
M Watts	180	40	220

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 £nil (2017: £422,500) has been accrued in respect of the Executive Directors. The bonus for Executive Directors was based on achieving targeted Group underlying profit for the year before taxation of £36.7m. 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. The actual profit figure was £36.0m. Thus 98% of the target was achieved, resulting in bonuses of 40.0% (2017: 50.0%) of base salary being payable to Chris Pullen and Mike Watts. However, in light of the delay to the publication of the 2018 results, the Executive Directors have voluntarily waived their bonus payments for 2018.

Directors' share options

During June 2016, a maximum of 100,000 performance-related share options were issued to a Director, Chris Pullen. The options were due to vest in June 2019 dependent upon the performance of underlying diluted earnings per share for the year ended 31 December 2018. Underlying diluted earnings per share had to be equal to, or greater than, 115.5p for the shares to vest. For the year ended 31 December 2018, the relevant earnings per share measure was 110.1p so the shares lapsed.

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, Chris Pullen and Mike Watts are participants in the Company's SAYE scheme. For both Directors, their individual option grant pursuant to that year's SAYE scheme was 1,931 shares.

Directors' share options

	Date of grant	At 1 Jan 2018 Number	Granted Number	Lapsed Number	At 31 Dec 2018 Number	Exercise price
C Pullen	20 June 2016	100,000	–	(100,000)	–	991.5p

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 ran 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 was 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 five and a half years ended 30 June 2018, the Company's share price has risen by 224%, from 289p at 1 January 2013 to 936p as at 30 June 2018, in excess of the 53% increase over the same period by the FTSE AIM All-Share Total Return Index ("AXX"), growing from 707 at 1 January 2013 to 1,082 as at 30 June 2018.

The maximum number of shares vested and were therefore 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 are detailed below (including those of Directors who have resigned but retain an interest in the Plan).

During July 2018 the shares were sold in the open market at a net price of £10.24 per share and net proceeds were paid to the Directors in one tranche as follows:

Director	Participation price	Interest over number of shares	Sales price	Net proceeds to participant £000
A Hogarth	411.5p	350,000	1,024.0p	2,144
D Martyn	411.5p	350,000	1,024.0p	2,144
P Ledgard*	563.0p	50,000	1,024.0p	231
		750,000		4,519

* P Ledgard resigned as a Director on 31 May 2016 but retained an interest in the 2013 JSOP Scheme

Joint Share Ownership Plan 2018

A Plan covering the five-year period ending 31 December 2022 was approved by the Remuneration Committee in October 2017. Plan rules are the same as those for the 2013 Plan as highlighted above. The amount received by the executives is calculated based on certain business performance conditions, as follows:

1. A range of underlying diluted EPS of between 180.0p and 200.0p required in the financial year 2022 (maximum 50% of the award). No shares vest if the EPS is below 180.0p in that year.
2. 50% of the award is subject to an additional condition that total shareholder return exceeds the increase in the AXX over the period 1 January 2018 to 30 June 2023 (nil award if the minimum EPS requirement above is not achieved). The Company's share price at 1 January 2018 was 1,040p and the AXX stood at 1,050. As at 31 December 2018, the Company's share price had increased by 19% to 1,240p whereas the AXX had fallen by 18% to 859.

The Directors' interests are detailed below:

Director	Award date	Participation price	Interest over number of shares	Date on which exercisable
C Pullen	24 Jan 2018	999p	275,000	30 June 2023
M Watts	24 Jan 2018	999p	125,000	30 June 2023
			400,000	

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	80	–	80
E Barker	30	–	30
T Lewis	30	–	30
D Ward	At date of appointment		30

Service contracts

Chris Pullen and Mike Watts have rolling service contracts requiring notice from either party of one year. John Crabtree, Ed Barker, Tracy Lewis and Dawn Ward 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.

Corporate governance continued

Report on remuneration for the year ended 31 December 2018 (continued)

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.

Other benefits and benefits in kind

The Group provides private medical insurance and car allowances for Chris Pullen and Mike Watts and provided the same to Andy Hogarth and Diane Martyn up to the date of their resignations. No other benefits in kind are provided to current Directors.

Directors' remuneration summary

The table below sets out the remuneration received by the Directors in respect of the year ended 31 December 2018 and for the year ended 31 December 2017:

£000	Year	Salary, fees	Annual bonus	Car allowance	Pension	Others	Total
Executive Directors							
C Pullen	**2018**	**294**	–	**12**	**29**	**2**	**337**
	2017	275	137	12	28	2	454
M Watts *	**2018**	**169**	–	**11**	**17**	**1**	**198**
A Hogarth **	**2018**	**147**	–	**6**	**15**	**1**	**169**
	2017	295	148	12	29	2	486
D Martyn ***	**2018**	**18**	–	**1**	**2**	–	**21**
	2017	275	137	12	28	1	453
Chairman							
J Crabtree	**2018**	**80**	–	–	–	–	**80**
	2017	80	–	–	–	–	80
Non-Executive Directors							
E Barker	**2018**	**30**	–	–	–	–	**30**
	2017	30	–	–	–	–	30
T Lewis	**2018**	**30**	–	–	–	–	**30**
	2017	30	–	–	–	–	30
D Ward ****	**2018**	**8**	–	–	–	–	**8**
2018		**776**	–	**30**	**63**	**4**	**873**
2017		985	422	36	85	5	1,533

* M Watts was appointed to the Board on 24 January 2018
** A Hogarth resigned from the Board on 30 June 2018 (Non-Executive Director from 24 January 2018)
*** D Martyn resigned from the Board on 24 January 2018
**** D Ward was appointed to the Board on 5 October 2018

Others represent medical insurance for C Pullen, M Watts, A Hogarth and D Martyn. 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 £564,000 (2017: charge of £2,052,000) in relation to cash and equity-settled share options held by the Directors. The total is split as follows:

£000	2018 charge	2017 charge
A Hogarth (2013 JSOP)	**205**	969
D Martyn (2013 JSOP)	**205**	969
P Ledgard (2013 JSOP)	**25**	114
C Pullen (2018 JSOP)	**89**	–
M Watts (2018 JSOP)	**40**	–
	564	2,052

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

	2018	2017
Opening share price p	**1,040**	845
Closing share price p	**1,240**	1,040
% increase (decrease) during the year	**+19%**	+23%

Pay ratio of Chief Executive Officer to employees

Although not yet mandatory, legislation requiring UK listed companies with more than 250 employees to publish the pay ratio between the Chief Executive and the average UK worker has been laid out in Parliament.

Comparisons are made to the wages and salaries of permanent staff (as disclosed in note 7) including bonuses. The Chief Executive Officer ("CEO") was Andy Hogarth during both 2016 and 2017 and Chris Pullen during 2018:

£000	2018	2017	2016
Chief Executive Officer	**294**	443	273
All permanent staff:			
Wages and salaries	**75,672**	72,339	79,882
Average number	**2,437**	2,357	2,793
Average per head	**31.1**	30.7	28.6
Ratio	**9.5**	14.4	9.5

Whilst average staff costs per head have increased by 1.3% (2017: +7.3%), the ratio to CEO pay has decreased by 34.0% to 9.5 during the year (the same level as reported for 2016).

Report of the Directors

For the year ended 31 December 2018

The Directors present their Annual Report for the Group and the Company together with the audited financial statements for the year ended 31 December 2018.

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 £3.0m (11.3p per share) was paid during the year (2017: £2.8m, 11.0p per share). The Directors have not proposed a final dividend (2017 £4.1m: 15.7p per share).

Directors

The Directors who held office during the year and up to the date of approval of the Annual Report, all of whom served throughout the year unless otherwise stated, were:

E Barker
J Crabtree OBE (Chairman)
A Hogarth (resigned 30 June 2018)
T Lewis
D Martyn (resigned 24 January 2018)
C Pullen
M Watts (appointed 24 January 2018)
D Ward CBE (appointed 5 October 2018)

Going concern

The net debt position of the Group (including unamortised transaction costs), as discussed earlier, has risen during 2018 from £16.5m to £63.0m and is expected to be in the range of £89m to £94m as at 30 June 2019.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's business review on pages 18 to 21. The financial position of the Group , its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's review on pages 34 to 37. In addition, note 28 to the financial statements include the company's objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

As described in the Chief Executive Officer's Statement on page 20, the Group has reported an operating loss for the year following significant exceptional costs in restructuring the PeoplePlus division and to remedy historical pay issues in relation to the National Minimum Wage (NMW) regulations in our Recruitment division. In addition, the Directors' consider that the outlook presents significant challenges in terms of sales volumes over the coming months. Brexit related uncertainties, well documented issues within the Automotive sector and, slow down in new contracts and apprenticeship starts are all impacting on sales volumes. Whilst the Directors have instigated measures to manage cash, these circumstances create material uncertainties over future trading results and cash flows.

The Directors believe that they can continue to operate within existing lending levels for the foreseeable future. A reduction in non-business critical spaces, tight control over the timing of payments and a continued drive to further improve cash collections will ensure that lending limits are not breached. However, due to the expected reduction in profits in 2019 and the increase in net debt, a future breach of lending covenants is anticipated, based on previously agreed covenant limits. As a result of the expected covenant breaches, the Directors have been in discussions with the Group's lenders to waive/reset its adjusted leverage covenant through to March 2020.

To assess these requests, an independent business review was commissioned by the lenders. As a result of this, unconditional June 2019 covenant waivers have been received, along with future relaxation of certain covenants, although the latter is subject to an equity capital raise of at least £30m.

In relation to submitting financial statements by 30 April 2019 the Group has obtained a formal written waiver from the lenders.

The amended facilities agreement has several new conditions which include additional authorisations being required for acquisitions, no dividends being declared for 2019 or 2020 and subsequently only once the liquidity tests are met, and that certain funds are to be held in escrow for use only in relation to certain items (such as NMW settlement).

The Directors have launched an equity capital raise process which is expected to be completed by mid July. The outcome of this is not yet known, but the Directors along with their advisors are confident that this will raise a minimum of £30m of additional funding, which will be used to deleverage the company, settle the NMW obligations and provide further liquidity to cover unforeseen adverse working capital movements or higher than expected settlement of the NWM provisions.

Without the equity capital raise, and the ongoing support from the lenders, the Group would be likely unable to operate within its banking facilities due to covenant breaches.

A further equity capital raise of £7m is being conducted at the same time but is not a condition of the amended facilities agreement.

The Directors have concluded that the combination of these circumstances represents a material uncertainty which may cast significant doubt upon the Group's and the Company's ability to continue as a going concern and that, therefore, the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. The Group and Company financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

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.

Report of the Directors continued
For the year ended 31 December 2018

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 27,944,389 ordinary shares with a nominal value of 10p each ("Ordinary Shares"), each share having equal voting rights.

The interests, by parent Company, of our top ten shareholders in the issued ordinary share capital of the Company, which have been notified as at 31 December 2018, were as follows, representing 67.7% of the total issued ordinary share capital:

	Ordinary shares of 10p each	Percentage of ordinary shares %
Octopus Investments	4,885,182	17.5
Cat Rock Capital Management	3,543,222	12.7
Invesco (inc Perpetual Asset Management)	2,373,652	8.5
Standard Life Aberdeen	2,210,467	7.9
Legal and General Investment Management	1,324,568	4.7
Gresham House*	1,233,670	4.4
Employee Benefit Trust	1,140,400	4.1
GlobeFlex Capital	784,739	2.8
River and Mercantile Asset Management	781,149	2.8
Bank of America Merrill Lynch	634,844	2.3
	18,911,893	**67.7**

* This includes the previously reported Livingbridge shareholding. Gresham House recently announced the acquisition of the investment management business of Livingbridge

In accordance with AIM Rule 26, in so far as the Company is aware, the total and percentage of the Company's issued share capital that is not in public hands is 1,187,468 shares and 4.2% respectively. This percentage comprises the holdings of Directors of the Company, as noted below, and the Employee Benefit Trust (the Company's Joint Share Ownership Plan), as noted above.

Directors' shareholdings
Excluding interests in share options and Joint Share Ownership Plans, which are fully disclosed within the 2018 Remuneration Report, the beneficial holdings of the directors as at 31 December 2018 in the Company's issued share capital at 31 December 2018 is as follows:

Director	Ordinary shares of 10p each	% of total in issue
Ed Barker	1,104	–
John Crabtree OBE	25,305	0.1%
Chris Pullen	20,659	0.1%
	47,068	**0.2%**

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

The Directors' report was approved by the Board and signed on its behalf by:

Paul Collins
Company Secretary
26 June 2019

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 2018 Annual Report ("the Annual Report"), 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
26 June 2019

Independent auditors' report to the members of Staffline Group plc
For the year ended 31 December 2018

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 2018 and of the group's loss and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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 2018 ("the Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 December 2018; the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Company statement 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.

Material uncertainty related to going concern
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the group's and the company's ability to continue as a going concern.

In failing to sign and send to the lenders the financial statements by 30 April 2019, the group breached a covenant attached to its debt facility. In light of the uncertainties disclosed in relation to future trading results and cash flows, the group has forecasted further covenant breaches for the next 12 months from 30 June 2019 as a result of the increase in net debt and the reduction in underlying profits. The group has received written confirmation from the lenders that the historical breaches have been waived. The forecast covenant breach at 30 June 2019 has also been unconditionally waived. The forecasted breaches at 30 September 2019, 31 December 2019 and 31 March 2020 will be addressed through a relaxation of the net debt to underlying profits covenant for those periods, but this is conditional on the successful completion of the below planned equity raise at a minimum value of £30m within a stipulated timeframe.

The amended facilities agreement has several amended or new conditions (as disclosed in note 3) which include additional authorisation for acquisitions, no dividends to be declared for the financial years 2019 and 2020 and thereafter only if prescribed liquidity tests are achieved and certain amounts of the funds raised will be held in escrow to cover specific items (such as settlement of the National Minimum Wage ("NMW") liabilities).

The group has commenced an equity raise of circa £37m (being two separate elements of £30m and £7m) which will be utilised in part to repay debt and to provide additional headroom to cover any other unexpected unfavourable cash flow movements. This equity raise is subject to a number of uncertainties, the most significant being that sufficient interest is registered to generate the minimum required net proceeds of £30m and that shareholders approve this plan.

If this plan is not approved, or does not raise the net proceeds required, or there is any sustained deterioration in trading performance or the settlement of material liabilities above forecasted amounts, then the group may have insufficient funds to meet its obligations as and when they fall due and may have insufficient ability to manage its cash position within its available banking facilities.

The group is reliant on the ongoing support of its lenders and that they will continue to make available the currently agreed facilities. The company is reliant upon the group to fund its operations and therefore the above factors are also applicable for the company as a stand-alone entity.

These conditions, along with the other matters explained in note 3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.
In auditing the board's going concern assessment we:

- Agreed the banking facilities to signed agreements to evidence their availability and any restrictions thereon which would impact management's projections. This included inspecting the existence and terms of the written waivers referred to above;
- Agreed the opening cash and debt position in the forecasts to those disclosed in the audited financial statements;
- Tested management's projections for mathematical accuracy;
- Compared management's expected cash flows for the period to 31 December 2020 to the current year actual cash flows and assessed the key assumptions including agreeing back to supporting evidence where relevant;
- Considered the rationale for the sensitivities applied by management in their own projections and the validity of the counter measures they could take should such downside sensitivities come into play. We then performed additional sensitivities of our own, being a prolonged period of under-performance beyond that predicted by management and an increase to the NMW liability. In doing this, we looked at the forecasted available facilities on a month by month basis and also the forecasted covenant headroom at each quarterly measurement period;
- Shared and discussed management's assessment of going concern with our internal experts to assess whether the methodologies and assumptions applied were reasonable and in line with their expectations for the group's circumstances; and
- Read and commented on management's disclosures of the issues in relation to going concern and their conclusions in the financial statements.

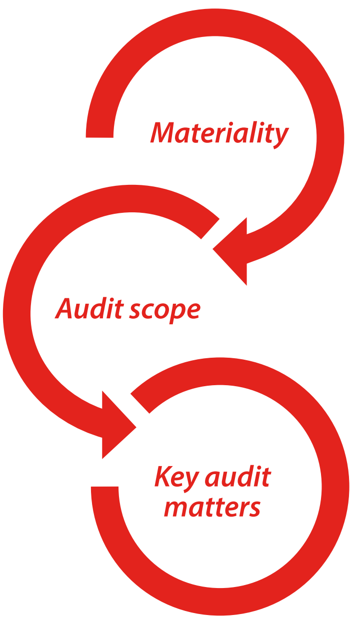
Based upon the above procedures we concluded that the basis of preparation of the financial statements as a going concern is appropriate, but that there are factors that indicate the existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern, and that suitable disclosures have been made in the financial statements.

Emphasis of matter - Group - Impact of non-compliance with National Minimum Wage legislation

We draw attention to notes 3, 5 and 21 to the financial statements, which disclose the group's position in relation to the ongoing HMRC review, and the estimated liabilities and the material uncertainties in relation to its non-compliance with National Minimum Wage legislation. We also draw attention to the Key audit matters section (Exceptional costs) of our report below which includes further information in relation to this matter. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall group materiality: £1,500,000 (2017: £1,500,000), based on approximately 4% of consolidated underlying profit before taxation.
- Overall company materiality: £1,150,000 (2017: £800,000), based on 1% of total assets.

- Full scope audit procedures were performed over the PeoplePlus Group Limited and Staffline Recruitment Limited subsidiaries as they represented 15% or more of consolidated revenues and/or consolidated underlying profits before taxation. The company was also included as an in-scope component for the group audit.
- This resulted in coverage of 80% of consolidated revenues, 80% of consolidated underlying profit before taxation and 86% of consolidated total assets.

- Going concern.
- Response to external allegations.
- Exceptional costs.
- Acquisition accounting.
- Contract accounting.
- Complex customer contracts.
- Carrying value of intangible assets.

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.

Independent auditors' report to the members of Staffline Group plc continued
For the year ended 31 December 2018

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. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter: Response to external allegations
Refer to the Chief Executive Officer's statement (pages 19 and 20) and the Chairman's introduction to the Governance section (pages 48 and 49).

On 29 January 2019, PwC received an email from an anonymous third party raising concerns regarding certain of the group's practices, accounting and disclosures in relation to payroll and related accruals, including non-payment of amounts due to employees and related accounting entries and accruals, sales invoicing in relation to VAT liabilities, contractual disputes and other claims, management of reported results and the non-disclosure of information to PwC and to other third parties in relation to these matters. Due to the nature and timing of these allegations, management required some time to assess their substance and any financial implications and we required time to audit this assessment. As a result, the group delayed the planned release of its preliminary results on 30 January 2019.

An Investigation Committee, comprising the non-executive directors and the non-executive Chairman was established by the group and an independent law firm was retained to advise the Investigation Committee and to commence an independent investigation.

The Investigation Committee asked us to complete our audit, recognising that extended audit procedures would be required in relation to the issues that had been raised. We agreed with the Investigation Committee to continue to complete our audit, with particular focus on the specific matters raised, in order to explore the substance of the allegations and enable the Investigation Committee to advise the executive and non-executive directors of the appropriate action to take.

Our preliminary extended audit procedures identified evidence which raised concerns regarding the completeness of information provided previously by management to us in relation to customer claims and disputes. In light of this, we conducted an initial targeted inspection of certain individuals' emails to ascertain further facts.

This inspection of emails identified further areas of concern in relation to certain customer disputes and other claims, the ongoing HMRC review of compliance with National Minimum Wage ("NMW") regulations (see the Key audit matter on Exceptional costs) and various adjustments and balance sheet releases.

We advised that the Investigation Committee should proceed immediately with an independent legal investigation to consider the issues.

Due to the nature of the concerns raised and the employees involved, the scope of the email inspection was extended to cover the whole group.

The legal investigation included the inspection of a significant number of emails and other documents (which took considerable time to properly consider) and interviews with key management. Staffline management's previous assessment of its liability under National Minimum Wage and other employment related legislation was informed in part by Counsel's advice. As part of the independent legal investigation, a second opinion was sought on these issues to ensure the legal obligations of Staffline were fully understood.

How our audit addressed the key audit matter
We developed a range of detailed audit procedures to address the concerns raised and to evaluate the independent legal investigation.

We participated in interviews with key client staff as part of the legal investigation in relation to this matter and fully considered the legal conclusions reached by the independent lawyers.

We also developed chronologies in relation to each key matter to ensure we were aware of all relevant key email correspondence and judgements relating to the issues being considered.

Our response to each area of the allegations and our findings are set out below:

Payroll practices, including non-payment of amounts due to employees and related accruals
- Extended our testing of payroll and related accruals, including holiday pay, back to underlying supporting documentation and evidence to check the accuracy of management's calculations and the validity of source data;
- Further considered the group's payroll practices and compliance with relevant legislation and regulations, including reviewing the legal advice obtained by the group and consideration of the findings of the legal investigation, including any requirements for further liabilities to be recognised;

- Assessed management's calculations of any additional liabilities identified; and
- Performed examinations of related information, such as employee complaints and feedback logs, and other legal and contractual obligations to identify the existence and extent of the concerns raised.

As disclosed in the Chief Executive Officer's statement on pages 19 and 20, there were some instances of non-compliance with related employment legislation and regulations but this has not resulted in any material liabilities or adjustments other than in relation to non-compliance with NMW regulations.

Sales invoicing practices in relation to VAT liabilities
The whistle-blower alleged there was inappropriate recording of revenues, specifically in relation to the timing of recognition of VAT liabilities. To address these concerns:
- We extended our audit procedures in relation to sales invoicing practices and cut-off in relation to the specific allegations raised;
- We audited management's assessment of the timing of invoices and the detailed calculations behind the VAT returns; and
- We examined VAT returns to ensure they included relevant sales information and no manual adjustments were made.

No material exceptions were identified regarding the above. Our extended audit procedures found no adverse findings concerning either the timing of revenue recognition or the VAT liability recorded as at 31 December 2017 or 31 December 2018.

Contractual disputes and other claims
Given the allegation of non-disclosure of information to us in relation to contractual claims and disputes, we conducted audit procedures in relation to specific contractual disputes made known to us and the completeness of disclosures made to us by management of other similar matters.

This included further interviews with directors and employees and email review procedures conducted alongside the independent legal investigation.

We examined management's own assessment of contractual obligations but identified exceptions based upon our review of a targeted sample of customer contracts. Given this and the further information obtained through the wider procedures we also extended our testing of customer contracts for clauses which may give rise to any material liabilities.

This work identified failures by management to fully disclose to us and to account for certain customer claims and other disputes. This has not resulted in any material adjustments.

We recommended to management that the contract review process should be enhanced and more detailed reporting of contracts with unusual terms be reported to the board for further monitoring. Staffline are aware of the seriousness of the failure to disclosure information to us in an open and transparent way and are in the process of addressing these concerns.

Management of reported results
The investigation, email inspection and audit identified a number of examples of management of the reported results both in the prior and current years, mainly through balance sheet releases within the Recruitment segment.

Whilst the adjustments were not material, individually or in aggregate, to the current or prior year, the rationale for the adjustments had not been shared or discussed with us and some of the adjustments were found to be inappropriate or not supportable, and we included this in our reporting to those charged with governance.

We extended our audit procedures to test the completeness of accruals and other liabilities to a lower level of materiality, including the examination of any releases made to ensure they were supportable.

We obtained and audited management's tracker of all adjustments made during the year end completion process in the Recruitment division.

We tested the recovery of year end debtors to ensure all debtor provisioning was appropriate.

Whilst the main aspect of this was in relation to the Recruitment segment we also extended this work to the PeoplePlus segment.

Our testing highlighted adjustments that increased and decreased reported profits, which had an immaterial impact, individually and in aggregate, on the reported financial position and performance of the group.

Summary of findings
As a result of our work, other than in relation to NMW liabilities, no material adjustments were made to the reported financial performance as at 31 December 2018.

No adjustments were required to be made to the previously reported financial results or position. Whilst items were uncovered during our audit that were incorrectly treated as at 31 December 2017, the impact of these was immaterial and these items were corrected as at 31 December 2018 or remained immaterial.

Independent auditors' report to the members of Staffline Group plc continued
For the year ended 31 December 2018

As disclosed in the Chief Executive Officer's statement on pages 19 to 20 and the Chairman's introduction to the Governance section on pages 48 and 49, conduct issues were identified in the independent legal investigation relating to certain individuals employed by the group, which are consistent with our own findings. The company has disclosed that appropriate action will be taken in relation to these conduct matters.

Given the information we obtained through the conduct of our extended audit process and, separately, through evaluating and receiving the findings of the legal investigation, we were satisfied that we had received all information required for the purpose of our audit.

***Key audit matter:* Exceptional costs**
Refer to notes 3 (Accounting policies) and 5 (Expenses by nature), and the Chief Financial Officer's Statement (pages 32 and 33).

During the year exceptional costs of £32.6m have been incurred relating to restructuring the PeoplePlus segment (£13.8m), an HMRC review into compliance with the National Minimum Wage ("NMW") in the Recruitment segment (£15.1m), increased audit costs (£1.8m) and acquisition related transaction costs (£1.9m).

The calculation and classification of the costs of these above items is an area of significant management judgement.

There is a risk that these costs are inappropriately classified within the financial statements and/or the total costs are inappropriately calculated.

How our audit addressed the key audit matter
In light of the findings during the investigation, we extended our audit procedures to re-consider the appropriate quantification and classification of items as exceptional in the period.

PeoplePlus segment
For the costs relating to the restructuring of the PeoplePlus segment we:
- Obtained a listing of employee redundancy costs and bonus payments. We tested a sample of amounts paid during the year and traced these back to payroll records to verify the payments are appropriately recorded. For amounts not yet paid we tested, on a sample basis, the accuracy of the calculation of the provision and that the requirements of IAS 37 have been met;
- For property related costs we assessed the independence and competency of the external expert utilised by management to calculate expected costs of exiting leased properties. We agreed the underlying data utilised by the expert back to the legal agreements on a sample basis. We compared the amounts provided to the maximum payable (being total committed lease costs and expected dilapidations). We also assessed management's prior accuracy of such judgements;
- For asset impairments we checked management's analysis of unwanted assets back to the fixed asset register to ensure that all redundant assets are fully impaired; and
- For all other costs we traced management's analysis back to supporting evidence on a targeted basis.

Based upon the results of the above procedures we concluded that the treatment of such costs as exceptional is in line with the requirements of IAS 1 and found no material misstatements in the calculation of the costs.

Recruitment segment
For the exceptional costs relating to non-compliance with the National Minimum Wage Act we:
- Agreed the amounts provided for and/or disclosed as a contingent liability to management's latest analysis;
- Agreed the calculated provision back to management records and ascertained the completeness of management's analysis of the impacted customer sites. Where information was based upon hours worked or rates of pay we tested the underlying data on a sample basis to payroll records;
- Assessed the range of probable outcomes estimated by management and reviewed the disclosures made in relation to key estimates and judgements and the related contingent liability;
- Challenged management in relation to the historic time period to which the regulations would be applied, which, based on their own expert opinion and separate legal advice, they assessed initially as being 3 years of liabilities. However, after further discussions with HMRC, this was amended to be 6 years, in line with the position we had recommended;
- Participated in interviews with key staff as part of the legal investigation in relation to this matter and fully considered the legal conclusions reached by the independent lawyers;
- Given certain client employees had not made all relevant information available to us for our audit, reviewed relevant email correspondence in relation to this matter and developed a detailed chronology to ensure we were aware of all key information and had a complete understanding of the judgements supporting management's assessment of this liability;
- Met with and reviewed the work and reports of management's independent external expert in relation to this matter, who assisted management in assessing the areas of non-compliance and determining the corresponding liabilities. We also assessed their independence and competence;
- Reviewed correspondence with HMRC, including minutes of all key meetings;
- Reviewed the methodology applied in the calculation of the liability in conjunction with our internal experts in this area, who supported the core audit team in assessing this liability. This included sharing their recent experiences of similar HMRC reviews and agreeing such liabilities with HMRC and evaluating management's view on key judgements;

- Reviewed the detailed papers, presentations and legal papers / opinions prepared by management in conjunction with their own external experts and considered the appropriateness of the key assumptions made in their assessment and the implications of this on the projected liability; and
- Challenged management's assumptions in relation to the completeness of the assessment of non-compliance and the likely associated fines. This also included challenging management as to the sufficiency and accuracy of these disclosures within the Annual Report regarding this matter and compliance with disclosures required by IAS 1, IAS 37 and IAS 8. We considered the treatment of these costs as being a current year exceptional item. The approach adopted is in line with IAS 8, parargaph 5, as described in Note 3

This is a complex, judgemental area and, as disclosed in notes 3, 5 and 21 there is a significant amount of uncertainty regarding the valuation and timing of payment of this liability due to the range of issues being discussed with HMRC and the quantum of detailed historical data involved. The final liability to the group will be addressed in the ongoing review process with HMRC, which will determine the final amounts payable to former and current employees and related fines arising from non-compliance. Therefore, whilst management have considered the range of possible outcomes and the provisions held as at 31 December 2018 are provided in line with IAS 37, until the liability is agreed with HMRC and paid later in 2019, there is significant uncertainty and a risk that this liability could be materially different.

***Key audit matter:* Acquisition accounting**
Refer to note 10 (Goodwill).

During the year the group has made a number of acquisitions for a combined consideration of £58.8m.

As part of the acquisition accounting under IFRS 3, intangible assets of £35.6m, goodwill of £22.1m and fair value adjustments decreasing net assets acquired by £4.8m have been recognised.

The accounting for acquisitions under IFRS 3 requires a significant amount of management judgement. For some acquisitions management have utilised external experts to assist them in the valuation of acquired intangible assets.

Any errors/bias within the fair value assessment could lead to overstatement of the goodwill balance recorded at 31 December 2018 and/or overstatement of the post-acquisition performance of the acquired entities.

How our audit addressed the key audit matter
For all material acquisitions we reviewed the associated legal documents relating to the purchase of the entity/assets to ascertain if there were any clauses within the contracts which would impact the recorded assets and liabilities.

We also verified material payments made during the year to supporting documentation and bank statements.

We agreed the net assets acquired to the underlying management information at the time of the acquisition. Where material we tested the acquired net assets back to supporting information.

We obtained a listing of fair value adjustments made by management to the acquired net assets and tested these back to supporting documentation/third party evidence.

Where external experts were utilised for the valuation of intangibles we assessed their independence and competence. We tested the validity of the data underpinning their valuation and verified that they utilised appropriate valuation models. We also performed sensitivity analysis where assumptions were made by management to ascertain if any reasonable changes in key assumptions could result in a material change in recorded intangible assets.

The above testing identified no material errors regarding the accounting for acquisitions.

***Key audit matter:* Contract accounting**
Refer to note 3 (Accounting policies).

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 critical 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 disconnection 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 income.

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

For the year ended 31 December 2018

How our audit addressed the key audit matter
We compared the outcome of the prior year estimates to actual outcomes during 2018, 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 valuation.

We also considered the completeness of accrued and deferred income balances 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.

Key audit matter: *Complex customer contracts*
Refer to note 3 (Accounting policies).

Within the Recruitment segment there are a number of complex customer contracts. These include 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.

How our audit addressed the key audit matter
We 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 were material we confirmed the amounts with the counterparty.

To confirm completeness of the listing provided by management we 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.

Key audit matter: Carrying value of intangible assets
Refer to notes 3 (Accounting policies), 10 (Goodwill) and 11 (Other intangible assets).

Within the Consolidated statement of financial position there is Goodwill of £116.3m and Other intangible assets of £42.9m.

The underlying operating profits are in line with the prior year and there has been a fundamental reorganisation of the PeoplePlus segment during the year. There is therefore a risk that the carrying value of these assets could be impaired.

How our audit addressed the key audit matter
We obtained management's impairment review and performed the below procedures:
- Tested the data within managements weighted average cost of capital ("WACC") calculation back to supporting documentation/third party evidence;
- Tested the total assets included within the impairment review back to the Consolidated statement of financial position to ensure all assets and liabilities have been appropriately considered for impairment within each segment;
- Understood the expected future performance and free cash flows for the segments and validated that this is in line with the latest forecasts for each segment; and
- Performed sensitivity analysis on the above key assumptions to ascertain if a reasonable change in the assumptions could lead to a material impairment.

Based upon the above, and our review of the disclosures included within notes 3, 10 and 11 we concluded that the impairment assessment was performed in line with the requirements of IAS 36. We concur with management that no additional impairments were required. Our sensitivity analysis highlighted no reasonable changes in assumptions which could result in a material impairment.

Key audit matters for the company: Other than going concern, described in the Material uncertainty related to going concern section above, we determined that there were no key audit matters applicable to the company to communicate in our report.

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 are split into two operating segments, PeoplePlus and Recruitment. 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. We viewed these companies as components for the purposes of determining the scope of our audit.

In setting our audit scope we included any individual component which contributed more than 15% to consolidated revenues or consolidated underlying profit before taxation. This resulted in two components being included in full scope audit for the group opinion, PeoplePlus Group Limited and Staffline Recruitment Limited. These two combined subsidiaries represent 80% of the consolidated revenues, 80% of consolidated underlying profit before taxation and 86% of consolidated total assets. In addition, we also included the company as a component as there are a number of material balances included within this component.

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 in scope components. We considered whether the remaining components 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 components to be included in our audit scope.

Analytical review procedures were performed over all out-of-scope components, 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 (2017: £1,500,000).	£1,150,000 (2017: £800,000).
How we determined it	Approximately 4% of consolidated underlying profit before taxation.	1% of total assets.
Rationale for benchmark applied	Based on the performance benchmarks utilised within the Annual Report, consolidated underlying profit before taxation is the primary measure used for assessing the performance of the group.	We believe that total assets is an appropriate benchmark due to the company being an asset 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 range of materiality allocated across components was between £1,150,000 and £1,300,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £50,000 (group audit) (2017: £75,000) and £50,000 (company audit) (2017: £40,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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.

Independent auditors' report to the members of Staffline Group plc continued
For the year ended 31 December 2018

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.

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 2018 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 in respect of the financial statements, 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
26 June 2019

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 Underlying £'m	2018 Non-underlying* £'m	2018 Total £'m	2017 Underlying £'m	2017 Non-underlying* £'m	2017 Total £'m
Continuing operations							
Revenue	4	**1,127.5**	**–**	**1,127.5**	957.8	–	957.8
Cost of sales	5	**(1,005.6)**	**–**	**(1,005.6)**	(844.0)	–	(844.0)
Gross profit		**121.9**	**–**	**121.9**	113.8	–	113.8
Administrative expenses	5	**(82.8)**	**(45.6)**	**(128.4)**	(74.7)	(12.2)	(86.9)
Operating profit/(loss)		**39.1**	**(45.6)**	**(6.5)**	39.1	(12.2)	26.9
Finance costs	6	**(3.1)**	**–**	**(3.1)**	(2.8)	–	(2.8)
Profit/(loss) for the year before taxation		**36.0**	**(45.6)**	**(9.6)**	36.3	(12.2)	24.1
Tax (expense)/credit	8	**(7.2)**	**8.3**	**1.1**	(7.3)	1.5	(5.8)
Profit/(loss) from continuing operations		**28.8**	**(37.3)**	**(8.5)**	29.0	(10.7)	18.3
Profit after tax on discontinued operations				**–**			–
(Loss)/profit for the year				**(8.5)**			18.3
Items that will not be reclassified to profit and loss – actuarial gains and (losses), net of tax				**(0.5)**			0.2
Items that may be reclassified to profit and loss – cumulative translation loss				**–**			(0.1)
Total comprehensive income for the year				**(9.0)**			18.4
Earnings per ordinary share	9						
Continuing operations:							
Basic				**(32.5p)**			71.4p
Diluted				**(32.5p)**			71.1p

* The non-underlying result includes amortisation of intangible assets arising on business combinations, business acquisition costs, exceptional reorganisation costs, exceptional National Minimum Wage remediation and financial penalties, revised audit scope and increased audit fees and the non-cash charge/credit 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 2018

	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 2017	2.8	(8.9)	39.9	0.1	49.8	83.7
Dividends (note 9)	–	–	–	–	(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 gain, net of taxation (note 15)	–	–	–	–	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

	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 2018 (reported)	2.8	(8.9)	40.3	0.1	61.5	95.8
Transition to IFRS 15: Revenue Recognition (notes 3, 32)	–	–	–	–	(1.0)	(1.0)
At 1 January 2018 (restated)	2.8	(8.9)	40.3	0.1	60.5	94.8
Dividends (note 9)	–	–	–	–	(7.1)	(7.1)
Issue of 2018 Joint Share Ownership Plan ("JSOP") shares	–	(0.9)	0.9	–	–	–
Settlement of 2013 JSOP shares	–	5.0	–	–	7.1	12.1
Save As You Earn ("SAYE") share scheme – equity-settled	–	–	–	0.2	–	0.2
Transactions with owners	–	4.1	0.9	0.2	–	5.2
(Loss) for the year	–	–	–	–	(8.5)	(8.5)
Actuarial (loss), net of taxation (note 15)	–	–	–	–	(0.5)	(0.5)
Cumulative translation adjustments	–	–	–	–	–	–
Total comprehensive income for the year, net of tax	–	–	–	–	(9.0)	(9.0)
At 31 December 2018	**2.8**	**(4.8)**	**41.2**	**0.3**	**51.5**	**91.0**

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

Company statement of changes in equity
For the year ended 31 December 2018

	Share capital £'m	Own shares JSOP £'m	Share premium £'m	Profit and loss account £'m	Total equity £'m
At 1 January 2017	2.8	(8.9)	39.9	18.7	52.5
Dividends (note 9)	–	–	–	(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

	Share capital £'m	Own shares JSOP £'m	Share premium £'m	Profit and loss account £'m	Total equity £'m
At 1 January 2018	2.8	(8.9)	40.3	38.7	72.9
Dividends (note 9)	–	–	–	(7.1)	(7.1)
Issue of 2018 Joint Share Ownership Plan ("JSOP") shares	–	(0.9)	0.9	–	–
Settlement of 2013 JSOP shares	–	5.0	–	7.1	12.1
Transactions with owners	–	4.1	0.9	–	5.0
Loss for the year	–	–	–	(0.9)	(0.9)
Total comprehensive income for the year, net of tax	–	–	–	(0.9)	(0.9)
At 31 December 2018	**2.8**	**(4.8)**	**41.2**	**37.8**	**77.0**

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

Consolidated and Company statements of financial position
As at 31 December 2018

	Note	Consolidated		Company	
		2018 £'m	2017 £'m	**2018 £'m**	2017 £'m
Assets					
Non-current assets					
Goodwill	10	**116.3**	94.2	**–**	–
Other intangible assets	11	**42.9**	20.8	**–**	–
Investments	12	**–**	–	**125.2**	58.3
Property, plant and equipment	14	**8.6**	7.7	**–**	–
Retirement benefit net asset[1]	15	**0.8**	1.4	**–**	–
Deferred tax asset	22	**0.9**	0.5	**–**	–
		169.5	124.6	**125.2**	58.3
Current					
Trade and other receivables	16	**157.7**	107.6	**39.2**	64.1
Cash and cash equivalents	17	**16.2**	31.3	**–**	–
		173.9	138.9	**39.2**	64.1
Total assets		**343.4**	263.5	**164.4**	122.4
Liabilities					
Current					
Trade and other payables	18	**136.1**	103.0	**7.9**	30.2
Borrowings	19	**–**	8.6	**–**	8.6
Other liabilities	20	**7.8**	5.1	**–**	3.3
Current tax liabilities	8	**–**	3.4	**–**	–
		143.9	120.1	**7.9**	42.1
Non-current					
Borrowings	19	**79.2**	39.2	**79.2**	4.2
Other liabilities	20	**0.3**	3.2	**0.3**	3.2
Provisions	21	**22.3**	2.5	**–**	–
Deferred tax liabilities	22	**6.7**	2.7	**–**	–
		108.5	47.6	**79.5**	7.4
Total liabilities		**252.4**	167.7	**87.4**	49.5
Equity					
Share capital	23	**2.8**	2.8	**2.8**	2.8
Own shares		**(4.8)**	(8.9)	**(4.8)**	(8.9)
Share premium		**41.2**	40.3	**41.2**	40.3
Share-based payment reserve		**0.3**	0.1	**–**	–
Profit and loss account		**51.5**	61.5	**37.8**	38.7
Total equity		**91.0**	95.8	**77.0**	72.9
Total equity and liabilities		**343.4**	263.5	**164.4**	122.4

1 restated – see note 3

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 loss for the year before dividends were paid was £0.9m (2017: profit of £26.7m). The accompanying notes form an integral part of these financial statements. The financial statements were approved by the Board of Directors on 26 June 2019 and signed on their behalf by:

C Pullen
Director

M Watts
Director

Consolidated statement of cash flows
For the year ended 31 December 2018

	Note	2018 £'m	2017 £'m
Cash flows from operating activities	29	**13.1**	47.9
Taxation paid	8	**(6.4)**	(6.7)
Taxation received	8	**–**	0.5
Net cash inflow from operating activities		**6.7**	41.7
Cash flows from investing activities – trading			
Purchases of property, plant and equipment	14	**(3.7)**	(2.7)
Sale of property, plant and equipment		**–**	–
Purchase of intangible assets – software	11	**(2.7)**	(1.1)
Free cash from operations		**0.3**	37.9
Cash flows from investing activities – acquisitions			
Acquisition of businesses – cash paid, net of cash acquired	30	**(34.4)**	(8.1)
Acquisition of businesses – deferred consideration for prior year acquisitions	30	**(1.6)**	–
Net cash flows from investing activities – acquisitions		**(36.0)**	(8.1)
Total cash flows arising from investing activities		**(42.4)**	(11.9)
Total cash flows arising from operating and investing activities		**(35.7)**	29.8
Cash flows from financing activities			
New loans (net of transaction fees)		**36.3**	–
Repayment of loans in acquired entities	30	**(13.6)**	–
Loan repayments		**(4.4)**	(8.8)
Acquisition of businesses – deferred consideration for prior year acquisitions		**–**	(0.4)
Interest paid		**(2.7)**	(2.6)
Dividends paid	9	**(7.1)**	(6.7)
Gross proceeds from sale of Joint Share Ownership Plan ("JSOP") shares		**12.1**	–
Proceeds from the issue of share capital		**–**	0.3
Net cash flows from/(used in) financing activities		**20.6**	(18.2)
Net change in cash and cash equivalents		**(15.1)**	11.6
Cash and cash equivalents at beginning of year		**31.3**	19.7
Cash and cash equivalents at end of year	17	**16.2**	31.3
Underlying operating profit		**39.1**	39.1
% free cash conversion of underlying profit*		**19%**	97%

* Free cash conversion of underlying profit excludes one-off JSOP settlement costs of £7.1m in the current year (see note 29)

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

Notes to the financial statements
For the year ended 31 December 2018

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 the provision of skills training and probationary services.

2 General information and statement of compliance
Staffline Group plc, a Public Limited Company limited by shares listed on AIM ("the Company"), is incorporated and domiciled in England, 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 119, and within note 12. The Company's registration number is 05268636.

The financial statements for the year ended 31 December 2018 (including the comparatives for the year ended 31 December 2017) were approved and authorised for issue by the Board of Directors on 26 June 2019.

The Company does not have an ultimate controlling party (as noted on page 60, the largest shareholder holds 17.5% of the Company's issued share capital).

3 Accounting policies
Basis of preparation
The Consolidated financial statements are prepared for the year ended 31 December 2018. 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 and with the Companies Act 2006 as applicable to companies reporting under IFRS. 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 Company financial statements of Staffline Group plc have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 (FRS 101) and the Companies Act 2006. The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, Share-based Payment (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7, Financial Instruments: Disclosures;
- Paragraphs 91 to 99 of IFRS 13, Fair Value Measurement (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, Presentation of Financial Statements comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16;
  - paragraph 118(e) of IAS 38;
  - requirements of paragraphs 62 and B64 of IFRS 3 Business Combinations; and
  - paragraph 33(c) of IFRS 5
- The following paragraphs of IAS 1, Presentation of Financial Statements:
  - 10(d), (statement of cash flows)
  - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 40A-D (requirements for a third statement of financial position)
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures)
- IAS 7, Statement of Cash Flows;
- Paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24, Related Party Disclosures (key management compensation); and
- The requirements in IAS 24, Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

The Consolidated and Company financial statements are presented in sterling, which is the presentational currency of the parent Company and Group. The principal accounting policies of the Group and Company are set out below and have been consistently applied, unless stated otherwise.

3 Accounting policies continued

Going concern

In assessing the going concern status of the Group, the Directors are required to look forward a minimum of 12 months from the signing of these financial statements to ensure that there is sufficient headroom to enable the Group to pay its creditors as they fall due.

The net debt position of the Group (including unamortised transaction costs), as discussed earlier, has risen during 2018 from £16.5m to £63.0m.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's statement on pages 18 to 21. The financial position of the Group , its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's statement on pages 34 to 37. In addition, note 28 to the financial statements include the company's objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

As described in the Chief Executive Officer's statement on page 20, the Group has reported an operating loss for the year following significant exceptional costs in restructuring the PeoplePlus division and to remedy historic pay issues in relation to the National Minimum Wage ("NMW") regulations in our Recruitment division. In addition, the Directors' consider that the outlook presents significant challenges in terms of sales volumes over the coming months. Brexit-related uncertainties, well documented issues within the automotive sector and, slow down in new contracts and apprenticeship starts are all impacting on sales volumes. Whilst the Directors have instituted measures to manage cash, these circumstances create material uncertainties over future trading results and cash flows.

The Directors believe that they can continue to operate within existing lending levels for the foreseeable future. A reduction in non-business critical spaces, tight control over the timing of payments and a continued drive to further improve cash collections will ensure that lending limits are not breached. However, due to the expected reduction in profits in 2019 and the increase in net debt, a future breach of lending covenants is anticipated, based on previously agreed covenant limits. As a result of the expected covenant breaches, the Directors have been in discussions with the Group's lenders to waive/reset its adjusted leverage covenant through to March 2020.

To assess these requests, an independent business review was commissioned by the lenders. As a result of this, unconditional June 2019 covenant waivers have been received, along with future relaxation of certain covenants, although the latter is subject to an equity capital raise of at least £30m.

In relation to submitting financial statements by 30 April 2019 the Group has obtained a formal written waiver from the lenders.

The amended facilities agreement has several new conditions which include additional authorisations being required for acquisitions, no dividends being declared for 2019 or 2020 and subsequently only once the liquidity tests are met, and certain funds to be held in escrow for use only in relation to certain items (such as NMW settlement).

The Directors have launched an equity capital raise process which is expected to be completed by mid July. The outcome of this is not yet known, but the Directors along with their advisors are confident that this will raise a minimum of £30m of additional funding, which will be used to deleverage the company, settle the NMW obligations and provide further liquidity to cover unforeseen adverse working capital movements or higher than expected settlement of the NMW provisions.

Without the equity capital raise, and the ongoing support from the lenders, the Group would likely be unable to operate within its banking facilities due to covenant breaches.

A further equity capital raise of £7m is being conducted at the same time but is not a condition of the amended facilities agreement.

The Directors have concluded that the combination of these circumstances represents a material uncertainty which may cast significant doubt upon the Group's and the Company's ability to continue as a going concern and that, therefore, the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. The Group and Company financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

Prior year adjustment: December 2017 Consolidated statement of financial position

Retirement benefit net assets of £1.4m as at 31 December 2017 have been reclassified to non-current assets from current assets, to better reflect the nature of the asset. Retirement benefit net assets were £1.2m as at 1 January 2017. Consolidated Group total and net assets at both 31 December 2017 and at 1 January 2017 are unaffected by this adjustment and therefore a third balance sheet has not been presented.

Notes to the financial statements continued

For the year ended 31 December 2018

3 Accounting policies continued

Adoption of new or amended IFRS

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

The Group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15. This is disclosed in note 32.

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 16 Leases (effective 1 January 2019).

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of £15.2m; see note 25. The impact of accounting standard IFRS 16 has been disclosed on page 39 of the Chief Financial Officer's Report.

Consolidation of subsidiaries

The Group financial statements consolidate those of the parent Company and all of its subsidiaries as at 31 December 2018 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 control over the subsidiary. All PeoplePlus subsidiaries have a reporting date of 31 December 2018 (2017: 31 December 2017), with all Recruitment subsidiary accounts prepared for the 52 weeks ended Sunday 30 December 2018 (2017: 52 weeks ended Sunday 31 December 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 period and their year end balances at the year end rate of exchange. 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 summary 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, 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.

Non-underlying administrative charges:

These 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 transitioning the PeoplePlus division to a skills and training business, exceptional National Minimum Wage ("NMW") remediation and financial penalties, revised audit scope and increased audit fees, 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.

Underlying EBITDA:

Underlying operating profit before the deduction of underlying depreciation and software amortisation charges. This is considered a useful measure because it approximates the underlying cash flow by eliminating depreciation and amortisation charges.

Net debt:

Net debt is the amount of bank debt less available cash balances. This is a key measure as it is one on which the terms of the banking facilities are based and shows the level of external debt utilised by the Group to fund operations.

3 Accounting policies continued

Underlying profit – non-GAAP measures of performance continued

% free cash conversion of underlying profit:

Free cash, in the reported % free cash conversion of underlying profit, is the reported free cash level as adjusted to exclude the one-off effects of the settlement of cash-settled JSOP liabilities. Free cash from operations is net cash flows from operating activities less capital investment.

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 acquisition-related intangible assets has been added back, the revenue from those acquisitions has not been eliminated.

All of these alternative performance measures are utilised by the Board to monitor performance and financial position. They show a comparable level of performance excluding one-off items, with which underlying performance and ability to service debt can be judged.

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" and the provision of 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 to less than 10% of the Group's total revenue, profit after tax 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.

Our Recruitment division revenue recognition policy is unaffected by the application of the new IFRS 15 standard, as our existing approach is to only recognise revenue upon satisfaction of the relevant performance obligations.

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 invoiced 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 2018

3 Accounting policies continued
Revenue recognition continued
PeoplePlus division 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 due to ongoing contractual obligations arising during the period. 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.

The other revenues within this segment relate to the provision of services or apprenticeship training. Revenues are recognised evenly over the delivery of the service/training utilising the expected proceeds value.

In most cases, our PeoplePlus division is unaffected by the application of the new IFRS 15 standard, as our pre IFRS 15 approach is to only recognise revenue upon satisfaction of the relevant performance obligations. However, there are a number of 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. Previously revenue was recognised as and when a stage payment was due; however, under the new IFRS 15 standard this single obligation will be settled over time and therefore all revenues will be recognised over the period specified in the contract.

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 historic fair value 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 expected useful 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, brands and licences
The fair value of acquired customer contracts, customer lists, brands 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 historical 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 are 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.

3 Accounting policies continued

Property, plant and equipment (continued)

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

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

Investments

Investments in the subsidiary undertakings are held at cost less amounts written off.

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 2018

3 Accounting policies continued

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash at bank and in hand and overdrafts which are repayable on demand.

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. 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 within other comprehensive income in the period in which they arise.

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 an 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. The Company's financial assets relate to amounts owed by subsidiary companies which are initially recorded at fair value and subsequently at amortised cost.

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

Trade receivables are provided against using the IFRS 9 methodology as described in note 28.

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 costs" in the statement of comprehensive income.

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

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

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

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

Provisions and contingent liabilities

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.

3 Accounting policies continued

Provisions and contingent liabilities continued

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 the time value of money is material.

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

Contingent liabilities reflect 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. Instead, they are disclosed in note 26.

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

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment is made to the expense recognised in prior periods if fewer share options ultimately are exercised than originally estimated.

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

Cash-settled share-based remuneration

The Group has 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 remeasured 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 remeasured 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.

Notes to the financial statements continued
For the year ended 31 December 2018

3 Accounting policies continued

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

The Directors consider that the only critical judgements in applying the accounting policies described above are:

- 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 £0.8m (2017: £1.4m).
- Revenue – see "Revenue recognition" policies disclosed on pages 79 and 80.

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

- Non-underlying expenses – NMW provision calculations

  The Group has taken independent legal and expert advice in order to inform its determination of the current best estimate of the expected costs of correcting the historical breaches of the NMW regulations. This is an emerging and growing area with significant complexity that has impacted many businesses. As our extended self-review process and discussions with HMRC progressed, a number of previously unforeseen issues came to our attention which have required careful consideration. Due to the significant amount of data involved (as we are operating over 400 sites with over 100,000 people involved over a six-year period), the intricacies of the legislation and the limited case law experience, the evaluation of our liabilities and calculation of the provision have taken a significant amount of time. The job descriptions, practices and working arrangements differ from one site to the other and even within individual sites, which has further complicated our review process. The provision represents our current best estimate of the costs to rectify known areas of non-compliance.

  The HMRC review is ongoing and will not be concluded for several months and hence the final outcome remains uncertain. In calculating our provision of £15.1m, we have made estimates regarding the level of penalty that will be applied to any historical underpayments, the expected rate that payments we attempt to make to employees will not be ultimately settled, due to an inability to contact the impacted former employees, determination of the number of shifts worked in a pay reference period (and therefore the associated instances of preparation time in any given pay reference period) and the setting of appropriate de minimis levels where no further investigation and/or remediation is required. We have assessed that these estimation factors combined could have either favourable or unfavourable impacts on the provision of up to minus or plus £2m.

  In calculating our best estimate of the provision we have taken legal and specialist advice in relation to the critical areas of our assessment which include:

  - The translation of payroll data into a format to predict the number of instances of preparation time in a pay reference period;
  - The calculation of pay as defined within the NMW regulations;
  - The determination of average preparation times; and
  - The setting of a de minimis limit for review.

  Our methodology and approach to calculating the liability has been shared with HMRC and will be further discussed with HMRC when we share our next data submission with it in the near future. We expect to receive a Notice of Underpayment in the coming months once HMRC has finished its review of the data we provide.

  Due to the aforementioned intricacies of the regulations, and their application, there is a risk that a different view could be taken by HMRC, which has discretion in relation to several elements of the review. However, the Board believes that the risk of a substantially different outcome is low, given the independent advice it has obtained in determining the judgements noted above and recent discussions with HMRC. In addition, whilst we have increased our checks and procedures in relation to NMW risks and commissioned an independent expert review of our practices and procedures at all sites, we cannot rule out new items being brought to our attention. The Board believes that this risk is remote given the measures taken by the Group in 2019. These factors have not been included in our provision or our assessment of the reasonable range of possible outcomes and represent a contingent liability, which due to the vast data size and number of inter-related judgements and estimates we are unable to quantify. Please refer to note 26.

3 Accounting policies continued

Critical judgements and estimate uncertainty in applying the Group's accounting policies (continued)

Others

- The Group considers goodwill and other intangible assets to be recoverable based on the three-year budget to 2021. 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 10;
- The assumptions used in the impairment review, assessing the carrying value of goodwill versus underlying value-in-use. More details are included in note 10;
- 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. For certain properties, 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 10 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.

There are no critical judgements and estimate uncertainties relevant to the application of the Company's accounting policies.

4 Segmental reporting

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

Segment information for the reporting year is as follows:

	Recruitment 2018 £'m	**PeoplePlus 2018 £'m**	**Total Group 2018 £'m**	Recruitment 2017 £'m	PeoplePlus 2017 £'m	Total Group 2017 £'m
Segment continuing operations:						
Sales revenue from external customers	**1,020.0**	**107.5**	**1,127.5**	843.3	114.5	957.8
Cost of sales	**(938.5)**	**(67.1)**	**(1,005.6)**	(777.2)	(66.8)	(844.0)
Segment gross profit	**81.5**	**40.4**	**121.9**	66.1	47.7	113.8
Administrative expenses	**(56.6)**	**(21.6)**	**(78.2)**	(45.1)	(25.2)	(70.3)
Depreciation, software amortisation	**(0.8)**	**(3.8)**	**(4.6)**	(0.8)	(3.6)	(4.4)
Segment underlying operating profit*	**24.1**	**15.0**	**39.1**	20.2	18.9	39.1
Administrative expenses – share-based payment (charge)/credit	**(1.0)**	**(0.2)**	**(1.2)**	(3.4)	–	(3.4)
NMW remediation and financial penalties	**(15.1)**	**–**	**(15.1)**	–	–	–
Administrative expenses – reorganisation costs and other exceptionals	**(1.8)**	**(13.8)**	**(15.6)**	–	–	–
Administrative expenses – transaction costs	**(1.1)**	**(0.8)**	**(1.9)**	–	–	–
Amortisation of intangibles arising on business combinations	**(6.1)**	**(5.7)**	**(11.8)**	(2.1)	(6.7)	(8.8)
Segment profit/(loss) from operations	**(1.0)**	**(5.5)**	**(6.5)**	14.7	12.2	26.9
Finance costs	**(3.1)**	**–**	**(3.1)**	(2.8)	–	(2.8)
Segment profit/(loss) before taxation	**(4.1)**	**(5.5)**	**(9.6)**	11.9	12.2	24.1
Tax (expense)/credit	**–**	**1.1**	**1.1**	(3.3)	(2.5)	(5.8)
Segment profit/(loss) from continuing operations	**(4.1)**	**(4.4)**	**(8.5)**	8.6	9.7	18.3

Notes to the financial statements continued

For the year ended 31 December 2018

4 Segmental reporting continued

	Recruitment 2018 £'m	PeoplePlus 2018 £'m	Total Group 2018 £'m	Recruitment 2017 £'m	PeoplePlus 2017 £'m	Total Group 2017 £'m
Total non-current assets (restated – see note 3)	**103.2**	**66.3**	**169.5**	75.3	49.3	124.6
Total current assets (restated – see note 3)	**152.5**	**21.4**	**173.9**	108.5	30.4	138.9
Total assets (consolidated)	**255.7**	**87.7**	**343.4**	183.8	79.7	263.5
Total liabilities (consolidated)	**226.1**	**26.3**	**252.4**	147.6	20.1	167.7
Capital expenditure inc software	**4.2**	**2.2**	**6.4**	2.5	1.3	3.8

* Segment underlying operating profit is stated before amortisation of intangible assets arising on business combinations, business acquisition costs, exceptional reorganisation costs, exceptional NMW remediation and financial penalties, revised audit scope and increased audit fees and the non-cash charge/credit for share-based payment costs

Revenues can be analysed by country as follows (97% of revenues arising within the UK in 2018):

	Recruitment 2018 £'m	PeoplePlus 2018 £'m	Total Group 2018 £'m	Recruitment 2017 £'m	PeoplePlus 2017 £'m	Total Group 2017 £'m
UK	**988.9**	**107.5**	**1,096.4**	827.6	114.5	942.1
Republic of Ireland	**29.2**	**–**	**29.2**	13.8	–	13.8
Poland	**1.6**	**–**	**1.6**	1.2	–	1.2
Rest of the World	**0.3**	**–**	**0.3**	0.7	–	0.7
	1,020.0	**107.5**	**1,127.5**	843.3	114.5	957.8

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 four years and reflects where the costs are predominantly incurred.

During 2018, no customers in the Recruitment segment contributed greater than 10% of the Group's revenue (2017: one customer representing £101m or 12.0% of the Group's revenue; the amount receivable from this customer at 31 December 2017 was £12.3m). The PeoplePlus segment had no customer contributing more than 10% of the Group's revenue during either 2018 or 2017.

5 Expenses by nature

Expenses by nature are as follows:

Underlying expenses – consolidated

	2018 £'m	2017 £'m
Employee benefits expenses – cost of sales	**963.0**	815.5
Employee benefits expenses – administrative expenses	**46.4**	39.7
Depreciation and software amortisation	**4.6**	4.4
Operating lease expenses (note 25)	**5.4**	5.6
Other expenses	**69.0**	53.5
	1,088.4	918.7
Disclosed as:		
Cost of sales	**1,005.6**	844.0
Administrative expenses – underlying	**82.8**	74.7
	1,088.4	918.7

Auditors' remuneration in their capacity as auditors of the parent and Consolidated financial statements is £14,200 (2017: £13,750) and in their capacity as auditor of subsidiary companies is £265,800 (2017: £166,250). The increase is principally due to the acquisitions during the year and additional work around the adoption of new IFRSs. Non-audit remuneration in respect of potential acquisitions totalled £30,000 (2017: £75,000), tax compliance services £5,000 (2017: £11,000) and other services of £nil (2017: £50,000). In addition to the above, fees of £1,800,000 were also paid to the auditor in relation to the completion of their work as noted on page 34.

5 Expenses by nature continued

Non-underlying administrative expenses – consolidated

	2018 £'m	2017 £'m
Reorganisation costs	**10.6**	–
Impairment of intangible fixed assets (reorganisation related) (see note 11)	**2.5**	–
Impairment of tangible fixed assets (reorganisation related) (see note 14)	**0.7**	–
NMW remediation and financial penalties	**15.1**	–
Revised audit scope and increased audit fees	**1.8**	–
Transaction costs – business acquisitions	**1.9**	–
Total non-recurring costs	**32.6**	–
Amortisation of intangible assets arising on business combinations (licences, customer contracts)	**11.8**	8.8
Share-based payment charges – Directors	**0.6**	2.1
Share-based payment charges – other senior executives	**0.6**	1.3
	45.6	12.2
Tax credit on above non-underlying expenses (note 8)	**(8.3)**	(1.5)
Post taxation effect on above non-underlying expenses	**37.3**	10.7

Reorganisation costs noted above relate to progress on the strategy of our PeoplePlus division to transition away from a predominantly Work Programme driven business to a skills and training business, within which PeoplePlus will have a wider range of clients across both Government and commercial sectors. This will also provide a broader and more balanced portfolio of contracts with multiple run-off dates. The acquisition of LearnDirect Apprenticeships enabled the division to accelerate this transition to create the UK's leading Apprenticeship Levy business. Significant costs have been incurred during the year to reduce both the number of employees and number of locations within the division, along with associated IT costs.

Impairment of tangible and intangible fixed assets relates to the impact of the decision by the Ministry of Justice ("MoJ") to terminate all Community Rehabilitation Company ("CRC") contracts in September 2020, ahead of the contract end date of January 2022, with compensation payable by the MoJ for early termination. At the end of December 2018, the net book value of related intangible and tangible fixed assets was £2.5m and £1.4m respectively. In light of the contract variation, we have considered expected future cash flows from this contract, together with any expected compensation receivable from the MoJ, and concluded that an impairment charge for certain of these assets was appropriate.

During the year, HMRC commenced a review into the Recruitment division's compliance with National Minimum Wage Regulations. The payment of the National Minimum Wage is a legal requirement, covering all working time including preparation time. As a relatively new initiative, HMRC has conducted a wide-ranging review across industry, including looking back at prior periods. The review of Recruitment has yet to be finalised but a number of breaches have been identified, based on end-user custom and practice for prior periods. The HMRC review relates to years 2013 to 2018 and we are confident that, following the steps that we have put in place, the business is fully compliant and has robust controls to ensure no further non-compliance. The timing of any financial penalty has yet to be finalised but a provision of £15.1m has been made at the year end, which covers the best estimate of the likely settlement of these liabilities. This includes all expected costs for non-compliance in the years 2013–2018, all of which are treated as current year exceptional items. These are recognised in full in the current year due to the magnitude of this issue only coming to our attention in late 2018. As at 23 January 2018, the date on which the prior financial statements were approved, there was no reliable information available which indicated a liability should be disclosed/recorded. The sensitivities in relation to this matter are set out in note 3 "Critical judgements and estimate uncertainty in applying the Group's accounting policies".

Following the allegations made on 29 January 2019, as detailed earlier in Chief Executive Officer's statement, a revised audit scope was agreed with PwC. These costs of £1.8m are regarded as one-off in nature.

During the year the Group acquired seven businesses, incurring significant professional fees. This level of activity is much higher than in previous years – an average of two transactions completed over the previous three years.

The charge for amortisation of intangible assets arising on business combinations in 2018 relates principally to the acquisitions of the A4e business (£5.6m charge: asset fully amortised by February 2019), Vital Recruitment (charge £2.0m: acquired March 2018, asset will be fully amortised by February 2023), Milestone (£1.0m charge: asset will be fully amortised by September 2020) and Brightwork (charge £0.7m: acquired May 2017, asset will be fully amortised by April 2022).

The share-based payment charge in 2018 principally arose due to the 19% increase in the Company's share price during the year from £10.40 to £12.40.

Notes to the financial statements continued

For the year ended 31 December 2018

6 Finance costs

	2018 £'m	2017 £'m
Interest payable on financing arrangements (includes term loan, loan notes, overdraft and amortisation of debt issue costs)	**3.1**	2.9
Pension interest (income)	**–**	(0.1)
Total	**3.1**	2.8

7 Directors' and employees' remuneration

Employee benefits expense – consolidated

Expense recognised for employee benefits is analysed below:

	2018 £'m	2017 £'m
Wages and salaries	**75.7**	72.3
Social security costs	**7.3**	6.7
Other pension costs – defined contribution plans	**1.9**	2.0
Other pension costs – defined benefit plan service cost	**0.2**	0.2
	85.1	81.2
Share-based payment charge – cash-settled	**1.0**	3.3
Share-based payment charge – equity-settled	**0.2**	0.1
	86.3	84.6
Included in administrative expenses (note 5)	**46.4**	39.7
Included in cost of sales	**38.7**	41.5
Share-based payment charge (cash and equity-settled)	**1.2**	3.4
	86.3	84.6

	2018 Number	2017 Number
The average monthly number of persons (including Directors) employed by the Group during the year was:		
– Sales and administrative	**2,437**	2,357

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

	2018 £'m	2017 £'m
Wages and salaries	**873.4**	733.0
Social security costs	**50.9**	41.0
	924.3	774.0

	Number	Number
The average monthly number of temporary workers contracted by the Group during the year was:	**48,665**	43,415

The average number of persons (including Directors) employed by the Company during the year was 6 (2017: 6). Employee costs were £nil (2017: £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 (2017: £nil).

Directors' remuneration is detailed on pages 56 to 58 of the Report on Remuneration, and disclosed further in note 24.

7 Directors' and employees' remuneration continued

Share-based employee remuneration

Save As You Earn ("SAYE") share option plan 2017

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 27,944,389 shares. As at 31 December 2018, options over 104,893 shares remain (211 employees), options over 43,383 shares having lapsed (79 employees).

Save As You Earn ("SAYE") share option plan 2018

In September 2018, Staffline granted options to employees as part of its Save As You Earn ("SAYE") share scheme for 2018. Eligible employees were invited to subscribe for options over Staffline's ordinary shares of 10p each ("Ordinary Shares") with an exercise price of £9.76, 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 2018 and are exercisable between 1 December 2021 and 31 May 2022. A total of 167 employees elected to participate and, pursuant to these elections, a total of 73,588 options over Ordinary Shares were granted on 18 September 2018, equating to 0.26% of the current issued share capital of 27,944,389 shares. As at 31 December 2018, options over 73,257 shares remain (165 employees), options over 331 shares having lapsed (2 employees).

Performance-related share option plan

Other than options granted to Chris Pullen (a Director of the Company – options lapsed during the year), details of which are fully disclosed within the Report on Remuneration on pages 56 to 58, no other performance-related share options have been granted.

Except as noted under the Joint Share Ownership Plans 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 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 Directors 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 executive and the Staffline Group plc Employee Benefit Trust.

That JSOP ran 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 was 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 five and a half years ended 30 June 2018, the Company's share price has risen by 224%, from 289p at 1 January 2013 to 936p as at 30 June 2018, in excess of the 53% increase over the same period by the FTSE AIM All-Share Total Return Index (AXX), growing from 707 at 1 January 2013 to 1,082 as at 30 June 2018.

The maximum number of shares vested and were therefore 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.

During July 2018 the shares were sold in the open market at a net price of £10.24p per share and net proceeds were paid to the Directors and other senior executives in one tranche as follows:

	Participation price	Interest over number of shares	Sales price	Net proceeds to participant £000
A Hogarth	411.5p	350,000	1,024.0p	2,144
D Martyn	411.5p	350,000	1,024.0p	2,144
P Ledgard (resigned May 2016)	563.0p	50,000	1,024.0p	231
Directors		**750,000**		**4,519**
Other executives (6 in total)	425.8p	425,000	1,024.0p	2,544
		1,175,000		**7,063**

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For the year ended 31 December 2018

7 Directors' and employees' remuneration continued

Joint Share Ownership Plan 2018

In January 2018, 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 Directors 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 executives and the Staffline Group plc Employee Benefit Trust.

A Plan covering the five-year period ending 31 December 2022 was approved by the Remuneration Committee in October 2017. Plan rules are the same as those for the 2013 Plan as highlighted above. The amount receivable 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 180.0p and 200.0p required in the financial year 2022 (maximum 50% of the award). No shares vest if the EPS is below 180.0p in that year.
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 (AXX) over the period 1 January 2018 to 30 June 2023 (nil award if the minimum EPS requirement above is not achieved). The Company's share price at 1 January 2018 was 1,040p and the AXX stood at 1,050. As at 31 December 2018, the Company's share price had increased by 19% to 1,240p whereas the AXX had fallen by 18% to 859.

Directors' and senior executives' interests are detailed below

	Award date	Participation price	Interest over number of shares	Date on which exercisable
C Pullen	24 Jan 2018	999p	275,000	30 June 2023
M Watts	24 Jan 2018	999p	125,000	30 June 2023
Directors			400,000	
Other executives (15 in total)	Various	1,031p	740,000	30 June 2023
			1,140,000	

As noted above, 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 1,140,400 (2017: 2,220,400) ordinary 10p shares to satisfy participants' interests when the Scheme vests in June 2023.

The 2018 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 2018. Significant inputs into the calculations were:

- Share price at date of grant (January 2018 grant of 960,000 shares at 999p per share, September 2018 grant of 80,000 shares at 1,294p per share);
- Exercise prices based on the December 2018 year end share price of 1,240p per share;
- An average of 30.9% (2017: 30.9%) volatility based on expected and historical share price;
- Risk-free interest rate of 0.830% (2017: 0.364%), being five-year UK Gilts spot yield;
- The disposal of shares by the EBT on 30 June 2023; and
- Assumption that 50% of relevant employees will leave before the vesting date, 100% of the EPS target will be achieved and 100% of the TSR target will be achieved.

Share-based employee remuneration

In total a charge of £1.2m of employee remuneration expense has been included in the consolidated statement of comprehensive income for the year ended 31 December 2018 (2017: £3.4m) which increased the share-based payment reserve by £0.2m (2017: £nil) in respect of equity-settled schemes (all employees SAYE scheme) and increased the liability by £1.0m (2017: £3.4m) in respect of cash-settled JSOP schemes.

	2018 £m	2017 £m
Save As You Earn Scheme (equity-settled)	**0.2**	0.1
JSOP 2013 (cash-settled)	**0.6**	3.3
JSOP 2018 (cash-settled)	**0.4**	–
Total	**1.2**	3.4

7 Directors' and employees' remuneration continued

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 56 to 58, and the divisional Directors who participate in the JSOP schemes. The aggregate remuneration, excluding share-based payment charges, for the divisional Directors for the year is £2.6m (2017: £1.1m). In addition, compensation payments of £0.3m (2017: £nil) were made on the departure of one divisional Director during the year. Disclosures in accordance with IAS 24 are included in note 24.

8 Tax expense

The tax (credit)/charge on the (loss)/profit for the year consists of:

	2018 £'m	2017 £'m
Corporation tax		
UK corporation tax at 19.00% (2017: 19.25%)	**1.3**	6.9
Adjustments in respect of prior years	**(0.1)**	0.1
UK current tax charge	**1.2**	7.0
Deferred tax		
Timing differences arising in the year	**(2.5)**	(1.6)
Adjustments in respect of prior years	**0.2**	0.4
UK deferred tax (credit)	**(2.3)**	(1.2)
Total UK tax (credit)/charge for the year	**(1.1)**	5.8

The net "adjustments in respect of prior years" charge of £0.1m (current £0.1m credit, deferred £0.2m charge) arose largely from R&D tax credits being claimed in respect of prior years (current) and the reassessment of the level of prior year tax written down values on certain intangible fixed assets (deferred).

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

	2018 £'m	2017 £'m
Recruitment division	**–**	3.3
PeoplePlus division	**(1.1)**	2.5
Total UK tax (credit)/charge for the year	**(1.1)**	5.8
Underlying trading	**7.2**	7.3
Non-underlying trading (credit)	**(8.3)**	(1.5)
Total UK tax (credit)/charge for the year	**(1.1)**	5.8

Notes to the financial statements continued
For the year ended 31 December 2018

8 Tax expense continued
The tax (credit)/charge for the year, as recognised in the statement of comprehensive income, is lower than the standard rate of corporation tax in the UK of 19.00% (2017: higher than the 19.25% composite rate). The differences are explained below:

	2018 £'m Current tax	2018 £'m Deferred tax	2018 £'m Total	2017 £'m Total
(Loss)/profit for the year before taxation	**(9.6)**	–	**(9.6)**	24.1
Tax rate	**19.00%**	–	**19.00%**	19.25%
Tax on (loss)/profit for the year at the standard rate	**(1.8)**	–	**(1.8)**	4.6
Effect of:				
Depreciation and software amortisation charge in excess of capital allowances	**0.3**	(0.6)	**(0.3)**	0.5
Amortisation of intangible assets arising on business combinations	**2.2**	(1.9)	**0.3**	–
JSOP charges not taxable	**0.2**	–	**0.2**	0.6
Change in deferred tax rate to 17.00%	**–**	–	**–**	(0.3)
Expenses not allowable	**0.6**	–	**0.6**	–
Adjustments in respect of prior years	**(0.1)**	0.2	**0.1**	0.5
Tax losses available	**(0.2)**	–	**(0.2)**	–
Others – net	**–**	–	**–**	(0.1)
Actual tax expense/(credit)	**1.2**	(2.3)	**(1.1)**	5.8
On underlying profit	**7.0**	0.2	**7.2**	7.3
On non-underlying (loss)/profit	**(5.8)**	(2.5)	**(8.3)**	(1.5)
Actual tax expense/(credit)	**1.2**	(2.3)	**(1.1)**	5.8
Underlying pre-tax profit for the year			**36.0**	36.3
Effective underlying current tax rate for the year			**19.4%**	19.3%
Effective underlying total tax rate for the year			**20.0%**	20.1%
Effective total tax rate for the year			**11.5%**	24.1%

The effective total tax rate of 11.5% is less than the UK corporation tax rate of 19.00% for the year due to the JSOP profit and loss charge and certain non-underlying charges not being deductible under UK corporation tax and therefore added back to taxable profits. The effective underlying current tax rate for the year of 19.4% is marginally above the standard rate of 19.0%.

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 rate 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 are reported at 17.0% whereas corporation tax balances are reported at 19.0%.

The Board continues to seek to improve the transparency and communication of the Group's tax affairs. In 2018 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 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. In addition, an element of acquisition-related expenses and HMRC settlement costs have also been treated as non-deductible.

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

8 Tax expense continued

The current tax asset at the end of 2018 of £1.3m (2017: liability of £3.4m) can be analysed as follows:

	2018 £'m	2017 £'m
Liability at the beginning of the year	**3.4**	2.5
Charge on profits for the year	**1.2**	7.0
Paid in the year (net of repayments)	**(6.4)**	(6.2)
Liabilities arising on business acquisitions/others	**0.5**	0.1
(Asset)/liability at the end of the year	**(1.3)**	3.4
Balance of 2018 tax year (assets)	**(1.3)**	–
Balance of 2017 tax year liabilities	**0.1**	3.4
Balance of 2016 tax year (assets)	**(0.1)**	–
(Asset)/liability at the end of the year	**(1.3)**	3.4

9 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" (2018 year end 1,140,400 shares; 2017 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 and 2018 under the SAYE scheme.

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

	Basic 2018	Basic 2017	Diluted 2018	Diluted 2017
Earnings from continuing operations (£'m)	**(8.5)**	18.3	**(8.5)**	18.3
Earnings from discontinued operations (£'m)	**–**	–	**–**	–
Weighted average number of shares (000)	**26,167**	25,621	**26,167**	25,756
Earnings per share (p):				
Continuing	**(32.5p)**	71.4p	**(32.5)p**	71.1p
Underlying earnings from continuing operations (£'m)	**28.8**	29.0	**28.8**	29.0
Underlying earnings per share (p)*	**110.1p**	113.2p	**110.1p**	112.6p

* Underlying earnings after adjusting for amortisation of intangible assets arising on business combinations, business acquisition costs, exceptional reorganisation costs, exceptional NMW remediation and financial penalties, revised audit scope and increased audit fees and the non-cash charge/credit for share-based payment costs

The weighted average number of shares (basic) has been increased by 546,000 (2017: increased by 254,000) shares to take account of the effect of the 1,175,000 shares sold by the 2013 JSOP scheme in July 2018 to satisfy its requirements on the vesting of that scheme on 30 June 2018.

Dividends

During the year, Staffline Group plc paid dividends of £7.1m (2017: £6.7m) to its equity shareholders:

	2018 £'m	2017 £'m	2018 per share (p)	2017 per share (p)
Interim 2018: paid November 2018 (Interim 2017: paid November 2017)	**3.0**	2.8	**11.3p**	11.0p
Final 2017: paid July 2018 (Final 2016: paid July 2017)	**4.1**	3.9	**15.7p**	15.3p
Total paid during the year	**7.1**	6.7	**27.0p**	26.3p

No final dividend for 2018 has been proposed (2017: £4.1m – paid July 2018, representing 15.7p per share).

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10 Goodwill

Gross carrying amount	Division	Total £'m
At 31 December 2016		91.6
Additions – Driver & Labour Recruit Limited	Recruitment	–
Additions – Brightwork Limited	Recruitment	2.6
At 31 December 2017		**94.2**
Additions – Endeavour Group Limited (see (c) below)	**Recruitment**	**8.1**
Additions – Grafton Recruitment Limited (see (f) below)	**Recruitment**	**4.5**
Additions – Passionate About People Limited (see (g) below)	**Recruitment**	**9.5**
At 31 December 2018		**116.3**

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

	31 December 2018 £'m	31 December 2017 £'m
Recruitment division	**59.3**	37.2
PeoplePlus division	**57.0**	57.0
Total	**116.3**	94.2

As at 31 December 2018 the Company had no Goodwill (2017: £nil).

Impairment – Goodwill

Management consider there to be two cash-generating units, being Recruitment – a group of companies headed up by Staffline Recruitment Limited – and PeoplePlus – a group of companies headed up by PeoplePlus Group Limited (in line with the business segments defined in note 4). We 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 forecast for 2019 and 2020, followed by an extrapolation of expected cash flows over the next three years with a pre-tax discount rate of 11.0% (2017: 11.0%) based on the Group's weighted average cost of capital.

The results of the impairment review performed showed significant headroom in both cash-generating units and accordingly no impairment is noted. 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 (2017: £nil).

In making our assessment of the recoverability of assets within each cash-generating unit ("CGU") a number of judgements and assumptions were required.

The critical judgement relates to the determination of the CGU's. Whilst there are individual legal entities within the two segments (PeoplePlus and Staffline Recruitment) the segments are operated and reviewed as a single unit by the Board of Directors. Each segment has its own management team and head office and is therefore very much run as a single operating unit. The Group's strategy, historically and going forward, has been to integrate new acquisitions into the main trading entities within each segment (being PeoplePlus Group Limited and Staffline Recruitment Limited) and therefore this approach is consistent with this strategy.

The key estimates in determining the value of each CGU are:

1. *The discount rate and growth rate in the terminal value calculations.* In our calculations we have utilised a discount rate of 11% and terminal growth value of 2% (being the expected long-term inflation rate in the UK). Our calculations highlighted headroom of £179m for Staffline Recruitment and £43m for PeoplePlus. A 1% increase in the discount rate to 12 % reduces this headroom to £148m and £31m respectively. A reduction in the growth rate in the terminal value to 1% reduces headroom to £159m and £35m respectively.

2. *The achievability of the forecasted future cash flows.* The Group has utilised the latest approved budgets for the next two financial years and then applied growth rates of up to 3% for the period after this. However, as disclosed in the Chief Executive Officers and Chief Financial Officers statements, the Group is currently facing significant challenges which have had an impact on the expected performance for the coming financial year. The impairment assessment is based upon the upper end of the currently forecasted 2019 financial results and the 2020 projections are materially in-line with the current year financial results. There is an inherent uncertainty regarding the achievability of these projected results, as there are macro economic factors outside of the Group's control, which can have profound impacts on the Group.

10 Goodwill continued

Impairment – Goodwill (continued)

The forecasted performance in 2019 for the PeoplePlus CGU is significantly reduced from the 2018 actual performance due to the end of the DWP contracts, the costs of implementing our new contract wins together with lower than expected Apprenticeship Levy activity. We expect that contract performance will improve now the implementation period is coming to an end and that, as the economic uncertainty eases, the Apprenticeship Levy activity will return to forecasted levels. In the PeoplePlus CGU an impairment of £0.1m would be noted should the results be 40% below our current forecasts in 2020 and this level of performance is maintained beyond this period. A 50% sustained reduction in our forecasted performance would result in an impairment of c£10m.

In the Staffline Recruitment CGU a sustained underperformance of 60% would be required prior to an impairment being noted.

Acquisitions made in 2018 are performing slightly behind expectations, but we believe that these are short-term factors which should reverse and therefore this is reflected in our projections.

During the year specific impairments were made to certain tangible and intangible assets relating to the restructuring of the PeoplePlus business, as detailed in note 5. The above assessments were performed after these specific impairments had been made.

Prior year fair value adjustments

During 2017, initial fair value provisions of £0.9m were made in respect of the acquisition in May 2017 of Brightwork Limited. No further adjustments have been made during the current year, with £0.4m of the provisions carried forward as at 31 December 2018 (relating principally to bad debt and fixed asset impairments).

Additions

During 2018, the Group made seven business acquisitions. These can be summarised as follows:

Name	Consideration £'m	Tangible assets/ (liabilities) acquired £'m	Intangible assets acquired £'m	Goodwill acquired £'m
M&B Staff Services (a)	0.2	–	0.2	–
UK Distribution Personnel Limited (b)	2.4	1.5	0.9	–
Endeavour Group Limited (c)	18.6	(2.2)	12.7	8.1
One Call Recruitment Limited (d)	2.0	(1.0)	3.0	–
LearnDirect Apprenticeships (e)	–	(1.0)	1.0	–
Grafton Recruitment Limited (f)	12.8	1.8	6.5	4.5
Passionate About People Limited (g)	22.8	2.0	11.3	9.5
	58.8	**1.1**	**35.6**	**22.1**
Paid during the year	51.0		**(see note 11)**	
Unpaid at the year end	7.8			
Tangible fixed assets		0.6	**(see note 14)**	
Net cash and cash-like items		(3.0)	**(see note 30)**	
Deferred taxation		(6.0)	**(see note 22)**	
Other tangible assets (net)		9.5		
		1.1		

Tangible assets acquired, as reported above, are stated net of deferred tax liabilities relating to the acquisition of intangible fixed assets. Deferred consideration is not discounted due to both its immaterial value and the short periods of deferral, being no greater than one-year post acquisition.

a) M&B Staff Services Limited

On 26 January 2018, the Recruitment division of the Group acquired the trade of M&B Staff Services Limited ("M&B"), a staffing recruitment company trading in the Republic of Ireland, at a cost of £0.2m, all paid on completion. No tangible assets or liabilities were acquired. Intangible fixed assets of £0.2m arose on the business combination.

Notes to the financial statements continued

For the year ended 31 December 2018

10 Goodwill continued

b) UK Distribution Personnel Limited

On 9 February 2018, the Recruitment division of the Group acquired 100% of the issued ordinary share capital of UK Distribution Personnel Limited ("UKD"), a specialist driving recruitment agency company based in the South East of England, at a cost of £2.4m. Initial consideration of £1.6m was paid with a further £0.8m deferred consideration payable in three quarterly instalments commencing June 2018 and ending in January 2019 (£0.6m paid out this financial year, with £0.2m provided for at the financial year end). £1.6m 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 (none identified), 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 9 February 2018 £'m	Fair value adjustments £'m	Provisional fair value 31 December 2018 £'m
Intangible fixed assets – software	–	–	–
Property, plant and equipment	–	–	–
Trade and other receivables	0.3	–	0.3
Accrued income	–	–	–
Cash and bank	1.5	–	1.5
Trade and other payables	(0.2)	–	(0.2)
Corporation tax payable	–	–	–
Invoice financing loan	–	–	–
Net assets acquired – Entity	1.6	–	**1.6**
Intangible assets identified – customer contracts/lists			0.9
Deferred tax liability on acquired intangibles at 17%			(0.1)
Goodwill (not tax deductible)			–
Consideration			**2.4**

At 9 February 2018, the trade and other receivables balance in the table above amounts to gross receivables of £0.3m and provisions of £nil.

c) Endeavour Group Limited

On 16 March 2018, the Recruitment division of the Group acquired 100% of the issued ordinary share capital of Endeavour Group Limited, including its trading subsidiary Vital Recruitment Limited ("Vital"), a leading blue-collar recruitment business in the East of England focusing on the food, agriculture and logistics sectors, at a cost of £18.6m. Initial consideration of £11.8m was paid with an additional £0.8m paid following agreement of net assets acquired and a further £6.0m deferred consideration payable in four equal quarterly instalments commencing June 2018 and ending in March 2019 (£3.0m paid out this financial year with £3.0m provided for at the financial year end). £1.9m 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 (principally provisions for holiday pay liabilities and potential bad debts), 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 16 March 2018 £'m	Fair value adjustments £'m	Provisional fair value 31 December 2018 £'m
Intangible fixed assets – software	–	–	–
Property, plant and equipment	0.1	(0.1)	–
Trade and other receivables	10.8	(0.2)	10.6
Accrued income	–	–	–
Cash and bank	0.8	–	0.8
Trade and other payables	(6.5)	(1.6)	(8.1)
Corporation tax payable	(0.3)	–	(0.3)
Invoice financing loan	(3.0)	–	(3.0)
Net assets/(liabilities) acquired – Entity	1.9	(1.9)	–
Intangible assets identified – customer contracts/lists			12.7
Deferred tax liability on acquired intangibles at 17%			(2.2)
Goodwill (not tax deductible)			8.1
Consideration (total net assets acquired)			**18.6**

Goodwill relates primarily to the value of the assembled workforce, the value of expected future new contracts and relationships, and the synergies that can be achieved due to being part of a larger organisation with a structured management and shared support functions.

At 16 March 2018, the trade and other receivables balance in the table above amounts to gross receivables of £10.8m and provisions of £0.2m.

10 Goodwill continued

d) One Call Recruitment Limited

On 8 June 2018, the Recruitment division of the Group acquired 100% of the issued ordinary share capital of One Call Recruitment Limited ("One Call"), a staffing recruitment company operating in the East of England, at a cost of £2.0m, all paid on completion. £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 (principally provisions for holiday pay liabilities and tangible fixed asset impairment), 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 8 June 2018 £'m	Fair value adjustments £'m	**Provisional fair value 31 December 2018 £'m**
Intangible fixed assets – software	–	–	**–**
Property, plant and equipment	0.1	(0.1)	**–**
Trade and other receivables	2.2	–	**2.2**
Accrued income	–	–	**–**
Cash and bank	–	–	**–**
Trade and other payables	(1.9)	(0.6)	**(2.5)**
Corporation tax payable	–	–	**–**
Invoice financing loan	(0.3)	–	**(0.3)**
Net assets/(liabilities) acquired – Entity	0.1	(0.7)	**(0.6)**
Intangible assets identified – customer contracts/lists			**3.0**
Deferred tax liability on acquired intangibles at 17%			**(0.4)**
Goodwill (not tax deductible)			**–**
Consideration (total net assets acquired)			**2.0**

At 8 June 2018, the trade and other receivables balance in the table above amounts to gross receivables of £2.2m and provisions of £nil.

e) LearnDirect Apprenticeships

On 16 July 2018, the PeoplePlus division of the Group acquired the trade of LearnDirect Apprenticeships ("LDA"), the UK's market-leading Apprenticeship Levy provider, for a nominal sum. Net tangible assets and liabilities of £nil 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, all subject to further fair value review.

Fair value adjustments of £1.0m have been made, principally payroll-related accruals and provisions against loss-making contracts, with a consequent £1.0m of intangible fixed assets arising on the business combination.

f) Grafton Recruitment Limited

On 20 July 2018, the Recruitment division of the Group acquired 100% of the issued ordinary share capital of Grafton Recruitment Limited (Northern Ireland) and Grafton Recruitment Limited (Republic of Ireland), together "Grafton". Grafton is a leading provider of recruitment and employment services in both Northern Ireland and the Republic of Ireland, with over 30 years of experience. Total cost was £12.8m, with an initial consideration of £12.5m and an additional £0.3m paid following agreement of net assets acquired. There is no deferred or contingent consideration payable. £3.3m 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 20 July 2018 £'m	Fair value adjustments £'m	**Provisional fair value 31 December 2018 £'m**
Intangible fixed assets – software	–	–	**–**
Property, plant and equipment	–	–	**–**
Trade and other receivables	11.8	–	**11.8**
Inter-Company balances recoverable	5.6	–	**5.6**
Cash and bank	1.0	–	**1.0**
Trade and other payables	(9.9)	(0.4)	**(10.3)**
Corporation tax payable	–	–	**–**
Invoice financing loan	(5.2)	–	**(5.2)**
Net assets/(liabilities) acquired – Entity	3.3	(0.4)	**2.9**
Intangible assets identified – customer contracts/lists			**6.5**
Deferred tax liability on acquired intangibles at 17%			**(1.1)**
Goodwill (not tax deductible)			**4.5**
Consideration (total net assets acquired)			**12.8**

Notes to the financial statements continued
For the year ended 31 December 2018

10 Goodwill continued

f) Grafton Recruitment Limited (continued)

The inter-Company balance recoverable was settled on completion and has been included in the net cash outflow on acquisition of businesses in the Consolidated statement of cash flows.

Goodwill relates primarily to the value of the assembled workforce, the value of expected future new contracts and relationships, and the synergies that can be achieved due to being part of a larger organisation with a structured management and shared support functions.

At 20 July 2018, the trade and other receivables balance in the table above amounts to gross receivables of £12.0m and provisions of £0.2m.

g) Passionate About People Limited

On 28 September 2018, the Recruitment division of the Group acquired 100% of the issued ordinary share capital of Passionate About People Limited, a business established in 1998 and comprising two trading companies: Omega Resource Group Limited, a leading UK provider of blue-collar, flexible, staffing solutions to the aerospace, automotive, construction, energy, logistics and manufacturing sectors; and Datum RPO Limited, a leading provider of recruitment process outsourcing solutions to blue-chip clients; at a cost of £22.8m. Initial consideration of £18.2m was paid with a further £3.9m deferred consideration payable in four equal quarterly instalments commencing January 2019 and ending in September 2019 (£nil paid out this financial year with £3.9m provided for at the financial year end). In addition, a further £0.7m will be paid, dependent upon the recovery of historic corporation tax losses. £4.7m 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 (principally provisions for bad debts, warranty claims, staff bonuses), 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 28 September 2018 £'m	Fair value adjustments £'m	**Provisional fair value 31 December 2018 £'m**
Intangible fixed assets – software	–	–	**–**
Property, plant and equipment	0.5	–	**0.5**
Trade and other receivables	14.1	(0.1)	**14.0**
Accrued income	–	–	**–**
Cash and bank	7.7	–	**7.7**
Trade and other payables	(12.3)	(0.7)	**(13.0)**
Corporation tax payable	(0.2)	–	**(0.2)**
Invoice financing loan	(5.1)	–	**(5.1)**
Net assets acquired – entity	4.7	(0.8)	**3.9**
Intangible assets identified – customer contracts/lists/brand			**11.3**
Deferred tax liability on acquired intangibles at 17%			**(1.9)**
Goodwill (not tax deductible)			**9.5**
Consideration (total net assets acquired)			**22.8**

Goodwill relates primarily to the value of the assembled workforce, the value of expected future new contracts and relationships, and the synergies that can be achieved due to being part of a larger organisation with a structured management and shared support functions.

At 28 September 2018, the trade and other receivables balance in the table above amounts to gross receivables of £14.1m and provisions of £0.1m.

Pre and post-acquisition 2018 trading for the seven acquisitions can be summarised as follows:

Name	Pre-acquisition Turnover £'m	Post-acquisition Turnover £'m	Pre-acquisition Profit after tax £'m	Post-acquisition Profit after tax £'m
M&B Staff Services	0.1	2.2	–	0.1
UK Distribution Personnel Ltd	0.6	3.0	0.1	0.2
Endeavour Group Limited	16.9	56.3	(0.1)	1.9
One Call Recruitment Limited	11.5	15.5	(0.3)	0.3
LearnDirect Apprenticeships	5.4	6.5	(0.6)	(1.3)
Grafton Recruitment Limited	47.7	43.5	0.4	0.8
Passionate About People Ltd	72.3	25.9	1.6	0.4
	154.5	**152.9**	**1.1**	**2.4**

10 Goodwill continued

Together, the seven acquisitions noted above contributed revenues of £152.9m and profit after tax of £2.4m in the period from the date of their respective acquisitions to 31 December 2018.

If the seven acquisitions noted above had all occurred on 1 January 2018, the Group's revenues and profit after tax for the year ended 31 December 2018 would have increased by £154.5m and £1.1m respectively, to £1,282.0m and a £7.4m loss respectively.

All acquisitions are provisional as at 31 December 2018 as the Group is undertaking more detailed reviews regarding the completeness of liabilities and recoverability of assets (such as trade debtors and accrued income).

11 Other intangible assets

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

Gross carrying amount	Software £'m	Licences £'m	Customer contracts and brands £'m	Customer lists £'m	Total £'m
At 1 January 2017	**8.9**	**2.0**	**45.4**	**5.5**	**61.8**
Additions	1.1	–	–	–	1.1
Additions through business combinations (see note 10)	–	–	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**
Additions	2.7	–	–	–	2.7
Additions through business combinations (see note 10)	–	–	35.6	–	35.6
At 31 December 2018	**12.9**	**2.0**	**85.1**	**5.5**	**105.5**
Amortisation					
At 1 January 2017	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**
Charged in the year – operating	1.9	–	11.8	–	13.7
Charged in the year – impairment*	2.5	–	–	–	2.5
At 31 December 2018	**8.7**	**2.0**	**46.4**	**5.5**	**62.6**
Net book amount at 31 December 2018	**4.2**	**–**	**38.7**	**–**	**42.9**
Net book amount at 31 December 2017	5.9	–	14.9	–	20.8

* The impairment charge of £2.5m in 2018 relates to the reorganisation of the PeoplePlus division (as explained in note 5)

The Company has no other intangible assets (2017: £nil).

As at 31 December 2018, there are six individually material other intangible assets:

	Software £'m	Licences £'m	Customer contracts and brands £'m	Customer lists £'m	Total £'m
Customer contracts in Endeavour Group	–	–	**10.7**	–	**10.7**
Customer contracts/brands in Passionate About People Group	–	–	**10.7**	–	**10.7**
Customer contracts in Grafton Recruitment	–	–	**6.0**	–	**6.0**
Payroll and Credit Control software developed for Recruitment division	**4.1**	–	–	–	**4.1**
Customer contracts in One Call Recruitment	–	–	**2.6**	–	**2.6**
Customer contracts in Brightwork	–	–	**2.4**	–	**2.4**
Others	**0.1**	–	**6.3**	–	**6.4**
Net book amount at 31 December 2018	**4.2**	–	**38.7**	–	**42.9**

Notes to the financial statements continued
For the year ended 31 December 2018

11 Other intangible assets – consolidated continued
Software, customer contracts and brands each have a useful economic life ("UEL") of 5.0 years. At 31 December 2018, the remaining UELs of the principal customer contracts and brands are as follows:

	UEL (years)
Endeavour Group	4.2
Passionate About People Group	4.8
Grafton Recruitment	4.6
One Call Recruitment	4.4
Brightwork	3.3

12 Fixed asset investments – Company

	Investment in Group undertakings £'m
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**
Movement in JSOP investment	**0.9**
Transfer from subsidiary undertaking (see below)	**66.0**
Cost and net book amount at 31 December 2018	**125.2**

On 27 September 2018, the 100% ownership of PeoplePlus Group Limited was transferred to the Company from a subsidiary company, Staffline Holdings Limited, for its carrying value of £66.0m (settled via inter-Company account).

As at 31 December 2018, 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			
Staffline Recruitment Limited	100%	England and Wales	Recruitment
PeoplePlus Group Limited	100%	England and Wales	Skills and training
A4e Limited	100%	England and Wales	Welfare to Work
A4e Enterprise Limited*	100%	England and Wales	Dormant
Action For Employment Trustees Limited*	100%	England and Wales	Dormant
Agency Plus Limited*	100%	England and Wales	Dormant
A La Carte Recruitment Limited*	100%	England and Wales	Dormant
Broomco (4198) Limited*	100%	England and Wales	Dormant
Datum RPO Limited*	100%	England and Wales	Recruitment
Driving Plus Limited *	100%	England and Wales	Dormant
Endeavour Group Limited*	100%	England and Wales	Intermediary holding
Eos Works Limited*	100%	England and Wales	Dormant
Eos Services Limited*	100%	England and Wales	Dormant
Eos Works Group Limited	100%	England and Wales	Intermediary holding
Experience Management Limited (was JFDI Group Limited)	100%	England and Wales	Dormant
Grafton Recruitment Limited*	100%	Northern Ireland	Recruitment
International Employment Group Limited (was Onsite Partnership Limited)	100%	England and Wales	Dormant
Learning Plus System Limited	100%	England and Wales	Training
Network Projects Limited*	100%	England and Wales	Dormant
Montpellier Financial Solutions Limited*	100%	England and Wales	Dormant
Omega Consultancy Services Limited*	100%	England and Wales	Dormant
Omega Financial Network Limited*	100%	England and Wales	Dormant
Omega International Resourcing Limited*	100%	England and Wales	Dormant
Omega Resource Group Limited*	100%	England and Wales	Recruitment
Omega Selection Services Limited*	100%	England and Wales	Dormant
Omega Workforce Limited*	100%	England and Wales	Dormant
One Call Recruitment Limited*	100%	England and Wales	Dormant
Passionate About People Limited*	100%	England and Wales	Intermediary holding

12 Fixed asset investments – Company continued

Subsidiaries	Proportion of ordinary share capital held	Country of incorporation	Nature of business
PeoplePlus Learning Limited*	100%	England and Wales	Dormant
Skillspoint Limited*	100%	England and Wales	Dormant
Softmist Limited*	100%	England and Wales	Dormant
IEG Limited (was Staffline Limited)	100%	England and Wales	Dormant
Staffline Appointments Limited*	100%	England and Wales	Dormant
Staffline Holdings Limited	100%	England and Wales	Intermediary holding
Staff-Line Trustees Limited*	100%	England and Wales	Dormant
Techsearch Technology Limited*	100%	England and Wales	Dormant
UK Distribution Personnel Limited*	100%	England and Wales	Dormant
Vital Recruitment Limited*	100%	England and Wales	Dormant
Registered office: ul. Fryderyka Chopina 2, 44-100 Gliwice, Poland			
Staffline Polska Sp. zoo*	100%	Poland	Dormant
Staffline Recruitment Gliwice Sp. zoo*	100%	Poland	Dormant
Agencja Pracy Tymczasowej Staffline sp. zoo*	100%	Poland	Recruitment
Vital Logistics sp. zoo*	100%	Poland	Recruitment
Registered office: Cooldriona Court, Main Street, Swords, Co. Dublin, K67 WN92			
Staffline Recruitment Limited	100%	Republic of Ireland	Recruitment
Grafton 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
Registered office: 193/199 Bath Street, Glasgow, Scotland, G2 4HU			
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	Probationary services
Mercia Community Action CIC*	100%	England and Wales	Dormant
Registered office: Southern Exchange House, 34 Earl Grey Street, Edinburgh, EH3 9BN			
PeoplePlus Scotland Limited*	100%	Scotland	Dormant
Registered office: 23 Kanfei Nesharim Street, Nesharim Tower, Givat Shaul, Israel			
A4e Israel 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

13 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 2018:

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

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

Notes to the financial statements continued

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14 Property, plant and equipment

	Land and buildings £'m	Computer equipment £'m	Assets in course of construction £'m	Fixtures and fittings £'m	Motor vehicles £'m	Total £'m
Gross carrying amount						
At 1 January 2017	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
Additions	0.4	2.9	–	0.4	–	3.7
Acquired on business combinations (see note 10)	–	0.3	–	0.2	0.1	0.6
Disposals	–	(1.7)	–	–	–	(1.7)
At 31 December 2018	**5.6**	**10.6**	**–**	**2.5**	**0.2**	**18.9**
Depreciation						
At 1 January 2017	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
Charged in the year – operating	0.5	1.5	–	0.6	0.1	2.7
Charged in the year – impairment**	0.5	0.2	–	–	–	0.7
Disposals	–	(1.7)	–	–	–	(1.7)
At 31 December 2018	**3.1**	**5.9**	**–**	**1.1**	**0.2**	**10.3**
Net book value						
At 31 December 2018	**2.5**	**4.7**	**–**	**1.4**	**–**	**8.6**
At 31 December 2017	3.1	3.2	–	1.4	–	7.7

* Acquired software assets previously disclosed as computer equipment were reclassified as software intangible assets during 2017

** The impairment charge of £0.7m in 2018 relates to the reorganisation of the PeoplePlus division (explained in note 5)

As at 31 December 2018 the Company had no property, plant and equipment assets (2017: £nil).

15 Retirement benefit net asset

One of the Group's subsidiaries, PeoplePlus Group Limited, 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 £9.2m (2017: £9.8m), only significant disclosures are reported below.

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

	2018 £'m	2017 £'m
Fair value of plan assets	**9.2**	9.8
Present value of funded obligations	**(8.4)**	(8.4)
Net asset in the balance sheet at 31 December	**0.8**	1.4
% funding ratio	**110%**	117%
Actuarial gains and (losses) during the year, pre tax	**(0.6)**	0.2
Deferred tax on (loss)/gain	**0.1**	–
Actuarial gains and (losses) during the year, post deferred tax impact	**(0.5)**	0.2

The scheme surplus has decreased over the year. This is primarily as a result of a change in the financial and demographic assumptions used to calculate the IAS 19 Defined Benefit Obligation together with lower than expected returns on the scheme assets.

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 "Rules of The A4E Retirement Benefit Scheme" dated 24 September 2012 states in Section 4.1 paragraph 2 that: If a valuation discloses that a value of The scheme assets exceeds the value of its liabilities the Trustees may reduce this surplus by paying it to the employer (less tax) to the extent permitted by Section 37 of the 1995 Pensions Act (payment of surplus to employer). The Directors are therefore satisfied that the full surplus be so recognised.

15 Retirement benefit net asset continued

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

	2018 £'m	2017 £'m
Balance at 1 January	**9.8**	9.0
Interest on assets	**0.2**	0.3
Contributions – employer and member	**0.2**	0.2
Benefits paid	**(0.2)**	(0.1)
Actuarial (loss)/gain on asset return	**(0.8)**	0.4
Fair value of plan assets in the balance sheet at 31 December	**9.2**	9.8

At 31 December 2018, the scheme's assets, valued at market value, were distributed as follows:

	2018 £'m	2017 £'m
Bonds (71% of assets as at 31 December 2018)	**6.6**	5.6
Equities (28% of assets as at 31 December 2018)	**2.5**	3.8
Cash (1% of assets as at 31 December 2018)	**0.1**	0.4
Fair value of plan assets in the balance sheet at 31 December	**9.2**	9.8

All investments are managed by the investment advisors 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:

	2018 £'m	2017 £'m
Balance at 1 January	**8.4**	7.8
Interest cost on liabilities	**0.2**	0.2
Service cost – current accrual cost	**0.3**	0.3
Benefits paid – net of member contributions	**(0.2)**	–
Actuarial (gain)/loss on change in assumptions	**(0.3)**	0.1
Present value of funded obligations in the balance sheet at 31 December	**8.4**	8.4
Membership numbers (active 2018: 21, 2017: 25)	**266**	274

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

	2018	2017
Inflation rate (RPI)	**3.15%**	3.10%
Inflation rate (CPI)	**2.15%**	2.10%
Salary increase	**3.15%**	3.10%
Discount rate (derived from AA rated corporate bonds yield curve) and expected rate of return	**2.80%**	2.50%
Future pension increases for leavers (RPI)	**3.15%**	3.10%

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 2017 projections with a long-term trend of 0.0% per annum
- Post-retirement mortality: CMI 2017 projections with a long-term trend of 1.25% per annum

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15 Retirement benefit net asset continued

The mortality assumptions used were as follows:

	31 Dec 2018 years	31 Dec 2017 years
Average expected future life at age 60 for a:		
- male currently aged 60	26.5	26.6
- female currently aged 60	28.6	28.7
- male currently aged 40	27.9	28.1
- female currently aged 40	30.2	30.2

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 (2017: £nil) contributions unpaid at the year end.

A charge of £0.2m (2017: £0.3m) is included within the statement of comprehensive income within administrative expenses, being employer's contributions to the scheme. A net actuarial loss, after deferred taxation, of £0.5m (2017: gain of £0.2m) is included within the consolidated statement of changes in equity.

On the grounds of materiality, no further disclosures are deemed to be required by the Board.

At 31 December 2018 the Company had no pension balances (2017: £nil).

16 Trade and other receivables

	2018 Group £'m	2018 Company £'m	2017 Group £'m	2017 Company £'m
Trade and other receivables	**143.3**	**0.7**	95.9	0.5
Amounts due from Group undertakings	**–**	**38.5**	–	63.6
Accrued income	**13.1**	**–**	11.7	–
Corporation tax recoverable	**1.3**	**–**	–	–
	157.7	**39.2**	107.6	64.1

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 regard 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 Company expects that, should a demand for payment be made, that this would be recovered in full and that therefore the expected credit losses are immaterial.

Included in the trade and other receivables balance above is a bad debt provision of £0.4m (2017: £0.1m). The bad debt provision is split as follows:

	2018 £'m	2017 £'m
Expected Credit Loss ("ECL")	**0.1**	0.1
Specific bad debt provision	**0.3**	–
Bad debt provision	**0.4**	0.1

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. See note 28 for details.

17 Cash and cash equivalents

	2018 £'m	2017 £'m
Cash and cash equivalents	**16.2**	31.3
Bank overdraft	**–**	–
Cash and cash equivalents per cash flow statement	**16.2**	31.3

Cash and cash equivalents consist of cash on hand and balances with banks only. At the year end £16.2m (2017: £31.3m) of cash on hand and balances with banks were held by subsidiary undertakings; however, this balance is available for use by the Group. £3.8m (2017: £nil) of the year end cash balance was held with the Bank of Ireland Group plc, HSBC Holdings plc and Royal Bank of Scotland plc (includes Ulster Bank and NatWest Bank), outside of the Group overdraft facility with Lloyds Banking Group plc.

17 Cash and cash equivalents continued

Long-term credit ratings for the four banks are currently as follows:

	Fitch	Standard & Poor's	Moody's
Lloyds Banking Group plc	A+	BBB+	A3
Bank of Ireland Group plc	BBB	BBB–	Baa3
HSBC Holdings plc	AA–	A	A2
Royal Bank of Scotland plc	A	BBB–	Baa2

The Group's headroom versus available committed bank facilities is as follows:

	2018 £'m	2017 £'m
Cash at bank (as above)	**16.2**	31.3
Cash at bank held outside of facility	**(3.8)**	–
Overdraft facility	**25.0**	15.0
Committed revolving credit facility unutilised	**15.0**	7.5
Bank guarantee	**–**	–
Banking facility headroom	**52.4**	53.8

In addition, as at 31 December 2018, there is a £30.0m non-committed accordion revolving credit facility available.

As at 31 December 2018 the Company had cash balances of £nil (2017: £nil).

18 Trade and other payables

	2018 Group £'m	**2018 Company £'m**	2017 Group £'m	2017 Company £'m
Trade and other payables	**19.4**	**–**	9.2	–
Accruals and deferred income	**51.4**	**–**	41.7	–
Amounts due to Group undertakings	**–**	**7.9**	–	30.2
Other taxation and social security	**65.3**	**–**	52.1	–
	136.1	**7.9**	103.0	30.2

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.

19 Borrowings

Borrowings are repayable as follows:

	2018 Group £'m	**2018 Company £'m**	2017 Group £'m	2017 Company £'m
In one year or less or on demand*	**–**	**–**	8.8	8.8
In more than one year but not more than two years*	**–**	**–**	39.3	4.3
In more than two years but not more than five years*	**80.0**	**80.0**	–	–
Unamortised transaction costs	**(0.8)**	**(0.8)**	(0.3)	(0.3)
Total borrowings	**79.2**	**79.2**	47.8	12.8

* Ageing of balances above is shown excluding unamortised transaction fees

Notes to the financial statements continued
For the year ended 31 December 2018

19 Borrowings continued

	2018 Group £'m	2018 Company £'m	2017 Group £'m	2017 Company £'m
Split:				
Current liabilities:				
Term loan	–	–	8.8	8.8
Unamortised transaction costs	–	–	(0.2)	(0.2)
Bank overdraft	–	–	–	–
	–	–	8.6	8.6
Non-current liabilities:				
Revolving credit facility	**80.0**	**80.0**	35.0	–
Term loan	–	–	4.3	4.3
Unamortised transaction costs	**(0.8)**	**(0.8)**	(0.1)	(0.1)
	79.2	**79.2**	39.2	4.2
Total borrowings	**79.2**	**79.2**	47.8	12.8
Total borrowings excluding unamortised transaction costs	**80.0**	**80.0**	48.1	13.1
Less: Cash (note 17)	**16.2**	–	31.3	–
Net debt	**63.8**	**80.0**	16.8	13.1

On 4 July 2018, the Group re-financed its outstanding borrowings. A new Facility Agreement was entered into, providing the Group with a £120.0m committed revolving credit facility ("RCF") and a further uncommitted RCF of £30.0m. Carved out from the £120.0m committed RCF is an overdraft facility of £25.0m.

The new Facility Agreement is for four years to July 2022, with an option to extend for a further year. The existing term loan and RCF were repaid on 6 July 2018 and replaced with this new RCF. Interest accrues on the borrowings at between 1.4% and 2.0% plus LIBOR, depending upon the level of adjusted leverage as defined in the banking covenants. The year end RCF liability of £80.0m matures in January 2019 as currently rolled over on a monthly basis. The Group has the ability to draw down further amounts against the RCF for a monthly or quarterly period, up to the maximum amount of £95.0m.

The term loan was secured and the RCF is secured by a debenture over all the assets of the Group.

A term loan of £35.0m was drawn down in June 2015 as part of the A4e acquisition. The loan was repayable quarterly and would have matured in 2019. Interest accrued on the loan at between 1.4% and 2.0% plus LIBOR, depending upon the level of adjusted leverage as defined in the banking covenants.

The revolving credit facility of £35.0m would have been repayable in 2019 and interest accrued 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 December 2017.

In 2019, the Group has renegotiated the terms of its facilities in light of actual and forecast covenant breaches. See note 3 for further details.

20 Other liabilities

	2018 Group £'m	2018 Company £'m	2017 Group £'m	2017 Company £'m
Due within one year (current)				
Deferred consideration (see note 10)	**7.8**	–	1.8	–
Cash-settled JSOP liability	–	–	3.3	3.3
	7.8	–	5.1	3.3
Due after more than one year (non-current)				
Cash-settled JSOP liability	**0.3**	**0.3**	3.2	3.2
	0.3	**0.3**	3.2	3.2

The 2013 JSOP liability was settled in July 2018.

21 Provisions

	IT costs £'m	Staff costs £'m	Property costs £'m	NMW remediation and financial penalties £'m	**2018 Group Total £'m**	2017 Group Total £'m
At 1 January	–	–	2.5	–	**2.5**	3.0
Amounts charged to the income statement	1.7	0.6	3.9	15.1	**21.3**	0.9
Amounts utilised	–	–	(1.7)	–	**(1.7)**	(1.7)
Acquired on business combinations	–	–	0.2	–	**0.2**	0.3
Unused amounts reversed to the income statement	–	–	–	–	**–**	–
At 31 December 2018	1.7	0.6	4.9	15.1	**22.3**	2.5

The IT costs, staff costs and most of the property costs relate to the restructuring of the PeoplePlus division from a predominantly Work Programme business to a skills and training business. The IT costs relate to onerous IT contracts; the staff costs relate to redundancies; and the property costs relate to dilapidations, provisions for property exit costs and onerous property leases.

The remaining property costs relate to dilapidations provisions that cover the rest of the Group's leased property estate. All dilapidations provisions are 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.

The NMW remediation and financial penalties relate to historic HMRC National Minimum Wage breaches. See notes 3 and 5 for details.

The provisions during 2017 wholly relate to dilapidations.

The Company has no provisions (2017: £nil).

22 Deferred taxation

	2018 Group £'m	**2018 Company £'m**	2017 Group £'m	2017 Company £'m
Deferred taxation assets	**0.9**	**–**	0.5	–
Deferred taxation (liabilities)	**(6.7)**	**–**	(2.7)	–
Net (liability)	**(5.8)**	**–**	(2.2)	–

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

2018 Deferred tax assets/(liabilities)	**1 January 2018 £'m**	**Recognised in comprehensive income – current year £'m**	**Recognised in comprehensive income – prior year £'m**	**Others £'m**	**31 December 2018 £'m**
Property, plant, equipment and software temporary timing differences	**0.5**	0.6	(0.2)	–	**0.9**
Acquired intangible assets	**(2.5)**	1.9	–	(6.0)	**(6.6)**
Retirement benefit asset	**(0.2)**	0.1	–	–	**(0.1)**
Share-based payment liability	**–**	–	–	–	**–**
Net liability	**(2.2)**	2.6	(0.2)	(6.0)	**(5.8)**
Recognised as:					
Deferred tax asset	**0.5**	0.6	(0.2)	–	**0.9**
Deferred tax liability	**(2.7)**	2.0	–	(6.0)	**(6.7)**
Net liability	**(2.2)**	2.6	(0.2)	(6.0)	**(5.8)**

"Others" represent the £6.0m effect of intangibles arising on business combinations during the year as noted in notes 10 and 11 to these financial statements (being £35.6m additions at a tax rate of 17%).

Notes to the financial statements continued

For the year ended 31 December 2018

22 Deferred taxation continued

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

2017 **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, equipment and software 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)	–	–	–
Net liability	(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)
Net liability	(2.6)	1.6	(0.4)	(0.8)	(2.2)

"Others" represent the £0.8m effect of intangibles arising on business combinations during the prior year.

There are no material deferred tax assets that have not been recognised (2017: nil) for both the Group and Company.

As at 31 December 2018, the Company has deferred tax balances of £nil (2017: £nil).

Deferred tax net liabilities expected to unwind next year total £1.9m, being the estimated amortisation of intangible assets arising on business combinations of £10.9m at a tax rate of 17%.

23 Share capital

	2018 £'m	2017 £'m
Authorised		
30,000,000 (2017: 30,000,000) ordinary 10p shares	**3.0**	3.0
Allotted and issued		
27,944,389 (2017: 27,849,389) ordinary 10p shares	**2.8**	2.8

	2018 Number	2017 Number
Shares issued and fully paid at the beginning of the year	**27,849,389**	27,749,389
Shares issued during the year	**95,000**	100,000
Shares issued and fully paid at the end of the year	**27,944,389**	27,849,389
Shares authorised but unissued	**2,055,611**	2,150,611
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 1,140,400 shares (31 December 2017: 2,220,400 shares) held at 31 December 2018 by the Employee Benefit Trust where the right to dividends has been waived.

On 6 June 2018, the Company issued 95,000 new ordinary shares of 10p each in the capital of the Company to satisfy obligations under the 2018 Joint Share Ownership Plan.

24 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

There were no material transactions with Directors of the Company during the period, except for those relating to remuneration, the vesting and issuing of shares under JSOP schemes and share purchases and sales as noted below.

Transactions with Group Directors

The Group Directors' personal remuneration includes the following expenses:

	2018 £'000	2017 £'000
Short-term employee benefits:		
Salaries and fees (inc. car allowance)	**806**	1,021
Bonus – unpaid at year end	–	422
Benefits in kind	**4**	5
Compensation for loss of office	–	–
Social security costs	**93**	130
Pension contributions (inc. pension allowance)	**63**	85
Share-based employee remuneration charge	**564**	2,052
	1,530	3,715

Share transactions with Directors

- On 24 January 2018, Chris Pullen, Chief Executive Officer, acquired 5,043 ordinary shares of 10p each in the capital of the Company at an average price of 991.4p per ordinary share.
- On 30 January 2018 Andy Hogarth, Director, up to his resignation on 30 June 2018, sold 1,006,189 ordinary shares of 10p each in the capital of the Company at an average price of 1,020.0p per ordinary share.
- On 16 February 2018, John Crabtree, Chairman, acquired 2,680 ordinary shares of 10p each in the capital of the Company at an average price of 934.0p per ordinary share.
- On 22 March 2018, Ed Barker, Non-Executive Director, acquired 1,104 ordinary shares of 10p each in the capital of the Company at an average price of 923.0p per ordinary share.
- On 5 September 2018, Chris Pullen, Chief Executive Officer, acquired 2,000 ordinary shares of 10p each in the capital of the Company at an average price of 1,240.0p per ordinary share.
- On 19 December 2018, Chris Pullen, Chief Executive Officer, acquired 1,616 ordinary shares of 10p each in the capital of the Company at an average price of 1,263.5p per ordinary share.

Interests in Save As You Earn share options (Chris Pullen, Chief Executive Officer, and Mike Watts, Chief Financial Officer) are fully disclosed in the Report on Remuneration on pages 56 to 58. The beneficial interests of the Directors in the Company's issued share capital at 31 December 2018 are as follows:

	Ordinary shares of 10p each	% of total in issue
Ed Barker	1,104	–
John Crabtree OBE	25,305	0.1%
Chris Pullen	20,659	0.1%
	47,068	**0.2%**

In respect of the Joint Share Ownership Plan, the Directors' interests are detailed below:

Director	Award date	Participation price	Interest over number of shares	Date on which exercisable
C Pullen	24 Jan 2018	999p	275,000	30 June 2023
M Watts	24 Jan 2018	999p	125,000	30 June 2023
			400,000	

Emoluments paid to the highest paid director were £337,000 (2017: £486,000) as noted on page 58.

Notes to the financial statements continued

For the year ended 31 December 2018

24 Related party transactions continued

Transactions with key management personnel

The Group key management personnel's (defined as the Company's Directors and those senior management who participate in the Group's JSOP schemes) remuneration, which includes the Group Directors' remuneration disclosed above, and the following expenses:

	2018 £'000	2017 £'000
Short-term employee benefits:		
Salaries and fees (inc. car allowance)	**2,654**	1,765
Bonus – unpaid at year end	**375**	602
Benefits in kind	**18**	14
Compensation for loss of office	**263**	–
Social security costs	**322**	224
Pension contributions (inc. pension allowance)	**164**	128
Share-based employee remuneration charge	**940**	3,350
	4,736	6,083

In addition to the above, the Group spent £5,000 (2017: £23,000) in accommodation expenses at Hogarth's Hotel, which is owned by a person connected to the previous Group Chief Executive Officer, Andy Hogarth (2018 spend to the date of his resignation on 30 June 2018). £nil remains outstanding at the year end (2017: £nil). The Group also spent £257,000 (2017: £nil) with Inspired Thinking Group, a specialist marketing services and technology business where Tracy Lewis was Chair. £nil remains outstanding at the year end (2017: £nil).

25 Operating leases

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

	2018 Land and buildings £'m	2017 Land and buildings £'m
In one year or less	**4.3**	2.9
Between one and five years	**8.1**	4.5
In five years or more	**2.8**	1.4
	15.2	8.8

Lease payments recognised as an expense during the year ended 31 December 2018 amounted to £5.4m (2017: £5.6m). 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. The increased commitment figure this year is due to the seven business acquisitions made during 2018.

26 Contingencies

A cross-guarantee exists between all companies in the Group for all amounts owing to Lloyds Banking Group, HSBC Bank and Bank of Ireland. The Group amounts owing to Lloyds Banking Group, HSBC Bank and Bank of Ireland at the 2018 financial year end are £63.8m (2017: £16.8m).

The Company will provide a financial guarantee under Section 479C of the Companies Act 2006 in relation to the subsidiaries listed in note 13, which will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006.

With the exception of any settlement arising from the breaches of compliance with payroll legislation, as disclosed in the Chief Executive Officer's Statement, and of the uncertainty relating to both the timing and size of payment to settle historic HMRC minimum wage breaches (£15.1m provided – see note 21), the Group has no other material contingent assets or liabilities at either 31 December 2018 or 31 December 2017. Note 3, on page 84 'Critical judgements and estimate uncertainty in applying the Group's accounting policies' refers to these uncertainties in more detail.

27 Capital commitments

The Group and Company had no material capital commitments at either 31 December 2018 or 31 December 2017.

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 (being current assets excluding corporation tax recoverable) recognised at the balance sheet date, as summarised below:

	2018 Loans and receivables and balance sheet totals £'m	2017 Loans and receivables and balance sheet totals Restated £'m
Trade and other receivables (note 16)		
– held to sell at fair value through the statement of comprehensive income	**4.9**	4.8
– held to collect	**138.4**	91.1
Cash and cash equivalents (note 17)	**16.2**	31.3
Accrued income (note 16)	**13.1**	11.7
	172.6	138.9

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

31 December 2018	Not more than 30 days past due £'000s	>31 days past due £'000s	>61 days past due £'000s	>91 days past due £'000s	Total £'000s
Expected loss rate	0.02%	0.25%	0.48%	0.96%	
Gross carrying amount – trade receivables	125,911	4,528	2,508	2,455	135,402
Loss allowance	**25**	**11**	**12**	**24**	**72**

1 January 2018	Not more than 30 days past due £'000s	>31 days past due £'000s	>61 days past due £'000s	>91 days past due £'000s	Total £'000s
Expected loss rate	0.02%	0.25%	0.48%	0.96%	
Gross carrying amount – trade receivables	89,732	1,540	99	–	91,371
Loss allowance (including specific provisions)	**19**	**4**	**–**	**–**	**23**

The closing loss allowance for trade receivables as at 31 December 2018 reconciles to the opening loss allowances as follows:

	2018 £'m	2017 £'m
As at 31 December – as previously calculated under IAS 39	**0.1**	0.1
Amounts restated through opening retained earnings	**–**	–
Opening loss allowance as at 1 January – calculated under IFRS 9	**0.1**	0.1
Increase in loss allowance recognised in profit or loss during the year	**–**	–
As at 31 December	**0.1**	0.1

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

Notes to the financial statements continued
For the year ended 31 December 2018

28 Risk management objectives and policies continued
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 2018 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 £25.0m (31 December 2017: £15.0m) and the use of a working capital facility of £95.0m (31 December 2017: £42.5m). As at the December 2018 year end £80.0m (2017: £35.0m) of the working capital facility has been utilised.

The Group has covenants attached to its banking facilities as disclosed in note 3. The most stringent is the adjusted leverage (being net debt to underlying EBITDA ratio). This is measured quarterly and must be below 3.5x at 30 September 2019 and drops incrementally to being below 2.5x at 31 December 2020.

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 RCF has been set at between 1.4% and 2.0% plus 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 +/- 1 percentage point with effect from the beginning of the year.

	2018	2018	2017	2017
	+1%	–1%	+1%	–1%
(Decrease)/increase in net result and equity £'m	(0.6)	0.6	(0.5)	0.5

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 (see note 4 for sales analysis). Due to the highly immaterial nature of these foreign currency transactions the Group has not entered into any foreign currency risk mitigation strategies to date. This will be kept under review as overseas business continues to grow.

Financial liabilities
The Group's liabilities (being total liabilities excluding deferred tax liabilities and unamortised transaction cost balances) are classified as follows:

	2018 Financial liabilities at fair value through profit or loss £'m	2018 Other financial liabilities at amortised cost £'m	2018 Liabilities not within the scope of IFRS 9 £'m	2018 Balance sheet total £'m
Term loan	–	–	–	–
Revolving credit facility ("RCF")	–	80.0	–	80.0
Trade and other payables	–	19.4	–	19.4
Taxation and social security	–	65.3	–	65.3
Accruals	–	51.2	–	51.2
Deferred income	–	–	0.2	0.2
Deferred consideration	–	–	7.8	7.8
Provisions	–	–	22.3	22.3
Other liabilities -JSOP	–	–	0.3	0.3
Corporation tax	–	–	–	–
Total	–	215.9	30.6	246.5

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

28 Risk management objectives and policies continued

	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 IFRS 9 £'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

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

Financial assets and financial liabilities measured at fair value are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in the fair value measurement, as follows:
- level 1 – quoted prices in active markets for identical assets and liabilities.
- level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Maturity of financial liabilities

The analysis of the maturity of financial liabilities within the scope of IFRS 7 at 31 December 2018 is as follows:

	2018 Less than one year £'m	**2018 One to five years £'m**	**2018 More than five years £'m**	**2018 Total £'m**	2017 Less than one year £'m	2017 One to five years £'m	2017 More than five years £'m	2017 Total £'m
Term loan	–	–	–	–	8.8	4.3	–	13.1
Revolving credit facility	–	**80.0**	–	**80.0**	–	35.0	–	35.0
Trade and other payables	**19.4**	–	–	**19.4**	9.2	–	–	9.2
Taxation and social security	**65.3**	–	–	**65.3**	52.1	–	–	52.1
Accruals	**51.2**	–	–	**51.2**	39.6	–	–	39.6
Total	**135.9**	**80.0**	–	**215.9**	109.7	39.3	–	149.0

The analysis of the maturity of contractual undiscounted financial liabilities (including estimated future interest) at 31 December 2018 is as follows:

	2018 Less than one year £'m	**2018 One to five years £'m**	**2018 More than five years £'m**	**2018 Total £'m**	2017 Less than one year £'m	2017 One to five years £'m	2017 More than five years £'m	2017 Total £'m
Term loan	–	–	–	–	9.1	4.5	–	13.6
Revolving credit facility	–	**82.8**	–	**82.8**	0.7	35.5	–	36.2
Trade and other payables	**19.4**	–	–	**19.4**	9.2	–	–	9.2
Taxation and social security	**65.3**	–	–	**65.3**	52.1	–	–	52.1
Accruals	**51.2**	–	–	**51.2**	39.6	–	–	39.6
Total	**135.9**	**82.8**	–	**218.7**	110.7	40.0	–	150.7

Notes to the financial statements continued

For the year ended 31 December 2018

29 Cash flows from operating activities – consolidated

	2018 £'m	2017 £'m
(Loss)/profit before taxation (continuing operations)	**(9.6)**	24.1
Adjustments for:		
Operating loss on discontinued operations	**–**	–
Finance costs	**3.1**	2.8
Depreciation, loss on disposal and amortisation – underlying	**4.6**	4.4
Depreciation, loss on disposal and amortisation – non-underlying	**15.0**	8.8
Operating profit before changes in working capital and share options	**13.1**	40.1
Change in trade and other receivables	**(10.7)**	3.5
Change in trade, other payables and provisions	**16.6**	1.0
Impact of foreign exchange loss on operating activities	**–**	(0.1)
Cash generated from operations	**19.0**	44.5
Employee cash-settled share options (non-cash charge/(credit))	**1.0**	3.3
Employee equity-settled share options	**0.2**	0.1
Settlement of cash-settled JSOP liabilities	**(7.1)**	–
Net cash inflow from operating activities	**13.1**	47.9

Movement in net debt	2018 £'m	2017 £'m
Net debt at 1 January 2018 (excluding transaction fees)	**(16.8)**	(37.2)
Loan repayments	**4.4**	8.8
New loans, including RCF drawdown	**(36.3)**	–
Change in cash and cash equivalents	**(15.1)**	11.6
Net debt at 31 December 2018 (excluding transaction fees)	**(63.8)**	(16.8)
Represented by:		
Cash and cash equivalents (note 17)	**16.2**	31.3
Current borrowings (note 19)	**–**	(8.6)
Non-current borrowings (note 19)	**(79.2)**	(39.2)
Net debt including transaction fees	**(63.0)**	(16.5)
Transaction fees (unamortised balance)	**(0.8)**	(0.3)
Net debt at 31 December 2018 (excluding transaction fees)	**(63.8)**	(16.8)

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.

The movements in net debt, excluding transaction fees, can be further summarised as follows:

	Cash £'m	Term loan £'m	Revolving credit facility £'m	Invoice discounting £'m	Total £'m
Net debt as at 1 January 2017	19.7	(21.9)	(35.0)	–	(37.2)
Cash flows during the year	11.6	8.8	–	–	20.4
Net debt as at 31 December 2017	31.3	(13.1)	(35.0)	–	(16.8)
Cash flows during the year	(15.1)	4.4	(36.3)	13.6	(33.4)
Acquisition of businesses	–	–	–	(13.6)	(13.6)
Transfer of balance on refinancing	–	8.7	(8.7)	–	–
Net debt as at 31 December 2018	**16.2**	**–**	**(80.0)**	**–**	**(63.8)**

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

Cash flows in relation to the seven acquisitions made during 2018 are as follows:

	2018 Total acquisitions £'m	2017 Total acquisitions £'m
Total consideration (note 10)	**58.8**	5.8
Consideration deferred (note 10)	**(7.8)**	(1.7)
Cash acquired (note 10)	**(11.0)**	(1.9)
Inter-company debt recoverable (note 10)	**(5.6)**	–
Debt facilities acquired (note 10)	**–**	5.9
Acquisition of businesses per cash flow – investing activities	**34.4**	8.1
Debt facilities acquired (note 10) – financing activities	**13.6**	–
Acquisition of businesses	**48.0**	8.1

The inter-company debt recoverable was settled on completion and has been included in the net cash outflow on acquisition of businesses in the Consolidated statement of cash flows.

By acquisition, related cash movements can also be summarised as follows:

Acquisition	Consideration £m	Net cash on acquisitions £m	Unpaid at year end £m (due in 2019)	Net consideration per 2018 cash flow £m
M&B Staff Services	0.2	–	–	0.2
UK Distribution Personnel	2.4	1.5	0.2	0.7
Endeavour Group	18.6	(2.2)	3.0	17.8
One Call Recruitment	2.0	(0.3)	–	2.3
LearnDirect Apprenticeships	–	–	–	–
Grafton Recruitment	12.8	1.4	–	11.4
Passionate About People	22.8	2.6	4.6	15.6
2018 acquisitions	**58.8**	**3.0**	**7.8**	**48.0**
2017 acquisitions				1.6
Total				**49.6**

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 17), bank loans, overdrafts and revolving credit facilities (note 19) 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 ended 31 December 2018, there was headroom against each of the three banking covenants below at each of the four quarter ends when covenants are formally assessed:

1. Interest cover – being the ratio of underlying EBITDA to interest costs: headroom of £33m as at 31 December 2018;
2. Adjusted leverage – being the ratio of net debt to underlying EBITDA (as adjusted for acquisitions): headroom of £56m as at 31 December 2018; and
3. Asset cover – being the ratio of trade debtors to net debt: headroom of £58m as at 31 December 2018.

In addition, there was headroom against the following banking covenant at each of the two quarter ends when that covenant applied (March and June 2018 – covenant removed when new banking facilities negotiated in July 2018):

1. Cash flow cover – being the ratio of cash generated to debt servicing costs.

As noted in the Going Concern section in note 3, the reduction in expected profits and increased National Minimum Wage-related liabilities (to be settled during 2019), are forecast to result in certain lending covenants being breached in 2019. Waivers and revised terms of the facilities agreements have therefore been agreed with our lenders. In addition, an equity raise of c.£30m and another of c.£7m has commenced.

Notes to the financial statements continued

For the year ended 31 December 2018

32 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's consolidated financial statements. As noted below the total amendment at transition in 2018 resulted in a reduction in the 1 January 2018 net assets and equity by £1.0m to £94.8m (see 2018 Consolidated statement of changes in equity on page 72).

Impact on the financial statements

As a result of the changes in the Group's accounting policies, net assets and equity as at 1 January 2018 had to be adjusted under the modified retrospective approach for IFRS 15. Therefore, prior year numbers have not been restated. The adjustments are explained in more detail by standard below.

As explained below, IFRS 9 was adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the adjustment at 1 January 2018 within the Consolidated statement of changes in equity. Presentational differences have been applied but these have no impact on reported net assets or result.

Balance sheet (extract)	31 Dec 2017 As originally presented £'m	IFRS 9 £'m	IFRS 15 £'m	31 Dec 2017 Restated £'m	IFRS 9 £'m	**1 Jan 2018 Restated £'m**
Current assets						
Trade and other receivables	107.6	–	(1.0)	106.6	–	**106.6**
Total assets	263.5	–	(1.0)	262.5	–	**262.5**
Equity						
Profit and loss account	61.5	–	(1.0)	60.5	–	**60.5**
Total equity and liabilities	263.5	–	(1.0)	262.5	–	**262.5**

Statement of comprehensive income (extract) 2017	**As originally presented £'m**	IFRS 9 £'m	IFRS 15 £'m	Restated £'m
Revenue	**957.8**	–	(1.0)	956.8
Cost of sales	**(844.0)**	–	–	(844.0)
Gross profit	**113.8**	–	(1.0)	112.8
Administrative expenses	**(86.9)**	–	–	(86.9)
Operating profit	**26.9**	–	(1.0)	25.9
Finance cost	**(2.8)**	–	–	(2.8)
Profit before income tax	**24.1**	–	(1.0)	23.1
Income tax expense	**(5.8)**	–	–	(5.8)
Profit for period	**18.3**	–	(1.0)	17.3
Items that will not be reclassified to the profit and loss account – actuarial gains and (losses), net of deferred tax	**0.2**	–	–	0.2
Items that may be reclassified to the profit and loss account – cumulative translation loss	**(0.1)**	–	–	(0.1)
Net profit and total comprehensive income for the year	**18.4**	–	(1.0)	17.4

IFRS 9 Financial instruments

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies, but no adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

In applying IFRS 9, no changes were required to the previously reported net assets or profit for the financial year. Presentational adjustments have been made regarding the classification of financial assets with £4.9m of trade receivables now classified as "held to sell" – fair value through the Consolidated statement of comprehensive income (2017: £4.8m). An Expected Credit Loss ("ECL") model has been prepared for both our Recruitment and PeoplePlus divisions as at 31 December 2018 and at 1 January 2018 and there was no impact on the Consolidated and Company statement of comprehensive income or the Consolidated statement of financial position.

32 Changes in accounting policies continued

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the summary financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the modified retrospective approach to this standard and therefore we have not restated comparatives for the 2017 financial year. Adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018).

During 2017, a project was undertaken within both divisions to understand the impact of IFRS 15 Revenue from Contracts with Customers on our revenue recognition policies.

Our Recruitment division's revenue recognition policy is unaffected by the application of this new standard as we currently only 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. Previously revenue was recognised as and when a stage payment was 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 has led to a reduction in the Group's Accrued Income balance (within Trade and Other Receivables) and profit and loss account reserves at 1 January 2018 by £1.0m, to £10.7m and £60.5 m respectively. If the same accounting policies were applied as at 31 December 2018, then 2018 revenues would be £1.0m lower but there would be no changes to the 31 December 2018 Consolidated and Company statement of financial position.

33 Post balance sheet events

With the exception of the following contract wins, and post year end events in relation to the allegations and subsequent changes in NMW provisions, there were no events not disclosed elsewhere, between the balance sheet date of 31 December 2018 and the approval of these accounts on 26 June 2019, that are required to be brought to the attention of shareholders:

On 7 January 2019 it was announced that the PeoplePlus division had been successful in the latest round of Prison Education tenders, securing contracts worth a total of £104.6m over a four-year period, retaining all of its existing contracts and adding significant further delivery, notably in the East and North Midlands.

On 13 March 2019, it was announced that the PeoplePlus division has been successful in the latest round of Education and Skills Funding Agency's ("ESFA") European Social Fund competition, securing contracts worth a total of £35m over a 27-month period, commencing in April 2019. The contracts cover ten Local Enterprise Partnership ("LEP") areas across England. PeoplePlus currently delivers equivalent European Social Fund contracts worth £14m, so these wins represent an increase of 250% and make PeoplePlus the largest provider of Skills Support for the Unemployed with a market share of c.47%.

Post year end, the market capital capitalisation of the Company dropped significantly below Group net assets. Details regarding our impairment reviews are included in note 10. The covenants attached to the debt were also breached post year end as disclosed in note 3. Both of the above represent non-adjusting post balance sheet events.

Staffline Group plc
Unaudited five year summary of financial data

	Financial reporting years ended 31 December £'m					
	2018	2017 Restated	2016	2015	2014	% annual compound growth
Weeks	**52**	52	52	52	53	
Comprehensive income						
Turnover	**1,127.5**	957.8	882.4	702.2	503.2	22%
Underlying operating profit	**39.1**	39.1	40.0	30.3	19.4	19%
% margin	**3.5%**	4.1%	4.5%	4.3%	3.9%	
Reported operating profit/(loss)	**(6.5)**	26.9	22.2	7.5	11.2	
Net profit/(loss) after taxation	**(9.0)**	18.4	14.7	2.8	6.8	
Underlying earnings per share (diluted)	**110.1p**	112.6p	114.0p	92.4p	59.7p	16%
Declared dividend per share (2018 interim only)	**11.3p**	26.7p	25.8p	20.0p	13.5p	
Dividend cover v underlying diluted EPS	**n/a**	4.2x	4.4x	4.6x	4.4x	
Financial position						
Goodwill	**116.3**	94.2	91.6	91.5	69.7	
Intangible assets	**42.9**	20.8	25.8	36.7	12.0	
Property, plant and equipment	**8.6**	7.7	8.0	9.3	4.9	
Trade and other receivables	**157.7**	107.6	103.1	116.8	76.4	
Cash and cash equivalents	**16.2**	31.3	19.7	5.0	18.4	
Trade and other payables	**(136.1)**	(103.0)	(97.5)	(101.3)	(69.5)	
Borrowings (excl deal fees)	**(80.0)**	(48.1)	(56.9)	(68.7)	(36.2)	
Deferred tax net (liability)/asset	**(5.8)**	(2.3)	(2.6)	(5.2)	(1.9)	
Other (net liabilities)	**(28.8)**	(12.4)	(7.5)	(10.9)	(9.3)	
Net assets	**91.0**	95.8	83.7	73.2	64.5	
Net (debt)/cash excl deal fees	**(63.8)**	(16.8)	(37.2)	(63.7)	(17.8)	
Goodwill, intangibles	**159.2**	115.0	117.4	128.2	81.7	
Other net assets	**6.3**	(2.4)	3.5	8.7	0.6	
Cash flows						
Underlying operating profit	**39.1**	39.1	40.0	30.3	19.4	
Non-underlying cash costs	**(29.4)**	–	(6.6)	(4.1)	(0.7)	
Depreciation, amortisation	**4.6**	4.4	4.9	3.6	2.0	
Working capital movements	**5.9**	4.4	8.7	(14.0)	(3.1)	
Capital expenditure, inc. software	**(6.4)**	(3.8)	(6.9)	(4.4)	(2.7)	
Taxation paid (net)	**(6.4)**	(6.2)	(4.0)	(5.0)	(2.5)	
Adjusted free cash from operations[(1)]	**7.4**	37.9	36.1	6.4	12.4	
Dividends and interest paid	**(9.8)**	(9.3)	(8.9)	(5.8)	(3.3)	
Business acquisitions inc. debt acquired	**(49.6)**	(8.5)	(1.9)	(45.4)	(46.8)	
Issue of share capital, share sales (net)	**5.0**	0.3	1.5	–	15.4	
Others	**–**	–	(0.3)	(1.1)	(0.4)	
Reduction/(increase) in net debt	**(47.0)**	20.4	26.5	(45.9)	(22.7)	

(1) Being free cash from operations as adjusted for the settlement of JSOP liabilities.

Company details

Company registration number:
05268636

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

Directors:
Ed Barker (Non-Executive Director)
John Crabtree OBE (Non-Executive Chairman)
Tracy Lewis (Non-Executive Director)
Chris Pullen (Chief Executive Officer)
Dawn Ward CBE (Non-Executive Director)
Mike Watts (Chief Financial Officer)

Secretary:
Paul Collins

Company website:
www.stafflinegroupplc.co.uk

Investor relations contact details:
investors@staffline.co.uk

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

Joint broker:
Berenberg
60 Threadneedle Street
London
EC2R 8HP

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

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

HSBC Bank plc
Grove Park
Penman Way
Enderby
LE19 1SY

Bank of Ireland Group plc
40 Mespil Road
Dublin 4
Republic of Ireland

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

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

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

Financial and trade public relations:
Vigo Communications Limited
Sackville House
40 Piccadilly
London W1J 0DR

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Staffline
Group PLC

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