

# Building the future

Annual Report and  
Accounts 2018

# SThree at a glance.

## Our purpose

Bringing skilled people together to build the future.

This is why we exist as a company. We do this through the provision of specialist Contract and Permanent recruitment services in the STEM (Science, Technology, Engineering and Mathematics) sector.

## Our vision

To be the number one STEM recruiter in the best STEM markets.

This is the goal we are working towards. We do this through our key Principles which guide the way we work. Our Principles are based on research with our clients and candidates to identify what they most value in a recruitment partner:

- Build trust.
- Care then act.
- Be clear then aim high.

## SThree in numbers

Global reach

16 44

Countries Offices

Contract runners

11,203

(+10%) 2017: 10,197

Total headcount

2,979

(+4%) 2017: 2,866

Total sales headcount

2,332

(+3%) 2017: 2,257

## Our brands

SThree consists of a family of specialist recruitment brands focusing on STEM industries (Science, Technology, Engineering, and Mathematics).

We believe that a multi-brand model provides us with the potential to achieve greater market coverage in any given sector or geography than we might be able to achieve through only operating with a single brand.

All of our brands are home-grown, created within SThree's entrepreneurial culture in response to clear market opportunities. All our brands benefit from a single unified global database of clients, candidates and our support service. Customers – both client companies and individual candidates – are served through systems which are common across all of our brands and sectors.

Our candidates and clients engage with SThree primarily through our four largest recruitment brands: Computer Futures, Progressive, Huxley and Real.

Within the STEM industries we provide Permanent and Contract workers to sectors including Information and Communication Technology ('ICT'), Banking & Finance, Life Sciences, Engineering and Energy.



Huxley

progressive  
experts in your field



Global Enterprise Partners

Jp gray.



newington international



# Global presence

## USA

Austin  
Boston  
Chicago  
Houston  
Minneapolis  
New York  
San Diego  
San Francisco  
Washington

Gross profit

21%

of Group



1. Contract 73%  
2. Permanent 27%

## UK & Ireland

**UK**  
Birmingham  
Bristol  
Glasgow  
London  
Leeds  
Manchester

**Ireland**  
Dublin

Gross profit

17%

of Group



1. Contract 82%  
2. Permanent 18%

## Continental Europe

**Austria**  
Vienna

**France**  
Lille  
Lyon  
Paris  
Toulouse

**Luxembourg**  
Luxembourg

**Netherlands**  
Amsterdam  
Eindhoven  
Rotterdam

**Belgium**  
Antwerp  
Brussels

**Germany**  
Berlin  
Düsseldorf  
Frankfurt  
Hamburg  
Munich  
Stuttgart

**Spain**  
Barcelona

**Switzerland**  
Zurich

Gross profit

57%

of Group



1. Contract 72%  
2. Permanent 28%

## Asia Pacific & Middle East

**Australia**  
Sydney  
Melbourne

**Singapore**  
Singapore

**UAE**  
Dubai

**Hong Kong**  
Hong Kong

**Japan**  
Tokyo

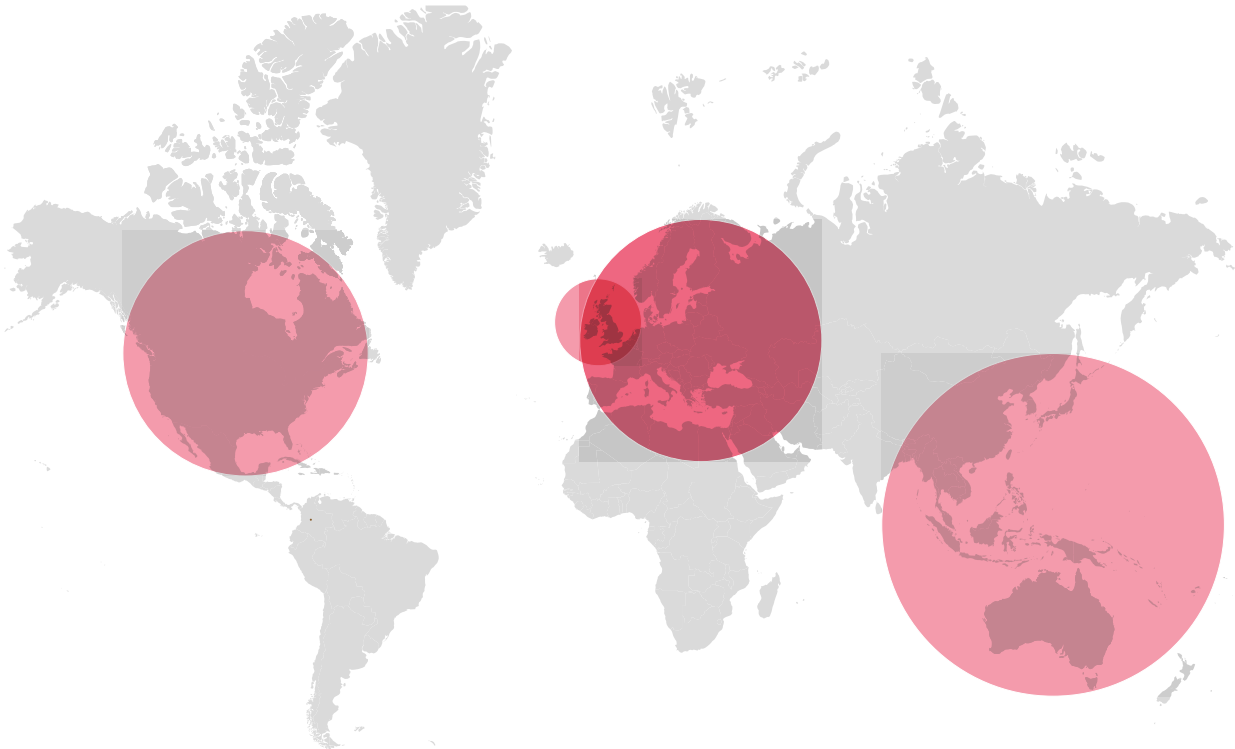
Gross profit

5%

of Group



1. Contract 45%  
2. Permanent 55%



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## SThree plc is on track to become the world's number one STEM recruiter.

We bring skilled people together to build the future through the provision of specialist Contract and Permanent recruitment services in STEM (Science, Technology, Engineering and Mathematics) sectors.

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### Strategy

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### Financial highlights

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#### Revenue

**£1,258.2m**

(+13%\*)

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#### Gross profit (GP)

**£321.1m**

(+12%\*)

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#### Statutory profit before tax

**£47.0m**

(+25%)

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#### Adjusted profit before tax

**£53.4m\*\***

(+20%\*)

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#### Statutory basic earnings per share

**26.6p**

(+24%)

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#### Adjusted basic earnings per share

**30.7p\*\***

(+20%\*)

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#### Financial year

**1 December 2017 – 30 November 2018**

\* In constant currency (a variance in constant currency is calculated by applying the prior financial year foreign exchange rates to current financial year results to remove the impact of exchange rate fluctuations).

\*\* Excludes the impact of £6.4 million net exceptional strategic restructuring costs (2017: £6.7 million), see page 55.



# **Our six point strategy enables us to grow and build the future.**

**1. Grow and extend regions, sectors and services.**

**2. Develop and sustain great customer relationships.**

**3. Focus on Contract, drive Permanent profitability.**

**4. Generate incremental revenues through Innovation and M&A.**

**5. Build infrastructure for leveraged growth.**

**6. Find, retain and develop great people.**

Overleaf we expand on each point of our strategy to explain how we will use them to achieve our five-year plan.

# 1. Grow and extend regions, sectors and services.

## Description

We are in most of the world's biggest STEM recruitment markets and primarily focus on growing our presence in these countries. Where additional opportunities exist we will carefully expand into new countries.

## What happened in the year

- We consolidated our strong presence in markets where we have a significant upside opportunity, particularly the USA and Germany, laying the foundations for future growth.
- We continued to grow our presence in Japan which was the last recruitment market in the top 10 for us to enter.
- We opened two new offices in Washington DC (USA) and Eindhoven (Netherlands).
- We focused on ICT, Life Sciences, Energy and Engineering.
- We continued our slightly more cautious approach in the UK due to Brexit.
- We are pleased with how we performed in the year and we believe that we are well positioned to hit our 2022 targets as set out at the Capital Markets Day
  - Average growth in sales headcount at a compound annual growth rate ('CAGR') of 7%.
  - GP up at a 7% CAGR.
  - Operating profit ('OP') of £85 million.
  - OP conversion ratio of 21%.

## Our plans for 2019

- We will continue focusing on geographies that meet our criteria for investment, in particular the USA, Germany, the Netherlands and Japan.
- We will continue to maximise opportunities in ICT, Life Sciences and Engineering/Energy sectors.
- We will expand our Employed Contractor Model to create new opportunities for our Contract business in Continental Europe.
- We will selectively trial additional services, including Statement of Work.

## Link to remuneration

- Adjusted profit before tax, OP conversion ratio are financial metrics/measures for the annual bonus for Executive Directors.
- Earnings per share and relative gross profit growth, are financial metrics/measures for the LTIP for Executive Directors.

For more information on remuneration → page 87

**Relevant  
KPIs:****30.7**<sub>p</sub>Adjusted Basic Earnings  
Per Share**16.8%**Adjusted  
Operating Profit  
Conversion Ratio**6.7%**

Total Shareholder Return

**£53.4m**

Adjusted Profit Before Tax

**19.9%**

Contract Margin

**£321.1m**

Gross Profit

**11,203**

Contract Runners

For more information  
on our KPIs → page 36-40



## 2. Develop and sustain great customer relationships.

### Description

Customer satisfaction drives future revenue growth and increases employee engagement.

### What happened in the year

- We continued to use Customer Net Promoter Score ('NPS') to measure satisfaction amongst clients and candidates and have expanded this to now include pre and post placement service.
- NPS score ended at 42 (2017: 44) which does not meet the level of excellence we aspire to but we are addressing the improvement areas that have been identified in both sales and after sales functions.
- We re-prioritised capital projects based on customer insight, e.g. in the design of our new Contractor Timesheet portal ('Workflow'), which we now know had a significant impact on our customer experience in 2018.
- Development of the most effective organisational design for Small and Medium Enterprises ('SME'), Managed Service Providers ('MSP') and Key Account Customers is in progress. Blueprint and toolkits were created for delivery models and job roles, with accompanying tailored reward schemes. These were rolled out across each geography.

### Our plans for 2019

- We will continue to use NPS to drive improvements in our processes and behaviours to improve customer experience.
- We will continue to update and improve Workflow.
- We will continue to educate our people on the importance and value of positive customer relationships.

### Link to remuneration

- Improvement in NPS scores, driven by the development of a scalable Global Operating Model for SThree's employed contractors is a shared strategic objective for the calculation of annual bonus for Executive Directors in 2019.

For more information on remuneration → page 87

**Relevant  
KPIs:****2,332/39%**

Year End Sales Headcount/Churn

**42**

Customer Net Promoter Score

For more information  
on our KPIs → page 36-40



# 3. Focus on Contract, drive Permanent profitability.

## Description

Contract is generally more profitable and more resilient than Permanent. Our focus is to grow Contract.

Investment in Permanent is highly selective as we continue to focus on improving the profitability of this division.

## What happened in the year

- We continued to grow Contract headcount faster than Permanent headcount, in line with our plan.
- In markets with significant Permanent opportunity such as the USA, Germany and Japan we continued to invest in our strong Permanent offering.
- We selectively reduced Permanent headcount in markets with smaller potential for us to improve overall profitability of our Permanent business.
- We created separate management structures for our Contract and Permanent businesses in almost all territories to drive accountability and focus.
- We continue to expand our Employed Contractor Model ('ECM')\* offering across Europe making us well positioned to hit our revenue target from new products.

\* See Our Market on page 22.

## Our plans for 2019

- We will continue this strategy in 2019, with any new offices expected to be a Contract led proposition.

## Link to remuneration

- Development of a scaleable Global Operating Model for SThree's employed contractors and optimisation of the portfolio through vertical market mapping are two out of four shared strategic objectives for the calculation of annual bonus for Executive Directors for 2019.
- A focus on Contract also supports the profitability metrics included within the Executive bonus and LTIP targets.

For more information on remuneration → page 87

### Relevant KPIs:

**30.7** p

Adjusted Basic Earnings  
Per Share

**16.8%**

Adjusted  
Operating Profit  
Conversion Ratio

**6.7%**

Total Shareholder Return

**28%**

Female  
Representation in  
Key Sales Roles  
(Level 3)

**£53.4m**

Adjusted Profit Before Tax

**67.0%**

Adjusted Cash  
Conversion Ratio

**£11.9k**

Consultant Yield

For more information  
on our KPIs → page 36-40



## 4. Generate incremental revenues through Innovation and M&A.

### Description

We aspire to build a more diverse portfolio of products and services so that we capture a greater share of total customer spend on employment matters and to ensure we are well positioned to benefit from potential disruption.

### What happened in the year

- We have launched HireFirst, a hybrid platform leveraging both Artificial Intelligence matching and human interaction, to provide permanent staff in both the UK and French market in Q4. The initial results are encouraging.
- We also launched Showcaser which allows us to bring people together through video. Again, the initial results are encouraging.
- We continued our research into a Consulting Services proposition with a pilot being conducted in the UK and next steps being formalised.
- We continued to evaluate potential bolt on acquisition targets.

### Our plans for 2019

- We will pursue HireFirst and Showcaser.
- We will continue to look at potential additional investments where we see a good strategic fit.

### Link to remuneration

- Revenue generation from new product lines remains a strategic objective under currently running LTIP awards.

For more information on remuneration → page 87

## New technologies

New technologies, such as Artificial Intelligence, behaviour analysis, are radically changing Human Resources ('HR') software market landscape.

The global HR software market is expected to grow at a compound annual growth rate of 2.4% reaching \$9.2 billion (£7.2 million) by 2024.

The growth in the HR software market is driven by talent management market segments (recruiting, training, succession/leadership planning and performance management) as well as by shift to software-as-a-service (SaaS) model.\*

\* Based on Human Resources (HR) Software Market Forecast 2019-2024, by MarketAnalysis.com

For more information  
on our KPIs → page 36-40

# 5. Build infrastructure for leveraged growth.

## Description

Our intent is to have a highly scalable infrastructure which will allow us to grow operating profit faster than gross profit by focusing on consultant productivity and by having systems and IT infrastructure which support this ambition in a cost-effective way.

## What happened in the year

- We continued to move towards cloud services for our key systems so that we have a predictable model with reduced long-term costs compared to 'on premise' solutions.
- We agreed to invest in new Marketing Automation technology for websites and customer communication.
- We have successfully relocated 242 roles from our London headquarters to our Centre of Excellence in Glasgow.
- We introduced a new organisational and governance structure, allowing for greater global collaboration across all of our territories and functions.
- We continued to see positive movement in our operating profit ('OP') and OP conversion ratio pushing towards our 2022 targets.

## Our plans for 2019

- We expect to continue to open new offices in our focus markets, e.g. Nuremberg or Hanover in Germany.
- We will deploy our Marketing technology so that we can improve outbound communication.
- We will continue our aim to maximise office occupation rates and will look into the use of more flexible space to do this.
- We expect to complete the stabilisation within the new Centre of Excellence in Glasgow and initiate our *Get Well* plan.

## Link to remuneration

- There is an Executive Director objective for the annual bonus scheme to complete the stabilisation phase of the new support function in Glasgow and roll out global extension plans.
- Adjusted profit before tax and OP conversion ratio are financial metrics/measures used for the calculation of annual bonus for Executive Directors.
- Earnings per share and relative gross profit growth, are financial metrics/measures for the LTIP for Executive Directors.

For more information on remuneration → page 87



**Relevant  
KPIs:****30.7<sub>p</sub>**Adjusted Basic Earnings  
Per Share (EPS)**16.8%**Adjusted  
Operating Profit  
Conversion Ratio**6.7%**

Total Shareholder Return

**£53.4m**

Adjusted Profit Before Tax

**£11.9<sub>k</sub>**

Consultant Yield

For more information  
on our KPIs → page 36-40

## 6. Find, retain and develop great people.

### Description

Our primary growth engine is our people. We aim to find great people and enable them to build meaningful careers inside the organisation.

### What happened in the year

- We are still using Employee Net Promoter Score ('eNPS') and are pleased to see that our score is up to 29 across sales and support functions. We expect to see the benefits of this to come through in 2019, despite a disappointing result on 12-24 months churn.
- We developed a new organisational framework to serve different customer groups in a disciplined way.
- We concluded our first Female leadership programme to create the next generation of leaders and are committed to continuing this programme with the process for the next cohort starting in March 2019.
- We are continuing to embed both our Purpose and Operating Principles and our redefined Leadership Principles across the Group.

### Our plans for 2019

- We will continue to measure eNPS half-yearly and to use this information to identify the subjects that matter most to our employees.
- We expect to complete the rollout of the new framework and customer delivery model.
- We will continue to develop our future female leaders.
- We will continue embedding our Operating Principles into company culture, so that employees are clear on how to provide an outstanding customer experience. We will also emphasise our Leadership Principles, ensuring that our working environment is entirely fair and inclusive.

### Link to remuneration

- Churn targets are also set for the 2019 LTIP awards.

For more information on remuneration → page 87



Relevant  
KPIs:

£**321.1**m  
Gross Profit

**2,332/39%**  
Year end Sales Headcount/Churn

**29**  
Employee Net Promoter Score

**28%**  
Female  
Representation in  
Key Sales Roles  
(Level 3)

£**11.9**k  
Consultant Yield

For more information  
on our KPIs → page 36-40

# Our Vision is to be the number one STEM recruiter in the best STEM markets.

## Resources and Relationships

### Customers

We have two interlinked sets of customers. The candidates we place and the client organisations we work with.

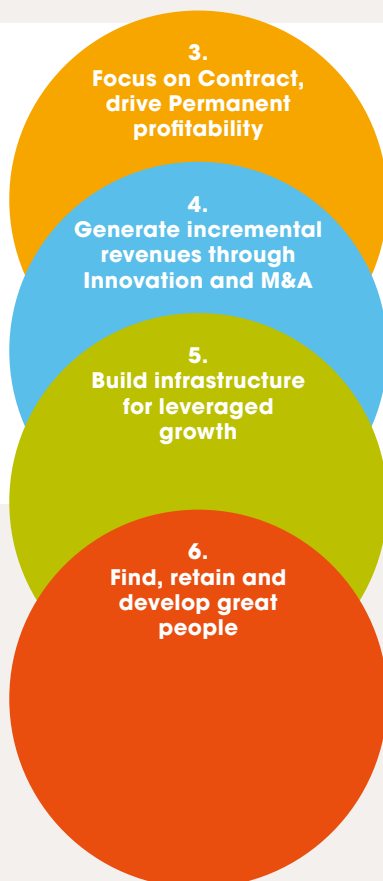
### Services

Our Services involve placing people in either Contract or Permanent roles and supporting client companies and candidates before, during and after that process.

### People

Our People are our greatest asset. A customer's interaction with an individual recruiter drives over 60% of their total satisfaction with any placement.

## Strategic priorities



## Initiatives (focus areas)

- Improve end-to-end customer experience.
- Develop the most effective organisational design for SME, MSP and Key Account Customers.
- Target growing sectors in attractive geographies (Continental Europe, the USA and Japan).

- Continue to improve our new Contractor Timesheet Portal ('Workflow').
- Continue to prioritise Contract.
- Invest in technologies and services that extend SThree's core offering.
- Strategically invest in key Permanent markets of Germany, the USA, Japan and the Netherlands.

- Build a pipeline of female managers.
- Improve staff retention.
- Educate people on the end-to-end customer service experience.
- Regularly review and create clear action plans following the feedback provided from the biannual Employee Net Promoter Score ('eNPS') survey.

For more information on the business model → page 26

For more information on the six point strategy → page 1-15

For more information on our operations → page 41-53



Targets			Risks
<b>Gross Profit</b>  <b>£330m-£435m</b> by 2022 (2018: £321.1m)	<b>Earnings per share</b>  <b>41.0p</b> by 2020 (2018: 30.7p*)	<b>Client and Candidate Net Promoter Score</b>  <b>46-48</b> by 2019, up from 42 in 2018	<ul style="list-style-type: none"> <li>• A change in the macro-economic conditions adversely impacting the Group's performance.</li> <li>• Brexit: departure from the European Union without a free trade arrangement and managed transition period.</li> <li>• Failure to react to or to take advantage of changes in the competitive environment in a timely manner.</li> <li>• Adverse movements in foreign exchange rates reducing the Group's profitability.</li> </ul>
<b>Investment in Innovation/new products</b>  Revenue generation of <b>£11m-£17m</b> from new product lines by 2020	<b>Group Operating Profit Conversion Ratio</b>  <b>18%-23%</b> by 2022 (2018: 16.8%*)	<b>Operating Profit</b>  <b>£60m-£100m</b> by 2022 (2018: £53.9m*)	<ul style="list-style-type: none"> <li>• Threat from disruptive technologies challenging the viability of the Group's current business model.</li> <li>• Increased cost pressures from more competitive environment.</li> <li>• A serious system failure, loss of data or security breach impacting the Group's operations and exposing it to the financial and reputational risk.</li> </ul>
<b>Female representation in sales roles by 2019</b>  Level 3 <b>35%</b> from 28% in 2018  Level 4 <b>21%</b> from 13% in 2018	<b>Sales headcount churn of 12-24 months' cohort</b>  <b>45%</b> by 2019 (2018: 49%)	<b>eNPS score</b>  <b>31.8</b> by 2019 up from 29 in 2018	<ul style="list-style-type: none"> <li>• High staff turnover, loss of key talent.</li> <li>• Low female representation exposing us to reputational risk and lack of diverse thinking.</li> </ul>
* Excludes the impact of £6.4 million in net exceptional strategic restructuring costs (2017: £6.7 million).			
For more information on KPIs → page 36-40			For more information on risk → page 60

# Focused on long-term growth.

**Gary Elden, OBE**  
Chief Executive Officer



## Chief Executive, Gary Elden, discusses performance in 2018 and looks ahead to the challenges facing the market in 2019 and beyond.

### Q.

You have been with the business for nearly 30 years now. How has the role of recruitment changed in that time?

### A.

The recruitment industry has changed hugely since I joined. Back then, an individual could come into it young, with no experience and have significant earning potential in a relatively short space of time, putting them on par with or ahead of many qualified professionals. There were very few barriers to entry and there wasn't much competition. Companies themselves had much less direct access to candidates because it was a paper rather than digital world, so you could charge a greater premium for your services.

At that time our business was very SME driven, so in essence you would do a deal with a client and move on to another deal with another client, and so on. Fast forward to today and the world has changed and so too have the markets that we focus on. In many parts of the STEM market, where we operate, the SME model has evolved. I was first exposed to this movement in the market when I set up Huxley, which was focused on the banking industry. It soon became apparent that it was vital to build up long-term relationships to get on the preferred list of suppliers and that to do so you needed to offer a much more rounded service and to have a team around you. That meant that if you worked to the old model, it would only take you so far. If you wanted to break into the majors then you had to be more service oriented – simply getting candidates to clients nowadays isn't enough. It is pleasing to be able to say that we have not just moved with the times, but we are focused on the future and well positioned to benefit as the sector continues its evolution.

### Q.

Has that led to a change in culture at SThree?

### A.

Very much so. We have had to change with the times and it has been very healthy for us. An integral part of this was to decide on our purpose. After much soul searching as a team we reached the result: 'Bringing skilled people together to build the future'. With this purpose in mind our role had to transform, and the people we needed in the business were no longer just salespeople but also people who could build and nurture our relationships. As the world is becoming more automated, we need to focus on the levels and aspects of our service that machines can't deliver, such as relationship building, empathy, and creativity. We believe measuring this is important, and as such, we introduced Net Promoter Scores three years ago to get detailed information back from our clients and candidates – we wanted to find out what they think of our service and where we could improve.

Alongside this, we need to be advisors and our team, from Executives down, need to understand their markets better than anybody. We need to know exactly what services clients and candidates are looking for to deliver a better outcome, rather than just focusing on how much revenue one individual can generate. As a result, we are a much more rounded team with stronger relationships with our clients and candidates. It has also protected our business, as there are many more touch points across a client team, from the sales through to the account managers. Thanks to this, relationships stay with the Company rather than moving away if an individual advisor should choose to leave.

Delivering on our purpose remains at the heart of what we do and will no doubt remain so going forward, as the Group continues to thrive.



We've positioned our business for the future and are not fearful of change – we're excited about the opportunities that technology provides and look forward to driving this further in the years ahead.

**Q.**

Why the focus on STEM markets?

**A.**

Each of the markets that we operate in require skilled workers and are impacted by the global shortage in those skilled workers. Science, Technology, Engineering and Mathematics are four industries at the forefront of change, and currently there are not enough candidates with the skills necessary to fill the rapidly growing number of roles where they are required. This shortage of workers means that clients need recruitment specialists to access the best candidates; they can't find the right people just through simple online tools as they can in other industries. They also want to outsource the complexities involved with Contract workers (for example sourcing, screening, onboarding and in some cases even providing the ongoing payroll and benefits), which means the value that we can add and therefore the quality and sustainability of our revenue are better.

We have all read about the 'Gig' economy and the movement away from the 'job for life'. Fixed term contracts are prevalent across the STEM industries which positions us exceptionally well to deal with the needs of our clients and candidates, ensuring that employers find the candidates they need without the added complexity involved, and candidates have an ongoing supply of work.

Our focus on STEM is clear, but that doesn't mean that we want to be present in every STEM market; we want to focus on the best markets for SThree and each of those may have different characteristics. There is much more to come, we know which markets we want to be in and we know how we can grow in each of them.

**Q.**

And why is a growing mix of Contract versus Permanent work important?

**A.**

Contract or temporary workers typically used to be associated with blue collar work such as catering and events staff but that's no longer the case. As we move through the generations, there is a definite changing of priorities – both from a candidate's and a client's perspective. The idea of working for the same company for their working life is much less prevalent, whilst the balance between work and life has shifted. There is a drive to learn new skills, enjoy different cultures, and try new experiences. As a result, candidates are looking to take breaks from work and to live in different places. That is particularly true in the STEM market where a lot of the work tends to be project based. In our chosen sectors, specialists are required for short term assignments that they can deliver in between six months and three years and then take some time off before looking for the next challenge. Because of the skills shortage in the world, they have the power to be able to do that.

At the same time, employers are looking for greater flexibility in their workforce. They appreciate that it may come at an increased cost but the increased flexibility, and in some cases, the desire to outsource the complexity around insurance and benefits provision is why they come to us. They also know that if you don't offer Contract roles then you won't get access to the best candidates. From our perspective that's great because, amongst other things, it allows greater revenue visibility and Contract becomes very cash generative during periods of declining growth, both of which provide added resilience for the Group.

With all this being said, we still see significant opportunities within our Permanent division; it is cash generative as opposed to Contract which is cash consumptive during growth. Additionally, when placing people into management roles our candidates also become our customer, it builds a future Contractor pipeline and also ensures that we can provide a rounded service to our clients. However, you can expect the shift towards Contract to continue.

# Q.

How can Innovation help you as a business?

# A.

Technology is going to make an impact on our industry and we would be naïve to suggest that it will not, which is why we spend time innovating. We have seen how it has transformed the estate agency and retail industries and we are seeing the ripples of it in staffing.

There are a number of companies who have recently raised a lot of money, either privately or through public markets, and these are technology platforms which provide staffing solutions, but they're not recruitment companies and don't threaten our position. We believe that we are resilient to pure technology plays for a multitude of reasons, the most prevalent being the shortage of skilled workers in our chosen STEM markets where one size doesn't fit all and the additional services we provide that remove the complexity for our clients. However, that is not the only reason to have comfort – adding to this is our true expertise in very complex and dynamic sectors and our local understanding of our territories and the associated legislation.

Our position isn't one of simply being resilient; we want to use technology to drive our business forward. With our understanding of the recruitment world, we are ideally placed to develop systems that can make a difference in those other markets and that can open up new revenue streams for us. Where technology can help in those markets, where there are large volumes of candidates coming in and sifting through them is time consuming, pulling together a shortlist using AI, or using video to introduce candidates to clients then we can use clever automation. That is why, we have developed Showcaser and HireFirst and why we will continue to innovate.

We've positioned our business for the future and are not fearful of change – we're excited about the opportunities that technology provides and look forward to driving this further in the years ahead.

# Q.

After 30 years with SThree including six as CEO you will be stepping down during 2019. How do you feel?

# A.

It has been an incredible journey with the Group, starting as a trainee recruitment consultant through to being the CEO of a listed company. I'm very proud of what has been achieved and have had some fantastic experiences in that time – I started my own brand within the organisation, Huxley Associates, launched the Group in America, plus of course worked with a great team throughout. Alongside this, as CEO, we have delivered on key elements of our strategy, for example the shift to Contract and the relocation of our support teams. This delivery against our strategy has doubled the profitability of the Group.

I am very pleased to be able to say that the Group is in a strong position and is ready for a new leader. We have changed the organisational structure, making the business fit for the future and I truly believe in the team that we have in place. That team is now working to a clearly defined Purpose and has a strong set of Operating Principles to work to, within a solid infrastructure. I'm confident in the Group's continued success and look forward to watching the teams drive growth going forward.

# Performing in line with expectations in our markets.

**James Bilefield**  
Chairman



In my first year as Chairman it has been clearly illustrated that we are a business with good momentum and strong potential, run by a team with experience, depth and passion, operating in one of the most exciting and relevant sectors of our time.

There is a well-documented global shortage of talent in the Science, Technology, Engineering and Mathematics ('STEM') sectors. Our corporate Purpose addresses this fundamental shortage head on, bringing skilled people together to build the future. We continue to be inspired by our Purpose, which, combined with our Vision and Principles, remains at the core of our business as we develop, providing the very best talent to our clients around the world.

Our chosen sectors and geographies boast favourable dynamics and many structural growth opportunities. Our decision to focus on these specific markets is part of what has driven our robust performance this year, but by no means the only factor. Our teams across the globe have worked exceptionally hard to produce this solid set of results. At the same time, we have taken steps to structure the business for the future whilst continuing to drive our Innovation agenda, which is showing momentum.

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**Governance overview**

Nomination Committee

Audit Committee

Remuneration Committee

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Much work has been undertaken in the period to continue to evolve our business to ensure we are best placed to execute efficiently and effectively on behalf of our clients. We believe that a significant constituent of this is a solid internal structure; ensuring cohesive working practices, consistency across the business, and making us better equipped to take advantage of market opportunities. As such, in addition to the strong management team we have in place, we have broadened our talent pool with some significant internal promotions and external hires.

Alongside our internal ambitions of best practice, we believe that sound corporate governance should be at the heart of what we do. I have undertaken a shareholder engagement programme and believe that our Board is well structured and delivers the highest quality of support to our teams and wider organisation. At the same time, I am proud that we are an early adopter of the latest UK Corporate Governance Code, despite the fact that many of these changes are not yet applicable for the reporting year. Illustrating this commitment, to ensure that the employee voice is heard at Board level as well as throughout the business, SThree appointed our Remuneration Committee chair, Denise Collis, to the newly formed role of Employee Engagement Non-Executive Director in December 2018.

After nearly 30 years in the business, the last six of them as CEO, Gary Elden will be leaving SThree in the new financial year. Gary has played an integral part in building the business into what it is today and leaves it with the strategy and operational structure in place to deliver further, sustainable growth. A process to appoint his successor is now underway and further updates will be announced in due course. On behalf of the Board, I would like to take this opportunity to thank him for his vision, drive and unique contribution to the Group over many years. I would also like to thank Clay Brendish for his tenure as Chairman through a period of significant transition as the Group diversified and matured around the world. I look forward to working with the rest of the SThree Board through its next phase of growth.

I speak for the wider Board when I also thank our colleagues for working tirelessly to achieve our Vision and deliver for our clients and candidates, particularly in what has been a year of significant transformation. The strategic project to restructure and relocate our London-based support functions to Glasgow, creating a new Centre of Excellence for the Group, has progressed with admirable professionalism and attention to detail. Our people have exhibited great drive and commitment, not just to SThree but also in supporting our important and expanded Corporate and Social Responsibilities ('CSR') initiatives.

We are entering the new financial year with a strong order book, good visibility and business resilience. We still have much work to do, but I have every confidence that we have set an ambition and strategy for the long term which will enable us to continue to drive growth and deliver value for all of our stakeholders.

**James Bilefield**  
Chairman  
25 January 2019

## Investment case

The industries we recruit for are growing, and at the forefront of change. An experienced management team and a resilient business model enables us to deliver a proposition that is relevant both now and for the future, providing the platform for growth. We are proud to be different.

## Experienced management team



## What sets us apart

- Focus on STEM disciplines
  - Specialisms within each market
  - Highly-skilled, high earning candidates
  - Strong in leading STEM geographies
- Investing in Innovation
- Entrepreneurial culture
- Contract weighting



## A resilient business model

- Well diversified
- Contract weighting
- Robust and scalable infrastructure
- Flexible cost base
- Motivated workforce



## Robust dividend and opportunities for sustainable growth

## Balance sheet to support M&A and Innovation



# Meeting the global demand for skilled people.

**The global recruitment industry is evolving, particularly across our chosen market and sector specialisms. The Science, Technology, Engineering and Mathematics fields are at the forefront of change across the developed world, and recruitment models have to adapt quickly to keep pace.**

At SThree, we have an expert understanding of what these changes mean across different regions, for specialist roles and even to specific companies. We are developing the way we work and deliver our services in line with both the global mega-trends outlined below, the idiosyncrasies of different localities, and the particular requirements of different countries.

## Global mega-trends

### The 'Gig' economy

The 'job for life' is becoming less prevalent in today's world. People now often prefer to work short-term contracts otherwise known as 'gigs', or to do freelance work. These types of roles allow for greater flexibility in their careers, giving them control over how much and when they work. The result of this is that those who work this way have a higher frequency of role changes than ever before. It also adds a layer of complexity to the hiring process, requiring a more focused and specialist service to ensure smooth transitions between roles.

#### What it means for SThree

In the STEM industries there is a wealth of fixed term projects available and therefore the appeal of short-term contracts is strong. These dynamics are favourable for SThree, hence the focus for the Group. As a global business with robust and scalable infrastructure and systems, we thrive on added complexity and are able to support both our clients and candidates through all stages of the process in a structured way. This allows employers to find the people they need when they need them, and gives our candidates a stream of high quality work opportunities.

### Economic uncertainty

Whilst not a new phenomenon, the regions in which we work are currently experiencing elevating political and macro-economic uncertainty.

#### What it means for SThree

Throughout our history we have seen that during the peaks of the economic cycle our Permanent division tends to realise the most benefit, whilst during less certain economic times the benefits of Contract become more pronounced with more predictable and visible earnings and greater resilience.

## The Employed Contractor Model ('ECM')

This model, where a skilled specialist is legally employed by SThree but works for the end client is already the model of choice in the USA and becoming increasingly popular across Europe. It is popular because of the access to flexible resources for key projects and for removing complexity in the hiring, onboarding and offboarding for the client.

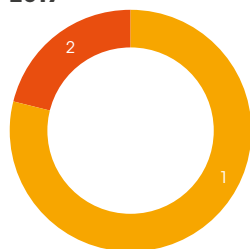
There are many other country-specific benefits to the model. For example, in the USA there are particularly high risks relating to employment classification between temporary and full time staff, which if the regulations are not exactly followed can result in penalties or fines by the authorities. Through our employment of the Contractor we mitigate this risk and take on the employment obligations around taxes and employee insurance.

Across certain European territories, it is particularly difficult to terminate full time employees and using an ECM model carries significantly reduced employment obligations for employers.

### What it means for SThree

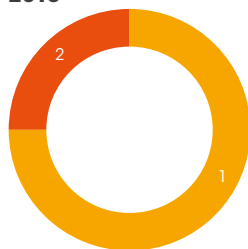
SThree works in several regions where ECM is in high or increasing demand. SThree has the scale and specialist knowledge to be able to deliver ECM across these geographies, providing this solution to different business challenges faced in each location. SThree is able to support our clients through the sourcing, screening, onboarding and providing the ongoing payroll, benefits, tax deductions and relevant insurances for our ECM placements. 72% of our business is now made up of Contract with ECM being a fast growing area within this.

### Freelance/ECM mix 2017



1. Freelance 79%  
2. ECM 21%

### 2018



1. Freelance 75%  
2. ECM 25%

## Ageing population and emerging skill sets

With the emergence of Artificial Intelligence ('AI'), new scientific discoveries, and rapid technological advancement, the ways in which companies and the people within them operate is evolving. It is estimated that 85% of jobs that will be held in 2030 have not been created yet. We are already seeing that these new roles and ways of working require new skills. On the other hand, several studies have suggested that AI and automation will reduce the need for certain types of roles. However, we do not expect it to have a negative impact on employment in our core geographies as it will also drive the emergence of new roles, ultimately pushing productivity of the workforce higher.

### What it means for SThree

We expect to see higher levels of skills shortages over the period ahead. The new types of roles that are emerging require both existing and newly developed specialist skill sets held by only a small proportion of individuals. When there are skill shortages, people look to recruitment agencies to provide them with candidates, as the market becomes increasingly competitive. We have exceptional insight into the skillsets these emerging roles may require, as well as where to source candidates with the relevant skills. We are particularly well positioned in this regard due to our long-term strategic focus on STEM industries, which are at the forefront of change and therefore strongly linked to new skills and role creation.

## Digital transformation

The way people interact with technology to find roles or find candidates is evolving. Technical disruption is making many tasks easier and democratising information. Candidates and clients expect to be able to search for high calibre roles or staff through online platforms.

### What it means for SThree

SThree is well positioned in this regard as our extensive industry expertise combined with leading technical partnerships means that we are able to develop tools that can help deliver different products for different markets, diversifying our business and opening up new revenue streams where clients and candidates are less focused on the service elements that are so important in our chosen STEM markets.

## Case study: Contributing to the growth of the tech industry.





## At SThree, we're passionate about bringing skilled people together to build the future. One of the biggest examples of our commitment to aiding the evolution of careers across STEM markets is our partnership with coding bootcamp, Le Wagon.

### The coding bootcamp that's changing lives

Thanks to an influx of start-ups, the tech market in Japan is booming. This has resulted in a growing talent gap and increasing demand for software developers within the country. In 2016, this led to the development of Le Wagon – the coding bootcamp that's changing lives.

Across an intensive nine week period, professionals are given the opportunity to learn what it takes to become a full-stack developer. The programme allows emerging talent to develop fundamental skills and connect with companies across the tech industry.

### The people behind the revolution

We've been working closely with Paul Gamer, CEO of Le Wagon in Japan, "I've been based in Japan for the past nine years, and since then there's been an increase in innovation and start-ups. As a result, the demand for professionals within the full-stack development market has grown rapidly." One of the most unique things about Le Wagon is its focus on soft skills. The coding bootcamp, teaches developers about project management, teamwork, and how to pitch a product; all crucial skills for developers.

Paul is also eager to provide opportunities for a diverse range of professionals with varying backgrounds; Le Wagon is a space where people with potential can change their lives. According to Paul, "Generally there are three reasons people attend Le Wagon; they want to change their career and are interested in software development or project manager roles, they want to launch a start-up and would like the ability to discuss with engineers and build their first prototype, or they want to try a different way of working and are considering going freelance."

### Le Wagon and Computer Futures: A winning partnership

"After launching in Japan, one of our key priorities was to provide solid support to the job search of our graduates at every stage of the process" explains Paul, "with Computer Futures being a leader in IT recruitment, I was thrilled when our invitation was accepted." Our consultants work closely with students at Le Wagon so they're fully prepared after their graduation. Our training sessions cover best practice CV writing, interview training, and how to sell yourself as a developer. We also advise students about how to get the most from recruiter relationships.

We're truly passionate about making sure that when students leave Le Wagon they know how to communicate effectively with the right companies. Learning about technical skills is only one part of the puzzle, and we're proud to play a role in helping budding students find jobs that will put them on the path to realising their career goals.

According to Paul, "Computer Futures has definitely had an impact on Le Wagon. Our graduates are better prepared to kick-start their job search, both with actionable material provided during the training sessions and contact with specialised recruiters. The teams transfer their industry expertise, and also offer a clear overview of the types of roles students might fit with open job descriptions and tips before graduation."

### A word from our candidate

Our involvement with Le Wagon has allowed us to truly elevate the professional lives of these students. We've been able to find numerous people roles that have allowed them to kick start their coding career. We worked closely with Douglas Berkley, graduate of Le Wagon, and were able to find him his first role as a developer.

"My time as a student at Le Wagon was incredibly challenging, but exciting to learn and create things I never thought I'd be able to do. It's incredible what we were able to do in a short amount of time and it was all down to the programme and amazing staff. I think the thing that has stuck with me the longest is the community that Le Wagon has to offer. Even in my job, I was messaging classmates and former teachers for support and it was nice to follow along with everyone's progression."

In an interesting turn of events, Douglas' career has now resulted in him returning to Le Wagon as the bootcamp manager, "Computer Futures has been brilliant for me and other Le Wagon students. They gave a talk to us about what to expect from the tech industry, how to build a CV, and general guidance on moving forward. Not only that but they sat down one on one afterwards and helped guide each student. I had never been on an interview for an IT job so some of the examples they provided for us were very useful. Alex Jenner continued to check-in on me and help arrange interviews. I am forever grateful to him! As a manager, I strongly appreciate all the work Computer Futures does for the students here."

### A word from our own people

Alex Jenner, Sales Team Manager at Computer Futures, has been instrumental in establishing our relationship with Le Wagon:

"Partnering with Le Wagon allows us to truly contribute to the growth of the tech industry. At SThree, we want to help candidates grow and continuously develop their skills. The work we do with Le Wagon is a reflection of the ideals of our company; we're able to build trusted relationships and make sure that when candidates go out into the world of tech, they're able to find the right opportunity. This project benefits both the individual and the entire tech industry, something we should all be proud of."

# Our business model helps us create value for all our stakeholders.

## What we need to make our business model work

### Customers

We have two interlinked sets of customers. The candidates we place and the client organisations we work with.

### Services

Our Services involve placing people in either Contract or Permanent roles and supporting client companies and candidates before, during and after that process.

### People

Our People are our greatest asset. A customer's interaction with an individual recruiter drives over 60% of their total satisfaction with any placement.

## How we create value

Our purpose sits at the heart of our value creating activities.



## Underpinned by:

Strong governance, risk management and our people culture.

For more information on our operations → page 41-53

## Stakeholder benefits

The value we create for our stakeholders today and in the future.

### Now

#### Direct value creation

##### Candidates

**5,010**

People placed in Permanent roles

**11,203**

Contract Runners

##### Customer Net Promoter Score

**42**

##### Employee Net Promoter Score

**29**

##### Shareholders (Adjusted basic EPS)

**30.7<sub>p</sub>**

#### Indirect value creation

##### People

For more information on people → page 30

##### Communities

For more information on communities → page 28-31, 35

##### Economies

For more information on economies → page 22-25

### In the future

#### Direct value creation

##### Candidates

##### Our focus:

- Focus on growing Contract headcount faster than Permanent.
- Continue to maintain a strong Permanent offering in key markets such as Germany, Japan and the USA.

##### Client satisfaction

##### Our focus:

- Continue to use NPS to drive improvements in our processes and behaviours.
- Embed our Operating Principles throughout the organisation to create great customer experience.

##### Employee satisfaction

##### Our focus:

- Continue to create a diverse and inclusive environment where all our people have the opportunity to develop and progress in their careers.
- Understand what matters most to our employees through employee NPS surveys and act on feedback.

##### Shareholders

##### Our focus:

- Invest and grow in key markets, particularly in the USA, Germany, the Netherlands and Japan.
- Maximise opportunities in ICT, Life Sciences, Engineering, Energy and Banking & Finance.
- Pursue Showcaser and HireFirst, our two Innovation initiatives that have gone to market.

# Bringing skilled people together.

For many years, being a responsible business has been at the core of who we are, and our commitment to using our intellectual capital and relationships to benefit the communities in which we operate has grown in 2018.

This year, we have aligned our approach to Corporate Social Responsibility ('CSR') with our business purpose, ensuring we realise our Operating Principles of *Build Trust; Care Then Act* and *Be Clear Then Aim High*.

SThree brings skilled people together to build the future. Our approach to CSR is to ensure that the future is positive and bright. We are achieving this through three key focus areas:

- 1. Building a brighter future through skills and work**
- 2. Building a brighter future for our people**
- 3. Building a brighter future by reducing our carbon footprint.**

## 1. Building a brighter future through skills and work

This year, the SThree Foundation launched globally, funding projects that diversify the STEM candidate pipeline and ensuring that more people benefit from a career with purpose and sustainable income.

**30**

30 disadvantaged children in Amsterdam benefited from Coding and Science Workshops funded by the SThree Foundation.

**100**

100 young people from underprivileged backgrounds in London attended Big STEM Debates due to funding from the SThree Foundation.

**30**

30 young people in the UK went on STEM Insight Placements thanks to the SThree Foundation.

**830**

Our people volunteered more than 830 hours in 2018.

**69**

69 undergraduates studying STEM subjects across the UK benefited from mentoring from our people.

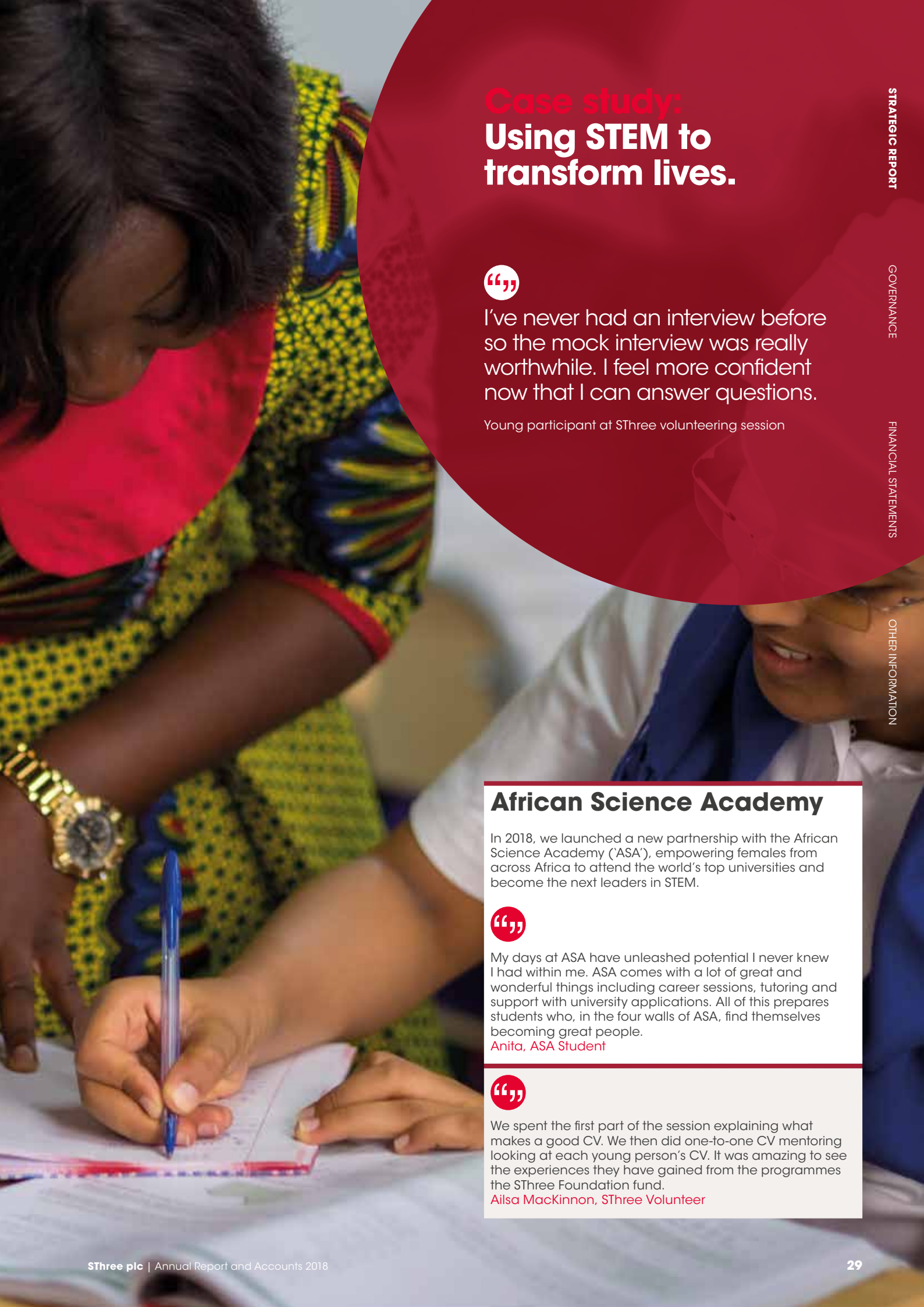
**64**

We provided a LinkedIn Workshop to 64 older people who mentor refugees in Brussels.

Our CSR programme has benefited 6,245+ people since 2011.

SThree Dubai employees are volunteer mentors for women escaping abuse and trafficking.





## Case study: Using STEM to transform lives.



I've never had an interview before so the mock interview was really worthwhile. I feel more confident now that I can answer questions.

Young participant at SThree volunteering session

### African Science Academy

In 2018, we launched a new partnership with the African Science Academy ('ASA'), empowering females from across Africa to attend the world's top universities and become the next leaders in STEM.



My days at ASA have unleashed potential I never knew I had within me. ASA comes with a lot of great and wonderful things including career sessions, tutoring and support with university applications. All of this prepares students who, in the four walls of ASA, find themselves becoming great people.

Anita, ASA Student



We spent the first part of the session explaining what makes a good CV. We then did one-to-one CV mentoring looking at each young person's CV. It was amazing to see the experiences they have gained from the programmes the SThree Foundation fund.

Ailsa MacKinnon, SThree Volunteer

## 2. Building a brighter future for our people

At SThree we strive to have an inclusive workplace where diverse opinions and perspectives are valued and a true meritocracy exists.

In 2018, we reviewed our Talent Acquisition methodologies to improve attraction and selection decisions to increase our pipeline of diverse talent. We have taken steps to show the diversity of our people through our recruitment platforms and implemented an approach to recruitment that removes unconscious bias.

We have redefined our Leadership Principles to ensure we truly achieve the fair and inclusive environment we strive for. Our Leadership Principles are *Know Me*, *Focus Me*, *Develop Me*, *Care For Me* and *Include Me*.

### Know Me

Our regular Employee Net Promoter Score survey ensures our people have a voice to give feedback. We continue to develop more platforms for employee input and feedback including project teams, focus groups, internal communications and manager training.

### Focus Me

Our talent and performance platform, me@work, alongside our Annual Conferences and roadshows support our people to understand our business objectives and their role in achieving these.

### Develop Me

In 2018, we rolled out our career progression framework, Velocity, which ensures a fair and transparent promotions process. In addition we continue to develop our Learning and Development offering to ensure our value proposition of a 'career with no limits' and a 'career with purpose' are truly implemented and achieved.

### Care For Me

Throughout 2018, we began the implementation of wellbeing initiatives. For example, in Germany a new programme, Balance, was launched to ensure the work-life balance of our people. Our approach to flexibility at work alongside key programmes such as our Maternity Buddy Scheme help drive our inclusive culture.

### Include Me

Inclusion continues to be a key priority for SThree and we are making various investments across the business to ensure we continue to develop and nurture an inclusive culture. In the UK, a new network of Inclusion Champions was developed to lead on this activity and in 2018 we launched our first Mental Health programme in partnership with the Samaritans. This included training to help managers better support their teams as well as internal campaigns and conversations.

In order to truly *Include Me* we strive to have a diverse leadership team. Supporting our female colleagues and increasing the number of females at every level across SThree remain a priority. In 2018, our first cohort successfully completed our female leadership programme, Identify. Through Identify, Twenty seven female colleagues benefited from coaching, training, networking and stretch assignments to develop their skills. Each participant has a personal development plan in place to support them to reach the next level in their career.

### Aspirational female headcount targets (Sales only) at 30 November 2018

Job Level	2017 Actual %	2018 Actual %	2019 Target %
Level 1	43.78	47.29	48.00
Level 2	41.13	42.94	47.00
Level 3	26.35	28.40	35.00
Level 4	10.81	13.16	21.00

### Gender representation (Sales only) at 30 November 2018

Category	Male	%	Female	%	Total
Directors of SThree plc	4	80	1	20	5
Managers and Directors (including LLP Partners) (Level 2-5)	217	62	132	38	349
Recruitment Consultants (Level 1)	1,086	54	908	46	1,994

### 3. Building a brighter future by reducing our carbon footprint

We recognise that our business activities have an impact on the environment. We are committed to reducing greenhouse gas ('GHG') emissions wherever possible.

#### Mandatory reporting

In 2018, we continued to work with Carbon Smart to ensure compliance with the GHG reporting requirements of The Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013. Our reporting covers scope 1, 2, and 3 GHG emissions.

Using a financial control approach, calculated GHG emissions<sup>1</sup> arising from business activities in the reporting year 1 December 2017 to 30 November 2018 are as follows:

	Emissions Source	Tonnes of CO <sub>2</sub> e			% change (vs PY)	% change (baseline)
		Baseline 2013	2017	2018		
Scope 1	Natural gas	195	120	94	-21%	-52%
	Leased transport <sup>2</sup>	855	864	1,196	+38%	+40%
Scope 2	Purchased electricity (market/location based) <sup>3</sup>	1,948 <sup>4</sup>	1,642/ 1,567	1,469/ 1,393	-9% -9%	n/a -27%
Scope 3	Water	122	71	68	-5%	-44%
	Business travel	1,400	2,007	2,230	+11%	+59%
	Paper	37	53	28	-47%	-25%
	Waste	20	111	78	-29%	285%
	Electricity T&D	156	80	79	-1%	-49%
<b>Total tonnes of CO<sub>2</sub>e (market based)</b>		<b>n/a</b>	<b>4,947</b>	<b>5,267</b>	<b>+6%</b>	<b>n/a</b>
<b>Total tonnes of CO<sub>2</sub>e (location based)</b>		<b>4,733</b>	<b>4,872</b>	<b>5,192</b>	<b>+7%</b>	<b>+10%</b>
<b>Number of employees</b>		<b>2,248</b>	<b>2,867</b>	<b>2,573</b>	<b>-10%</b>	<b>+14%</b>
Tonnes of CO <sub>2</sub> e per employee		2.11	1.70	2.02	+17%	-4%

Our location-based carbon footprint has increased by 10% compared to the baseline year, but has reduced by 4% on a per employee basis, indicating that whilst we are growing our business, we are improving the efficiency of our operations.

This increase in absolute emissions can be attributed to increases in business travel during the transition of London based services to the Centre of Excellence in Glasgow. This represents a one-off event and therefore we expect business travel to reduce in the coming years. We also saw a 30% year-on-year increase in leased transport emissions, resulting primarily from increased business activity and headcount in the Benelux region.

1. The methodology used to calculate SThree's GHG emissions is in accordance with the requirements of the following standards: the World Resources Institute Greenhouse Gas Protocol (revised version); 'Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance' (Defra, October 2013) and ISO 14064 - part 1.
2. During the preparation of SThree's 2018 carbon footprint, additional data for our Belgian fleet was made available. As a result, emissions for leased transport have been amended for previous years to account for this additional emissions source.
3. This work is partially based on the country-specific CO<sub>2</sub> emission factors developed by the International Energy Agency, © OECD/IEA 2018 but the resulting work has been prepared by Carbon Smart Limited and does not necessarily reflect the views of the International Energy Agency.
4. Scope 2 dual reporting (market and location based) was introduced in 2015/16 and so market based emissions are not reported in historic years.

# Firmly on track to meet our future targets.

**Gary Elden, OBE**  
Chief Executive Officer



## Overview

The Group continued to make good progress throughout 2018. This resulted in a strong financial performance which, demonstrating our resilience, was delivered despite the turbulent political, market and economic pressure throughout the year. Alongside the financial metrics, we delivered further structural and operational progress which will enable us to attain our Vision of being the number one Science, Technology, Engineering and Mathematics ('STEM') recruiter in the best STEM markets. We are on track with the delivery of the five-year plan as set out at the November 2017 Capital Markets Day.

At the start of 2018, I stated that after two years of political, market and economic pressure, we entered the year in good shape. That turbulence and pressure increased throughout the year and yet we delivered a creditable performance. As we enter 2019, I believe that we are in even better shape.

The STEM markets in which we operate continue to be affected by the ongoing global shortage of skilled workers and the resulting supply and demand imbalances which underpin the need for our services.



Group gross profit ('GP') was up 12%\* in the year. The growth was largely delivered, as expected, through our key territories of Continental Europe and the USA; the former was driven by our market-leading businesses in Germany and the Netherlands which together saw growth of 20%\*, whilst the latter was up 8%\*. We also made improvements in our other target markets, including a stand-out performance from our growing team in Japan, up 85%\*. From a sector point of view, we saw robust growth across the Group, with ICT up 12%\*, Life Sciences up 8%\*, Engineering up 16%\* and Global Energy up 30%\*.

Our specialist focus on STEM and being in the right STEM markets are helping us to build a growing reputation, using a multi-brand approach where each brand is well regarded within its own specialist field. This is a key differentiator for STthree. In technology, for example, where other companies position themselves as IT specialists, we are recognised as experts in specific fields such as JAVA, Salesforce or .Net. This approach is the same across all our markets, so clients know that we can access the very best people for highly skilled positions.

The Group is globally diversified, but at the same time specialises at a local level. We can source the right people for clients in multiple territories whilst also understanding the nuances and dynamics of each individual market. These include legislative requirements where our local knowledge can help us to advise clients on choosing the right contracts and also help successful candidates navigate the necessary requirements.

The Group's central Purpose is 'Bringing skilled people together to build the future', and we have six Strategic Principles that will enable us to achieve this Purpose and generate returns for all of our stakeholders. These are:

- Grow and extend regions, sectors and services.
- Develop and sustain great customer relationships.
- Focus on Contract, drive Permanent profitability.
- Generate incremental revenues through Innovation and M&A.
- Build infrastructure for leveraged growth.
- Find, retain and develop great people.

We have made considerable progress against the majority of our Strategic Priorities. I will touch on two of them in more detail later with our Chief Sales Officer and Chief Operational Officer providing further detail on the other four aspects.

### Find, retain and develop great people

One of the most pleasing aspects of the year was the ongoing development of the Group's culture. Having collectively agreed on what kind of organisation we want to be and the principles to which we would hold ourselves, it has been particularly rewarding to see adoption across the Group and the benefits are already being seen. We have a Vision that is shared across all of our operations and the mindset has noticeably changed from thinking as individuals to considering wider Group opportunities, shifting from a 'me' to a 'we' culture.

We have started to see the benefits of changes that we made about a year ago, including the appointments of Dave Rees as Chief Sales Officer and Justin Hughes as Chief Operating Officer. As anticipated, this has helped us to align our sales and operational strategies and ensure we have the right services, infrastructure and people to execute our global growth strategy and provide our customers with the best possible experience.

Pleasingly, the year's results were achieved despite the inevitable disruption caused by relocating our London-based support services to Glasgow where we have created a Centre of Excellence. All roles were fulfilled through our own recruitment teams and the project has delivered ahead of our expectations. Any disruption caused was addressed promptly and professionally and our customers experienced a smooth transition. We are delighted with the progress being made by the Glasgow team which will give us greater conversion margin and competitive advantage.

Cultural changes do not happen overnight and there is still plenty for us to do. Our Female Leadership Development Programme, *Identify*, has been running throughout the year. It was introduced to help us identify and nurture top female staff and give them the tools and support that they need to thrive, as in the past we have seen female staff as a proportion of the total drop away when they reach management levels. It has already given us greater insight, with initial feedback suggesting that female candidates will put themselves forward for a role only where they feel comfortable in executing 80% of the tasks involved in that role, whereas the corresponding figure for male applicants is 20%. Through this level of understanding we can take initiatives to redress that balance and encourage females to stay with us longer and progress further. This mirrors many of the initiatives that we are conducting externally on behalf of our clients to ensure that female talent is able to thrive in all of the STEM industries. During the year, we have seen 14 female promotions to management positions across the Group (out of 27 participants) with one to Director level.

We have made a great start in bringing our people together and encouraging them to behave in a way that is representative of our three Operating Principles, *Build Trust, Care Then Act, Be Clear Then Aim High*, providing the necessary coaching and training to help them succeed. As a result, I believe that we are becoming increasingly meritocratic and expect that trend to continue.

\* In constant currency.



### **Generate incremental revenues through Innovation and M&A**

Ours remains a people business and one which thrives on the strength of its relationships. Our clients are looking for highly skilled workers and they choose us to source them because of our specialist sector focus and expertise in all aspects of our chosen markets. As such, we believe that we are resilient to pure play technology competition that naturally suits more commoditised offerings.

At the same time, our extensive industry expertise means that we are able to develop tools that can help deliver different products for different markets, diversifying our business and opening up new revenue streams where clients and candidates are less focused on the service elements that are so important in our chosen STEM markets. During 2018, we made significant progress with both our HireFirst and Showcaser initiatives.

HireFirst is an easy to use platform that uses Artificial Intelligence ('AI') to offer candidates live matches to a diverse spectrum of roles and companies, whilst allowing companies the opportunity to market their employer brand and attract the best people. It was officially launched in beta testing in October in both Paris and London and I am pleased to say that the early results are encouraging.

Showcaser is a video platform which gives candidates the ability to highlight certain aspects of their CV, career to date or other areas that they may choose to differentiate themselves. Showcaser was exhibited at UNLEASH Amsterdam in November and, again, the feedback has been encouraging.

We would not anticipate material revenue from HireFirst or Showcaser in 2019 but do believe they have the ability to generate strong returns on investment over the medium term.

### **Management succession**

Having been with the Company for nearly 30 years and as CEO for the last six, I shall be stepping down before the Annual General Meeting of Shareholders being held on 24 April 2019. The process for finding my successor is well underway. I am very proud of everything that we have achieved as a business in that time and, as these results demonstrate, I will be handing over the reins of a business that is in very good shape. I will be fully committed to the role until that time and work with the Board and the leadership team to ensure a smooth handover to my successor.

### **Outlook**

At the start of 2018, I stated that after two years of turbulent political, market and economic pressure we entered the year in good shape. Despite that turbulence and pressure increasing throughout the year, we have delivered a strong set of results. Looking forward to the year ahead, our post-year end trading is in line with expectations and we remain well positioned to continue to benefit from the growth opportunities in our chosen STEM markets.

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### **Gary Elden, OBE**

Chief Executive Officer  
25 January 2019



## Case Study: Neovacs – Bringing skilled people together to build the future

As a company, we're united by our purpose – bringing skilled people together to build the future. Our teams across the globe are committed to connecting talent that can truly impact the world of STEM.

At Real, we call our approach 'Inspired by You', and this is something our consultants live and breathe. Thanks to our diverse portfolio of clients, we've been able to create partnerships across a range of projects that have led to profound developments and broken barriers within pharmaceuticals, medical devices, and digital health. This is particularly true of the work being done by our client Neovacs.

### **The biotech company who are changing lives**

Neovacs is a leading global biotechnology company focused on the development of Kinoids. The business develops therapeutic vaccines treating autoimmune and inflammatory diseases, allergies, and cancer. Their goal is both to advance research and provide more efficient treatments while reducing healthcare expenditures. They recently embarked upon a joint venture with Stellar Biotechnologies to form Neostell.

A desire to achieve their goals led to the decision to build a new facility; this ground breaking site will be revolutionary in developing new treatments to combat autoimmune and inflammatory diseases. In order to bring this project to life, Neovacs were in need of a consultant engineer to manage the commissioning and construction phases within the project.

### **About the project**

Ali Kassim, a consultant at Real, worked closely with Olivier Dhellin, Director of Pharmaceutical Development at Neovacs. According to Olivier, "It was necessary to find a candidate with sufficient experience to anticipate potential issues in our project. The engineer needed to provide the expertise we didn't have internally."

Ali found a perfect candidate in the form of Pierre Menozzi, "After speaking with Pierre, I instantly identified that his skills, experience, and personal attributes meant he'd be able to make an outstanding contribution to this important mission." Pierre was passionate about being involved in a project that would change lives, "Working on something new is always exciting for me. I find this mission of working on installation projects very inspiring."

### **Making a difference**

When it comes to ensuring the efficient installation of the factory, Pierre's input is crucial. Olivier explains, "He needs to provide expertise, guidance, and decision tree, and will guide us to provide the appropriate documentation. By challenging our approach, he will minimise the risk of the project. Real were the first to understand our needs and the scope of work requested." Helping clients such as Neovacs find talent like Pierre is a true example of how we bring our purpose to life; we're creating partnerships that allow companies to change lives across the world.

Ali spoke about how candidates like Pierre inspire him to do his job, "By partnering with a company like Neovacs, Pierre is able to use his talent to make a difference – working on projects like this is what our job is all about."

# Working together towards the same objectives.

By implementing centrally designed Strategic Priorities, all of our businesses in 16 countries work together towards the same Group objectives: grow Group gross profit; increase earnings and shareholder returns; drive strong cash conversion; foster a skilled, motivated and engaged team; drive business growth in Contract and an improvement in Permanent yields; run efficient and socially responsible operations; and provide an excellent experience to our customers. Our key performance indicators ('KPIs') help the Board of Directors and Executive management assess returns to shareholders and performance against our six strategic priorities.

There are two categories of KPIs: financial and non-financial.

## Strategic priorities

- 1 **Grow and extend regions, sectors and services**
- 2 **Develop and sustain great customer relationships**
- 3 **Focus on Contract, drive Permanent profitability**
- 4 **Generate incremental revenues through Innovation and M&A**
- 5 **Build infrastructure for leveraged growth**
- 6 **Find, retain and develop great people**

For more information on our strategic priorities → page 1-15

## Group Financial KPIs

### Objective

### Grow Group gross profit

#### KPI

#### 1. Gross profit (£m)

Revenue less cost of sales. Also known as Net Fee Income.

Purpose: A broad indicator of how the business is trading and growing over time. Used for 2018 Group LTIP strategic objective.

#### 2018 Performance

**£321.1m** +12% (+12%\*) (2017: £287.7m)

2018	£321m
2017	£288m
2016	£259m
2015	£236m

Group gross profit ('GP') was up this year, owing to a growth in our Contract business, especially in Continental Europe. FX headwind was fairly immaterial at £0.7 million.

At this year-on-year growth rate in GP, we are well on track to reach our long term target of £435 million by 2022. We expect to hit £330 million, i.e. the minimum expectation of our 2022 target in 2019.

\* In constant currency.

[Link to strategy](#)



#### KPI

#### 2. Contract margin

Contract gross profit as a percentage of Contract revenue.

Purpose: Increasing margins is an indicator of business quality and the service we offer.

#### 2018 Performance

**19.9%** +0.1% pts (2017: 19.8%)

2018	19.9%
2017	19.8%
2016	19.9%
2015	19.8%

Contract margin is marginally up on the prior year, owing to improvements in Energy and Engineering but offset by weaker Life Sciences.

[Link to strategy](#)



## KPI

**3. Consultant yield**

Gross profit divided by the Group average sales headcount divided by 12.

Purpose: This is an indicator of the productivity of the sales teams.

**2018 Performance**

**£11.9k** +4%\* (2017: £11.5k)

2018	11,872
2017	11,470
2016	10,200
2015	9,300

The rise in consultant yield is driven by Permanent yields up 7% and Contract yields up 1%.

\* In constant currency.

[Link to strategy](#)

**Objective****Increase earnings and returns**

## KPI

**4. Adjusted profit before tax**

Gross profit less administrative expenses, less interest before adjusting items.

Purpose: A broad indicator of how the business is trading and how efficient we are in managing our cost base. Used for Group STIP.

**2018 Performance**

**£53.4m** +20% (+20%\*) (2017: £44.5m)

2018	£53.4m
2017	£44.5m
2016	£40.8m
2015	£40.8m

The 20% increase on the prior year in the adjusted profit before tax was primarily driven by the rate of growth in gross profit which accelerated versus 2017. It was partially offset by continued investment in property, service infrastructure and Innovation to support future growth.

\* In constant currency.

[Link to strategy](#)



## KPI

**5. Total shareholder return ('TSR')**

Share price growth plus dividends.

Purpose: Used by investors to assess growth in share price versus other companies. Used for Group LTIP.

**2018 Performance**

**6.7%** -12.4% pts (2017: 19.1%)

2018	6.7%
2017	19.1%
2016	-11.6%
2015	14.8%

The TSR performance was affected by wider global macro-economic conditions, in particular challenges and uncertainties associated with Brexit.

[Link to strategy](#)



## KPI

**6. Adjusted basic earnings per share ('EPS')**

Profit after tax before adjusting items divided by the weighted average number of shares in issue during the year.

Purpose: Used by investors to assess return of a business versus share price. Used for Group LTIP vesting in conjunction with determining the Group historical Price to Earnings ratio for tracker share settlements.

**2018 Performance**

**30.7p**\*\* +20%\* (2017: 25.7p)

2018	30.7p*
2017	25.7p
2016	23.2p
2015	23.2p

Adjusted basic EPS increased due to the improved adjusted profit before tax and a consistent effective tax rate. The weighted average number of shares in issue during the period was broadly flat at 128.7 million (2017: 128.6 million).

\* In constant currency.

\*\* Excludes the impact of £6.4 million in net exceptional restructuring costs (2017: £6.7 million).

[Link to strategy](#)



## Group Financial KPIs

continued

### KPI

#### 7. Operating profit conversion ratio

Operating profit before adjusting items stated as a percentage of gross profit.

Purpose: It measures sales team productivity, how effective we are at controlling costs associated with underlying operations and our support costs. Used for Group STIP.

#### 2018 Performance

**16.8%\*\*** +1.2% pts\* (2017: 15.6%)

2018	16.8%
2017	15.6%
2016	16.0%
2015	17.6%

The ratio has increased by 1.2% pts to 16.8% year on year. This is a result of strong profit performance, in particular in Continental Europe and the USA, as well as thanks to Project Highgrove<sup>1</sup> support savings. It was partially offset by sales headcount investment driving increased personnel spend, and £2.4 million in Innovation investment.

We are well positioned to achieve our long-term operating profit conversion ratio target range of 21% to 23% by 2022.

1. Project Highgrove represents a strategic relocation of our central support functions away from our London headquarters to a new facility located within Glasgow.

\* In constant currency.

\*\* Excludes the impact of £6.4 million in net exceptional restructuring costs (2017: £6.7 million).

[Link to strategy](#)



### Objective

## Drive strong cash generation

### KPI

#### 8. Cash conversion ratio

Cash generated from operations for the year after deducting capex, stated as a percentage of operating profit before adjusting items.

Purpose: It measures a business ability to convert profit into cash. Used for Group STIP.

#### 2018 Performance

**67.0%\*\*** -11.7% pts (2017: 78.6%)

2018	67.0%
2017	78.6%
2016	96.0%
2015	126.0%

Cash conversion has fallen moderately. As we increase the rate of growth in our Contract runner book, more cash has been absorbed into working capital. The expected operational impact associated with the relocation of our support function to Glasgow also had a temporary adverse impact on our Dales Sales Outstanding ('DSOs'). A working capital improvement project has been set up in the Centre of Excellence in Glasgow with defined plans in place to optimise working capital across the Group.

\*\* Excludes the impact of £6.4 million in net exceptional restructuring costs (2017: £6.7 million).

[Link to strategy](#)

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# Group Non-Financial KPIs

## Objective

## Foster and retain a skilled, motivated and engaged team

### KPI

#### 9A. People measures

##### Year end sales headcount/churn

Churn is calculated as the number of leavers in a year as a percentage of the average sales headcount. Headcount is based on full time equivalent heads in place at the year end.

Purpose: These are the measures of employee retention and also an indicator of how well a business is run. Churn is used for the Group STIP and LTIP.

### 2018 Performance

2018	Heads 2,332	Churn 39%
2017	Heads 2,257	Churn 36%
2016	Heads 2,044	Churn 38%
2015	Heads 2,185	Churn 38%

To achieve our strategic growth plans and expand efficiently, we must attract and retain sufficient headcount, thereby building the experience pool and avoiding retraining.

In 2018, we saw a moderate deterioration of 3% pts in the Group churn ratio; this was primarily driven by the UK business which experienced a 10% pts increase in churn year on year.

### Link to strategy



### KPI

#### 9B. People measures

##### Female representation in key sales roles

Female representation in a particular sales cohort (e.g. Level 3 or Level 4) is calculated as number of female employees at each job level at the year end as a percentage of the total headcount at that job level at that particular point.

Purpose: A broad indicator of the inclusivity at SThree.

### 2018 Performance

**Level 3: 28% +2% pts**

**Level 4: 13% +3% pts**

(2017: Level 3: 26%, Level 4: 10%)

Level 3 cohort represents Sales Business Managers  
Level 4 cohort represents Sales Directors

We have maintained a focused approach to the development of our female colleagues throughout 2018. This year resulted in the conclusion of SThree's first Female Leadership Programme – Identify, a programme to prepare our future female leaders, living up to SThree's Leadership Principles – *Know me, Focus me, Develop me, Care for me, and Include me*. Fourteen of our inspirational female leaders have been promoted into Level 4 cohort, having personal development plans in place to help support them to reach their next career level.

### Link to strategy

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### KPI

#### 9C. People measures

##### Employee net promoter score ('eNPS')

Biannual employee survey introduced to capture regular feedback from employees about their experience of working at SThree.

Purpose: eNPS will help us make the right changes based on employee feedback and track what is working using our eNPS benchmark.

### 2018 Performance

**Average eNPS: 29** (2017: 25)

Broken down as follows:

eNPS Global: 29 (2017: 25)

eNPS Global Sales: 34 (2017: 33)

eNPS Global Support: -5 (2017: -4)

Our average eNPS Global has increased across both our sales and support functions in 2018. We have surpassed our target made in 2017 to increase our average eNPS by 5% year on year.

eNPS Global Support ended the year with a negative result (-5). As expected, it was heavily influenced by the exceptional restructuring of support service functions ultimately impacting the engagement of departing employees. Due to a number of initiatives taking place within this division, we should see an increase in engagement in 2019.

Our leadership team is committed to listening to all our people and will continue to use their feedback in 2019 to inform our strategy around creating an inclusive environment where all our people have the opportunity to develop and progress in their careers.

### Link to strategy

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## Group Non-Financial KPIs

continued

### Objective

## Investment in Contract to accelerate growth and mitigate economic downturns

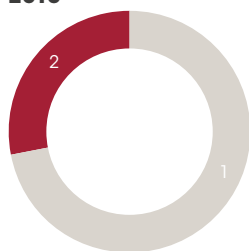
### KPI

#### 10. Contract/Permanent mix

Proportion of gross profit attributable to Contract and Permanent placements.

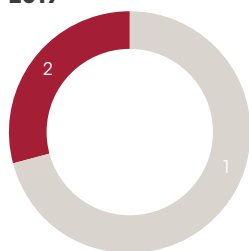
Purpose: Having an increased mix towards Contract helps to protect the Group from cyclical extremes, typical of the recruitment sector, and helps drive profitability.

### 2018 Performance



1. Contract 72%  
2. Permanent 28%

### 2017



1. Contract 71%  
2. Permanent 29%

The Group continues to remix towards its Contract business, in line with our strategy. Contract business has proven to be more profitable and more resilient than Permanent.

[Link to strategy](#)

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### KPI

#### 11. Contract runners

The number of Contractors on placement with one of the Group's clients at the end of the period.

Purpose: It shows progress against our Contract strategy at a point in time and is an indicator of future Contract gross profit when considered in conjunction with average fees.

### 2018 Performance

**11,203** +10% (2017: 10,197)

In line with our strategy, we have successfully been growing Contract business. The number of Contract runners has continued to grow, nearly by 10% year on year, reaching over 11,000 Contract runners. The double digit growth was generated in our strongest Contract businesses in Continental Europe and the USA.

[Link to strategy](#)

1

3

### Objective

## Act responsibly

### KPI

#### 12. Investments in 'carbon offsetting' initiatives

Energy and resource efficiency initiatives.

Purpose: A very broad indicator of how the business is managing its environmental footprint over time.

### 2018 Performance

**B score** (flat YoY)  
in the Carbon Disclosure Project

In 2018, we saw our carbon footprint reduced by 4% on a per employee basis.

We continue to actively monitor our environmental impact and take steps to reduce our environmental footprint. For the first time, the business has committed to a carbon reduction target – SThree aims to reduce our carbon emissions by 10% by 2025.

[Link to strategy](#)

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### Objective

## Provide an excellent customer experience

### KPI

#### 13. Customer net promoter score ('NPS')

Candidate and client surveys introduced to capture regular feedback from customers about their experience of working with SThree.

Purpose: It represents the likelihood of our clients and candidates recommending our services to a friend or colleague. It is included within the Group STIP and LTIP targets.

### 2018 Performance

**Average NPS: 42** -2 pts (2017: 44)

NPS has seen a minor decline of two points year on year. Its performance has been affected by the introduction of Workflow (our new Contractor Timesheet Portal) and the associated challenges. In addition, the mix of customer experience responses has changed significantly over 2018. It shifted towards pre-placement surveys introduced in the fourth quarter of 2017 – these solicited feedback from unplaced candidates.

[Link to strategy](#)

2

## 2018 was a year of strong growth across the Group, with both Contract and Permanent showing an increase in gross profit ('GP').



**Dave Rees**  
Chief Sales Officer

### Performance in 2018

Permanent was up 6%\*, with productivity in the division increasing by 7%. Reflecting the industry megatrends driving our markets, and the Group's focus, the Contract division grew more strongly, up 14%\*. In line with our strategy, the mix of Contract GP increased slightly to represent 72% of total Group GP, up from 71% in 2017.

Gross Profit	2018	2017	YoY variance*
Contract	£232.1m	£203.5m	+14%
Permanent	£89.0m	£84.2m	+6%
<b>Group</b>	<b>£321.1m</b>	<b>£287.7m</b>	<b>+12%</b>

Regionally we saw stand out performances across the key regions of Germany, the Netherlands, and Japan. We also saw continued growth in the USA. These strong performances were driven by a mixture of structural growth in our markets, strong management execution and the benefits of our strategic business decisions becoming realised. We also saw growth in all but one of our sectors within STEM, with Information and Communication Technology ('ICT') up 12%\*, Life Sciences up 8%\*, Energy up 30%\* and Engineering up 16%\*. Banking & Finance was broadly level year on year.

### Grow and extend regions, sectors and services Breakdown of GP

Contract/Permanent split	2018	2017
Contract	72%	71%
Permanent	28%	29%
	<b>100%</b>	<b>100%</b>

Geographical split	2018	2017
Continental Europe	57%	52%
USA	21%	22%
UK & Ireland	17%	19%
Asia Pacific & Middle East	5%	7%
	<b>100%</b>	<b>100%</b>

Sector split	2018	2017
ICT	44%	43%
Life Sciences	21%	22%
Banking & Finance	13%	15%
Energy	10%	9%
Engineering	10%	9%
Other	2%	2%
	<b>100%</b>	<b>100%</b>

\* In constant currency.

## Regional

Gross Profit	2018	2017	YoY variance*
Continental Europe	£183.3m	£150.6m	+20%
USA	£66.7m	£64.4m	+8%
UK & Ireland	£53.1m	£55.7m	-5%
Asia Pacific & Middle East	£18.0m	£17.0m	+11%
<b>Group</b>	<b>£321.1m</b>	<b>£287.7m</b>	<b>+12%</b>

SThree is a well-diversified business by geography, with non-UK GP now representing 83% of the Group's total GP. SThree is strategically located in regions where there are clear growth opportunities within STEM industries, and we are pleased to say that this resulted in growth across the vast majority of our businesses in the year.

SThree built upon its strong position in Continental Europe, with GP up 20%\*, driven by strong growth in both DACH<sup>1</sup> (up 21%\*) and Benelux, France & Spain (together up 18%\*). Our key aims in this region are to be the number one in the STEM space in both Germany and the Netherlands. We delivered a particularly strong performance in the Netherlands, which is a key business hub for many multi-national companies, with GP up 25%\*. During the year, we opened a new location in Eindhoven, improving client proximity and reaffirming our position as the market leader in STEM professional recruitment. In our largest country of operation, Germany, the team delivered another year of strong growth, with GP up 18%\* year on year. Germany benefited from the expansion of its Contract service to include Employed Contractor Model, which we launched in 2017.

The USA saw robust GP growth of 8%\* year on year, as we expanded our office footprint with a new office in Washington DC, having previously serviced this market remotely from New York. This growth was pleasing given the organisational changes implemented in the region in Q1 2018, which included the move from a regional to brand management structure.

The increasing economic uncertainty seen in the UK & Ireland ('UK&I') continued to impact the region, causing overall GP to decline by 5%\*. The UK is a mature recruitment market and is seeing slower industry growth than other geographies, although it remains a strategic priority for the Group. In the first half of 2018, we restructured parts of our Permanent business, consolidating into key hubs and implemented a change of management. These actions show clear signs of delivery with Permanent productivity in the region up by 7%\* on the prior year. As expected, the Contract business demonstrated its resilience, remaining broadly stable.

Our Asia Pacific & Middle East ('APAC & ME') businesses delivered growth of 11%\*. This was driven largely by an excellent performance from the team in Japan, delivering GP up 85%\* year on year. Japan is an important technical market, with an immature recruitment industry, and the Group has capitalised well on these opportunities. Japan now represents 29% of the APAC & ME GP, up from 17% in 2017. The Middle Eastern team also capitalised on its specialist knowledge, driving growth from Contract placements across Energy and Banking & Finance sectors.

## Sectors

Gross Profit	2018	2017	YoY variance*
ICT	£142.0m	£124.7m	+12%
Life Sciences	£66.3m	£62.4m	+8%
Banking & Finance	£42.4m	£43.5m	-1%
Energy	£33.4m	£26.5m	+30%
Engineering	£30.6m	£25.9m	+16%
Other	£6.4m	£4.7m	+28%
<b>Group</b>	<b>£321.1m</b>	<b>£287.7m</b>	<b>+12%</b>

Our largest sector continues to be ICT and our strong technology capability across all verticals is becoming increasingly recognised across our key regions. ICT represented 44% of Group GP, driven by an increase in GP across Continental Europe of 22%\*. In total, ICT GP increased by 12%\*, with the year-end headcount up 7%.

Our Life Sciences sector is already a market leader across several of our regions, and we saw another robust performance delivered across the Group, with GP up 8%\* year on year. This was driven by strong performances in both APAC up 29%\* and Benelux, France & Spain up 15%\*. Additionally, DACH and the USA delivered solid growth of 8% and 6% respectively.

Banking & Finance was down 1%\* year on year, with Contract GP up 4%\*, driven by a robust performance in Continental Europe, where average headcount was up 5% on prior year. The decline in Permanent GP seen in the UK and the USA, was partially offset by growth in APAC & ME, leaving Banking & Finance at 13% of the Group GP.

We saw strong growth across both our Engineering and Energy sectors in 2018, up 16%\* and 30%\*, respectively, year on year. Within Engineering we pleasingly saw growth across all major regions with the UK up 7%\*, DACH up 21%\*, Benelux, France & Spain up 19%\* and the USA up 29%\*.

Within Energy, where 94% of GP is derived from Contract, we had very strong performances in both Continental Europe, up 25%\*, and in the USA where our position in renewable energy helped deliver 40%\* growth in GP. At the year end, global headcount was up 20% on the prior year, with Continental Europe up 28% and the USA up 27%.

1. DACH region represents Germany, Switzerland and Austria.

\* In constant currency.



### Focus on Contract, drive Permanent profitability

In 2018, we delivered on our stated strategy by further investing in Contract growth, and improving Permanent productivity.

At the year end, Contract headcount was up 8% year on year, and all regions excluding UK&I reported increased headcount and GP growth in Contract. Since 2012 we have doubled our runners, ending on 11,203 and for the sixth consecutive year are able to report an all-time high number of runners at our financial year end. Our increased weighting towards Contract is creating a business that is more resilient in times of uncertainty, as well as providing stronger and more sustainable profits. The introduction of a Contract-specific management team has worked to increase accountability and focus. Our freelancer model is continuing to perform well, and the focus on growing the Employed Contractor Model ('ECM') is also paying dividends, as this model continues to grow in popularity across our key territories. This was a key focus in 2018 and now accounts for 21% of our Contract runners, up from 19% in 2017.

Permanent productivity per head was up 7%, achieved through our focus on the best Permanent markets, with average salaries up 1% and average fees up 4%. Over the year, we focused on reallocating our headcount into our key growth markets, rather than focusing on net growth in our Permanent headcount. We know that Permanent recruitment is more sensitive to overall market sentiment and therefore we have a clear strategy to actively invest in Permanent headcount in our key markets of Japan, the Netherlands, Germany and the USA, so that we are best-positioned for the future. Maintaining a strong base of Permanent business in markets where there is space to grow continues to be important to the business. From a strategic viewpoint, Permanent is key in building client relationships, provides a Contractor development pipeline, and has strong cash generation characteristics.

### Develop and sustain great customer relationships

Throughout 2018, we evolved our client segmentation strategy, allowing us to more effectively categorise our client types to ensure we develop our relationship with them in a more tailored manner. We developed our first onshore delivery centre based in Glasgow, which allows for larger, more nimble and scalable delivery mechanisms for project recruitment.

Direct business	Key accounts	MSPs
<ul style="list-style-type: none"> <li>• Low volume</li> <li>• 360 delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Moderate volume</li> <li>• Local and Glasgow Resource Centre delivery</li> </ul>	<ul style="list-style-type: none"> <li>• High volume</li> <li>• Number one STEM provider to our MSPs</li> <li>• Resource Centre delivery predicted to grow faster than other segments</li> </ul>

We have fully integrated the Net Promoter Score ('NPS') metric into the organisation and it now feeds into the reward process across the business.

NPS scores were broadly flat in 2018, reflecting the move of our London support services to Glasgow. Looking ahead, we are confident that we are well positioned to improve in 2019.

Gross profit	Gross profit*			Average headcount		
	Contract	Permanent	Total	Contract	Permanent	Total
USA	+14%	-5%	+8%	+15%	+2%	+11%
APAC & ME	-2%	+24%	+11%	+13%	-3%	+3%
Continental Europe	+22%	+15%	+20%	+19%	+8%	+15%
UK&I	0%	-20%	-5%	-1%	-25%	-9%
<b>Total</b>	<b>+14%</b>	<b>+6%</b>	<b>+12%</b>	<b>+13%</b>	<b>-1%</b>	<b>+8%</b>

## Continental Europe

Continental Europe represents over half of Group GP. It delivered a robust performance in 2018 (GP up 20%\*), with strong delivery in key markets.



**Timo Lehne**

Managing Director, DACH

**Appointed**

November 2017

**Experience**

- Joined SThree in 2006, as a Trainee Consultant, working for Progressive brand
- Became first German Sales Director in 2012, with strong experience building and scaling highly profitable business units within multiple sectors and disciplines
- Ultimately appointed Managing Director of DACH, becoming a driving force behind the DACH region's ongoing expansion
- Member of the Group Customer and Markets Board
- Holds degree in Business Administration from Business School in Arnhem/Nijmegen



**Kurt Schreurs**

Managing Director, Benelux, France & Spain

**Appointed**

January 2009

**Experience**

- Joined SThree in 1999, as a Recruitment Consultant of Computer Futures Belgium, servicing clients in ICT and Banking & Finance sectors
- In 2007 promoted to Country Director Belgium and Luxembourg with responsibility for the growth of all SThree brands in Belgium and Luxembourg area
- In 2014 became Managing Director of Benelux, France & Spain, overseeing businesses across the entire region
- Member of the Group Customer and Markets Board
- Holds a Master degree in Management and Public Sciences from University of Gent

### Germany, Austria and Switzerland

**Performance in 2018**

Germany, Austria and Switzerland ('DACH'), representing 31% of Group GP, had a strong year in 2018, building on our market-leading position in this region. Changes made to the management set-up delivered productivity gains as expected, and during the year, we rolled out a new employer proposition, which helps us to attract and retain talent. It also allowed us to deepen our customer relationships, and offer tailored solutions to major clients with complex needs. This is a barrier to entry to our competitors.

This translated into tangible benefits; in Germany our Permanent GP grew 16%\* with just 4% additional headcount. ICT remains our largest sector.

Our Contract business grew by 22%\*, with a 16% investment in headcount, and the dilutive effect on average tenure of our expansion was fully compensated by a more focused customer strategy.

ECM has been steadily gaining ground and has been regionalised further across our existing office infrastructure.

We successfully completed an office launch in Austria, which has more than doubled its freelance business year on year, whilst its Permanent business has increased its headcount by 50% year on year.

**Expectations for 2019**

We exit the year with a strong Contract runner book, which combined across the DACH region is 25% bigger than in the prior year, a strong starter pipeline, and our largest ECM order book to date.

In line with our Group strategy, we will continue to invest in all divisions with a particular focus on further strengthening our ECM throughout 2019.

### Benelux, France & Spain

**Performance in 2018**

Benelux, France & Spain is the second largest region after DACH, representing 26% of the Group GP. Benelux, France & Spain GP was up 18%\* year on year.

Overall, we delivered strong growth in the region, supported by strong economic growth, tight labour markets and high quality execution from our team there.

The Netherlands was the stand-out performer with GP up 25%\* year on year, which was an improvement on the 20% delivered in the prior year. Belgium grew GP by 16%\* year on year, while France and Luxembourg showed more modest growth.

Strong growth was achieved in Contract across the region with GP up 21%\* year on year. The Netherlands Contract business grew 27%\* and Belgium Contract up 17%\* year on year. We enter 2019 with a strong Contract runner book up 14% on the prior year.

Permanent also showed GP growth of 5%\* year on year, with average sales headcount up 5%.

## Performance in 2018

### GP growth YoY\*

Contract

**+22%**

Permanent

**+15%**

Total

**+20%**

### Average sales headcount

Contract

**+19%**

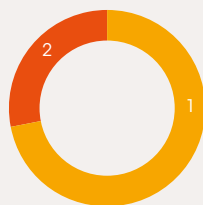
Permanent

**+8%**

Total

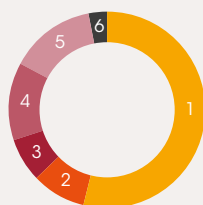
**+15%**

### 2018 – Contract/Permanent mix



1. Contract 72%
2. Permanent 28%

### 2018 – Sector mix



1. ICT 54%
2. Banking & Finance 9%
3. Energy 7%
4. Engineering 13%
5. Life Sciences 14%
6. Other 3%

### ICT GP\*

**+22%**

### Netherlands GP\*

**+25%**

### Contract runners

**+18%**

### GP – Growth YoY\*

2018	183.3m	+20%
2017	150.6m	+9%
2016	127.5m	+13%
2015	103.2m	+14%

### Sales headcount – YoY

2018	1,329	+8%
2017	1,231	+18%
2016	1,045	+4%
2015	1,002	+11%

ICT, our largest sector, grew 20%\* and continues to be the strongest growth market in the region, with ICT Contract up 23%\* and Permanent up 6% year on year\*.

Our relatively new offices in Barcelona, Eindhoven, Lille, Lyon and Toulouse, all of which have strong STEM opportunities, will enable us to more closely support our clients in these locations.

### Expectations for 2019

We exit the year with a strong Contract pipeline, Permanent starter pipeline and a highly focused management team with a clear strategy.

In line with our Group strategy, we will continue to invest in Contract throughout 2019, where we see market opportunity.

We will focus on improving Permanent productivity, with selective headcount investments.

Our investment in ECM in 2018 helped the region increase the number of Contractors. We expect to leverage this further in 2019 across the region.

We exit 2018 in good shape across our European business. Regional management objectives are fully aligned with our corporate Vision and we start 2019 with strong pipelines in both Contract and Permanent, and our largest ECM order book to date. Despite ongoing macro-economic challenges, we remain optimistic in our growth potential for the year ahead.

\* In constant currency.

## UK & Ireland

UK&I remains a strategic priority for the Group. Political and economic uncertainty continued to impact the region, causing overall GP to decline by 5%\*.



**Mike Walker**  
Managing Director, UK&I

**Appointed**  
August 2015

### Experience

- Joined SThree in 1998, as a Trainee Recruitment Consultant
- Progressed to become Sales Director at Huxley Engineering
- In 2010 became Regional Director overseeing sector diversification and business strategy planning for UK Midlands, Scotland, Ireland, Norway and Russia
- In 2012 appointed Managing Director of Global Energy and, soon after in 2015 Managing Director for UK&I
- Member of the Group Customer and Markets Board
- Holds Honours degree in English Literature from University of Hull and is a graduate of the Leadership Development Programme at Henley Business School

### Performance in 2018

Despite the continued uncertainty around Brexit, we have made very good progress in laying the foundations to maximise our performance in the UK in 2019, through focusing on key strategic targets. We significantly reduced our headcount in our Permanent division during the year and moved to a specialist hub and onshore delivery model. This resulted in a strong productivity gain of 7%\*. Permanent GP declined 20%\* against a 25% reduction in headcount. Our increased productivity also resulted in a strong performance on profitability. Contract GP (flat\* year on year) was largely due to a more cautious approach to headcount build in H1 which we ramped up in H2. Contract productivity was up 1%. The UK remains regionally well diversified with strong GP growth in Glasgow (up 12%\*), Bristol (up 13%\*), and Leeds (up 9%\*). We also restructured the management team in Dublin (up 9%\*) to better maximise the market opportunity.

SThree has a diversified sector offering in UK&I, with strong GP performances within Life Sciences (up 7%\*), Engineering (up 7%\*) and Energy (up 28%\*). We have conversely seen greater challenges in some of the more competitive spaces such as ICT (down 10%\*) and Banking & Finance (down 7%\*). However, we believe that we are focusing on the right markets and customer segments to see this improve in 2019.

### Expectations for 2019

We are well diversified both regionally and from a sector perspective within UK&I. We will continue to invest in headcount based on customer and sector needs, mindful of the broader economic and political backdrop. We have an agile model that allows us to meet a broad spectrum of our clients' demands.

\* In constant currency.



## Performance in 2018

### GP growth YoY\*

Contract

flat

Permanent

**-20%**

Total

**-5%**

### Average sales headcount

Contract

**-1%**

Permanent

**-25%**

Total

**-9%**

### Contract Engineering GP\*

**+7%**

### Permanent average fee\*

**-2%**

### Contract Life Sciences GP\*

**+20%**

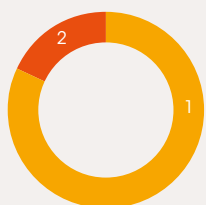
### GP – Growth YoY\*

2018	53.1m	-5%
2017	55.7m	-14%
2016	64.0m	-8%
2015	69.5m	+5%

### Sales headcount – YoY

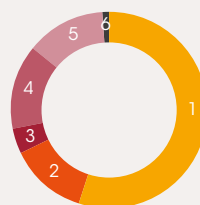
2018	454	-11%
2017	511	-3%
2016	530	-16%
2015	634	+5%

### 2018 – Contract/Permanent mix



1. Contract 82%
2. Permanent 18%

### 2018 – Sector mix



1. ICT 55%
2. Banking & Finance 13%
3. Energy 4%
4. Engineering 14%
5. Life Sciences 13%
6. Other 1%

## USA

USA saw robust GP growth of 8%\*, driven by particularly strong performances within Energy and Life Sciences sectors.



**Morgan Kavanagh**  
Managing Director, USA

**Appointed**  
December 2014

### Experience

- Appointed MD of USA in Q4 2018
- Joined SThree in 1998, as a Trainee Recruitment Consultant in London for Huxley Associates
- In 2006 relocated to New York to establish SThree's US business
- Succeeded in driving the exponential growth of the US business, for both Contract and Permanent divisions
- Member of the Group Customer and Markets Board
- Holds a degree in English Language and Literature from University of Nottingham

### Performance in 2018

The USA is our second largest region and represents 21% of Group GP.

Contract continued to deliver a strong performance in 2018 with GP up 14%\*, balanced by the decline of 5%\* seen in Permanent, leaving the region having delivered overall GP growth of 8%\*.

Growth in the region was across Energy, Life Sciences, ICT, and creative markets. Energy GP was up 40%\* as we continued to build our customer portfolio, build on our strong position in renewable energy, and broaden our service offering. Life Sciences, our largest sector in the region grew by 6%\*. ICT grew by 8%. We continue to see further opportunities for growth in all our markets.

We continued to prioritise growth in Contract sales headcount, with an average increase of 15%\* year on year. Overall, average headcount across the region was up 11%\* in 2018, period end sales headcount was up 5%.

In our Permanent division, we made critical leadership and strategic changes to create a platform for more consistent and balanced growth. The effect of these structural changes impacted performance in the year, as we expected. We are fully confident we have made the right strategic decisions and we expect the positive impact of these changes to be seen in performance during 2019 and beyond.

### Expectations for 2019

With a stable exit rate in Contract runners, especially in Energy and ICT, we expect to continue our strong growth into 2019. We expect Permanent to return to growth in 2019.

We are confident that we have the right team and structure to deliver a high quality service to our clients and continue to penetrate the largest recruitment market in the world. We remain agile to cater for any risks or opportunities that are posed by the market.

\* In constant currency.

## Performance in 2018

### GP growth YoY\*

Contract

**+14%**

Permanent

**-5%**

Total

**+8%**

### Average sales headcount

Contract

**+15%**

Permanent

**+2%**

Total

**+11%**

### Energy GP\*

**+40%**

### Life Sciences GP\*

**+6%**

### Contract runners

**flat**

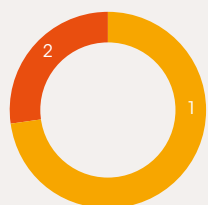
### GP – Growth YoY\*

2018	66.7m	+8%
2017	64.4m	+18%
2016	50.7m	+0%
2015	45.5m	+26%

### Sales headcount – YoY

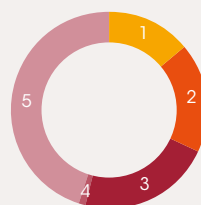
2018	369	+5%
2017	353	+15%
2016	307	-17%
2015	370	+34%

### 2018 – Contract/Permanent mix



1. Contract 73%
2. Permanent 27%

### 2018 – Sector mix



1. ICT 14%
2. Banking & Finance 18%
3. Energy 22%
4. Engineering 1%
5. Life Sciences 45%

## Asia Pacific & Middle East

The region delivered 11%\* GP growth, driven by an excellent performance of Permanent in Japan, and specialist knowledge in Middle East Contract supporting growth in Energy and Banking & Finance



**Timothy Moran**

Regional Director, APAC

**Appointed**

June 2017

**Experience**

- In 2012 became Business Manager at Huxley & Real Staffing
- Progressed to become Country Director holding responsibility for the day-to-day operations of Australia
- In 2017 appointed as Regional Director of Asia Pacific, overseeing operations and strategies of the businesses in Australia, Singapore, and notably Japan



**Marcos Simonetti**

Regional Director, ME

**Appointed**

November 2013

**Experience**

- Joined SThree in 1997, as a Recruitment Consultant at Computer Futures in London
- In 2009 became Regional Director responsible for the growth of Huxley Associates across the MENA region
- Became Regional Director of SThree MENA in 2013
- Holds Honours degree in International Hospitality Management from University of Nottingham Trent

**Performance in 2018**

Asia Pacific & Middle East ('APAC & ME') represented 5% of Group GP, a reduction from 7% contribution in 2017. Whilst the aim of the region is to outperform the Group average, 2018 was a return to growth for APAC & ME after a period of recovery in Energy and a realignment of market focus in other sectors. The region includes Australia, Singapore, Japan, Malaysia, Hong Kong and Dubai.

Our market exposure is broad with a balanced approach to all STEM markets and alignment to our Group strategic priorities. Our exposure to Energy and Banking & Finance was lower than in previous years. The bulk of our headcount investment was within ICT, Life Sciences and Engineering.

Our Japanese business delivered a stand-out performance this year, with Japan growing its GP by 85%\*. We also saw a strong performance in Middle East Contract where GP grew by 48%\*, driven by both the ICT and Energy sectors. We are confident in both businesses continuing that performance in 2019 and are investing in headcount and the correct infrastructure to provide a platform for further growth.

**Expectations for 2019**

We expect to maintain good growth in 2019. We will continue to invest in our Japanese Permanent business where we expect to continue seeing strong future growth. We will also continue to invest in Middle East Contract across both Energy and ICT.

\* In constant currency.



## Performance in 2018

### GP growth YoY\*

Contract

**-2%**

Permanent

**+24%**

Total

**+11%**

### Average sales headcount

Contract

**+13%**

Permanent

**-3%**

Total

**+3%**

### Contract GP

**-2%**

### Japan Permanent GP

**+88%**

### Dubai Contract runners

**+30%**

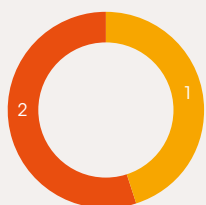
### GP – Growth YoY\*

2018	17.0m	+11%
2017	17.0m	-4%
2016	16.4m	-15%
2015	17.5m	-6%

### Sales headcount – YoY

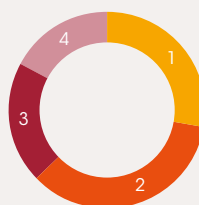
2018	180	+12%
2017	161	-1%
2016	163	-9%
2015	180	-28%

### 2018 – Contract/Permanent mix



1. Contract 45%
2. Permanent 55%

### 2018 – Sector mix



1. ICT 28%
2. Banking & Finance 35%
3. Energy 20%
4. Life Sciences 17%

## Delivering on our strategy requires all parts of our business to work together.



**Justin Hughes**  
Chief Operating Officer

### Build infrastructure for leveraged growth

#### 2018 Review

2018 saw SThree make significant progress on the restructuring of the Group's support services.

Our intent is to have a scalable structure which will allow us to see leveraged growth in our operating profit against our gross profit. We aim to have systems, processes and an IT infrastructure which will allow us to focus on consultant productivity and the customer journey, in a cost-effective way whilst providing world class service.

Significant progress was made against this goal with the successful strategic restructuring of our central support functions from London to Glasgow. Concurrently, we successfully introduced a governance system which will allow us to ensure strategic and operational alignment between all of the business units and provide the organisation with a holistic view of our global operational requirements, ensuring we can effectively manage demand and resource allocation for optimum delivery.

The Glasgow relocation saw 34 support functions successfully relocated with minimal degradation of service to internal and external customers. This extensive and complex project is now substantially complete and delivering savings in excess of £5 million per annum.

The restructuring has incurred significant one-off costs that are anticipated to be in the region of £14.0 million, with approximately £12.9 million of personnel costs and professional advisor fees, and £1.1 million of property related costs. The project is being partially funded by a grant receivable from Scottish Enterprise of £2.1 million which is receivable and recognisable over several years, subject to the terms of the grant being met within a fixed timeframe.

#### London based support relocation

Net exceptional charge	£ million
Personnel and other costs	12.9
Property related costs	1.1
<b>Total exceptional costs</b>	<b>14.0</b>
Less grant income	2.1
<b>Total net exceptional costs</b>	<b>11.9</b>

Note 3 to the financial statements provides further details about the net exceptional restructuring costs.

- **242 roles relocated to Glasgow**
- **Simple payback of about two years**
- **£5.5 million annualised benefit**
- **Net cash outflow of £11.5 million in 2018 (2017: £1.0 million)**
- **Net restructuring costs of £13.1 million recognised as exceptional items to date, with £6.4 million in 2018 (2017: £6.7 million).**

## Five-Year Financial Review

### Gross profit

2018	£321.1m
2017	£287.7m
2016	£258.7m
2015	£235.7m
2014	£218.2m

### Operating profit

2018 <sup>1</sup>	£53.9m
2017 <sup>2</sup>	£44.9m
2016 <sup>3</sup>	£41.3m
2015 <sup>4</sup>	£41.5m
2014	£29.8m

### Adjustments to profit before tax

	2018	2017
Reported profit before tax after exceptional items	£47.0m	£37.7m
Net exceptional strategic restructuring costs	£6.4m	£6.7m
Reported profit before tax and exceptional items ('Adjusted')	£53.4m	£44.5m

### Operating profit conversion ratio

2018 <sup>1</sup>	16.8%
2017 <sup>2</sup>	15.6%
2016 <sup>3</sup>	16.0%
2015 <sup>4</sup>	17.6%
2014	13.7%

### Cash conversion

2018 <sup>1</sup>	67%
2017 <sup>2</sup>	79%
2016 <sup>3</sup>	96%
2015 <sup>4</sup>	126%
2014	48%

### Adjusted basic earnings per share

2018 <sup>1</sup>	30.7p
2017 <sup>2</sup>	25.7p
2016 <sup>3</sup>	23.2p
2015 <sup>4</sup>	23.2p
2014	16.3p

1. 2018 figures were adjusted for the impact of £6.4 million of net exceptional strategic restructuring costs (£6.8 million in costs offset by the government grant income of £0.4 million).
2. 2017 figures were adjusted for the impact of £6.7 million of exceptional strategic restructuring costs.
3. 2016 figures were adjusted for the impact of £3.5 million in restructuring of certain sales businesses and central support functions.
4. 2015 figures exclude the impact of £0.4 million exceptional gain and were also adjusted for Energy restructuring and impairment costs of £3.1 million.

Importantly, it has allowed us to build an organisational structure which is appropriate for the complexity of our organisation both now and in the future. We have invested in the leadership skills, experience and technical capability (which incorporates the new Centre of Excellence function), which will allow us to drive operational excellence in everything we do going forward.

### 2019 Expectations

With the transition stage substantially completed and services stabilised we are currently conducting a benchmarking process, which in conjunction with the analysis undertaken by Operational Excellence will help inform our process reengineering plans for 2019. Key areas of focus will be the successful completion of the rollout of Workflow, a full end-to-end review of the Order-to-Bill process and a full review of the ECM/Payroll operating model.

We will also continue to invest in technologies and services to extend our core offering, particularly around Statement of Work, as well as continuing to invest in modernising our workplace systems.

Where 2018 was about relocation and restructuring, 2019 will see the focus switched to process reengineering, ensuring we have a stable and scalable IT landscape for the medium to long term, evolving our run environment and moving towards digital transformation.

The thorough use of NPS and eNPS will ensure we continue to collaborate and drive improvements in our behaviours as well as in our processes and systems.

# Strong performance that underpins increase in final dividend to 9.8p.

**Alex Smith**  
Chief Financial Officer



Gross profit growth  
(in constant currency)

**+12% to £321.1m**

2017: +4% to £287.7m

Adjusted profit before tax

**+20% to £53.4m**

(+20% in constant currency)  
2017: +9% to £44.5m

Net debt balance

**£4.1m**

2017: net cash £5.6m

Adjusted basic earnings per share

**+19% to 30.7p**

2017: +11% to 25.7p



## In 2018, improved operational performance delivered strong growth in gross profit and profit before tax, ahead of market expectations.

### Income statement

Revenue for the year was up 13% on constant currency and reported bases to £1,258.2 million (2017: £1,114.5 million). On constant currency and reported bases, gross profit ('GP') increased by 12% to £321.1 million (2017: £287.7 million). Growth in revenue exceeded the growth in GP as the business continued to remix towards Contract. Contract represented 72% of Group GP in the year (2017: 71%). This change in mix resulted in a slight decrease in the overall GP margin to 25.5% (2017: 25.8%) as Permanent revenue has no cost of sale, whereas the cost of paying the contractor is deducted to derive Contract GP. The Contract margin increased slightly to 19.9% (2017: 19.8%).

Reported profit before tax was up 25% at £47.0 million. The adjusted profit before tax ('PBT') was £53.4 million up 20% year on year (2017: adjusted £44.5 million and reported £37.7 million). The adjusted PBT excludes restructuring costs of £6.4 million that were incurred during the year in respect of the relocation of our support function to Glasgow (2017: £6.7 million). In 2018, this exceptional restructuring delivered savings which drove an increase in our operating profit conversion ratio of 1.2 percentage points to 16.8% on an adjusted basis and 1.5 percentage points to 14.8% on a reported basis (2017: adjusted 15.6% and reported 13.3%).

### Adjusted profit before tax

2018	£53.4m
2017	£44.5m
2016	£40.8m
2015	£40.8m

### Adjusted operating profit ('OP') conversion ratio

2018	16.8%
2017	15.6%
2016	16.0%
2015	17.6%

### Restructuring costs ('adjusting items')

A strategic relocation of the majority of our central support functions away from our London headquarters to a new facility located within Glasgow was announced on 1 November 2017. The transition to the Glasgow Centre of Excellence is now substantially complete and we anticipate that this restructuring will realise cost savings ahead of expectations, in excess of £5 million per annum. In line with the project implementation timescale, benefits started to be realised in the second half of this financial year and led to the recognition of £2.6 million in savings in 2018. The trajectory of the realised savings is expected to result in additional savings of £2.9 million in support costs in 2019.

We continue to anticipate that one-off restructuring costs will be in the region of £14.0 million, with circa £12.9 million of operating expenses, including personnel costs and professional advisor fees, and circa £1.1 million of property related costs. The project is being partially funded by a grant receivable from Scottish Enterprise of circa £2.1 million which is receivable and recognisable over several years, subject to the terms of the grant being met within a fixed timeframe.

Net exceptional costs of £6.4 million have been charged to the Consolidated Income Statement during the year, bringing the total costs recognised to date to £13.1 million (2017: £6.7 million). The exceptional charge in the year included personnel costs of £4.1 million and other costs of £2.7 million (primarily professional and property costs). During the year, the grant income of £0.4 million was recognised as an offset to the exceptional costs of 10% of gross wages for each full time role created in the Centre of Excellence in the year.

### Key financial information

	2018		2017		Variance <sup>3</sup>	
	Adjusted <sup>1</sup>	Reported	Adjusted <sup>2</sup>	Reported	Actual movement	Constant currency movement
Revenue (£ million)	1,258.2	1,258.2	1,114.5	1,114.5	13%	13%
Gross profit (£ million)	321.1	321.1	287.7	287.7	12%	12%
Operating profit (£ million)	53.9	47.5	44.9	38.2	20%	20%
OP Conversion ratio (%)	16.8%	14.8%	15.6%	13.3%	+1.2% pts	+1.2% pts
Profit before tax (£ million)	53.4	47.0	44.5	37.7	20%	20%
Basic earnings per share (pence)	30.7p	26.6p	25.7p	21.5p	19%	20%
Proposed final dividend (pence)	9.8p	9.8p	9.3p	9.3p	5%	5%
Total dividend (pence)	14.5p	14.5p	14.0p	14.0p	4%	4%
Net (debt)/cash (£ million)	(4.1)	(4.1)	5.6	5.6		

1. 2018 figures were adjusted for the impact of £6.4 million of net exceptional strategic restructuring costs.

2. 2017 figures were adjusted for the impact of £6.7 million of exceptional strategic restructuring costs.

3. All variances compare adjusted 2018 against adjusted 2017 to provide a like-for-like view.

The strategic nature and material cost of the restructuring of support functions announced in 2017 continues to be of sufficient magnitude to warrant separate disclosure as an exceptional item on the face of the Consolidated Income Statement, in line with our accounting policies. The separate disclosure of the exceptional items helps readers understand the Group's underlying results for the year ('Adjusted'). The Group adjusted profit KPIs for the year are presented in various sections of this Annual Report.

#### A reconciliation of 'Adjusting items' is provided below:

£ million	2018	2017
Reported profit before tax after exceptional items	47.0	37.7
Exceptional strategic restructuring costs (net of government grant)	6.4	6.7
Reported profit before tax and exceptional items ('Adjusted')	53.4	44.5

#### Operating costs

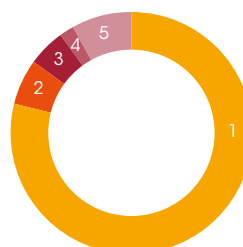
Adjusted operating costs, excluding one-off net restructuring costs of £6.4 million (2017: £6.7 million), increased by 10% to £267.2 million (2017: £242.8 million). The increase was mainly driven by additional investment in headcount (8% increase year on year), 10% increase in personnel costs (£11.0 million\* increase in salaries; £3.5 million\* increase in commissions and bonuses in line with the improved GP), and £0.9 million increase in property costs reflecting demand for new and modernised office space.

Payroll costs represented 79% of our cost base. Average total headcount was up by 10% at 2,926 (2017: 2,668), with average sales headcount up 8%. The increase in average sales headcount was in response to supportive market conditions across the majority of our geographies as well as improvements in consultant productivity, attributable primarily to Continental Europe (Benelux, France & Spain and DACH regions) and the USA, (headcount up 15% and 11% respectively). 2% of the average total headcount was attributable to the relocation of the support function to Glasgow. The year-end total headcount was up 4% at 2,979.

The year-end sales headcount represented 78% of the total Group headcount.

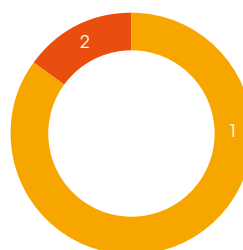
The full benefits of the restructure of our UK support function on personnel and property costs are expected to be realised from the financial year 2019 onwards.

#### Cost base



1. Payroll 79%
2. Property 6%
3. IT & Professional 5%
4. Advertising 2%
5. Other 8%

#### Payroll costs



1. Sales 85%
2. Support Services 15%

#### Year-end total headcount

2018	2,979
2017	2,866
2016	2,590
2015	2,752

#### Investments

During the year, we continued to invest in in-house Innovation initiatives, expensing a total of £2.4 million (2017: £2.0 million) across the year. Our intent is to build a more diverse portfolio of products and services so that we capture a greater share of total customer spend on employment matters and to ensure we are well positioned to benefit from potential disruption. The bulk of the investment was made in our HireFirst and Showcaser initiatives. HireFirst, launched in October 2018, is at the beta testing stage, and no profits were generated during the year. Showcaser is progressing well and it has received encouraging feedback from the prospective clients. We do not anticipate material revenue from HireFirst or Showcaser in 2019.

We continued to hold non-controlling shareholdings in three innovation start-ups. (i) Ryalto Limited which is designing and developing a mobile application for healthcare professionals. (ii) RoboRecruiter Inc. which is building automated multichannel platforms connecting candidates with recruiters and employers in real time; and (iii) The Sandpit Limited, a privately owned group that specialises in developing early stage start-up companies within defined markets.

\* In constant currency.

## Taxation

The tax charge on pre-exceptional statutory profit before tax for the year was £13.9 million (2017: £11.4 million), representing an effective tax rate ('ETR') of 25.9% (2017: 25.6%). The ETR on post-exceptional statutory profit before tax was 27.1% (2017: 26.7%).

The ETR primarily reflects our geographical mix of profits and a cautious approach to recognising deferred tax assets on tax losses. USA Tax Reform legislation passed in December 2017 saw a reduction in the federal corporate tax rate from 35% to 21%. As previously indicated, this had a minimal impact on the ETR because the tax credit associated with the current year profits was largely offset by the reduction in the deferred tax asset. Whilst the Group benefited from a reduction in the USA cash tax payable in 2018, the accounting ETR benefit of this change will occur in 2019 and beyond.

Other regulatory changes which may impact the Group in future years include:

(i) If the UK leaves the European Union, the Group will no longer be able to benefit from provisions applying in certain tax treaties and in the EU Parent Subsidiary Directive. The Group is currently planning mitigating actions against this and hence we do not expect any material costs to arise.

(ii) In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption in controlled foreign company rules, introduced by the UK Government in 2013. The Group has historically relied on this exemption in certain jurisdictions and we are therefore monitoring the investigation. If the preliminary findings of the European Commission are upheld, we calculate our maximum potential liability to be £3.2 million. Our current assessment is that no provision is required in respect of this issue.

(iii) Increased transparency arising from the implementation of Country-By-Country reporting provisions in various OECD member states may result in more frequent tax audits, particularly in the area of transfer pricing. The Group is comfortable that its policies in this area are robust.

We will continue to monitor and assess the impact of any changes as they are implemented.

## Earnings per share ('EPS')

On an adjusted basis, basic EPS was up by 5 pence, or 19%, at 30.7 pence (2017: adjusted 25.7 pence), due to an increase in the adjusted profit before tax, partially offset by a marginal increase in weighted average number of shares. On a reported basis, EPS increased to 26.6 pence, up 5.1 pence on the prior year (2017: 21.5 pence). The weighted average number of shares used for basic EPS remained stable at 128.7 million (2017: 128.6 million). Reported diluted EPS was 25.7 pence (2017: 20.8 pence), up 4.9 pence. Share dilution mainly results from various share options in place and expected future settlement of certain tracker shares. The dilutive effect on EPS from tracker shares will vary in future periods depending on the profitability of the underlying tracker businesses, the volume of new tracker arrangements created and the settlement of vested arrangements.

### Adjusted basic EPS

2018	30.7p*
2017	25.7p
2016	23.2p
2015	23.2p

\* Excludes the impact of £6.4 million in net exceptional restructuring costs (2017: £6.7 million).

## Dividends

The Board monitors the appropriate level of the dividend, taking into account, inter alia, achieved and expected trading of the Group, together with its balance sheet position. In line with the Board's strategy of targeting a dividend cover of between 2.0x and 2.5x, based on underlying EPS, over the short to medium term, the Board has proposed an increased final dividend of 9.8 pence per share (2017: 9.3 pence). Taken together with the interim dividend of 4.7 pence per share (2017: 4.7 pence), this brings the total dividend for the year to 14.5 pence per share (2017: 14.0 pence). This represents a 4% increase in dividend per share versus the prior year. This dividend increase reflects the Board's confidence in SThree's long-term strategy, with cover now in the target range of 2.0 to 2.5 times. The final dividend, which amounts to approximately £12.8 million, will be subject to shareholder approval at the 2019 Annual General Meeting. It will be paid on 7 June 2019 to shareholders on the register on 26 April 2019.

## Share options and tracker share arrangements

We recognised a share-based payment charge of £4.7 million during the year (2017: £3.3 million) for the Group's various share-based incentive schemes. The greater charge in 2018 is primarily due to improved non-market vesting conditions, such as the adjusted basic EPS driven by increased profit before tax. A portion of the annual charge also reflects the accelerated cost for all 'good leavers' who left the Group as a result of restructuring and relocation of support functions away from London.

We also operate a tracker share model to help retain and motivate our entrepreneurial management within the business. The programme gives our most senior sales colleagues a chance to invest in a business they manage with the support and economies of scale that the Group can offer them. In 2018, 68 employees invested an equivalent of £0.6 million in 25 Group businesses.

We settled certain tracker shares during the year for a total consideration of £3.7 million (2017: £3.3 million) which was determined using a formula in the Articles of Association underpinning the tracker share businesses. We settled the consideration in SThree plc shares either by issuing new shares (398,298 new shares were issued on settlement of vested tracker shares in 2018) or treasury shares (in total 700,200 were used in settlement of vested tracker shares in 2018). Consequently, the arrangement is deemed to be an equity-settled share-based payment arrangement under IFRS 2 'Share-based payments'. There is no charge to the income statement as initially the tracker shareholders subscribed to the tracker shares at their fair value. We expect future tracker share settlements to be between £5 million to £15 million per annum. These settlements may either dilute the earnings of SThree plc's existing ordinary shareholders if funded by new issue of shares or will result in a cash outflow if funded via treasury shares. This year we purchased 411,354 of SThree plc's ordinary shares for immediate cancellation to offset a negative impact on share dilution as a result of tracker arrangements being funded via a new issue of shares.

Note 1 to the financial statements provides further details about all Group-wide discretionary share plans, including the tracker share arrangements.

### Balance sheet

At 30 November 2018, the Group's net assets increased to £101.7 million (2017: £80.7 million), mainly due to the excess of net profit over the dividend payments supported by a strengthening of the Euro vs Sterling, offset by share buy backs and share cancellations during the year.

The most significant item in our statement of financial position is trade receivables (including accrued income) which increased to £274.6 million (2017: £217.7 million). The main drivers of this increase were an almost four day growth in Days Sales Outstanding ('DSOs') to 44.7 days (2017: 40.6 days), reflecting a short-term impact from the move of support functions to Glasgow, a 12% increase in Contract GP in Q4 year on year, and a £4.3 million increase due to movements in foreign exchange rates. We expect

DSOs to improve during the course of 2019. Trade and other payables increased from £159.6 million to £191.7 million, with £2.5 million due to movements in foreign exchange rates, and the remainder primarily due to an increase in Contract GP. Creditor days were 17 days (2017: 18 days). Provisions decreased by £3.3 million primarily due to a £5.3 million utilisation in a provision for the relocation of central support functions from London to Glasgow.

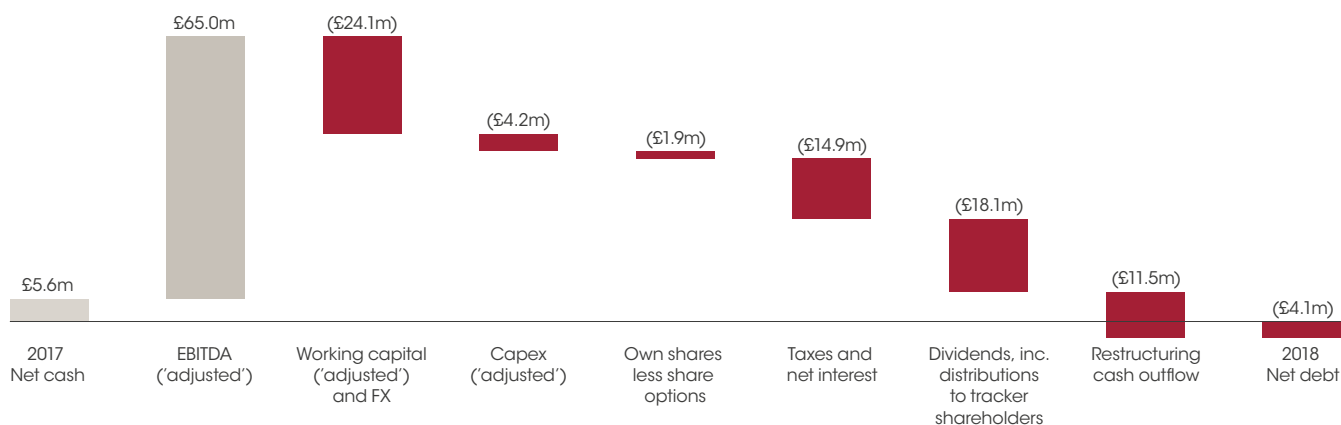
### Investment in subsidiaries (Company only)

In the previous two years, an impairment charge was recognised in respect of the Company's carrying value of investments in subsidiaries. This was primarily in respect of the Group's UK operations. In 2018, we considered whether there were new indicators of impairment and did not identify any circumstances or triggers which would require a formal impairment test to be performed. However, as set out in the Risk section, at the date of signing the financial statements, there is ongoing uncertainty surrounding the potential outcomes of Brexit. This is being monitored and there remains a risk that Brexit outcome could trigger an impairment risk in 2019 or future periods.

(£ millions)	2018		2017	
	Adjusted*	Reported	Adjusted*	Reported
Operating profit	53.9	47.5	44.9	38.2
Depreciation, amortisation and impairments	6.7	6.9	6.1	6.1
Share awards charge and other non cash items	4.4	4.7	3.5	3.5
<b>EBITDA</b>	<b>65.0</b>	<b>59.1</b>	<b>54.5</b>	<b>47.8</b>
Working capital	(24.4)	(29.1)	(13.5)	(7.7)
<b>Net cash generated from operations</b>	<b>40.6</b>	<b>30.0</b>	<b>41.1</b>	<b>40.1</b>
Capex	(4.2)	(5.2)	(5.8)	(5.8)
<b>Cash conversion ratio</b>	<b>67%</b>	<b>52%</b>	<b>79%</b>	<b>90%</b>

\* Excludes the impact of £6.4 million in net exceptional restructuring costs (2017: £6.7 million).

### Cash Flow Bridge 2018



Note: EBITDA includes share based payments and other non-cash items.



On an adjusted basis, we generated net cash from operations of £40.6 million (2017: £41.1 million on an adjusted basis) due to continued growth of the Contract runner book increasing our working capital and an increase in DSOs. This resulted in a lower cash conversion ratio of 67% (2017: 79%) on an adjusted basis or 52% (2017: 90%) on a reported basis.

Capital expenditure (excluding £1.0 million in exceptional capital expenditure) reduced to £4.2 million (2017: £5.8 million), the majority of which was in relation to infrastructure investment in offices in the Netherlands, Germany and the UK, and investment in the Contractor Timesheet Portal ('Workflow') of £0.6 million. We expect capital expenditure will increase year on year in 2019, to address security, out of support systems and a number of office moves in certain European locations. Investments in available for sale financial assets were £nil (2017: £1.2 million) in the year.

During the year, STThree plc bought back shares for £1.5 million (2017: £7.8 million) to satisfy employee share schemes in future periods, and repurchased 411,354 of its ordinary shares at an average price of 357 pence for immediate cancellation. Small cash inflows were generated from share based payment schemes.

Income tax payments increased to £14.4 million (2017: £10.9 million). Small cash outflows were made for interest payments.

Dividend payments were £18.0 million (2017: £18.0 million) and there was a small cash outflow of £0.1 million representing distributions to tracker shareholders.

We started the year with net cash of £5.6 million and closed the financial year with net debt of £4.1 million. The year-on-year decrease primarily reflected increased cash absorbed in working capital as the Contract business continued to grow, increased DSOs, and the £11.5 million cash cost of the restructuring of the support functions in the UK. We expect DSOs to improve in 2019 and the restructuring cash costs to be significantly less in the first half of 2019, as the project is now substantially complete.

### Treasury management

We finance the Group's operations through equity and bank borrowings. The Group's cash management policy is to minimise interest payments by closely managing Group cash balances and external borrowings. We intend to continue this strategy while maintaining a strong balance sheet position.

We maintain a committed Revolving Credit Facility ('RCF') of £50 million, along with an uncommitted £20 million accordion facility, with Citibank and HSBC, giving the Group an option to increase its total borrowings to £70 million for general corporate purposes. This facility was successfully renegotiated earlier in the year and extended to May 2023, on similar terms and conditions to the previous facility. We also have an uncommitted £5 million overdraft facility with NatWest and a £5 million overdraft facility with HSBC.

At the year end, the Group had drawn down £37.4 million (2017: £12.0 million) on these facilities.

The RCF is subject to financial covenants requiring the Group to maintain financial ratios over interest cover of at least 4.0, leverage of at least 3.0 and guarantor cover at 85% of EBITDA and gross assets. In 2018, we ended the year with significant headroom on all our covenants.

The funds borrowed under this facility bear interest at a minimum annual rate of 1.3% above three month LIBOR, giving an average interest rate of 1.8% during the year (2017: 1.5%). The finance costs for the year amounted to £0.7 million (2017: £0.4 million).

The Group's UK-based treasury function manages the Group's treasury risks in accordance with policies and procedures set by the Board, and is responsible for day-to-day cash management; the arrangement of external borrowing facilities; the investment of surplus funds; and the management of the Group's interest rate and foreign exchange risks. The treasury function does not engage in speculative transactions or operate as a profit centre.

### Foreign exchange

Foreign exchange volatility continues to be a significant factor in the reporting of the overall performance of the business with the main functional currencies of the Group entities being Sterling, the Euro and the US Dollar.

For 2018, movements in exchange rates between Sterling and the Euro and the US Dollar provided a moderate net headwind to the reported performance of the Group with the highest impact coming from the Euro and US Dollar. The exchange rate movements decreased our reported 2018 GP by approximately £0.7 million and operating profit by £0.1 million.

Our financial performance KPIs remain materially sensitive to exchange rate movements. By way of illustration, each one per cent movement in annual exchange rates of the Euro and US Dollar against Sterling impacted our 2018 GP by £1.8 million and £0.7 million, respectively, and operating profit by £0.5 million and £0.2 million, respectively.

The Board considers it appropriate in certain cases to use derivative financial instruments as part of its day-to-day cash management to provide the Group with protection against adverse movements in the Euro and US dollar during the settlement period. The Group does not use derivatives to hedge translational foreign exchange exposure in its balance sheet and income statement.



**Alex Smith**  
Chief Financial Officer

# Connecting risk, opportunity and strategy

Delivering on our strategy requires all parts of our business to work together. In isolation, risk mitigation helps SThree manage specific subjects and areas of the business. However, when brought into our day-to-day activities successful risk management has helped us to maximise our competitive advantage and deliver on our Strategic Priorities in 2018. Whilst the ultimate responsibility for risk management rests with the Board, the effective day-to-day management of risk is in the way we do business and our culture.

Aligning risks and strategy by using risk to help make the right strategic decisions, in order to deliver our strategy and competitive advantage throughout the business, we must ensure that we maintain a balance between safeguarding against potential risks and taking advantage of all potential opportunities.

## Strategic priorities

- 1 **Grow and extend regions, sectors and services**
- 2 **Develop and sustain great customer relationships**
- 3 **Focus on Contract, drive Permanent profitability**
- 4 **Generate incremental revenues through Innovation and M&A**
- 5 **Build infrastructure for leveraged growth**
- 6 **Find, retain and develop great people**

For more information on our strategic priorities → page 1-15

## Risk categories

Risk Category	Principal Risk
<b>Macro-economic Environment/ Cyclical</b>	A change in the market conditions adversely impacting performance, thereby reducing profitability and liquidity.
<b>Competitive Environment/ Business Model</b>	Competitors, social media or disruptive technology/innovation taking market share and putting pressure on margins.
<b>Commercial Relationships/ Customer Risk</b>	Some customers may be unable to fulfil financial obligations resulting in the write off of debts.
<b>Contractual Risk</b>	With larger global service arrangements, there may be demand for more onerous contract terms that can increase the Group's risk exposure.
<b>People/Talent Acquisition/ Retention</b>	High churn rates or the loss of key people could slow our growth and reduce profitability.
<b>Information Technology/Cyber Risks</b>	A serious system or third party disruption, loss of data or security breach could have a material impact on the Group's operations or project delivery.
<b>Data Processing/ Management</b>	A serious data compliance failure could expose the Group to potential legal, financial and reputational risk.
<b>Compliance</b>	Non-compliance with laws or regulations can lead to increasingly heavy fines/penalties which could expose us to potential legal, financial or reputational risk.
<b>Foreign Exchange Translation ('FX')</b>	A significant adverse movement in FX rates may reduce profitability.
<b>Brexit</b>	Departure from the European Union without a free trade arrangement and managed transition period.



### Enterprise Risk Management

Our Enterprise Risk Management ('ERM') framework processes and arrangements all help to ensure the ongoing monitoring of principal risks and controls by the Audit Committee and Board. Our approach is to have an organisational structure, which allows close involvement of senior management in all significant decisions, combined with a prudent and analytical approach, as well as clear delegations, all of which help to align the Group's interests with those of shareholders. We believe that the effective management of risk is based on a mix of 'top-down' and 'bottom-up' approaches, which include:

- our strategy setting process
- the quality of our people and culture
- established procedures and internal controls
- policies for highlighting and controlling risks
- assurance via self-verification, internal audit and external audit
- regular oversight by the relevant Committees; and
- reacting quickly to market conditions and the cycle.

We have integrated ERM processes into our overall strategy, with risk appetite measures reviewed by the Board based on an assessment of its key risks (including reputational risks), to ensure implementation of ERM processes and mitigation actions. These are periodically assessed by the Board and Senior Executive Committee ('SEC') through a variety of measures, including KPIs. Further detail is set out in the Corporate Governance Report.

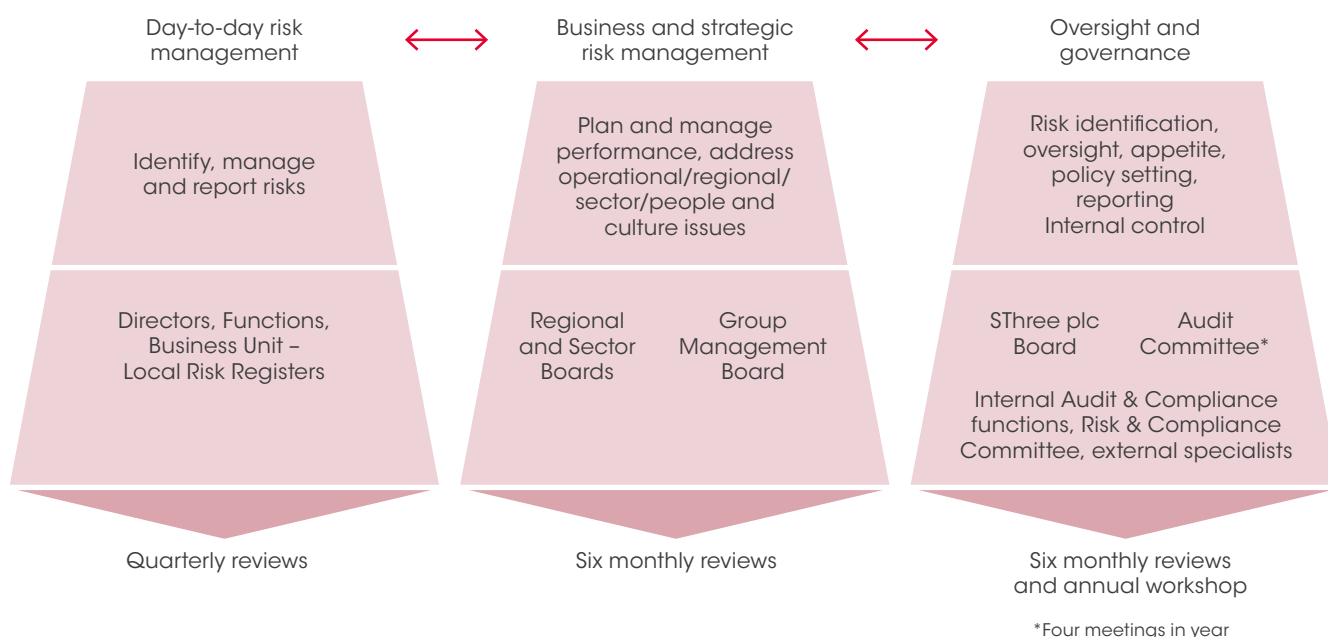
The Group continues to operate in diverse and increasingly demanding specialist sectors. As such, the Group's strategic planning and review processes are periodically reviewed to ensure alignment of corporate, sector, regional and support goals within the strategic plan in order to mitigate risks.

### Principal Risk and Compliance Targets

Both financial and non-financial KPIs are used throughout the Group to drive results and monitor activities. The principal non-financial indicators are listed in the table opposite, including how these apply in a strategic, remuneration or risk context. Further commentary is provided within the CEO's and other Officers' sections of this Annual Report, where appropriate.

### Our Approach to Risk – Governance and Oversight

Key risk governance and oversight is via the following:



"We believe that the effective management of risk is based on a mix of a 'top-down' and 'bottom-up' approach."



# Principal Risk and Compliance Targets

Risk and Compliance	2018	2017	Definition and method of calculation	Strategic/ Remuneration/ Risk context
<b>Risk Management</b> (see also principal risks and uncertainties above and Corporate Governance and Audit Committee Reports)	Aim to achieve a sensible risk/ reward balance, assessed via risk map.	Aim to achieve a sensible risk/ reward balance, assessed via risk map.	The Group has a well defined ERM framework embedded throughout the business using an EBITDA measurement scale to assess impact. Risk appetite levels are set by the Board and risks/mitigation are periodically reviewed to ensure continued strategic alignment.	The Group's success is dependent on balancing risk and reward. To achieve this, it has integrated ERM processes into its overall strategy, with risk appetite and other measures reviewed by the Board.
<b>Compliance Targets</b> (by country/sector)	Range of metrics varying by region, sector, deemed employment or misclassification risk.	Range of metrics varying by region, sector, deemed employment or misclassification risk.	Contractor compliance in respect of client/ contractor terms, rates/ duration/types and ID collection, is monitored, plus there is zero tolerance on code of conduct breaches or fines.	Compliance processes are periodically reviewed to align with changing local legislation, guard against deemed employment or other risks and significantly mitigate risks in higher risk sectors. Insurance cover may also be obtained, where necessary.
<b>Environment/CSR</b> (see also Resources and Relationships Report)	Specific targets, including diversity and carbon footprint reduction.	Specific targets, including diversity and carbon footprint reduction.	Steadily improving targets are being set to reduce the Group's carbon footprint and make savings in energy expenditure.	Measures are agreed strategically, but with local implementation parameters, based on specific office location, age etc.

## Principal Risks, Uncertainties, and Mitigation Strategy

The Group's principal risks to its business model and the processes through which it aims to manage these are outlined as follows:

Risk	Background/context	Controls/mitigation
<p><b>Macro-economic Environment/Cyclicality</b> A change in the market conditions adversely impacting performance, thereby reducing profitability and liquidity.</p> <p>Any failure to react to or to take advantage of changes in the economy in a timely manner can result in over or under investment and therefore reduce profitability.</p> <p>Change in status versus the prior year ↑</p> <p>Link to strategic priority 1 3</p>	<p>The performance of the Group has a relationship and dependence on the underlying growth of the economies of the countries in which it operates in so far as it impacts client and candidate confidence.</p> <p>The recruitment sector, in particular, is highly cyclical and suffers from a lack of visibility which can make even short/medium term planning or target setting difficult.</p>	<p>The Group is well diversified in its operations across geographies, sectors, and mix of Permanent/Contract business. Contract is more resilient in less certain economic conditions than Permanent and also provides a counter cyclical cash hedge working capital release of circa £10k per contract finisher in the event of a decline in business.</p> <p>The Group has a flexible cost base that is carefully managed to react swiftly to changes in market activity. This has been demonstrated by our reorganisation of the UK, Energy and Banking businesses, following periods of subdued activity.</p> <p>The Group has a strong balance sheet with low levels of net debt through the year and committed/flexible debt facilities to support the business.</p> <p>The Group is cash generative and requires low levels of capital investment.</p> <p>Political uncertainty continues in the UK, whilst the current global economic outlook is becoming more uncertain. We continue to monitor the impact of Brexit and assess how we mitigate our risks in the UK with opportunities in Continental Europe, especially in Banking &amp; Finance.</p>
<p><b>Competitive Environment/Business Model</b> Competitors, social media or disruptive technology/innovation taking market share and putting pressure on margins.</p> <p>Change in status versus the prior year ↑</p> <p>Link to strategic priority 1 4 5</p>	<p>The Group faces increasing competitor risk in more mature markets, where there is also strong competition for both clients and candidates. Increasing use of social media for recruitment purposes and a trend towards outsourced recruitment models, with associated margin pressures, can also adversely impact. The realisation/commercialisation of a disruptive technology or other innovation (e.g. web based, low margin operators) by either a current or new competitor could threaten the Group by challenging the viability of the current business model and therefore the ability to sustain revenue and profits.</p>	<p>Diversify into more geographies/sectors and evolve/develop business models. Focus on specialist roles in developing markets to resist pricing pressure.</p> <p>Investment in online presence and partnering with LinkedIn to improve customer and client experience.</p> <p>Setting up an Innovation Board and project groups to monitor market developments and introduce structured creativity, so as to help guard against the risk of disruptive technology and position the Group as a disruptor itself. This has led to investments in businesses such as Ryalto and RoboRecruiter, as well as the development of products such as Showcaser and HireFirst.</p> <p>Introduction of NPS tracking, to improve focus on customers/targeting and add greater value.</p> <p>Increasing regulatory and compliance requirements on Contract, as well as sustained uncertainty over Brexit, are continued barriers to entry.</p> <p>Despite all mitigating measures, competitive pressures and greater prevalence of market disruptors have further raised the risk status.</p>

Risk	Background/context	Controls/mitigation
<p><b>Commercial Relationships/ Customer Risk</b> Some customers may be unable to fulfil financial obligations resulting in the write off of debts. Due to increasing macro-economic uncertainty this risk has increased.</p> <hr/> <p>Change in status versus the prior year ↑</p> <hr/> <p>Link to strategic priority 1 2</p>	<p>The Group benefits from close commercial relationships with key clients, predominantly in the private sector and is always subject to the risk that some customers might be unable to fulfil obligations.</p>	<p>Strong credit rating and verification procedures to manage bad debts, working capital, credit control and other financial risks. The Group has a diverse mix of clients and is not financially dependent on any single client.</p>
<p><b>Contractual Risk</b> With larger global service arrangements, there may be demand for more onerous contract terms that can increase the Group's risk exposure.</p> <hr/> <p>Change in status versus the prior year ↔</p> <hr/> <p>Link to strategic priority 1 2 6</p>	<p>Clients increasingly require more complex or onerous contractual arrangements. The placing of temporary workers generally represents greater risk for the organisation than Permanent placements. This risk increases in more litigious environments.</p>	<p>Management seek to contain risks when negotiating contracts and ensure that the nature of risks and their potential impact is understood. Contract approval processes with exceptions to standard terms, such as liability or insurance require senior sign off, as defined in the Group's authority matrix. This is also overseen by a Compliance function and Risk &amp; Compliance Committee, created in 2018.</p> <p>We generally place responsibility for supervision and control directly with the client, excluding any consequential loss.</p> <p>Our global legal team has the depth of knowledge and experience to enable them to advise the business on the level of risks posed by non-standard contracts.</p> <p>Assurance work is undertaken by the Group internal audit team to monitor compliance, especially in higher risk sectors such as Energy.</p> <p>For risks that cannot otherwise be mitigated, insurance cover is purchased where appropriate.</p>

# Principal Risks, Uncertainties, and Mitigation Strategy

continued

Risk	Background/context	Controls/mitigation
<p><b>People/Talent Acquisition/Retention</b> High churn rates or the loss of key talent could slow our growth and reduce profitability.</p> <hr/> <p>Change in status versus the prior year</p> <p>↔</p> <hr/> <p>Link to strategic priority</p> <p>1 6</p>	<p>The Group is reliant on its ability to recruit, train, develop and retain high performing individuals to meet its growth strategy. Failure to attract and retain individuals with the right skill-set, particularly those who are more senior, may adversely affect the Group's performance. At the same time, the Group's business model demands flexibility to expand or consolidate, depending on the economic environment.</p> <p>High churn or the inability to attract key talent can also lead to insufficient mid and upper managerial bench strength in terms of breadth of experience within or outside SThree. As markets improve, the risk of churn can increase.</p> <p>Low female representation exposing us to reputational risk and lack of diverse thinking.</p>	<p>A structured induction programme and career development with ongoing training and competitive pay/benefits structures, linked to performance. Equity stakes for senior individuals.</p> <p>Continual focus on engaging and developing key managers to ensure succession planning. Training and development programmes to support expansion, whilst also providing a rewarding and challenging career.</p> <p>Greater focus on diversity and inclusion agenda, further development of 'me@work' to improve the structure of development plans and assist in facilitating more rewarding careers, as well as the introduction of eNPS for employees.</p> <p>We maintained a focused approach to the development and progression of our female colleagues in SThree. In 2017, we launched IdentifY, a programme to prepare our future female leaders.</p> <p>During the year, churn rates remained at high levels and we continue to attempt to reduce these as part of our strategic objectives setting.</p> <p>We continue to monitor the impact of Brexit on our people plans in relation to EU and UK employees.</p>
<p><b>Information Technology/Cyber Risks</b> A serious system or third party disruption, loss of data or security breach could have a material impact on the Group's operations or project delivery.</p> <hr/> <p>Change in status versus the prior year</p> <p>↑</p> <hr/> <p>Link to strategic priority</p> <p>1 2 5</p>	<p>The Group is reliant on delivering its service to clients through a number of technology systems and on delivering a number of key internal projects through third party IT specialists.</p> <p>A malicious cyber-attack which compromises the defences of a third party cloud provider/website could pose significant operational disruption to SThree and/or result in the loss of sensitive data, so damaging reputation. The increasing prevalence of cyber-attacks, including at our peers, highlights the risks in this area.</p>	<p>The Group's IT infrastructure is regularly reviewed to ensure it has capacity to cope with a major data or system loss or security breach, with business continuity arrangements in place. As a result of increasing risks in this area, we have further strengthened our investment in software and penetration testing and also engaged PwC to undertake a cyber and IT security audit.</p> <p>Important third parties and suppliers provide essential IT and project infrastructure and their performance/robustness is monitored to ensure business-critical processes or projects are safeguarded as far as is practicably possible.</p> <p>IT systems and providers are periodically reviewed to ensure they remain effective/safe and project management teams review risks associated in upgrading key systems, utilising robust management tools which monitor progress across the life of any project. Increasing cloud use is also a consideration in mitigating risk.</p>



Risk	Background/context	Controls/mitigation
<p><b>Data Processing/ Management</b> A serious data compliance failure could expose the Group to potential legal, financial and reputational risk.</p> <hr/> <p>Change in status versus the prior year ↑</p> <hr/> <p>Link to strategic priority 3 5</p>	<p>The Group works with confidential, sensitive and personal data in a number of countries on a daily basis under a variety of laws and regulations. Introduction of the General Data Protection Regulation ('GDPR') has meant significant changes to our collection and processing activity being put in place from May 2018.</p>	<p>Policies and procedures for handling and storing sensitive, confidential and personal data across the Group, were updated in May 2018, in response to the GDPR changes. This followed the creation of a dedicated cross functional project team to progress initiatives which ensured full GDPR compliance. Where data protection and privacy legislation allows, email monitoring is undertaken to address areas of concern and to protect confidential information.</p> <p>IT systems and providers are periodically reviewed to ensure they remain effective and compliant.</p>
<p><b>Compliance</b> Non-compliance with laws or regulations can lead to increasingly heavy fines/penalties which could expose us to potential legal, financial or reputational risk.</p> <hr/> <p>Change in status versus the prior year ↑</p> <hr/> <p>Link to strategic priority 1 3</p>	<p>The specialist recruitment industry is governed by increasing levels of regulation/compliance, which vary from country to country and market to market. This includes employment laws or regulations specific to specialist business sectors or temporary workers, which necessitate pre-employment or independence checks and which may increase the Group's exposure to potential legal, financial or reputational risk. Changes in legislation in the UK (IR35) and the Netherlands (DBA), provide both risks and opportunities, such as our ECM model.</p>	<p>The Group is committed to meeting its regulatory responsibilities and continues to strengthen its training programmes, internal controls, audit, compliance and other processes with respect to legal and contractual obligations, particularly in higher risk sectors such as Energy and our growing ECM offering.</p> <p>As employment laws are tightened, this creates both risks and opportunities. The Contract market is more heavily regulated and changes in legislation may impact the Group. Policies, compliance, on boarding processes or systems therefore reflect specific market or sector needs and best practice, to meet legal or other requirements and control risks, with our processes and systems being adapted accordingly. The Internal Audit function carries out regular reviews to ensure that processes are being followed correctly and controls/ systems function effectively.</p> <p>Increasing regulatory pressure, including that arising from the OECD's Base Erosion and Profit Shifting Project, is monitored and as member states implement recommendations into their domestic legislation, our compliance obligations follow. Our tax strategy is designed to manage risks in this area and further details are published on our website.</p>

# Principal Risks, Uncertainties, and Mitigation Strategy

continued

Risk	Background/context	Controls/mitigation
<p><b>Foreign Exchange Translation ('FX')</b> A significant adverse movement in FX rates may reduce profitability. Due to increased volatility, this risk has increased.</p> <hr/> <p>Change in status versus the prior year ↑</p> <hr/> <p>Link to strategic priority 3</p>	<p>The Group has significant operations outside the UK and is consequently exposed to foreign exchange translation risk due to movements in exchange rates.</p> <p>Following the EU referendum in the UK in June 2016, there has been significant macro-economic uncertainty and therefore heightened volatility in the value of GBP.</p>	<p>The Board annually reviews the Group's treasury strategy to ensure that it remains appropriate. Whilst the Group's treasury department proactively monitors transactional FX exposures to ensure that they are minimised, translational impacts of movements in the relative value of GBP are not hedged.</p>
<p><b>Brexit</b> Departure from the EU without a free trade arrangement and managed transition period. This presents both a risk and an opportunity.</p> <hr/> <p>Change in status versus the prior year ↑</p> <hr/> <p>Link to strategic priority 1 2</p>	<p>Cross border flows of candidates will likely be impacted, whilst clients may also look to relocate to ensure a continuing EU base.</p>	<p>Brexit itself does not present specific or direct challenges to our business model and operations, it is the uncertainty created and related macro-economic impacts which pose greater risk. Ongoing viability, dividend and tax assessments have all been undertaken in the light of Brexit and there is no material business impact either positively or negatively.</p> <p>To mitigate any Brexit risks, a number of specific actions have been undertaken under a plan which is project managed by a working group and monitored at Board level. This activity included profiling and contacting all of our EU and non EU employees to inform and assist on the necessary administration required to seamlessly continue in roles post Brexit.</p> <p>We are well positioned in attractive STEM markets and have a strong EU presence in sectors which are likely to be impacted, such as Banking &amp; Finance, which is part of our core investor proposition.</p> <p>The Group is therefore well prepared for this eventuality and we have the administrative, legal and IT framework in place to ensure that we are able to carry on running the business as we do now. In terms of costs, there would likely be some additional administrative costs but these should be <i>de minimis</i>.</p>

## KEY STATEMENTS

**Viability statement**

The Board has a reasonable expectation that the Company and the Group will be able to continue in operation and to meet liabilities as they fall due over the period to 30 November 2023.

The Viability statement is set out in full within the Governance Report.

**Going Concern statement**

The Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for at least 12 months from the date of this report and for the foreseeable future.

The Going Concern statement is set out in full within the Governance Report.

**Non-financial reporting statement**

The Group incorporates non-financial KPIs as part of its performance monitoring.

A full list of KPIs is included within the Strategic Report.

**Section 172(1) statement**

To ensure the continuing success of the Group in setting strategy, making decisions and addressing principal risks, a variety of stakeholders are considered to assess long term impact. How we achieve this is set out as follows:

**Stakeholder engagement**

Stakeholder	Why it is important to engage	How we engage/make decisions	How demonstrated
<b>Clients</b>	Critical to understand client needs, behaviours and evolving demands, to retain and attract business, provide opportunities for growth and deliver relevant services and against requirements.	Meetings, surveys/NPS scores, social media, fed back to the Board and acted upon, also financial performance.	Range of services, efficiency & quality, reputation, financial performance.
<b>Candidates</b>	Vital to understand candidate profiles, behaviours, priorities and challenges to ensure optimal job match for both candidates and clients.	Meetings, surveys/NPS scores, social media, fed back to the Board and acted upon.	Sustainable & personable relationships, reputation, growth, financial performance.
<b>Employees</b>	Our greatest asset, interactions with employees are the main ways that customers experience the brands of SThree. Our employees are fundamental to the achievement of our customer experience ambitions and are the cornerstone of our services proposition, looking after our clients, candidates and processes.	eNPS engagement surveys, churn stats, recognition and reward, Learning & Development programmes, fed back to the Board and acted upon.	Company culture, values, reputation, wellbeing, career opportunities, training and development, recognition and reward, retention and diversity targets.
<b>Investors</b>	As a plc, primary responsibility to investors to communicate strategy effectively, provide fair, balanced/understandable information, to instil trust and confidence and allow informed investment decisions to be made, also delivering share price/dividend growth.	Roadshows, Conferences, Capital Markets Days, Annual General Meetings, other meetings, trading updates, shareholder consultations, website, Annual/Interim Reports.	Capital allocation/dividend policy, performance versus peers, future-oriented/risk information, operating and financial performance, access to management.
<b>Suppliers</b>	Vital to ensure efficient and best service. Engaging with our supply chain means that we can ensure security of systems to deliver efficiently.	Tenders, long term partnerships.	Quality & cost efficiency and ethical trading, long term relationships.
<b>Community &amp; the environment</b>	Giving something back, supporting STEM, long term business sustainability.	CSR Committee and report to Board/shareholders.	CSR investment programme, volunteering, charitable giving, recycling.


**Steve Hornbuckle**

Group Company Secretary  
25 January 2019

# Governance overview

The SThree Board aspires to adopt governance best practice wherever possible and has already embraced key changes to the UK Corporate Governance Code published by the Financial Reporting Council ('FRC') in July 2018 ('the new Code') and Companies Act 2018 update, despite the fact that many of these changes are not yet applicable for the reporting year. These areas are incorporated and explained in greater detail throughout this and the other relevant sections of the Annual Report and include the following:

- Board engagement with employees – the Board appointed Denise Collis as the designated Non Executive Director responsible for employee engagement, to gather views from employees, from 1 December 2018
- Enhanced role of Remuneration Committee – terms of reference now include widened remit of setting senior management pay and oversight of remuneration and workforce policies and practices;
- Remuneration principles, structures and discretion – when setting policy, the Remuneration Committee already consider clarity, simplicity, risk, predictability, proportionality and culture; LTIPs have a minimum five-year vesting/holding period and we are developing a formal policy on post-employment shareholding requirements; any discretion used will take account of wider circumstances;
- Shareholder views – we routinely seek investor feedback on our governance and remuneration approach and did this again in October 2018, where there were positive comments from those who responded. By doing this we hope to avoid situations where there is a significant vote against any resolution;
- Clawback – incentive schemes have been updated to allow recovery of payments in specific circumstances such as (i) serious reputational damage and (ii) corporate failure;
- Board composition – provisions regarding diversity, over-boarding, Chair tenure and Remuneration Committee Chair experience are all complied with;
- Companies Act 2018 changes – new provisions regarding Chief Executive Officer pay ratio disclosure, share price appreciation, use of discretion, Directors' duties and enhanced Remuneration Committee reporting, are all incorporated in the Directors' Remuneration Report or other relevant sections of the Annual Report.



# UK Corporate Governance Code

**The following pages set out how the Group has applied the principles and provisions of the UK Corporate Governance Code, published by the FRC in April 2016 (the 'Code'), as amended. The Group complied with all sections of the Code throughout the year and to the date of this report.**

## A. Leadership

### A.1 The Role of the Board

The Board provides strategic and entrepreneurial leadership and overall control of the Group, setting a framework of prudent and effective controls to enable risks to be properly assessed and managed. Its primary role is to create value for stakeholders, to agree and approve the Group's long-term strategic objectives and to develop robust corporate governance and risk management practices, whilst ensuring that the necessary financial and other resources are in place to enable those objectives to be met. In undertaking this, the Board also reviews management performance and sets the Company's values and standards, with all Directors acting in what they consider the best interests of the Company, consistent with their statutory duties. Certain powers are delegated to the Remuneration Committee, Audit Committee and Nomination Committee, with details of the roles and responsibilities of these Committees being set out under the relevant sections.

In addition, the Board has agreed Terms of Reference for its other formal Committees in order to facilitate more efficient working practices and these include an Executive led Senior Executive Committee ('SEC'), the Investment Committee, a Minority Interest 'Tracker Shares' Steering Committee, a Routine Business Committee, a Disclosure Committee, Risk & Compliance Committee, Innovation Committee, Commissioning Committee, Finance & Corporate Services Committee, and CSR Committee, all of which provide a clear framework of delegated authorities. All Terms of Reference (available at [www.sthree.com](http://www.sthree.com)) are reviewed periodically and Board Committees are aligned, as appropriate, with the UK Corporate Governance Code and take into account ICSA best practice guidelines.

**A.1.1** The Board is responsible to shareholders for the proper management of the Group and has identified key financial and operational areas that require regular reporting and which enable the performance of senior management to be reviewed and monitored. These are set out in a schedule of matters reserved to the Board, which is reviewed on a regular basis. The schedule outlines all matters requiring specific consent of the Board, which include, inter-alia, the approval of Group strategy, operating plans and annual budget, the Annual Report, the Interim Report and trading updates, major divestments and capital expenditure, meaningful acquisitions and disposals, the recommendation of dividends and the approval of treasury, tax and risk management policies.

The schedule therefore facilitates structured delegation, subject to certain financial limits and provides a practical framework for executive management/reporting, which seeks to achieve the objectives of maintaining effective financial and operational controls, whilst allowing appropriate flexibility to manage the business. The current schedule of matters reserved to the Board is available on the Company's website at [www.sthree.com](http://www.sthree.com).

**A.1.2** The Directors of the Company, including biographies, are set out in the Board of Directors section of this Annual Report, with further details of Board Committee membership being set out later in this report. The number of, and attendance at, Board and Committee meetings during the year, are also shown in a table later in this report. All meetings were well attended and, outside these, there was frequent contact between Directors on a range of matters.

**A.1.3** Appropriate insurance cover was in place during the year and continues as at the date of this report, in respect of possible legal action against the Directors.

### A.2 Division of Responsibilities

**A.2.1** There is a clear division of responsibilities between the Chairman and the Chief Executive Officer, set out in writing and approved by the Board so that no one individual has unfettered powers of decision.

### A.3 The Chairman

The Chairman leads the Board in the determination of its strategy and achieving its objectives and is responsible for co-ordinating the business of the Board, ensuring its effectiveness, timing and setting its agenda, although he has no involvement in the day-to-day running of the Group's business.

The Chairman allows adequate debate by all, whilst facilitating an effective contribution of the Non Executive Directors ('NEDs'), overseeing Board induction and evaluation, ensuring constructive relations between each Executive and NEDs and that the Directors receive accurate, timely and clear information to undertake Board affairs and facilitate effective communication with shareholders. The Chief Executive Officer has direct charge of the Group on a day-to-day basis and overall responsibility to the Board for the operational and financial performance of the Group, under a job description which clearly sets out these responsibilities.

**A.3.1** As stated below, on appointment to the Board, the Chairman met the independence criteria set out under the Code, in terms of having no previous connection with the Company.

#### A.4 NEDs

**A.4.1** In April 2018, at the Annual General Meeting, James Bilefield succeeded Clay Brendish as the Chairman. Shortly following this appointment, James invited major investors to meet with him and subsequently met a number of them. He continues to be available to shareholders to discuss strategy or governance issues or should there be matters of concern that have not, or cannot, be addressed through normal channels. Denise Collis was appointed Senior Independent Director ('SID') on 1 October 2018, after a review of external and internal candidates, including via an external third party.

**A.4.2** The Chairman normally meet with the NEDs without the Executive Directors being present, either before or after each Board meeting and this is formally noted, whilst the SID holds, at least annually, discussions with the other NEDs without the Chairman being present and also with the Executives, in order to appraise the Chairman's performance.

**A.4.3** Each Director ensures that if he/she has any concerns which cannot be resolved, about the Company or a proposed action, such concerns are recorded in the minutes, whilst upon resignation, NEDs may provide a written statement to the Chairman for circulation to the Board, of any concerns.

### B. Effectiveness

#### B.1 Composition of the Board

The Board comprises a balance of Executive and NEDs who bring a wide range of skills, experience and knowledge to its deliberations. The NEDs fulfil a vital role in corporate accountability and have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully discussed and critically examined, not only in the best long term interests of shareholders, but to also take account of the interests of customers, employees and other stakeholders. The NEDs are all experienced and influential individuals and through their mix of skills and business experience, they contribute significantly to the effective functioning of the Board and its Committees. This ensures that matters are fully debated and that no one individual or small group dominates the decision making process. Directors have a wide range of experience of various industry sectors relevant to the Group's business and each member brings independent judgement to bear in the interests of the Company on issues of strategy, performance, resources and standards of conduct. The Board is of sufficient size to match business needs and members have an appropriate and varied range of skills, vital to the success of the Group. The composition and performance of the Board and each Committee is periodically evaluated to ensure the appropriate balance of skills, expected time commitment, knowledge and experience and the Directors can thereby ensure that the balance reflects the changing needs of the Group's business and is refreshed if necessary. Most importantly of all, Board members feel a strong cultural affinity with the Group, engaging fully as a committed team and in a wide variety of activities with our employees around the globe, whether it be an office visit, or presentation by management. The Nomination Committee Report gives further information on activity in this regard, including recent changes in Board composition, succession planning and diversity.

**B.1.1** Excluding the Chairman, the other NEDs have been determined by the Board throughout the year as being independent in character and judgment with no relationships or circumstances which are likely to affect, or could appear to affect, each Director's judgment.

**B.1.2** The Board has a Non-Executive Chairman, who is not classed as independent because of his position but who met the independence criteria set out in the Code on appointment. At least half the Board, comprise of NEDs determined by the Board to be independent, as set out in the Code.

#### B.2 Appointment to the Board

Appointments to the Board are the responsibility of the full Board, upon the recommendation of the Nomination Committee and after appropriate external search/consultation, bearing in mind the Board's existing balance of skills and experience, the specific role needs identified, and with due regard to diversity, including gender. Succession plans are regularly reviewed by the Committee, in order to ensure an orderly progression/refreshment of senior management/Board members and maintain an appropriate balance of skills, experience and diversity both within the Company and on the Board.

**B.2.1/2** Under the direction of the Nomination Committee, each formal selection process is conducted, using external advisors, consisting of a series of interview stages, involving Directors and other Senior Executives, against the background of a specific role definition and objective criteria. Details of the composition, work and responsibilities of this Committee are set out under the relevant section later in this report.

**B.2.3** All Directors are subject to annual re-election, although NEDs are typically expected to serve for an initial term of three years, which, in normal circumstances and subject to satisfactory performance/re-election at each AGM, is automatically extended annually. NEDs will normally serve no longer than nine years, subject to review as part of the AGM re-election process and their agreement. The Company's Articles of Association also contain provisions regarding the removal, appointment, election/re-election of Directors.

#### B.3 Commitment

**B.3.1** For Board vacancies, the Nomination Committee approves a detailed job specification, which sets out the indicative time commitment expected. Potential Director candidates are required to disclose any significant outside commitments prior to appointment and must undertake that they have sufficient time to meet these, in addition to Company business, particularly in the event of unforeseen events.

**B.3.2** Upon joining, each NED receives a formal appointment letter which identifies their responsibilities and expected minimum time commitment, which is typically two to three days a month. These letters are available for inspection at the Company's registered office.

## B.4 Development

At scheduled Board and Committee meetings, Directors receive detailed reports/presentations from management on the performance of the Group or specific areas of focus/responsibility. NEDs may visit the Group's sales or other offices in order to join senior management from different geographic areas to discuss current initiatives. Directors are aware of their responsibilities and briefed on relevant regulatory, legal, governance or accounting matters periodically, as required. Directors also attend external seminars on areas of relevance to their role in order to facilitate their professional development. These measures help to ensure that the Board continues to develop its knowledge of the Group's business and get to know senior management, as well as promoting awareness of responsibilities. Executive Directors are encouraged to accept external appointments in order to broaden their experience, although currently no such positions are held.

**B.4.1** Induction arrangements are tailored for new appointments to ensure that these are appropriate to each role, dependent on previous experience. Directors and other Senior Executives are invited to attend analysts' briefings and Capital Markets Days' presentations, and major shareholders are invited to meet new NEDs.

**B.4.2** As part of the annual Board evaluation process, the Chairman assesses any training and development needs in respect of individual Directors, including on environmental, social and governance ('ESG') matters.

## B.5 Information and Support

Board and Committee meeting papers are circulated well in advance of the relevant meeting and where a Director is unable to attend he/she is provided with a copy of the papers and has the opportunity to comment on the matters under discussion. Minutes of all Committee meetings are circulated to all the Directors, irrespective of Committee membership. The Group Company Secretary helps to ensure information flows between the Board/Committees and senior individuals/NEDs, and appropriately advises the Board, on governance matters.

**B.5.1** Directors are entitled to obtain independent professional advice, at the Company's expense, on the performance of their duties as Directors. All Committees are serviced by the Group Company Secretary's team and are appropriately resourced.

**B.5.2** Directors have access to the advice and services of the Group Company Secretary, who is responsible to the Board for ensuring that its procedures are complied with and to assist in arranging any additional information as required. The appointment and removal of the Group Company Secretary is a matter reserved for the Board as a whole and the last appointment was made in October 2006.

## B.6 Board Evaluation

**B.6.1/2** As recommended by the Code, an external Board/Committee evaluation was undertaken during the period under review. This took the form of questionnaires combined with individual interviews conducted by Lintstock Ltd. The key focus areas resulting from this exercise are summarised below, were discussed at the Board meeting in January 2019 and are being implemented in 2019. Prior to this, the previous external evaluation was completed in 2015.

Focus area	Comment
<b>Board Composition</b>	Transitioning to a new Chief Executive Officer/optimal Executive composition
<b>Stakeholder Oversight</b>	Scope to further develop engaging with the investor community/customer focus/better define Employee NED role/evolving the culture/communication of corporate purpose
<b>Board Dynamics</b>	Balance input of NEDs/Chair views
<b>Management of Meetings</b>	Refine key strategic issues/rolling cycle of topics
<b>Board Support</b>	Succinct papers, clear on their purpose, timely submission
<b>Focus of Meetings</b>	Balance between urgency and practicalities
<b>Strategy Day</b>	Engagement and collaboration beforehand/external support
<b>Wider Strategic Oversight</b>	Plans to achieve company's objectives more closely defined/regular cycle of strategic topics/robust foundation of data/analysis to inform strategic planning/challenges around the operational systems/infrastructure/insight into the performance of competitors
<b>Risk Management and Internal Control</b>	Periodic deep dives into specific risks/appetite for risk/IT infrastructure
<b>Succession Planning and HR Management</b>	Succession planning for top management/recruiting externally at senior level/integration of external hires/HR priorities: i) talent acquisition, ii) purpose and culture, iii) reducing churn, iv) remuneration, and v) building capacity
<b>Priorities for Change</b>	i) improving strategic planning, ii) improving meetings' focus, iii) developing culture and purpose, iv) systems and infrastructure, and v) management capacity and implementation

As part of this process, the Chairman also discusses the individual performance of Directors, in consultation with other Directors. The evaluation process is considered to be both formal and rigorous and has led to the conclusion that, overall and individually, the performance of the Board, each Committee and each Director was and is effective and that Directors demonstrate full commitment in their respective roles.

**B.6.3** The SID holds annual discussions with the other NEDs without the Chairman being present and also with the Executives, in order to appraise the Chairman's performance.

### **B.7 Re-election**

**B.7.1** Although the Company's Articles of Association permit Directors to remain in office for up to three years before Annual General Meeting ('AGM') re-election, all Directors now retire and seek re-election annually, as recommended by the Code.

**B.7.2** Reference to performance and commitment of Directors, as well as an explanation of the reason why each retiring Director should be re-elected, are all provided in the Notice of AGM. The Company also complies fully with the Code in respect of its AGM voting arrangements and disclosure of the voting outcome via the London Stock Exchange.

## **C. Accountability**

### **C.1 Financial & Business Reporting**

The Strategy section, Chairman's, Chief Executive Officer's and other Officers' sections of this Annual Report, taken together, provide information relating to the Group's activities, its business and strategy and principal risks and uncertainties faced by the business, including analysis using financial and other KPIs where necessary. These, together with the Directors' Remuneration Report, Directors' Report, Governance Report, Resources and Relationships Report, Audit Committee Report and Nomination Committee Report, provide an overview of the Group, including environmental and employee matters, and give an indication of future developments of the Group's business. This provides a fair, balanced and understandable assessment of the Group's position and prospects, in accordance with the Code.

**C.1.1** The Directors' responsibility for preparing the financial statements and the statement by the auditors about their reporting responsibilities are set out in the Directors' Report and Independent Auditors' Report, respectively.

**C.1.2** An explanation of the business model and the strategy for delivering the objectives of the Group are included as part of the Strategy section, Chairman's, Chief Executive Officer's and other Officers' sections of this Annual Report.

**C.1.3** A 'going concern' statement is set out towards the end of the Governance Report.

### **C.2 Risk Management, Internal Control and Viability**

**C.2.1/2** The Board's statement regarding its review of the effectiveness of the Group's risk management, internal control systems and viability statement is set out later in this report.

### **C.3 Audit Committee and Auditors**

Details of the composition, work and responsibilities of this Committee are set out in the Audit Committee Report.

## **D. Remuneration**

### **D.1 Level and Components**

The Directors' Remuneration Report sets out in full, the policies and practices, which demonstrate the Company's implementation of this Code principle and provisions.

### **D.2 Procedure**

Details of the composition, work and responsibilities of the Remuneration Committee are set out under the relevant section later in this report and in the Directors' Remuneration Report.

## **E. Relations with Shareholders**

### **E.1 Dialogue with Shareholders**

Communications with shareholders are given a high priority, as a part of a comprehensive investor relations programme. The Company produces Annual and Interim Reports for shareholders and the Company's website contains up-to-date information on the Group's activities, investor presentations and published financial results. Shareholders can also subscribe for email alerts of important announcements made. There are regular meetings with institutional shareholders and analysts, whilst ensuring that price sensitive information is released at the same time to all, in accordance with the requirements of the UK Listing Authority. Presentations are made after the Company has published its full and half yearly results and there was also dialogue on specific issues, which have included the tracker share model, LTIP, governance and remuneration matters and recruitment of SID/Chairman. In between trading updates, there is continued dialogue with the investor community by meeting key investor representatives, holding investor roadshows and participating in conferences. Feedback from meetings held between senior management and institutional shareholders is reported to the Board. Meetings between management and debt providers, principally the Company's banks, also take place periodically.

**E.1.1** The Chairman, SID and other NEDs are available to discuss governance or strategy issues, should there be matters of concern that have not been, or cannot be, addressed through the Executive Directors. During the year, both the Chairman and SID were available to converse with shareholders, with the Chairman hosting a governance lunch. Appropriate feedback was provided to the Board.

**E.1.2** Views of analysts, brokers and institutional investors are sought on a non-attributed basis via periodic sentiment surveys and these, as well as regular analyst and broker publications, are circulated to all Directors to ensure that they develop a full understanding of the views of major shareholders. Any issues or concerns are raised and discussed at the Board, and Directors routinely receive regular reports on share price, trading activity and sector updates.

### **E.2 Constructive use of AGM**

The Board views the AGM as an opportunity to communicate with private and institutional investors and welcomes active participation. Alternative options, such as holding a virtual AGM may be considered in the future.

**E.2.1** The Company proposes a separate resolution on each substantially separate issue and the proxy appointment forms for each resolution provide shareholders with the option to direct their proxy to vote either for or against any resolution or to withhold their vote.

**E.2.2** The Company's registrars ensure that all valid proxy appointments received for the AGM are properly recorded and counted and a schedule of proxy votes cast is made available to shareholders attending the meeting. There is also full disclosure of the voting outcome via the London Stock Exchange and on the Company's website as soon as practicable after the AGM.

**E.2.3** All Board members are encouraged to attend the AGM and the Chairs of the Audit, Nomination and Remuneration Committees are available to answer questions.

**E.2.4** The Notice of AGM is posted at least 20 working days prior to the date of the meeting and the Company's website contains copies of all Notices issued.

### Board and Committee Composition and Attendance (In accordance with A.1.2 of the Code)

As stated, the Board has established various Committees, each with clearly defined terms of reference, procedures and powers. All Terms of Reference (available at [www.sthree.com](http://www.sthree.com)) are reviewed regularly and are aligned closely with the UK Corporate Governance Code and take into account ICSA best practice guidelines.

In addition to the scheduled Board meetings held during the year, the Board met for a separate strategy session and for the AGM. The number of scheduled Board/Committee meetings held and attendance at each is set out in the table below.

Where Directors were unable to attend meetings due to other unavoidable commitments, full Board packs are distributed and separate discussions held with the Chairman on all matters of relevance. Further details of each of the Board Committees are contained in the Remuneration, Audit and Nomination Committee sections of this Annual Report.

Directors	Board (8 meetings)	Audit Committee (4 meetings)	Remuneration Committee (3 meetings)	Nomination Committee (2 meetings)
Gary Elden	7	3	3	1
Alex Smith	8	4	3	–
Justin Hughes	7	2	–	–
James Bilefield	8	4	3	2
Denise Collis	8	3	3	1
Anne Fahy	8	4	2	2
Barrie Brien	8	4	3	2
Clay Brendish	2	–	–	–

1. The table also shows meetings attended as a non member.
2. Denise Collis was appointed to the Audit Committee during the year and so did not attend the January meeting, whilst for the Nomination Committee was precluded from attending one meeting as the business related to her appointment as Employee Engagement NED.
3. Anne Fahy was appointed to the Remuneration Committee during the year and so did not attend the January meeting.

### Effectiveness of the Group's Risk Management and Internal Control Systems (In accordance with C.2.1 and C.2.2 of the Code)

#### Risk management and Internal Control Systems and Identification of Principal Risks, Including Environmental, Social & Governance ('ESG') Matters.

The Board has overall responsibility for monitoring the effectiveness of the Group's risk management and internal control systems in order to safeguard shareholders' investments and the Group's assets and, at least annually, to carry out a robust assessment of risks and the effectiveness of associated controls. This monitoring and review process includes assessing all material risks and controls, including financial, operational and compliance controls.

Executive Directors and senior management are responsible for the implementation and maintenance of the underlying control systems, subject to such review. The Audit Committee works closely with the Board in this area and, on behalf of the Board, has identified no significant failings or weaknesses from its review. The Group's Internal Audit function also provides additional assurance on underlying control systems.

Processes are designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives and accordingly provide reasonable, not absolute, assurance against material misstatement or loss. The Board considers, in assessing what constitutes reasonable accuracy, the materiality of financial and non financial risks and the relationship between the cost or benefit, resulting from such systems. In order to manage the business effectively, the Board assesses actual results compared with budgeted and forecast performance, as well as against other KPIs, on an ongoing basis. The process includes risks and opportunities to enhance the value arising from ESG matters where relevant. The process is consistent with the FRC's latest guidance on Internal Control and has been in operation for the period under review and up to the date of approval of this Annual Report.

### Assessment of Risk and Enterprise Risk Management ('ERM') Framework

#### ERM Framework

The Board, supported by the Audit Committee, has overall responsibility for risk management activities and implementing policies to ensure that all risks are evaluated, measured and kept under review by way of appropriate KPIs and this forms the basis for the Group's ERM framework.

Under this framework, all Executive, Regional and Country Directors, key support functions and other relevant parties take ownership of their related risks, creating specific sub-Group risk registers, with risks being categorised according to probability and impact, and measured according to strictly defined criteria, as set out under the Board approved risk management policy. More significant risks are distilled to form the Group's key risk register, which is regularly reviewed by the Board.



### ERM Processes

As part of these processes, regular strategy and risk workshops are held, bringing together Executive Directors, Regional and Country Directors and key function heads, with ERM specialists in attendance, underpinned as follows:

- Senior Directors own localised risk registers, with regular presentations made to the Board which include progress on risk mitigation;
- Board or Audit Committee meetings may include presentations by Regional/Country Directors, etc., on their approach to business risk management and tracking of improvement areas. To further assist this, a Risk & Compliance Committee was created in 2018;
- A Board approved risk management policy and procedures are in place, communicated Group-wide;
- Group risk appetite statements reviewed, with strategic and localised measures being agreed, monitored via appropriate KPIs, with bonus also being subject to specific risk or compliance targets, where relevant;
- Job descriptions include reference to risk responsibilities.

In light of the increasing FRC focus on risk monitoring, reporting and viability and in order to enable the Board to satisfy itself on the robustness of the Group's internal control and risk evaluation/monitoring processes, the Board has previously engaged external risk specialists to review its processes, including risk appetite setting and reporting. In late 2018, a further evaluation of business risk processes was commissioned, which will be undertaken by KPMG in H1 2019.

As part of this work, a detailed analysis of risk appetite was undertaken, using key operational parameters to set and measure the Group's risk profile. This work is revisited periodically at Audit/Board meetings as well as an annual risk workshop, to monitor both the actual and forecast position against these parameters.

As a result, the Board is able to sign off with confidence that these processes are robust, as required by the Code.

### ERM Arrangements

The Group's ERM arrangements have been designed to meet, as closely as possible, the appropriate BSI standard (BS 31000) on risk management processes.

Consequently, the Group has continued to reap the benefits of its enhanced ERM framework through improved strategic and individual region/sector focus on key risk areas, with greater clarity on risk ownership, and the identification of opportunities as well as threats, whilst also facilitating better monitoring of progress, mitigation measures and ensuring appropriate forward looking assessment, including, where relevant, ESG matters (for example, environmental impacts, social issues such as how the Group manages relationships with its employees, suppliers, customers and the communities in which it operates, and governance issues such as the Company's leadership, executive pay, audits, internal controls and shareholder rights).

### Investment Association ('IA') Guidelines on Responsible Investment Disclosures

In respect of the Company's compliance with the IA guidelines on responsible investment disclosures, the Board confirms the following, in relation to its responsibilities, policies and procedures, with appropriate KPIs detailed within the Strategy section:

- As part of its ERM procedures, the Board takes into account any material ESG matters. Adherence to these procedures and disclosure of relevant issues is monitored by the Internal Audit function and also reviewed by external risk specialists, as part of the overall risk management framework.
- The Board has received adequate information to make this assessment by way of its ERM procedures and, where necessary, has taken account of ESG matters in training and bonus structures.
- The Board has ensured that the Company has in place effective systems for managing and mitigating principal risks. Where relevant, these incorporate performance management systems and appropriate remuneration incentives.
- There are no ESG-related risks or opportunities that may significantly affect the Company's short- and long-term value or the future of the business.

### Going Concern Statement

The Group's business activities, together with the factors likely to affect its future development, performance, its financial position, cash flows, liquidity position and borrowing facilities are described in the Strategic section of this Annual Report. In addition, the notes to the financial statements include details of the Group's treasury activities, funding arrangements and objectives, policies and procedures for managing various risks, including liquidity, capital management and credit risks.

The Directors have considered the Group's forecasts, including taking account of reasonably possible changes in trading performance, risks and uncertainties and the Group's available banking facilities. Based on this review, and after making enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for at least 12 months from the date of this report and for the foreseeable future.

For this reason, the Directors continue to adopt a going concern basis in preparing this Annual Report.

### Viability Statement

The Board has assessed the viability of the Company and the Group over a five-year period to 30 November 2023, taking account of the Group's current financial position and the potential impact of the principal risks and mitigation documented in the Strategic section of this Annual Report. The five-year horizon is consistent with presentations to the investor community at the Capital Markets Days and other investor events. Based on this assessment and the various other matters also considered and reviewed by the Board during the year, the Board has a reasonable expectation that the Company and the Group will be able to continue in operation and to meet liabilities as they fall due over the period to 30 November 2023.

In making this assessment, the Board has reviewed a five-year financial forecast, taking into account the Group's strategy, cash flows, dividend cover, debt facilities and other key financial metrics over the period. The key assumptions in the forecast were flexed (individually and in combination) to evaluate the potential impact on the Group's liquidity and debt requirements under various scenarios. These assumptions included sales headcount, gross profit yield per sales consultant, infrastructure and support costs.

In making this statement, it is recognised that not all future events or conditions can be predicted, and future assessments are subject to a level of uncertainty that increases with time. Future outcomes cannot, therefore, be guaranteed or predicted with certainty, particularly within the recruitment sector, where there is limited forward visibility.

This assessment was made taking into account the Company and Group's current position and prospects, its strategy, the agreed risk appetite and the principal risks and mitigation (as detailed in the Strategic section of this Annual Report), all of which could change and impact the future performance of the Company and the Group.

### Corporate and Environmental Responsibility

The Board recognises that the Group has a responsibility to act ethically in relation to the physical and social environment in which it operates, and that failure to do so could adversely impact on the Group's long- and short-term value as a result of financial penalty and/or loss of stakeholder support. It takes such responsibilities seriously, paying due regard to international and local laws in all its dealings.

### Share Capital and Directors' Powers to Issue or Buy Back Shares

Information on the Company's share capital and Directors' powers to issue or buy back shares is set out within the Directors' Report.

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### Steve Hornbuckle

Group Company Secretary  
25 January 2019

# A strong team with the right mix of skills and experience.



**Gary Elden**  
Chief Executive Officer

**Appointed:**  
July 2008

**Experience:**

Gary Elden OBE, was appointed to the Board in July 2008, having been with the Group since 1990, when he joined Computer Futures. He has held a number of senior positions, including that of founding Managing Director of Huxley Associates.

In his role as Chief Strategy Officer, he had responsibility for the expansion of the Group's international operations and non-ICT disciplines. In June 2012, he was appointed as Deputy Chief Executive Officer and took over from Russell Clements as Chief Executive Officer on 1 January 2013.



**Alex Smith**  
Chief Financial Officer

**Appointed:**  
May 2008

**Experience:**

Alex Smith joined SThree having held a number of senior financial and operational roles in the leisure and retail sectors. He previously held the position of Integration Finance Director at TUI Travel plc and he was Finance Director of First Choice's UK Mainstream business. Prior to these positions he was Managing Director of WH Smith's Travel Retail business and held senior financial roles at Travelodge and Forte plc. Alex has a degree in Economics from Durham University and is an Associate of the Institute of Chartered Accountants in England & Wales.



**Justin Hughes**  
Chief Operating Officer

**Appointed:**  
June 2012

**Experience:**

Justin Hughes joined SThree in 1994, as a trainee recruitment consultant at Progressive. Making dynamic progress to Sales Director and ultimately to Managing Director of Progressive. In 2007, he was the strategic driving force behind Progressive's global growth, as well as overseeing the business' diversification into new market sectors, notably Pharmaceuticals, Oil & Gas. An SThree Main Board appointee since June 2012, Justin is currently Chief Operating Officer, charged with driving the sustainable growth of the business through effective operations and customer service. He holds an Honours Degree in Economics and is a graduate of the Senior Executive Program at Columbia University, New York.



**James Bilefield**  
Chairman

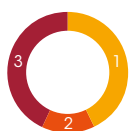
**Appointed:**  
October 2017

**Experience:**

James Bilefield succeeded Clay Brendish as Chairman in April 2018, having previously been Chairman Designate and Senior Independent Director, from first joining the SThree Board as Non-Executive Director and member of the Remuneration, Audit and Nomination Committee, on 1 October 2017. He joined the Board of Stagecoach Group plc on 1 February 2016, where he currently serves on the Remuneration and Nomination Committees. Other appointments include Cruise.co (Chairman), McKinsey & Company (Senior Advisor), Advent International (Industry Advisor) and Teach First (Trustee).

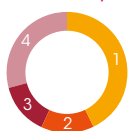
James has spent over 20 years building successful digital and multichannel businesses around the world. As an executive he managed the digital transformation of media group, Condé Nast, across 27 countries, scaled Skype's global operations as part of its founding management team and held senior management roles at Yahoo! during its major growth phase. Formerly CEO of global advertising technology company, OpenX, he also co-founded the UK local information business, UpMyStreet, following an investment banking career at JP Morgan Chase.

## Board tenure



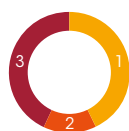
1. 0-3 years 43%
2. 3-5 years 14%
3. 5+ years 43%

## Board experience



1. HR/Finance 43%
2. Engineering & technology 14%
3. Media & marketing 14%
4. Sales/Operation 29%

## Board breakdown



1. Non-executive 43%
2. Chairman 14%
3. Executive 43%

**Anne Fahy**

Non Executive Director

**Appointed:**  
October 2015**Experience:**

Anne Fahy was appointed to the SThree Board, the Nomination Committee and as Chair of the Audit Committee in October 2015, and the Remuneration Committee on 26 April 2018. Anne is also Non Executive Director and Chair of the Audit Committee at Interserve, the international support services and construction company, Nyrstar, a global multi-metals business, with a market leading position in zinc and lead, and Coats plc, a global industrial thread and consumer textile crafts business. She is also a Trustee of Save the Children. Prior to joining SThree, Anne was Chief Financial Officer of BP's Aviation Fuels business. During her 27 years at BP, Anne gained extensive experience of global business, developing markets, risk management, internal control, compliance and strategy development in BP's aviation, petrochemicals, trading and retail sectors. Anne is a Fellow of the Institute of Chartered Accountants in Ireland, having worked at KPMG in Ireland and Australia prior to joining BP in 1988.

**Denise Collis**Non Executive Director,  
Senior Independent Director**Appointed:**  
July 2016**Experience:**

Denise Collis was appointed to the SThree Board, Nomination Committee and Remuneration Committee on 1 July 2016, and the Audit Committee on 26 April 2018. Denise was further appointed as Chair of the Remuneration Committee on 1 September 2016 and Senior Independent Director ('SID') on 1 October 2018. Denise is a Non Executive Director and Chair of the Remuneration Committee at Connect Group plc, the specialist distribution company. Other appointments include Chair of the Remuneration Committee and a member of the Advisory Council at the British Heart Foundation; Vice Chair of the International Advisory Board to Leeds University Business School, and a member of the Advisory Board to the University of Exeter Business School. Prior this, Denise was the Group HR Director for 3i Group plc, and most recently Chief People Officer for Bupa. She has extensive international Human Resources and executive committee experience, and has also held senior roles in EY, Standard Chartered plc and HSBC. Denise is a Fellow of the Chartered Institute of Personnel and Development.

With effect from 1 December 2018, Denise Collis was appointed as Employee Engagement NED.

**Barrie Brien**

Non Executive Director

**Appointed:**  
September 2017**Experience:**

Barrie Brien was appointed to the SThree Board, Audit, Nomination and Remuneration Committee on 11 September 2017. Barrie is the former Group Chief Executive of Creston plc (a media and marketing communications group) stepping down in April 2017 following its sale and de-listing. Barrie was also Chief Operating and Financial Officer of Creston plc from 2004 to 2014 and was extensively involved in the growth of the group with its buy and build strategy.

In addition to the extensive public company experience, including M&A, fundraisings and investor relations, Barrie has spent 30 years in global media, digital and marketing communication companies, advised clients across multiple industries and has held senior Board positions in Europe and North America.

Barrie currently sits on a portfolio of public and private Boards as either Non Executive Chair or Director advising on their growth strategies, and is a member of the Professional Business Services Council, advising the Government on key issues facing the UK's service professions.

**Steve Hornbuckle**

Group Company Secretary

**Appointed:**  
October 2006**Experience:**

Steve Hornbuckle joined the Group as Company Secretary in October 2006, taking charge of Investor Relations matters in 2011 and was appointed Legal Director in 2013. Steve has significant company secretarial experience, having held senior positions within a variety of listed companies, including Intertek Group plc, BPB plc, Kidde plc, Railtrack Group plc, London & Manchester Group plc and English China Clays plc. Steve is a Fellow of the Institute of Chartered Secretaries ('ICSA') and sits on the ICSA Company Secretaries' Forum and Investor Relations Society Policy Committee.

**I am pleased to present to you the Nomination Committee report. The report provides underlying detail on the Committee and its activities during the year.**



**James Bilefield**

Nomination Committee Chair  
25 January 2019

Tables showing the Committee meetings held and attended by members, as well as information on the external evaluation undertaken on the Board and its Committees, are set out in the Governance Report.

## Committee composition and attendance

	July	Nov
<b>James Bilefield</b> (Chair)	●	●
<b>Barrie Brien</b>	●	●
<b>Denise Collis</b>	●	N/A
<b>Anne Fahy</b>	●	●

N/A – Denise Collis was precluded from attending as business related to her appointment as Employee Engagement NED.

Full biographies are available on page 78-79.

The Committee complies with the requirement to have a majority of independent Non Executive Directors (NEDs).

James Bilefield became Chair of the Nomination Committee following the retirement of Clay Brendish at the AGM in April 2018.

### Summary of Terms of Reference

The Committee's terms of reference are, broadly, to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board, make recommendations with regard to any changes and to review and prepare relevant job descriptions for new appointees, as well as ensuring the continuing development of an adequate pipeline into the Executive team for succession and bench strength purposes.

### Use of External Search Consultants

The Committee engages external search consultants with respect to both Executive and Non Executive appointments and considers applicants from all backgrounds, as was the case for the most recent SID appointment, plus the appointments of James Bilefield and Barrie Brien in Q4 2017. It is also using external search consultants in relation to the Chief Executive Officer succession, announced in December 2018.

For all roles recruited, the Committee first conducts an evaluation of the balance of skills, knowledge and experience on the Board, before preparing a description of the roles and capabilities required. In each case, there was an extensive interview process, with the successful appointees selected and chosen entirely on merit.

### Succession Planning and Diversity

During 2018, the Committee's work was focused on ensuring the continuing development of, and adequate pipeline into, the Executive team, including roles underpinning the Chief Operating Officer and Chief Sales Officer positions, as well as longer term Chief Executive Officer and Chief Financial Officer succession. Initiatives are ongoing throughout the Group to ensure that there is an appropriate management pipeline at all levels and YSC Consulting continue to assist with this.

Following the announcement of the UK Corporate Governance Code published by the Financial Reporting Council ('FRC') in July 2018 ('the new Code'), the Nomination Committee recommended the appointment of Denise Collis as the designated NED responsible for employee engagement, to gather views from employees, from 1 December 2018. The Committee also periodically reviews Board composition, to ensure that the new Code provisions regarding diversity, over-boarding, Chair tenure and Remuneration Committee Chair experience are all complied with.

The Committee considers future succession planning for Board or other Senior Executive roles, reviewing leadership, experience and skill needs and bearing in mind the existing balance of skills, knowledge, experience and diversity already on the Board, to ensure appropriateness. In terms of gender and ethnic diversity, we consider that the Board is well balanced.



## As Chair of the Audit Committee, I am pleased to present, on behalf of the Board, its Audit Committee Report, prepared in accordance with the UK Corporate Governance Code (the 'Code').



**Anne Fahy**  
Audit Committee Chair  
25 January 2019

2018 was another busy year for the Group and the Committee, as it transitioned its support functions to Glasgow with the creation of a new Centre of Excellence ('CoE'). All of this took careful planning, overseen by a steering committee, which I chaired and I am pleased to say that the move has gone extremely well.

In April, we welcomed Denise Collis to the Committee, following James Bilefield becoming Group Chairman. Denise is Chair of the Remuneration Committee, having a strong HR background but also significant financial and commercial experience.

We have continued to strengthen the existing governance processes by creating a new role, Head of Compliance & Risk, introducing a Compliance function, supported by a Risk & Compliance Committee, whilst also initiating a wholesale review of the Group's key policies, including an externally led evaluation of the Group's Health & Safety procedures.

This is all part of the Committee's support to the Board to enable it to further embed the Code provisions on risk, control and viability, whilst strengthening the internal control environment by ensuring the independence, effectiveness and quality of both internal and external audit processes, as well as of the Committee itself.

Internal Audit ('IA') continues to play an integral role in the Group's governance and provides regular updates to the Committee, with tracking of remedial action in the case of any control failures. At the start of each year, an annual IA plan is presented for the Committee to agree, after appropriate review and challenge; and IA have also played a key part in helping the new CoE to better understand some of the issues identified and help drive through improvements. This is on top of the improvements made last year with the implementation of a robust action tracking system, which led to better transparency, accountability, quality and timeliness of action close outs.

Significant focus is placed on key accounting judgements and estimates, which underpin the financial statements, namely:

- Revenue recognition;
- Tracker share arrangements;
- Exceptional items: measurement of restructuring costs and classification of exceptional items;
- Impairment of investments carrying value (Company only); and
- Accounting change: IFRS 15 'Revenue from Contracts with Customers'.

All of these were considered in the light of the latest FRC guidance.

### Committee composition and attendance

	Jan	May	July	Nov
<b>Anne Fahy</b> (Chair)	●	●	●	●
<b>Barrie Brien</b>	●	●	●	●
<b>Denise Collis</b>	N/A	●	●	●
<b>James Bilefield</b>	●	●	●	●

N/A – joined Committee after meeting date.

Full biographies are available on page 78-79.

During the course of the year, the Committee also considered, amongst other matters, project implementation, technical accounting matters and their appropriate disclosure, treasury matters, as well as fraud and whistleblowing, whilst also supporting the Board in its discussions on cyber, GDPR and other key risk areas, tax planning and policy.

As with last year, it also took the opportunity to review and update its terms of reference and evaluated its performance, which it does annually, in line with best practice, although this year the evaluation was conducted via an external third party, Lintstock Ltd. From this review, the Committee has concluded that it is functioning effectively, with only minor areas identified for enhancement.

Having reviewed the content of the Annual Report, the Committee considers that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company and the Group's performance, business model and strategy.

Information on the Committee meetings held and attended by members is set out in the table in the Governance Report.

#### **Committee Composition**

The Committee consists of Anne Fahy (Chair), Barrie Brien, Denise Collis and James Bilefield. The Group Chief Executive Officer, Chief Financial Officer, Group Company Secretary, External Auditors, Head of Compliance & Risk, Internal Audit and Finance function heads also attend meetings by invitation.

#### **Committee Membership, including Recent and Relevant Financial, Audit or Sector Experience**

Anne Fahy is a Chartered Accountant and has held senior financial positions, most recently at BP, whilst Barrie Brien is also a Chartered Accountant. Denise Collis and James Bilefield are degree educated and have held senior management positions, which include financial responsibility, and the Committee, taken as a whole, is considered to have appropriate services sector experience.

The Committee's Terms of Reference were reviewed and updated during the year. Duties principally comprise as follows:

#### **The Committee's Principal Responsibilities**

- To monitor the integrity of the consolidated financial statements of the Group and any announcements relating to financial performance;
- To review significant financial reporting issues and judgements;
- Where requested by the Board, to advise whether, taken as a whole, the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- To review the Group's internal financial controls, internal control and risk management systems and reporting, including supporting the Board in overseeing risk management activity, advising on risk appetite and assessing material breaches of risk controls;
- To monitor and review the effectiveness of the Group's IA function;
- To agree the external auditors engagement terms, scope, fees, non-audit services, to monitor and review the external auditor's effectiveness and associated independence and recommend re-appointment to the Board and shareholders;
- Reviewing arrangements by which the Groups' employees may raise concerns about possible improprieties in financial reporting or other such matters and ensuring appropriate follow up;
- To monitor and review activities and priorities of the Group's compliance function and Risk & Compliance Committee;
- Assessing procedures for detecting fraud or preventing bribery; and
- Where requested by the Board, advising on proposed strategic transactions, including conducting due diligence appraisals and focusing on risk aspects.

The Committee carries out an annual assessment of its effectiveness, in order to consider whether any improvements are needed.

#### **Risk Management, Internal Controls, Key Focus Areas and Viability**

The Committee supports the Board in its overall responsibility for risk management activities and implementing policies to ensure that all risks are evaluated, measured and kept under review by way of appropriate KPIs, as part of the Group's ERM framework.

Presentations from senior management across the business are provided to the Board to further develop information, understanding and debate on risks.

This activity includes monitoring of the effectiveness of the Group's risk management and internal control systems in order to safeguard shareholders' investments and the Group's assets and, at least annually, carrying out a robust assessment of risks and the effectiveness of associated controls on behalf of the Board.

No significant failings or weaknesses were identified by the Committee from this review.

The Committee works closely with the Chief Financial Officer, Group Company Secretary, Head of Compliance & Risk, IA team and external auditors to ensure that any potential material misstatement risks are identified and targeted in terms of the overall audit strategy and that audit resources and the efforts of the engagement team are correctly allocated. This helps to ensure the effective planning and performance of the external and internal audit teams, focused on risk, and has resulted in a continued improvement in processes and controls over recent years.

A key focus area for the Committee, again, this year was reviewing the viability statement, to enable Board sign off, particularly in the light of Brexit and growing macro-economic uncertainty globally.

### External Auditors

#### Responsibilities in Relation to External Auditors

During the year, the Committee carried out each of the following:

- Recommended the reappointment of PwC as external auditors, for subsequent ratification of their remuneration and terms of engagement by shareholders;
- Reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- Reviewed the policy on the engagement of the external auditors and supply of non-audit services. This policy sets out prohibited and permitted services, a non-audit services fee cap and certain pre approval thresholds.

#### Appointment, Objectivity and Independence

Following the conclusion of the formal audit tender in early 2017, both the Committee and the external auditors have safeguards in place to ensure that objectivity and independence are maintained. The Committee also considers independence taking into consideration relevant UK professional and regulatory requirements.

The external auditors are required to rotate audit partners responsible for the Group audit every five years and the current lead audit partner was appointed in 2014. Work started in early 2018 to ensure appropriate transition to a new lead partner. Accordingly Chris Burns, following completion of his five-year tenure, will be succeeded in 2019 by Kenny Wilson, with the focus of the audit team's activities moving to Glasgow, consistent with the Group's CoE operations base.

### Performance and Tendering

During the year, the Committee reviewed performance and fees and met with the external auditors, PwC, regularly, without management present. Prior to their 2018 reappointment, following a robust tender process, PwC originally replaced BDO as auditor in 2000 and became auditors of the public company in 2005. The Committee considered that factors such as regular audit partner rotation, adoption of enhanced audit techniques, as well as competitive fee structure have all contributed to PwC's satisfactory performance and independence. The Committee therefore considers that the existing relationship has worked well and remains satisfied with PwC's effectiveness.

Whilst there are no contractual obligations restricting the Group's choice of external auditors, per se, EU rules now prevent certain 'prohibited' services from being carried out in addition to auditing activities. Any such activities must first cease, before a firm can be considered for audit tender. Accordingly, the external auditor ceased such services in 2016 in order to be considered for the tender completed in early 2017. These restrictions remain in place.

#### Framework used by the Committee to Assess Effectiveness of the External Audit Process

The Committee has adopted a broad framework to review the effectiveness of the Group's external audit process and audit quality which includes: assessment of the audit partner and team with particular focus on the lead audit engagement partner, planning and scope of the audit, including a dedicated audit planning afternoon, with identification of particular areas of audit risk, the planned approach and execution of the audit, management of an effective audit process, communications by the auditor with the Committee, how the auditors support the work of the Committee, how the audit contributes insights and adds value, a review of independence and objectivity of the audit firm and the quality of the formal audit report to shareholders.

Feedback is provided to both the external auditors and management by the Committee and its attendees, based on the above, with any actions reviewed by the Committee.

The effectiveness of management in the external audit process is assessed principally in relation to the timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements, management's approach to the support of independent audit and the booking of any audit adjustments arising as well as the timely provision of documents for review by the auditors and the Committee.

### Policy on Non-Audit Work

The Committee sets clear guidelines on non-audit work, which is only permitted where it does not impair independence or objectivity and where the Committee believes that it is in the Group's best interests to make use of built up knowledge or experience. Such work has included services required due to legislation and assurance work or other specialist services. The Committee continuously monitors the quality and volume of this work, fees incurred, as well as independent safeguards established, in order to consider whether to use other firms and continues to use other firms to provide general tax advice or for other projects.

Following the introduction of EU Ethical Standards for Auditors in 2016, the Committee reviewed its policy on non-audit work and has updated it. As such, the policy aligns with regulations to prohibit a number of non-audit services, whilst also meeting APB Ethical Standards and FRC guidance, to clearly set out:

- which types of non-audit work are prohibited;
- the types of work for which external auditors can be engaged without Audit Chair referral, provided such services fall below £25,000 and are not specifically prohibited; and
- for which types of work Audit Committee Chair referral is needed, i.e. which are above £25,000.

### Fees paid to External Auditors for Non-Audit Work

Audit fees for the year were £497,000 (£367,000 base fee, plus £130,000 additional audit costs related to the transition of the support function to Glasgow). Prior year fees were £384,000 base fee plus £132,000 audit costs related to the transition of the support function to Glasgow, recognised in 2018. The Committee reviews all non-audit work against policy to ensure it is appropriate and the fees justified. Non-audit fees have decreased compared to prior years, with this year's fees primarily related to the half year agreed upon procedures and India subsidiary liquidation. The fees are set out in the notes to the financial statements.

### Significant Accounting Judgements and Estimates in the Financial Statements and Matters Considered in Relation Thereto

Significant areas considered by the Committee in relation to the 2018 Annual Report and financial statements and how these were addressed, include the following:

**Revenue Recognition** – contract revenue is recognised when the supply of professional services has been rendered. This includes an assessment of professional services received by the client for services provided by Contractors between the date of the last received timesheet and the year end.

Revenue is therefore accrued for Contractors where no timesheet has been received, but the individual is 'live' on the Group's systems, or where a customer has not yet approved a submitted timesheet. Such accruals are removed after three months if no timesheet is received or customer approval obtained. The amount of Contractor revenue that is accrued rather than billed at each period end is significant.

The value of unsubmitted timesheets for each individual contractor is system generated and estimation is principally in respect to the number of hours worked. The number of hours worked is based on the contractual hours and working days for each Contractor and adjusted for expected holidays or other events that could reduce the revenue. However, the revenue is adjusted to reflect actual data from Contractor timesheets received two to three weeks after the year-end and where timesheets are not submitted. Any difference compared to the actual time worked by the Contractor would result in the amount payable to the Contractor and accrued revenue receivable from the client being adjusted in the next financial year.

Each year management quantifies the difference between actual amounts billed and accrued revenue and costs. This covers the month after year end when a large proportion of timesheets are submitted. An adjustment is made for this. Any residual differences following this are quantified and are not material. External and internal auditors have verified procedures around revenue recognition and reported their findings. The estimation method applied, and the assumptions underlying these are considered appropriate by the Committee and continue to be in line with IFRS requirements.

**Tracker Share Arrangements** – the tracker share arrangements are complex in nature and therefore challenging to disclose in a way that is understandable to the reader whilst continuing to highlight the judgements involved.

In light of this, each year, the Committee re-examines the key areas of judgement in order to be satisfied that these are clearly disclosed. There are significant accounting differences (generally with respect to measurement) when comparing the treatment of an equity settled and a cash settled share based payment scheme. The tracker share scheme gives the Group the choice to settle in either SThree plc shares or cash and therefore the treatment of this scheme in the financial statements as equity settled is judgemental. Given the material quantum of amounts involved, the Committee focused on this significant judgement. In order to satisfy itself that treatment of the scheme as equity settled is appropriate, the Committee verified the practice to date has been to settle tracker shares using SThree plc shares, and sought reconfirmation from the Board that it is the ongoing intention to settle the scheme in this way. This policy is disclosed within the financial statements.

When tracker shares are settled using treasury shares the accounting requires judgement. The Companies Act is not explicit on how the reissue of treasury shares should be accounted for in this scenario. The Committee had previously reviewed legal advice obtained by management in this area which confirms the appropriateness of the treatment adopted within the financial statements, as disclosed further in the notes to the financial statements. There have been no changes to suggest this legal advice is superseded in any way. The Audit Committee also reviewed the disclosure of this judgement in note 1 of the financial statements, and considered it to be appropriate.

**Measurement of restructuring costs and classification as exceptional items** – As in 2017, certain costs were incurred during the year, which were separately presented as exceptional items and excluded from the Group's alternative earnings measure on the face of the Consolidated Income Statement.

The exceptional items recognised in the year related to costs resulting from the restructuring of the Group's support function to Glasgow. The principal restructuring costs classified as exceptional were redundancy costs, property costs, and professional advisor fees for external consultants engaged to support the execution of central support service restructure.

The classification of these restructuring costs is judgemental and the valuation of the provision requires estimation.

The presentation approach was approved by the Audit Committee in 2017, at which stage the Committee reviewed the criteria and timing of these costs to ensure that the classification as exceptional items was balanced and consistent with the Group's accounting policy set out in note 1 of the Financial Statements internal policy, and external guidance.

These matters were discussed with senior members of the finance team ahead of the year end. The Committee obtained sufficient comfort that the nature of each specific type of restructuring costs incurred during the year remained largely unchanged from 2017. The Committee considered that an appropriate disclosure as exceptional items continues to provide a better understanding of the Group's underlying results and in line with IFRS requirements. Both external and internal audit teams have performed detailed verification procedures on the restructuring costs and related provisions and the external auditors have reported their findings to the Committee.

**Impairment of investments carrying value (Company only)**

– the parent Company holds investments in the UK and overseas subsidiaries, which had a total carrying value of £213.9 million (2017: £206.8 million) at the year end. An annual review is performed to assess whether there is an indication that these investments are impaired. If any such indication exists, the recoverable amount of the investment is estimated, being the higher of an entity's 'fair value, less costs of disposal' and its 'value in use'.

Ahead of the year end, the Committee was briefed by the Chief Financial Officer that following a review of key judgements on the future trading performance of the investments, and key estimates including growth and discount rates, all of which drive the valuation of the recoverable amount, there were no material indicators of impairment. Estimates and judgements applied in the valuation of the investments are considered to be appropriate by the Committee and in line with IFRS requirements. The external audit teams and senior members of the finance team have performed detailed verification procedures on the valuations of the investments and the external auditors have also reported their findings to the Committee.

For comparison, last year the Committee approved of the recognition of an £88.1 million impairment of one of the Company's subsidiaries in the UK. The impairment was anticipated given the downturn in the trading performance of the UK business in prior years.

**Accounting change: IFRS 15 'Revenue from Contracts with Customers'** – the Audit Committee received technical updates from the Chief Financial Officer on developments in financial reporting and accounting policy, including IFRS 15 'Revenues from Contracts with Customers' ('IFRS 15').

The Committee considered and approved management's recommendation that a change is made to the way the Contract accrual income is estimated under IFRS 15. This is based on the new requirement under IFRS 15 to constrain a recognition of variable consideration of revenue until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Management's paper set out a quantitative impact analysis and the assumptions that will underpin the new methodology of estimating Contract accrued income. The Committee considered them appropriate and in line with the new requirements of IFRS 15. The external audit teams have performed detailed verification procedures of supporting financial models and impact disclosures in 2018 financial statements, and reported their findings to the Committee. The results of management's impact analysis are set out in note 1 of the financial statements.

**Material Misstatements** – management confirmed to the Committee that they were not aware of any material misstatements, management override or fraud and the external auditors confirmed that they had found no evidence of such during the course of their work. After reviewing reports from management and following its discussions with the external auditors, the Committee is satisfied that the financial statements appropriately address critical judgements and key estimates, both in respect of the amounts reported and the disclosures.

**Internal Audit ('IA')**

IA plays an integral role in the Group's governance and risk management processes and provides independent assurance to the Committee on compliance with its policies and procedures. The function carries out a wide variety of audits including operational as well as ad hoc and project based reviews and fraud investigation.

The Committee oversees and monitors the work of IA, which carries out risk based reviews of key controls and processes throughout the Group on a rolling cycle, including resources, scope and alignment with principal risks and effectiveness of the function.

The Head of IA has direct access to the Committee, and meets regularly with both the Committee and its Chair without management present to consider the IA work programme, which is approved in advance by the Committee.



For 2018, the programme was again focused on addressing both financial and overall risk management objectives across the Group, with reviews carried out, findings reported to the Committee, recommendations tracked and their close out monitored. This year, the IA function was also heavily involved in reviewing the documentation of the processes and controls to enable a successful CoE transition, as well as assessing the Group's Brexit readiness and associated business impact.

No significant weaknesses were identified from the risk management or internal control reviews undertaken by IA during the reporting period and throughout the financial year. The IA team has continued to enhance the risk management framework and work with managers across the globe to further develop and embed the risk framework and methodology at a local level, whilst also ensuring that the IA plan is closely aligned to risk. Senior management regularly present to the Committee to report back on progress against agreed IA actions and other risks in their area of responsibility. During the year, the Committee received presentations from, and held discussions with, key management and external specialists, including on tax matters, project management and health & safety. Members also attended a risk workshop, where the Group's key risks were discussed, including operational, IT and cyber risks.

The Committee ensures that the Group's IA function remains at an appropriate size and skill mix for the business, and firmly believes that this function remains effective and continues to add significant value. To support this validation, it is planned to conduct an external evaluation of the IA function during 2019.

#### **Risk & Compliance Committee**

The R&CC was created in May 2018, with agreed Terms of Reference, a regular reporting slot at each Audit Committee and Risk & Compliance Committee meetings all now well underway, with appropriate support/governance underpinning. Ongoing resourcing requirements are being reviewed into 2019. Feedback from Committee members is that this has been a very positive step forward, resulting in a number of demonstrable improvements, including: Risk role matrix roll-out and move to demarcate sales input in relation to compliance decisions, in order to mitigate high risk issues in the USA; Review of construction/SoW activity in DACH; reporting and investigation of compliance breaches in Benelux/France. There is also more dynamic input into the IA plan, with risks identified and addressed more seamlessly than before.

#### **Fraud**

The Committee reviews the procedures for the prevention and detection of fraud in the Group.

Suspected cases of fraud must be reported to senior management and are investigated by IA, with the outcome of any investigation reported to the Committee. During the year, IA investigated one minor fraud incident, with appropriate action taken.

#### **Anti-Bribery and Corruption and Business Ethics**

The Group maintains a zero tolerance approach against corruption. It has an established anti-bribery and corruption policy, which includes guidance on the giving and receiving of gifts and hospitality. This policy applies throughout the Group. A Gifts and Hospitality Register is maintained to ensure transparency.

The Group also has a Code of Conduct which sets out the standards of behaviour by which all employees are bound. This is based on the Group's commitment to acting professionally, fairly and with integrity.

#### **Whistleblowing Hotline**

The Group has in place a dedicated independent whistleblowing hotline, as part of the arrangements set up and is monitored by the Committee, so that employees are able to report any matters of concern, where this does not conflict with local laws or customs (see the Company Information & Corporate Advisors section for details). During the year, the opportunity was taken to broaden the policy in line with best practice, review the hotline provider and refresh communication of the whistleblowing arrangements. During the year, there were seven incidents reported. All issues raised via the hotline during the year, were fully investigated and appropriate action taken.

#### **Committee Evaluation**

The Committee conducted an externally led evaluation process (via Lintstock Ltd) which included feedback from management, external auditors, IA, as well as Committee members. From this review, the Committee has concluded that it is functioning effectively, with only minor areas identified for enhancement.

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#### **Anne Fahy**

Audit Committee Chair  
25 January 2019

## On behalf of the Board I am pleased to present the Remuneration Committee's annual report on Directors' remuneration for the year ended 30 November 2018.



**Denise Collis**

Chair of the Remuneration Committee  
25 January 2019

### Committee composition and attendance

	Jan	Oct	Nov
<b>Denise Collis</b> (Chair)	●	●	●
<b>James Bilefield</b>	●	●	●
<b>Barrie Brien</b>	●	●	●
<b>Anne Fahy</b>	N/A	●	●

N/A – joined Committee after meeting date.

Full biographies are available on page 78-79.

As a Board, we are keenly aware of the sensitivities of the topic of executive pay for companies, employees and shareholders. During the year we have reviewed alignment of our policy to the business strategy, as well as recent changes to the regulatory environment and investor guidance and we are comfortable that the current Directors' remuneration policy (approved by shareholders at the 2017 AGM) remains appropriate for the final year of the three-year policy period. Our review of the policy and its application included a shareholder engagement exercise in October 2018, where our largest shareholders were contacted to provide feedback on our policy and governance approach. We have already incorporated points from this feedback in our target setting processes and have expanded our explanation of this process. We are pleased to say that the views of those shareholders who responded were that the policy and its application remains appropriate and this confirms our view that our pay policy reflects the business strategy, with remuneration payments that are strongly linked to performance.

#### Summary of Remuneration Policy

The fixed elements of the remuneration packages are set so that they reflect the calibre and experience of the individuals and the complexity of their roles. The annual bonus measures are based on specific areas that require immediate focus, whereas our Long Term Incentive Plan ('LTIP') looks to drive sustainable improvements at a more macro level over the longer term. Culturally, the setting of both financial and broader non-financial measures serves to focus scheme participants on a more holistic view of business success and hence serves to drive performance on a broad, sustainable front.

#### Remuneration Payable for Performance in 2018

In relation to the annual bonus, despite the uncertain economic environment, the Group delivered a good result for the year, with a strong finish in the final quarter and overall performance that was ahead of our internal plans and market expectations. This was driven by strong growth in Continental Europe, robust growth in the USA, with a continued recovery in Energy and solid growth in Life Sciences. Against the financial targets that were set for the annual bonus, there was strong PBT growth versus the prior year and solid operating profit conversion. The cash conversion achieved was lower than hoped due to the increased rate of growth in our Contract runner book, where more cash has been absorbed into working capital. In addition, the operational challenges associated with the relocation of our support function to Glasgow had a temporary adverse impact on our Days' Sales Outstanding ('DSOs'). Looking at the wider context, good progress was also made on many of our KPIs, including our strategic and personal objectives.

One such key objective was the relocation of our support function to Glasgow, which will deliver significant year on year cost savings, ahead of expectations.

Reflecting this strong overall performance, the average annual bonus paid to the Executive Directors was 73.7% of the maximum.

The 2016 LTIP award was based on our performance over the three financial years to the end of 2018. For the half of the award based on the EPS performance condition, this required adjusted EPS growth to be between RPI +6% and RPI +19% per annum. Actual EPS performance for 2018 was 30.7 pence, equating to growth of RPI +7.0% over the performance period and resulting in 36% vesting of the EPS part of the award. For the remaining half of the award based on our Total Shareholder Return ('TSR') performance, our TSR was required to be between median and upper quartile performance against a peer group. Whilst our TSR was +6.7%, this placed us below median, resulting in zero payout of this part of the award.

The Committee has considered whether the formula-driven payouts under the incentive plans and resultant total remuneration for Directors is appropriate, looking at the broader context within which the performance has been delivered. In particular the Committee has noted the following points:

- The profit performance represents strong year on year improvement in a challenging market.
- Targets for the incentive plans were stretching. For example, despite the increasing uncertainty at the time the targets were set at the start of 2018, the entire target range for PBT was ahead of the prior year figure and ahead of the range set for the prior year bonus.
- This has been a year of significant internal change, with the realignment of the executive team around a new operating model, the creation of the Centre of Excellence in Glasgow and a major reorganisation of the UK business.
- Total pay for the Executive Directors has reduced year on year, despite an overall strong performance.

Taking the above into account the Committee is comfortable that there has been a robust link between remuneration and performance and that there was no need to use discretion to adjust the level of remuneration payable.

Full details of the annual bonus and LTIP measures, performance against them and resultant payments are set out in the Annual Report on Remuneration.

#### Chief Executive Officer succession

On 14 December 2018, we announced that Gary Elden will step down from his role as Chief Executive Officer in early 2019. Gary was given 12 months' notice by the Company and payments to Gary after he steps down will comprise salary, pension and benefits, paid monthly for the duration of the notice period (subject to offset against earnings, excluding a single NED role in a publicly quoted company, elsewhere). Gary will be entitled to be considered for an annual bonus, pro rata for the part of 2019 actively worked. Outstanding LTIP awards will remain subject to performance conditions and scaled back pro rata for the period of employment as a proportion of the three year vesting period. Gary will not receive an LTIP grant in 2019.

#### Policy Implementation for 2019

The Committee has awarded all continuing Executive Directors salary increases of 2.5%, which is in line with the average increase for employees generally.

As this is the final year of the three-year policy period, the Committee decided not to consult with shareholders in making any substantive changes at this time. The annual bonus opportunity will therefore remain capped at 120% of base salary, with deferral in shares for any bonus earned above 100% of salary. The mix of measures will remain unchanged, with 65% financial, 25% shared strategic and 10% based on personal objectives. Relevant and objective measures have been set for the shared strategic and personal elements, with commensurate stretching targets.

There will be full retrospective disclosure of target ranges and performance for the bonus in the following Annual Report on Remuneration.

The LTIP will continue to be based on SThree's performance over three years and subject to a two-year holding period post-vesting. For 2019, the grant level will be unchanged at 150% of base salary.

As explained last year, the Committee previously reviewed the performance measures for the LTIP and decided to rebalance these to give a higher weighting on the three-year EPS targets and a reduced weighting on the strategic element. This allowed a greater focus on the financial metrics, as well as more simplicity and was aligned to feedback received from shareholders. Accordingly, it is again proposed that the weighting should be 50% EPS, 30% TSR and 20% strategic.

The Committee has given very careful consideration to the setting of targets for 2019, looking to balance the forward momentum from a strong performance in 2018 with the increasingly uncertain macro-economic and political conditions. For the annual bonus, the financial target ranges are set at a level which is above the prior year outturn and contain significant stretch. Similarly, for the 2019-21 LTIP award, the EPS range requires significant growth from the strong 2018 outturn in order for awards to reach threshold, with a very high level of stretch required in order to achieve full vesting. Furthermore, the Committee retains discretion to ensure that annual bonus payments and vested awards under the LTIP can be scaled back if the formula driven outturn does not reflect the broader overall performance of the business. Full details of the annual bonus measures and the measures and targets for the 2019-21 LTIP awards are set out in the Annual Report on Remuneration.

#### Changes to Committee composition

In April 2018, Anne Fahy joined the Committee. Anne also serves on the Audit and Nomination Committees.

### Shareholder engagement and response to UK Corporate Governance Code changes and new reporting requirements for Directors' pay

The Committee values the opinions of its shareholders and other stakeholders and took their views into account in designing the remuneration policy and also in assessing its application for 2019. We will consult investors again regarding our new policy, during the year.

We will also gather broader stakeholder input, as required by the UK Corporate Governance Code reforms announced by the Financial Reporting Council in July 2018. To this end, the Board has already taken steps towards further improving its engagement with employees, by my appointment on 1 December 2018 as the designated NED responsible for employee engagement. In this role, I will be responsible for gathering employees' views and ensuring that they are fully considered at Board level.

In addition, the Committee has already taken proactive action to ensure that it is well placed to comply with the new Code requirements, as follows:

- Enhanced role of Remuneration Committee – our Committee Terms of Reference now include a widened remit of setting senior management pay and oversight of remuneration and workforce policies and practices;
- Remuneration principles, structures and discretion – when setting policy, the Remuneration Committee already considers clarity, simplicity, risk, predictability, proportionality and culture;
- LTIPs have a minimum five-year vesting/holding period and we will be reviewing our policy on post-employment shareholding requirements as part of the policy review. Discretion will be used where necessary to adjust incentive plan payments to take account of wider circumstances and we have amended the incentive plans to enable the Committee to override any formula driven outcome;
- Shareholder views – we routinely seek investor feedback on our governance and remuneration approach and to understand those reward matters that are currently front of mind. We did this again in October 2018, where there were positive comments from those who responded. Through positive proactive engagement we hope to avoid situations where there is a significant vote against any resolution, or where we are only made aware of adverse voting intentions at the last minute;
- Clawback and malus – incentive schemes have been updated to allow recovery of payments in specific additional circumstances such as (i) serious reputational damage and (ii) corporate failure.

To ensure maximum transparency and accountability we have chosen to comply early with the new reporting regulations for Directors' pay, including publication of the ratio of our Chief Executive's pay as compared to that of the workforce.

### Chairman and NED fees

The Committee and Board have reviewed the fee levels for the Chairman and NEDs respectively and, after a review of market benchmarks and taking account of the increased time commitment and responsibility, have increased the fee levels modestly.

### Conclusion

The Committee appreciates the support received from shareholders to date on its executive remuneration and governance approach. We are required to seek shareholder approval for a new remuneration policy at the 2020 AGM and we will be consulting with investors again in 2019 on this. I look forward to maintaining a constructive ongoing dialogue.

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### Denise Collis

Chair of the Remuneration Committee  
25 January 2019

## Remuneration at a Glance

### How have we performed?

#### Bonus – maximum potential 120% of base salary

Metric	Threshold	Maximum	Actual	Achievement %
PBT	£44.5m	£53.3m	£53.4m	100.0%
Operating Conversion Ratio	15.6%	17.2%	16.8%	83.3%
Cash Conversion Ratio	63.0%	77.0%	67.0%	37.1%
Average Shared Strategic Achievement			59.5%	59.5%
Average Personal Achievement			73.3%	73.3%
Average Total Achievement				73.7%

#### 2016 LTIP Award – grant 150% of base salary

Metric	Threshold	Maximum	Actual	Achievement %
EPS (adjusted)			30.7p	
TSR	Median	Upper quartile	24th out of 39	0%

#### Summary of Total Reward

	Reward Component	CEO	CFO	COO
<b>2018</b>	Base Pay £'000	£453.1	£341.6	£292.1
	Total Remuneration £'000	£1,064.0	£813.1	£665.1
<b>2017</b>	Base Pay £'000	£442.0	£333.3	£330.0
	Total Remuneration £'000	£1,228.8	£940.1	£864.5

\* Explanation of any changes can be found in the relevant section within the Annual Report on Remuneration.

#### Remuneration Policy Summary – no changes proposed for 2019

Key Reward Component	Key features
<b>Base Salary and Core benefits</b>	Salaries increased by 2.5% in line with employees
<b>Annual Bonus</b> – 65% Group Financial Target – 25% Strategic Target – 10% Personal Target	Maximum of 120% of salary, with any achievement above 100% of salary paid in shares vesting in equal tranches over 2 years
<b>LTIP Award</b> – 50% EPS – 30% TSR – 20% Strategic Targets	Maximum award of shares worth 150% of annual salary, performance tested, vesting after 3 years with a further 2 year holding period
<b>Shareholding Requirements</b>	Requirement to hold shares equivalent to 200% of salary



### Policy Report

The Group's remuneration policy set out below was approved by shareholders at the AGM held on 20 April 2017 and applies for three years from that date. The remuneration policy is designed to support the strategic business objectives of the Group in order to attract, retain and motivate Directors and senior managers of a high calibre, to deliver sustainable increases in long-term shareholder value.

Element	Purpose and Link to Strategy	Operation	Maximum	Performance Metrics
<b>Executive Directors</b>				
<b>Base Salary</b>	Sufficient to attract, retain and motivate high calibre individuals.	Reviewed annually with any increases taking effect from 1 December.	Increases will normally be the equivalent to the average salary increase for employees, other than in exceptional circumstances.	Not applicable
<b>Benefits</b>	Market competitive benefits package.	Including Car Allowance, Private Medical Insurance, Permanent Health Insurance, Life Assurance and Housing Allowance (if relocated).  Other benefits may be introduced to ensure benefits overall are competitive and appropriate for the circumstances.	Cost of insured benefits will vary in line with premiums. Other benefits will be at a level considered appropriate in the circumstances.	Not applicable
<b>Pension</b>	To provide a competitive pension provision.	Individuals may either participate in a pension plan into which the Company contributes or receive a salary supplement in lieu of pension.	15% of base salary.	Not applicable
<b>Annual Bonus</b>	Incentivises high levels of personal and team performance, focused on the key business strategies and financial/ operational measures which will promote the long-term success of the business.	Deferral into shares for achievement over 100% of salary, vesting in equal tranches over two years, subject to continued employment.  Dividend equivalent payments accrue on deferred shares, payable in cash or shares.  Bonus may be subject to clawback or malus being applied, if appropriate, in the event of financial misstatement, error or misconduct, which has led to an over-payment.	Maximum bonus payment is 120% of annual salary.	Achievement of agreed strategic and financial/operational annual business targets, weighted in line with business priorities. A majority of the performance conditions will be based on financial metrics. Sliding scales are used for each metric wherever practicable with 20% payable for achieving threshold performance. Normally 50% of the maximum bonus is payable for target performance for any financial metric. Within the maximum limit, the Committee may adjust bonus outcomes, based on the application of the bonus formula set at the start of the relevant year, if it considers the quantum to be inconsistent with the Company's overall performance during the year.

Element	Purpose and Link to Strategy	Operation	Maximum	Performance Metrics
<b>Executive Directors</b>				
<b>Long Term Incentive Plan</b>	Incentivises and rewards Executives for the delivery of longer-term strategic objectives and to reward substantial relative and absolute increases in shareholder value.	LTIP awards may be granted each year in the form of a conditional award of shares or a nil cost option. LTIP awards normally vest after three years. Dividend equivalent payments accrue on vested LTIP awards, payable in cash or shares. Vested LTIP awards must be held for a further two years before the shares may be sold (other than to pay tax). LTIP awards may be subject to clawback or malus being applied, if appropriate, in the event of financial misstatement, error or misconduct, which has led to an over-payment.	The maximum award is 150% of salary p.a. in normal circumstances but may be 175% of salary in exceptional circumstances.	Targets are reviewed annually ahead of each grant to ensure they are aligned to the business strategy and performance outlook. A majority of the performance conditions are based on Group financial performance and shareholder value-based outcomes. No more than 25% of an award may vest for the threshold level of performance. Within the maximum limit, the Committee may adjust vesting outcomes, if it considers the quantum to be inconsistent with the Company's overall performance during the year. Regional based financial metrics may be used for Directors for a minority of the award, where appropriate.
<b>All Share Plans</b>	Support and encourage share ownership by employees at all levels.	HMRC approved SAYE and SIP participation is available to all UK employees, including Executive Directors, on similar terms.	In line with HMRC limits or lower limits specified by the Company from time to time.	Not applicable
<b>Share Ownership Requirements</b>	Alignment of Executive Directors' interests with those of investors.	Executive Directors are expected to build and maintain a shareholding equivalent in value to no less than 200% of base salary. Until this threshold is achieved Executive Directors are normally required to retain no less than 50% of the net of tax value from vested LTIP, Deferred Bonus or other awards.	Not applicable	Not applicable

As part of this policy, any payments due under the terms of the previous policy are capable of being made.

### Operation of Incentive Plans

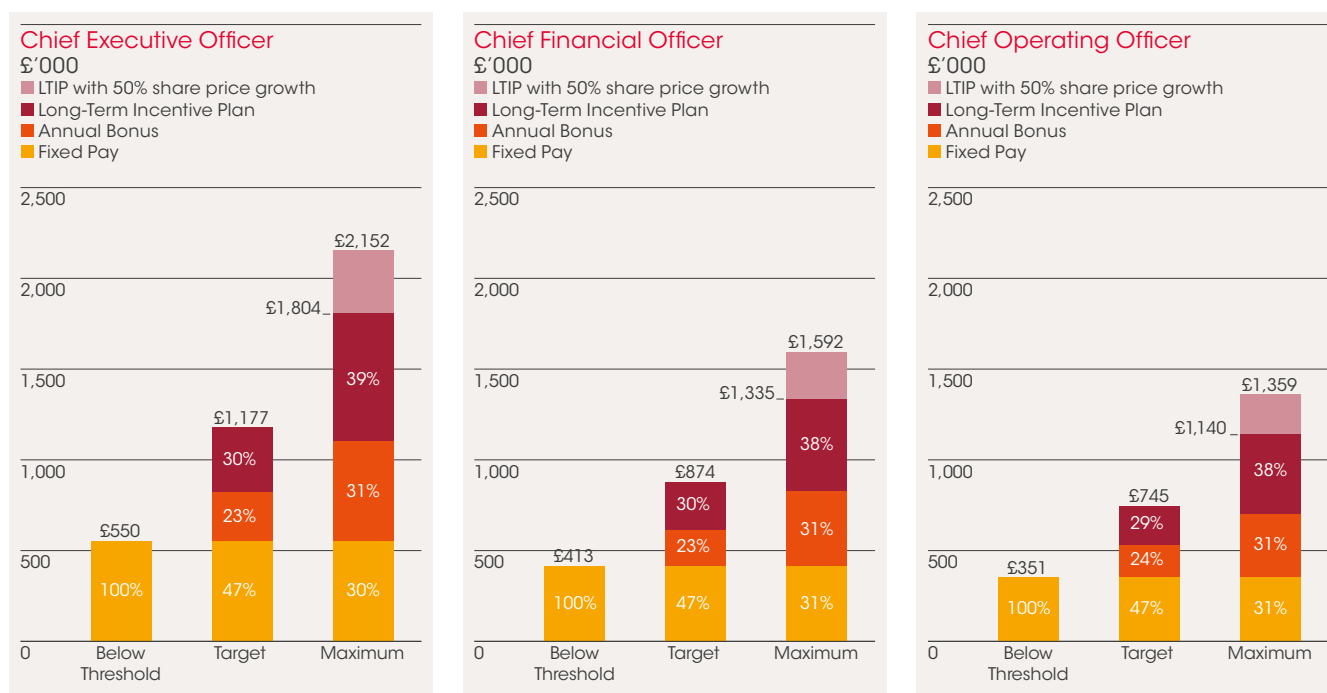
The Committee's policy is to review performance measures for the incentive schemes annually, so that they continually align with strategic objectives. The Committee considers that linking annual bonus and the vesting of LTIP awards to a combination of different measures, capturing share price, financial results and non-financial performance, will ensure that incentive plans provide a reward for rounded performance, while maintaining the alignment of Executive and shareholder interests.

The Committee may exercise discretion in assessing achievement against each stated target where it considers that it would be fair and reasonable to do so. The Committee may also exercise broader discretion in relation to the terms of all incentive plans, for instance (but not limited to) adjustments required for corporate restructuring and change of control.

In designing incentive structures and approving incentive payments, the Committee pays due consideration to risk management and environmental, social and governance ('ESG') issues.

### Illustration of Potential 2019 Executive Directors' Remuneration

The charts below show the remuneration potentially payable to Executive Directors under different performance scenarios.



Note:

Assumptions for the charts above:

Fixed pay comprises base salary as at 1 December 2018, pension contribution of 15% of salary and the value of benefits received in 2018.

The on-target level of bonus is 50% of the maximum opportunity. The on-target level of the LTIP is taken to be 50% of the value of a single year's award.

The maximum level of bonus and LTIP is the maximum bonus and full vesting of the LTIP award. No share price appreciation has been assumed for deferred bonus or LTIP awards and the value of all-employee share plans has been excluded. The 'maximum' column includes an additional 50% value of the LTIP.

### **Differences in Remuneration Policy for Executive Directors Compared to Other Employees**

The Committee is made aware of pay structures across the wider group when setting policy for Executive Directors, in particular in relation to any base salary review. Overall the remuneration policy for Executive Directors is weighted more to performance based pay and, in particular, long-term share-based incentives. This is to ensure that the relatively higher pay levels are justifiable internally and externally to shareholders as a clear link between the value created for shareholders and the remuneration received by Executives.

### **Consideration of Employment Conditions Elsewhere in the Group**

When setting the Executive Directors' remuneration policy, the Committee takes into account the pay and conditions of employees more generally. Also, following the Corporate Governance Code reforms announced by the Financial Reporting Council in July 2018, the Board has appointed Denise Collis as designated NED for employee engagement, from 1 December 2018, to gather views from employees and ensure that these are fully considered at Board level.

### **Consideration of Shareholders' Views in Determining the Remuneration Policy**

The Committee actively consults with shareholders on executive remuneration policy changes. Feedback is taken on board and any proposals are adjusted, as appropriate, given the objective of ensuring that shareholders are supportive of the policy and its implementation. In addition, the Company follows shareholder sentiment on reward and gives it due consideration in considering the application of policy in the years between the development of a new policy. The last exercise was undertaken in October 2018, as outlined in the introduction earlier.

### **Remuneration Policy for Recruitment and Promotion**

Base salary levels will be set in line with the policy taking account of individual circumstances. Where it is appropriate to offer a starting salary below the desired position initially, there is flexibility to make increases at a faster rate than other Directors and employees, subject to individual performance and development in the role.

Benefits and pension would be in line with the policy. Additionally, there would be flexibility to make payments to cover relocation related expenses.

Annual bonus would be in line with the policy and there would be flexibility to set different performance conditions measurable over a part-year, in the first year of appointment.

For internal promotions, outstanding incentive payments may vest on their original terms. For external recruits there may be a need to buy out unvested incentive entitlements at a previous employer. The Committee confirms that any such buy out arrangements would only be used if necessary, would take a similar form to that surrendered (e.g. cash or shares and timeframe), would take account of performance conditions and quantum, and would be no greater than that which the individual has forfeited on appointment.

### **Policy on Directors' Service Contracts and Payments for Loss of Office**

The Executive Directors have rolling service contracts subject to a maximum of 12 months' notice by the Company or Executive. At the Company's discretion, on termination a payment may be made in lieu of notice equivalent to 12 months' salary, which may be paid in monthly instalments and offset against future earnings. For new hires the policy is to provide a 12 month notice period.

Depending on the circumstances the Committee may consider payments in respect of statutory entitlements, outplacement support and legal fees. Mitigation would be applied to reduce any payments associated with loss of office.

'Good' leavers (e.g. redundancy or retirement) may generally retain any earned bonus or share based awards, on a pro rata basis, subject to still achieving any relevant performance criteria.

'Bad' leavers such as a resignation would lose any entitlement to participate in the bonus scheme and any outstanding deferred bonus or LTIP awards would normally lapse on cessation of employment.

### **External Appointments**

Executive Directors are encouraged to undertake external appointments, where they are able to combine this with their existing role. This helps to broaden experience and capability, which can benefit the Company. Currently, no external appointments are held by any Executive Directors.

### **Terms of Appointment and Remuneration Policy for Non Executive Directors ('NEDs')**

NEDs are appointed for an initial three-year term, subject to satisfactory performance and re-election at each AGM, with an expectation that they would serve for at least six years, to provide a mix of independence, balance and continuity of experience. In practice NEDs may be requested to serve up to nine years, subject to rigorous review.

The appointment may be terminated by either the Company or the NED, by giving appropriate notice. Upon termination or resignation, NEDs are not entitled to compensation and no fee is payable in respect of the unexpired portion of the term of appointment. The policy for the remuneration of NEDs is summarised below:

Element	Purpose and Link to Strategy	Operation	Maximum	Performance Metrics
<b>Fees</b>	Attracts, retains and motivates high calibre NEDs to provide experience, capability and governance in the interest of shareholders.	Fees are determined by the Board as a whole and set by reference to those fees paid in similar companies, related to allocated responsibilities and subject to the aggregate Directors' fee limits contained in the Company's Articles of Association. Out of pocket expenses including travel may be reimbursed by the Company in accordance with the Group's expenses policy. NEDs are not entitled to compensation and no fee is payable in respect of the unexpired portion of the term of appointment.	There is no maximum individual fee limit. The overall fee comprises a basic fee plus payment for additional responsibilities such as chairing Committees and for interim additional duties. NEDs do not participate in the Group's incentive schemes.	Obligation to perform satisfactorily and attend and contribute to meetings, assessed via Board effectiveness reviews.

#### Sourcing Shares for Share Plans and Minority Interests (tracker shares)

Shares used to settle vested share awards or tracker shares may include new issue shares, treasury, Employee Benefit Trust 'EBT' shares or market purchased shares. The use of new issue or treasury shares is constrained by dilution limits which are reviewed by the Board annually. In order to comply with investor guidelines, the Board has agreed that the LTIP awards granted in 2015, 2016, 2017 and 2019, will be satisfied via the EBT, if appropriate.



## Annual Report on Remuneration

### Section 1 – Total Reward for 2018

1.1 Directors' Remuneration for 2018

1.2 Annual Bonus Payable for 2018 Performance

1.3 Shared Strategic Objectives 2018 Performance

1.4 Personal Objectives 2018 Performance

1.5 LTIP awards vested by reference to performance over the three years to 2018

#### 1.1 Directors' Remuneration for 2018 (Audited)

Director	Salary & Fees £'000	Benefits <sup>1</sup> £'000	Annual Bonus £'000	Long Term Incentive Plan <sup>2</sup> £'000	Pension <sup>1</sup> £'000	Total £'000
Gary Elden	453.1	15.8	399.1	128.0	68.0	1,064.0
Alex Smith	341.6	20.3	303.0	97.0	51.2	813.1
Justin Hughes**	292.1	15.1	259.1	55.0	43.8	665.1
Clay Brendish	57.2	–	–	–	–	57.2
Anne Fahy	52.0	–	–	–	–	52.0
Denise Collis	52.0	–	–	–	–	52.0
James Bilefield	104.4	–	–	–	–	104.4
Barrie Brien	45.0	–	–	–	–	45.0
<b>Aggregate Emoluments</b>	<b>1,397.4</b>	<b>51.2</b>	<b>961.2</b>	<b>280.0</b>	<b>163.0</b>	<b>2,852.8</b>

NED fees reflect that, at the AGM in April 2018, Clay Brendish retired as Chairman, being succeeded by James Bilefield, who stepped down as SID. Denise Collis was appointed as SID from 1 October 2018 and as Employee Engagement NED from 1 December 2018.

2017 Director	Salary & Fees £'000	Benefits <sup>1</sup> £'000	Annual Bonus £'000	Long Term Incentive Plan <sup>3</sup> £'000	Pension <sup>1</sup> £'000	Total £'000
Gary Elden	442.0	13.9	404.2	302.4	66.3	1,228.8
Alex Smith	333.3	18.5	305.7	232.6	50.0	940.1
Steve Quinn** (left 30/09/2017)	358.1	298.2	319.9	130.3	53.7	1,160.2
Justin Hughes**	330.0	71.6	222.9	130.3	109.7	864.5
Clay Brendish	140.0	–	–	–	–	140.0
Anne Fahy	47.0	–	–	–	–	47.0
Fiona MacLeod* (left 31/10/2017)	43.5	–	–	–	–	43.5
Nadhim Zahawi* (left 31/10/2017)	37.1	–	–	–	–	37.1
Denise Collis	47.0	–	–	–	–	47.0
James Bilefield* (joined 01/10/2017)	8.1	–	–	–	–	8.1
Barrie Brien* (joined 11/09/2017)	9.9	–	–	–	–	9.9
<b>Aggregate Emoluments</b>	<b>1,796.0</b>	<b>402.2</b>	<b>1,252.7</b>	<b>795.6</b>	<b>279.7</b>	<b>4,526.2</b>

\* Pro rated due to appointment or retirement in year.

\*\* 2017 includes payments in local currency of US\$ or HK\$ hence shown Sterling amounts can fluctuate YoY.

#### Notes:

- Benefits comprise car allowance, medical cover and life/income protection insurance, as well as payments to cover housing or other related costs when transferred overseas. Housing or other related costs were nil (2017: £276,073) for Steve Quinn and nil (2017: £69,324) for Justin Hughes. The pension contribution equates to 15% of salary.
- 2018 LTIP awards relate to those granted in early 2016 and vesting in early 2019, based on performance assessed over 2016–2018, also including the value of any related dividends accrued during the vesting period on vested awards. The benefit value has been calculated using a share price of 286.5p, being the share price on 30 November 2018, the last dealing day of the year. As the market price at grant was 297.0p, none of the value has arisen from the share price increasing.
- 2017 LTIP awards relate to those granted in early 2015, vested in early 2018, based on performance assessed over 2015–2017, also including the value of any related dividends accrued during the vesting period on vested awards. The benefit value has been calculated using a share price of 343.50p, being the share price on 30 November 2017, the last dealing day of the year. As the market price at grant was 324.0p, some of the value has arisen from the share price increasing.

## 1.2 Annual Bonus Payable for 2018 Performance

### Gary Elden

Gary Eiden		Actual performance against target									
Measures	Weighting	Below	Threshold	Target	Max	Threshold	Target	Max	Actual performance	Achievement %	Payout £'000
Group Financial Target											
PBT	29.25%		●	●	●	£44.5m	£48.5m	£53.3m	£53.4m	100.0%	£159.0
Operating Conversion Ratio	19.50%		●	●	●	15.6%	16.0%	17.2%	16.8%	83.3%	£88.3
Cash Conversion Ratio	16.25%		●	●	●	63.0%	70.0%	77.0%	67.0%	37.1%	£32.8
Shared Strategic Objectives											
See Section 1.3	25.0%		●	●	●				14.9%	59.5%	£80.9
Personal Objectives											
See Section 1.4	10.0%		●	●	●				7.0%	70.0%	£38.1
	100.0%		●	●	●					73.4%	£399.1

### Alex Smith

Alex Smith		Actual performance against target								Actual performance	Achievement %	Payout £'000
Measures	Weighting	Below	Threshold	Target	Max	Threshold	Target	Max				
Group Financial Target												
PBT	29.25%		●	●	●	£44.5m	£48.5m	£53.3m	£53.4m	100.0%	£119.9	
Operating Conversion Ratio	19.50%		●	●	●	15.6%	16.0%	17.2%	16.8%	83.3%	£66.7	
Cash Conversion Ratio	16.25%		●	●	●	63.0%	70.0%	77.0%	67.0%	37.1%	£24.7	
Shared Strategic Objectives												
See Section 1.3	25.0%		●	●	●				14.9%	59.5%	£61.0	
Personal Objectives												
See Section 1.4	10.0%		●	●	●				7.5%	75.0%	£30.7	
	100.0%		●	●	●					73.9%	£303.0	

### Justin Hughes

Justin Hughes

Measures	Weighting	Actual performance against target				Threshold	Target	Max	Actual performance	Achievement %	Payout £'000
		Below	Threshold	Target	Max						
Group Financial Target											
PBT	23.40%		●	●	●	£44.5m	£48.5m	£53.3m	£53.4m	100.0%	£102.5
Operating Conversion Ratio	15.60%		●	●	●	15.6%	16.0%	17.2%	16.8%	83.3%	£57.0
Cash Conversion Ratio	13.00%		●	●	●	63.0%	70.0%	77.0%	67.0%	37.1%	£21.2
Shared Strategic Objectives											
See Section 1.3	25.00%		●	●	●				14.9%	59.5%	£52.1
Personal Objectives											
See Section 1.4	10.00%		●	●	●				7.5%	75.0%	£26.3
	87.0%		●	●	●					73.9%	£259.1

● Actual achievement against scale.

### 1.3 Shared Strategic Objectives for 2018 Performance

Strategic Measure & Targets	Assessment of performance by the Committee	Overall result in judgement of the Committee (as % of Maximum opportunity)
<b>Operations</b>		
<p>Deliver project to relocate UK based support services to Glasgow and reduce fixed overheads, providing a base to improve customer experience through process and systems improvement.</p> <p>Achieve £3.5 million in Project EBITDA savings by end of 2018.</p> <p>Execute project with latest view project one-off costs not exceeding £13.7m by end of 2018.</p> <p>Centre of Excellence to deliver to agreed pre-transition performance levels for all KPIs by end of stabilisation period.</p>	<p>Overall, the project has been delivered to, and in a number of instances has significantly exceeded, plan. Key contributors to this have been increased project scope, new roles being recruited under budget and a reduction in dual-running costs.</p> <p>Project savings of £5.5 million were delivered against a target of £3.5 million.</p> <p>Project one-off costs were £11.4 million against a target of £13.7 million.</p> <p>Of the 25 workstreams, 20 have achieved pre-transition service levels.</p>	94%
<b>Permanent Profitability</b>		
<p>Continue building on the work undertaken in 2017 to separate the Permanent and the Contract business, in creating clear governance and structures, and segmenting customers to deliver more efficiently, whilst also using Innovation and new models to further improve profitability.</p> <p>Improve Permanent operating profit by between circa 5% and 30%.</p>	<p>Permanent profitability improved due a combination of operational changes, transfer of work to the Glasgow Resource Centre, and movement of heads to more technology enabled solutions.</p> <p>The result was extremely strong, with more than a 30% increase in Permanent operating profit year on year.</p>	100%
<b>People Engagement</b>		
<p>Continue the focus on improving retention in the 12-24 month cohort which has the highest levels of sales churn (45% 2017, 51% 2016).</p> <p>Deliver a churn improvement of 5-10% year on year.</p>	<p>There was a major underperformance against this target, with the out-turn being significantly below threshold, despite considerable effort being deployed.</p>	0%
<b>Customer Engagement</b>		
<p>Build on the use of NPS, and develop stronger relationships and improved GP derived from Key Accounts and MSP clients who form part of the Top 20 customer base.</p> <p>Growth in the % of total group GP derived from the top 20 clients in 2017 was 10.3%.</p>	<p>Growth achieved of 11.1% against a target of 11.3%.</p>	44%
<b>Total/Average pay out</b>		<b>59.5%</b>

#### 1.4 Personal Objectives for 2018 Performance

Personal targets – delivery against agreed objectives as follows:

Director	Personal objective	Assessment of Performance by Committee	Overall result in judgement of the Committee (as % of Maximum opportunity)
<b>Gary Elden</b>	Lead the development and implementation of a new leadership and operating model.	The new model was successfully introduced across all geographies bringing a more integrated and disciplined approach to both operating practices and the visibility, approval and control of new programmes and projects. Compliance with the new way of working has been excellent and is reflected in performance against the key financial metrics.	70%
	Introduce a new governance methodology, lead the Innovation agenda through the Ventures Committee, and deliver on the annual plan for new venture and product initiatives	Benefits have been demonstrated through improved Innovation governance. Pleasing progress has been made, in that three in-house Innovation projects progressed through the testing phase, with two now progressed to minimum viable product stage and expected to generate future revenues.	
<b>Alex Smith</b>	Improve service levels of non UK support operations and develop plan for future Centre of Excellence phases.	New Global operations structure developed and transition plan successfully completed. Good progress on service level improvements.	75%
	Drive greater financial insight into strategic decision making to optimise the Group's portfolio of businesses.	Action plans developed to improve the controllable contribution conversion ratio % ('CC CR%'), leading to fewer low CC CR% teams. Both internal and external data points now being used to guide the business on resource allocation, funding of new ventures and speed of headcount build.	
<b>Justin Hughes</b>	Managing risk globally, creating a structure and processes to effectively manage and reduce it, and deliver year on year improvements.	Successful delivery against key targets, achieving a step change improvement in the management of global risk. This comprised both organisational elements (e.g. new Global Compliance function and redefined operational practices) and specific targeted activity (e.g. mitigation of specific risk issues in US and the devising and rolling out of mitigation plans for Europe/Rest of World).	75%
	Following the review of UK support services, creating a blueprint and design for the rest of the world, with associated timelines.	A detailed blueprint and accompanying future model have been developed and are ready for implementation, following completion of preparatory work in the Glasgow Centre of Excellence.	

**1.5 LTIP awards vested by reference to performance over the three years to 2018 (Audited)****Earnings Per Share ('EPS'):**

EPS* – Compound annual growth over three years ending 2018	Payout Range	Actual performance	Vesting level
RPI +6% - 14% - 19%	30% - 80% - 100%	RPI +7.0%	36%

\* Adjusted, where necessary.

**Total Shareholder Return ('TSR'):**

TSR – Rank of the Company compared to the peer group	Payout Range	Actual performance	Vesting level
TSR performance between the median and upper quartile	30% - 100%	24th out of 39	Nil

**Number of shares Granted vs Vested vs Lapsed based on assessment versus all targets**

Executive Director	Number of shares granted	Number of shares vested	Number of shares lapsed	Dividend equivalent additional shares	Total £'000*
Gary Elden, CEO	217,677	39,181	178,496	5,503	128.0
Alex Smith, CFO	164,141	29,545	134,596	4,149	97.0
Justin Hughes, COO	140,404	16,846	123,558	2,366	55.0

\* Based on share price of 286.5p on 30 November 2018.

**Section 2 – How we will apply our Remuneration Policy in 2019**

## 2.1 Base Salary

## 2.2 Benefits and Pension

## 2.3 Annual Bonus

## 2.4 Long Term Incentive Plan

## 2.5 Non Executive Directors ('NEDs')

**2.1 Base Salary**

The table below illustrates the most recent base salary changes (effective for 2019). The average base salary change awarded for employees generally was 2.5-3.0%.

Executive Director	Base Salary 2018 £'000	Increase (from 1 Dec 2018) £'000	Base Salary 2019 £'000
Gary Elden, CEO	453.1	0	453.1
Alex Smith, CFO	341.6	2.5%	350.1
Justin Hughes, COO	292.1	2.5%	299.4

**2.2 Benefits and Pension**

There are no changes to benefits. The pension contribution equates to 15% of salary. The most common employee pension contribution is circa 3% of salary.



### 2.3 2019 Annual bonus, including financial, strategic and personal measures

The maximum annual bonus remains capped at 120% of base salary. Any bonus above 100% of salary will be deferred into shares vesting in equal tranches over the next two years. The bonus metrics and weightings for the 2019 annual bonus are summarised in the table below. Where they are considered to be commercially sensitive, the target ranges for each metric will be disclosed retrospectively in the following year's Directors' Remuneration Report.

Metric	Weighting	Measure	Sub-weighting	Link to strategy/notes
<b>Group Financial Targets</b>	65%	<b>Adjusted Profit Before Tax</b> Calculated as Gross Profit less administrative expenses, less interest before adjusting items.	29.25%	These are considered by the Committee to be the three most relevant financial KPIs for bonus purposes.
		<b>Operating Profit Conversion Ratio</b> Calculated by taking the operating profit before exceptional and other adjusting items, stated as a percentage of gross profit.	19.50%	<b>Adjusted Profit before Tax</b> is the headline measure of our Group profitability, shown on an adjusted basis, to measure underlying financial performance delivered by management.
		<b>Cash Conversion Ratio</b> Calculated as the cash generated from operations for the year after deducting capex, stated as a percentage of operating profit before exceptional and other adjusting items.	16.25%	<b>Operating Profit Conversion Ratio</b> and <b>Cash Conversion Ratio</b> indicate how efficient the business is in terms of controlling costs and improving consultant productivity, turning profit into cash or collecting cash. As such, they are key strategic measures and components of the Group's bonus arrangements. Focusing on these measures also helps protect the Group in less favourable economic conditions. Sliding scales will be set for each metric around a target level.
<b>Shared Strategic Objectives</b>	25%	Development of a scalable Global Operating Model for STthree's employed contractors ('ECM').	6.25%	Improvements to post sales service to contractors will positively impact NPS scores.
		Optimisation of the portfolio through vertical market mapping.	6.25%	Portfolio optimisation will drive improvements in team investing and decommissioning, operating profit conversion improvements, and is an underpinning initiative of the Capital Markets Day strategy.
		Embedding of the STthree Purpose and Operating Principles.	6.25%	Alignment with Purpose has a direct impact on employee engagement, and productivity. Improved operational performance will impact business KPIs.
		Completion of the stabilisation phase of the Glasgow Centre of Excellence and roll-out of global extension plans.	6.25%	Completion of the stabilisation phase will deliver future planned cost savings, as will global extension.
<b>Personal Objectives</b>	10%		10%	Delivery versus agreed objectives to produce value or efficiency gains.
<b>TOTAL</b>	100%		100%	

## 2.4 Long Term Incentive Plan awards

The LTIP awards to be granted in early 2019, will be granted over shares worth 150% of salary. Awards will vest on the third anniversary of grant, with a further two year holding period on vested shares. Performance conditions will be based on EPS, TSR and Strategic metrics, each applied independently and there will be a straight-line sliding scale between points. For comparison, LTIP targets are summarised in the following table, for awards made in 2017, 2018 and 2019:

LTIP weighting	EPS	TSR	Strategic	Regional
2017-19	1/3 (COO 25%)	1/3 (COO 25%)	1/3 (COO 25%)	25% (COO only)
2018-20	50%	30%	20%	N/A
2019-21	50%	30%	20%	N/A

LTIP targets	EPS	TSR	Strategic	Regional
2017-19	Between 25p (25% vesting) & 32p (100% vesting)	Between median (25% vesting) & UQ (100% vesting)	Customer, Employee & Relative GP (split equally)	USA: 36%-46% CAGR/ APAC & ME: £1.7m-£3.7m OP improvement (25%-100% vesting)
2018-20	Between 30p (25% vesting) & 41p (100% vesting)	Between median (25% vesting) & UQ (100% vesting)	New product GP between £11m and £17m/OP conversion between 17.3% and 21.1% (split equally)	N/A
2019-21	Between 35.5p (25% vesting) & 46.0p (100% vesting)	Between median (25% vesting) & UQ (100% vesting)	Note 1	N/A

### Notes:

1. For the 2019-21 LTIP award, the 20% of the award based on strategic targets will be split between two targets equally, set out as (i) and (ii) below. Where sliding scales operate, 25% of the award will vest at threshold:

#### (i) Improving the level of churn in the sales teams (10% of LTIP award)

Turnover of staff (churn) in members of the sales team with 12-24 months experience was 49% in 2018. The Board has identified churn reduction as a strategic priority.

This measure formed part of the 2018 annual bonus, resulting in a major underperformance against the threshold target, despite substantive management efforts. A detailed follow up review has highlighted the full complexity of factors that cause churn within this particular group. These include the ongoing appropriateness of the traditional target demographic for entry level hiring, the evolving competencies required for success, and the vulnerability of SThree trained individuals to competitor approaches, particularly from those smaller businesses, with a lower cost base, who can offer substantially higher financial rewards. Addressing churn at this level will require a longer term, multi-dimensional approach to retention incorporating recruitment, talent management, career progression, employee engagement and reward.

Improved retention of the SL1 12-24 month cohort will also directly impact retention across all levels of our salesforce, reflecting the marked difference in average length of service once the 24 month time horizon has been passed.

From a 2018 base line of 49% the target range, to be assessed in 2021, will be as follows:

	Level of Sales Team Churn in 2021
Threshold (25% vesting)	42%
Maximum	40%

#### (ii) Improving our long term Operating Profit Conversion Ratio (10% of LTIP award)

As part of the Capital Markets Day long term strategy to grow our PBT by 2022, the Board has identified that improving our operating profit conversion ratio from the current level of 16.8% is a critical step to achieving this goal. We already have an element of the annual bonus given over to this measure to ensure near term, tactical focus each year. In addition, and in order to encourage initiatives of a more strategic, longer-term nature, the Board feel that it is appropriate that this measure be additionally included in the LTIP.

	Level of Operating Profit Conversion Ratio in 2021
Threshold (25% vesting)	18%
Maximum	22%

2. Composition of the TSR comparator groups and prior strategic targets for each LTIP award is shown under the table in section 3.1.

#### Shareholding Requirement

The minimum shareholding requirement is 200% of base salary and to the extent that there is any shortfall against this threshold, no less than 50% of any deferred bonus or vested LTIP award must be retained (after selling sufficient shares to pay tax).

## 2.5 Non Executive Directors ('NEDs')

Following a detailed review of fee levels, NED base fees were increased from 1 December 2018, as follows:

Role	2018 annual fee £'000	2019 annual fee £'000
Chair	140	150
NED base fee (x 3 NEDs)	45	48
Committee Chair (Audit and Remuneration)	7	10
SID	7	7.5
Employee Engagement NED	-	5
Total (Articles of Association limit is £500k per annum)	296.0	326.5

### Section 3 – Directors' interests in shares and broader context for Directors' pay

- 3.1 Outstanding share awards held by Directors under LTIP, Deferred bonus and SAYE
- 3.2 Statement of Directors' shareholdings
- 3.3 Total Shareholder Return ('TSR') performance of SThree over the last ten year period
- 3.4 Historic Levels of CEO Remuneration and incentive plan payouts
- 3.5 Year on year percentage Change in CEO Remuneration compared to employees
- 3.6 Comparison of CEO remuneration to workforce remuneration by quartiles
- 3.7 Relative Importance of Spend on Pay

### 3.1 Outstanding share awards

#### Awards outstanding (including those granted in the year), comprising LTIP, SAYE and deferred share awards (Audited)

Executive Directors' awards outstanding under the LTIP are set out in the table below. Awards are currently structured as conditional awards of shares, with no exercise price. Earlier awards were granted either as nil cost options, save for a notional £1 sum payable on vesting, exercisable between three and ten years from grant.

Executive Director	Dates of LTIP Grant/Award	Market Price at Grant/Award	Shares Originally Awarded	Face Value* £	Shares Vested (incl. dividend shares)	Vesting Date	Gain on Exercise £	Remaining Unexercised at 30 Nov 2018 (incl. dividend shares)
<b>Gary Elden</b>	04/02/2014	364.00	165,535	602,547	93,371	04/02/2017	Not Exercised	100,291
	17/02/2015	324.00	190,621	617,612	88,042	17/02/2018	Not Exercised	90,527
	27/01/2016	297.00	217,677	646,501	-	27/01/2019	-	217,677
	26/01/2017	312.00	212,500	663,000	-	26/01/2020	-	212,500
	02/02/2018	357.00	190,366	679,607	-	02/02/2021	-	190,366
Deferred Bonus	22/02/2016	295.00	15,770	46,522	8,230	22/02/2016	28,667.56	-
SAYE	20/09/2016	196.40	9,164	23,116	-	01/12/2019	-	9,164
<b>Alex Smith</b>	11/02/2010	299.40	117,935	353,097	120,832	10/02/2013	Not Exercised	152,784
	01/02/2011	371.30	104,511	388,049	31,483	01/02/2014	Not Exercised	38,165
	17/02/2015	324.00	146,631	475,084	67,725	17/02/2018	228,910.50	-
	27/01/2016	297.00	164,141	487,499	-	27/01/2019	-	164,141
	26/01/2017	312.00	160,216	499,874	-	26/01/2020	-	160,216
Deferred Bonus	02/02/2018	357.00	143,521	512,370	-	02/02/2021	-	143,521
SAYE	22/02/2016	295.00	12,131	35,786	6,331	22/02/2016	21,557.05	-
	20/09/2016	196.40	9,164	23,116	-	01/12/2019	-	9,164
<b>Justin Hughes</b>	01/02/2011	371.30	45,005	167,104	13,557	01/02/2014	Not Exercised	16,435
	08/02/2013	331.50	114,027	378,000	66,347	08/02/2016	Not Exercised	74,373
	04/02/2014	364.00	106,961	389,338	40,222	04/02/2017	Not Exercised	43,203
	17/02/2015	324.00	123,170	399,071	37,926	17/02/2018	131,792.85	-
	27/01/2016	297.00	140,404	417,000	-	27/01/2019	-	140,404
	26/01/2017	312.00	159,519	497,699	-	26/01/2020	-	159,519
	02/02/2018	357.00	122,742	438,189	-	02/02/2021	-	122,742
SAYE	20/09/2017	256.60	7,014	17,998	-	01/12/2020	-	7,014

#### Notes:

- The TSR comparator group for the 2019 LTIP awards will be: Adecco, Amadeus Fire, Brunel, Empresaria, Groupe Crit, Harvey Nash, Hays, Impellam, Kelly Services, Kforce, Korn Ferry, ManPower, Gattaca, Page Group, On Assignment, Randstad, Robert Half, Robert Walters and Staffline.

For the awards in 2018, the group also included Harvey Nash.

For the awards made in 2017, the comparator group comprised mid/large cap global listed recruiters or other business services/benchmark comparator companies, having a high historical cyclicality correlation coefficient with SThree, being: Adecco, Amadeus Fire, Bovis Homes Group, Brunel International, Carillion, Dice Holdings, Electrocomponents, Exova Group, Galliford Try, Grafton Group UTS, Groupe Crit, Harvey Nash Group, Hays, Hogg Robinson Group, Impellam Group, Inspecity, Kelly Services, Kforce, Korn Ferry International, Manpower Group, Matchtech Group, Page Group, Morgan Advanced Material, On Assignment, Premier Farnell, Randstad Holding, Regus, Restaurant Group, Robert Half International, Robert Walters, Savills, Shaftesbury, Staffline Group, Sythomer, Telecity Group, Trueblue, USG People, Wetherspoon (JD).

- For the 2017 LTIP award, strategic targets were split equally as below. Where sliding scales operate there is 25% vesting at the threshold for payment:

#### Customer:

- Revenue generation of between £10m-£15m from new product lines by 2019.
- Broad NPS metric showing improvement of 3%-5% CAGR in years 2-3 from a baseline derived from the first year actual NPS. This differs from the annual bonus NPS metric which is based on specific areas of the business that require focus.

#### Employee:

The Employee metric will be split equally so that for one third, Staff Engagement growth must be 3%-5% CAGR over three years. For one third Sales Churn must be 37%-35% by 2019 (compared to 38% in 2016). For the final one third Sales level 3-4 Diversity & Inclusion gender representation targets must improve over the same period. Level 3 representation to increase from 26% to 30% - 32% and Level 4 representation to increase from 10% to 15% - 20%.

#### Relative gross profit:

The relative gross profit will be compared to the same group as used for the TSR metric with the same medium-to-upper quartile sliding scale. Gross profit will be compared based on percentage gross profit growth over a three year performance period with adjustments made as necessary to ensure like-for-like comparison across the companies. Adding a relative gross profit measure will provide a good balance to the non-financial Strategic metrics, by focusing on growing our gross profit at a faster rate than our competitors.

- For options which have vested but remain unexercised, dividends are accrued as additional shares, as shown in the final column above.

### 3.2 Statement of Directors' shareholdings (Audited)

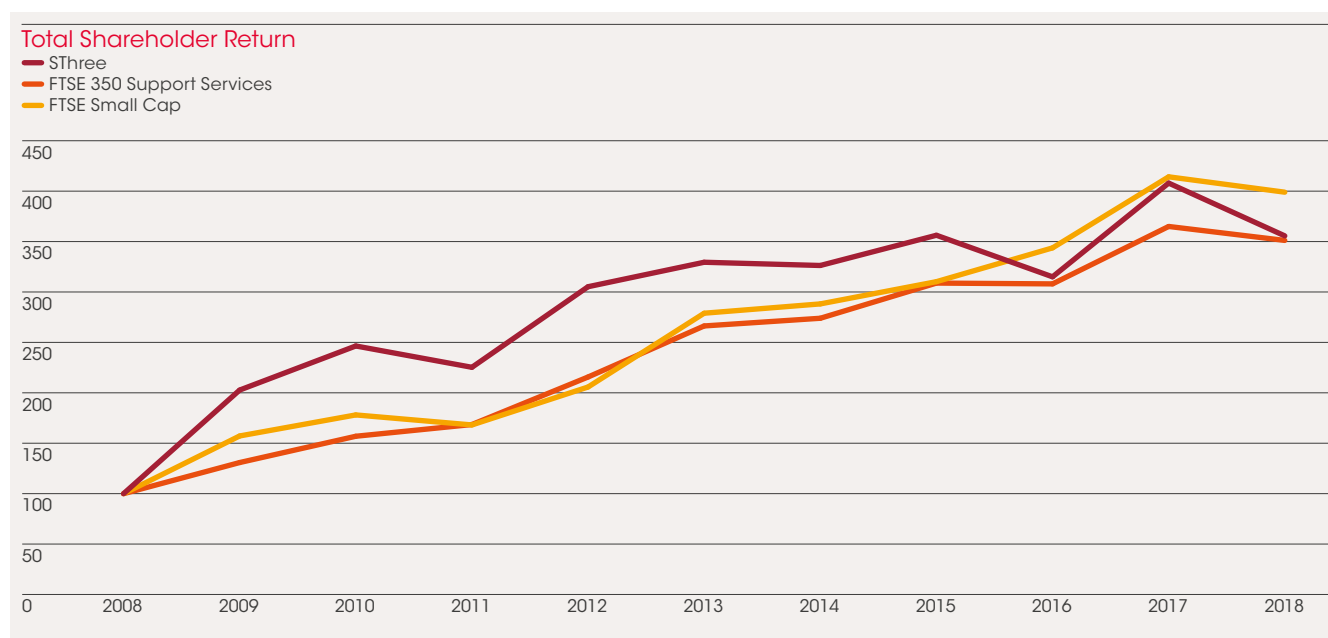
Under the remuneration policy Executive Directors must build and maintain a level of shares equivalent to at least 200% of base salary. Directors' interests in the ordinary share capital of the Company as at the year end, are shown in the Table below, including any changes since the start of the current year. There have been no changes since then, and no Director had any other interest in the share capital of the Company or its subsidiaries, or exercised any option during the year, other than as disclosed.

Executive Director	Ordinary Shares Held at 1 December 2017	Ordinary Shares Acquired	Ordinary Shares Disposed	Ordinary Shares Held at 30 November 2018	Indirect Interest	Shareholding Requirement (% of Salary)	Shareholding (% of FY 2018 Salary)
Gary Elden	2,679,403	11,140	513,868	2,176,675	820,525	200%	948%
Alex Smith	315,462	36,935	2,976	349,421	667,991	200%	427%
Justin Hughes	129,019	68,669	–	197,688	563,600	200%	373%
Clay Brendish	38,300	–	–	38,300*			
James Bilefield	10,000	–	–	10,000			
Anne Fahy	4,000	–	–	4,000			
Denise Collis	5,000	–	–	5,000			
Barrie Brien	–	–	–	–			

\* At date of stepping down from the Board.

### 3.3 Total Shareholder Return ('TSR') Performance of SThree over the last ten-year period

The following graph shows the Total Shareholder Return ('TSR') of the Company, compared to the FTSE 350 Support Services and FTSE Small Cap indices. These are considered the most illustrative comparators for investors as the Company is or has been a constituent in the past.





### 3.4 Historical Levels of CEO Remuneration and incentive plan payouts

The Table below shows historical levels of Chief Executive Officer total remuneration over a ten-year period, as well as annual bonus and LTIP vesting percentages over the same period. The Group has delivered a CAGR TSR of just over 13% over this ten-year period.

Year	CEO	CEO Total Remuneration £'000	Annual Bonus (% of Maximum)	LTIP Awards Vesting (% of Maximum)
2018	Gary Elden	1,064.0	73.4%	18.8%
2017	Gary Elden	1,228.9	76.2%	41.0%
2016	Gary Elden	1,058.5	56.4%	50.0%
2015	Gary Elden	1,284.9	92.8%	50.0%
2014	Gary Elden	852.2	54.6%	18.5%
2013	Gary Elden	752.8	44.3%	25.5%
2012	Russell Clements	1,295.0	77.4%	88.0%
2011	Russell Clements	1,264.9	56.0%	100.0%
2010	Russell Clements	1,284.2	94.4%	100.0%
2009	Russell Clements	616.1	41.7%	44.0%

### 3.5 Year on year percentage Change in Chief Executive Officer Remuneration compared to employees

The Table below shows the percentage increase for each element of remuneration between the current and previous financial periods for the Chief Executive Officer, compared with all Group employees.

Remuneration Element	Percentage Change 2017-2018	
	Chief Executive Officer	Average for all Employees
Salary & Fees	2.5%	1.0%
Other Benefits*	4.5%	(16.0%)
Annual Bonus	(1.3%)	(9.0%)

\* Includes salary supplement in lieu of pension, also reflects reducing car allowances for employees.

### 3.6 Comparison of Chief Executive Officer remuneration to workforce remuneration by quartiles

The Committee has decided to use Option B in the relevant regulations to calculate the Chief Executive Officer pay ratio, using 2018 gender pay gap information to identify the three UK employees as the best equivalents of P25, P50 and P75, calculated based on full-time equivalent base pay data as at April 2018. This methodology was selected as the Committee believes this provides a more accurate and consistent calculation based on the information available at this time. The Committee will monitor investor guidance and evolving best practice which may move in favour of using Option A to calculate the ratios and will review its approach next year (restating any prior year figures, as appropriate).

The following Table sets out the Chief Executive Officer pay ratio at the median, 25th and 75th percentile.

Financial Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018	Option B	39:1	24:1	20:1

Note:  
The three employees in the table above are all full-time, pay data has been reviewed and the Committee is satisfied that it fairly reflects the relevant quartiles.

### 3.7 Relative Importance of Spend on all employees' Pay compared to dividend payments

The Table below sets out the change to the total employee remuneration costs compared with the change in dividends for 2018 compared to 2017. All figures are taken from the relevant sections of the Annual Report.

Item	2018	2017	Change
Dividends	£18.0m	£18.0m	0%
Remuneration paid to Employees (incl. Directors)	£206.7m	£187.4m	10%*

\* The change reflects an additional 8% investment in headcount YoY, with a 10% increase in total costs (ie salaries, commission and bonuses), in line with the YoY increase in GP.

## Section 4 – Governance

### 4.1 The Committee and its Advisors

### 4.2 Statements of Voting at most recent AGMs

### 4.3 Approval

#### 4.1 The Committee and its Advisors

The Committee's Terms of Reference (available at [www.sthree.com](http://www.sthree.com)) are reviewed periodically to align as closely as possible with the UK Corporate Governance Code ('Code') and ICSA best practice guidelines. During the year, the Committee comprised only independent NEDs, being Denise Collis, Chair, James Bilefield, Barrie Brien and, from April 2018, Anne Fahy. The Committee therefore meets Code requirements to comprise at least three independent NEDs.

The Chief Executive Officer, Chief Financial Officer and the most senior HR representative attend meetings by invitation, except for matters related to their own remuneration. The Committee met three times during the year for routine business, in addition to unscheduled meetings for specific items and no member of the Committee has any personal financial interest (other than as a shareholder) in the matters decided.

The Committee appointed Korn Ferry as its independent remuneration advisor in 2016, following a comprehensive review. Fees paid to Korn Ferry for advice in relation to remuneration matters during the year were £35,742 (2017: £55,225), both excluding VAT. Korn Ferry are members of the Remuneration Consultants Group ('RCG') and comply with the RCG Code of Conduct. The Committee are satisfied that their advice was and is objective and independent.

#### 4.2 Statements of Voting at most recent AGMs

At the AGMs held on 26 April 2018 and 20 April 2017, the following votes were cast in relation to the advisory and binding votes on the Annual Report on Remuneration and Remuneration Policy, respectively.

Resolution	For	%	Against	%	Withheld
Directors' Remuneration Report (2018 AGM)	71,374,901	95.90%	3,055,182	4.10%	6,509,260
Directors' Remuneration Policy (2017 AGM)	89,014,652	95.40%	4,288,168	4.60%	106

\* Votes withheld are not counted in the % shown above.

#### 4.3 Approval

This report was approved by the Board of Directors on the date shown below and signed on its behalf by:

#### Denise Collis

Chair of the Remuneration Committee  
25 January 2019

The Directors present their Annual Report on the activities of the Company and the Group, together with the financial statements for the year ended 30 November 2018.

The Board confirms that these, taken as a whole, are fair, balanced and understandable and that the narrative sections of the report are consistent with the financial statements and accurately reflect the Group's strategy, performance and financial position. The Governance Report is presented separately and does not form part of the Directors' Report.

The Strategic Report, including the Chief Executive Officer's and other Officers' sections of this Annual Report, provide information relating to the Group's activities, its business, governance and strategy and the principal risks and uncertainties faced by the business, including analysis using financial and other KPIs where necessary. These sections, together with the Audit Committee, Nomination Committee, Directors' Remuneration, Governance Report and Resources and Relationships Reports, provide an overview of the Group, including environmental and employee matters, and give an indication of future developments in the Group's business, so providing a balanced assessment of the Group's position and prospects, in accordance with the latest reporting requirements. The Group's subsidiary undertakings, including branches outside the UK, are disclosed in the notes to the financial statements.

The purpose of this Annual Report is to provide information to the members of the Company, as a body. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. This Annual Report contains certain forward-looking statements with respect to the operations, performance and the financial position of the Company and the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ from those anticipated.

The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and nothing in this Annual Report should be construed as a profit forecast.

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company and the Group, including those that would threaten the business model, future performance, solvency or liquidity, and explained how they are being managed or mitigated (see analysis of key risks, mitigation and impact on strategy within the Strategic Report). Information on the Company, including legal form, domicile and registered office address is included in note 1 to the financial statements.

### **Results, Dividends, Going Concern and Post Reporting Date Events**

Information in respect of the Group's results, dividends and other key financial information is contained within the Strategic Report and other Officers' sections of this Annual Report. A going concern and viability statement is included within the Governance Report. No significant events have occurred since the year end.

### **Directors and their Interests**

The Directors of the Company, including their biographies, are shown within the Board of Directors & Secretary section of this Annual Report, with further details of Board Committee membership being set out in the Governance Report.

All Directors served throughout the financial year, except as disclosed, and in accordance with the UK Corporate Governance Code, will retire at the 2019 AGM and submit themselves for election or re-election, as necessary. Further information is also contained in the Notice of Meeting.

Other than employment contracts and tracker share LTIP/JOP loans, none of the Directors had a material interest in any contract with the Company or its subsidiary undertakings. Key terms of the Directors' service contracts, interests in shares and options and tracker share loans are disclosed in the Directors' Remuneration Report.

Any related party interests applicable to the Directors is shown in note 22 to the financial statements.

### **Essential Contractors and Implications Following a Change of Control or Takeover**

The Group has business relationships with a number of contractors but is not reliant on any single one. There are no significant agreements, which the Company is party to, that take effect, alter or terminate upon a change of control of the Company following a takeover offer, with the exception of the Citibank and HSBC revolving credit facility agreements.

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Group's share plans and tracker share arrangements may cause options, awards or tracker shares to vest on a takeover.

### Tracker Share Arrangements ('Minority Interests or MI Model')

The Group regards its tracker share model as a key factor in its success and plans to create more of these going forward, on similar terms to those previously created, subject to shareholder approval.

Entrepreneurial employees within the Group often create ideas for new business opportunities, which the Group may elect to pursue and develop. Historically, the Group has engaged with such individuals in setting up new businesses for the purpose of pursuing these new ideas, which have typically evolved organically out of one of the existing SThree businesses, with the relevant managers then given the opportunity to manage and develop that new business.

Typically, those managers of the new SThree business will be able to invest, at the Company's discretion, in the new venture and share in its success as well as the risk of failure.

As in prior years, only key individuals are invited to invest in the creation of any new tracker share business. In order to receive equity ownership, such individuals must invest at fair value and be actively engaged in that business for an agreed term. Should the individual ultimately wish to dispose of their stake, the Company retains pre-emption rights.

The minimum term for each new tracker share stake is set at the outset and will normally be five years, but will never be less than three years, in order to allow the Group flexibility to adapt to the individual needs of its brands and businesses and differing rates of growth.

Although there are a number of different businesses in which individuals are invited to invest, each invitation will generally be on similar terms to that used previously. It is therefore deemed appropriate to put only one resolution to shareholders each year, with each authority being granted for five years, although automatically renewed at each following AGM, or any adjournment thereof.

The proposed resolution, together with the standard terms upon which tracker shares are normally issued, are outlined within each notice of AGM.

Further information on the tracker share arrangements is disclosed in note 1 to the financial statements.

### Share Capital and Share Rights

Details of the share capital of the Company, together with movements during the year are shown in the notes to the financial statements. The rights and obligations attached to the Company's ordinary shares are contained in the Articles.

Ordinary shares allow holders to receive dividends and to vote at general meetings of the Company. They also have the right to a return of capital on a winding-up.

There are no restrictions on the size of holding or the transfer of shares, which are both governed by the general provisions of the Company's Articles and legislation. Under the Articles, the Directors have the power to suspend voting rights and the right to receive dividends in respect of ordinary shares, as well as to refuse to register a transfer in circumstances where the holder of those shares fails to comply with a notice issued under Section 793 of the Companies Act 2006. The Directors also have the power to refuse to register any transfer of certificated shares that does not satisfy the conditions set out in the Articles.

The Company is not aware of any agreements between shareholders that might result in the restriction of transfer of voting rights in relation to the shares held by such shareholders.

### Authority to Issue or Make Purchases of Own Shares including as Treasury Shares and Dilution

The Company is, until the date of the forthcoming AGM, generally and unconditionally authorised to issue and buy back a proportion of its own ordinary shares.

The Company's policy is to comply with investor guidelines on dilution limits for its share plans by using a mixture of market purchased and new issue shares.

Some 841,354 shares were purchased in the market during the year at a cost of £3.0 million. Purchases may be made for cancellation, to be held as treasury shares, or for the Employee Benefit Trust (EBT). The Directors will seek to renew the authority to purchase up to 10% of the Company's issued share capital at the next AGM.

### Director's Indemnities, Director's and Officers' Insurance and Conflicts of Interest

Section 236 of the Companies Act 2006 allows companies the power to extend indemnities to the Directors against liability to third parties (excluding criminal and regulatory penalties) and also to pay the Directors' legal costs in advance, provided that these are reimbursed to the Company should the individual Director be convicted or, in an action brought by the Company, where judgment is given against the Director. The Group currently has in place and has maintained such a policy throughout the year, which will reimburse the Company for payments made to the Directors (including legal fees), for all admissible claims. The Board also confirms that there are appropriate procedures in place to ensure that its powers to authorise the Directors' conflicts of interest are operated effectively.

Listing Rules ('LR') Requirement	Confirmation
A statement of interest capitalised by the Group during the period and an indication of the amount and treatment of any related tax relief.	Not applicable
Any information required by LR 9.2.18R (publication of unaudited financial information) regarding information in Class 1 circular or prospectus or a profit forecast and estimate.	Not applicable
Details of any long term incentive schemes as required by LR 9.4.3R regarding information about the recruitment or retention of a Director.	See Directors' Remuneration Report (page 87)
Details of the waiver of emoluments by a Director, both current and future.	Not applicable
Details of the allotment of equity securities to equity shareholders otherwise than in proportion to their holdings and which had not been specifically authorised by the shareholders. This information must also be given for any major unlisted subsidiary.	Not applicable
Where the Company is a listed subsidiary, details of any participation by its parent in any share placing during the period.	Not applicable
Details of any contract of significance between the Company or one of its subsidiaries and a Director or a controlling shareholder.	Not applicable
Details of contracts for the provision of services to the Company or one of its subsidiaries by a controlling shareholder during the period under review.	Not applicable
Details of any arrangements under which shareholders have waived or agreed to waive dividends.	Not applicable
A statement of the independence provisions and compliance, or not, where there is a controlling shareholder.	Not applicable

### Related Party Transactions ('RPT')

Details of any RPT undertaken during the year are shown in the notes to the financial statements.

### Financial Instruments and Research and Development

Information and policy in respect of financial instruments is set out in the notes to the financial statements, together with information on price, credit and liquidity risks. The only expenditure incurred in the area of research and development relates to software and system development, which is shown in the notes to the financial statements.

### Substantial Shareholdings

As at the date of this report, the Group has been notified, in accordance with the Companies Act, of the significant interests in the ordinary share capital of the Company, shown below. Any interests of the Directors which amount to over 3% of the Company's share capital are shown in the Directors' interests table within the Directors' Remuneration Report.

Name of shareholder	Number of shares	Shareholding percentage
J O Hambro Capital Management Limited	14,324,187	11.01%
Franklin Templeton Institutional, LLC	12,605,150	9.69%
William Frederick Bottriell	7,238,245	5.98%
Legal & General Investment Management Limited	7,030,279	5.48%
HBOS plc	6,983,314	5.21%
Harris Associates L.P.	6,575,593	5.17%
AXA	6,291,253	5.12%
JP Morgan Chase	7,021,061	5.07%
BlackRock, Inc.	6,137,031	4.99%
FMR LLC	6,266,905	4.99%
FIL Limited (Fidelity)	6,028,475	4.95%
F & C Management	6,104,400	4.82%
Standard Life Investments Limited	5,845,830	4.78%
Allianz Global Investors GmbH	5,853,598	4.51%

### Corporate and Social Responsibility, including Diversity, Human Rights and Environmental matters

The Board pays due regard to environmental, health and safety and employment responsibilities and devotes appropriate resources to monitoring compliance with and improving standards. The Chief Executive Officer has responsibility for these areas at Board level, ensuring that the Group's policies are upheld and providing the necessary resources. Further information on diversity, human rights and environmental matters, including carbon dioxide emissions data, is contained in the Resources and Relationships Report, whilst information on employee share plans and share ownership is contained in the Directors' Remuneration Report and the notes to the financial statements.



### Health, Safety and Equal Opportunities

The Group is committed to providing for the health, safety and welfare of all current and potential employees, every effort is made to ensure that country health, and safety legislation, regulations or similar codes of practice are complied with.

The Group is also committed to achieving equal opportunities and complying with anti-discrimination legislation and employees are encouraged to train and develop their careers. Group policy is to offer the opportunity to benefit from fair employment, without regard to gender, sexual orientation, marital status, race, religion or belief, age or disability, and full and fair consideration is given to the employment of disabled persons for all suitable jobs.

In the event of any employee becoming disabled, every effort is made to ensure that employment continues within the existing or a similar role, and it is the Group's policy to support disabled employees in all aspects of their training, development and promotion where it benefits both the employee and the Group.

### Employee Involvement

The Group systematically provides employees with information on matters of concern to them, consulting where appropriate by surveys or other means, so that views can be taken into account when making decisions likely to affect their interests. Employee involvement is encouraged, as is achieving a common awareness, on the part of all employees of the financial, economic or other factors affecting the Group. This plays a major role in ensuring shared success. The Group encourages this involvement predominantly by communicating via the Group's intranet articles or email updates, training and by participation in the Group's employee share plans to align interests.

### Community

The Group is committed to providing support to the community and society through a number of charitable activities and donations, although no donations for political purposes of any kind were made during the year.

### Annual General Meeting ('AGM')

The AGM of the Company will be held on 24 April 2019, at 1st Floor, 75 King William Street, London, EC4N 7BE. A separate notice details all business to be transacted.

### Modern Slavery Act 2015: Slavery and Human Trafficking Statement

#### Organisation's structure

As an international specialist recruitment company, we are committed to improving our practices to combat slavery and human trafficking. The Directors have assessed and do not consider there to be a risk of slavery or human trafficking taking place within its supplier base. The Group makes appropriate supplier checks around governance and financial standing, and considers these adequate to protect against slavery and human trafficking within the Group's supply chain. This helps to ensure, as far as possible, that no element of the supply chain contrives human rights issues. As such, there are no such issues impacting the Group's business.

#### Our Supply Chains

Our supply chains include management companies, job boards, property, media, IT equipment, stationery and print suppliers, whilst our clients include large international STEM businesses.

#### Our Policies on Slavery and Human Trafficking

We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. We are committed to acting ethically and with integrity in all our business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking are not taking place anywhere in our supply chains.

#### Due Diligence Processes for Slavery and Human Trafficking

As part of our controls to identify and mitigate risks, we have in place processes and procedures to:

- Identify and assess potential risk areas in our supply chains;
- Mitigate risks, including slavery and human trafficking occurring in our supply chains;
- Continually monitor risk areas in our supply chains; and
- Protect whistle blowers, via a confidential and independent reporting process.

This statement is made pursuant to section 54(1) of the Modern Slavery Act 2015 and constitutes our slavery and human trafficking statement for 2018. The Company's Modern Slavery Act statement can be found on our website, [www.sthree.com](http://www.sthree.com).

#### Independent Auditors

A resolution will be put to the forthcoming AGM proposing that PricewaterhouseCoopers LLP be reappointed as auditors for the ensuing year, having indicated their willingness to continue in office. A formal audit tender was last completed in early 2017. Audit fees and non-audit services are disclosed in the Governance Report.

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Consolidated Group and Company's financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. 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 Consolidated Group and the Company and of the profit or loss of the Consolidated Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Consolidated Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Consolidated Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Consolidated Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Consolidated Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Consolidated Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Each of the Directors, whose names and functions are shown within the Board of Directors & Secretary section of this Annual Report, confirm that, to the best of their knowledge:

- the Consolidated Group and Company 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 Consolidated Group; and
- the Directors' Report, together with the Strategic Report, Chairman's and other Officers' sections of this Annual Report, include a fair review of the development and performance of the business and the position of the Consolidated Group and Company, together with a description of the principal risks and uncertainties that are faced.

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 Consolidated 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 Consolidated Group and Company's auditors are aware of that information.

By order of the Board

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**Steve Hornbuckle**  
Group Company Secretary  
25 January 2019

Registered Office:  
1st Floor  
75 King William Street  
London  
EC4N 7BE

## Report on the audit of the financial statements

### Opinion

In our opinion, SThree 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 30 November 2018 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Company Statements of financial position as at 30 November 2018; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated and Company statements of cash flow, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### 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 public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in the Directors' Report, we have provided no non-audit services to the group or the company in the period from 1 December 2017 to 30 November 2018.

## Our audit approach

### Overview



- Overall group materiality: £2.6 million (2017: £2.2 million), based on 5% of profit before tax and exceptional items.
- Overall company materiality: £1.8 million (2017: £2.0 million), based on 1% of net assets.
- The whole group was audited by one UK audit team at the centralised support function sites in London and Glasgow which are responsible for processing the transactions of the whole group. Our audit was therefore conducted from the UK and addressed the whole of the group's profit.
- Accrued income cut off (Group).
- Tracker share accounting judgement (Group).
- Disclosure of exceptional costs and provision for restructuring (Group).
- Impairment of plc investments in subsidiaries (Company).

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and the industry, we identified that the principal risks of non-compliance with laws and regulations related to employment laws and indirect taxes impacting different territories, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and the Listing Rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting inappropriate journal entries to achieve desired financial results and the manipulation of exceptional items and management bias in accounting estimates. Audit procedures performed by the group engagement team included, but were not limited to:

- enquiries with management, internal audit and the group's legal counsel (internal and, where relevant, external), including consideration of known or suspected instances of fraud and non-compliance with laws and regulations and examining supporting calculations where a provision has been made in respect of these;
- reading key correspondence with regulatory authorities in relation to compliance with certain employment laws and indirect tax matters;
- understanding and evaluating the design and implementation of management's controls designed to prevent and detect irregularities;

- challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to accrued income cut off, tracker shares and the measurement of restructuring costs and classification of these as exceptional items (see related key audit matters below);
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, postings by unusual users and key word searches.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations are from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

### Key audit matters

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

### Key audit matter

#### Accrued income cut off (Group)

The group's accounting process means that there is a material amount of accrued rather than billed contractor revenue at each period end ('accrued income'). At year end the accrued income was £78.2m (2017: £65.0m). This estimate is a system-computed amount calculated by using standard contractor rates and estimated hours for placed contractors. The amount is reviewed by management and adjusted for post year end data when contractor timesheets are received. Contractor revenues represented 72% (2017: 71%) of the group's gross profit during the year.

We focused on this area due to the material quantum of accrued income and the potential for variances to arise when compared to actual post year end data.

Refer to Trade and other receivables (note 13 of the financial statements), Critical accounting judgements and key sources of estimation uncertainty (note 1 of the financial statements) and the Audit Committee Report.

### How our audit addressed the key audit matter

For contract revenue, including accrued income, we:

Tested the automated controls in the system to see that it calculated accrued income correctly based on contracted hours and billing rates.

Tested the manual controls supporting the accuracy of rates and hours inputs into the system.

Compared a sample of the timesheets submitted and/or billings raised subsequent to the year end to the revenue that had been accrued in relation to them and found them to be consistent.

We examined the historical accuracy of making this estimate by checking the prior year's accrual and that the post year end variances were not material.

We verified that accrued revenue was not older than three months in age in accordance with group policy, and examined the ageing profile of the balance in general, concluding that management were following their policies in this area.

Key audit matter	How our audit addressed the key audit matter
<p><b>Tracker share accounting judgement (Group)</b></p> <p>Tracker shares can be repurchased from holders with either cash or SThree plc shares at the company's discretion. The company's policy is to settle these using SThree plc shares. Therefore this share based payment scheme continues to be accounted for as equity settled. There are significant accounting differences between an equity settled and a cash settled scheme. Therefore, with regard to the material quantum of amounts involved, we focused on this significant judgement.</p> <p>Details of the tracker share scheme are set out in the Chief Financial Officer's report and in the Accounting policies (note 1 of the financial statements). Refer also to Share Capital (note 19(b) of the financial statements), Critical accounting judgements and key sources of estimation uncertainty (note 1 of the financial statements) and the Audit Committee Report.</p>	<p>We verified that SThree's current policy for repurchasing tracker shares continues to be through the issue of new SThree plc shares or use of treasury shares. We tested repurchases of tracker shares during the year and verified that these were settled with SThree plc shares in accordance with this policy.</p> <p>We confirmed with management and the Board that it remains their intention to settle in equity, and that this policy is disclosed within the financial statements.</p>
<p><b>Disclosure of exceptional costs and provision for restructuring (Group)</b></p> <p>On 1 November 2017 the Group announced the restructuring of its central support functions. Management has recognised £6.8m of costs related to this restructuring and classified these as exceptional items in the consolidated income statement in accordance with the group's accounting policy in note 1 of the financial statements.</p> <p>The key elements of the exceptional costs for 2018 include staff costs of £4.1m, property related costs of £0.9m and other costs of £1.8m. Determining whether costs should be classified as exceptional requires judgement. Judgement is also required to determine which costs should be provided for at the year end and the estimation of these amounts.</p> <p>We also focused on this area to ensure that disclosures made in the Annual Report and Accounts in respect of an Alternative Performance Measure (Profit before tax and exceptional items) are clearly explained, reconciled to statutory measures, and are not given undue prominence.</p> <p>Refer to Administrative expenses – Exceptional items (note 3 of the financial statements), Critical accounting judgements and key sources of estimation uncertainty (note 1 of the financial statements), the Chief Financial Officer's report and the Audit Committee Report.</p>	<p>We considered whether the exceptional items recorded were non-recurring in nature and recognised and presented in accordance with the Group's disclosed accounting policy. We agreed that due to the material quantum of the costs and their strategic and non-recurring nature, it was appropriate to classify the costs directly associated with the restructuring programme as exceptional items.</p> <p>In relation to the exceptional costs identified:</p> <p>We assessed the different types of costs incurred and the point an obligation was established to ensure these were recognised in the correct accounting period.</p> <p>For redundancy costs, we selected a sample of impacted employees, verified the settlement agreement and agreed the subsequent payment. In addition, we performed a look back test to verify the accuracy of the provision booked by management in the prior year.</p> <p>For other costs we agreed a sample of professional advisory fees, travel costs and legal fees to supporting agreement and invoices, making sure the services provided relate to the restructuring.</p> <p>We found no exceptions from our testing.</p> <p>In our review of the Annual Report and Accounts we focused on disclosures of the Exceptional costs in note 3 and that Alternative Performance Measures are sufficiently explained and presented alongside statutory measures. We also considered the outcome of the Audit Committee's own review which concluded the Annual Report and Accounts are fair, balanced, and understandable.</p>



Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment of plc investments in subsidiaries (Company)</b></p> <p>IAS 36 Impairment of assets requires that the recoverable amount of an asset is measured whenever an indication of impairment exists. The company holds investments in a number of UK and overseas subsidiaries with a total carrying amount of £213.9m at 30 November 2018. In recent years the UK business had experienced challenging economic conditions and declining performance indicating a risk of impairment of the carrying value of UK investments. In 2016 and 2017 management's impairment test resulted in an impairment of the company's investment in subsidiaries of £40.1m and £88.1m respectively.</p> <p>We focused on this area due to the material quantum of the carrying value of UK investments. Judgement is required to determine whether impairment indicators exist which would require an impairment test to be performed. We also noted there is economic uncertainty in the UK market, particularly in relation to potential outcomes associated with the UK voting to leave the European Union, that could have a potential impact on the recoverable value of these investments.</p> <p>Refer to Investments (note 12 of the financial statements), Critical accounting judgements and key sources of estimation uncertainty (note 1 of the financial statements), the Chief Financial Officer's report, the Principal Risks and Uncertainties section and the Audit Committee Report.</p>	<p>We considered management's assessment of indicators of impairment and whether there were any new developments in 2018 which may indicate a further impairment to the carrying value of the UK business. We considered the performance of the business in 2018 against the Board's budget expectations at the start of the year, and the previous year's impairment model assumptions. We found that the UK business had performed marginally ahead of management's expectations and this did not indicate any further decline or an impairment indicator.</p> <p>We reviewed the Board's budget and five-year plan to understand whether there was any change in the medium term outlook for the business based on management's expectations.</p> <p>In light of the market uncertainty associated with a potential UK exit of the European Union we reviewed management's disclosure of critical accounting estimates and risk disclosures to ensure this is appropriately described.</p> <p>We concluded that no indicators of impairment of the company's carrying value of investments in its subsidiaries had arisen.</p>

### 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.

The whole group was audited by one UK audit team at the centralised support function sites in London and Glasgow which are responsible for processing the transactions of the whole group. Our audit was therefore conducted from the UK and addressed the whole of the group's profit.

### 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
<b>Overall materiality</b>	£2.6 million (2017: £2.2 million).	£1.8 million (2017: £2.0 million).
<b>How we determined it</b>	5% of profit before tax and exceptional items.	1% of net assets.
<b>Rationale for benchmark applied</b>	We believe that profit before tax, adjusted for exceptional items, provides us with a consistent year on year basis for determining materiality by eliminating the disproportionate impact of these items.	We believe that net assets is the primary measure used by the shareholders in assessing the position of the non-trading holding company, and is an accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.3 million (Group audit) (2017: £0.1 million) and £0.1 million (Company audit) (2017: £0.2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

## 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, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

## Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 November 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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 Directors' Report. (CA06)

## Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (in the Governance Report) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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 this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (in the Governance Report) with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the company. (CA06)

**The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group**

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 108 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 76-77 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (Listing Rules)

**Other Code Provisions**

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 112, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 81 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

**Directors' Remuneration**

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

**Responsibilities for the financial statements and the audit  
Responsibilities of the directors for the financial statements**

As explained more fully in the Directors' Responsibilities Statement set out on page 112, 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](http://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.

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## 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the audit committee, we were appointed by the members on 30 January 2005 to audit the financial statements for the year ended 30 January 2005 and subsequent financial periods. The period of total uninterrupted engagement is 14 years, covering the years ended 30 January 2005 to 30 November 2018.

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### Christopher Burns

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

25 January 2019

**CONSOLIDATED INCOME STATEMENT**  
FOR THE YEAR ENDED 30 NOVEMBER 2018

	Note	2018			2017		
		Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
<b>Continuing operations</b>							
Revenue	2	1,258,152	–	1,258,152	1,114,530	–	1,114,530
Cost of sales		(937,026)	–	(937,026)	(826,858)	–	(826,858)
<b>Gross profit</b>	2	<b>321,126</b>	<b>–</b>	<b>321,126</b>	<b>287,672</b>	<b>–</b>	<b>287,672</b>
Administrative expenses	3	(267,211)	(6,397)	(273,608)	(242,752)	(6,741)	(249,493)
<b>Operating profit</b>	4	<b>53,915</b>	<b>(6,397)</b>	<b>47,518</b>	<b>44,920</b>	<b>(6,741)</b>	<b>38,179</b>
Finance income	6	75	–	75	124	–	124
Finance costs	6	(743)	–	(743)	(439)	–	(439)
Gain on disposal/(Share of losses) of associate	12	146	–	146	(147)	–	(147)
<b>Profit before taxation</b>		<b>53,393</b>	<b>(6,397)</b>	<b>46,996</b>	<b>44,458</b>	<b>(6,741)</b>	<b>37,717</b>
Taxation	7	(13,851)	1,127	(12,724)	(11,392)	1,303	(10,089)
<b>Profit for the year attributable to owners of the Company</b>		<b>39,542</b>	<b>(5,270)</b>	<b>34,272</b>	<b>33,066</b>	<b>(5,438)</b>	<b>27,628</b>
<b>Earnings per share</b>	9	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>
Basic		30.7	(4.1)	26.6	25.7	(4.2)	21.5
Diluted		29.7	(4.0)	25.7	24.9	(4.1)	20.8

The accompanying notes on pages 125 to 157 are an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED 30 NOVEMBER 2018

	2018 £'000	2017 £'000
<b>Profit for the year</b>	<b>34,272</b>	<b>27,628</b>
<b>Other comprehensive income/(loss):</b>		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Exchange differences on retranslation of foreign operations	2,572	(1,083)
Total other comprehensive income/(loss) for the year (net of tax)	2,572	(1,083)
Total comprehensive income for the year attributable to owners of the Company	36,844	26,545

The accompanying notes on pages 125 to 157 are an integral part of these financial statements.

SThree plc ('The Company') has elected to take the exemption under Section 408 of the Companies Act 2006 not to present an income statement and statement of comprehensive income for the parent Company.



**STATEMENTS OF FINANCIAL POSITION**  
AS AT 30 NOVEMBER 2018

	Note	Consolidated		Company	
		30 November 2018 £'000	30 November 2017 £'000	30 November 2018 £'000	30 November 2017 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	6,915	6,746	-	-
Intangible assets	11	9,609	11,386	-	-
Investment in associate	12	-	655	-	-
Other investments	12	1,977	1,110	213,916	206,831
Deferred tax assets	18	2,750	4,199	295	298
		21,251	24,096	214,211	207,129
<b>Current assets</b>					
Trade and other receivables	13	285,618	226,558	18,857	5,188
Current tax assets		2,751	1,534	6,187	14,207
Cash and cash equivalents	14	50,844	21,338	4,859	6,985
		339,213	249,430	29,903	26,380
<b>Total assets</b>		<b>360,464</b>	<b>273,526</b>	<b>244,114</b>	<b>233,509</b>
<b>Equity and Liabilities</b>					
<b>Equity attributable to owners of the Company</b>					
Share capital	19	1,319	1,317	1,319	1,317
Share premium		30,511	28,806	30,511	28,806
Other reserves		(5,275)	(8,556)	(6,780)	(7,489)
Retained earnings		75,116	59,138	156,486	179,906
<b>Total equity</b>		<b>101,671</b>	<b>80,705</b>	<b>181,536</b>	<b>202,540</b>
<b>Non-current liabilities</b>					
Provisions for liabilities and charges	17	1,569	2,172	-	-
<b>Current liabilities</b>					
Borrowings	16	37,428	12,000	37,428	12,000
Bank overdraft	14	17,521	3,717	-	-
Provisions for liabilities and charges	17	9,614	12,352	32	-
Trade and other payables	15	191,742	159,556	25,118	18,969
Current tax liabilities		919	3,024	-	-
		257,224	190,649	62,578	30,969
<b>Total liabilities</b>		<b>258,793</b>	<b>192,821</b>	<b>62,578</b>	<b>30,969</b>
<b>Total equity and liabilities</b>		<b>360,464</b>	<b>273,526</b>	<b>244,114</b>	<b>233,509</b>

The accompanying notes on pages 125 to 157 are an integral part of these financial statements.

The Company's loss after tax for the year was £8.7 million (2017: loss of £69.7 million).

The financial statements on pages 120 to 124 were approved by the Board of Directors on 25 January 2019 and signed on its behalf by:



**Alex Smith**  
Chief Financial Officer

Company registered number: 03805979

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 30 NOVEMBER 2018

	Note	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Treasury reserve £'000	Currency translation reserve £'000	Retained earnings £'000	Total equity attributable to owners of the Company £'000
<b>Balance at 1 December 2016</b>		<b>1,312</b>	<b>27,406</b>	<b>168</b>	<b>878</b>	<b>(6,443)</b>	<b>16</b>	<b>52,333</b>	<b>75,670</b>
Profit for the year		-	-	-	-	-	-	27,628	27,628
Other comprehensive loss for the year		-	-	-	-	-	(1,083)	-	(1,083)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,083)</b>	<b>27,628</b>	<b>26,545</b>
Dividends paid to equity holders	8	-	-	-	-	-	-	(17,994)	(17,994)
Distributions to tracker shareholders		-	-	-	-	-	-	(115)	(115)
Settlement of vested tracker shares	19(a)	4	1,185	-	-	2,746	-	(3,060)	875
Settlement of share-based payments		1	215	-	-	2,959	-	(2,972)	203
Purchase of own shares	19(a)	-	-	-	-	(4,618)	-	-	(4,618)
Purchase of own shares by Employee Benefit Trust	19(a)	-	-	-	-	(3,179)	-	-	(3,179)
Credit to equity for equity-settled share-based payments	19(a)	-	-	-	-	-	-	3,256	3,256
Current and deferred tax on share-based payment transactions	7	-	-	-	-	-	-	62	62
<b>Total movements in equity</b>		<b>5</b>	<b>1,400</b>	<b>-</b>	<b>-</b>	<b>(2,092)</b>	<b>(1,083)</b>	<b>6,805</b>	<b>5,035</b>
<b>Balance at 30 November 2017</b>		<b>1,317</b>	<b>28,806</b>	<b>168</b>	<b>878</b>	<b>(8,535)</b>	<b>(1,067)</b>	<b>59,138</b>	<b>80,705</b>
Profit for the year		-	-	-	-	-	-	34,272	34,272
Other comprehensive income for the year		-	-	-	-	-	2,572	-	2,572
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,572</b>	<b>34,272</b>	<b>36,844</b>
Dividends paid to equity holders	8	-	-	-	-	-	-	(18,007)	(18,007)
Distributions to tracker shareholders		-	-	-	-	-	-	(124)	(124)
Settlement of vested tracker shares	19(a)	4	1,306	-	-	2,124	-	(3,306)	128
Settlement of share-based payments		2	399	-	-	65	-	(65)	401
Cancellation of share capital	19(a)	(4)	-	4	-	-	-	(1,468)	(1,468)
Purchase of own shares by Employee Benefit Trust	19(a)	-	-	-	-	(1,484)	-	-	(1,484)
Credit to equity for equity-settled share-based payments	19(b)	-	-	-	-	-	-	4,697	4,697
Current and deferred tax on share-based payment transactions	7	-	-	-	-	-	-	(21)	(21)
<b>Total movements in equity</b>		<b>2</b>	<b>1,705</b>	<b>4</b>	<b>-</b>	<b>705</b>	<b>2,572</b>	<b>15,978</b>	<b>20,966</b>
<b>Balance at 30 November 2018</b>		<b>1,319</b>	<b>30,511</b>	<b>172</b>	<b>878</b>	<b>(7,830)</b>	<b>1,505</b>	<b>75,116</b>	<b>101,671</b>

The accompanying notes on pages 125 to 157 are an integral part of these financial statements.

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 30 NOVEMBER 2018

	Note	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Treasury shares £'000	Retained earnings £'000	Total equity attributable to owners of the Company £'000
<b>Balance at 1 December 2016</b>		<b>1,312</b>	<b>27,406</b>	<b>168</b>	<b>878</b>	<b>(6,443)</b>	<b>267,294</b>	<b>290,615</b>
<b>Total comprehensive loss for the year</b>	1	-	-	-	-	-	<b>(69,743)</b>	<b>(69,743)</b>
Dividends paid to equity holders	8	-	-	-	-	-	(17,994)	(17,994)
Settlement of vested tracker shares	19(a)	4	1,185	-	-	2,746	52	3,987
Settlement of share-based payments		1	215	-	-	2,959	(2,972)	203
Purchase of own shares	19(a)	-	-	-	-	(4,618)	-	(4,618)
Purchase of own shares by Employee Benefit Trust	19(a)	-	-	-	-	(3,179)	-	(3,179)
Credit to equity for equity-settled share-based payments		-	-	-	-	-	3,256	3,256
Current and deferred tax on share-based payment transactions		-	-	-	-	-	13	13
<b>Total movements in equity</b>		<b>5</b>	<b>1,400</b>	<b>-</b>	<b>-</b>	<b>(2,092)</b>	<b>(87,388)</b>	<b>(88,075)</b>
<b>Balance at 30 November 2017</b>		<b>1,317</b>	<b>28,806</b>	<b>168</b>	<b>878</b>	<b>(8,535)</b>	<b>179,906</b>	<b>202,540</b>
<b>Total comprehensive loss for the year</b>	1	-	-	-	-	-	<b>(8,733)</b>	<b>(8,733)</b>
Dividends paid to equity holders	8	-	-	-	-	-	(18,007)	(18,007)
Settlement of vested tracker shares	19(a)	4	1,306	-	-	2,124	167	3,601
Settlement of share-based payments		2	399	-	-	65	(65)	401
Cancellation of share capital	19(a)	(4)	-	4	-	-	(1,468)	(1,468)
Purchase of own shares by Employee Benefit Trust	19(a)	-	-	-	-	(1,484)	-	(1,484)
Credit to equity for equity-settled share-based payments		-	-	-	-	-	4,697	4,697
Deferred tax on share-based payment transactions		-	-	-	-	-	(11)	(11)
<b>Total movements in equity</b>		<b>2</b>	<b>1,705</b>	<b>4</b>	<b>-</b>	<b>705</b>	<b>(23,420)</b>	<b>(21,004)</b>
<b>Balance at 30 November 2018</b>		<b>1,319</b>	<b>30,511</b>	<b>172</b>	<b>878</b>	<b>(7,830)</b>	<b>156,486</b>	<b>181,536</b>

Of the above reserves, retained earnings of £156,486,000 (2017: £179,906,000) are assessed by the Directors as being distributable.

The accompanying notes on pages 125 to 157 are an integral part of these financial statements.

**STATEMENTS OF CASH FLOW**  
FOR THE YEAR ENDED 30 NOVEMBER 2018

	Notes	Consolidated		Company	
		2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Cash flows from operating activities</b>					
Profit/(loss) before taxation after exceptional items		46,996	37,717	(8,776)	(70,397)
<b>Adjustments for:</b>					
Depreciation and amortisation charge <sup>1</sup>	10,11	6,145	5,744	-	-
Accelerated amortisation and impairment of intangible assets	11	709	309	-	-
Finance income	6	(75)	(124)	(77)	(14)
Finance costs	6	743	439	825	601
Loss on disposal of property, plant and equipment	4	8	110	-	-
(Gain on disposal)/Share of losses of associate	12	(146)	147	-	-
Loss on disposal of subsidiaries	4	70	144	-	1,142
Impairment of investments	12	-	-	-	88,048
FX revaluation gain on other investments	12	(26)	-	-	-
Non-cash charge for share-based payments	19(b)	4,697	3,256	1,187	667
<b>Operating cash flows before changes in working capital and provisions</b>		<b>59,121</b>	<b>47,742</b>	<b>(6,841)</b>	<b>20,047</b>
Increase in receivables		(55,372)	(35,712)	(1,599)	(6,860)
Increase in payables		30,116	19,291	4,898	7,694
(Decrease)/increase in provisions		(3,796)	8,758	32	-
Cash generated from operations		30,069	40,079	(3,510)	20,881
Interest received	6	35	124	77	14
Income tax paid - net		(14,391)	(10,921)	(2,942)	(3,306)
Net cash generated from/(used in) operating activities		15,713	29,282	(6,375)	17,589
<i>Cash generated from/(used in) operating activities before exceptional items</i>		26,208	30,273	(6,375)	17,589
<i>Net cash outflow from recognised exceptional items</i>		(10,495)	(991)	-	-
<i>Net cash generated from/(used in) operating activities</i>		15,713	29,282	(6,375)	17,589
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment <sup>2</sup>	10	(3,161)	(2,374)	-	-
Purchase of intangible assets	11	(2,043)	(3,392)	-	-
Investments designated as available for sale	12	-	(383)	-	-
Investment in associate	12	-	(802)	-	-
Net cash used in investing activities		(5,204)	(6,951)	-	-
<b>Cash flows from financing activities</b>					
Proceeds from borrowings	16	25,428	12,000	25,428	12,000
Interest paid		(540)	(431)	(621)	(601)
Proceeds from exercise of share options		401	215	401	215
Employee subscriptions for tracker shares		644	98	-	-
Cancellation of share capital	19(a)	(1,468)	-	(1,468)	-
Purchase of own shares	19(a)	(1,484)	(7,797)	(1,484)	(4,618)
Dividends paid to equity holders	8	(18,007)	(17,994)	(18,007)	(17,994)
Distributions to tracker shareholders		(116)	(115)	-	-
Net cash generated from/(used in) financing activities		4,858	(14,024)	4,249	(10,998)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>15,367</b>	<b>8,307</b>	<b>(2,126)</b>	<b>6,591</b>
Cash and cash equivalents at beginning of the year		17,621	10,022	6,985	394
Exchange gains/(losses) relating to cash and cash equivalents		335	(708)	-	-
<b>Net cash and cash equivalents at end of the year</b>	14	<b>33,323</b>	<b>17,621</b>	<b>4,859</b>	<b>6,985</b>

1. Includes the impact of £0.2 million in accelerated depreciation classified as exceptional.

2. Includes the impact of £1.0 million in capital expenditure classified as exceptional.

The accompanying notes on pages 125 to 157 are an integral part of these financial statements.

## 1. Accounting policies

SThree plc ('the Company') and its subsidiaries (together 'the Group') operate predominantly in the United Kingdom & Ireland, Continental Europe, the USA and Asia Pacific & Middle East. The Group consists of different brands and provides both Permanent and Contract specialist staffing services, primarily in the Information & Communication Technology, Banking & Finance, Energy, Engineering and Life Sciences sectors. The Group's activities and business are set out further in the Strategic section and Directors' Report of this Annual Report.

The Company is a public limited company listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom and registered in England and Wales. Its registered office is 1st Floor, 75 King William Street, London, EC4N 7BE.

The Group's principal accounting policies, as set out below, have been consistently applied in the preparation of these financial statements of all the periods presented, unless otherwise stated.

### Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and IFRS Interpretations Committee ('IFRS IC') as adopted and endorsed by the European Union ('EU') and in accordance with the provisions of the UK Companies Act 2006 not to present an income statement and statement of comprehensive income for the parent Company. The loss after tax for the parent Company for the year was £8.7 million (2017: £69.7 million).

The consolidated and Company only financial statements have been prepared under the historical cost convention with the exception of certain financial instruments classified as available for sale. The Company has elected to take the exemption under Section 408 of the Companies Act 2006 not to present an income statement and statement of comprehensive income for the parent Company. The loss after tax for the parent Company for the year was £8.7 million (2017: £69.7 million).

### Adoption of new and revised Standards

There are no new or amended IFRSs or IFRS IC interpretations adopted during the year that have a significant impact on these financial statements.

As at the date of authorisation of these financial statements, the following key standards and amendments were in issue but not yet effective. The Group has not applied these standards and interpretations in the preparation of these financial statements.

IFRS 2 (amendments) 'Share Based Payments'  
IFRS 9 'Financial Instruments'  
IFRS 15 'Revenue from Contracts with Customers'  
IFRS 16 'Leases'  
IFRIC 22 'Foreign Currency Transactions and Advance Consideration'  
IFRIC 23 'Uncertainty over Income Tax Treatments'

The impact of IFRS 9, IFRS 15 and IFRS 16 is set out below. The Directors are currently evaluating the impact of the adoption of all other standards, amendments and interpretations but do not expect them to have a material impact on Group operations or results.

### IFRS 9 Financial Instruments

The standard is effective for annual periods beginning on or after 1 January 2018. It introduces new classification and impairment models for financial assets. Whilst financial assets will be reclassified into the categories required by IFRS 9, the Directors have not identified any significant impacts on the measurement of its financial assets as a result of the classification and measurement requirements of the new standard.

IFRS 9 also requires all investments in equity instruments, including those issued by an unlisted entity, to be measured at fair value. The Directors elected to apply the market approach, under which a price generated by a market transaction for an identical or similar instrument will be used to value the equity instrument from the date of initial application of IFRS 9. The new policy of fair valuing equity instruments is expected to increase the value of equity investments by an immaterial amount once IFRS 9 becomes effective. The Directors intend to recognise fair value gains and losses for existing equity instruments classified as available for sale financial assets under IAS 39 in other comprehensive income. Prospectively, fair value gains and losses on new equity instruments may be recognised either in the income statement or in other comprehensive income as an election on an instrument-by-instrument basis on initial recognition.

The impact of the financial asset impairment requirements of IFRS 9 is immaterial due to the short-term nature of SThree's financial assets, and historically low level of trade receivables impairment due to strict treasury policy that stipulates a list of approved counterparties, with reference to their high credit standing.

The Group will adopt IFRS 9 in the financial reporting period commencing 1 December 2018 and has elected to apply the 'fully prospective' transition approach to the implementation.

### IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. It introduces the concept of distinct performance obligations; revenue is recognised once performance obligations are satisfied and a client starts benefiting from the transferred goods or service.

Under IFRS 15, revenue from Permanent placements will continue to be recognised on the day a recruited employee commences their placement and will be based on a fixed percentage of the candidate's remuneration package. Contract revenue, which represents amounts billed or accrued for the services of temporary staff, will continue to be recognised when the service has been provided.



## **1. Accounting policies** continued

The Group also earns revenue from retained assignments. The amount of retainer revenue recognised to date depicts the amount of retained search service performed to date by SThree plc on behalf of the client, towards complete satisfaction of the bundled retained search service.

As part of the ongoing impact assessment, the Directors have considered new requirements in respect of the effects of variable consideration and the application of a constraint on the variable consideration, and determined that the recognition of a portion of Contract accrued income that is not highly probable will be deferred. The Directors expect that the new policy of estimating contract accrued income will result in the reduction of gross profit within the range of approximately £2 million to £3 million once IFRS 15 becomes effective. Upon application of IFRS 15 in 2019, the Directors will continue to review the impact of IFRS 15 on SThree.

SThree will adopt IFRS 15 in the financial reporting period commencing 1 December 2018 and has elected to apply the 'modified retrospective' transition approach to implementation. On 1 December 2018, an adjustment of approximately £2 million to £3 million will be made to the opening balance of retained earnings, to reflect a new policy of estimating Contract accrued income.

### **IFRS 16 Leases**

The new leasing standard is effective for the annual periods beginning on or after 1 January 2019.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model similar to accounting for finance leases under IAS 17. For every lease brought onto the balance sheet, lessees will recognise a right-of-use asset and a lease liability.

Within the income statement, operating lease rental payment will be replaced by depreciation and interest expense. This will result in an increase in operating profit and an increase in finance costs.

The Group will adopt IFRS 16 in the financial reporting period commencing 1 December 2019. At present, there is no plan for the Group to adopt this standard early. The Directors expect to be able to provide an indication of the impact on the Group's results in the 31 May 2019 Interim Results.

### **Going concern**

The Group's business activities, together with the factors likely to affect its future development, performance, its financial position, cash flows, liquidity position and borrowing facilities are described in the Strategic section of the Annual Report. In addition, note 23 to these financial statements includes details of the Group's treasury activities, funding arrangements and objectives, policies and procedures for managing various risks including liquidity, capital management and credit risks.

The Directors have considered the Group's forecasts, including taking account of reasonably possible changes in trading performance, and the Group's available banking facilities. Based on this review, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt a going concern basis in preparing these financial statements.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company, all its subsidiaries and the Group's share of its interests in associate.

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which that control ceases. Uniform accounting policies are adopted across the Group. All intra-group balances and transactions, including unrealised profits and losses arising from intra-group transactions, are eliminated on consolidation.

When the Group disposes of a subsidiary, the gain or loss on disposal represents (i) the aggregate of the fair value of the consideration received or receivable, (ii) the carrying amount of the subsidiary's net assets (including goodwill) at the date of disposal and (iii) any directly attributable disposal costs. Amounts previously recognised in other comprehensive income in relation to the subsidiary are removed from equity and recognised in the Consolidated Income Statement as part of the gain or loss on disposal.

### **Revenue and revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the provision of services provided in the ordinary course of the Group's activities. Revenue is shown net of value added tax and other sales-related taxes, returns, rebates and discounts and after elimination of sales within the Group.

Contract revenue for the supply of professional services, which is mainly based on the number of hours worked by a contractor, is recognised when the service has been provided. Revenue earned but not invoiced at year end is accrued and included in 'Accrued income'.

Revenue from Permanent placements is typically based on a fixed percentage of the candidate's remuneration package and is recognised when candidates commence employment.

Revenue from retained assignments is recognised on completion of certain pre-agreed stages of the service. Fees received for the service are non-refundable.

## 1. Accounting policies continued

A provision is established for non-fulfilment of Permanent placement and Contract revenue obligations, which is offset within trade and other receivables on the face of the Consolidated Statement of Financial Position and offset against revenue in the Consolidated Income Statement.

### Cost of sales

Cost of sales consists of the Contractors' (including employed Contractors) cost of supplying services and any costs directly attributable to them.

### Gross profit

Gross profit represents revenue less cost of sales and consists of the total placement fees of Permanent candidates and the margin earned on the placement of Contractors.

### Exceptional items

Exceptional items, as disclosed on the face of the Consolidated Income Statement, are items which due to their size and non-recurring nature are classified separately in order to draw them to the attention of the reader of the financial statements and to provide an alternative performance measure ('APM') of the underlying profits of the Group.

These APMs, adjusted operating profit, adjusted earnings per share and adjusted profit before tax, provide the reader with a clear and consistent view of the business performance of the Group. When applicable, these items include the costs of any fundamental restructuring where they represent a strategic change in the operations of the Group, and are not expected to recur.

### Government Grant Income

Government grants represent assistance by government in the form of transfers of resources to SThree in return for a certain number of full time roles created in the Centre of Excellence over the next two-year period.

Government grants are recognised in profit or loss in the same period as the corresponding gross wage expenses that the grants are intended to compensate. Government grants are recognised only when there is reasonable assurance that (i) SThree will comply with conditions attached to the grant and (ii) the grants will be received. The Directors elected to present grant income as a deduction in reporting the related expense.

### Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the income statement on a straight-line basis over the lease periods.

### Finance interest

Interest income is recognised as the interest accrues to the net carrying amount of the financial asset. Interest costs are recognised in the income statement in the period in which they are incurred.

### Taxation

The tax expense comprises both current and deferred tax.

### Current tax

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

### Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is calculated using tax rates that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Where an entity has been loss-making, deferred tax assets are only recognised if there is convincing evidence supporting its future utilisation.

### Foreign currencies

#### Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries and associates are measured using the currency of the primary economic environment in which that subsidiary or associate operates (its 'functional currency'). The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency for the consolidated financial statements.

#### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

## 1. Accounting policies continued

### Consolidation

The results and financial position of all of the Group's subsidiaries and associate (none of which have the currency of a hyper-inflationary economy) that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the rates ruling at the end of the reporting period;
- income and expenses for each income statement are translated using the average rates of exchange for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in the Consolidated Statement of Comprehensive Income.

The Group treats specific inter-company loan balances, which are not intended to be settled for the foreseeable future, as part of its net investment in the relevant foreign operations. On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are recognised as a separate component of equity and are included in the Group's currency translation reserve ('CTR'). When a foreign operation is sold, such exchange differences are reclassified from CTR to the Consolidated Income Statement to form part of the gain or loss on disposal.

### Property, plant and equipment

Property, plant and equipment are stated at historical cost, net of accumulated depreciation and any provision for impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Depreciation is calculated using the straight-line method to allocate the depreciable value of property, plant and equipment to the income statement over their useful economic lives after they have been brought into use at the following rates:

Computer equipment	three years
Leasehold improvements	lower of five years and lease period
Fixtures and fittings	five years

Assets' residual values and useful lives are reviewed at the end of the reporting period and, if appropriate, changes are accounted for prospectively.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

### Intangible assets

#### Goodwill

Goodwill arising on consolidation represents the excess of purchase consideration over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on the acquisition of subsidiaries has an indefinite useful life and is included in intangible assets. Goodwill arising on the acquisition of associates is included within the carrying value of the investment. If the goodwill balance is material, it is tested annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Acquired computer software

The cost of acquired computer software licences is capitalised. The cost includes the expenditure that is directly attributable to the acquisition of the software. The costs are amortised over their estimated useful lives of three to seven years.

Costs associated with maintaining computer software are recognised as an expense as they are incurred.

#### Assets under construction

Purchased assets or internally generated intangible assets that are still under development are classified as 'assets under construction'. These assets are reclassified within intangibles over the phased completion dates and are amortised from the date they are reclassified.

#### Software and system development costs

Costs incurred on development projects (relating to the introduction or design of new systems or improvement of the existing systems) are only capitalised as intangible assets if capitalisation criteria under IAS 38 'Intangible Assets' are met, i.e. where the related expenditure is separately identifiable, the costs are measurable and management is satisfied as to the ultimate technical and commercial viability of the project such that it will generate future economic benefits based on all relevant available information. Capitalised development costs are amortised from the date the system is available for use over their expected useful lives (not exceeding five years).

## 1. Accounting policies continued

Other costs linked to development projects that do not meet the above criteria such as data population, research expenditure and staff training costs are recognised as an expense as incurred.

### Trademarks

Trademarks are initially recognised at cost. They have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (up to 12 years).

### Impairment of assets

Assets that are not subject to amortisation are tested annually for impairment. Any impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that their respective carrying amounts may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount, by analysing individual assets or classes of assets that naturally belong together. The recoverable amount represents the higher of an asset's fair value less costs of disposal and its value in use. Value in use is measured based on the expected future discounted cash flows model attributable to the asset. For the purposes of assessing impairment, the assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### Investments

#### Subsidiaries

The Company's investments in shares in subsidiary companies are stated at cost less provision for impairment. Any impairment is charged to the Company's Income Statement as it arises.

An investment is deemed to be impaired when it has been determined that its carrying value will not be recovered either through actual cash flows or operating profit generation or selling it. If circumstances arise that indicate that investments might be impaired, the recoverable amount of the investment is estimated. The recoverable amount is the higher of the entity's fair value less costs of disposal or its value in use. To the extent that the carrying value exceeds the recoverable amount, the investment is impaired to its recoverable amount.

The investments in shares in the undertakings outside of the Group, in particular where the Group does not have significant influence or control, are considered to be available for sale financial assets. Since they are investments in unlisted entities where fair value cannot be readily determined, they are initially recognised at cost with subsequent measurement at cost less provision for impairment.

Where share-based payments are granted to the employees of subsidiary undertakings by the parent company, they are treated as a capital contribution to the subsidiary and the Company's investment in the subsidiary is increased accordingly.

#### Associate

The results, assets and liabilities of an associate are incorporated in these financial statements using the equity method of accounting.

Under the equity method, the investment in associate is carried in the Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associate, less distributions received and less any impairment in value of the investment.

The Group assesses investments in equity-accounted entities for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount, being the higher of its fair value less costs of disposal and value in use. If the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.

### Disposal of investments

The Group derecognises investments in associates and discontinues the use of the equity method, when the investment is classified as held for sale or the investment ceases to be an associate. On disposal, only the difference between the fair value of any retained interest and any proceeds is recognised in the profit or loss.

### Financial instruments

Financial assets and liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

#### Financial assets

Non-derivative financial assets are classified as either 'loans and receivables' or 'available for sale'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Available for sale financial assets

Available for sale financial assets are measured at fair value, with gains or losses recognised within other comprehensive income, except for impairment losses, and for available for sale debt instruments, foreign exchange gains or losses. When relevant, interest on available for sale financial assets is recognised using the effective interest method. Any changes in fair value arising from revised estimates of future cash flows are recognised in the income statement. If the investment is made in shares or debt instruments issued by an unlisted entity, and where fair value cannot be readily determined, the investment is initially recognised at cost, and on subsequent measurement dates at cost less provision for impairment.

## **1. Accounting policies** continued

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

### **Trade and other receivables**

Trade receivables are recorded initially at fair value and thereafter at net realisable value after deducting an allowance for impairment. The Group makes judgements on a customer by customer basis as to its ability to collect outstanding receivables and provides an allowance for impairment based on a specific review of significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing percentages based on the age of the receivable. In determining these percentages, the Group analyses its historical collection experience and current economic trends. Trade receivable balances are written off when the Group determines that it is unlikely that future remittances will be received.

### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within current liabilities in the statement of financial position unless they form part of a cash pooling arrangement where there is an intention to settle on a net basis, in which case they are reported net of related cash balances.

### **Disposal of financial assets**

On derecognition of a financial asset, any difference between the carrying amount of an asset, and the consideration received is recognised in the profit or loss.

### **Financial liabilities and overdrafts**

All non-derivative financial liabilities are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction costs incurred. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the end of the reporting period.

### **Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **Other financial liabilities**

Other financial liabilities, including borrowings and overdraft, are initially measured at fair value, net of transaction costs and subsequently held at amortised cost.

### **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event for which, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are recognised as the present value of the expenditures expected to be required to settle the obligation. No provision is recognised for future operating losses.

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 obligation as a whole. A provision may be recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

The Group's holdings in its own equity instruments are classified as 'treasury shares'. The consideration paid, including any directly attributable incremental costs is deducted from the equity attributable to the owners of the Company until the shares are cancelled or reissued. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of equity shares.

### **Employee Benefit Trust**

The Employee Benefit Trust ('EBT') was originally funded by gifts from certain of the Company's shareholders and Directors. The assets and liabilities of the EBT are recognised in the Group's consolidated financial statements.

The shares in the EBT are held to satisfy awards and grants under certain employee share schemes. For accounting purposes, shares held in the EBT are treated in the same manner as treasury shares and are, therefore, included in the consolidated financial statements as treasury shares. Consideration, if any, received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken to retained earnings. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of equity shares held by the EBT.

In the separate financial statements of the Company, the EBT is treated as an agent acting on behalf of the Company. Funding provided by the Company to the EBT is accounted for as the issue of treasury shares.



## 1. Accounting policies continued

### Dividends

Interim dividends are recognised in the financial statements at the earlier of the time they are paid or shareholders' approval. Final dividends declared to the Company's shareholders are recognised as a liability in the Company's and Group's financial statements in the period in which they are approved by the Company's shareholders.

The Company recognises dividends from subsidiaries at the time that they are declared.

### Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave or sick leave and any other employee benefits are accrued in the period in which the associated services are rendered by employees to the Group.

Pension obligations – the Group has defined contribution plans and pays contributions to privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once contributions have been paid.

Bonus plans – the Group recognises a liability and an expense for bonuses based on the Directors' best estimate of amounts due. The Group also recognises an accrual where contractually obliged or where there is a past practice of payments that has created a constructive obligation.

Termination benefits – termination benefits are payable once employment is terminated before an agreed retirement date, or whenever an employee accepts voluntary redundancy in exchange for those benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of employees according to a detailed formal plan without the possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

### Share-based payments

The Group operates a number of equity-settled share-based arrangements, under which it receives services from employees in return for equity instruments of the Group. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which equity instruments are granted and is recognised as an expense over the vesting period, which ends on the date on which the employees become fully entitled to the award. Fair value is determined by using an appropriate valuation model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the share of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest.

For the awards with non-vesting conditions (awards that do not have an explicit or implicit service requirement), the full cost of the award is recognised on the grant date, i.e. they are treated as fully vested irrespective of whether or not the market condition is satisfied.

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid, up to the fair value of the award, at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the Consolidated Income Statement.

### Tracker share arrangements

The Group invites selected senior individuals to invest in the businesses they manage, sharing in both the risk and reward. These individuals are offered equity ('tracker shares') in those businesses in return for making an investment. The amount of equity offered varies in different circumstances but is never over 25% of the overall equity of the business in question. The equity stake tracks the performance of the underlying business and the individuals receive dividends (if declared) by the 'tracked' business.

If an individual remains a holder of the tracker shares for a pre-agreed period, typically three to five years depending on the vesting period applied to the tracker shares, they may then offer their vested tracker shares for sale to the Group, but there is no obligation on the Group to settle the arrangement. SThree will undertake a formal due diligence process to establish whether there is a sound business case for settling a tracker share and make an arm's length judgement. Should the Group decide to settle the tracker shares, it will do so at a price, which is determined using a formula stipulated in the tracker share Articles of Association ('Articles'). SThree plc may settle in cash or in its shares, as it chooses. The Group policy is to settle in SThree plc shares. Consequently, the arrangements are deemed to be an equity-settled share-based payment scheme under IFRS 2.

Individuals must pay the fair value for the tracker shares at the time of the initial subscription, as determined by an independent third party valuer in accordance with IFRS 2 'Share-based payments' and taking into account the particular rights attached to the shares as described in the relevant businesses' Articles. The initial valuation takes into consideration factors such as the size and trading record of the underlying business, expected dividends, future projections, as well as the external market, sector and country characteristics. The external valuer is supplied with detailed financial information, including gross profit and EBITDA of the relevant businesses. Using this information an independent calculation of the initial Equity Value ('EV') is prepared. This EV is then discounted to arrive at a valuation to take into account the relevant characteristics of the shareholding in the tracked business, for example the absence of voting rights. The methodology for calculating the EV is applied consistently, although the data used varies depending on the size and history of the business.

## **1. Accounting policies continued**

If an individual leaves the Group before the pre-agreed period, they are entitled to receive the lower of the initial subscription amount they contributed or the tracker share fair value on the date of departure as set out under the Articles. To reflect this, a provision in relation to tracker shares is recognised at cost on initial subscription and held at cost and reflects the consideration for tracker shares received from individuals (note 17).

Up until 2014 certain individuals received loans from the Group to pay part of the initial subscription for their tracker shares, on which interest is charged at or above the HMRC beneficial loan rate. These loans are repayable by the individuals either at the time of settlement of their tracker shares, or via tracker share dividend, or when they leave the Group. These loans are included within other receivables (note 13).

When tracker shares are granted, no share-based payment charge is recognised in the income statement on the basis that the initial subscription by the individual at the grant date equates to the fair value at that date. Dividends declared by the tracked businesses, which are factored into the grant date fair value determination of the tracker shares, are recorded in equity as 'distributions to tracker shareholders'.

When the Company issues new shares to settle the tracker share arrangements, the nominal value of the shares is credited to share capital and the difference between the fair value of the tracker shares and the nominal value is credited to share premium. If the Company uses treasury shares to settle the arrangements, the difference between the fair value of the tracker shares and the weighted average value of the treasury shares is accounted for in the retained earnings.

### **Critical accounting judgments and key sources of estimation uncertainty**

The preparation of financial statements in conformity with IFRSs requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amounts, actual results may differ from the estimates and assumptions used. Where an estimate has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year this is specifically noted in the section 'Estimation uncertainty'.

### **Critical accounting judgments**

The following are the critical accounting judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### **(i) Tracker shares arrangements**

The tracker share arrangements give the Group the choice to settle tracker shares in either cash or SThree plc shares. There are significant accounting differences between an equity settled and cash settled scheme. Judgement is therefore required as to whether this is a cash or equity settled share-based payment scheme. Based on the Directors' judgement, the tracker share arrangements are accounted for as an equity-settled share-based payment scheme under IFRS 2 as the Group's policy is to settle its obligations under the arrangements in SThree plc shares. As described in the accounting policy, the Company settles tracker shares through either treasury shares or the issue of new shares in SThree plc. The Companies Act 2006 does not specify whether the issue of treasury shares to settle share-based payments should be accounted for in share premium or elsewhere. The Company has taken legal advice which confirms this is judgemental and therefore the approach taken by the Company is to include differences between the fair value of the tracker shares settled and the weighted average cost of treasury shares in retained earnings.

Tracker shares can be repurchased from holders with either cash or SThree plc shares at the Company's discretion. The Company's policy and intention is to settle tracker shares using SThree plc shares. Therefore the judgement of the Directors is that this share based-payment scheme is treated as equity settled.

#### **(ii) Exceptional items**

Exceptional items are disclosed separately on the face of the Consolidated Income Statement. In addition to statutory measures of performance, the Directors measure underlying performance by excluding material non-recurring items or items which are not considered to be reflective of the underlying trading performance of the Group. This alternative performance measure of profit is described as 'on an adjusted basis' ('before exceptional items') and is used by the Directors to measure and monitor performance. The excluded items are referred to as exceptional items.

The term 'Exceptional items' is not separately defined within IFRS but is widely used for material items which require a separate disclosure. Judgement is therefore required in assessing which costs qualify as exceptional, and that disclosure of this alternative performance measure is useful for readers of the Annual Report. This is therefore a critical judgement as to which items satisfy this criteria.

Exceptional items may include material impairments, expenditure on major restructuring programmes, litigation and insurance settlements, amounts relating to acquisitions and disposals, and other particularly significant or unusual non-recurring items. One-off gains or income are similarly considered.

On 1 November 2017, the Group announced a strategic relocation of the majority of its central support functions from London to the Centre of Excellence in Glasgow. Since the announcement, costs and certain income associated with the restructuring activities have been classified as exceptional. The restructuring activities involved the set-up of the Centre of Excellence in Glasgow resulting in the redundancy of approximately 242 support roles in London and the consolidation of our London property portfolio. Due to the material size and nature of this restructuring, it is deemed to meet the requirements to be separately disclosed as an exceptional item on the face of the Consolidated Income Statement. The cost and income items associated with this restructuring cover more than one financial reporting period due to the timing for this to be implemented and complete. The Directors consider there is a clear completion point established for this restructuring following which the costs will not be recurring and therefore it is considered non-recurring.

## 1. Accounting policies continued

### Estimation uncertainty

The assumptions and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

#### (i) Revenue recognition

Contract revenue is recognised when the supply of professional services has been rendered. Revenue is accrued for Contractors where no timesheet has been received, but the individual is 'live' on the Group's systems, or where a client has not yet approved a submitted timesheet. Such accruals are removed after three months if no timesheet is received or customer approval obtained. The amount of Contractor revenue that is accrued rather than billed at each period end is significant. The value of unsubmitted timesheets for each individual Contractor is system generated and estimation is applied principally to the number of hours worked. The number of hours worked is system generated based on the contractual hours and working days for each Contractor and adjusted for expected holidays or other events that could reduce the revenue.

At the year end, the accrued revenue has been adjusted to reflect actual data from Contractor timesheets received two to three weeks after the year end and where timesheets are not submitted. The key estimation uncertainty arises in the time period of three months between accrual of a timesheet and the write-off of this revenue if a timesheet is not received and approved. Any difference compared to the actual time worked by the Contractor would result in the amount payable to the Contractor and accrued revenue receivable from the client being adjusted in the next financial year. The assumptions underlying this estimate are considered appropriate and continue to be in line with IFRS requirements.

#### (ii) Tracker Shares Arrangements

There are certain estimates involved in determining the fair value of tracker shares at the time of initial subscription. The grant date fair valuation, which is performed by an independent third party valuer, is based on information provided by the Directors and their own analysis. The estimates pertain to the forecast growth of the businesses, the operational and geographical risks relevant to those businesses and other similar areas. Most other aspects of the tracker share arrangements follow a rule based approach, e.g. vesting period or settlement formula.

#### (iii) Impairment of investments in subsidiaries (Company only)

In the previous two years, an impairment charge was recognised in respect of the Company's carrying value of investments in subsidiaries. This was primarily in respect of the Group's UK operations. In 2018, the Directors considered whether there were new indicators of impairment and did not identify any circumstances or triggers which would require a formal impairment test to be performed. However, as set out in the Strategic Report, at the date of signing the financial statements, there is ongoing uncertainty surrounding the potential outcomes of Brexit. This is being monitored and there remains a risk that Brexit outcome could trigger an impairment risk in 2019 or future periods.

During the year, the Directors reassessed the critical accounting judgements and key sources of estimation uncertainty, and resolved that the following was no longer considered critical.

- (i) Capitalisation of the software and system development project costs – estimation is required in respect of future economic benefits associated with system development projects and particularly that internal costs being incurred satisfy the IAS 38 Intangible assets criteria for capitalisation. In the current year such costs were not material and therefore this is not considered a critical estimate.

## 2. Segmental analysis

IFRS 8 'Segmental Reporting' requires operating segments to be identified on the basis of internal results about components of the Group that are regularly reviewed by the entity's chief operating decision maker to make strategic decisions and assess segment performance.

The Directors have determined the chief operating decision maker to be the Executive Committee made up of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief People Officer and the Chief Sales Officer, with other senior management attending via invitation. Operating segments have been identified based on reports reviewed by the Executive Committee, which consider the business primarily from a geographical perspective. The Group segments the business into four regions: the United Kingdom & Ireland ('UK&I'), Continental Europe, the USA and Asia Pacific & Middle East ('APAC & ME').

The Group's management reporting and controlling systems use accounting policies that are the same as those described in note 1 in the summary of significant accounting policies.

### Revenue and Gross Profit by reportable segment

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'gross profit' in the management reporting and controlling systems. Gross profit is the measure of segment profit comprising revenue less cost of sales.

## 2. Segmental analysis continued

Intersegment revenue is recorded at values which approximate third party selling prices and is not significant.

	Revenue		Gross profit	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Continental Europe	716,058	576,018	183,367	150,636
UK&I	268,031	269,777	53,144	55,687
USA	215,099	212,737	66,654	64,369
APAC & ME	58,964	55,998	17,961	16,980
	<b>1,258,152</b>	<b>1,114,530</b>	<b>321,126</b>	<b>287,672</b>

Continental Europe primarily includes Austria, Belgium, France, Germany, Luxembourg, the Netherlands, Spain and Switzerland.

APAC & ME mainly includes Australia, Dubai, Hong Kong, Japan, Malaysia and Singapore.

### Other information

The Group's revenue from external customers, its gross profit and information about its segment assets (non-current assets excluding deferred tax assets) by key location are detailed below:

	Revenue		Gross profit	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Germany	310,399	256,825	93,701	78,021
UK	256,056	259,028	48,814	51,922
Netherlands	237,904	180,602	48,563	38,039
USA	215,099	212,737	66,654	64,369
Other	238,694	205,338	63,394	55,321
	<b>1,258,152</b>	<b>1,114,530</b>	<b>321,126</b>	<b>287,672</b>

	Non-current assets	
	30 November 2018 £'000	30 November 2017 £'000
UK	14,354	15,702
USA	1,136	1,608
Germany	1,060	1,132
Netherlands	803	431
Other	1,148	1,024
	<b>18,501</b>	<b>19,897</b>

The following segmental analysis by brands, recruitment classification and sectors (being the profession of candidates placed) has been included as additional disclosure to the requirements of IFRS 8.

	Revenue		Gross profit	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Brands</b>				
Progressive	401,959	344,537	92,064	77,105
Computer Futures	362,958	311,134	96,672	83,700
Huxley Associates	254,119	228,529	60,128	56,183
Real Staffing Group	239,116	230,330	72,262	70,684
	<b>1,258,152</b>	<b>1,114,530</b>	<b>321,126</b>	<b>287,672</b>

Other brands including Global Enterprise Partners, JP Gray, Madison Black, Newington International and Orgtel are rolled into the above brands.

## 2. Segmental analysis continued

### Recruitment classification

	Revenue		Gross profit	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Contract	1,169,141	1,030,359	232,115	203,501
Permanent	89,011	84,171	89,011	84,171
	<b>1,258,152</b>	<b>1,114,530</b>	<b>321,126</b>	<b>287,672</b>

<b>Sectors</b>				
Information & Communication Technology	580,732	502,299	141,970	124,746
Life Sciences	195,102	176,870	66,250	62,351
Banking & Finance	180,122	181,007	42,454	43,502
Energy	169,018	142,822	33,452	26,494
Engineering	111,608	97,469	30,618	25,851
Other	21,570	14,063	6,382	4,728
	<b>1,258,152</b>	<b>1,114,530</b>	<b>321,126</b>	<b>287,672</b>

Other includes Procurement & Supply Chain and Sales & Marketing.

### 3. Administrative expenses – Exceptional items

A strategic relocation of the majority of our central support functions away from our London headquarters to a new facility located within Glasgow was announced on 1 November 2017. The transition to the Glasgow Centre of Excellence is now substantially complete and we anticipate that this restructuring will realise cost savings ahead of expectations, in excess of £5 million per annum.

In line with the project implementation timescale, benefits started to be realised in the second half of this financial year and led to the recognition of £2.6 million in savings in 2018. The trajectory of the realised savings is expected to result in additional savings of £2.9 million in support costs in 2019.

We continue to anticipate that one-off restructuring costs will be in the region of £14.0 million, with circa £12.9 million of operating expenses, including personnel costs and professional advisor fees, and circa £1.1 million of property related costs. The project is being partially funded by a grant receivable from Scottish Enterprise of circa £2.1 million which is receivable and recognisable over several years, subject to the terms of the grant being met within a fixed timeframe.

Net exceptional costs of £6.4 million have been charged to the Consolidated Income Statement during the year, bringing the total costs recognised to date to £13.1 million (2017: £6.7 million). The exceptional charge in the year included personnel costs of £4.1 million and other costs of £2.7 million (primarily professional and property costs). During the year, the grant income of £0.4 million was recognised as an offset to the exceptional costs of an agreed percentage of gross wages for each full time role created in the Centre of Excellence in the year.

A restructuring provision can only include the direct expenditure arising from the announced strategic restructuring, which are costs that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. Restructuring items related to the transition, design and set up of the new support function for which there is no constructive obligation at year end have not been included within the restructuring provision and will be recognised as incurred. The remaining balance of the provision for redundancy costs for employees, who will leave the business post the year end date, amounted to £1.1 million (2017: £5.6 million).

Due to the material size and non-recurring nature of this strategic restructuring project, the associated costs have been separately disclosed as exceptional items in the Consolidated Income Statement in line with their treatment in 2017. Disclosure of items as exceptional, highlights them and provides a clearer, comparable view of underlying earnings.



### 3. Administrative expenses – Exceptional items continued

Items classified as exceptional were as follows:

	2018 £'000	2017 £'000
<b>Exceptional items – charged to operating profit</b>		
Staff costs and redundancy	4,075	5,709
Professional advisor fees	1,050	1,017
Property costs	898	–
Travel	496	–
Recruitment	282	–
Other	14	15
<b>Total exceptional costs</b>	<b>6,815</b>	<b>6,741</b>
Grant income	(418)	–
<b>Total net exceptional costs</b>	<b>6,397</b>	<b>6,741</b>

### 4. Operating profit

Operating profit is stated after charging/(crediting):

	2018 £'000	2017 £'000
Depreciation (note 10)	2,852	2,516
Amortisation (note 11)	3,049	3,228
Accelerated depreciation (note 10)	244	–
Accelerated amortisation and impairment of intangible assets (note 11)	709	309
Foreign exchange gains	(644)	(345)
Staff costs (note 5)	206,713	187,419
Movement in bad debt provision and debts directly written off	1,279	496
Loss on disposal of property, plant and equipment (note 10)	8	110
Loss on disposal of intangible assets (note 11)	62	66
Net exceptional restructuring costs (note 3)	6,397	6,741
Net (gain)/loss on disposal of subsidiaries and associate <sup>1</sup>	(76)	144
Operating lease charges		
– Motor vehicles	1,771	1,790
– Land and buildings	12,647	12,005

1. The net gain on disposal of £76k comprises (i) £70k in the accumulated foreign exchange net loss reclassified from Currency Translation Reserve to the Consolidated Income Statement on liquidation of subsidiary companies; and (ii) £146k gain on disposal of associate.

### Auditors' remuneration

During the year, the Group (including its subsidiaries) obtained the following services from the Company's auditors and its associates:

	2018 £'000	2017 <sup>2</sup> £'000
Amounts payable to PricewaterhouseCoopers LLP and its associates:		
Fees payable to the Company's auditors for the audit of the Company's annual financial statements		
– recurring audit fee	131	72
– non-recurring audit fee	130	–
Fees payable to the Company's auditors and their associates for other services to the Group:		
– Audit of the Company's subsidiaries pursuant to legislation	226	293
– Audit related assurance services	10	11
– All other non-audit services	27	8
<b>Fees charged to operating profit</b>	<b>524</b>	<b>384</b>

2. After the reporting period end date, the Group incurred £0.1 million in additional audit fee due for the 2017 year end audit.

## 5. Directors and employees

Aggregate remuneration of employees including Directors was:

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Wages and salaries (including bonuses)	174,593	157,972	2,572	2,095
Social security costs	23,797	22,599	599	495
Other pension costs	1,932	1,810	-	-
Temporary staff costs	2,149	1,727	-	-
Share-based payments	4,242	3,311	1,187	667
	<b>206,713</b>	<b>187,419</b>	<b>4,358</b>	<b>3,257</b>

The staff costs capitalised during the year on internally developed assets (note 11) and not included in the above amounts were £1.0 million (2017: £2.2 million).

The average monthly number of employees (including Executive Directors) during the year was:

	2018					Company Total
	UK&I	Continental Europe	USA	APAC & ME	Group Total	
Sales	532	1,346	350	172	2,400	496
Non-sales	430	247	91	29	797	62
	<b>962</b>	<b>1,593</b>	<b>441</b>	<b>201</b>	<b>3,197</b>	<b>558</b>

	2017					Company Total
	UK&I	Continental Europe	USA	APAC & ME	Group Total	
Sales	535	1,183	336	166	2,220	518
Non-sales	366	167	75	28	636	68
	<b>901</b>	<b>1,350</b>	<b>411</b>	<b>194</b>	<b>2,856</b>	<b>586</b>

Included in the headcount numbers above were 83 (2017: 110) temporary full time employees.

There were also 2,359 (2017: 1,909) Contractors engaged during the year under the Employed Contractor Model. They are not included in the numbers above as they are not considered to be full time employees of the Group.

Details of the Directors' remuneration for the year including the highest paid Director, which form part of these financial statements, are provided in the audited information section of the Directors' Remuneration Report (section 1.1).

Directors' compensation for loss of office is £0.9 million (2017: £0.6 million).

## 6. Finance income and costs

	2018 £'000	2017 £'000
<b>Finance income</b>		
Bank interest receivable	18	101
Interest accrued on convertible bonds (note 12)	40	-
Other interest	17	23
	<b>75</b>	<b>124</b>
<b>Finance costs</b>		
Bank loans and overdrafts	(743)	(439)
<b>Net finance costs</b>	<b>(668)</b>	<b>(315)</b>

## 7. Taxation

### (a) Analysis of tax charge for the year

	2018			2017		
	Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
<b>Current taxation</b>						
Corporation tax charged/(credited) on profits for the year	12,862	(1,127)	11,735	13,520	(946)	12,574
Adjustments in respect of prior periods	(541)	–	(541)	(758)	–	(758)
Total current tax charge/(credit)	12,321	(1,127)	11,194	12,762	(946)	11,816
<b>Deferred taxation</b>						
Origination and reversal of temporary differences	2,308	–	2,308	(743)	(357)	(1,100)
Adjustments in respect of prior periods (note 18)	(778)	–	(778)	(627)	–	(627)
Total deferred tax charge/(credit)	1,530	–	1,530	(1,370)	(357)	(1,727)
<b>Total income tax charge/(credit) in the income statement</b>	<b>13,851</b>	<b>(1,127)</b>	<b>12,724</b>	<b>11,392</b>	<b>(1,303)</b>	<b>10,089</b>

### (b) Reconciliation of the effective tax rate

The Group's tax charge for the year exceeds (2017: exceeds) the UK statutory rate and can be reconciled as follows:

	2018			2017		
	Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
Profit before taxation	53,393	(6,397)	46,996	44,458	(6,741)	37,717
Profit before taxation multiplied by the standard rate of corporation tax in the UK at 19.00% (2017: 19.33%)*	10,144	(1,215)	8,929	8,594	(1,303)	7,291
<b>Effects of:</b>						
Disallowable items	988	88	1,076	847	–	847
Differing tax rates on overseas earnings	3,029	–	3,029	2,725	–	2,725
Adjustments in respect of prior periods	(1,319)	–	(1,319)	(1,385)	–	(1,385)
Adjustment due to tax rate changes	816	–	816	33	–	33
Tax losses for which deferred tax asset was derecognised	193	–	193	578	–	578
<b>Total tax charge/(credit) for the year</b>	<b>13,851</b>	<b>(1,127)</b>	<b>12,724</b>	<b>11,392</b>	<b>(1,303)</b>	<b>10,089</b>
<b>Effective tax rate</b>	<b>25.9%</b>	<b>17.6%</b>	<b>27.1%</b>	<b>25.6%</b>	<b>19.3%</b>	<b>26.7%</b>

\* The tax rate used for the 2018 reconciliation above is the corporate tax rate of 19.00% (2017: 19.33%) with effect from 1 April 2018.

### (c) Current and deferred tax movement recognised directly in equity

	2018 £'000	2017 £'000
<b>Equity-settled share-based payments</b>	(2)	–
Current tax	(19)	(62)
Deferred tax	<b>(21)</b>	<b>(62)</b>

The Group expects to receive additional tax deductions in respect of share options currently unexercised. Under IFRS, the Group is required to provide for deferred tax on all unexercised share options. Where the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, the excess of the current or deferred tax should be recognised in equity. At 30 November 2018, a deferred tax asset of £0.9 million (2017: £1.0 million) has been recognised in respect of these options (note 18).

## 8. Dividends

	2018 £'000	2017 £'000
<b>Amounts recognised as distributions to equity holders in the year</b>		
Interim dividend of 4.7p (2017: 4.7p) per share <sup>1</sup>	6,041	6,052
Final dividend of 9.3p (2017: 9.3p) per share <sup>2</sup>	11,966	11,942
	<b>18,007</b>	<b>17,994</b>
<b>Amounts proposed as distributions to equity holders</b>		
Interim dividend of 4.7p (2017: 4.7p) per share <sup>3</sup>	6,077	6,038
Final dividend of 9.8p (2017: 9.3p) per share <sup>4</sup>	12,819	12,086

1. 2017 interim dividend of 4.7 pence (2016: 4.7 pence) per share was paid on 8 December 2017 to shareholders on record at 3 November 2017.

2. 2017 final dividend of 9.3 pence (2016: 9.3 pence) per share was paid on 8 June 2018 to shareholders on record at 27 April 2018.

3. 2018 interim dividend of 4.7 pence (2017: 4.7 pence) per share was paid on 7 December 2018 to shareholders on record at 2 November 2018.

4. The Board has proposed a 2018 final dividend of 9.8 pence (2017: 9.3 pence) per share, to be paid on 7 June 2019 to shareholders on record at 26 April 2019. This proposed final dividend is subject to approval by shareholders at the Company's next Annual General Meeting on 24 April 2019, and therefore, has not been included as a liability in these financial statements.

## 9. Earnings per share

The calculation of the basic and diluted earnings per share ('EPS') is set out below:

Basic EPS is calculated by dividing the earnings attributable to owners of the Company by the weighted average number of shares in issue during the year excluding shares held as treasury shares (note 19(a)) and those held in the EBT, which for accounting purposes are treated in the same manner as shares held in the treasury reserve.

For diluted EPS, the weighted average number of shares in issue is adjusted to assume conversion of dilutive potential shares. Potential dilution resulting from tracker shares takes into account profitability of the underlying tracker businesses and SThree plc's earnings per share. Therefore, the dilutive effect on EPS will vary in future periods depending on any changes in these factors.

	2018 £'000	2017 £'000
<b>Earnings</b>		
Profit for the year after tax before exceptional items	39,542	33,066
Exceptional items net of tax	(5,270)	(5,438)
Profit for the year attributable to owners of the Company	34,272	27,628
	million	million
<b>Number of shares</b>		
Weighted average number of shares used for basic EPS	128.7	128.6
Dilutive effect of share plans	4.4	4.0
Diluted weighted average number of shares used for diluted EPS	133.1	132.6
	2018 pence	2017 pence
<b>Basic</b>		
Basic EPS before exceptional items	30.7	25.7
Impact of exceptional items	(4.1)	(4.2)
Basic EPS after exceptional items	26.6	21.5
<b>Diluted</b>		
Diluted EPS before exceptional items	29.7	24.9
Impact of exceptional items	(4.0)	(4.1)
Diluted EPS after exceptional items	25.7	20.8

## 10. Property, plant and equipment

	Computer equipment £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>				
At 1 December 2016	10,528	8,402	4,166	23,096
Additions	541	1,236	597	2,374
Disposals	(901)	(1,456)	(272)	(2,629)
Exchange differences	(45)	(145)	(27)	(217)
At 30 November 2017	10,123	8,037	4,464	22,624
Additions	748	1,855	558	3,161
Disposals	(74)	(11)	(59)	(144)
Exchange differences	122	223	94	439
<b>At 30 November 2018</b>	<b>10,919</b>	<b>10,104</b>	<b>5,057</b>	<b>26,080</b>
<b>Accumulated depreciation</b>				
At 1 December 2016	8,664	4,369	2,963	15,996
Depreciation charge for the year	793	1,271	452	2,516
Disposals	(901)	(1,352)	(266)	(2,519)
Exchange differences	(27)	(79)	(9)	(115)
At 30 November 2017	8,529	4,209	3,140	15,878
Depreciation charge for the year	905	1,421	526	2,852
Accelerated depreciation <sup>1</sup>	–	241	3	244
Disposals	(73)	(7)	(56)	(136)
Exchange differences	105	153	69	327
<b>At 30 November 2018</b>	<b>9,466</b>	<b>6,017</b>	<b>3,682</b>	<b>19,165</b>
<b>Net book value</b>				
<b>At 30 November 2018</b>	<b>1,453</b>	<b>4,087</b>	<b>1,375</b>	<b>6,915</b>
At 30 November 2017	1,594	3,828	1,324	6,746

1. £0.2 million in accelerated depreciation is in relation to one of our London offices, closed following the relocation of support service function. The entire amount has been classified as exceptional item.

A depreciation charge of £2.9 million (2017: £2.5 million) is recognised in administrative expenses.

Disposals included assets with a net book value of £0.01 million (2017: £0.1 million) that were disposed of during the year for £nil (2017: £nil).

The Group has not leased any assets under finance lease obligations.



## 11. Intangible assets

	Goodwill £'000	Computer software £'000	Assets under construction £'000	Internally generated Software and system development costs £'000	Trademarks £'000	Total £'000
<b>Cost</b>						
At 1 December 2016	206,313	9,049	406	35,811	71	251,650
Additions	-	9	3,383	-	-	3,392
Disposals	-	-	-	(68)	-	(68)
Reclassification	-	-	(1,477)	1,477	-	-
At 30 November 2017	206,313	9,058	2,312	37,220	71	254,974
Additions	-	21	2,031	(9)	-	2,043
Disposals	-	-	-	(62)	-	(62)
Reclassification	-	-	(3,024)	3,024	-	-
<b>At 30 November 2018</b>	<b>206,313</b>	<b>9,079</b>	<b>1,319</b>	<b>40,173</b>	<b>71</b>	<b>256,955</b>
<b>Accumulated amortisation and impairment</b>						
At 1 December 2016	205,480	8,424	-	26,079	70	240,053
Amortisation charge for the year	-	318	-	2,909	1	3,228
Accelerated amortisation and impairment charge	-	-	-	309	-	309
Disposals	-	-	-	(2)	-	(2)
At 30 November 2017	205,480	8,742	-	29,295	71	243,588
Amortisation charge for the year	-	231	-	2,818	-	3,049
Accelerated amortisation and impairment charge	-	-	-	709	-	709
Disposals	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
<b>At 30 November 2018</b>	<b>205,480</b>	<b>8,973</b>	<b>-</b>	<b>32,822</b>	<b>71</b>	<b>247,346</b>
<b>Net book value</b>						
<b>At 30 November 2018</b>	<b>833</b>	<b>106</b>	<b>1,319</b>	<b>7,351</b>	<b>-</b>	<b>9,609</b>
At 30 November 2017	833	316	2,312	7,925	-	11,386

Additions to internally generated assets included the development of key operational systems to improve the customer experience and the enhancement of existing assets. Only costs directly attributable to the development and enhancement of these systems were capitalised during the year in accordance with the strict criteria under IAS 38.

An amortisation charge of £3.0 million (2017: £3.2 million) is included in administrative expenses.

Management performed an annual impairment review of all internally generated assets currently in use or still under construction, and determined that the carrying value of certain assets is no longer recoverable and impairment is required. The amount of impairment in the current year is £0.7 million (2017: £0.3 million).

Disclosures required under IAS 36 'Impairment of Assets' for goodwill impairment have not been included on the basis that the goodwill value is not considered material.

## 12. Investments

The Group holds minority shareholdings in a number of innovation start-ups. The following tables provide summarised information on the carrying value of the Group's investments in unlisted technology start-ups.

	Current shareholding	30 November 2018 £'000	30 November 2017 £'000
<b>Equity investments</b>			
HRecTech <sup>1</sup>	0% (2017: 30%)	–	655
Sandpit <sup>2</sup>	7.2% (2017: nil)	802	–
Ryalto	11.3% (2017: 17.8%)	727	727
RoboRecruiter	6.8% (2017: 19.7%)	13	13
		<b>1,542</b>	<b>1,395</b>

1. In the previous year, investment in HRecTech was classified as an associate and was carried at the value of £0.7 million, post the Group's share of losses.
2. On 3 January 2019, The Sandpit Limited, the company in which the Group held a 7.2% shareholding valued at £0.8 million at 30 November 2018, announced a plan to discontinue its operations. As a result, the Group's shareholding will be converted into a minority shareholding in The Sandpit Ventures Limited, which has direct holdings in a portfolio of companies. The conversion will be recognised as an asset swap transacted between the Group and The Sandpit Ventures Limited. The transaction will be accounted for under the new IFRS 9 'Financial Instruments' accounting standard, effective from 1 December 2018 (note 24).

	30 November 2018 £'000	30 November 2017 £'000
<b>Debt investments</b>		
Convertible bonds issued by Ryalto	435	370

All investments have been designated as available for sale financial assets, and since companies are unlisted, the fair value of the investments cannot be readily determined. Accordingly, these investments are initially recognised at cost with subsequent measurement at cost less provision for impairment.

### Group

Analysis of movement in carrying value of the Group's investments in innovation start-ups is set out below.

	HRecTech £'000	Sandpit £'000	Ryalto £'000	Robo Recruiter £'000	Total £'000
At 1 December 2016	–	–	727	–	727
<b>Additions</b>					
30% shareholding	802	–	–	–	802
19.7% shareholding	–	–	–	13	13
Convertible bonds <sup>3</sup>	–	–	370	–	370
Group's share of losses of associate	(147)	–	–	–	(147)
At 30 November 2017	655	–	1,097	13	1,765
<b>Additions</b>					
Interest accrued on convertible bonds	–	–	40	–	40
FX revaluation gain	–	–	26	–	26
Asset swap <sup>4</sup>	(655)	801	–	–	146
<b>At 30 November 2018</b>	<b>–</b>	<b>801</b>	<b>1,163</b>	<b>13</b>	<b>1,977</b>

3. Ten convertible bonds, with a principal amount of \$50,000 each. The bonds carry an interest rate of 10% per annum and mature on 31 December 2019. The conversion rights can be exercised when the bonds mature or, if earlier, after Ryalto successfully completes the Qualifying Fund Raising of \$5.0 million (£3.9 million).
4. Sandpit (conversion of shareholding)  
During the year, the Directors reached an agreement with The Sandpit Limited to convert its shareholding in HRecTech into a minority shareholding in The Sandpit Limited. The conversion was an asset swap transacted between SThree Overseas Holdings Limited (one of SThree Group's subsidiaries) and The Sandpit Limited. Consequently, SThree's share of the associate was derecognised at its carrying amount of £0.7 million and a new minority shareholding in The Sandpit Limited (with no significant influence) was recognised at a fair value of £0.8 million, resulting in a net gain in other income of £0.1 million. The fair value of one share represented a price paid by multiple other investors for identical shares in The Sandpit Limited.

## 12. Investments continued

### Company

	£'000
<b>Cost</b>	
At 1 December 2016	337,165
Additions	
– Settlement of vested tracker shares	3,253
Capital contribution relating to share-based payments (IFRS 2)	2,589
Disposal of investments	(1,196)
At 30 November 2017	341,811
Additions	
– Settlement of vested tracker shares	3,439
– Settlement of unvested tracker shares	241
Capital contribution relating to share-based payments (IFRS 2)	3,486
Disposal of investments	(81)
<b>At 30 November 2018</b>	<b>348,896</b>
<b>Provision for impairment</b>	
At 1 December 2016	46,932
Provision made during the year	88,048
At 30 November 2017	134,980
Provision made during the year	–
<b>At 30 November 2018</b>	<b>134,980</b>
<b>Net carrying value</b>	
<b>At 30 November 2018</b>	<b>213,916</b>
At 30 November 2017	206,831

During the year, the Company settled a number of vested tracker shares by awarding SThree plc shares (note 19(b)), resulting in an increase in the Company's investment in relevant subsidiary businesses.

The Company also acquired certain unvested tracker shares where employees left the business prior to reaching the pre-agreed holding period.

The details of the Group accounting policy for tracker share arrangements are included in note 1.

IFRS 2 requires that any options or awards granted to employees of subsidiary undertakings, without reimbursement by the subsidiary, increase the carrying value of the investment held in the subsidiaries. In 2018, the Company recognised an increase in investments in its subsidiaries of £3.5 million (2017: £2.6 million) relating to such share options and awards.

### Investment impairment

During the year, the Company performed an investment impairment review and no significant indicators of impairment have been identified. In the prior year, the Company recognised an impairment charge of £88.1 million in relation to its investment in SThree UK Holdings Limited. The impairment in the prior year was mainly attributable to our UK trading business, SThree Partnership LLP, controlled by SThree UK Holdings Limited, as its trading performance deteriorated.

In 2017, the impairment charge represented a difference between the recoverable amount and the carrying value of the investment as at the date of assessment. The recoverable amount was calculated as the higher of SThree Partnership LLP's 'fair value less costs of disposal' ('FVLCD') and its 'value in use' ('VIU'). The FVLCD valuation was based on an EBITDA multiple of 6.0.

In the prior year, the SThree Partnership LLP VIU valuation was determined from the calculated pre-tax cash flows forecast to be generated by the UK entity in the next five years and in perpetuity. Cash flows were discounted to present value using a pre-tax weighted average cost of capital ('WACC') of 11.6% and a long-term growth rate of 2.0%. In the current year, a pre-tax WACC of 11.1% has been used.

A full list of the Company's subsidiaries that existed as at 30 November 2018 is provided in note 25.

### 13. Trade and other receivables

	Group		Company	
	30 November 2018 £'000	30 November 2017 £'000	30 November 2018 £'000	30 November 2017 £'000
Trade receivables	198,523	154,308	–	–
Provision for impairment	(2,699)	(1,555)	–	–
Trade receivables – net	195,824	152,753	–	–
Other receivables	3,552	2,889	8,413	1,132
Amounts due from subsidiaries	–	–	9,947	3,891
Prepayments	7,501	5,935	497	165
Accrued income	78,741	64,981	–	–
	<b>285,618</b>	<b>226,558</b>	<b>18,857</b>	<b>5,188</b>

Other receivables include £0.7 million (2017: £0.8 million) for loans given to certain employees in previous years towards their subscription for tracker shares (note 23(d)). Tracker share loans are unsecured and charged interest at a rate of 3% (2017: 3%). No such new tracker share loans were given to employees during the current year.

Accrued income represents the Contract revenue earned but not invoiced at the year end. It is based on the value of the unbilled timesheets from the Contractors for the services provided up to the year end. The corresponding costs are shown within trade payables (where the Contractor has submitted an invoice) and within accruals (in respect of unsubmitted and unapproved timesheets) (note 15).

Trade receivables and cash and cash equivalents are deemed to be current loans and receivables for disclosure under IFRS 7 'Financial Instruments' – Disclosures (note 23). No interest is charged on trade receivables.

Amounts due from subsidiaries are subject to annual interest at a rate of 1.3% (2017: 1.3%) above three month LIBOR of the respective currencies in which balances are denominated.

	30 November 2018 £'000	30 November 2017 £'000
Provision for impairment of trade receivables		
At the beginning of the year	1,555	1,789
Charge for the year	1,512	339
Bad debts written off	(169)	(250)
Reversed as amounts recovered	(237)	(314)
Exchange differences	38	(9)
<b>At the end of the year</b>	<b>2,699</b>	<b>1,555</b>

Other classes within trade and other receivables do not contain impaired assets. The Directors consider that the carrying value of trade and other receivables is approximately equal to their fair values and they are deemed to be current assets.

See note 23 for further information.

### 14. Cash and cash equivalents

	Group		Company	
	30 November 2018 £'000	30 November 2017 £'000	30 November 2018 £'000	30 November 2017 £'000
Cash at bank	50,844	21,338	4,859	6,985
Bank overdraft	(17,521)	(3,717)	–	–
<b>Net cash and cash equivalents per the statements of cash flows</b>	<b>33,323</b>	<b>17,621</b>	<b>4,859</b>	<b>6,985</b>

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair values.

The Group has cash pooling arrangements in place which allow any one account to be overdrawn up to £50 million, so long as the overall pool of accounts does not exceed a net overdrawn position of £5 million.

## 15. Trade and other payables

	Group		Company	
	30 November 2018 £'000	30 November 2017 £'000	30 November 2018 £'000	30 November 2017 £'000
Trade payables	58,060	55,054	–	–
Amounts due to subsidiaries (note 22)	–	–	22,407	17,183
Other taxes and social security	10,761	12,604	657	356
Other payables	15,816	3,439	823	299
Accruals	107,105	88,459	1,231	1,131
	<b>191,742</b>	<b>159,556</b>	<b>25,118</b>	<b>18,969</b>

The fair values of trade and other payables are not materially different from those disclosed above.

Trade and other payables are predominantly interest free.

Amounts due to subsidiaries are subject to annual interest at a rate of 1.3% (2017: 1.3%) above 3 month LIBOR of the respective currencies in which balances are denominated.

Accruals include amounts payable to Contractors in respect of unsubmitted and unapproved timesheets (note 13).

## 16. Borrowings

The Group has access to a committed RCF of £50 million along with an uncommitted £20 million accordion facility in place with HSBC and Citibank, giving the Group an option to increase its total borrowings under the facility to £70 million. The funds borrowed under the facility bear interest at a minimum annual rate of 1.3% (2017: 1.3%) above the appropriate Sterling LIBOR. The average interest rate paid on the RCF during the year was 1.8% (2017: 1.5%). The Group also has an uncommitted £5 million overdraft facility with NatWest and a £5 million overdraft facility with HSBC.

At the year end, the Group and the Company had drawn down £37.4 million (2017: £12 million) on these facilities.

The RCF is subject to certain covenants requiring the Group to maintain financial ratios over interest cover, leverage and guarantor cover (note 23(c)). The Group has been in compliance with these covenants throughout the year.

In May 2018, the Directors successfully renegotiated the RCF with its key terms and conditions (including the total amount available under the facility and interest margin) remaining unchanged and the term of the facility having been extended until 2023. Since there was no substantial modification to the underlying terms and conditions, the refinancing of the existing facility did not qualify for derecognition, hence no modification gain or loss was recognised in the Consolidated Income Statement.

The Group's exposure to interest rates, liquidity, foreign currency and capital management risks is disclosed in note 23.

Analysis of movements in borrowings is set out below.

	£'000
At 1 December 2017	12,000
Net drawings during the year	25,967
Changes to carrying amount due to RCF refinancing <sup>1</sup>	(539)
<b>At 30 November 2018</b>	<b>37,428</b>

1. £0.5 million represents the unamortised amount of transaction costs including those incurred on renegotiating the facility.

## 17. Provisions for liabilities and charges

Group	Dilapidations £'000	Restructuring £'000	Tracker share liability £'000	Legal £'000	Onerous contract £'000	Total £'000
At 1 December 2016	1,784	104	3,192	780	–	5,860
Reclassified from accruals	–	–	–	794	–	794
Charged/(released) to the income statement	32	6,740	(167)	1,636	–	8,241
Utilised during the year	(355)	(78)	(352)	(3)	–	(788)
New tracker share consideration	–	–	417	–	–	417
At 30 November 2017	1,461	6,766	3,090	3,207	–	14,524
Charged/(released) to the income statement	349	802	(168)	1,302	228	2,513
Utilised during the year	(69)	(6,060)	(263)	(201)	–	(6,593)
New tracker share consideration	–	–	647	–	–	647
Revaluation	21	–	–	71	–	92
<b>At 30 November 2018</b>	<b>1,762</b>	<b>1,508</b>	<b>3,306</b>	<b>4,379</b>	<b>228</b>	<b>11,183</b>

	30 November 2018 £'000	30 November 2017 £'000
Analysis of total provisions		
Current	9,614	12,352
Non-current	1,569	2,172
	<b>11,183</b>	<b>14,524</b>

Provisions are not discounted as the Directors believe that the effect of the time value of money is immaterial. The provisions are measured at cost which approximates to the present value of the expenditure required to settle the obligation.

### Dilapidations

The Group is obliged to pay for dilapidations at the end of its tenancy of various properties. Provision has been made based on independent professional estimates of the likely costs on vacating properties based on the current conditions of the properties. The provision has been spread over the relevant lease term.

### Restructuring

The provision relates to restructuring exercises undertaken by the Group, including the following:

- a) Relocation and restructuring of central support functions from London to Glasgow (see note 3): £1.1 million (2017: £5.6 million).
- b) Restructure of our Hong Kong office: £0.01 million (2017: £0.4 million).
- c) Management restructuring: £0.3 million (2017: £0.7 million).

The provisions have been made primarily to cover future redundancy payments.

The liability in regards to dilapidation and restructuring provisions is expected to crystallise as follows:

	30 November 2018 £'000	30 November 2017 £'000
Within one year	1,701	6,055
One to five years	726	1,344
After five years	843	828
	<b>3,270</b>	<b>8,227</b>

### Tracker share liability

The provision relates to an obligation to repay amounts received or receivable in relation to subscriptions for tracker shares awarded to senior individuals under the terms of the tracker share arrangements (note 1). The timing of economic outflow is subject to the factors governing each tracker share and is considered to be within one year.

During the year £0.3 million (2017: £0.4 million) of the provision was utilised, principally in relation to settled tracker shares. New consideration of £0.6 million (2017: £0.4 million) represents subscriptions received against the allotment of new tracker share awards in the year.

### Legal

The provision relates to various ongoing legal and other disputes including employee litigation, compliance with employment laws and regulations, and open enquiries with tax and pension authorities. The provision relates to separate claims in a number of different geographic regions and represents our most probable estimate of the likely outcome of each of the disputes. The timing of economic outflow is subject to the factors governing each case.

### Onerous contract

The provision relates to a property lease in New York which was vacated by the Group during the year, and is currently sublet to a third party. The lease is due to expire in 2019.



## 18. Deferred tax

Group	Accelerated tax depreciation £'000	Share-based payments £'000	Tax losses £'000	Provisions £'000	Total £'000
At 1 December 2016	(453)	615	855	1,484	2,501
Credit/(charge) to income statement for the year	309	374	(190)	640	1,133
Prior year credit to income statement for the year	42	-	270	315	627
Adjustment due to tax rate changes	8	(5)	(6)	(30)	(33)
Credit directly to equity	-	62	-	-	62
Exchange differences	20	(19)	14	(106)	(91)
<b>At 30 November 2017</b>	<b>(74)</b>	<b>1,027</b>	<b>943</b>	<b>2,303</b>	<b>4,199</b>
Credit/(charge) to income statement for the year	212	(50)	(229)	(1,425)	(1,492)
Prior year (charge)/credit to income statement for the year	(169)	1	(524)	1,470	778
Adjustment due to tax rate changes	52	(87)	(21)	(760)	(816)
Charge directly to equity	-	(19)	-	-	(19)
Exchange differences	1	10	5	84	100
<b>At 30 November 2018</b>	<b>22</b>	<b>882</b>	<b>174</b>	<b>1,672</b>	<b>2,750</b>

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is an analysis of the deferred tax balances for financial reporting purposes:

	30 November 2018 £'000	30 November 2017 £'000
Deferred tax assets	3,596	4,460
Deferred tax liabilities	(846)	(261)
<b>Net deferred tax assets</b>	<b>2,750</b>	<b>4,199</b>

Deferred tax assets that are expected to be recovered within one year are £2.6 million (2017: £2.9 million) and deferred tax liabilities that are expected to be settled within one year are £13,000 (2017: £26,000).

Deferred tax assets are recognised for carry-forward tax losses to the extent that the realisation of the related tax benefit through future taxable profits from the respective jurisdictions is probable. In assessing whether to recognise deferred tax assets, the Group has considered both current and the forecast trading performance in these territories and the expectations regarding the levels of profitability that can be achieved.

At the reporting date, the Group has unused tax losses of £29.6 million (2017: £28.8 million) available for offset against future profits. A deferred tax asset of £0.2 million (2017: £0.9 million) was recognised in respect of losses of £0.7 million (2017: £2.9 million). No deferred tax asset was recognised in respect of the remaining £28.9 million (2017: £25.9 million) losses.

Included in unrecognised tax losses are losses of £3.5 million (2017: £4.6 million) subject to expiry. Of this amount, £2.8 million expires over the course of the next five years and the balance of £0.7 million up to 2036. A regional summary of our loss profile is shown below.

	Operating losses recognised 2018 £'000	Operating losses not recognised 2018 £'000	Total £'000
Europe	680	13,461	14,141
Asia Pacific	-	14,776	14,776
Rest of World	7	737	744
	687	28,974	29,661

The reduction in the deferred tax asset of £0.8 million arising from changes in tax rates is primarily driven by the reduction in US taxes. This occurred due to US Tax Reform legislation passed on 20 December 2017, which saw the federal rate reduce from 35% to 21%.

### Uncertain tax positions

Several jurisdictions have now implemented domestic legislation in line with the OECD Base Erosion and Profit Shifting (BEPS) recommendations which result in increased transparency, reporting requirements and information sharing amongst tax authorities. As such, the Group considers that transfer pricing risks have increased and a provision for uncertain tax positions of £0.7 million has been recognised during the year.

## 18. Deferred tax continued

### Company

The Company's deferred tax asset relates in full to the equity-settled share-based payments.

	£'000
At 1 December 2016	229
Credited to income statement for the year	56
Credited directly to equity	13
At 30 November 2017	298
Credited to income statement for the year	8
Charged directly to equity	(11)
<b>At 30 November 2018</b>	<b>295</b>

## 19. Share capital

### Group and Company

#### (a) Share capital

	Number of ordinary shares	Share capital £'000	Capital redemption reserve £'000	Treasury reserve £'000
Issued and fully paid				
At 1 December 2016	129,058,903	1,312	168	(6,443)
Issue of new shares	473,334	5	–	–
Repurchase of own shares	(1,478,788)	–	–	(7,797)
Utilisation of treasury shares	1,899,032	–	–	5,705
At 30 November 2017	129,952,481	1,317	168	(8,535)
Issue of new shares	546,525	6	–	–
Cancellation of share capital	(411,354)	(4)	4	–
Repurchase of shares by Employee Benefit Trust	–	–	–	(1,484)
Utilisation of treasury shares	721,502	–	–	2,189
<b>At 30 November 2018</b>	<b>130,809,154</b>	<b>1,319</b>	<b>172</b>	<b>(7,830)</b>

### Share capital

The nominal value per ordinary share is £0.01 (2017: £0.01).

During the year 546,525 (2017: 473,334) new ordinary shares were issued, resulting in a share premium of £1,705,000 (2017: £1,400,000). Of the shares issued, 398,298 (2017: 394,988) were issued to tracker shareholders on settlement of vested tracker shares, with the remaining issued pursuant to the exercise of share awards under the Save As You Earn ('SAYE') scheme.

### Capital redemption reserve

The Company, when cancelling its ordinary shares, transfers amounts equivalent to the nominal value of the cancelled shares into the capital redemption reserve so as to maintain the level of non-distributable reserves in shareholders' equity. During the year, 411,354 (2017: nil) SThree Plc's shares were cancelled.

### Treasury reserve

Treasury shares represent SThree plc shares repurchased and available for specific and limited purposes.

During the year, SThree plc treasury purchased none of its own shares to be held as treasury shares (2017: 1,478,788). The average price paid per share was nil pence (2017: 312 pence) with a total consideration amounting to £nil (2017: £4,618,000). During the year, no shares (2017: 1,000,000) were utilised from treasury on settlement of Long Term Incentive Plan ('LTIP') awards. 21,302 (2017: nil) shares were utilised on settlement of SAYE and Share Incentive Plan ('SIP') awards. 700,200 (2017: 899,032) shares were utilised on settlement of vested tracker shares. At the year end, 1,045,334 (2017: 1,766,836) shares were held in treasury.

### Employee Benefit Trust

The Group holds shares in the Employee Benefit Trust ('EBT'). The EBT is funded entirely by the Company and acquires shares in SThree Plc to satisfy future requirements of the employee share-based payment schemes.

For accounting purposes shares held in the EBT are treated in the same manner as shares held in the treasury reserve by SThree plc and are, therefore, included in the financial statements as part of the treasury reserve for the Group.

At the year end, the EBT held 1,355,091 (2017: 1,644,589) shares. During the year, the EBT purchased 430,000 (2017: 923,000) of SThree plc shares. The average price paid per share was 345 pence (2017: 344 pence). The total acquisition cost of these shares was £1,484,000 (2017: £3,179,000), for which the treasury reserve was reduced.

## 19. Share capital continued

### (b) Share-based payments

#### Tracker share awards in subsidiary companies

As described in note 1, the Group makes tracker share awards in respect of certain subsidiary businesses to senior individuals who participate in the development of those businesses.

During the year, the Group settled certain vested tracker shares for a total consideration of £3.7 million (2017: £3.3 million) by issue of new shares or using treasury shares purchased from the market. This resulted in a credit to share capital and share premium for new issue, and credit to capital reserves for treasury shares, with a corresponding debit to the Group's retained earnings and provision for tracker share liability.

The Group also issued new tracker share awards during the year for subscription value of £644,000 (2017: £417,000), of this £nil remained unpaid at the year end (2017: £152,000).

#### LTIP, SAYE and other share schemes

The Group has a number of share schemes to incentivise its Directors and employees. All schemes are treated as equity-settled (except SIP) as the Group has no legal or constructive obligation to repurchase or settle the options in cash. The schemes are detailed below.

Scheme	30 November 2018		30 November 2017		Vesting period	Expiry date	Valuation method	Performance metrics
	Charge (£'000)	Number of share options	Charge (£'000)	Number of share options				
LTIP	4,455	5,877,073	3,010	5,725,469	3 years	10 years	Monte carlo model	Incremental EPS growth/ TSR ranking against comparator group
SAYE	242	966,583	246	1,187,298	3 years	6 months after 3 year vesting period	Binomial	None
<b>Sub-total</b>	<b>4,697</b>	<b>6,843,656</b>	<b>3,256</b>	<b>6,912,767</b>				
SIP	7	N/A	55	N/A	1 year	N/A	N/A	None
<b>Total</b>	<b>4,704</b>	<b>6,843,656</b>	<b>3,311</b>	<b>6,912,767</b>				

#### LTIP

The conditions of the LTIP are provided in the Directors' Remuneration Report.

	Number of options
At 1 December 2017	5,725,469
Granted	2,265,550
Exercised	(571,793)
Forfeited	(1,542,153)
<b>At 30 November 2018</b>	<b>5,877,073</b>

Out of the 5,877,073 options outstanding (2017: 5,725,469), 566,124 options were exercisable (2017: 666,912). Options exercised during the year under the LTIP were satisfied by shares held in the EBT. The related weighted average share price at the time of exercise was £3.57 (2017: £3.21) per share. The related transaction costs were negligible. The share options had a weighted average exercise price of £nil (2017: £nil).

The 2018 share options granted in 2018 under the Group LTIP scheme were valued as follows:

	2018	2017
Weighted average fair value (£)	3.21	2.86
Key assumptions used:		
Share price at grant date (£)	3.57	3.12
Expected volatility*	29.9%	30.7%
Annual risk-free interest rate	0.85%	0.14%
Expected life (years)	3	3

\* Expected volatility is determined by using the historic daily volatility of SThree plc's shares as measured over a period commensurate with the expected life of the share options, i.e. three years.

#### Other schemes

The SAYE and SIP arrangements are not deemed material for further disclosure.

## 20. Contingencies

### State Aid

In October 2017, the European Commission opened a state aid investigation into the Group Financing Exemption in controlled foreign company rules, introduced by the UK Government in 2013. The Group has historically relied on this exemption in certain jurisdictions and we are therefore monitoring the investigation. If the preliminary findings of the European Commission are upheld, we calculate our maximum potential liability to be £3.2 million. Our current assessment is that no provision is required in respect of this issue.

### Legal

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. Legal advice obtained indicates that it is unlikely that any significant liability will arise.

The Directors are of the view that no material losses will arise in respect of legal claims that have not been provided against at the date of these financial statements.

## 21. Commitments

### Operating leases

The Group leases various office properties under non-cancellable operating lease arrangements. The lease terms are between one to ten years, and the majority of the lease arrangements are renewable at the end of the lease period at market rate.

The Group also leases motor vehicles and printers under non-cancellable operating leases which are included in the 'other' category below. The lease term is typically three years for motor vehicles and four years for printers.

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

	Land and Buildings		Other	
	30 November 2018 £'000	30 November 2017 £'000	30 November 2018 £'000	30 November 2017 £'000
Within one year	13,891	12,963	1,128	1,321
One to five years	37,196	39,297	861	1,432
After five years	10,809	13,910	–	–
	<b>61,896</b>	<b>66,170</b>	<b>1,989</b>	<b>2,753</b>

### Capital commitments

At the end of the reporting year, the Group contracted capital expenditure but not yet incurred of £0.1 million (2017: £0.4 million).

### Guarantees

At the end of the reporting year, the Group/SThree plc has bank guarantees in issue for commitments which amounted to £3.1 million (2017: £3.6 million).

## 22. Related party transactions

### Group

Balances and transactions with subsidiaries have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its Directors and members of the Executive Committee who are deemed to be key management personnel, are disclosed below.

### Remuneration of key management personnel ('KMP')

The Group's KMP comprises members of the Executive Committee, other members of the Board of Directors and key managers who are deemed to influence the day-to-day activities. Details of Directors' remuneration, as determined by the SThree plc Remuneration Committee in accordance with its stated policy, are given in the Directors' Remuneration Report.

Total number of KMPs for the year was 19 (2017: 21). Total remuneration for members of KMP is detailed below:

	2018 £'000	2017 £'000
Short-term employee benefits	5,719	7,950
Share-based payments	2,611	2,169
Post-employment benefits	308	324
Termination benefits	476	891
	<b>9,114</b>	<b>11,334</b>

During the year, there were no related party transactions between the Group and HRecTech.

## 22. Related party transactions continued

### Company

The Company has related party relationships with its subsidiaries, with members of its Board and key managers. The Directors' remuneration which they receive from the Company is disclosed in the Directors' Remuneration Report. The Company did not have any transactions with the Directors during the financial year other than those disclosed in the Directors' Remuneration Report and below. Details of transactions between the Company and other related parties are disclosed below.

Transactions with the related parties during the year	2018 £'000	2017 £'000
Investments in subsidiaries (note 12)	(7,085)	(4,646)
Impairment of investments in subsidiaries (note 12)	(20)	(88,048)
Loans and advances received from subsidiaries	5,224	7,044
Loans and advances given to subsidiaries	6,056	3,891
Loans repaid by Directors	1	1
Loans repaid by other KMP	65	18
Interest income received from subsidiaries	77	16
Interest paid by subsidiaries	(133)	(202)
Dividend income received from subsidiaries	-	22,544

No purchase or sales transactions were entered into between the Company and its subsidiaries.

Year end balances arising from transactions with related parties	30 November 2018 £'000	30 November 2017 £'000
Investments in subsidiaries	213,916	206,831
Amounts due to subsidiaries	(22,407)	(17,183)
Amounts receivable from subsidiaries - net	9,947	3,891
Amounts receivable from Directors	187	188
Amounts receivable from other KMP	173	238

## 23. Financial instruments and financial risk management

### Financial risk factors

The Group reports in Sterling and pays dividends out of Sterling profits. The role of the Group's corporate treasury function is to manage and monitor external and internal funding requirements and financial risks in support of corporate objectives. Treasury activities are governed by policies and procedures approved by the Board. A treasury management committee, chaired by the Chief Financial Officer, meets on a monthly basis to review treasury activities and its members receive management information relating to treasury activities. The Group's internal auditors periodically review the treasury internal control environment and compliance with policies and procedures.

Each year, the Board reviews the Group's currency hedging strategy to ensure it is appropriate. The Group does not hold or issue derivative financial instruments for speculative purposes and its treasury policies specifically prohibit such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

Group treasury enters into a limited amount of derivative transactions, principally currency swaps and forward currency contracts, with the purpose of managing the currency risks arising from operations and financing of subsidiaries. At the year end, the Group had net foreign exchange swaps of: AED 8.4 million, AUD (1.7 million), CAD (0.2 million), CHF 2.1 million, EUR (9.5 million), HKD (7.3 million), JPY 48.8 million, SGD (0.4 million) and USD 8.4 million, being an overall equivalent of £39.9 million (2017: overall equivalent of £0.3 million). The contracts were mainly taken out close to the year end date for a period of 28 to 31 days (2017: 3 to 31 days) and they had net fair value of circa £(47,900) (2017: £(5,768)) at the year end.

The Group is exposed to a number of different financial risks including capital management, foreign currency rates, liquidity, credit and interest rates risks, which were not materially changed from the previous year. The Group's objective and strategy in responding to these risks are set out below and did not change materially from the previous year.

## 23. Financial instruments and financial risk management continued

### (a) Capital risk management

The Group's objectives when managing capital are to safeguard the Group and its subsidiaries' ability to continue as going concerns in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, delay or reduce the settlement of vested tracker shares, sell assets to reduce debt, return capital to shareholders or issue new shares, subject to applicable rules. The Group's policy is to settle the vested tracker shares in the Company's shares. During the year, the vested tracker shares were settled by issue of new shares or using treasury shares purchased from the market (note 19(a)).

The capital structure of the Group consists of equity attributable to owners of the parent of £101.7 million (2017: £80.7 million), comprising share capital, share premium, other reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity and net cash of £33.3 million (2017: £17.6 million), comprising cash and cash equivalents (note 14).

Except for compliance with certain bank covenants (note 23(c)), the Group is not subject to any externally imposed capital requirements.

### (b) Foreign currency risk management

The Group uses Sterling as its presentation currency. It undertakes transactions in a number of foreign currencies. Consequently, exposures to exchange rate fluctuations do arise. Such exchange rate movements affect the Group's transactional revenues, cost of sales, the translation of earnings and the net assets/liabilities of its overseas operations.

The Group is also exposed to foreign currency risks from the value of net investments outside the United Kingdom. The intercompany loans which are treated as net investments in foreign operations are not planned to be settled in the foreseeable future as they are deemed to be a part of the investment. Therefore, exchange differences arising from the translation of the net investment loans are taken into equity.

The Group's businesses generally raise invoices and incur expenses in their local currencies. Local currency cash generated is remitted via intercompany transfers to the United Kingdom. The Group generally converts foreign currency balances into Sterling to manage its cash flows.

### Foreign currency sensitivity analysis

The Group is mainly exposed to the Euro and US Dollar. If the Euro or US Dollar strengthened against Sterling by a movement of 10%, the anticipated impact on the Group's results in terms of translational exposure would be an increase in profit before taxation of £6.4 million and £2.0 million (2017: £4.7 million and £1.7 million) respectively, with a similar decrease if the Euro or US Dollar weakened against Sterling by 10%.

### (c) Liquidity risk management

The Group's treasury function centrally co-ordinates relationships with banks, manages borrowing requirements, foreign exchange needs and cash management. The Group has access to a committed RCF of £50 million along with an uncommitted £20 million accordion facility in place with HSBC and Citibank, giving the Group an option to increase its total borrowings under the facility to £70 million. The Group also has an uncommitted £5 million overdraft facility with NatWest and a £5 million overdraft facility with HSBC.

At the year end, £37.4 million (2017: £12 million) was drawn down on these facilities.

In May 2018, the Directors successfully renegotiated the RCF with its key terms and conditions (including the total amount available under the facility and interest margin) remaining unchanged and the term of the facility having been extended until 2023. Since there was no substantial modification to the underlying terms and conditions, the refinancing of the existing facility did not qualify for derecognition, hence no modification gain/loss was recognised in the Consolidated Income Statement.

The RCF is subject to certain covenants requiring the Group to maintain financial ratios over interest cover, leverage and guarantor cover. The Group has been in compliance with these covenants throughout the year.

- (i) Interest Cover: interest cover shall not be less than the ratio of 4:1 at any time;
- (ii) Leverage: the ratio of total net debt on the last day of a period to the adjusted EBITDA in respect of that period shall not exceed the ratio of 3:1; and
- (iii) Guarantor Cover: the aggregate adjusted EBITDA and gross assets of all the Guarantor subsidiaries must at all times represent at least 85% of the adjusted EBITDA and gross assets of the Group as a whole.

The table below shows the maturity profile of the financial liabilities which are held at amortised cost based on the contractual amounts payable on the date of repayment:

	Trade and other payables	
	Group £'000	Company £'000
<b>At 30 November 2018</b>		
Within one year	180,981	24,461
<b>At 30 November 2017</b>		
Within one year	146,952	18,613



## 23. Financial instruments and financial risk management continued

### (d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

In the normal course of business, the Group participates in cash pooling arrangements with its counterparty bank. The maximum exposure to a single banking group for deposits and funds held on account at the year end was £11.2 million (2017: £9.3 million). The Group will not accept any counterparty bank for its deposits unless it has been awarded a minimum recognised credit rating of A3/Prime-2 (Moody's). Some local banks in emerging markets may have lower ratings but the funds at risk will be small. The Group will permit exposures with individual counterparty banks and exposure types up to pre-defined limits as part of the Group treasury policy. Exposure to all transaction limits are monitored daily.

The Group mitigates its credit risk from available for sale financial investments by keeping the value of the investments very low and periodically reviewing the financial performance of the relevant undertakings.

The Group mitigates its credit risk from trade receivables by using a credit rating agency to assess new clients and payment history to consider further credit extensions to existing clients. In addition, the spread of the client base (circa 9,000 clients) helps to mitigate the risk of individual client failure having a material impact on the Group.

Trade receivables of the Group are analysed in the Table in note 23(d). With respect to the trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The Group does not typically renegotiate the terms of trade receivables, hence the outstanding balance is included in the analysis based on the original payment terms. There were no significant renegotiated balances outstanding at the year end.

Trade receivables of £148.9 million (2017: £124.7 million) were neither past due nor impaired.

At 30 November 2018, trade receivables of £40.7 million (2017: £26.3 million) were past due but not impaired. These pertain to a number of unrelated customers for whom there is no recent history of default. Trade receivables of £8.9 million (2017: £3.4 million) were impaired, against which a provision of £2.7 million (2017: £1.6 million) was recorded.

	30 November 2018 £'000	30 November 2017 £'000
Trade receivables		
Neither impaired nor past due	148,947	124,654
Ageing of past due but not impaired		
under 30 days	27,089	19,070
31 to 60 days	8,869	5,271
61 to 90 days	4,698	1,930
Ageing of impaired		
under 90 days	17	593
over 90 days	8,903	2,790
Provision for impairment	(2,699)	(1,555)
<b>Total</b>	<b>195,824</b>	<b>152,753</b>

The majority of the accrued income balance is less than 60 days old and nothing is over 90 days past due.

The Group's credit risk from loans given to certain tracker shareholders (note 13) is mitigated by the fact that the loans are spread over a number of individuals (2018: 16 individuals; 2017: 22 individuals) and none of the individuals hold loans of material amounts. Exposure to loans from individuals is regularly monitored and the individuals are asked to settle all or a portion of their outstanding balances when their first tracker share is settled, when they receive dividends or if they leave the business.

### (e) Interest rate risk management

The Group is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments, principally financial liabilities. The Group finances its operations through a mixture of retained profit and the revolving credit facility.

The Group does not hedge the exposure to variations in interest rates.

Taking into consideration all variable rate borrowings and bank balances at 30 November 2018, if the interest rate payable or receivable moved by 100 basis points in either direction, the effect to the Group would be minimal. 100 basis points was used on the assumption that applicable interest rates are not likely to move by more than this basis given the pattern of interest rate movements in recent years.

## 23. Financial instruments and financial risk management continued

### (f) Interest rate profile of financial assets/(liabilities)

At the reporting date, the Group and the Company did not have any significant financial liabilities exposed to interest rate risk except for the revolving credit facility (note 16). The only financial assets which accrued interest were cash and cash equivalents (note 14) with maturity of less than a year and were subject to floating interest income.

As part of the presentation of market risks, IFRS 7 requires disclosure on how hypothetical changes in risk variables affect the price of financial instruments. Important risk variables are stock exchange prices or indices. At 30 November 2018, the Group and the Company do not hold any investments to be classified as available for sale or as held for trading that are measured at fair value. Three investments in unlisted entities, Sandpit, Ryalto and RoboRecruiter, (note 12) are held at cost less any impairment. Therefore there are no financial instruments which would be materially impacted by risk variables affecting the price of financial instruments.

### (g) Currency profile of net cash and cash equivalents (including bank overdrafts)

Functional currency of Group operations:

At 30 November 2018	Net cash and cash equivalents				
	Sterling £'000	Euro £'000	US Dollar £'000	Other currencies £'000	Total £'000
<b>Functional currency</b>					
Sterling	1,213	14,710	1,054	2,889	19,866
Euro	928	3,943	708	–	5,579
US Dollar	–	–	1,012	–	1,012
Other	50	–	1,158	5,658	6,866
<b>Total</b>	<b>2,191</b>	<b>18,653</b>	<b>3,932</b>	<b>8,547</b>	<b>33,323</b>
At 30 November 2017	£'000	£'000	£'000	£'000	£'000
<b>Functional currency</b>					
Sterling	15,190	(18,417)	2,993	8,656	8,422
Euro	1,358	2,231	199	–	3,788
US Dollar	–	–	2,762	–	2,762
Other	36	–	827	1,786	2,649
<b>Total</b>	<b>16,584</b>	<b>(16,186)</b>	<b>6,781</b>	<b>10,442</b>	<b>17,621</b>

Other foreign currencies held by the Group include: Australian Dollar, Bahrain Dinar, Canadian Dollar, Chinese Renminbi, Hong Kong Dollar, Indian Rupee, Japanese Yen, Kuwait Dinar, Malaysian Ringgit, Singapore Dollar, Saudi Arabia Riyal, Swiss Franc and United Arab Emirates Dirham.

The Company does not have a material exposure to other currencies.

### (h) Fair values of financial assets and liabilities

The carrying amount of the Group financial assets and financial liabilities approximates their fair value.

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale, and excludes accrued interest.

Where available, market values have been used to determine fair values. Where market values are not available, the investments are held at the initial cost less accumulated impairment or at fair value that has been calculated by discounting expected cash flows at prevailing interest rates and by applying year end exchange rates. A summary of the assumptions used for each category of financial instrument is set out below.

### Summary of methods and assumptions

Short-term deposits and borrowings	Approximates to the carrying amount because of the short maturity of these instruments.
Cash and cash equivalents	Approximates to the carrying amount.
Receivables and payables	Approximates to the carrying amount for current balances; there are no material longer-term balances.
Financial instruments	Original cost or market valuation at the end of the reporting year.

## 24. Events after the reporting date

On 3 January 2019, The Sandpit Limited, the company in which the Group held a 7.2% shareholding valued at £0.8 million at 30 November 2018, announced a plan to discontinue its operations.

As a result, the Group's shareholding will be converted into a minority shareholding in The Sandpit Ventures Limited, which has direct holdings in portfolio of companies. The conversion will be recognised as an asset swap transacted between the Group and The Sandpit Ventures Limited. The transaction will be accounted for under the new IFRS 9 'Financial Instruments' accounting standard, effective from 1 December 2018.

## 25. List of subsidiaries

Full list of STthree plc's subsidiaries at 30 November 2018 and the Group percentage of ordinary share capital is as follows:

Name of undertaking	%	Country of incorporation	Principal activities	Registered office
STthree Australia Pty Limited	100	Australia	Recruitment	Level 9, 1 Market Street, Sydney, NSW 2000, Australia
STthree Austria GmbH	100	Austria	Recruitment	Mooslackengasse 17, 1190, Vienna, Austria
Computer Futures Solutions NV	100	Belgium	Recruitment	Kreupelenstraat 9, 5de en 6de verdieping, B-1000 Brussel, Belgium
Huxley Associates Belgium NV	100	Belgium	Recruitment	Kreupelenstraat 9, 5de en 6de verdieping, B-1000 Brussel, Belgium
STthree Services NV	100	Belgium	Recruitment	Kreupelenstraat 9, 5de en 6de verdieping, B-1000 Brussel, Belgium
STthree Belgium NV	100	Belgium	Recruitment	Kreupelenstraat 9, 5de en 6de verdieping, B-1000 Brussel, Belgium
STthree Canada Limited	100	Canada	Recruitment	Sun Life Plaza West Tower, 144-4 Avenue SW, Suite 1600, Calgary AB T2P 3N4, Canada
STthree SAS	100	France	Recruitment	20 Avenue André Prothin, La defense 4 - Europlaza 92400 Courbevoie, Paris, France
STthree Holdings GmbH	100	Germany	Holding company	Goetheplatz 5-11, 60313, Frankfurt am Main, Germany
STthree GmbH	100	Germany	Recruitment	Goetheplatz 5-11, 60313, Frankfurt am Main, Germany
STthree Temp Experts GmbH	100	Germany	Recruitment	Goetheplatz 5-11, 60313, Frankfurt am Main, Germany
STthree Limited	100	Hong Kong	Recruitment	10th Floor, MassMutual Tower, 33 Lockhart Road, Wan Chai, Hong Kong
STthree India Private Limited	100	India	Under liquidation	511 The Corporate Centre, Irmal Lifestyle Mall, LBS Road, Mulund (West), Mumbai, Maharashtra-MH. 400080, India
STthree Staffing Ireland Limited	100	Ireland	Recruitment	3rd Floor, 80, Harcourt Street, Dublin, Ireland
STthree Ireland Dollar Limited	100	Ireland	Holding company	3rd Floor, 80, Harcourt Street, Dublin, Ireland
STthree K.K.	100	Japan	Recruitment	Ginza Wall Building, 13-16 Ginza 6-Chome, Chuo-ku, Tokyo, Japan
STthree Finance Euro S.à r.l.	100	Luxembourg	Holding company	5th Floor, 2 rue de Fosse, L-1536, Luxembourg
STthree Dollar S.à r.l.	100	Luxembourg	Holding company	5th Floor, 2 rue de Fosse, L-1536, Luxembourg
STthree S.à r.l.	100	Luxembourg	Recruitment	5th Floor, 2 rue de Fosse, L-1536, Luxembourg
Progressive Global Energy Sdn. Bhd.	49	Malaysia	Recruitment	10th Floor, Menara Hap Seng, No 1&3 Jalan P Ramlee, 50250 Kuala Lumpur, Malaysia
STthree Holdings BV	100	Netherlands	Recruitment	Gustav Mahlerlaan 38, Gebouw Som 1, 1082MC, Amsterdam, Netherlands
Huxley BV	100	Netherlands	Recruitment	De 5 Keizers, Keizersgracht 281, 5th floor. 1016 ED Amsterdam, Netherlands
STthree Interim Services BV	100	Netherlands	Recruitment	Gustav Mahlerlaan 38, Gebouw Som 1, 1082MC, Amsterdam, Netherlands
STthree LLC	-	Russia	Liquidated	Floor 8, Building 1, 16A, Leningradskoe Shosse, 125171, Moscow, Russia
STthree Pte. Ltd.	100	Singapore	Recruitment	#09-02, 18 Cross Street, China Square Central, Singapore, 48423, Singapore
STthree Business Services Ibérica, S.L.	100	Spain	Recruitment	WeWork, Glories, Carrer Tànger 86, 08018 Barcelona, Spain

**25. List of subsidiaries** continued

Name of undertaking	%	Country of incorporation	Principal activities	Registered office
SThree Switzerland GmbH	100	Switzerland	Recruitment	3rd Floor, Claridenstrasse 34, 8002 Zürich, Switzerland
SThree Holdings (Thailand) Company Limited	–	Thailand	Liquidated	Zen World Building, 12th Floor, No. 4, 4/5, Rajadamri Road, Patumwan Sub-District, Patumwan District, Bangkok, 10330, Thailand
Progressive Global Energy Manpower Limited	–	Thailand	Liquidated	Zen World Building, 12th Floor, No. 4, 4/5, Rajadamri Road, Patumwan Sub-District, Patumwan District, Bangkok, 10330, Thailand
Cavendish Directors Limited*	100	UK	Dormant	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
SThree UK Holdings Limited*	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
SThree Overseas Holdings Limited*	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
SThree UK Management Limited*	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
SThree Overseas Management Limited*	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
SThree UK Operations Limited*	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
SThree Consultancy Services Limited*	100	UK	Support services	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
SThree IP Limited*	100	UK	Support services	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
SThree Management Services Limited*	100	UK	Management services	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
SThree Partnership LLP	100	UK	Recruitment	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
Huxley Associates Global Limited	100	UK	Recruitment	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
Progressive Global Energy Limited	100	UK	Recruitment	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
Progressive Global Energy Kurdistan Limited	100	UK	Dormant	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
Progressive GE Limited	100	UK	Dormant	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
Huxley Associates Limited	–	UK	Liquidated	Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom
Huxley Associates Banking & Finance Limited	–	UK	Liquidated	Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom
Orgtel Contract Limited	–	UK	Liquidated	Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom
Orgtel Limited	–	UK	Liquidated	Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom
SThree Staffing UK Limited	–	UK	Liquidated	Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom
SThree Staffing France Limited	–	UK	Liquidated	Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom
HireFirst Limited	100	UK	Recruitment Technology	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
Talent Deck Limited	100	UK	Recruitment Technology	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
Showcaser Limited	100	UK	Recruitment Technology	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom
SThree Ventures Limited	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom

## 25. List of subsidiaries continued

Name of undertaking	%	Country of incorporation	Principal activities	Registered office
Specialist Staffing Holdings Inc	100	USA	Holding company	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware DE 19801, United States
Specialist Staffing Solutions Inc	100	USA	Recruitment	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware DE 19801, United States
Specialist Staffing Services Inc	100	USA	Recruitment	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware DE 19801, United States
Newington International Inc	100	USA	Recruitment	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware DE 19801, United States
Progressive Global Energy Inc	100	USA	Dormant	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware DE 19801, United States

\* Directly held subsidiaries. All other subsidiaries are indirectly held.

## FIVE-YEAR FINANCIAL SUMMARY

All figures are reported figures before exceptional items in £'m unless stated otherwise

	30 November 2018	30 November 2017	30 November 2016	30 November 2015	30 November 2014
<b>Financial Performance</b>					
Revenue	1,258.2	1,114.5	959.9	848.8	746.9
Gross profit	321.1	287.7	258.7	235.7	218.2
Operating profit	53.9	44.9	37.8	38.4	29.8
Total assets	360.5	273.5	231.5	204.9	203.4
Total equity	101.7	80.7	75.7	59.4	51.3
Net (debt)/cash	(4.1)	5.6	10.0	6.2	(9.9)
Cash from operations	40.6	41.1	43.1	60.3	20.1
<b>Financial Ratios</b>					
Conversion ratio (%)	16.8	15.6	14.6	16.3	13.7
Cash conversion (%)	67.0	78.6	95.0	134.4	47.8
Adjusted basic EPS (pence)	30.7	25.7	21.2	20.8	16.3
Dividends per share (pence)	14.5	14.0	14.0	14.0	14.0
<b>Operational Statistics</b>					
Average total headcount*	2,926	2,668	2,675	2,607	2,487
Average sales headcount*	2,254	2,090	2,113	2,086	2,002
Active Contractors at year end	11,203	10,197	9,078	8,412	7,573

\* 2018, 2017, 2016 and 2015 are based on Full Time Equivalents.



SThree, the international, multi-sector, specialist recruitment business, confirms the following forthcoming dates in the Group's financial calendar:

28 January 2019	Annual results for the year ended 30 November 2018
15 March 2019	Q1 Trading Statement
24 April 2019	Annual General Meeting*
14 June 2019	Trading update for the six months ended 31 May 2019
22 July 2019	Interim results for the six months ended 31 May 2019
13 September 2019	Q3 Trading Statement
13 December 2019	Trading update for the year ended 30 November 2019
27 January 2020	Annual results for the year ended 30 November 2019

\* The Group does not normally provide a trading update at the time of its AGM.

Shareholders with enquiries relating to their shareholding should contact Link Asset Services (previously named Capita Asset Services). Alternatively, you may access your account via [www.sthreeshares.com](http://www.sthreeshares.com), but will need to have your investor code available when you first log in, which can be found on your dividend voucher, share certificate or form of proxy. The online facility also allows shareholders to view their holding details, how to register a change of name or what to do if a share certificate is lost, as well as download forms in respect of changes of address, dividend mandates and share transfers.

Shareholders who would prefer to view documentation electronically can elect to receive automatic notifications by e-mail each time the Company distributes documents, instead of receiving a paper version of such documents, by registering a request via the registrar by calling 0871 664 0300 (from UK – calls cost 12p per minute plus your phone company's access charge; lines are open 9.00am – 5.30pm Mon to Fri) or +44 371 664 0300 (Non UK) or register online at: [www.sthreeshares.com](http://www.sthreeshares.com). There is no fee for using this service and you will automatically receive confirmation that a request has been registered. Should you wish to change your mind or request a paper version of any document in the future, you may do so by contacting the registrar.

### Potential Targeting of Shareholders

Companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based brokers who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. They can be very persistent and extremely persuasive and a 2006 survey by the Financial Conduct Authority reported that the average amount lost by investors was around £20,000. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation.
- Check the Financial Conduct Authority ('FCA') Register at [www.fca.org.uk/register](http://www.fca.org.uk/register) to ensure they are authorised.
- Use the details on the FCA Register to contact the firm.
- Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
- The FCA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors.
- If you deal with an unauthorised firm, you will not have access to the Financial Ombudsman Services or Financial Services Compensation Scheme.
- Any approach from such organisations should be reported to the FCA using the share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams). You can also call the Consumer Helpline on 0800 111 6768. Details of share dealing facilities that the Company endorses will only be included in publications issued by the Company.

More detailed information on this or similar activity can be found on the FCA website at [www.fca.org.uk/consumer](http://www.fca.org.uk/consumer).

**ADR Information**

For US investors, the Company has set up a Level One ADR facility, under the ticker symbol 'SERTY'. BNY Mellon acts as both ADR depositary bank and registrar for this facility. For further information, please visit the website: [www.adrbnymellon.com](http://www.adrbnymellon.com) and search for the SThree profile page. Holders can also access information by writing or calling:

Mailing Address:  
BNY Mellon Shareowner Services  
PO Box 505000  
Louisville, KY 40233-5000

Overnight Mail:  
BNY Mellon Shareowner Services  
462 South 4th Street  
Suite 1600  
Louisville, KY 40202

Customer service:  
Tel: 1 888 269-2377  
(from outside the US Tel: 001 201 680-6825)  
E-mail: [shrrelations@cpushareownerservices.com](mailto:shrrelations@cpushareownerservices.com)

For the issuance of ADRs please contact:  
London: Damon Rowan  
Tel: +44 207 163 7511  
E-mail: [damon.rowan@bnymellon.com](mailto:damon.rowan@bnymellon.com)  
New York: Margaret Keyes  
Tel: +1212 815 6915  
E-mail: [margaret.keyes@bnymellon.com](mailto:margaret.keyes@bnymellon.com)  
Website: [www.adrbnymellon.com](http://www.adrbnymellon.com)

**Share Price Information**

Information on the Company's share price can be found via: [www.sthree.com](http://www.sthree.com).

**Share Dealing Service**

For further information on this service, or to buy and sell shares visit [www.linksharedeal.com](http://www.linksharedeal.com) or call 0371 6640445. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 8.00am-4.30pm, Monday to Friday excluding public holidays in England and Wales.

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up, and you are not guaranteed to get back the amount you originally invested. Terms, conditions and risks apply. Link Asset Services is a trading name of Link Market Services Trustees Limited which is authorised and regulated by the FCA. This service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

**Dividend Re-Investment Plan (Non-Sponsored)**

For any shareholders who wish to re-invest dividend payments in additional shares of the Company, a facility is provided by Link Market Services Trustees Limited in conjunction with Link Asset Services. Under this facility, accrued dividends are used to purchase additional shares.

Any shareholder requiring further information should contact Link on 0371 664 0381 – calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate.

Lines are open between 9.00am-5.30pm, Monday to Friday excluding public holidays in England and Wales.  
Email: [shares@linkgroup.co.uk](mailto:shares@linkgroup.co.uk)

**ShareGift**

ShareGift (reg charity no. 1052686) operates a charity share donation scheme for shareholders with small parcels of shares whose value may make it uneconomic to sell. Details of the scheme are available from:

Website: [www.sharegift.org](http://www.sharegift.org)  
Tel: +44 207 930 3737

## COMPANY INFORMATION & CORPORATE ADVISORS

### Executive Directors

#### Gary Elden

Chief Executive Officer

#### Alex Smith

Chief Financial Officer

#### Justin Hughes

Chief Operating Officer

### Compliance Hotline

Tel: 0808 234 7501

Web: [www.integrity-helpline.com/sthree.jsp](http://www.integrity-helpline.com/sthree.jsp)

### Financial Advisors & Stockbrokers

#### UBS INVESTMENT BANK

1 Finsbury Avenue  
London  
EC2M 2PP

#### LIBERUM CAPITAL

Ropemaker Place  
Level 12  
25 Ropemaker Street  
London  
EC2Y 9LY

### Financial PR

#### Alma PR

71-73 Carter Lane  
London  
EC4V 5EQ

### Auditors (2018)

#### PricewaterhouseCoopers LLP

1 Embankment Place  
London,  
WC2N 6RH

### Registrars (Ordinary Shares)

#### Link Asset Services

The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU  
Tel: (UK) 0871 664 0300  
Tel: (Non UK) +44 371 6640 300  
Email: [enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.co.uk)  
Web: [www.sthreeshares.com](http://www.sthreeshares.com)

\* Calls cost 12p per minute plus your phone company's access charge and calls outside the UK will be charged at applicable international rates. Lines are open 9.00 am-5.30 pm Mon-Fri, excluding public holidays in England and Wales.

### Group Company Secretary & Registered Office

#### Steve Hornbuckle,

Group Company Secretary,  
1st Floor, 75 King William Street  
London  
EC4N 7BE  
Email: [cosec@sthree.com](mailto:cosec@sthree.com)

### Company Number

03805979

### Contact Details

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