

Sthree IP Ltd  
3682824

REGISTERED NUMBER: 03805979 (ENGLAND AND WALES)

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS**

**For the Year Ended 30 November 2019**

**For**

**STHREE PLC**



*Parent Company accounts for SThree IP Limited, (3682824), note on page 208*

# FINDING THE PEOPLE THE WORLD NEEDS

Annual  
Report and  
Accounts  
2019

Company number **03805979**

**THE FOURTH INDUSTRIAL  
REVOLUTION IS UPON  
US. ENTIRE SYSTEMS  
OF PRODUCTION,  
MANAGEMENT, AND  
GOVERNANCE IN ALMOST  
EVERY INDUSTRY IN  
EVERY COUNTRY ARE  
BEING TRANSFORMED.**

**THE WORLD OF STEM  
(SCIENCE, TECHNOLOGY,  
ENGINEERING AND  
MATHEMATICS)  
IS UNDERPINNING  
THAT REVOLUTION.**

# STHREE PLC IS THE WORLD'S NUMBER ONE PURE PLAY STEM RECRUITER.

Our purpose is central to everything we do as a business and is why we exist, "bringing skilled people together to build the future".

Our work is aimed at changing people's lives for the better and this is something that is core to our strategy and long-term success.

As market trends shift and STEM skills become ever more prevalent, we are helping to build communities of talent and to future-proof people's careers while providing our customers with their most valuable asset.

**Mark Dorman**  
Chief Executive Officer

## Strategic Report

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## About us

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### Our Purpose

#### Bringing skilled people together to build the future

We focus on STEM (Science, Technology, Engineering and Mathematics) talent, but even more so on STEM niches, where we excel in finding scarce skills. STthree's enhanced value experience is based on superior candidate quality enabled by our candidate communities, an exceptional level of customer service, market understanding and compliance capability.

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### Our Vision

#### To be the number one STEM talent provider in the best STEM markets

This is the goal we are working towards. We are focused on setting the conditions for success in each geography, supported by operational improvement and our key principles, which guide our way of working. Our Operating 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

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## 2019 financial highlights

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### Revenue

# £1.35<sup>BN</sup>

(2018: £1.26bn)

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### Net fees

# £342.4<sup>M</sup>

(2018: £321.1m)

---

### Adjusted operating profit<sup>1</sup>

# £60.0<sup>M</sup>

(2018: £53.9m)

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### Reported profit before tax

# £56.8<sup>M</sup>

(2018: £47.0m)

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### Basic earnings per share

# 31.8<sup>p</sup>

(2018: 26.6p)

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### Adjusted basic earnings per share<sup>1</sup>

# 33.2<sup>p</sup>

(2018: 30.7p)

Financial year: 1 December 2018 to 30 November 2019

<sup>1</sup> For details on APM, refer to Alternative Performance Measures note, see page 209.

## Our markets

Based on net fees generated by each country relative to the total 2019 Group net fees.

### Our opportunity

In highly fragmented markets  
SThree already has a platform  
to support significant growth

USA

0.6%

UK

2.5%

Germany

5.0%

The Netherlands

6.8%

Japan

0.1%

### Market breakdown of Group net fees

USA

22%

UK & Ireland

14%

Continental Europe

58%

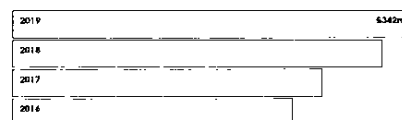
Asia Pacific & Middle East

6%

### Strong track record of Group performance

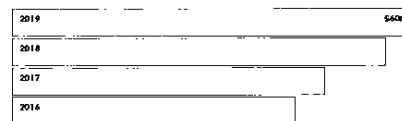
Six-year compound annual growth  
rate (CAGR)

#### Net fees



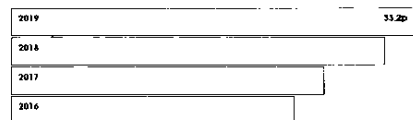
10%

#### Adjusted operating profit



19%

#### Adjusted basic earnings per share



24%

## Chairman's statement

# A RECORD YEAR CEMENTING OUR POSITION AS THE GLOBAL LEADER IN STEM STAFFING SOLUTIONS.

*I'm proud that SThree delivered in 2019 a record performance in terms of revenue, profitability and market penetration as we focused more tightly on providing our clients with the best STEM talent, our candidates with the opportunity to fulfil their ambitions and potential, and our employees with engaging and rewarding work. This is all the more impressive given a complex and somewhat unpredictable macro-economic and political backdrop in some of our main markets.*

Our purpose remains compelling and unchanged: bringing skilled people together to build the future. It is this purpose that governs our responsibility to all stakeholders. We have spent considerable effort and attention during the year to ensure that we are closer to our clients and candidate communities, and this remains a key future priority of the Group, together with *enhancing our offering to employees and communicating better with our investors*. We are pleased about the role that our business plays in wider society and have re-energised our CSR (corporate social responsibility) activities and implemented new initiatives under our ESG (environmental, social, and governance) strategy. It is also significant that we have set ourselves a bold new target of reducing our absolute carbon emissions by 20% by 2024, helping to address one of the world's key challenges.

The achievements in the year are in no small part the result of our exceptional, committed and entrepreneurial team. As signalled last year, Gary Elden stepped down as CEO in March after nearly 30 years in the business, the last six of them as CEO. Gary was responsible for setting a number of the business foundations we have in place today and which provide an enviable springboard for future growth. We wish him all the best in his new endeavours and thank him for his leadership and direction. I would also like to thank Justin Hughes, who stepped down as COO in July, for his significant contribution over the last 25 years.

We were pleased to welcome Mark Dorman as CEO in March, bringing to SThree a wealth of experience in scaling international business service operations, delivering compelling strategies and leading great teams. He has already shown himself to be an ambitious and insightful leader, and I look forward to continuing to work with him. The Board and I are confident that his relentless focus on value creation for all our stakeholders will be indispensable as we scale further. During the year we also made a number of significant appointments to our leadership teams around the world, bolstering our capabilities as we take the business into its next stages of growth.

In November we held our Capital Markets Day in London to update investors on our vision, strategic evolution and blueprint for success. Our huge market opportunity is also clear, and we are proud to have crystallised our strategy and pathway to sustainable future growth.

On behalf of the Board, I would like to express our thanks for the tireless effort our colleagues put in every day to make SThree a trusted partner to our many clients and candidates. It is their drive and dedication to our purpose that elevates SThree as a global leader and partner of choice. It has been a pleasure for the Board and individual Board members to spend time visiting a number of our offices over the year, seeing the work being *delivered across our platform, from our excellent operations and technology activities in Glasgow to the local market leadership we enjoy in Amsterdam*.

Corporate governance remains a priority and focus of the business and we have set ourselves FTSE 250-appropriate targets and aspirations. We are also focused on initiatives to enhance diversity and inclusion across our organisation and remain committed to ensuring that all of our employees' voices are heard at every level.

A sense of excitement for the future is palpable across SThree. Our recently refined and newly articulated strategy provides us with confidence in our long-term success, supported by strong structural market drivers around STEM and flexible working, *a great team and a corporate purpose that seems ever more relevant to meet many of the world's future challenges and opportunities*.

**James Bilefield**  
Chairman  
24 January 2020

## Governance highlights

Information about our governance framework and how it supports our strategy is set out on pages 110 to 157.

During the year, the key governance activities included:

### The Board

- Reframing of strategy, using a 'managing for value' approach, with outputs approved in July, to create a number of key workstreams, focused on key geographies/sectors and underpinned by technology.
- Review of underperforming businesses, which led to restructure of UK&I. Completed Board and Committee effectiveness review, to build on the prior year's externally facilitated review.
- Continued to embrace corporate governance developments, by early adopting and reporting against the most recent UK Corporate Governance Code.

### Nomination Committee

- Initiated an extensive search process via a specialist search firm to identify suitable candidates, before shortlisting and selecting Mark Dorman as Chief Executive Officer ('CEO') to replace Gary Elden, and to ensure a smooth transition.
- Review of wider leadership roles, succession and 'capability gaps', including the next layer below, which led to the recruitment of a Chief People Officer ('CPO') and Chief Strategy Development Officer ('CSDO').
- Agreed departure of COO and skills required in newly positioned role, with selection and shortlist of candidates.
- Review of people strategy currently underway, led by the newly appointed CPO.

Further information on page 120

### Audit Committee and Risk & Compliance Committee

- Monitored the transition of Group support functions to the Centre of Excellence ('CoE') in Glasgow, with close scrutiny of internal control elements.
- Responded to the Financial Reporting Council's review of the prior year's Annual Report.
- Oversaw further improvements in management information and reporting including adoption of appropriate accounting standards updates.

Further information on page 122

### Remuneration

- Agreed departure terms for Gary Elden, Justin Hughes and other senior roles leaving the business.
- Ensured appointment terms of the new CEO, CSDO, CPO and others, as well as general remuneration arrangements, and appropriately supporting the retention and motivation of senior team members.
- Development of the new Remuneration Policy, to be proposed at the 2020 AGM.

Further information on page 128

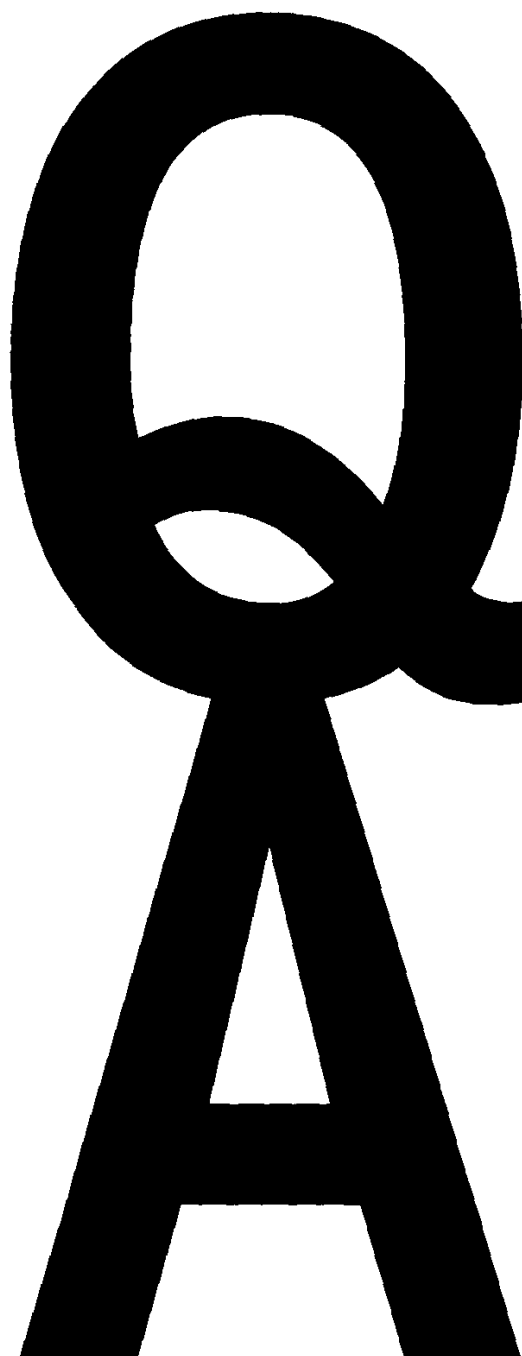
**James Bilefield**  
Chairman  
24 January 2020



**THE WORLD IS  
CHANGING AT A  
RAPID PACE AND IF  
WE ARE TO PLACE  
THE RIGHT PEOPLE  
WHERE THEY ARE  
MOST NEEDED, WE  
MUST MOVE WITH IT.**

New Chief Executive Officer, Mark Dorman, talks here about how he will ensure that the business will meet the challenges ahead by finding and curating the talent that the world needs.

**Mark Dorman**  
Chief Executive Officer  
24 January 2020



## Chief Executive Officer's Q&A

continued

SThree has a unique position in the market as the only global pure play STEM specialist. We are proud to stand out, focusing on three core areas: STEM; Contract – or flexible working; and targeting the right global regions.

### Q.

**What attracted you to SThree?**

### A.

There were three key things that initially attracted me to SThree: its purpose, its strategy and its people. Having now been with the Company for over six months, I continue to see that it is these three factors that are driving the business forward and which will underpin our ongoing success. In addition, I have *discovered countless other strengths; from the depth of the relationships our team has with candidates, to the quality of our client base and the entrepreneurial spirit embedded in our culture.* Looking forward we plan to build on these strengths, increasing in scale and leveraging our platform to achieve our growth ambitions.

### Q.

**Why is SThree's purpose so important to you and the rest of the organisation?**

### A.

Our purpose, bringing skilled people together to build the future, is at the heart of everything we do at SThree. You can read in this report how it underpins everything we achieve, right through to our strategy and the resulting value we generate for all of our stakeholders (see 'How we are building the future' from page 48). We create this value by changing the lives of talented candidates around the world, some of whom are featured in this report, and who in turn will go on to change and enhance the lives of future generations by providing our clients with the skills, expertise and problem solving they need to thrive.

# Q.

**What makes SThree different?**

# A.

SThree has a unique position in the market as the only global pure play STEM specialist. We are proud to stand out, focusing on three core areas: STEM; Contract – or flexible working; and targeting the right global regions.

This both sets us apart from our competitors and positions us for future, long-term profitable growth. As we – and others – navigate through the Fourth Industrial Revolution, STEM is at the forefront of this exciting new world. Not only do these skill sets fund and drive an increasingly technical, interconnected and fast-paced way of life, they are also central to solving the problems we face and harnessing the power of technology to succeed when things go wrong.

# Q.

**How does SThree deliver value to clients and candidates?**

# A.

SThree has considerable strength in sourcing communities of specialist STEM talent across specific geographies in a quick and knowledgeable way, built over 30 years of experience. Over that time we have delivered STEM expertise in a progressively more flexible working environment doing so in global markets which are experiencing increasingly urgent skills shortages.

The markets we operate within have been chosen for their focus and intense demand for STEM skill sets. Our value proposition lies in not just supplying cutting edge STEM talent to our global clients, but in providing it in a way that takes stock of local sensitivities, culture and regulatory change.

# Q.

**Why are you maintaining your focus on Contract?**

# A.

You'll read in 'Our market' from page 26 exactly how flexible working is shaping the workforces of the future. With the rise of the 'gig economy' we see our customer base of corporate clients and individual candidates shifting ever more towards contract work and we have aligned our business model to empower this focus.

With over three quarters of our business dedicated to flexible working, our recurring revenue business model (see 'Our business model' from page 42) is a core differentiator. While other recruiters often align with more permanent placement activity and a one-off transactional way of doing business, we are trusted partners to our clients. This requires up-front investment but delivers a host of benefits to the business, both financial and operational. Not only does it align to the flexible working trends we specialise in, it is resilient in the face of macro-economic uncertainties, which we explore in 'Our principal risks' from page 76. As and when trade wars, political uncertainty and other shocks affect our clients, so they go on to seek more flexible workforce solutions to support their performance.

## Chief Executive Officer's Q&A

continued

# Q.

Where do you want to take SThree in the future?

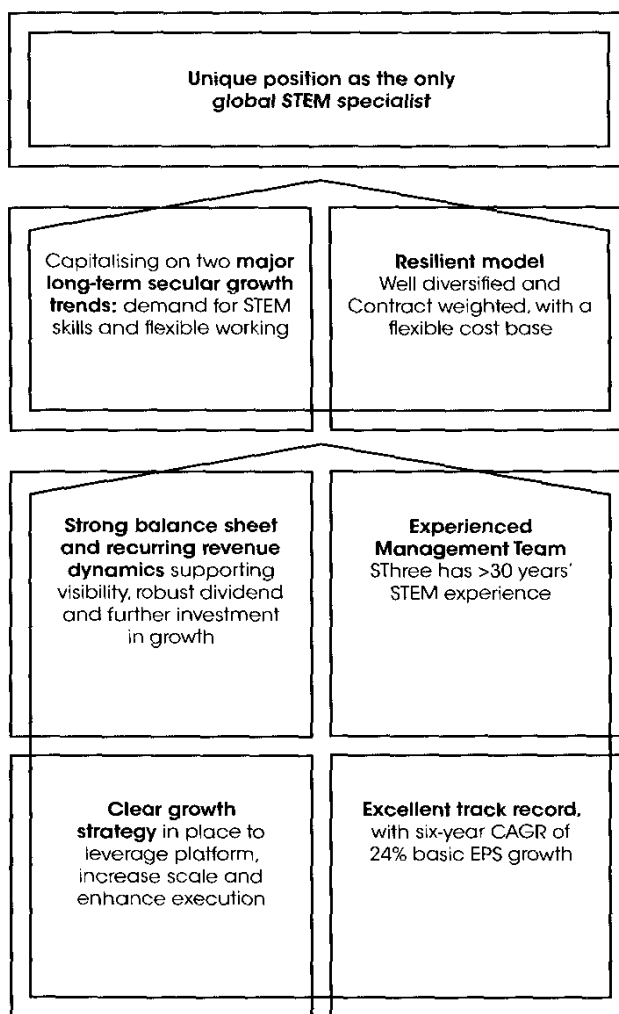
# A.

As we enter the Fourth Industrial Revolution, SThree sits at the centre of two long-term secular trends. Our continued focus on STEM and flexible working stands us in good stead for strong, continued growth as the requirements for skill sets changes on a global scale. We operate in a world that has a burning need for the talent we partner with and supply and this is only set to increase. While our strategy positions us very well to achieve our growth ambitions and deliver our KPIs (see 'Key performance indicators' from page 68), we have spent some of 2019 exploring an enhanced strategic focus. This has led to the strengthening of the senior Executive Team with new appointments made to support our long-term global growth aspirations. Our focus going forward is on leveraging our platform model and enhancing execution in order to take market share, capturing more of the opportunity available to us.

# Q.

What is your investment case?

# A.



# Q.

What are your ambitions over the next five years?

# A.

In line with our strategic focus we have set ourselves a number of new ambitions. These reflect our focus on enhanced execution and achieving greater scale. Looking ahead to 2024 we hope to grow Group market share by 50%, to reach an operating profit conversion ratio in the range of 21-24%<sup>1</sup> and to drive a free cash flow conversion ratio<sup>2</sup> of at least 75%. Alongside this we have committed to a number of targets regarding our people and society that reflect the importance we put on being a people-centric and purpose-driven business. Our ambitions are to maintain our Learning & Development ('L&D') spend at 5% of operating profit, to grow productivity per head over the period by 1% to 2% per annum, and to reduce our absolute CO<sub>2</sub> emissions by 20%. Our targets are ambitious, but with our motivated team and defined vision, I am confident in our ability to deliver.

#### Market share of STEM

To grow Group market share by

# 50%

To 3%<sup>3</sup> by 2024 (2019: 2%)

#### OP CR%<sup>4</sup>

Range of

# 21-24%

2019: 17.5%

#### Free cash flow CR%<sup>5</sup>

To drive a free cash flow CR% of at least

# 75%

2013 to 2019: FCF CR%: 72%

#### People and society

- To maintain L&D spend at 5% of operating profit
- To grow productivity<sup>6</sup> per head over the period by 1%-2% p.a.
- To reduce our absolute CO<sub>2</sub> emissions by 20%

1 Adjusted operating profit conversion ratio ('OP CR') 2019 performance 17.5% (2018: 16.8%).

2 For details see Alternative Performance Measures note from page 209.

3 In 2019, the Group estimates that it had circa a 2% market share of the addressable STEM market in its core geographies of USA, UK, Germany, the Netherlands and Japan. Group turnover in 2019 was £1.35 billion, with the core geographies representing circa 80% of Group revenue.

4 Ratio of adjusted operating profit to net fees.

5 Free cash flow CR% calculated as a ratio of cash generated from operating activities for the year to adjusted operating profit.

6 Productivity expressed as a ratio of net fees to average total employees.

**THE WORLD IS CHANGING  
AT A RAPID PACE  
BREAKTHROUGHS IN  
FIELDS SUCH AS LIFE  
SCIENCES, AI, ROBOTICS,  
ENERGY STORAGE AND  
QUANTUM COMPUTING  
ARE EMERGING AT AN  
UNPRECEDENTED RATE.**

## **Our role in the Fourth Industrial Revolution**

continued





**THIS FAST-PACED  
CHANGE IS THROWING  
DOWN CHALLENGES  
CLIMATE EMERGENCY,  
INEQUALITY,  
RESOURCE SCARCITY,  
URBANISATION, ACCESS  
TO EDUCATION AND  
ENERGY – THE FOURTH  
INDUSTRIAL REVOLUTION  
IS RESPONDING TO  
THESE CHALLENGES.**

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Societal challenges

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**2<sup>BN</sup>**

people live without reliable  
electricity globally

Source: 2019 The Energy Progress Report, by World Bank,  
International Bank for Reconstruction and Development

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**4<sup>BN</sup>**

people still remain offline and  
1 billion of these are not covered  
by mobile broadband networks

Source: State of Mobile Internet Connectivity 2018  
Report by GSMA

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**15<sup>YRS</sup>**

In the US, men in the top 1% of the  
income distribution can now expect to  
live 15 years longer than those in the  
bottom 1%. For women, the difference  
is about ten years — an effect equivalent  
to that of a lifetime of smoking

Source: Health Policy Brief, Report by Health Affairs

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**1.7<sup>BN</sup>**

About 1.7 billion adults remain unbanked

Source: World Bank

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The Fourth Industrial Revolution  
underpinned by STEM

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**115%**

Job opportunities in Energy & Engineering sector are expected to grow by 115% in the next decade, with a focus on sustainable energy\*

**120%**

Job opportunities in Technology sector are expected to grow by 120% in the next decade, with a focus on cloud computing, machine learning/AI, big data\*

**121%**

Job opportunities in Life Sciences sector are expected to grow by 121% in the next decade, with a focus on biotechnology, health data management, personalised health\*

**107%**

Banking & Finance sector is expected to grow by 107% by 2026 with a focus on fintech, cryptocurrency\*

\* Source: [www.cnbc.com/2018/10/16/top-10-industries-that-are-hiring-thriving-and-making-money.html](https://www.cnbc.com/2018/10/16/top-10-industries-that-are-hiring-thriving-and-making-money.html)

**OUR STEM  
CLIENTS ARE  
UNDERPINNING  
THE RESPONSES  
OUR 9,000+  
CLIENTS WORK IN  
THE TECHNOLOGY,  
LIFE SCIENCES,  
BANKING &  
FINANCE, ENERGY  
& ENGINEERING  
SECTORS –  
DIRECTLY OR  
INDIRECTLY,  
ALL TACKLING  
THESE ISSUES.**

**AND WE UNDERPIN  
OUR CLIENTS  
BY SOURCING AND PLACING  
THEIR SINGLE MOST  
VALUABLE ASSET: PEOPLE.  
IN THE WORLD OF STEM,  
WE PLAY AN IMPORTANT  
ROLE IN THE FOURTH  
INDUSTRIAL REVOLUTION.  
ACROSS 16 COUNTRIES, OUR  
3,000+ EMPLOYEES MATCH  
THE RIGHT CANDIDATES TO  
OUR CLIENTS TO FIND THE  
PEOPLE THE WORLD NEEDS.**

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**SThree: Our purpose is to bring skilled people together to build the future**

By sourcing and placing the single most valuable asset: people, in the world of STEM, we play an important role in the Fourth Industrial Revolution across all 16 countries where our 3,000+ employees match candidates with clients to meet the needs of our world.

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**1M**

new jobs created by occupations related to STEM by 2022

Source: U.S. Bureau of Labor Statistics

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**42%**

increase in freelancers in EMEA expected in the next ten years

Source: Workforce Solutions Buyers Survey EMEA 2017

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**86%**

share of Group net fees generated from international business

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**1.4M**

STEM experts in Germany are expected to grow by 1.4 million by 2035

Source: Bertelsmann

## Our role in the Fourth Industrial Revolution

continued

### **HSM Offshore Client and Candidate in a changing industry: Creating a sustainable world through STEM talent.**

Tom Jordaans is a Senior Commissioning Manager at HSM Offshore, responsible for delivering large wind farm projects. He has seen a transformation in the energy industry which has changed the potential market for his company, from only oil and gas to oil, gas and offshore wind energy.

This changing industry requires specialist skill sets and Tom turns to Progressive (an SThree brand) to help him source this talent. One such candidate is Deputy Commissioning Manager, Paul Schenk, who Progressive placed at HSM Offshore, to help fill the specialist STEM roles required for a sustainable future.

#### **Tom Jordaans, explaining the client's perspective on working with Progressive:**

"Since 2014, I have selected Progressive, part of SThree, because they can offer me the people with the right skills and the right education to make my life much easier."

#### **Paul Schenk, on why, as a candidate, he chooses Progressive:**

"Progressive take care of all the administration work and they give me market information so I can fully focus on my own job. I expect to continue to work with Progressive because they have a broad network of clients and I trust them to keep my career secure in the future."

"I think the STEM industry can play a key role in driving sustainability. Through this, our grandchildren can live in a less polluted world, which is something we should all strive for."

## **Alejandro's story**

### **Empowering the next generation: The power of customer centric, purpose-driven staffing.**

Alejandro Lopez is a Salesforce Administrator who has been supported by SThree to find new roles.

He has worked closely with Julia Schaeviz, Salesforce Alliance Manager at SThree, learning management skills and forming a strong relationship. Julia helped to place him at Children's Aid, in a role he found transformational for his career.

Thanks to the strong and purpose-driven relationships built between candidate, consultant and client, all three were able to achieve their goals whilst at the same time furthering business aims.

#### **Greg Denizard, Deputy Director at Children's Aid, giving the client's perspective on finding a purpose-driven candidate with SThree:**

"SThree was phenomenal with really assessing our needs and lining up quality applicants who could address both our technical needs and also our cultural needs. In the non-for-profit sector it's very important that people are passionate about the work that we do."

"It is a great joy to partner with an organisation that has a mission of helping people, and also one that can identify talent and put them in the right place."

#### **Alejandro Lopez explained why working with SThree was ideal for him, as a candidate:**

"One of the main reasons I chose to work with SThree was the endless number of opportunities they presented me with. One of those opportunities was to work at Children's Aid, and I truly believe that opportunity has transformed my life."

"There are so many great individuals within SThree. Julia has been a special individual for me, always taking time out of her day to discuss how things are going in my life, both professionally and personally. She has helped me to become the person I am."

#### **Julia Schaeviz, on her experience as a Consultant:**

"I think that Alejandro and I helped each other. I actually met him when I was switching into a new market as a recruiter. I didn't know anyone, I didn't know the temperature of the market and he was kind enough to meet me and share what he knew about the space."

## Our role in the Fourth Industrial Revolution

continued

### **Zimmer**

#### **Building the future with our skilled candidates: The importance of SThree's ability to provide niche talent in the best STEM markets.**

Blessing Nwabude is a Regulatory Affairs Consultant at the leading medical devices company, Zimmer Biomet – one of SThree's clients.

Blessing worked in clinical optometry for over five years, where he diagnosed and provided advice on eye and visual problems, prescribed glasses, contact lenses and medication, and worked with consultant ophthalmologists to manage patients' eye conditions.

But his passion to work with people and improve people's lives led to him joining the medical device industry. Having worked in several regulatory affairs positions, his current role at Zimmer Biomet was secured with the help of SThree in April 2019.

Now, not only is he living out his passion, but he is living Zimmer Biomet's purpose to 'alleviate pain and improve the quality of life for people around the world'.

#### **Blessing Nwabude, explaining why, as a candidate, he chooses SThree:**

"Our aging population is having a massive impact on healthcare services, but technology is advancing, and the life sciences industry is very well positioned to help manage the public health challenges through the continuous provision of innovative medical device products."

"The need for medical devices and products will increase exponentially in the next ten years and it's very pleasing to know that the products I support Zimmer Biomet to produce will transform people's lives."

"This is my first contract with SThree, and it has been a great experience. Nathan Puxty (SThree consultant) is always there to support me and is a real partner. I've worked with other recruitment agencies in the past and have had some very good experiences, but Nathan is simply amazing."

## Stephanie Herrera The Salesforce ecosystem: The importance of SThree's niche communities.

Stephanie Herrera is the Global Vice President of Salesforce Practice at SThree. Her list of achievements and contribution to the Salesforce Ohana has led to her being named a Salesforce MVP. In 2015, she founded Salesforce Saturdays, which helps grow individual skill sets through peer mentorship within the Salesforce platform.

Stephanie is on the Board of Directors for the Merivis Foundation, which helps veterans and their partners into a career in Salesforce and she co-founded PepUp Tech, which helps underprivileged students access the skills required for a career in tech and Salesforce.

In 2017, along with her co-founders of PepUp Tech, Stephanie was given the TrailheadDX Equality Trailblazer Award by Salesforce and she was a keynote speaker at Dreamforce with the organisation's founder, chairman and CEO, Marc Benioff.

### STEM skills shortage

The skills shortage in STEM is becoming an increasingly serious problem. For both SThree and its clients there is a need for senior, skilled talent, and one way SThree helps to cultivate and develop its talent pools is through the strength of niche communities.

One such example would be through SThree's work with Salesforce. In March 2019, SThree became a registered Salesforce Consulting Partner, marking a key milestone in the company's ambition to become the leading global Salesforce recruiter.

Across the globe, 3.3 million new jobs are expected to be created by the Salesforce ecosystem by 2022. And through its dedicated practice, SThree is building communities of Salesforce talent, helping people to hone their skills and transform their careers by opening doors to the best jobs in the market.

### Stephanie Herrera, on tapping into niche talent:

"With the Salesforce ecosystem, we have an opportunity at SThree to really partner with these communities. Not only are we an accredited Salesforce partner, we have the resources and expertise in helping people get jobs and developing their careers to make a difference in this space. We can provide people within the Salesforce communities with an even bigger launch board to develop their careers, develop their talent and – in doing so – be seen as the number one staffing solutions partner.

"The talent is there, people just have to overcome the mindset that only those with years and years of experience can work in STEM. That's simply not the case, you just need to be willing to skill them up and invest in them and you'll reap the benefits tenfold."



# THE SCALE OF THE GROWTH AND CHANGE AS A RESULT OF THE NEED FOR STEM SKILLS GOING FORWARD SHOULD NOT BE UNDERESTIMATED.

### The only global pure play STEM specialist

SThree is at the centre of STEM and this has enabled us to deliver a robust financial performance in what has been one of the most uncertain macro-economic and political periods since 2008. Over the year we have built on the strong foundations that were in place when I took over. Our continued focus on STEM, and our scale and global footprint in the right markets, combined with our ability to provide a full staffing solution for all our clients' needs means that we have delivered an all-time record profit performance.

Group net fees were up 5%\* in the year. The growth was largely delivered, as expected, through our key territories of Continental Europe and USA; the former was driven by our market-leading businesses in Germany and the Netherlands which together saw growth of 8%\*, whilst the latter was up 9%\*. We also made improvements in our other target markets, including a stand-out performance from our growing team in Japan, up 43%\*. From a sector point of view, we saw robust growth across the Group, with Technology up 7%\*, Life Sciences up 5%\*, and Energy & Engineering up 14%\*.

This performance is a result of the hard work delivered both strategically and operationally, and we continue to move closer to delivering on our vision of being the number one science, technology, engineering and mathematics ('STEM') recruiter in the best STEM markets.

### Bringing skilled people together to build the future

It is clear to see our purpose of bringing skilled people together to build the future in action through the work that has been delivered in the period. The wide range of placements that

we have made include, for example, a Regulatory Affairs Consultant, who ensures life-changing medical devices meet the highest possible safety standards before going to market, a Commissioning Manager whose planning and execution of key renewable energy projects is helping to make the world a greener place, as well as a significant number of solar technicians who are providing homes and businesses across the US with environmentally-friendly solar energy. We provide a company's most important asset – its people – to the businesses that are at the centre of some of the biggest challenges going on in the world today. We are very pleased to be a true partner to those businesses, helping them build the future.

The scale of the growth and change as a result of the need for STEM skills going forward should not be underestimated. Addressing some of the biggest issues such as climate change and the huge demographic shifts is just the start. Skilled people are needed to solve these global challenges and drive the future. This creates a huge opportunity as many of those skills, while still in high demand, are also in short supply, irrespective of where we are in terms of economic cycle.

We truly understand the dynamics of our markets, both as they are now and where they are headed. Our knowledge of the STEM markets, the needs of businesses operating within them and the niche, local talent we have built trusted relationships with is unrivalled. This is supported by our ability to deliver a full set of resourcing solutions to our clients, whether that be Contract or Permanent, to support with incoming legislation, and to develop supply through the cultivation of candidate communities.

Alongside this, there are two factors driving the demand for flexible working. There is a generation of people entering the global labour force that have a very different view of the workplace. Millennials and Generation Z, particularly those with STEM skills, see their career through the lens of the various projects that they work on rather than the companies they work for. At the same time, more and more companies are looking for contingent workers and flexible workforces, whether on large scale capital projects in Engineering or Life Sciences, or whether they're looking to upgrade their technology and their innovation sphere project by project. These dynamics continue to drive the need for the right talent in a supply constrained environment.

Our ability to find great talent and to curate that talent to make sure that it matches the right opportunity is the reason we are able to benefit from both of these trends. We are expert in engaging with both the client and the candidate all the way through a project, standardising our processes across the globe and ensuring the client and candidate come to our teams for their solutions going forward, making it a truly repeatable process. Our scale allows us to deliver this offering across the globe, in an increasingly complex regulatory environment for our clients. Our scale, expertise and culture make us the partner of choice.

### A scalable platform business able to drive further growth

A key milestone of the year has been the development and articulation of a refocused strategy for the business that sets us up well to scale the business effectively and deliver consistently into the future.

\* In constant currency.



# Chief Executive Officer's strategic review

continued

The long term secular trends towards more flexible working manifests itself differently in the 70 different jurisdictions in which we place talent. In order to meet this opportunity, SThree has built a set of scalable service offerings, which are recurring in nature and which we deploy globally, allowing for long-term sustainable growth.

One of the important defining characteristics of SThree is our entrepreneurial spirit. It is truly a pleasure to be working with a team that generates an abundance of new opportunities and good ideas. Our future success will be reliant on our ability to channel those ideas and ensure we choose the right opportunities to focus on. As such, we have implemented a 'managing for value' programme process which assesses the economic value that would be created by each idea, and allows us to rank them by the economic rate of return. This allows us to create real structure to help us execute our strategy across five areas of focus – our current geographies and markets, investment in sales and marketing, the use of data to enhance our decision making, to help drive our business and innovation, while building on our operational capabilities.

Alongside the use of data to inform our business decisions we are also able to utilise valuable exhaust data from the activity across our business. We understand what is going on in the STEM markets through the work we do, and this knowledge enables us to have the right people in the right place to help our clients. An example of this is the use of data points, internal and external, in order to select the optimum industry/skill base to invest in. This allows us to maximise productivity of our consultants and scale appropriately within an industry/skill base.

We maintain our focus on embracing new technologies and believe that this should be central to everything we do. This will drive efficiency across our scalable, platform business and support the delivery to our customers. We will continue to capitalise on trends to remain relevant to our customers in a new digital era, whether that being new ways of working or incremental improvements on an ongoing basis.

Building on our operational capabilities will underpin our execution going forward. Our creation of the Centre of Excellence in Glasgow was a foundational step in building first class global operations to create operational scale and leverage. From that foundational step we'll continue to invest as we move forward, enhancing our platform for growth.

Our six previous strategic pillars have been refined and we are now focused on executing across four key elements. Our new strategic pillars are the guideposts of how the business will be driven going forward, and reflect how SThree will build upon its unique position in the market:

- Leveraging our position at the centre of STEM to deliver sustainable value to our candidates and clients;
- Create a world class operational platform through data, technology and infrastructure;
- To be a leader in the markets we choose to serve;
- Find, develop, and retain great people.

## The right team to deliver on the opportunity

We have a truly great team with a wide breadth and depth of skills across our organisation, whether found in our experienced, long-tenured team that have been delivering the Group's robust performance over prior years, or in our experts from outside the industry that have joined to build upon the Group's foundations. Both have been working tirelessly over the year to ensure the business is in its best position to capture the opportunity ahead of us.

We were pleased to appoint Matthew Blake as Chief People Officer to develop and lead the Group's people strategy, and Kate Holden as Chief Strategy and Development Officer to oversee the strategic planning process and successful delivery of SThree's Group-wide strategic programmes.

Our people truly are our lifeblood and we are focused on creating the right culture and environment for our people to thrive. A full people strategy is being implemented, focused on driving engagement, shaping culture, developing talent, organisational design, reward and governance, risk and compliance. Truly reflecting the client and candidate pools we serve is also key and we are focused on building diversity throughout the organisation, from top to bottom. To this end, we are building out our Diversity and Inclusion ('D&I') strategy which will set out our ambition to become leaders of D&I in the staffing industry. Aligned with our broader Group strategic themes, our D&I commitments will centre around initiatives such as building communities, internal and external networking, data monitoring and data-based decision making, policy development, communication, talent management and leadership development. Alongside this, we are building our Learning & Development ('L&D') strategy through the creation of learning academies, and strengthening digitalisation (delivering learning the way our people want to learn). Supporting this is the identification and development of the new L&D target operating model, structure and ways of working.

## Outlook: at the centre of STEM

Looking to the year ahead, we will continue to build our scalable platform. We will continue to invest in our people, data and technology as we execute against our focused strategy as outlined at our recent Capital Markets Day. Whilst early in the year, we can see that broader macro-economic and political uncertainties may well persist, and the trading environment remains similar to Q4. We have the right strategy, are in the right sectors and geographies, and our Contract focus will allow us to drive another year of progress towards our ambitions.

We have a unique position at the centre of secular global trends and are focused on the right markets which will stand us in good stead for the future. In addition, we are building a platform business with the systems that will increase the effectiveness of our execution. The opportunity for us is significant, and we are very well placed to capitalise on it, driving sustainable value for all of our stakeholders.

**Mark Dorman**  
Chief Executive Officer  
24 January 2020

### **The impact of our Purpose: Experiencing the importance of what our clients create first-hand**

Tom Way is Managing Director, UK & Ireland, at SThree. A few years ago, his three-week-old son had to be rushed into hospital with a soaring temperature. He was admitted to the neonatal intensive care unit at the hospital, and soon diagnosed with bacterial meningitis.

After eight weeks in hospital, and thanks to the medical staff, their equipment and medicines, the doctors were able to prevent a full-blown outbreak of meningitis. Tom's son is now approaching his fifth birthday and is fit and healthy.

During his time at the hospital, Tom experienced first-hand just how critical the products being manufactured by some of SThree's clients in the life sciences space are to people's wellbeing.

#### **The power of SThree's purpose:**

**"After a few days of being in the hospital I was sitting back and looking at the treatment my son was getting, and I saw that the IV drips were made by Allegan, a company I'd personally placed with. He was lying in a bed made by Stryker, a key client of ours at the time. And when you walked in and out of the unit, you'd have to wash your hands with a special soap made by Abbott, a client we had done a huge amount of work with."**

**"I came face-to-face with the Life Sciences sector at a time of huge importance to me and my son. That made me incredibly proud of the work we'd done at SThree, helping the companies who are effectively saving and extending the lives of those at most need."**

## Our market

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### Evolving trends in the world of STEM

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### Market trend

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#### Global demand for STEM skills

The Fourth Industrial Revolution centred on technological solutions is set to continue, centred on the US and Europe, but spreading rapidly across the globe. It manifests itself in advances in *STEM research and development*.

The main source of global demand for, and spend on, STEM skills comes from technology-focused companies, which make up circa 50% of the market capitalisation of the world's 30 largest companies. A focus on STEM skills is also increasing in non-STEM industries as clients gradually embrace technological change.

Globally, the STEM staffing markets are influenced by the overall number of jobs, scarcity of skills, employee churn rates and the propensity of organisations to outsource recruitment. The demand for enhanced services is also a growing feature. Markets where demand for STEM skills continues to grow and outstrips supply are as follows.

#### USA

USA has by far the largest staffing market in the world. STEM staffing market in the US is estimated to be worth \$46.1 billion (circa £35.6 billion). STEM jobs grew 11% from 2009 to 2015, compared with a 5% average across all occupations. STEM employment is projected to outpace non-STEM employment growth by 1.8x: growth of 9% vs 5%, respectively, from 9.7 million jobs to 10.6 million jobs by 2028. Increasing high-end computer systems employment is likely to be the key driver for this.

Source: SIA, Bureau of Labor Statistics – employment projections 2018-2028

#### UK

The UK is one of the most mature staffing markets, and the largest in Europe, with limited year-on-year revenue growth. Its STEM staffing market is driven by an economy that relies on services and high-end technology, with further demand likely to come for STEM professionals in green technology in order to meet pledges on climate change. The Royal Academy of Engineering reported that the UK needs 100,000 STEM graduates every year to satisfy current demand. A shortage of STEM skills is costing UK businesses an estimated £1.5 billion a year.

Source: SIA, Emsi, STEM Learning

#### Germany

German businesses have a strong focus on STEM skill sets. Their staffing market is the fourth largest in the world, and has seen consistent revenue growth in recent years. The STEM staffing market in Germany is estimated to be worth \$8.0 billion (circa £6.2 billion). Due to an aging workforce in STEM disciplines, replacement demand is likely to continue to be high. 56% of STEM employees are aged 45 years or over, and a shortage of 338,000 skilled workers is reported in STEM disciplines.

Source: SIA, Deutsche Bank, Handelsblatt

### Netherlands

The Dutch staffing market is the smallest of SThree's key markets, but has recently seen strong growth. There has been a surge in demand for technology skills across the Netherlands. The STEM staffing market in the Netherlands is estimated to be worth \$4.7 billion (circa £3.6 billion). It is a highly flexible market, where replacement demand is expected to be high, with 47% of STEM employees over the age of 45 years. The unemployment rate is at a ten-year low (3%).

Source: SIA; Danish Technological Institute; Cedefop

### Japan

With a diminishing and aging population and limited natural resources, Japan is set to improve its workforce productivity and increase innovation to remain competitive. This, in turn, drives a strong demand for STEM workforce. The temporary staffing market in Japan is growing at an unprecedented pace. Two decades of economic stagnation have eroded the post-war norm of a job-for-life. According to a survey conducted by the Japanese government in 2018, the number of non-regular workers (temporary or part-time) had risen to more than 20 million, equivalent to 38% of the entire workforce.

Source: SIA

## What it means for SThree

# £66<sup>BN</sup>

STEM staffing market is worth £66 billion in the five largest STEM geographies (USA, UK, Germany, the Netherlands, Japan).

Source: SIA

# x2

STEM employees earn double the national average wage compared with non-STEM occupations.

Source: SIA

# 7/10

of the world's largest companies by market value are tech

Source: Statista

### SThree already has successful operations in the most important STEM markets

We consider there to be a large and growing demand for STEM skills. We are focused on delivering STEM talent in our key geographies (USA, UK, Germany, the Netherlands and Japan). Market dynamics and SThree performance in each of our core geographies demand a different strategic approach:

Market characteristics	SThree performance	Strategic implications
<b>Supporting high growth</b>		
<ul style="list-style-type: none"> <li>Large STEM staffing markets</li> <li>Well-established markets but with continued strong growth in staffing</li> </ul>	Germany, the Netherlands, Japan <ul style="list-style-type: none"> <li>Net fee growth of 18%* annually (CAGR) between 2016 and 2019</li> </ul>	<ul style="list-style-type: none"> <li>Ensure our business operations are supportive of continued growth</li> <li>Identify opportunities to consolidate market share</li> </ul>
<b>Strategic refocus</b>		
<ul style="list-style-type: none"> <li>Mature and competitive staffing market</li> </ul>	UK <ul style="list-style-type: none"> <li>Net fees declined 9%* annually (CAGR) between 2016 and 2019</li> </ul>	<ul style="list-style-type: none"> <li>Understand the strategic implications of a changing market dynamic</li> <li>Refocus our execution strategy to take advantage of identified opportunities</li> </ul>
<b>Expansion strategy</b>		
<ul style="list-style-type: none"> <li>A \$111 billion market with circa 4% growth</li> <li>Key global hub of technology development</li> </ul>	USA <ul style="list-style-type: none"> <li>We have a circa 0.6% market share with net fee growth of 15%* annually (CAGR) between 2016 and 2019</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that the business is set up to support rapid growth</li> <li>Identify areas of focus to ensure growth is directed and sustainable</li> </ul>

\* In constant currency.

## Our market

continued

### Market trend

#### Flexible working becoming the future of the workplace

The 'job-for-life' or multi-year employment with one organisation is becoming less prevalent in today's world. People now often prefer to work short-term contracts otherwise known as 'gigs', or project freelance work. These types of roles allow for greater independence and flexibility in their careers, giving them control over how much and when they work. People are also attracted to gig work as they value the opportunity to develop new skills in a relatively short timeframe. The result of this is that those who work this way have a higher frequency of role changes than ever before.

The global 'gig economy' was estimated to be worth approximately £3.7 trillion in 2018<sup>1</sup>. Gig workers are increasingly important for technologically-advanced companies. Businesses operating within STEM-related industries, where work is often structured as small projects with a relatively limited duration, are adopting more flexible approaches to recruitment to attract niche, specialist skill sets.

Our clients around the world evolve their businesses in line with these new ways of modern working practices. They understand that they can diversify and attract a wider talent pool by presenting themselves as a flexible working environment which embraces the 'gig economy'. Companies which offer progressive and flexible working environments are able to attract the best young talent.

<sup>1</sup> According to SIA study.

# 4/5

The 'gig economy' appeals to four in five millennials and Gen Zs...

# 49%

and 49% would, if they had a choice, quit their current jobs in the next two years

# 42%

increase in Freelance contractors in EMEA expected in the next ten years

Source: Workforce Solutions Buyers Survey EMEA 2017

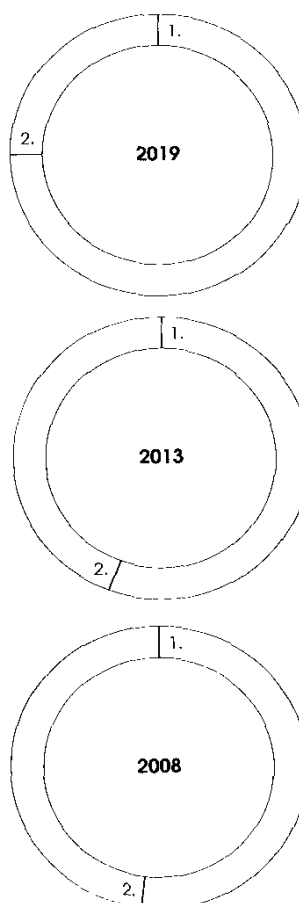
#### What it means for SThree

**SThree's ongoing strategic focus is weighted towards growing Contract, which attracts more active and creative people.**

In the STEM-related industries there is a wealth of fixed-term projects available and therefore the appeal of short-term and flexible work assignments is strong. These dynamics are favourable for SThree, hence the focus for the Group. We now have circa 11,000 contractors on assignment around the world.

The 'gig economy' also adds a layer of complexity to the hiring process, requiring a more focused and specialist service to ensure smooth transitions between roles. As a global business with a robust and scalable infrastructure and systems, we thrive on the added complexity that Contract working offers. We are able to support both our clients and candidates through all stages of the process in a structured way.

**We have actively remixed the business towards Contract**



1. Contract  
2. Permanent

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## Market trend

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### Emerging jobs and skills across STEM

With the emergence of AI, new scientific discoveries, and rapid technological advancement, the ways in which companies and people within them operate are evolving. Half of the emerging skills and jobs are centred on new technologies, e.g. a medical technology or programming language. The other half involves a new mix of skills that are proving to be increasingly relevant to the occupation, e.g. a software developer that can also carry marketing skills.

We are already seeing this trend having a big impact on the STEM labour market. On the one hand, it can reduce the need for certain types of roles, but on the other, it can result in the emergence of new professions. The addition of a single skill can dramatically change the way an occupation operates. The combination of broader skills into one role can often lead to an entirely new occupation.<sup>1</sup>

<sup>1</sup> Based on the study by Emsi, 2017.

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# 3/4

**of execs believe digital is fundamentally changing their organisations**

Source: Deloitte Digital Disruption Index

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# 52%

**since the year 2000, 52% of companies in the Fortune 500 have gone bankrupt, been acquired or ceased to exist because of digital disruption**

Source: HBR

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# 1M

**new jobs created by occupations related to STEM by 2022**

Source: U.S. Bureau of Labor Statistics

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### What it means for SThree

**We are particularly well positioned in this regard due to our long-term strategic focus on STEM-related industries, which are at the forefront of change and therefore strongly linked to new skills and roles creation. Career security has now replaced job security and staying ahead of emerging skills and newly relevant job titles is integral to our strategy planning.**

In the coming years, we expect to see many more new types of roles that require both existing and newly developed specialist skills. This will definitely create higher levels of skill shortages. When there are skill shortages employers look to recruitment agencies to provide them with candidates.

We frequently network with our clients and partner with industry associations to help us gain a deeper understanding of the emerging trends and industries that we operate within. We also have a dedicated marketing team that focuses on research and market analysis and produces insights catered to the vertical markets our consultants specialise in. This team enables our consultants to communicate the latest market trends and research findings to their respective candidates and clients, via job search seminars, networking sessions and industry conferences.

All put together, this helps us have exceptional insight into the skill sets the emerging roles may require, as well as where to source candidates with the relevant skills.



## Our market

continued

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### Market trend

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#### Attracting women into STEM

Job growth in STEM-related fields continues to outpace other industries. With increasing demand for skilled workers, and earning potential, STEM careers are expected to have great expansion prospects in the coming years. However, women remain under-represented in the STEM-related workforce; they make up only a third of the world's STEM graduates.<sup>2</sup> Getting more women into STEM careers requires a partnership among parents, educational institutions, government, industry, and organisations. Further progress will obviously benefit the women involved, and it will also help address a worldwide need for more STEM professionals.

2 According to NSF Science & Engineering Indicators, 2018.

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#### What it means for SThree

As part of our sustainability efforts and building a future for communities we operate within, SThree leads a number of initiatives around the world to promote STEM-related disciplines among women. By encouraging more women into STEM, SThree is broadening its appeal to a much wider range of candidates. To achieve it, we invest in the development of science academies, coach teachers and role models how to talk about the STEM topics, what is great about them, and how to cultivate perseverance and scientific curiosity among young female students. One may succeed in teaching a girl how to do programming, but having an understanding of why it is powerful and interesting and great in itself remains a challenge.

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# 50%

USA STEM salaries are 50% higher than average

Source: U.S. Bureau of Labor Statistics

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# 35%

of all students enrolled in STEM-related fields were female

Source: UNESCO, 2018

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# 45%

UK STEM salaries are circa 45% higher than average

Source: ONS

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# 26%

German STEM salaries are circa 26% higher than average

Source: Destatis

## Market trend

### Embracing technology in recruitment

The face of traditional recruitment is experiencing a significant transformation at the moment. The abundance of disruptive and incremental technologies is powering the current trends in recruitment, and can act as a key differentiator in service and efficiency. The automation of core recruitment processes reduces operational costs and enables the business to be scalable.

Online job boards, social media networks, online talent pools, video content and other digital profiles have hugely broadened the selection employers have to choose from. Candidates around the world are embracing higher levels of digital sophistication; they adopt technologies like video interviewing or online resumes. They view the digital recruiting approach as a straightforward, engaging and expedited process.

This shift also requires a change in service model and mindset among recruitment companies.

- Sources of talent and candidates are likely to diversify, with increasing use of online platforms.
- Client requirements for STEM talent may change rapidly as technologies are adopted, demanding a proactive understanding of their needs.

Recruitment companies need to showcase their ability to source a candidate while also offering an end-to-end, streamlined hiring solution.

- Use of AI has become a popular tool among recruiters to make informed decisions in shortlisting candidates.
- Sourcing candidates via digital online boards and social media.
- Adopting customised screening parameters to allow industry- and job-specific background checks.

### What it means for SThree

**Building for the future, embracing new technologies, is important to us, as it drives efficiencies and enhances the Group's performance as a recruitment business. We continue to support innovations across the business, with an emphasis on driving value for our core proposition.** We are investing in these areas and capitalising on trends to remain relevant to our customers in a new digital era. External horizon scanning helps us to support and develop disruptive innovations but also incremental improvements in ways of working.

To execute the development of new technology-driven tools we need to be data-capable and operationally agile. Part of our strategy involves our ongoing investment, combined with leading technical partnerships, in data analytics, to decipher insights from active and passive candidates alike, which will then assist us in identifying the best business opportunities and make our service offering more compelling. We believe our ability to harness data and analytics, and use of technology will continue to be a competitive differentiator going forward, as it enables our business to be scalable and agile, and supports evidence-based decision-making.

Our approach to innovation is currently being reinvigorated across the Group. We aim to provide tools and resources, with appropriate delegated investment authority, to support innovations to be developed within the business.

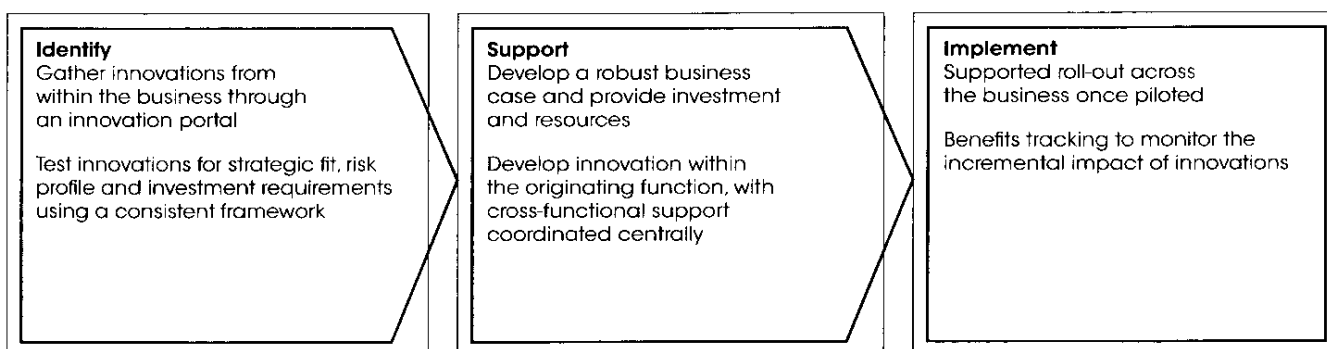
Strategic Report

Corporate Governance

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Supplementary Information

### SThree innovation approach



## Our market

continued

### Market trend

#### Growth in new business models

The **Employed Contractor Model ('ECM')**, where a skilled specialist is legally employed by SThree but works for the end client is already the model of choice in USA and becoming increasingly popular across Continental Europe. With employment litigation a key concern and a multitude of new workforce laws introduced in recent years, our offering has proven popular. This is due to our local expertise across our 70+ jurisdictions which provides clients with access to flexible, compliant resources for key projects and reduced complexity in the hiring and onboarding process. There are many other country-specific benefits to the model. For example, in 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. Clients can mitigate this risk by outsourcing employment of contractors to recruitment agencies, which 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 the ECM carries significantly reduced employment obligations for employers.

##### Freelance contractor

- Seasoned contractor
- Business to business relationships
- Dominant model in UK and Continental Europe

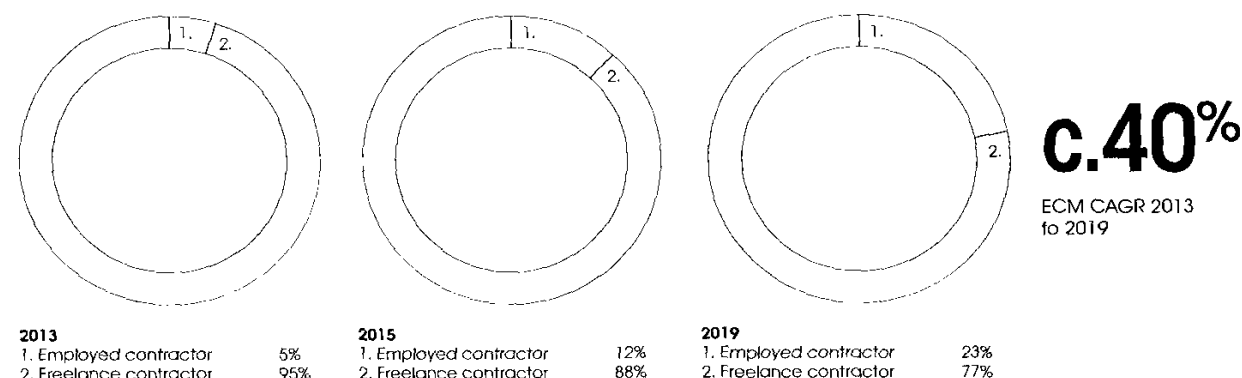
##### Employed contractor

- Rolled out model in USA, Continental Europe, Australia and Singapore
- Mitigates legislative risks for clients
- Attractive margins, circa 40% higher than Freelance contractor

#### What it means for SThree

**Freelance contractor is our core Contract offering, a dominant model in USA and Continental Europe, where we experience high client demand for the ECM. Our scale provides coverage to our clients, who increasingly need our help to navigate through ever-increasing regulatory landscapes.** SThree identified the potential of the ECM in 2016, and has already rolled it out in several regions where the ECM is a recognised model for STEM specific profiles, e.g. in USA, Continental Europe, Australia and Singapore. The ECM represents a huge opportunity for us; it brings attractive margins, circa 40% higher than in the Freelance contractor model, and enables us to add to our candidate database and offer our clients a broader portfolio of talent. SThree has the scale and specialist knowledge to be able to deliver the ECM globally, providing this solution to different business challenges faced in each location. SThree is able to support our clients through the sourcing, screening, onboarding and by providing the ongoing payroll, benefits, tax deductions and relevant insurances for our ECM placements.

#### Growth in Employed contractors



## Changing nature of work in Japan: Challenges of handling the workplace expectations of Millennials in the Japanese market

Many established businesses across Japan are struggling to attract the best young talent as older ways of working clash with modern day expectations.

Many Millennials now expect to contribute in a more meaningful way by expressing their ideas and carrying out tasks that are more complex. Most importantly, they want to see a direct link between their output and the impact it has on the businesses for which they work.

For many Millennials, the work environment is now more important than what the company actually does. Attitudes towards smaller businesses are changing. In the past, working in start-ups was deemed as risky and it was those businesses that found it difficult to attract candidates.

Only 10 or 20 years ago, everyone wanted to work for the big-name businesses. The tables have turned, however, and now little-known start-ups, which offer progressive and flexible working environments, are able to attract the best young talent.

Furthermore, owing to the Japanese work style reforms that resulted in stricter legislation for female representation and flexible working arrangements, the bar of expectations has been raised amongst Millennials. Businesses found themselves under pressure to review their ways of working.

These major changes have made talent acquisition more competitive than ever before.

### Sticking with tradition

The reforms of the Japanese Government are in line with Millennials' expectations, however, traditional working practices are so culturally ingrained that some Millennials are still conforming to the 'old-world' working culture, where age and hierarchy matters.

This has led to a real polarisation among not only different generations but also among Millennials themselves, who are stuck between two worlds and feel, they must choose which route to follow.

That is why it is so important that recruiters and hiring managers do not pigeonhole people based on their generational group.

### Adapting approaches to attract Millennials

Not only traditional businesses have to deal with higher expectations and cultural changes in Japan.

Recruitment businesses, such as ours, have to adapt their approach to overcome potential clashes between new candidate expectations and traditional ways of working.

We recognise that we have to be more forward-looking in the way we consider candidates. It is part of our strategy to evolve our business in line with modern ways of thinking.

Rather than just being focused on skills and education, it is crucial that we think about a candidate's quality, i.e. their character, cultural fit, whether they expect a traditional or progressive working environment, and whether they fit with the business' values.

## Our market

continued

### Market trend

#### Continued macro-economic uncertainty

Geo-political uncertainty, be it from trade wars, Brexit impacting exchange rates, or a general global slowdown, has caused business confidence to decline.

This decline is evidenced by British companies announcing plans to shelve investments, delaying hiring, or even indicating their intentions to shift their operations abroad. Given the importance of the UK's economic relationship with the European Union, growth in key Continental European markets softened during the year.

An effective response by policymakers continued to protect the economy from the impact of political turmoil. The Bank of England has chosen to raise rates only very gradually since 2017, with a similarly slow pace expected over the next few years. The UK Government has relaxed fiscal austerity via tax cuts and extra public spending.

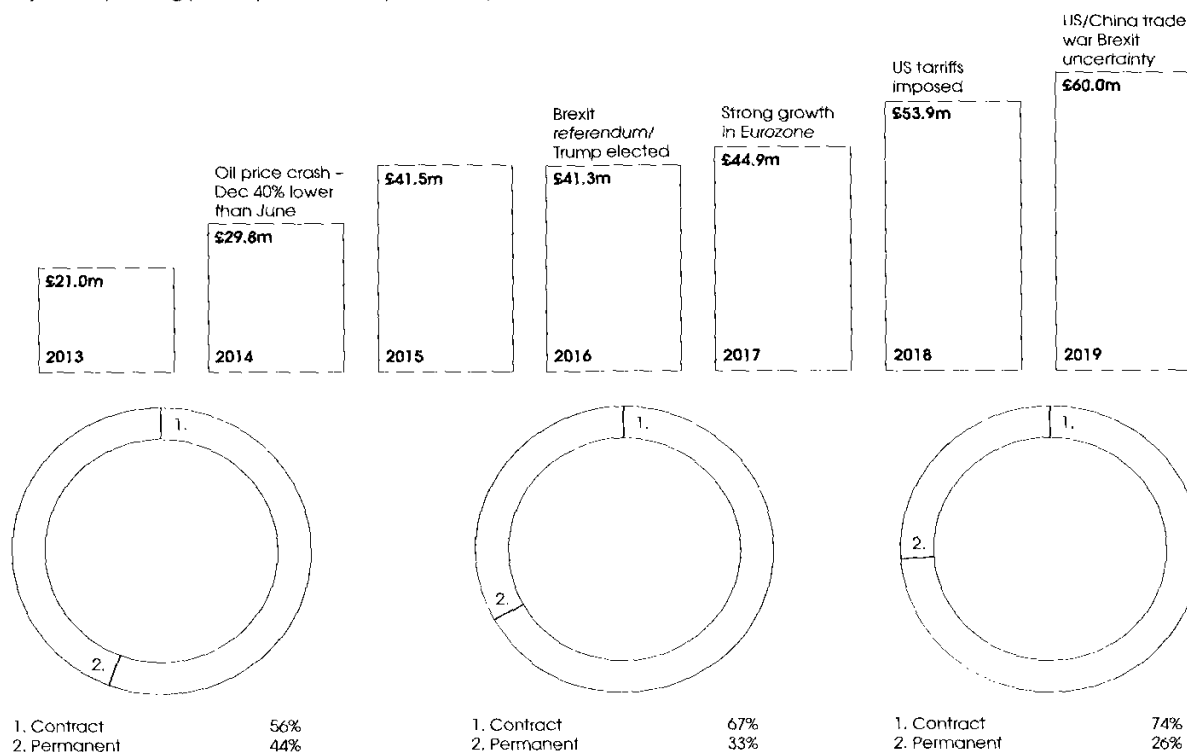
#### What it means for STthree

**We are a globally diversified business.** A key part of our strategy is our international business. We continued to invest in markets where we see the greatest growth, such as USA and Asia Pacific & Middle East while remaining mindful of the weaker macro-economic conditions seen in much of Continental Europe and UK&I.

Notwithstanding the macro-economic uncertainty, demand for quality talent in STEM markets remains strong. This is due to ongoing demographic shifts, an ageing workforce and relatively high churn, as candidates move to update skills, all of which results in a shortage of specialist talent.

#### Our business is resilient

Adjusted operating profit tripled over the period, despite a number of shocks in key markets



## Our strategy

Progress against our strategy – how we address our immediate Group priorities to set the conditions for continued sustainable growth.

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

#### Key performance indicators we track

- Revenue
- Net fees
- Contract margin
- Adjusted profit before tax

#### What we said we would do

- Target growing sectors in attractive geographies (Continental Europe, USA and Japan).
- Continue to maximise opportunities in Technology, Life Sciences, Energy & Engineering sectors.
- Expand our Employed Contractor Model to create new opportunities for our Contract business in Continental Europe and USA.
- Selectively trial additional services, including the enhanced contract services, e.g. delivering high-level employment solutions that supplement clients' existing workforce requirements and staffing compliance.

#### Challenges and opportunities in 2019/

##### Market trends that influenced our progress in 2019

- STEM is at the heart of the Fourth Industrial Revolution.
- Across all territories, STEM employment is growing more quickly than the wider economy.
- Expansion is being driven by a range of factors, including investment in tech-driven disruptive business models.
- Clients' demands and changes in regulation are leading to hybrid employment models, such as the Employed Contractor Model ('ECM').

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## Our strategy

continued

### What we did in 2019

- We are encouraged by our global footprint, where 86% of our net fees were generated outside of the UK.
- We continued to invest in our international businesses where we saw the greatest growth such as in USA and Japan.
- Despite facing economic instabilities in the UK and weakening market conditions in Continental Europe in 2019, due to the demand for STEM skills, Group net fees grew 5%\* in 2019.
- Our ECM model, that delivers exceptional contractor experience, continued to scale. In 2019, nearly 23% of Group net fees were generated by this model. We are well placed to explore this further in the right markets.
- In USA, we successfully piloted an Enhanced Employment Service offering to our Engineering sector customers. We are encouraged by this outsourcing model, priced at a significant premium to a standard Freelance contractor model.

\* In constant currency.

### Delivered through

- Our clients
- Our candidates
- Our people

### Link to remuneration

- Adjusted profit before tax, adjusted operating profit conversion ratio are financial metrics/measures for the annual bonus for Executive Directors.
- Adjusted basic earnings per share and relative net fees growth, are financial metrics/measures for the LTIP for Executive Directors.

R

## 2. Develop and sustain great customer relationships

### Key performance indicators we track

- Year-end sales headcount/churn
- Customer net promoter score ('NPS')

### What we said we would do

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

### Challenges and opportunities in 2019/

#### Market trends that influenced our progress in 2019

- Emergence of new technologies such as AI, Big Data, security, or digitisation enables us to access niche STEM candidates and fulfil our client demands.
- Our network of candidates enables us to gain a deeper understanding of the market place, which in turn allows us to service our clients in the best possible way.

### What we did in 2019

- Filling technically specialised assignments requires insight into the clients' industries. Accordingly, we created a dedicated marketing team focused on market analysis, producing insights for our customers.
- Customer-first mentality adopted by every individual at SThree.
- We continued to drive the right behaviours by monitoring our NPS score (2019: 44, 2018: 42).

### Delivered through

- Our clients
- Our candidates
- Our people

### Link to remuneration

- Improvement in candidate NPS and developing the most effective organisational design for SME, Managed Service Provider and Key Account Customers are two out of four shared strategic objectives for the calculation of annual bonus for Executive Directors in 2019.

R

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

#### Key performance indicators we track

- Contract/Permanent mix
- Contractors
- Adjusted basic earnings per share ('EPS')
- Adjusted operating profit conversion ratio
- Cash conversion ratio

#### What we said we would do

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

#### Challenges and opportunities in 2019/

##### Market trends that influenced our progress in 2019

- Concentration on specialist STEM roles ensures sustainable gross margins.
- Growth in flexible contract employment is accelerating across multiple geographies, especially within STEM industrial verticals.
- Increase in flexible working, rapid growth in tech-related employment play to our strengths.
- STEM focus and geographical mix provides us with an excellent platform for growth.

#### What we did in 2019

- Our strategic focus on Contract continued to deliver growth across key sectors and geographies, with Contract having higher consultant productivity compared to Permanent.
- Contract accounted for 74% of Group net fees in 2019.
- Despite toughening market conditions in the second half of 2019, overall our Contract business grew 8%\* over the last year. It grew in all our geographies except for the UK&I, and across all our sectors except for Banking & Finance.
- Contract candidates continued to deliver some 40% higher lifetime value vs Permanent candidates. This reflects candidate day rates, commission levels and the high prevalence of contract extensions.

\* In constant currency.

#### Delivered through

- Our candidates
- Our people

#### Link to remuneration

- Development of a scalable 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.

R

### 4. Generate revenues through innovation and M&A

#### Key performance indicators we track

- Revenue
- Net fees

#### What we said we would do

- Pursue investment in tech-driven disruptive service/product offerings, where we see a good strategic fit, e.g. HireFirst.

#### Challenges and opportunities in 2019/

##### Market trends that influenced our progress in 2019

- Investing for the future is important to us, and we are focusing on the areas that will drive growth going forward.
- In all geographies, where SThree operates, STEM staffing markets are highly fragmented. To manage these growth opportunities data analytics is increasingly being used to allocate capital/consultants.

#### What we did in 2019

- We continued to channel the Group's investments to areas that derive the most value, with an aim to improve efficiencies across the organisation.
- At the Group level, economic value models were deployed to assess the value of individual projects and revenue streams.
- Using data analytics to drive decision making lead the DACH team to develop a tool that enables them to identify the most attractive industry or skill sets to invest into. We look to roll this out across the business in the next 12-18 months.
- HireFirst is now operational in France and we continue to invest in this proposition for growth.

#### Delivered through

- Our business partners
- Our people

#### Link to remuneration

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

R



## Our strategy

continued

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### 5. Build infrastructure for leveraged growth

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#### Key performance indicators we track

- Total shareholder return ('TSR')
- Adjusted operating profit conversion ratio
- Consultant yield

#### What we said we would do

- Continue to open new offices in our focus markets, e.g. Nuremberg or Hanover in Germany.
- Deploy our marketing technology so that we can improve outbound communication.
- Continue to maximise office occupation rates and look into the use of more flexible space to do this.
- Complete the stabilisation within the new Centre of Excellence in Glasgow and initiate our Get Well plan.

#### Challenges and opportunities in 2019/

##### Market trends that influenced our progress in 2019

- Clients and candidates are continually demanding higher levels of service.
- The evolving complexities of employment legislation and regulatory compliance require a sophisticated delivery platform.
- World class infrastructure provides us with a platform to support substantial further growth.

#### What we did in 2019

- The Centre of Excellence in Glasgow is now fully functional, delivering services to all our geographies and markets. It provides us with a scalable platform and processes that we continued to invest in to improve efficiencies.
- In line with our strategy, we continued to invest in the right markets and geographies, improving office occupancy.
- We opened two new offices in DACH (Nuremberg and Hanover).

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#### Delivered through

- Our business partners
- Our people

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#### Link to remuneration

- Adjusted profit before tax and adjusted operating profit conversion ratio are financial metrics/measures used for the calculation of annual bonus for Executive Directors.
- Adjusted earnings per share and relative net fees growth, are financial metrics/measures for the LTIP for Executive Directors.

R

## 6. Find, retain and develop great people

### Key performance indicators we track

- Net fees
- Year-end sales headcount/churn
- Female representation in key sales roles
- Employee net promoter score ('eNPS')

### What we said we would do

- Continue to measure eNPS half-yearly and use this information to identify the subjects that matter most to our employees.
- Complete the roll-out of the new Velocity career framework and customer delivery model.
- Continue to develop our future female leaders.
- Continue embedding our Operating Principles in Company culture, so that employees are clear on how to provide an outstanding customer experience. Emphasise our Leadership Principles, ensuring that our working environment is entirely fair and inclusive.

### Challenges and opportunities in 2019/

#### Market trends that influenced our progress in 2019

- Appointment of a new Chief People Officer in April 2019.
- Appointment of a new Global Head of Learning & Development in August 2019.

### What we did in 2019

- Continued to measure engagement through twice-yearly eNPS survey, running focus groups and building clear action plans to address key issues. Global employee engagement champions help to maintain focus and momentum. Evaluated market to identify a new engagement survey platform to enable a more agile and improved understanding of the employee experience.
- Developed and delivered new Sales Leadership and Sales Management development programmes – equipping individuals with the skills and techniques to effectively lead and manage their teams. Undertook a review of our Top 20 Talent to identify strengths and development needs. Continued re-enforcement of the Operating Principles and roll-out of new Leadership Principles.
- Roll-out of global 'Town Halls' providing a platform for Senior Executive Team to highlight their individual strategies and allow employee Q&A. Each Town Hall attracted a global audience of 1,000 colleagues.
- Work with external reward specialists to evaluate reward in UK&I and USA.
- Better engaged with our employees, including via our dedicated Non-Executive Director with feedback reviewed by the Board.
- Focus on employee turnover with Heads of HR implementing targeted action plans for each region.

### Delivered through (as per critical success factors)

- Our HR team
- Our people

### Link to remuneration

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



## Our new strategic pillars

From 2020 we will focus on executing across four new strategic pillars. They serve as guideposts of how the business will be driven forward, and reflect how we will build upon our unique position in the market.

### 1. Leveraging our position at the centre of STEM to deliver sustainable value to our candidates and clients

#### What does it involve

- Being at the centre of STEM, we provide the most valuable asset to a company, its people. We truly partner with our clients to bring skilled people to help them build the future.
- Understanding the market dynamics, specialised niches and skill needs of businesses operating within these markets.
- Ability to find and curate great talent.

### 2. Create a world class operational platform through data, technology and infrastructure

#### What does it involve

- Being at the forefront of embracing new technologies that are disrupting and transforming the recruitment market.
- Enabling our platform business to grow by investing in systems and processes, which are sustainable and scalable.

#### Initiatives and immediate priorities for 2020

- Use our unique position of being a pure play STEM talent recruiter to provide our clients and candidates with insights into the changing nature of work, and with the access to the best specialist skills.
- Develop strong candidate communities in skill shortage markets and leverage our position as the only STEM talent provider.

#### Initiatives and immediate priorities for 2020

- Embrace new technologies to drive efficiencies and scale across our platform business and support our delivery to customers.
- Enhance and utilise our internal and external data points to ensure we have the right people in the right markets.
- Enhance our capabilities to build first class global operations.

### 3. To be a leader in the markets we choose to serve

#### What does it involve

- We already have successful business in the most important STEM markets. Delivering STEM talent in our key geographies with the right people, data and technology to achieve our long-term ambitions is critical to us.
- Our scale allows us to deliver this offering across the globe, in an increasingly complex regulatory environment for our clients.

#### Initiatives and immediate priorities for 2020

- Continue to improve our strategic approach to deliver STEM talent in our key geographies.
- Maximise our position to develop a deeper understanding of the market dynamics by understanding and flexing to current trends.
- Deliver a complete service to our clients and candidates through our Freelance and Employed contractor models, and Permanent solutions, by removing the complexities of hiring and mitigating risks of local employment regulations.

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

#### What does it involve

- People are truly the lifeblood of SThree. The entrepreneurial spirit that is embedded in our culture underpins SThree's ongoing success.
- Teams across our organisation have wide breadth and depth of skills, whether found in our experienced, long-tenured people or those who have joined us from the outside. Retaining and attracting highly talented and motivated individuals is at the forefront of our minds.

#### Initiatives and immediate priorities for 2020

- Engagement across the Group with a focus on:
  - people communication
  - engagement surveys
  - employee value proposition
  - shaping culture with a focus on defining culture and values, diversity and inclusion.
- Continue to develop talent with a focus on:
  - further expanding our Learning & Development interventions
  - talent management and succession planning
  - talent acquisition.
- Review organisational design with a focus on job evaluation and levelling.
- Review reward and recognition structure and strategy.

## Our business model

### Why we exist

We bring skilled people together to build the future; this is at the heart of everything we do.

We source and place the single most valuable asset for our clients: people.

### How we generate fees

Our platform dynamics enable us to operate at scale, building best practice once and scaling it multiple times. Ours is primarily a recurring revenue business model which is powered by our relationships with clients and contractor candidates alike. We earn fees from our clients when a contractor delivers service. While this is our focus we also have long-standing expertise in delivering Permanent placements, where fees are charged as a percentage of the candidate's salary when a candidate is placed with a client. With contractors we invoice clients on an ongoing basis for the duration of the contract, with the Group paying contractors and retaining a portion of the amount charged as a service fee. Our weighting towards Contract allows for a predictable, stable revenue stream that is likely to continue in the future.

Contract (flexible working) is particularly well suited to STEM recruitment markets, with shift towards increased use of contingent workforces, propensity of organisations to outsource recruitment, rapidly growing societal preferences towards flexible working arrangements, and shorter job tenures among Millennials.

Economically, Contract placements provide for higher (on average nearly 40% greater<sup>1</sup>) lifetime value and profitability than Permanent equivalent.

<sup>1</sup> Based on SThree internal data 2019; compares net fees generated from one temporary contract over the average 42 weeks contract term vs permanent placement fee.

### How we operate

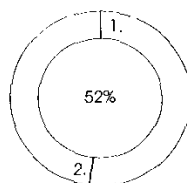
We are the only pure play global STEM specialists in recruitment operating primarily through our four largest specialist brands:

- Computer Futures (Technology)
- Progressive (Energy & Engineering)
- Huxley (Banking & Finance)
- Real Staffing (Life Sciences).

Our client base is diverse with over 9,000 small- to large-sized companies. We are a major player in the Technology, Life Sciences, Banking & Finance, and Energy & Engineering sectors.

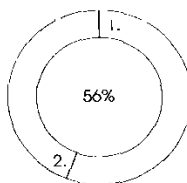
### The active move towards contract

2008



1. Contract  
2. Permanent

2013



### Three options to service client needs:

- 1. Employed contractor**
  - Employed and paid by SThree and contracted out
  - Recurring fees for the duration of the contract
- 2. Freelance contractor**
  - Self-employed and paid by SThree
  - Recurring fees for the duration of the contract
- 3. Permanent**
  - Employed and paid by client
  - One-off fee

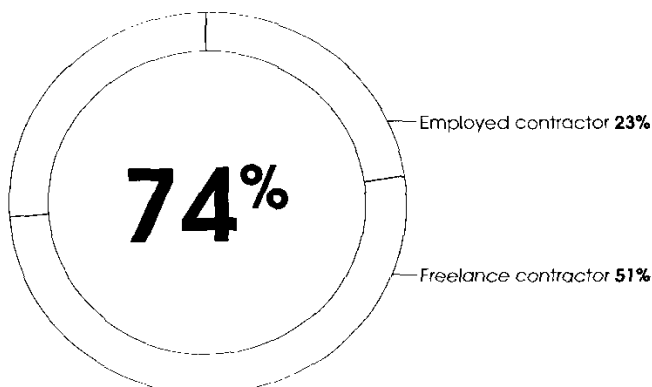
### Our culture

Our culture is defined by three Operating Principles:

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

Our Operating Principles underpin our Purpose, Vision and Strategy by focusing all our people on the best possible behaviours to succeed.

2019



## Why we focus on Contract

The business is weighted towards Contract for the following reasons:

- Particularly suited to **STEM** staffing market
- **Economic case – higher lifetime value and profitability**
- **More predictable and visible earnings**
- **High barriers to entry**
- **Growth in new business models**
- **Resilient in uncertain markets and strong as markets improve**
- **Underpins dividend**

### Temporary staffing revenue

# 89%

89% of staffing revenue in 2018 was temporary staffing, of which 42% relate to professional staffing.

(Global Staffing Industry Analyst estimate May 2019)

### Rise in freelancers

# 42%

Freelancers in EMEA are expected to increase by 42% in the next ten years.

(Workforce Solutions Buyers Survey EMEA 2017)

### The value of Contract

# 40%

Contract lifetime value is circa 40% greater than Permanent equivalent.

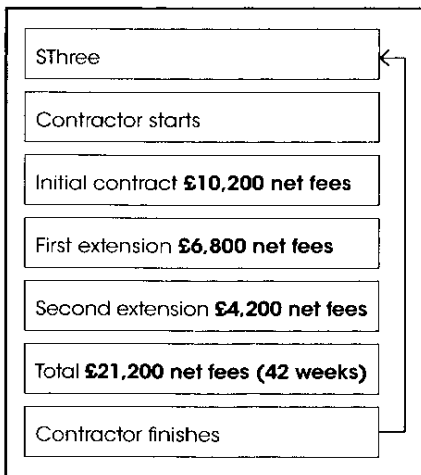
(SThree internal data 2019)

### Higher lifetime value and profitability

# 50%

Contract consultants produced circa 50% more lifetime value per month in 2019.

(Example is in SThree internal constant currency rates and is based on 2019)



### High barriers to entry:

There are two barriers to market entry: know-how (regulatory and compliance expertise) and cash requirements.

#### 1. Know-how

- Experienced team with circa 20 professionals across key markets
- Well placed to benefit, as client and candidate flight to quality
- Scale and global reach advantage
- Tech infrastructure and platform to serve contractors

#### 2. Cash requirements

# £10,000

SThree must spend £10,000 pre-funding each contractor for four months until the Group payback period begins.

### More predictable and visible earnings

In times of macro-economic uncertainty, Contract is more resilient than Permanent as companies tend to defer long-term commitments.

### Rise in contractor orders

# 15%

The contractor order book has a CAGR of 15% over the past four years.

#### What we've implemented to make it happen

- First stage of onboarding for all global candidates is now automated
- Ongoing journey post placement on permanent is now automated
- 2020 – automation of post placement journey for all contractors

#### The impact that has had

- 1 A standardised and scalable service for all candidates
- 2 Reduced starter drop out rates
- 3 Increased candidate stickiness

## Our business model

continued

### What makes it work:

### We're informed by market intelligence

We collect a wealth of insights about candidates and clients' preferences across all regions and local markets.

We have expertise in sourcing niche skills and difficult-to-find candidates in all our chosen markets and sectors. As a global business with a truly diversified mix of exposures across multiple geographical regions, we are ideally placed to provide our clients with insights as to changing work patterns and with access to the best candidates with specialist skill sets.

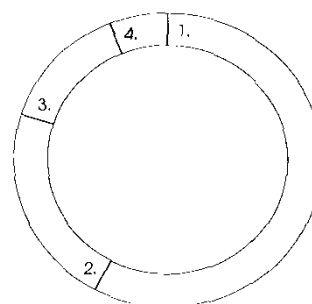
We collect the data by building and cultivating direct business relationships with our clients, candidates and business partners. The breadth of this data supports our strategic decisions, allowing us to continue to develop and adapt our service-proposition to local needs and conditions.

Over the years, we have evolved the way we work and deliver our services in line with the global mega-trends, the idiosyncrasies of different localities, and the particular regulatory requirements of different countries.

### We have global reach

The Group is becoming increasingly global, 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.

Net fees by geography



1. Continental Europe	58%
2. USA	22%
3. UK&I	14%
4. APAC & ME	6%

## We are pure play specialists in STEM recruitment with a diverse client base

The Science, Technology, Engineering and Mathematics ('STEM') fields are at the forefront of change across the developed world and societies.

STEM represents a significant and growing opportunity. The Fourth Industrial Revolution centred on technological solutions is set to continue, mainly in USA and Europe, but spreading rapidly across the globe.

The focus and spend on STEM is growing both in STEM industries and non-STEM industries as customers embrace technological change.

On average our contractors stay in their roles for 42 weeks.

In our mature and competitive market our speed of placement is an important differentiator. We fill technology roles in an average of two and a half weeks.

## We attract scarce and highly skilled candidates

The availability of skilled and motivated candidates to meet client needs is essential to our business growth as well as being crucial to economic prosperity. Supported by our own bespoke tools and market-leading sourcing techniques, we source high-quality candidates seeking new opportunities. High-quality candidates often have multiple years of experience and often have niche, valued skills.

### Niche STEM talent

- Specialist roles, highly candidate focused
- Global team working together to interact with and build out the candidate community:
  1. Digital targeting and retargeting of niche and passive STEM talent with thought leadership content relevant to their specialism
  2. Gated content allows us to capture data and begin nurturing passive/ niche talent
  3. Multichannel campaigns to engage niche talent into communities

### Mainstream STEM talent

Higher volumes of roles, a combination of candidate and client focus.

- Local teams working together to build the most comprehensive network of talent available in the marketplace:
  1. Market specialist consultants, building up the largest networks of talent through utilisation of our database, external networking, social media and advertising platforms
  2. New applications come into our platform via our website and other advertising platforms, and existing members of the network are constantly refreshed
  3. Candidates then enter the recruitment process for a role/ assignment

A multi-brand, sector approach enables us to connect with highly qualified candidates across the Netherlands.

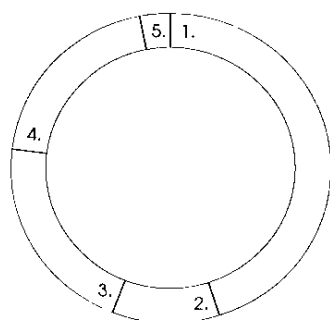
Every brand has tripled its LinkedIn followers since 2016.

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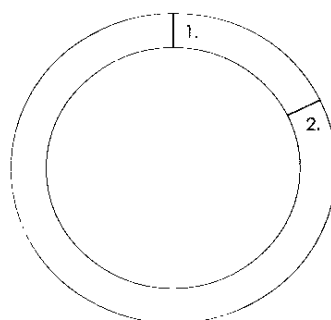
Financial Statements

### Split by sector



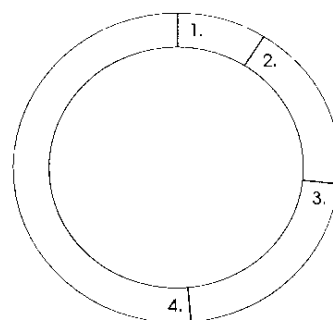
1. Technology	45%
2. Banking & Finance	11%
3. Energy & Engineering	21%
4. Life Sciences	20%
5. Other	3%

### Split by client



1. Large Enterprise	18%
2. SME to Mid-Size	82%

### How we attract STEM talent



1. Number of LinkedIn followers	715,000
2. New STEM candidate applications in the last 12 months	1.4 million
3. Visits to our websites in the last 12 months	1.7 million
4. STEM specialists on our database	4 million

Supplementary Information



## Our business model

continued

**We have a clear and disciplined approach to cash and a strong track record of cash generation**

### Our priorities for uses of free cash flow

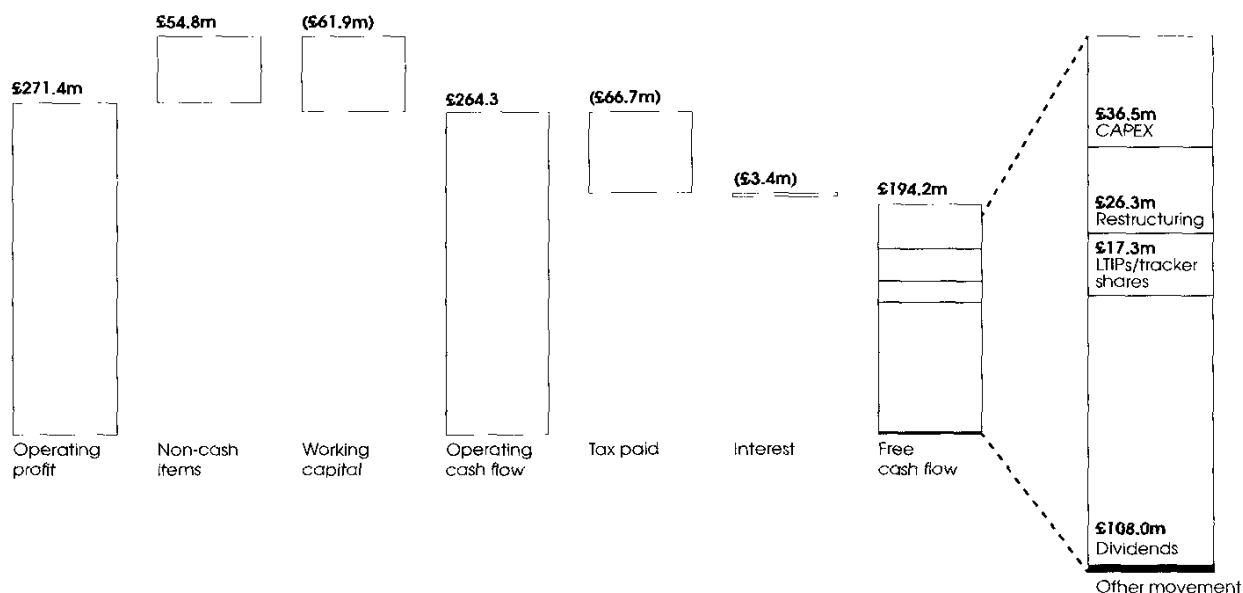


### We have a strong track record of cash generation

2014 to 2019

Operating profit to free cash flow conversion

Uses of free cash



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## We use technological innovation

The recruitment industry is being profoundly impacted by new technologies and changing customer expectations. In such an environment, we drive our success through our ability to innovate, harness the Fourth Industrial Revolution by leveraging technology to streamline our operations and improve customer experience, and help us stay relevant in the long run. We hope this would make collaborating with us more efficient for our clients and candidates, and that it will motivate them to deal with us in future and to recommend us to other prospective customers.

To help meet our customer expectations, we utilise tools that allow us to fine-tune services. We monitor customer satisfaction by commissioning an annual survey (customer net promoter score) of more than 20,000 customers. We analyse customer feedback and tailor our service to individual needs.

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## We operate responsibly

We support and shape sustainable and responsible growth and job creation. Whether through community development, diversity programmes or climate leadership, we know that pursuing outstanding corporate citizenship creates value not only for our business but also for our employees and the communities where we live and work. We invest in public and private initiatives, whereby we help the underprivileged move into meaningful careers, which brings a wide range of societal benefits including self-worth, productivity and economic growth. In 2019, we contributed over £210,000 to community programmes.

We also understand that we must support the wider system in which we operate to achieve long-term profitability. We foster communities to retain and develop candidates for specific skill areas.

We established the SThree Foundation to diversify and grow the STEM talent pipeline in the long-term sustainability of the sector. The foundation supports people from diverse backgrounds on the path to a STEM career, both meeting our need to source future candidates in our key markets and driving employability and economic growth within the communities most in need.

## How we are building the future

Our purpose of bringing people together to build the future embeds environmental, social and governance considerations into our business model.

The following pages explain how we are building the future.

### Key outcomes

#### Candidates

**4<sup>M</sup>**

STEM specialists in our database

**1.7<sup>M</sup>**

visits to our websites in the last 12 months

**1.4<sup>M</sup>**

new STEM candidate applications in the last 12 months

**715<sup>K</sup>**

new followers on LinkedIn

## Clients

44

NPS score

20,000<sup>+</sup>

new placements in 2019 (through the work of talent we recruit and place, we partner with our clients to build a better future)

## Employees

38

eNPS score

- Employer of choice in Germany
- Well-equipped internal recruitment team to deliver required growth and quality service
- Ongoing improvements across business, to ensure a fair and inclusive environment

4%

increase in female leadership since 2018

## Local communities

4,365

people engaged in STEM projects funded by the SThree Foundation

2,490

hours of volunteering in our local communities

£157<sup>K</sup>

raised for good causes that achieve the SDGs including our partner, the African Science Academy

## Environment

B

score in the Carbon Disclosure Project

Finalist APSCO Awards for Excellence CSR Initiative of the Year 2019

## How we are building the future

continued

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### Building the future through our culture and principles

*The SThree principles express who we are and what we stand for. They capture the individual and collective behaviours that we expect from everyone who works for us.*

*Across our business we operate through our key Operating Principles, which underpin our approach to working with customers, suppliers, investors and local communities: Build trust, Care then act, Be clear then aim high.*

*We conduct our business by behaving responsibly and with integrity, and by building strong and trusting relationships with our clients, candidates, people and community organisations, with which we collaborate on having a positive impact.*

*As a Group, we are committed to sustainability. We care, we listen and we collaborate on solutions that ensure we are a sustainable business which empowers sustainable communities. By concentrating on what we do best, we can ensure that we are building the future for our people, our communities and the environment. We encourage employees to utilise paid volunteering leave to develop skills, diverse thinking and drive a career with purpose. We contribute to causes that have a demonstrable link to our business; this includes employability and raising aspirations, empowering communities to solve challenges with STEM solutions, diversifying the STEM talent pipeline, and carbon offsetting to strengthen renewable energy offerings in developing countries.*

*We have also created a positive and inclusive working environment, where each and every employee shares our common principles.*

*We foster our culture through governance and incentivisation structures.*

*We implemented a number of policies and procedures, including our Code of Conduct, which covers business conduct and compliance issues, including bribery and corruption.*

*We deploy policies and procedures that are consistent with our Code of Conduct, including our Equal Opportunities Policy, which ensures a working environment in which all individuals are treated with dignity and respect, free from discrimination or harassment, and in which all decisions are based on merit; our Anti-Corruption and Bribery Policy, which enforces effective systems to counter bribery; our Sustainability Policy which mitigates our negative impact on an environment, and our process to monitor the Group's supply chain to mitigate risks of slavery and human trafficking. We mandate that our clients and certain vendors undergo training on our policies and procedures and agree to permit us to audit their practices and compliance in accordance with our policies and procedures.*

*We monitor our culture by taking regular eNPS surveys, acting as a sounding board for our leaders and employees and helping implement important changes that affect our culture and our people. This 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.*

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#### Corporate responsibility

More information about our culture, people, health and safety initiatives, stakeholders, greenhouse gas emissions and what we do to preserve the environment is included in our Corporate Responsibility Report, which is available on our website at [www.sthree.com/en/about-us/csr/](http://www.sthree.com/en/about-us/csr/).

## Monitoring and reviewing the outcome of sustainability policies by the Board

The Board is responsible for the long-term success and the delivery of strategic and operational objectives. Our sustainability commitments are regularly monitored and evaluated by the Board. The Board pays due regard to environmental, health and safety and employment responsibilities, and devotes appropriate resources to ensure the Group's policies are upheld.

The Board monitors the effectiveness and reviews the implementation of all our sustainability policies, regularly considering their suitability, adequacy and effectiveness. Any improvements identified are made as soon as possible to ensure all of our people have access to any additional information and support they may require with regard to human trafficking, forced labour, servitude and slavery.

Internal control systems and procedures are also subject to regular audits to provide the Board with the assurance that the policies are effective in countering bribery, corruption and any other examples of malpractice.

The Board is also supported by the Corporate Social Responsibility Committee, to whom certain responsibilities have been delegated, to safeguard the development, and adherence to the internal procedures and systems, developed to pursue the Group's ethical, social and environmental goals.

### Corporate Social Responsibility ('CSR') Committee

The CSR Committee is responsible for the development and implementation of our sustainability strategy as well as analysing social and environmental external trends and their impact on the business.

The CSR Committee, which includes our Chairman and CEO, reviews and identifies risks associated with sustainability, reports to and advises the Board on the management of these matters. The CSR Committee monitors and reviews progress in achieving the targets set for CSR initiatives, and ensures we are ahead of environmental compliance.

### Key activities during the year

- Four CSR Committee meetings to review sustainability initiatives, impact and risks reported to the Board.
- Two ESOS site visits and audits to identify energy saving and carbon reduction opportunities.
- Engaging 100 internal CSR Champions in delivering local impact.

# How we are building the future

continued

## Building the future with ethical business practices

Our Operating Principles and Code of Conduct provide the foundations on which SThree's standards are built. Our Operating Principles represent the qualities and behaviours we wish to see demonstrated throughout our business practices:

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

Our Code of Conduct sets out clear expectations of how to conduct business in an ethical and transparent way, without compromising integrity and professionalism. These promote:

- ethical handling of actual or apparent conflicts of interest
- compliance with applicable governmental laws, rules and regulations
- complete, accurate, fair and balanced disclosure in reporting
- prompt internal reporting of violations.

Ethical business practices are embedded into every aspect of our operations and are demonstrated through our approach to having respectful relationships with customers, suppliers, governments, communities and employees who share our values.

Ensuring candidates are placed within a fair and ethical workplace is a fundamental pillar in the recruitment process. We have a responsibility to all candidates we place to ensure that they are not subjected to bribery, corruption, exploitation, forced labour or modern slavery at the companies they join. Implementation of this is ensured through extensive training and the continuous education of our people.

## Ensuring compliance with s414CB of the Companies Act 2006

Although not fully inclusive of everything we do in this area the following key themes demonstrate the policies we currently implement and monitor in this area:

	Related policies
<b>Anti-bribery and corruption</b>	<p>Anti-bribery and corruption policy, updated and rolled out globally in Q4 2019:</p> <ul style="list-style-type: none"> <li>- outlines measures and guidance to assess related risks and report any concerns</li> <li>- provides that prevention, detection and reporting of bribery or corruption are the responsibility of all employees</li> </ul>
<b>Human rights</b>	<p>SThree Code of Conduct</p> <p>Equal Opportunities Policy</p>
<b>Modern slavery and human trafficking</b>	<p>Modern Slavery and Human Trafficking Statement</p>
<b>Health and safety ('H&amp;S')</b>	<p>H&amp;S policy (available to all territories on the SThree intranet), based on UK guidelines.</p> <p>The policy was re-published in early 2019 and is planned to be updated following an external review.</p>
<b>Political donations</b>	<p>Corporate Giving and Fundraising Policy</p>

Key themes	Implementation	Due diligence	Reporting
SThree has a zero tolerance approach to bribery and corruption.	<p>Employees receive training relevant to the nature of their role and location.</p> <p>We do not deal with prospective contractors or suppliers known to, or suspected of, paying bribes.</p> <p>This helps prevent, detect and report bribery and other forms of corruption.</p>	All employees are required to accept and adhere to the policy. We also monitor the conduct of major contractors and suppliers and have a right of termination in the event that they pay or solicit bribes. Any areas for improvement in this area are shared with contractors or suppliers, based on audits.	<p>Policy roll-out and acceptance by email is reported back to the Group HR teams.</p> <p>Where appropriate, areas of non-conformance, measures to correct them, and any disciplinary actions, are included in internal audit reports.</p> <p>No breaches of anti-bribery and corruption policy were reported in 2019.</p>
We respect the rights and dignity of all people when conducting our business. In particular, our focus is on ethical recruitment and working conditions at our sites, security, and community health and livelihoods.	Ethical recruitment is a key theme in the training and continuous learning of all of our people. Our policies and approach are embedded into our culture and communications.	Employees, contractors or other third parties are required to immediately report any instances of unethical behaviour or suspicion of malpractice to a line manager or a member of the Group HR Team.	Any breaches in human rights are reported to our CPO and relevant authorities.
Although the risk of modern slavery and human trafficking in relation to SThree is low, we do to an extent monitor our supply chain to ensure we fully understand and mitigate the risk.	In 2019, the Directors assessed the risk of modern slavery in our key areas of operation. We also made appropriate supplier checks around governance and financial standing, and determined that the risk of slavery or human trafficking continues to be low within our supplier base.	<p>We have processes in place to:</p> <ul style="list-style-type: none"> <li>– identify and assess potential risk areas</li> <li>– mitigate risks occurring in our supply chains</li> <li>– continually monitor risk</li> <li>– protect whistle blowers, via a confidential and independent reporting process.</li> </ul>	<p>All risks in this area are reported to our CPO and where required to the relevant authorities.</p> <p>The Company's Modern Slavery Act statement can be found on our website: <a href="http://www.sthree.com/media/2185/modern_slavery_act_2015_slavery_mark.pdf">www.sthree.com/media/2185/modern_slavery_act_2015_slavery_mark.pdf</a></p>
<p>The Group is committed to the health, safety and welfare of all current and potential employees.</p> <p>Key arrangements outlined in the policy are:</p> <ul style="list-style-type: none"> <li>– risk assessment</li> <li>– work equipment</li> <li>– monitoring H&amp;S procedures (inspection/audit regime)</li> <li>– managing third party contractors</li> <li>– emergency procedures.</li> </ul>	Employees are inducted to the business with an H&S briefing. There is an H&S lead in every office to ensure we continue to provide a safe place for our people and visitors.	<p>During the year, external specialists undertook a review of the Group's H&amp;S arrangements in key territories, with a particular focus on risk assessments, welfare and protective arrangements for Freelance and Employed contractors. The results were reported back to the Audit and Risk &amp; Compliance Committees. Whilst H&amp;S risks generally remain the same, certain improvements in management and mitigation systems were recommended:</p> <ul style="list-style-type: none"> <li>– deploy Group-led structure of competent personnel across all continents</li> <li>– Group-led risk assessment/analysis setting minimum standards for local specific hotspots</li> <li>– extend SThree H&amp;S arrangements to cater for Employed contractor placements.</li> </ul>	<p>H&amp;S concerns and incidents are reported to our H&amp;S leads who act on mitigating these risks with the local leadership teams.</p> <p>Following the 2019 H&amp;S review, recording and reporting of all accidents and incidents will be improved, to promote a consistent H&amp;S approach across all locations, and provide regular monitoring of agreed H&amp;S standards, both internal and for clients, by the Board and relevant Committees.</p>
The Company prohibits political donations.	All SThree's donations are delivered through a CAF account which ensures that due diligence is applied consistently.	Our donations are monitored quarterly by the CSR Committee within SThree.	All donations are disclosed in our annual CSR Report.



## How we are building the future

continued

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### Building the future through our infrastructure and innovation

Our ambitious, long-term vision is to be the number one STEM recruiter in the best STEM markets. We consistently future-proof our business so we can be at the forefront of emerging trends in the world of recruitment. Underpinning this is infrastructure: systems, processes and IT solutions which allow us to focus on consultant productivity and the customer journey, in a cost-effective way whilst providing world class service.

Our intent is to have a scalable day-to-day operational structure which supports frictionless transactions and customer services and enables us to effectively deliver value-add services.

Significant progress was made against this goal with the creation of the Centre of Excellence in Glasgow. It is already delivering the benefits that we were expecting.

We also continue to invest in our core systems to ensure they are fit for purpose and can support growth of the business.

We champion initiatives, among our consultants and support staff, to transform the way we work together and improve efficiency throughout the business. For example, we have made first steps to identify and develop processes and future-proof technology to drive more efficient and effective working capital management. As we grow our contractor numbers, naturally more cash is being absorbed into working capital, which can adversely impact order-to-cash metrics.

New processes are being currently introduced in the Centre of Excellence in Glasgow, to optimise order-to-cash cycle. We centralised financial transaction processing as well as built a cross-functional approach to working capital accountability. This is supported by daily monitoring of credit and collection units, and the use of enabling technology to conduct transactions electronically whenever possible, and work with vendors and customers so they can do the same.

As technology redefines the recruitment industry, we aspire to build a more diverse portfolio of services so that we capture a greater share of total client spend on employment matters and to ensure we are well positioned to benefit from potential disruption.

Part of our strategy involves our continuous development and maintenance of new and innovative solutions which could make our offer more compelling for our clients and candidates. We have started seeing the first benefits gained from commercialisation of our internally developed platforms leveraging both AI matching and human interaction, to provide permanent staff. This unique product is at the market-testing stage; the initial results are encouraging evidenced by a stream of first revenue of £0.3 million in the current year.

We also supplement the pipeline of our in-house innovation incubators through partnerships with external parties within buy- and-rent structure, if we see potential and commercially viable features in a new product brought to the market.

Having invested in external opportunities (early-stage start-ups operating in the digital technologies sector), which delivered below expectations, we reinvigorated our approach to innovation within the Group. A clear framework is being established to safeguard and support innovation initiatives identified anywhere within the business. The framework sets guidelines how to test innovations for strategic fit, risk profile and investment requirements, to ensure successful implementation and adoption. Its ultimate objective is to ensure that future innovation initiatives are fit for purpose and can support growth and operational efficiency in the business.

Although technology started to play a big part in its evolution, the recruitment industry remains inherently relationship-driven. Any technology we look to develop will certainly drive the decline of repetitive tasks but at the same time must not lose sight of the human element of our business. Ultimately, it is not about replacing but enhancing the tools that our consultants and support staff use to make informed and timely decisions.



## How we are building the future

continued

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### Building the future by understanding our stakeholders

In order to make our business model a success, we focus on creating and nurturing a wide range of stakeholder relationships. These are detailed on pages 58 to 60. Within the relevant ethical and regulatory frameworks, we aspire to build a responsible, sustainable and trustful business partnerships with client organisations, our employees and local communities.

Through our engagement with our stakeholders we identify the key issues that matter to them. These issues inform how we run our business on a day-to-day basis and we develop strategies and initiatives to address them.

A key starting point is creating an inspiring and inclusive work environment where we invest in our people and their ability to establish strong relationships with customers and create shared value for communities.

Feedback we receive from our clients through our core services and community initiatives enables us to address societal challenges, such as the future talent pipeline needed to meet the skill gaps or business benefits of embracing diversity in employees and forming an inclusive work environment.

We engage directly with candidates through a number of channels. We know that some groups of our candidates still face disproportionate barriers to work. Our teams actively support candidates to overcome these barriers through ensuring we have open, transparent and anonymous recruitment processes that alleviate unconscious bias. Our person-centred approach also means we work to negotiate the salary, working hours and benefits our candidates require to overcome any practical barriers to employment.

In addition, we provide various workshops, training and mentoring to people from diverse backgrounds to engage and inspire them into STEM careers, overcoming some of the perceived barriers within STEM industries.

During 2019 we collaborated on over ten projects to support those from diverse backgrounds into STEM careers and we delivered over 2,490 hours of volunteering to programmes that help raise aspirations.

## How we work with our clients

We work with clients with whom we share a view of how technology is affecting our lives and reshaping our economic, social, and cultural environments. Through the work of talent we recruit and place with them, we close significant skill gaps in key markets where specialist skills are at an all-time low. Ultimately, we work towards a future that works for all of us by putting people first and empowering them.

### Sourcing candidates in a high-demand, low-supply industry

Jean-Michel Jaspers is the CEO of Jaspers-Eyers Architects. The business was started by his father in the 60s, generates circa €20 million and works with 140 collaborators in approximately ten different countries. Jean-Michel believes that at its core, architecture is about shaping the world of tomorrow.

Purpose is very important to Jaspers-Eyers, who were attracted by SThree's focus on their own. The business is committed to focusing on sustainable architecture and is close to completion on a project for one of the world's largest sportswear companies: one of Belgium's first energy positive buildings. They are proud to be able to address climate change in this way, and to give something back to their community.

In order to progress with this type of project they need to find new architect candidates in an industry where demand vastly outstrips supply. This provides a competitive advantage to Jaspers-Eyers, particularly as the business has reached its capacity to find candidates through its own channels.

### Jean-Michel Jaspers, giving the client's perspective on working with SThree:

"We've worked with SThree for about three years. We've grown to become close business friends with our account manager and have a good relationship. For each new vacancy we call him, and it works out from there.

"SThree is helping us with our specific need to find specialist profiles – some of which we don't know exist – in our own market. SThree brings us new types of candidate profiles, including some we would not have dreamt of being able to access. They propose these candidates to us, and it helps us to become better than our competitors.

"Our relationship comes down to the mutual trust we have in each other. SThree's purpose is to bring skilled people together to build the future, and we are building the future with them."

## How we work with our candidates

Our expertise, tools and network connect candidates with job opportunities, providing them with purposeful and inspiring work. By helping them develop their talents and lifelong learning in the world of STEM, we give them the sense of shaping the future and being responsible for the world's evolution.

We advise people on their careers, and help them develop their talents with lifelong learning.

### How SThree enables effective freelance contracting work

Cyril Dorocant has been a Health, Safety and Environment officer for over 20 years, and currently works for SThree's client, Nordex Windfarm. He is passionate about the job as he likes to work with people and enjoys enabling them to work in a safer way.

Cyril chooses to move from role to role as new projects have a high, upfront level of demand for making the job safer. To make sure he is always in work he needs to be able to access different parts of the industry, wherever there is the most demand for his role.

### Cyril Dorocant, on why, as a candidate, SThree is a perfect fit for him:

"Working with SThree is good because you have a lot of freedom to choose where you're working and what you're doing.

"I choose to continue partnering with SThree because when I need them, they are there for me. I know if I contact them a month before I finish a contract, they have access to other clients in the wind industry who might have a new opportunity for me.

"Flexible working is increasing in popularity because it gives you the freedom to choose what you are doing every day at work, and who you are working for."

## How we are building the future

continued

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### Our key stakeholders and how we engage with them

The trust of our shareholders and other stakeholders is essential to SThree remaining a reliable and attractive long-term investment.

As a recruitment business with global scale and expertise, we recognise the significance of strong relationships with all our stakeholders around the world.

We maintain dialogue through different communication channels, such as regular customer and employee satisfaction surveys, investor road shows, charitable events, or Annual General Meetings.

Feedback we gather is fundamental for us to remain a relevant and sustainable business in the long term.

Ultimately, we are a people business. Bringing skilled people together to build the future is the cornerstone of our service proposition.

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### Key stakeholders

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#### Our customers

Our clients appreciate our vast network of candidates on top of valuable market knowledge and understanding of complex employment regulations, especially in the Contract recruitment sector.

During the year, we often heard from our candidates who found themselves temporarily displaced, due to changing working patterns and the ebb and flow of the global economy.

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#### Our people

Our employees valued and truly endorsed SThree's culture and the importance of the Company's purpose and Operating Principles by which we all hold ourselves accountable. In particular, they liked the collective focus on improving our customer experience and how we communicate with our customers. However, our staff wanted to gain more understanding of the specific strategic steps that we as a Group intend to take to achieve our ambition of £100 million in annual operating profit by 2022. To that effect, improved clear Group direction-setting is required to allow business units and functions to better execute against the overall strategy.

We also heard from employees who asked for greater consistency (i) in SThree's leadership team to act and behave in line with our Leadership Principles, and (ii) in the ways we communicate internally.

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#### Our shareholders

Our investors would like to receive fair, balanced and understandable information about the Group's business strategy, its investment and development plans, to allow informed investment decisions.

During the year, the investors were keen to gain more understanding about our marketplace in the UK, how we will continue to drive growth in Germany and the Netherlands (our two best performing markets), our future investment plans for innovation and disruptive technology to allow us to remain relevant to ever-changing recruitment preferences. Investors were also keen to receive an update on the progress the Group made to automate credit control processes.

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#### Our suppliers and partners in related industries

Our customers would like to receive a world-class service in the most cost-effective way. Engaging with our supply chain is vital to ensure that we deliver efficient and best service to our customers.

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#### Local communities

Business plays a vital role in empowering sustainable communities that together enable economic growth. Social mobility and equality continue to be key challenges within many of the communities where we operate which is highlighted through the United Nations Sustainable Development Goals.

## How we engage and respond

### Our customers

We maintain an ongoing dialogue with our customers to gather feedback, which helps us measure and improve the customer experience. During the year, we conducted four quarterly net promoter surveys ('NPS') among our customers. This helps us draw meaningful insights into the changing work landscape.

Overall, our global NPS score improved and is currently at 44, two points up from 42 at the end of last year. Based on the received feedback, we have identified that our main areas of focus in the coming months are how we continually engage with our candidates, while looking at how we develop our systems and processes to make them easier to navigate and more consistent in getting things right first time.

We embarked on a project to transform the efficiency and effectiveness of our order-to-cash process. The focus of the project is to define standardised processes, bring clarity of roles and responsibilities, and better use of technology. We have put several new measures in place including integrating processes with, and aligning incentives between, credit control and sales teams, building a roadmap to enhance automation opportunities across order-to-cash process, tracking and measurement of root causes facilitated by weekly calls between Head of Centre of Excellence and business directors. Ultimately, this initiative will ensure effective client relations and working capital management.

We continue to engage with candidates across our network, to help them find new roles and build new careers, providing a springboard to harness their talents and adapt to the changing geo-political markets.

### Our people

We encouraged our employees to take part in twice-yearly employee net promoter surveys ('eNPS'). Based on the obtained staff insights, STthree's leadership team have prioritised actions to increase transparency in regard to career progression, rewards and recognition, as well as improve the way that the sales and support functions collaborate with one another. In addition, local engagement networks have been established to help gain further insights on the key themes raised by our employees. This will direct and drive recommendations with the leadership teams.

We also saw the need to reframe our leadership approach by empowering management at every level to ensure focus on matters that contribute to our strategic aims.

We also engaged in a process involving the wider leadership team to discuss the key strategic focus areas and priorities. This was supported by a closely coordinated set of communications and engagement with the wider business.

Furthermore, the Board also seeks to maintain more direct and constructive relationships with our employees. To that effect, on 1 December 2018, the Board appointed Denise Collis as the designated Non-Executive Director responsible for employee engagement. Employees' views gathered during the year and shared with the Board helped to make continuing improvements across the business, to ensure that we remain a fair and inclusive environment and offer (i) an appropriate work-life balance, including developing flexible working patterns or technology improvements, and (ii) performance management including development and career planning.

Specific examples of improvements made as a result of employee feedback:

Thematic area	Objective	Activities performed during the current year
Benefit and reward	Review total reward and benefit package	<ul style="list-style-type: none"> <li>Head of Global Reward recruited and on-boarded to review global reward and benefits.</li> </ul>
Learning & Development ('L&D')	Ensure consistent L&D offering globally	<ul style="list-style-type: none"> <li>Head of Global L&amp;D recruited and on-boarded to develop global strategy for improved development offering across the Group.</li> <li>Sales leadership and sales management development programmes implemented with a particular focus on our Operating Principles.</li> </ul>
Employee engagement	Foster an engaging, diverse and inclusive working environment and culture, where people thrive and retention is high	<ul style="list-style-type: none"> <li>Global Employee Engagement &amp; Diversity Business Partner recruited.</li> <li>Ongoing work to implement engagement platform. Long-term Global Engagement &amp; Diversity strategy is being developed with input and contribution from all regions.</li> <li>Regional and country action plans developed to address any local issues fed via eNPS.</li> </ul>
Communication	Improve communication across the entire Group	<ul style="list-style-type: none"> <li>Global Head of Communication recruited.</li> <li>Regular communications diarised and provided by all leaders: monthly business updates, monthly spotlights, internal newsletters, etc.</li> <li>Creation of new SharePoint site (across all teams) – in flight and supported by Marketing.</li> <li>Creation of collaboration tools such as Yammer groups.</li> </ul>

## How we are building the future

continued

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## How we engage and respond continued

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### Our shareholders

The Board receives feedback on shareholder views through reports from senior management and those Directors who regularly meet with institutional investors through road shows, group and one-to-one consultations, recruitment conferences and trading updates throughout the year. Feedback is also received from the Company's stockbrokers and financial public relations advisors. Throughout the year there is a continued dialogue between the Chairman, and other Non-Executive Directors, and the investor community to address governance and strategy matters.

The Capital Markets Day took place in November, when the Company's business model, strategic pillars, five-year plan, as well as update on SThree's performance and competitive differentiators were discussed. This event helped us to further promote our attractive investor proposition and demonstrate how we will continue to drive growth, value creation and sustainability of our business in the long term.

The Executive Directors, Chair and NEDs were all present, including the CEO, CFO, Chief Sales Officer, Chief People Officer, our new Chief Strategy and Development Officer, and Regional Directors. After the event, the investors had a chance to engage with Directors informally to further enquire about the Group's sustainability strategy and its achievements in this area.

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### Our suppliers and partners in related industries

We hold many long-term relationships with our suppliers and partners with whom we share knowledge and expertise and find ways of using all our resources in the most cost-effective and sustainable way, overall reducing costs to our Company. Currently, we are working on optimisation of the portfolio through vertical market mapping designed to develop our service offer to specific needs of our clients and to create a better all-round experience for specific candidate placements.

We are also working on development of a scalable Global Operating Model for our Employed Contractor Model ('ECM'), improving our delivery capabilities in this highly attractive value proposition.

We have reduced our 2019 carbon emissions with two initiatives, including a campaign to encourage environmental decision-making when booking travel, and a climate action week that focused on positive behaviours in work including recycling and energy consumption.

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### Local communities

We collaborate with expert organisations and education providers to deliver employability and STEM programmes that support social mobility and equality, empowering sustainable communities.

In 2019, through the SThree Foundation, we collaborated with ten not-for-profit STEM organisations to deliver programmes that inspired and engaged 4,365 people in STEM education and careers. These programmes worked with young people who are NEET (not in employment, education or training), school children living in underserved communities, females who have never considered STEM careers and refugees.

In addition, our people have volunteered over 2,490 hours to contribute to their local communities, sharing their intellectual capital to raise aspirations and support the delivery of many employability programmes.

Through collaboration with local partners in each of our markets we are empowering sustainable communities and contributing to 11 of the 17 United Nations Sustainable Development Goals.

As a leading STEM talent provider we understand the impact the Fourth Industrial Revolution will have on the future workforce. We also understand that a career in STEM provides rewarding, sustainable employment with the opportunity to earn double the national average wage. Engaging and inspiring people from diverse backgrounds to pursue a career in STEM will build the talent pipeline the future needs whilst transforming lives and driving social mobility. This will continue to be a key focus of our community engagement programmes in 2020.

## Building the future through and for our people

Our success depends on the wholehearted contribution of our greatest asset, a talented and diverse workforce. We understand that only through a culture that empowers our people can we best support our customers.

We pride ourselves on our commitment to creating a positive and inclusive work environment where diverse opinions and perspectives are valued and a true meritocracy exists.

Our people strategy is focused on the following five Leadership Principles which ensure that we truly achieve the fair and inclusive environment we strive for:

### Know Me

We focus on our people from the start of their journey. We give them a voice through multiple platforms, including regular pulse surveys, when they can share their stories which in turn help us positively influence the perception of a career in recruitment, and STthree as a place to work.

### Focus Me

Our talent and performance platform, alongside our annual conferences and roadshows support our people to fully understand STthree's purpose and their role in fulfilling it.

### Develop Me

We focus on attracting and developing innovative and capable individuals, while also enabling them to achieve their career goals, supported by our investment in training programmes.

### Care For Me

We are dedicated to the implementation of wellbeing initiatives, to maintain an engaged, innovative and productive workforce.

### Include Me

We are committed to making our workplaces reflect the communities in which we are based. We strive to have a diverse leadership team, by increasing the number of women at every level. Throughout STthree we are making various investments across the business to ensure we continue to develop and nurture an inclusive culture.

### Attraction and retention

We have not only invested in identifying the right competencies and characteristics of our future leaders, how to attract and train them, but we have also clearly defined what we stand for as an employer and what we need to focus on to attract and retain the best talent to drive our commitment to inclusion.

We provide a career with no limits. We empower our people to take their career wherever they want to go, irrespective of their background, gender, religion or ethnicity.

The second pillar of what we offer is a career with purpose. We want our employees to be aware of the huge impact they can have on our clients' and candidates' lives and businesses. Our recruiting consultants can change someone's life by finding them new career opportunities, but also play a crucial role in supporting our clients who are part of life changing industries such as Technology, Life Sciences, Energy & Engineering.

### Employee engagement

Managers hold regular team and one-to-one meetings with their staff, complemented by informal mentoring programmes that give our people access to personalised support from experienced team members across the organisation and is an important part of their growth and development to ensure they can achieve their career goals.

We regularly communicate with employees on factors that affect STthree's performance. To better understand how employees feel about STthree, we have conducted twice-yearly surveys. The overall employee net promoter score in 2019 was 38% (it represents a significant improvement compared to the prior year score of 29%). A clear purpose and vision on STEM and the creation and development of specialists in their individual areas are most valued by our people.

The area where our employees scored us as needing attention was in the consistency in the ways we communicate internally and efficiency of our processes and ways of working together.

To streamline our processes throughout STthree, we have established local engagement networks to help gain further insight on the key themes our people have provided. This will direct and drive recommendations with the leadership teams across STthree.

Further information about the Board-led employee engagement programme is included on page 118.

### Diversity and inclusion

Our strong emphasis on creating a diverse and inclusive working environment allows us to find and retain skilled people and to bring a breadth of thinking to solve workplace challenges for our customers.

The gender and wider diversity balance across STthree as a whole is stable, and we already meet the FTSE 350 criteria of having 33% of Board/Senior Leadership positions held by women. Of the 3,196 employees within the Group as at 30 November 2019, 1,578 or 49% were women (2018: 1,445 or 49%). However, only a third of our people in key sales roles (level 3 or above) are women. There were 571 managers and directors within the Group, of which 213 or 37% were women (2018: 205 or 37%).

We are working to improve these numbers further by launching a number of initiatives and programmes to support inclusion, flexible working and mentoring, and we have invested in the development of our current and future leaders as well as in technology and innovation. Other diversity aspects including ethnicity, are also targeted by specific programmes.

Key to our inclusion strategy is our Identify Programme. Created in 2011 to support the development and progression of women, our Identify Programme has now evolved to embrace diversity in all its forms. The programme has provided tools and information, developed a support network, highlighted successful role models and held forums to share ideas. As part of our commitment to creating an inclusive environment we have also built a global network of inclusion champions and sponsors. Acting as a link between their colleagues and the Board, champions share their insights on what needs to be changed, how they are feeling, and what they and their peers want to see implemented.



## How we are building the future

continued

### Building the future through and for our people continued

In 2019, inclusivity champions directly impacted the introduction of more inclusive incentive structures globally, to help drive positive behaviours.

These all contributed to the development of mentoring and specialised support programmes to help employees advance, build confidence and raise aspirations.

See [www.sthree.com/en/about-us/our-culture/](http://www.sthree.com/en/about-us/our-culture/) for more information on SThree inclusion and diversity initiatives and programmes.

#### Gender pay

SThree plays an important role in enabling better representation of women and other diverse talent in STEM. To ensure everyone is treated fairly and to attract and retain more women, we need to reduce the gender pay gap.

We started introducing a number of initiatives under the five-year plan, with activities focused on increasing female representation at senior level and reducing the gender pay gap. Activities performed to date include:

- Launch of programme to increase management and leadership capability among female managers
- Introduction of UK&I sales reward scheme to positively impact retention and performance
- Roll-out of a new informal flexible working scheme in the Centre of Excellence

See [www.sthree.com/en/about-us/our-culture/](http://www.sthree.com/en/about-us/our-culture/) for more details on our future plans to close gender pay gap.

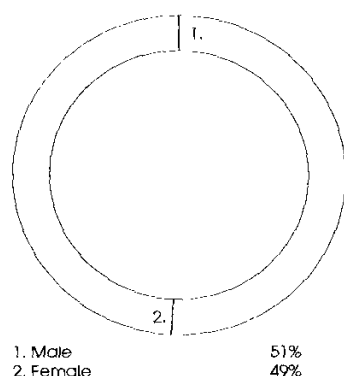
#### Gender diversity profile at 30 November 2019

	Total	Male		Female	
		Number	%	Number	%
Board of Directors of SThree plc	6	4	67%	2	33%
Managers and directors	565	354	63%	211	37%
Other employees	2,625	1,260	48%	1,365	52%
Total	3,196	1,618	51%	1,578	49%

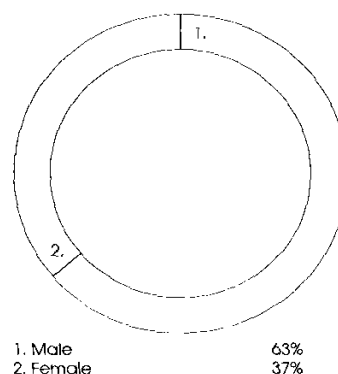
For more information on the composition of our Board of Directors, see page 112.

#### Gender diversity

##### Group gender diversity profile at 30 November 2019



##### Management\* gender diversity profile at 30 November 2019



\* Employees with people management responsibilities.

## Breaking down hierarchies and empowering the individuals and teams

Just over two months ago a new team was created to combine their multiple talents and experience, with the aim of delivering effective solutions to issues surrounding the global invoice delivery process.

This is the Agile team, a group made up of a combination of our people from business and IT functions dedicated to the fast delivery of a single project or set of product features that will bring value to the business and customers quickly and easily.

Our Agile team is working on solutions for the billing and master reference data team to improve global invoice delivery and increase the speed of payments to SThree.

What really sets the team apart is a set of 'heart of Agile' values, which are collaborate, deliver, reflect and improve. They ensure we are consistent and strive towards success in everything we do.

**Collaborate:** Agile aims to break down hierarchies and empower the individuals and teams closest to both the problem and its solution to come together and deliver.

**Deliver:** Agile makes sure everything we work on is of value to the business and solutions are achievable in a short timeframe.

**Reflect and improve:** The team have regular retrospectives, a set time to reflect on all aspects of the process and try to identify improvements to take forward.

This is achieved by creating an open and honest feedback environment where everyone has a voice and feels comfortable calling out things that are working well and not so well. These values are supported with a working agreement, which is a list of behaviours the team came up with together to lay out the best ways they can collaborate.

A recent Agile team success has been a compliance improvement, which ensures we do not incorrectly bill customers if the contractor puts incorrect values in timesheets.

They are currently working on automating the manual processing of invoices. Once this is rolled out to other clients, the team foresees a great boost to the business as client invoices will be paid to SThree much faster.

As for the Agile team's ways of working, we strive to keep the team happy, so that they feel empowered, driven and excited about the prospect of what they are delivering. We celebrate success constantly. A team that feels valued is a team that wants to come in to work in the morning and wants to do their best.

## How we are building the future

continued

### Building a sustainable future

At SThree we recognise the importance of ensuring long-term sustainability through concerted climate and environmental action. Our policy is to go beyond legal compliance to proactively address our environmental impacts whilst also partnering with our clients in the renewable energy sector to address some of the biggest climate challenges facing society today.

#### 2019 highlights

- Established an ambitious emissions reduction target of 20% by 2024
- Offset our 2018 global carbon footprint to achieve carbon neutrality
- Reduced emissions by 12% as a result of staff engagement initiatives

#### Growing a sustainable business

In 2019 we reduced our overall market-based greenhouse gas emissions by 12%, and by 17% on a per employee basis. This indicates that whilst we grow our business, we are doing so in an increasingly sustainable manner. This has been driven by several targeted initiatives, such as our strategy to procure an increasing proportion of our electricity from renewable sources.

As a global business, travel accounts for the majority of our carbon footprint. Launching on World Environment Day 2019 we undertook an eight-week campaign to raise awareness of the environmental impacts of travel. The campaign encouraged colleagues to think about their business travel and as a result we have seen a 5% reduction in colleagues' air miles.

In September we delivered a programme of activities to raise awareness of the climate emergency. Activities included team litter picks, webinars with external experts and learning workshops. Colleagues were encouraged to volunteer for environmental projects during this period with over 194 hours contributed.

We have maintained carbon neutral status in 2019 by continuing to offset global emissions with ClimateCare. Since 2012 we have offset 23,693 tonnes of carbon.

### Building a sustainable future and improving lives

SThree is proud to be carbon neutral; offsetting carbon emissions through continuing to work in partnership with specialists who use an innovative lives improved metric, which equates carbon emissions to social outcomes.

*Gyapa stoves are a unique project that provides sustainable cooking solutions to families in Ghana in close proximity of our global partner the African Science Academy.*

SThree's offsetting through this project is associated with improving the lives of 2,500 people, of which half are women and girls. In addition, Gyapa stoves significantly save families money, of which our offsetting can be associated with \$26,000 in savings to families in Ghana.

This climate action is also correlated with releasing productive time. In fact, 200,000 hours have been released for critical activities such as education.

For the past seven years we have taken part in carbon offsetting that brings together climate action activities and social impact surrounding equality, education and employment aligns to our purpose of bringing people together to build the future.

### Mandatory reporting

We continue to work with Carbon Smart to meet and exceed the greenhouse gas ('GHG') emissions reporting requirements of The Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013. We are also aware of our forthcoming obligations under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. In line with our policy of going beyond compliance, we have prepared this report in accordance with the requirements for quoted companies under these new regulations. SThree continues to report all material GHG emissions across our global operations, using tonnes of CO<sub>2</sub>-equivalent ('tCO<sub>2</sub>e') as the unit.

We have also complied with Phase 2 of the UK's Energy Savings Opportunities Scheme in 2019 and intend to undertake several energy efficiency initiatives identified during the process.

Using a financial control approach, calculated GHG emissions<sup>1</sup> arising from business activities in the reporting year 1 December 2018 to 30 November 2019 are as follows:

	Emissions source (tCO <sub>2</sub> e)	2019		2018		% change in total emissions (vs previous year)
		UK and offshore	Global (excluding UK and offshore)	UK and offshore	Global (excluding UK and offshore)	
Scope 1	Natural gas <sup>2</sup>	130	2	123	7	2%
	Leased transport	43	1,095	81	1,115	-5%
Scope 2	Purchased electricity (market/location based) <sup>3</sup>	84/212	1,045/1,181	325/256	1,168/ 1,163	-24%/-2%
	Other fuels <sup>2</sup>	0	13	0	13	0%
Scope 3	Water	7	34	23	45	-40%
	Business travel <sup>4</sup>	517	1,454	641	1,589	-12%
	Paper <sup>2</sup>	33	69	10	20	233% <sup>5</sup>
	Waste	20	43	7	72	-20%
	Electricity T&D	16	59	22	57	-5%
Total tonnes of CO <sub>2</sub> e (market based)		850	3,814	1,232	4,086	-12%
Total tonnes of CO <sub>2</sub> e (location based)		978	3,950	1,163	4,081	-6%
Number of employees <sup>2</sup>		786	2,323	702	2,224	6%
Tonnes of CO <sub>2</sub> e per employee <sup>2,6</sup>		1.08	1.64	1.75	1.84	-17%
Total energy consumption used to calculate emissions (kWh) <sup>7</sup>		1,490,399	3,044,813	1,582,917	3,229,459	

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 streamlined energy and carbon reporting guidance' (Defra, March 2019) and ISO 14064 - part 1.

2 Emissions associated with natural gas, other fuels and paper have been restated for 2018 as a result of additional data being made available in 2019. Employee numbers and the associated per employee carbon intensity have also been restated for 2018.

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 UK and offshore business travel includes emissions and energy consumption for flights and car hire associated with SThree's Ireland office as this data is aggregated across SThree's UK and Ireland offices.

5 Variation in paper emissions has been driven by a substantial increase in the publicly available emissions factor used to calculate tCO<sub>2</sub>e equivalent for paper consumption. Actual consumption, measured in reams of A4 equivalent, decreased by 1% since 2018.

6 This calculation uses market-based emissions

7 Total energy consumption includes energy consumed for heating (natural gas, district heating), power (electricity) and transport (company leased vehicles, expensed mileage claims).

### Voluntary disclosures

We remain committed to disclosing to investors the risks we face from climate change and have responded to CDP for the fifth consecutive year. In 2019 we maintained our B score.

## How we are building the future

continued

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### Building the future through empowering sustainable communities

The SThree Foundation supports STEM focused community projects that bring people together to build the future. In 2019, we supported ten projects across our key markets that inspired and engaged 4,365 people in STEM and employment programmes. For example, empowering refugees to become STEM entrepreneurs in the Netherlands, education programmes that inspire a new generation of engineers in Chicago and STEM insight placements in New York, demonstrate some of the projects we funded and collaborated with in 2019.

Our global charity partner, the African Science Academy, inspires a generation of change-makers who will solve community challenges with STEM solutions that help transform Africa. SThree have raised over £145,000 and volunteered 88 hours to empower African Science Academy students to become the future STEM leaders who will build the future.

During the year, our people volunteered over 2,490 hours to help tackle social mobility and equality. This included delivering 400 hours of employability and training support in collaboration with Joblinge to young people and refugees who are not in education, employment or training in Germany. Our employees delivered 18 employability sessions helping people understand the employment market, their personal brand and how to source work. Through the SThree Foundation's support, Joblinge also recently commenced informatics and mechanics workshops to support young people and refugees to pursue a career in STEM.

#### Key highlights

In 2019 we have collaborated with key partners from the education, community and environmental sectors to ensure our impact is aligned to the United Nations Sustainable Development Goals (SDGs). The SDGs provide a framework for business, communities and governments to work together for impactful results, making the changes the world needs.

In 2019 SThree have contributed to 11 of the 17 SDGs. Our contribution will grow as we continue to align our business model to the realisation of the SDGs, focusing on the following key areas:

- Supporting social mobility and helping to reduce unemployment and underemployment, to alleviate poverty and ensure decent work for all.
- Developing a diverse STEM talent pipeline for our clients whilst delivering social impact. This will be delivered through quality education, resulting in decent work, equality, the growth of industry and the continued development of sustainable communities.
- Empowering our people to have positive health and wellbeing through various programmes delivered across the business.
- Continuing to reduce our carbon footprint and committing to carbon offsetting, which together helps tackle climate action and results in affordable, clean energy and sustainable communities.

We will continue to work with partners to bring skilled people together to build the future our world needs.

## Helping women and girls get into STEM through the SThree Foundation

SThree is delivering life-changing opportunities with its charity partner, the African Science Academy ('ASA').

The partnership sees 25 girls, from underprivileged backgrounds, provided with the opportunity to study STEM subjects at the all-female ASA in Ghana.

This year, SThree has donated more than £145,000 to buy modern textbooks and physics lab equipment while also funding the daily education of the students.

The Company's expert recruiters have also taken part in career advice and CV writing workshops to help ASA graduates, like Ethiopian student, Ramlah Abeaw, search for job opportunities in STEM.

### Ramlah's story

"Most people take education for granted but not everyone has access to primary or higher education. Having faced financial barriers throughout my childhood, I have my Dad to thank for helping me through my early education. He moved jobs and took on extra hours to pay for my schooling.

Staying at the ASA, I was able to see how STEM is perceived and the amount of effort and energy that is put into helping us succeed.

Now with the support of the ASA and SThree, I have a scholarship studying software engineering at the University of Edinburgh.

SThree is supporting women in STEM and is changing lives. I am living proof. I had a passion; I had a dream and they have helped make that dream materialise."

## Key performance indicators

We assess our performance across a wide range of measures and indicators that are consistent with our strategy and investor proposition. Our key performance indicators ('KPIs') provide a balanced set of metrics that give emphasis to both financial and non-financial measures. These help the Board and Executive Directors assess performance against our strategic priorities.

### Strategic pillars

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



### Remuneration

KPIs accompanied by this symbol are used for the Executives' remuneration, as per the policy approved by shareholders at the 2019 Annual General Meeting.

## Group financial KPIs

### 1. Revenue

Income generated from the sale of services to clients, including discounts.

**Purpose:** a broad indicator of how the business is trading and growing over time.

**Objective:** grow Group net fees

2019 performance:

**£1.35<sup>BN</sup>**

+7% (+6%\*)

(2018: £1.26bn)

2019	£1.35bn
2018	£1.26bn
2017	£1.11bn
2016	£0.96bn

Our focus on Contract, a natural function of our STEM specialism, continued to be a strong driver of Group revenue growth, in particular in DACH (revenue increased by 13%\* driven by Contract division), Benelux, France & Spain region (revenue grew by 7%\*) and USA (revenue up by 5%\*).

\* In constant currency

**Link to strategic pillars 2019**

1, 4

## 2. Net fees

Revenue less cost of sales.

**Purpose:** a broad indicator of how the business is trading and growing over time. Used for 2019 Group LTIP strategic objective.

**Objective:** grow Group net fees

2019 performance:

**£342<sup>M</sup>**

+7% (+5%\*)  
(2018: £321m)

2019	£342m
2018	£321m
2017	£288m
2016	£259m

Group net fees were up this year, owing to a growth in our Contract business in Continental Europe and USA. Supported by favourable movements in foreign exchange rates, FX tailwind of £4.3 million driven by two major currencies, EUR and USD.

\* In constant currency.

[Link to strategic pillars 2019](#)  
1, 4, 6

## 3. Adjusted profit before tax

Net fees 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.

**Objective:** increase earnings and returns

2019 performance:

**£59.1<sup>M\*\*</sup>**

+11% (+9%\*)  
(2018: £53.4m)

2019	£59.1m
2018	£53.4m
2017	£44.5m
2016	£40.8m

The 11% increase on the prior year in the adjusted profit before tax was primarily driven by the rate of growth in net fees which accelerated versus 2018. The move of our London-based support function to Glasgow provided further benefit in the year and was partially offset by continued investment in headcount, with growth of 7% year on year.

\* In constant currency.

\*\* Excludes the impact of £2.3 million (2018: £6.4 million) in net exceptional strategic restructuring costs and CEO change costs.

[Link to strategic pillars 2019](#)  
1



## Key performance indicators

continued

### Group financial KPIs continued

#### 4. Adjusted operating profit conversion ratio

R

Operating profit before adjusting items stated as a percentage of net fees.

**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.

**Objective:** increase earnings and returns

2019 performance:

**17.5%\*\***

+0.7% pts  
(2018: 16.8%)

2019	17.5%
2018	16.8%
2017	15.6%
2016	16.0%

The ratio has increased by 70 bps to 17.5% year on year. This is a result of a strong profit performance, primarily in our international markets, as well as thanks to operational cost savings delivered from the restructuring of Group's support functions. It was partially offset by sales headcount investment driving increased personnel spend.

\*\* Excludes the impact of £2.3 million (2018: £6.4 million) in net exceptional strategic restructuring costs and CEO change costs.

Link to strategic pillars 2019

3, 5

#### 5. Cash conversion ratio

R

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.

**Objective:** drive strong cash generation

2019 performance:

**83.7%\*\***

+16.3% pts  
(2018: 67.4%)

2019	83.7%
2018	67.4%
2017	78.6%
2016	96.1%

Cash conversion has increased significantly. It reflects a combination of (i) the improved underlying trading performance, driven by our international markets, (ii) cost savings generated from the restructuring of support functions, and (iii) the benefits of operational efficiencies including cash collection.

\*\* Excludes the impact of £2.3 million (2018: £6.4 million) in net exceptional strategic restructuring costs and CEO change costs.

Link to strategic pillars 2019

3

## Group operational KPIs

### 6. Contract margin

Contract net fees as a percentage of Contract revenue.

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

**Objective:** grow Group net fees

2019 performance:

**20.3%**

+0.4% pts  
(2018: 19.9%)

2019	20.3%
2018	19.9%
2017	19.8%
2016	19.9%

Contract margin is marginally up on the prior year, owing to improvements in Energy & Engineering and Life Sciences sectors, offset by a slightly weaker performance in Technology.

### 7. Consultant yield

Net fees divided by the Group average sales headcount divided by 12.

**Purpose:** this is an indicator of the productivity of the sales teams.

**Objective:** grow Group net fees

2019 performance:

**£11.8<sup>k</sup>**

-2%\*  
(2018: £11.9k)

2019	11,774
2018	11,872
2017	11,470
2016	10,200

Consultant yield declined in the year with Contract yields down 2%\* and Permanent yields down 5%\*.

Overall growth in average sales headcount of 7% exceeded growth in net fees of 5%. This was mainly driven by USA and DACH regions, where headcount grew by 11% and 13% respectively, while their net fees increased by 9% and 10% respectively.

\* In constant currency.

[Link to strategic pillars 2019](#)

1

[Link to strategic pillars 2019](#)

5

## Key performance indicators

continued

### Group operational KPIs continued

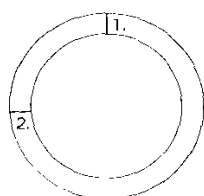
#### 8. Contract and Permanent mix

Proportion of net fees 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.

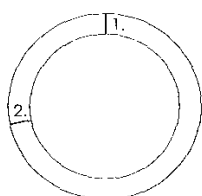
**Objective:** investment in Contract to accelerate growth and mitigate economic downturns

2019 performance:



1. Contract 74%  
2. Permanent 26%

2018:



1. Contract 72%  
2. Permanent 28%

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

[Link to strategic pillars 2019](#)

3

#### 9. Contractors

The number of period end contractors (Freelance and Employed) on placement with one of the Group's clients at the end of the relevant period.

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

**Objective:** investment in Contract to accelerate growth and mitigate economic downturns

2019 performance:

11,110

-1%

2018:

11,203

In line with our strategy we have successfully been growing our Contract business. Although the number of contractors declined by 1% year on year, the size of our Contract offering continues to grow in line with an increase in net fees generated per contractor. Continental Europe, our strongest Contract market generated growth in contractor numbers, whilst both USA and UK&I saw a decline.

[Link to strategic pillars 2019](#)

3

## 10A. 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.

**Objective:** foster and retain a skilled, motivated and engaged team

### 2019 performance:

2019	2,463 heads	CHURN 37%
2018	2,332 heads	CHURN 39%
2017	2,257 heads	CHURN 36%
2016	2,044 heads	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 re-training.

In 2019, we saw an improvement of 2% pts in the Group's churn ratio. This was primarily driven by UK&I business which experienced a 12% pts improvement in churn year on year. This follows the restructure of our Permanent business in UK&I with headcount in the division now rightsized.

[Link to strategic pillars 2019](#)  
2, 6

## 10B. 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.

**Objective:** foster and retain a skilled, motivated and engaged team

### 2019 performance:

**Level 3: 31%**

+3% pts

**Level 4: 11%**

-2% pts

(2018: Level 3: 28%, Level 4: 13%)

Level 3 cohort represents Sales Business Managers

Level 4 cohort represents Sales Directors

In line with SThree's Leadership Principles – Know me, Focus me, Develop me, Care for me, Include me, we strive to have a diverse leadership team, by increasing the number of women at every level. Throughout 2019 we maintained a focused approach to the development of our female colleagues.

This year we continued making various investments across the business to ensure we develop and nurture an inclusive work environment. Throughout SThree we delivered new Sales Leadership and Sales Management development programmes – equipping our employees, especially female members, with the skills and techniques to effectively lead and manage their teams, and with support and insights on how to reach their next career level.

[Link to strategic pillars 2019](#)  
6

## Key performance indicators

continued

### Group operational KPIs continued

#### 10C. People measures

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

Biannual employee survey that captures 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.

**Objective:** foster and retain a skilled, motivated and engaged team

2019 performance:  
Average global eNPS:

**38**

(2018: 29)

eNPS global sales:

**45**

(2018: 34)

eNPS global support:

**3**

(2018: -5)

Our average eNPS Group score increased across both our sales and support functions in 2019. We surpassed our target made in 2018 to increase our average eNPS by 4% pts.

With investment in dedicated specialists in key areas such as learning & development, communications, reward, diversity & inclusion, and employee engagement, to develop and refresh our strategic offering in these areas, we would expect to see ongoing positive increases over 2020 and beyond.

Our leadership team is committed to continuous feedback and a two-way dialogue and have commissioned the launch of a new, dynamic engagement tool which will provide real-time action plans for key areas to address and drive positive change in SThree's culture (target completion date June 2020).

[Link to strategic pillars 2019](#)

6

#### 11. Customer net promoter score ('NPS') <sup>®</sup>

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.

**Objective:** provide an excellent customer experience

2019 performance:  
Average NPS:

**44**

+2 pts  
(2018: 42)

We maintain an ongoing dialogue with our clients and candidates, to gather feedback, which helps us measure and improve the customer experience.

During the year, we conducted four quarterly net promoter surveys among our customers. This helps us draw meaningful insights into the changing work landscape.

Overall, our global NPS score improved and is currently at 44, two points up from 42 at the end of last year. Based on the feedback received, we have identified that our main areas of focus in the coming months are how we continually engage with our candidates, while looking at how we develop our systems and processes to make them easier to navigate and more consistent in getting things right first time.

We continue to engage with candidates across our network, to help them find new roles and build new careers, providing a springboard to harness their talents and adapt to the changing geo-political markets.

[Link to strategic pillars 2019](#)

2

## Group shareholders' KPIs

### 12. Total shareholder return ('TSR') <sup>①</sup>

The growth in value of a shareholding over a three-year period, assuming that dividends are re-invested to purchase additional shares at the closing price applicable on the ex-dividend date.

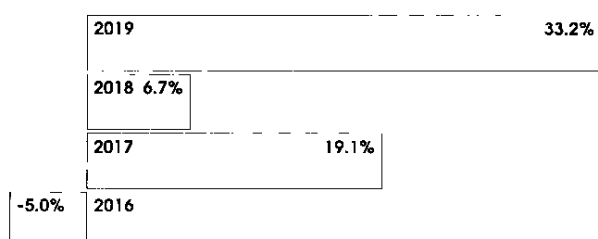
**Purpose:** this metric is used to assess the TSR element of Group LTIP scheme which vests two months post the year-end date (31 January 2020).

**Objective:** increase earnings and returns

2019 performance:

**33.2%**

+26.5% pts  
(2018: 6.7%)



The TSR performance during the assessed period (2016 to 2019) was affected by wider global macro-economic conditions, in particular the challenges and uncertainties associated with Brexit.

During the year, SThree embraced an ambition to reinvigorate the Group strategy with focus on growing the key markets and sectors. It sent positive signals to the market about SThree outlook, resulting in a rise of share price in Q4 2019.

[Link to strategic pillars 2019](#)

5

### 13. Adjusted basic earnings per share ('EPS') <sup>②</sup>

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

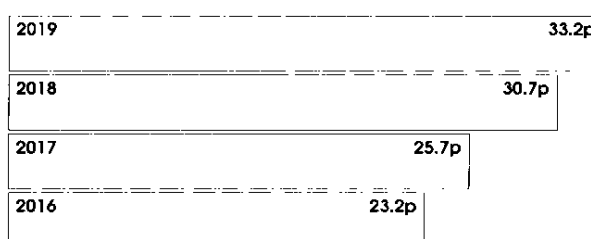
**Purpose:** used by investors to assess return of a business versus share price. Used for Group LTIP vesting in conjunction with determining the Group historical price to earnings ratio for tracker share settlements.

**Objective:** increase earnings and returns

2019 performance:

**33.2p\*\***

+8% (+7%\*)  
(2018: 30.7p)



Adjusted basic EPS increased due to the improved adjusted profit before tax and a consistent effective tax rate. Growth in Group profits was partially offset by a 1.2 million increase in the weighted average number of shares in issue, at 129.9 million (2018: 128.7 million).

\* In constant currency.

\*\* Excludes the impact of £2.3 million (2018: £6.4 million) in net exceptional strategic restructuring costs and CEO change costs.

[Link to strategic pillars 2019](#)

3

Strategic Report

Corporate Governance

Financial Statements

Supplementary Information

## Our principal risks

As a purpose driven organisation, this drives our approach to risk, compliance, values and culture, to help deliver on our strategy. This requires all parts of our business to work together to consider the factors that might affect our performance, including emerging risks.

### Connecting risk, opportunity and strategy

Risk mitigation helps SThree manage specific areas of the business. However, when brought into our day-to-day activities successful risk management helps us to maximise our competitive advantage and deliver on our strategic pillars. 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 ensure that we maintain a balance between safeguarding against potential risks and taking advantage of all potential opportunities.

### Risk management structure

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.

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.

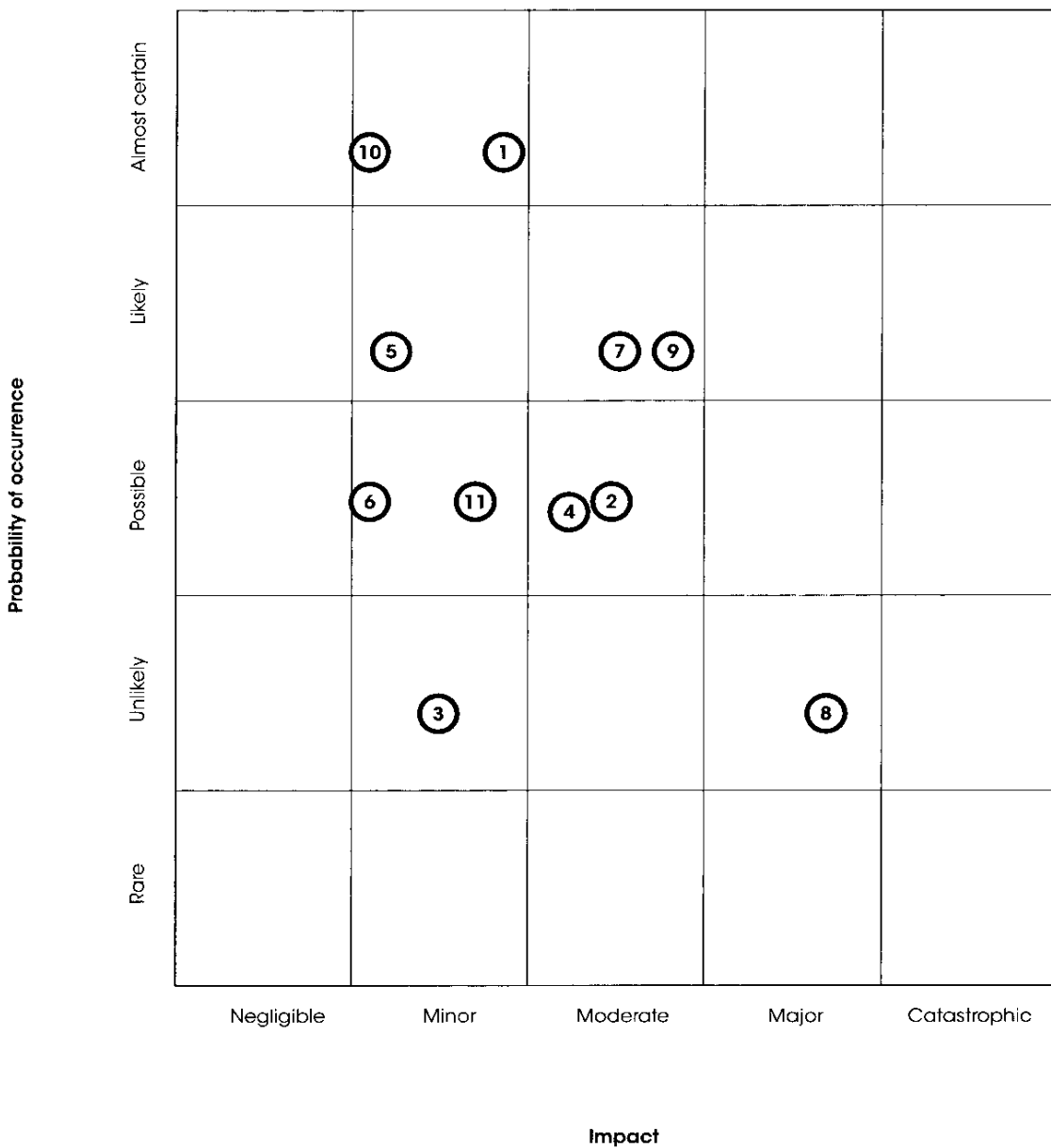
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### Principal risks

1. Macro-economic environment cyclicality
2. Competitive environment and business model
3. Commercial relationship and customer risk
4. Contract risk
5. Foreign exchange translation
6. People, talent acquisition and retention
7. Information technology and cyber risks
8. Data protection and management
9. Compliance
10. Brexit
11. Strategic change management (new)

**Principal risks**

The graph below shows the impact and probability of occurrence of each of our principal risks after mitigating controls (i.e. residual risk):

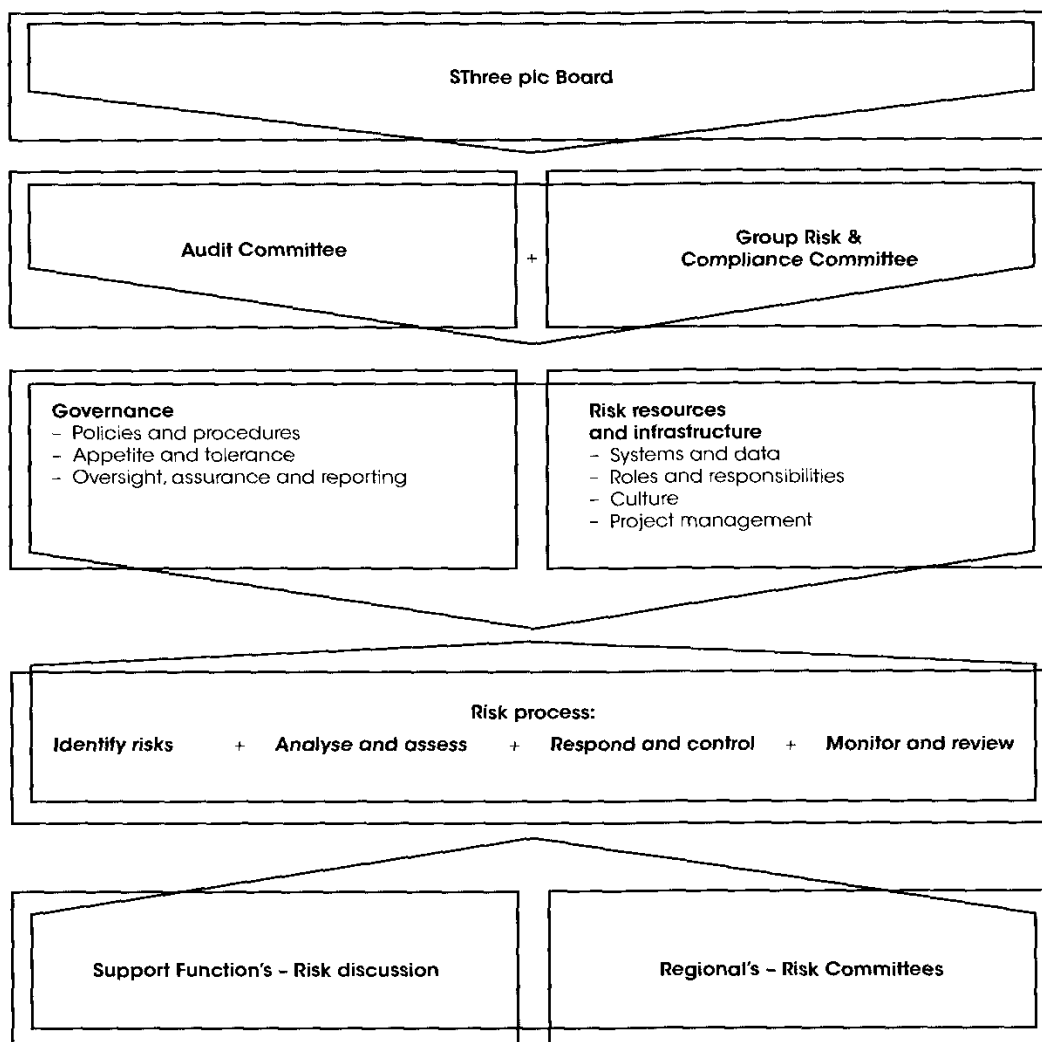




## Our principal risks

continued

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



### Our approach to risk – governance and oversight

Key risk governance and oversight is via the following:

#### Day-to-day risk management

- Identify, manage and report risks
- Directors, Functions, Business Unit
- Local Risk Registers
- Quarterly reviews

#### Business and strategic risk management

- Plan and manage performance, address operational/regional/sector/people and culture issues
- Regional and Sector Boards
- Senior Executive Committee ('SEC')
- Six-monthly reviews

#### Oversight and governance

- Risk identification, oversight, appetite, policy setting, reporting
- Internal controls, SThree plc Board and Audit Committee
- Internal Audit & Compliance functions, Risk & Compliance Committee, external specialists
- Six-monthly reviews and annual workshop

## Compliance targets

### 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 below, including how these apply in a strategic, remuneration or risk context. Further commentary is provided within the Chief Executive Officer's and other Officers' sections of this Annual Report, where appropriate.

Risk and compliance	2019	2018	Definition and method of calculation	Strategic/Remuneration/Risk context
<b>Risk management</b> (see also principal risks above and Corporate Governance and Audit Committee Reports)	Aim to achieve a sensible risk/reward balance, assessed via risk map, including emerging and sustainability risks.	Aim to achieve a sensible risk/reward balance, assessed via risk map, including emerging and sustainability risks.	The Group has a well-defined ERM framework embedded throughout the business using an EBITDA measurement scale to assess impact. Risk appetite levels is reviewed 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 'How we are building the future' on pages 48 to 67)	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.

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## Our principal risks

continued

### Mitigation strategy

Risks can develop and evolve over time and their potential impact or likelihood may vary in response to changes in internal and external circumstances.

Risks and mitigation activities that are outlined below, whilst not exhaustive nor in any order of priority, are those which could have a material adverse effect on the implementation of our strategic priorities, our business, financial performance, cash flows, liquidity, shareholder value and reputation.

## 1. Macro-economic environment/ Cyclicality

A change in the market or geo-political conditions adversely impacting performance, thereby reducing profitability and liquidity.

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.

### Background/context

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.

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.

### Mitigating factors and controls

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.

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.

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.

The Group is cash generative and requires low levels of capital investment.

Political uncertainty continues in the UK, whilst the current global economic outlook also remains 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 & Finance.

### Change in risk



Increased



Decreased



No change

### Strategic pillars

1. To be a leader in the markets we choose to serve.
2. Leveraging our position at the centre of STEM to deliver sustainable value to our candidates and clients.
3. Create a world class operational platform through data, technology and infrastructure.
4. Find, develop and retain great people.

### Change from last year

Increased



### Link to strategic pillar

1, 2

## 2. Competitive environment/ Business model

Competitors, social media or disruptive technology/innovation taking market share and putting pressure on margins.

### Background/context

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.

### Mitigating factors and controls

Diversify into different geographies/sectors and evolving business models or offerings to add greater value. Focus on specialist roles in developing markets to resist pricing pressure.

Investment in online presence and partnering with LinkedIn to improve customer and client experience.

Appropriate innovation and project groups to factor in 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 various businesses. The rise in AI has also led to opportunities for the Group, through making placements in this niche specialism, as well as looking to adopt the use of AI itself in its position.

Introduction of NPS tracking, to improve focus on customers/targeting and add greater value.

Increasing regulatory and compliance requirements on Contract, as well as sustained uncertainty over Brexit, are continued barriers to entry.

Change from last year  
No change



Link to strategic pillar  
1, 3

## 3. Commercial relationships/ Customer risk

Some customers may be unable to fulfil financial obligations resulting in the write-off of debts.

### Background/context

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.

### Mitigating factors and controls

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/customers and is not financially dependent on any single one.

Change from last year  
No change



Link to strategic pillar  
1, 2

## Our principal risks

continued

### 4. Contractual risk

With larger global service arrangements, there may be demand for more onerous contract terms that can increase the Group's risk exposure.

#### Background/context

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.

#### Mitigating factors and controls

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 & Compliance Committee, expanded into the regions in 2019.

We generally place responsibility for supervision and control directly with the client, excluding any consequential loss.

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.

Assurance work is undertaken by the Group internal audit team to monitor compliance, especially in higher risk sectors such as Energy.

For risks that cannot otherwise be mitigated, insurance cover is purchased where appropriate.

#### Change in risk



Increased



Decreased



No change

#### Strategic pillars

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3. Create world class operational platform through data, technology and infrastructure.
4. Find, develop and retain great people.

#### Change from last year

Increased



#### Link to strategic pillar

1, 2, 4

## 5. People/Talent acquisition/Retention

High churn rates or the loss of key talent could slow our growth and reduce profitability.

### Background/context

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.

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 from within or outside SThree. As markets improve, the risk of churn can increase. Some underlying issues, such as low female representation, could also expose the Group to reputational risk or a lack of diverse thinking.

### Mitigating factors and controls

A structured induction programme and career development with ongoing training and competitive pay/benefits structures, linked to performance. Appropriate use of equity to reward relevant individuals.

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.

Strong focus on diversity and inclusion agenda, use of 'me@work' to create structured development plans and assist in facilitating more rewarding careers, as well as the introduction of eNPS for employees.

We maintained a focused approach to the development and progression of our female colleagues in SThree. Continued offering of Identify, a programme to develop our future female leaders.

During the year, overall churn rates reduced slightly and we continue to attempt to lower these as part of our strategic objectives setting.

We continue to monitor and provide support in relation to the impact of Brexit on our people plans for EU and UK employees.

**Change from last year**  
Increased



**Link to strategic pillar**  
1, 4

## 6. Information technology/Cyber risks

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.

### Background/context

The Group is reliant on delivering its service to clients through a number of technology systems and on completing a number of key internal projects via third party IT specialists.

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.

### Mitigating factors and controls

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. As a result of increasing risks in this area, we continue to invest in software and penetration testing, having also previously engaged PwC to undertake a cyber and IT security audit. As a result of this audit we have already completed improvements in strategy, access controls, vulnerability testing and patch management with further improvements ongoing. Business continuity arrangements are also being reviewed.

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.

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.

**Change from last year**  
Increased



**Link to strategic pillar**  
1, 2, 3

## Our principal risks

continued

### 7. Data processing/Management

A serious data issue could expose the Group to potential legal, financial and reputational risk.

#### Background/context

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 which were put in place from May 2018.

#### Mitigating factors and controls

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.

IT systems and providers are periodically reviewed to ensure they remain effective and compliant.

#### Change in risk



Increased



Decreased



No change

#### Strategic pillars

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#### Change from last year

Increased



#### Link to strategic pillar

1, 2, 3

## 8. Compliance

Non-compliance with laws or regulations can lead to increasingly heavy fines/penalties which could expose us to potential legal, financial or reputational risk.

### Background/context

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.

### Mitigating factors and controls

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. Our growing ECM offering is a key mitigator.

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.

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.

**Change from last year**  
Increased



**Link to strategic pillar**  
1, 2

## 9. Foreign exchange translation ('FX')

A significant adverse movement in FX rates may reduce profitability.

### Background/context

The Group has significant operations outside the UK and is consequently exposed to foreign exchange translation risk due to movements in exchange rates.

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 the GBP.

### Mitigating factors and controls

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.

**Change from last year**  
No change



**Link to strategic pillar**  
1, 2



## Our principal risks

continued

### 10. Brexit

Departure from the EU after the transition period without a free trade arrangement. This presents both a risk and an opportunity.

#### Background/context

Cross border flows of candidates will likely be impacted, whilst clients may also look to relocate to ensure a continuing EU base.

#### Mitigating factors and controls

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.

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.

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 & Finance, which is part of our core investor proposition.

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 de minimis.

#### Change in risk



Increased



Decreased



No change

#### Strategic pillars

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4. Find, develop and retain great people.

#### Change from last year

No change



#### Link to strategic pillar

1, 2, 4

## 11. Strategic change management

The inability to manage or effect strategic changes efficiently within the organisation, causing badly delivered projects or excessive financial impact.

### Background/context

The Group has embarked on significant strategic projects and initiatives and must continue to do so in order to achieve greater scale. Key learnings from these have highlighted the need for greater investment in change management resource.

A key part of successful change management is to ensure values and culture changes keep pace with organisational, or other, changes.

### Mitigating factors and controls

During the year the Group reviewed its strategic change management capability and created the role of Chief Strategy & Development Officer ('CSDO'), with appropriate resource. This has led to the creation of well managed workstreams and improved PMO capability to create and take forward separate underlying projects as part of our strategic implementation plans.

Consideration is given to values and cultural changes within change management programmes. Organic versus inorganic growth, including M&A, where this would improve the speed of growth or open up a new business stream, are key considerations in this area.

Change from last year  
Increased



Link to strategic pillar  
1, 3

## 12. Emerging risks

Risks which do not currently have a major impact but which may impact more significantly in the future.

Climate change impacting clients, as well as our own activities, with market and regulatory developments in this area presenting emerging risks and opportunities.

### Background/context

The Group needs to be aware of future impacts on its strategic and operational landscape in order to adapt and survive as a business.

### Mitigating factors and controls

Horizon watching activities are undertaken at Board and functional level, with regular updates on aspects including governance, legal and regulatory changes, climate impacts, as well as the consequent knock on effect on sectors, clients and candidates.

Change from last year  
Increased climate change risks



Link to strategic pillar  
1, 3

# Compliance Statements

## Going Concern Statement

The Group's business activities and strategy, together with the factors likely to affect its future development and performance are explained in the Strategic Report. Further detail on its financial performance and position, treasury activities, funding arrangements, and objectives, policies and procedures for managing various risks, including liquidity, capital management and credit risks, is provided in the financial statements and accompanying notes.

The Directors have considered the Group's forecasts and projections, taking into account possible adverse 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 on which this report is approved and for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Group's Annual Report and financial statements.

## Viability Statement

### Assessment of prospects

The Board has assessed the prospects of the Group over a five-year period to 30 November 2024. In carrying this assessment, the Directors have considered the Group resilience with reference to:

- its strategy and business model;
- the Group's principal risks and their potential impact on the execution of strategic priorities;
- the effectiveness of mitigating factors;
- future operational performance; and
- current financial position and liquidity.

The latest Capital Market Day was held in London in 21 November 2019, and the Board used this opportunity to review the detailed financial forecast for the five years to 2024.

The financial forecast is underpinned by a detailed financial model based on the assumptions around key drivers of Contract and Permanent revenue and net fee income in different geographical locations, including sales headcount, yield per consultant, number of contractors, fluctuations resulting from foreign exchange rates and interest rates, capital expenditure on infrastructure, increase in property and support costs, and dividend per share.

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 two scenarios: base case (more representative of our plan) and low case (where the Directors have sensitised abnormality of key assumptions to see how these would affect our long-term financial position). Under both cases, the Group had adequate financial resources, and the probability of the Group becoming unviable remained low.

## Assessment of time period

The Board conducted the viability review for the five-year period to 30 November 2024, which is appropriate for the following reasons:

- a five-year period is aligned with the time period used for our strategic plans;
- a five-year horizon is consistent with presentations to the investor community at the Capital Markets Day and other investor events;
- our internal periodical cash flow projections are carried out for a five-year period;
- the contractual length of the Group's committed credit facility is five years; and
- some of our external investment analysts provide forecasts for five years of market expectations about SThree performance.

## Assessment of viability

The following features of the Group business model give the Board confidence in our viability position:

- The Group has a committed revolving credit facility ("RCF") of £50.0 million along with an uncommitted £20.0 million accordion feature in place with Citibank and HSBC, which expires in May 2023. We expect to renegotiate the RCF 12 to 18 months prior to expiry date. We also have an uncommitted £5.0 million overdraft facility with HSBC.
- The Group flexible business model which clearly demonstrated in the past few years how we can promptly right size our business or regions and redeploy our people around the businesses and sectors to reduce the cost base.
- The Group benefits from having businesses and its clients spread across 16 different countries across four continents. No individual client represents more than 1.1% of the Group net fees, and our top 20 clients contribute only 11.2% of the Group net fees.
- The Group is not dependant on any key suppliers. It operates through a number of brands, protecting its reputational risk if issues arise.
- The Directors are proposing to pay a total annual dividend of 15.3p per share (approximately £20.2 million per annum), increasing to 16.5p for the forecast period. If going concern or financial viability ever became a real issue, the dividend could be cut or foregone.
- The Directors have assessed the peak to trough cash months over recent years and anticipate a maximum trough (where net debt was circa £42.0 million) which is still well within our RCF limit of £50.0 million<sup>1</sup>.

The Board has considered the principal risks that could impact the Group, see pages 76 to 87, together with mitigating factors and controls.

Altogether, the highest risk to the Group would be our failure to monitor and take an appropriate prompt mitigating action.

<sup>1</sup> A peak cash month is a month (or months) where our cash balance is at its highest point during the year. The trough cash month is the month (or months) where our cash balance is at its lowest point during the year.

## Conclusion

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 Group will be able to continue in operation and to meet its liabilities as they fall due over the five-year period ending 30 November 2024.

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.

## Risk analysis

Risk factor	Risk category	Analysis
Deterioration in market conditions	Macro-economic environment	Monthly business reviews with CSO, Regional Directors and CFO focus on current performance and future pipelines, in which headcount plans are regularly stress tested. We have the ability to dynamically change our hiring decisions and other spend in the light of trading conditions.
Strengthening of competitors or disruptive technology	Competitive environment	In our low case scenario, we have considered the impact on our margins through a mix of these risk factors. And we estimate to remain in a net cash position in all forecast years.
Customers failing to fulfil financial obligations, increase in bad debts	Commercial relationships/ Customer risk	This risk is mitigated through wide spread of our client base which helps reduce the impact on the Group if an individual client fails to pay.
With upscaling our service, higher demand for more onerous contract terms	Contractual risk	We monitor contractual terms and insure risks wherever possible. We are not dependant on any key suppliers. We operate through a number of brands, eliminating any reputational risk if issues arise.
High churn rates or loss of key talent, slowing our growth and profitability	People/Talent acquisition/ Retention	We test business performance by incorporating abnormal sales headcount churn in our low case scenario.
Serious system or third party disruption, loss of data, security breach impacting project delivery	Information technology/ Cyber risks	Procedures are in place to mitigate the risk of an attack on our IT infrastructure or GDPR issue.
Serious data compliance failure, leading to legal or financial issues, and loss of reputation	Data processing/ Management	Procedures are in place to mitigate the risk of data compliance failure.
Non-compliance with laws or regulations leading to fines or penalties, and loss of reputation	Compliance	We actively monitor the risks arising from the existing laws and regulations and any new pronouncements in the countries we operate in.
A significant adverse movement in FX rates may reduce profitability	Foreign exchange	We have modelled quite conservative GBP:USD exchange rate of 1.27 and GBP:EUR exchange rate of 1.13 under base and low cases in all five forecast years. FX transactional risks are managed by treasury regularly.
Departure from the EU without a free trade arrangement and managed transition period	Brexit	The low case scenario demonstrates a potential economic downturn. We will continue to monitor the impact of Brexit and continually assess how we mitigate those risks. We have a Brexit Risk Committee that will oversee our response to Brexit as it unfolds.
Inability to manage or effect strategic changes efficiently within the organisation	Strategic change management	Following the appointment of CSDO, we have put in place a number of initiatives to counteract any risk of poorly delivered PMO workstreams and excessive financial impact. The new CSDO will lead and manage various workstreams and PMO capability to create and take forward separate projects as part of our strategic implementation plans.

## Compliance Statements

continued

### Non-Financial Information Statement

The Group has complied with the requirements of s414CA and 414CB of the Companies Act 2006 by including certain non-financial information within the Strategic and Governance Reports. The following table outlines where the key content as required by the regulations can be found in this report.

Reporting requirement	SThree policies and procedures	Section of Annual Report
Environmental matters	Sustainability Policies Corporate Social Responsibility Statement	How we are building the future, from page 48
Employees	Code of Conduct Equal Opportunities Policy Whistleblowing Policy Health and Safety Policy SThree Gender Pay Gap Report 2019 Work Experience Policy Inclusion & Diversity at SThree	How we are building the future, from page 48 Directors' remuneration report, from page 128
Respect for human rights	Modern Slavery Act 2015: Slavery and Human Trafficking Statement Equal Opportunities Policy Corporate Social Responsibility Statement	How we are building the future, from page 48 Directors' report, from page 155
Social matters	Corporate Social Responsibility Statement Inclusion & Diversity at SThree Volunteering Policy Corporate Giving and Fundraising Policy	How we are building the future, from page 48 Directors' report, from page 155
Anti-corruption and anti-bribery matters	Code of Conduct Anti-Bribery & Corruption Policy Political Donations Policy	How we are building the future, from page 48 Our principal risks, from page 76
Policy embedding, due diligence and outcomes		How we are building the future, from page 48 Directors' report, from page 155
Principal risks and materiality	Risk management structure	Our principal risks, from page 76
Business model		Our business model, from page 42
Non-financial KPIs		Key performance indicators, from page 68

References to our policies, due diligence processes and information on how we are performing against various measures in these areas, are contained in the Strategic Report from page 2.

Where principal risks have been identified in relation to any of the matters listed above, these can be found in Our principal risks, including:

- a description of the business relationships and services which are likely to cause adverse impacts in those areas of risk; and
- a description of how the principal risks are managed.

'Chief Executive Officer's Q&A', 'Business review' and 'Chief Financial Officer's review' include, where appropriate, references to, and additional explanations of, amounts included in the Group's financial statements.

Publicly available policies in the list above can be found at: [www.sthree.com/en/about-us/our-culture/](http://www.sthree.com/en/about-us/our-culture/) or [www.sthree.com/en/about-us/governance/](http://www.sthree.com/en/about-us/governance/).

In addition, our Annual Sustainability Report [www.sthree.com/en/about-us/csr/](http://www.sthree.com/en/about-us/csr/) contains more detail on these topics and follows international reporting frameworks.

#### Section 172(1) Statement

The Group has complied with the requirements of s414CZA of the Companies Act 2006 by including certain information within the Strategic and Governance Reports, that informs members of the Company how the Directors have considered the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 when performing their duty under section 172 to promote the success of the Company.

The following table outlines where the key content as required by the regulations can be found in this report.

Matters considered by the Board	Reflected in	Where to read more in this Annual Report
Interests of employees Likely consequences of any Board decision in the long term	<ul style="list-style-type: none"> <li>- Insight into the critical success factors that support the generation and preservation of value in the Company</li> <li>- Insight into how interests of different groups of stakeholders were considered</li> </ul>	<p>How we are building the future, from page 48</p> <p>Our key stakeholders and how we engage with them, from page 58</p> <p>Directors' report, from page 155</p> <p>Our business model, from page 42</p>
Our relationships with suppliers, customers and others Likely consequences of any Board decision in the long term	<ul style="list-style-type: none"> <li>- Insight into how interests of different groups of stakeholders were considered</li> </ul>	<p>How we are building the future, from page 48</p> <p>Our key stakeholders and how we engage with them, from page 58</p>
Impact of our operations on the community and the environment	<ul style="list-style-type: none"> <li>- Main methods used by the Board to engage with stakeholders</li> </ul>	<p>How we are building the future, from page 48</p>
Maintaining a reputation for high standards of business conduct	<ul style="list-style-type: none"> <li>- Insight into the role of culture as a basis for decision making within our business</li> </ul>	<p>How we are building the future, from page 48</p> <p>Directors' report, from page 155</p> <p>Our business model, from page 42</p>
Need to act fairly between members of the Company	<ul style="list-style-type: none"> <li>- Principal decisions taken by the Board during the year</li> <li>- Changes and application to the Group's dividend policy</li> </ul>	<p>Directors' report, from page 155</p> <p>Chief Financial Officer's review, from page 104</p>

**Steve Hornbuckle**  
Group Company Secretary  
24 January 2020

## Chief Sales Officer's review

**Dave Rees**  
Chief Sales Officer

### Global pure play STEM specialist

SThree is the only global, pure play STEM specialist recruiter which makes our business unique. This enables us to service our customers, both candidates and clients, and achieve our purpose of bringing skilled people together to build the future.

Our unique scalable business can holistically be viewed in five key distinct sections.

#### 1. Customer

Our customers are split between SME to mid-size organisations and large enterprise organisations. Although it can vary regionally, our core business sits within SME to mid-size which accounts for circa 82% of our business.

#### 2. Skills

We place 100% STEM skills, exclusively, no matter what sector. As a result, we are better insulated against the worst vagaries of the broader cycle. Our market intelligence tool uses 32 internal and external data points and enables us to identify what skills and markets to invest in.

#### 3. Resource options

We provide our customers with a full solution split into three distinct options: Freelance contractor, Employed contractor, and Permanent. Our blueprint programme provides a standard service globally with options to fit regional needs.

#### 4. Product type

Alongside our complete standard offerings, we also provide enhanced contract services to our customers. This provides additional value above and beyond our standard service and supplements the clients' existing workforce and demanding project requirements.

### 5. Service and delivery

In order to deliver to our customers in the most effective way we use a local model and a near shore model. Our local delivery model uses technical market and sector specialists to build strong customer relationships with primarily SME and mid-market organisations. Our near shore delivery model utilises our key account managers to provide scaled delivery to enterprise organisations. We automate the process using technology and utilising AI to service the client efficiently.

#### Performance in 2019

The strategy to focus growth investment towards Contract in order to align SThree with the key drivers in its key markets continues to bear fruit with the mix of Contract net fees increasing to 74% of total Group net fees, up from 72% in 2018. Total net fees grew by 5%\* with strong performance in Contract partially offset by a decline in Permanent.

Net fees	2019	2018	YoY variance*
Contract	£254.6m	£232.1m	+8%
Permanent	£87.8m	£89.0m	-3%
Group	£342.4m	£321.1m	+5%
Contract/Permanent mix	2019	2018	
Contract	74%	72%	
Permanent	26%	28%	
	100%	100%	

**2019 saw growth for the Group with net fees up 5%\*. Our Contract division, which represents 74% of the Group, saw strong growth of 8%\* offset by a decline in Permanent down 3%\*, as anticipated.**

## Regional

SThree has well established and, in many cases, leading positions in the best STEM staffing markets across the globe. We are a well-diversified business with 86% of our net fees now generated outside of the UK & Ireland ('UK&I'). We are pleased to report that 2019 was another year where the majority of our regional businesses reported growth ahead of their domestic averages.

Performance in Continental Europe was pleasing with growth of 8%\* in net fees. This is despite having strong prior year comparatives with net fees growing 20%\* in 2018. Within Continental Europe, DACH grew 10%\* and Benelux, France & Spain grew 4%\*. Our key aims in this region are to be the number one in the STEM space in both Germany and the Netherlands.

The Netherlands, which is a key business hub for many multi-national companies, grew 8%\* against strong prior year comparatives of 25%\*. Germany continues to deliver strong growth with net fees up 9%\*. The expansion of our Contract service, to include the Employed Contractor Model in 2017, provided our German business with further opportunities for growth. We also opened two new offices in Germany located in Hanover and Nuremberg, which enables us to build towards our aim to be the number one in the STEM space.

Our business in USA saw robust growth of 9%\* in net fees. This is on the back of strong prior year growth of 8%\*. We believe the infrastructure we have in place, alongside our experienced management team leaves us in a strong position to grow our net fees going into the new year and target an increased market share.

The UK&I was challenging in 2019 as the uncertainty surrounding Brexit continues to impact the region. Net fees for the year declined 9%\* year on year. The UK is a mature recruitment market and is seeing slower industry growth than other geographies, however, it remains a strategic priority for the Group. Following the restructuring of Permanent division in 2018, we appointed a new Managing Director in Q4 2019 to positively impact performance.

Our Asia Pacific & Middle East ('APAC & ME') business delivered growth of 12%\* in the year. This was driven largely by our excellent Japan business which grew 43%\*. Japan is a very important market for the Group where we have a small but fast-growing business providing the Group with substantial opportunity for further growth.

Net fees	2019	2018	YoY variance*
Continental Europe	<b>£196.7m</b>	£183.3m	+8%
USA	<b>£76.7m</b>	£66.7m	+9%
UK&I	<b>£48.2m</b>	£53.1m	-9%
Asia Pacific & Middle East	<b>£20.8m</b>	£18.0m	+12%
Group	<b>£342.4m</b>	£321.1m	+5%

\* In constant currency.

## Sectors

Our largest sector, Technology, represents 45% of the Group's total net fees and net fees grew by 7%\* in the year. All our regions other than UK&I experienced growth in this sector.

Life Sciences grew net fees by 5%\* in the year. USA, our largest region for this sector, grew net fees by 11%\*. UK&I delivered robust growth of 4%\*, offset by 2%\* decline in Continental Europe.

Banking & Finance was a challenging sector for the Group with net fees declining by 13%\*. We saw a decline in UK&I of 22%\* driven by the uncertainty surrounding Brexit. Continental Europe and USA both declined in the year down 10%\* and 21%\*, respectively.

We saw strong growth in our Energy & Engineering sector, with net fees up 14%\*. This was driven by USA which grew 38%\* and Continental Europe which grew 10%\*.

Net fees	2019	2018	YoY variance*
Technology	<b>£152.7m</b>	£142.0m	+7%
Energy & Engineering	<b>£73.9m</b>	£64.0m	+14%
Life Sciences	<b>£67.8m</b>	£66.3m	+5%
Banking & Finance	<b>£38.0m</b>	£42.4m	-13%
Other	<b>£10.0m</b>	£6.4m	+3%
Group	<b>£342.4m</b>	£321.1m	+5%

## Focus on Contract

Across multiple geographies there is an increasing shift towards flexible employment and we believe our focus on STEM provides us a unique opportunity to capitalise on this shift. It is the Group's strategy to invest and grow our Contract offering.

Our average Contract headcount was up 10% year on year for the Group with all regions growing double digit with the exception of UK&I which grew 4%. Our increased weighting towards Contract means we are more resilient to changing market conditions and provides us with stronger and more sustainable profits. Our Freelance contractor model performs well across all our regions and the popularity of our Employed Contractor Model leaves us well placed to drive further growth.

## Dave Rees

Chief Sales Officer  
24 January 2020



## Business review

### Germany, Austria and Switzerland

**Timo Lehne**  
Managing Director

#### Net fees

**£109.3M**

(2018: £99.4m)

#### Average sales headcount change YoY

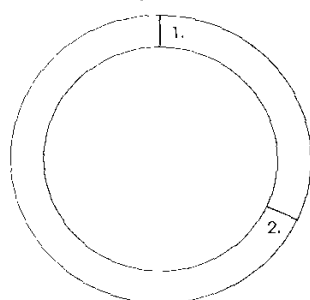
**+13%**

#### Year-end sales headcount

**847**

(2018: 703)

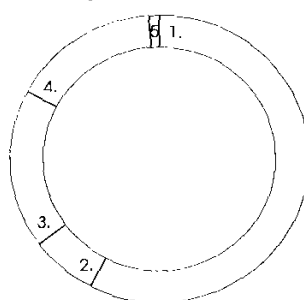
#### Share of Group net fees



1. DACH  
2. Group

32%  
68%

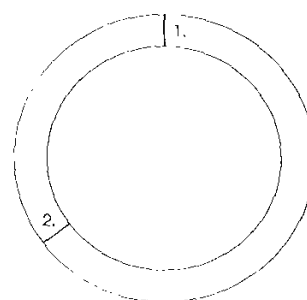
#### Net fees per sector



1. Technology  
2. Banking & Finance  
3. Energy & Engineering  
4. Life Sciences  
5. Other

58%  
7%  
18%  
16%  
1%

#### Net fees mix



1. Contract  
2. Permanent

65%  
35%

## DACH, our largest region, enjoyed a strong 2019 with growth across Contract and Permanent.

### Key developments in the year

- Opening of two new offices in 2019
- Winner of Mittelstand Deutschland Top Employer 2019
- Continued investment in headcount up 13%
- Double digit growth in net fees

### Overview

2019 was an encouraging year for our DACH region in terms of net fee growth. Total net fees grew strongly and were up 10%\* despite having strong prior year comparatives (2018: 21%\*).

Our employee proposition launched in 2018 was fully implemented for the year and we have continued to retain and grow our talent.

2019 saw the opening of two new offices in Germany, located in Nuremberg and Hanover. These are now fully operational with a strong leadership team driving the business.

We developed a market intelligence tool allowing us to analyse the external market to ensure we are active in all the attractive and relevant spaces.

Our Employed Contractor Model ('ECM') which we implemented in 2017, saw an 84% increase in volume in 2019. On top of that, we saw a strong growth rate within our top 20 accounts of 37% year on year.

### 2019 net fees performance

DACH net fees grew 10%\* in 2019 with our largest sector Technology growing 13%\*. There was strong growth in Banking & Finance, up 19%\* and Energy & Engineering up 11%\*.

Contract performance was very strong, up 14%\* driven by our two largest sectors Technology and Energy & Engineering, up 13%\* and 16%\* respectively. Life Sciences was up 7%\* and Banking & Finance up 34%\*.

Against some tough comparatives (2018: +19%\*), Permanent saw growth of 5%\*. Our biggest sector Technology grew 13%\* on the prior year. Our other sectors saw a slowdown with Life Sciences down 11%\*, Energy & Engineering down 11%\* and Banking & Finance down 6%\*.

### 2020 outlook

The broader German economy is sensitive to global trade tensions and we witnessed a deterioration in business sentiment through the course of 2019. Despite these concerns, German domestic consumer spending remained solid. SThree's strengths lie in the Mittelstand, and here the backdrop is providing more resilient.

The high shortage of specialist labour in Germany is continuing to be a challenge for employers, which points to supportive trading conditions in 2020.

We exit the year with a strong contractor book, our largest ECM order book to date and a strong Permanent starter pipeline. In line with Group strategy, we will continue to invest in our DACH Contract division along with a focused investment in Permanent in the markets where we see the best opportunity for growth.

\* In constant currency.

## Business review

continued

### Benelux, France and Spain

**Kurt Schreurs**

Senior Managing Director

Net fees

**£87.3M**

(2018: £84.0m)

Average sales headcount change YoY

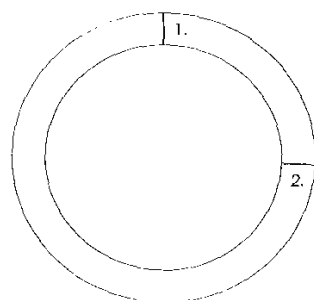
**+2%**

Year-end sales headcount

**561**

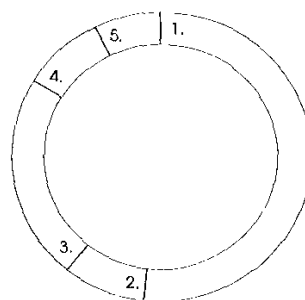
(2018: 626)

Share of Group net fees



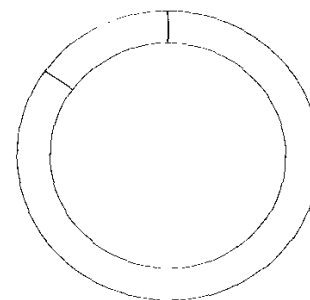
1. Benelux, France & Spain 26%  
2. Group 74%

Net fees per sector



1. Technology 51%  
2. Banking & Finance 9%  
3. Energy & Engineering 23%  
4. Life Sciences 9%  
5. Other 8%

Net fees mix



1. Contract 85%  
2. Permanent 15%

**Benelux, France & Spain is the second biggest region after DACH and accounts for 26% of Group net fees. 2019 saw growth of 4%\* in overall net fees, however, our Permanent business has been challenging in the year.**

#### Key developments in the year

- Continued investment in our ECM model which is the main driver of growth in Contract net fees and grew by 31%\* in 2019
- New regional office opened in Utrecht, the Netherlands, to improve client and candidate proximity
- Appointed Managing Director for Regional Sales to maximise our position as a market leader in the region
- Appointed Managing Director for Sales Operations & Business Improvement to create a scalable platform for growth

#### Overview

Benelux, France & Spain is the second largest region after DACH, representing 26% of the Group net fees. Despite softening macro-economic conditions, the region delivered a robust performance with net fees growth of 4%\* in the year.

Growth was mainly driven by our ECM model, which grew by 31%\* and now accounts for 23% of Contract net fees. Our clients favour this model as it mitigates legislative risks.

We also continued our investment in building candidate communities of highly qualified, niche skilled STEM talent, so that we are in the position to deliver the best candidates to our long-serving clients.

Permanent had a challenging year. However, in line with Group strategy, we focused on increasing productivity per consultant in our niche core STEM markets and we already saw the impact as productivity increased by 3%.

#### 2019 net fees performance

Overall net fees for the region were robust and we saw growth of 4%\* in the year. The Netherlands was the standout performer with growth of 8%\*, supported by France which grew 3%\*. Technology, our largest sector, had a strong performance in the year and grew 9%\*.

Contract performance for the region was strong with growth of 8%\*. We saw a double digit growth of 12%\* in our biggest sector Technology. Energy & Engineering had a strong year with growth of 17%\*. We saw good growth across the majority of our key countries with the Netherlands up 10%\* and France up 7%\*. A small decline was reported in Luxembourg.

Permanent was down across all our countries (overall down 13%\*) except for Spain. Average Permanent headcount declined by 17% in the year.

#### 2020 outlook

With soft macro-economic conditions continuing in the region, there are signs that growth may slow down. In line with our Group strategy, we will continue to invest in growing Contract in scarce STEM markets, where we see market opportunity, and improving Contract and Permanent productivity.

We are confident that with our well-diversified business in countries and sectors, combined with our highly experienced leadership team, we will be able to balance the selective investments for long-term growth while managing the softer market conditions.

\* In constant currency

## Business review

continued

### UK and Ireland

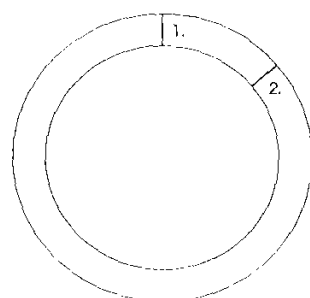
**Tom Way**  
Managing Director

#### Net fees

**£48.2<sup>M</sup>**

(2018: £53.1m)

#### Share of Group net fees



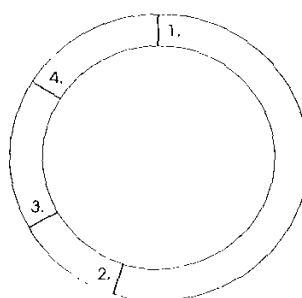
1. UK and Ireland  
2. Group

14%  
86%

#### Average sales headcount change YoY

**Flat**

#### Net fees per sector



1. Technology  
2. Banking & Finance  
3. Energy & Engineering  
4. Life Sciences

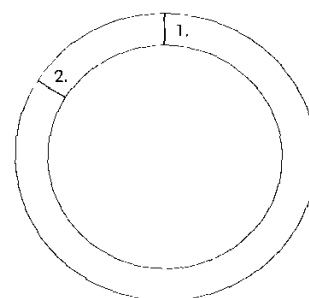
55%  
12%  
17%  
16%

#### Year-end sales headcount

**451**

(2018: 453)

#### Net fees mix



1. Contract  
2. Permanent

84%  
16%

**Macro-economic and political uncertainty impacted performance during 2019 with net fees down 9%\*. UK&I remains a strategic priority for the Group and Contract saw growth in headcount of 4%.**

**Key developments in the year**

- Tom Way appointed as Managing Director for UK&I in October 2019
- Investment in Contract in line with Group Strategy
- Permanent division now right sized following the 2018 restructure

**Overview**

2019 was a challenging year for the region impacted by the continued uncertainty around Brexit and larger political environment.

Following the restructuring of our Permanent division in 2018, we appointed a new Managing Director in Q4 2019 to positively impact performance. As a result, we refocused our leadership team to a regional delivery model.

While trading conditions were challenging we saw success in our Life Sciences business which grew in the year, alongside our robust public sector business.

The reform of IR35 in the private sector will be a significant change for clients and contractors. We have been actively preparing our clients and candidates for the impact of this regulatory change with a number of initiatives, and with our experience we believe we are well placed to minimise any impact.

**2019 net fees performance**

Challenging market conditions in the UK&I resulted in a net fees decline of 9%\*. Although well diversified from a sector perspective, tougher market conditions meant that fees were down in most sectors except for Life Sciences, which was up 4%\*.

UK&I Contract net fees were down across most of our sectors with more competitive spaces such as Technology down 6%\*, Energy & Engineering down 8%\* and Banking & Finance down 19%\*. Life Sciences had a robust performance in the year with net fee growth of 2%\*.

Permanent net fees were impacted by a slowdown in Technology and Banking & Finance which were down 30%\* and 32%\*, respectively. Life Sciences was a standout performer from a sector perspective and grew 9%\* with Energy & Engineering up 4%\*. Permanent headcount was significantly reduced in 2018 as part of our move to a specialist hub and onshore delivery model. This has now been stabilised with headcount remaining at 2018 levels.

**2020 outlook**

While Brexit continues to remain a material uncertainty for the UK economy, we remain confident that we are set up to maximise the market opportunity, with the existing customer base and sectors. Regional organisation enables us to execute more effectively on our strategy.

IR35 intermediaries legislation applicable to private sector from April 2020 is starting to have an adverse impact on the UK business, but also gives us an opportunity to deliver fully compliant services to our clients and candidates.

With our management team refocused on a regional delivery model we believe we are well placed to maximise opportunity in our second largest STEM market.

Strategic Report

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\* In constant currency.

**Business review**  
continued

**USA**

**Morgan Kavanagh**  
Managing Director

**Net fees**

**£76.7<sup>M</sup>**

(2018: £66.7m)

**Average sales headcount change YoY**

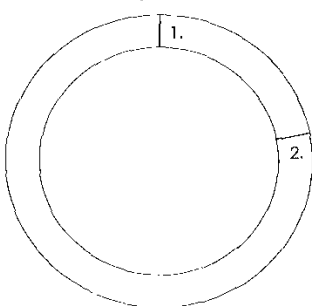
**+11%**

**Year-end sales headcount**

**427**

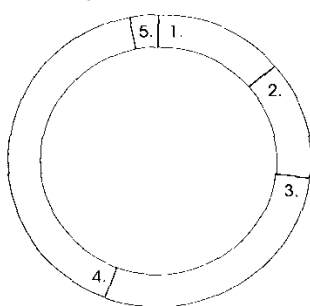
(2018: 369)

**Share of Group net fees**



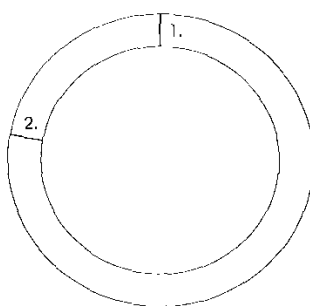
1. USA 22%  
2. Group 78%

**Net fees per sector**



1. Technology 14%  
2. Banking & Finance 13%  
3. Energy & Engineering 29%  
4. Life Sciences 41%  
5. Other 3%

**Net fees mix**



1. Contract 78%  
2. Permanent 22%

**During 2019, our USA business continued to show robust growth with net fees up 9%\*. The performance of our Contract division was particularly strong, delivering 17%\* growth in net fees.**

#### Key developments in the year

- Balanced further towards higher value Contract business (Contract net fees mix: 78% vs 73% in 2018)
- Successful pilot of Enhanced Employment Services product with Engineering sector clients resulting in 143%\* higher average weekly net fees
- Further investment in contingent workforce management expertise and thought leadership
- Appointed a new Vice President of Talent Acquisition to strengthen platform for headcount growth
- Top 125 training magazine winner, third year running

#### Overview

USA is our third largest region and represents 22% of Group net fees.

Against a backdrop of softening performance from USA competitors, our USA business delivered accelerated growth in net fees while balancing the business further towards Contract.

A very strong Contract performance was driven by our ongoing investment in the candidate communities of scalable, supply-constrained STEM markets which continued to drive customer value, resulting in accelerating growth and improving gross margins.

We also continued to benefit from our expertise in the increasingly complex regulatory environment relating to contingent workforce management in USA, as customers try to navigate these risks.

Our mature ECM product now has more than 1,200 contractors employed on assignment across 44 US states. Meanwhile, the successful pilot of our Enhanced Employment Services product with Engineering sector clients resulted in a significant increase in gross margins.

While Permanent performance declined, our new Permanent management team has refocused the business on scalable, supply-constrained STEM markets and built headcount to provide a platform for growth in 2020.

Further headcount growth will be supported by our new Vice President of Talent Acquisition, who is strengthening our graduate recruiting platform, and by our multi-award winning induction programme.

#### 2019 net fees performance

USA delivered a strong performance in 2019 with net fees growing 9%\*. Energy & Engineering was the standout performer from a sector perspective with growth of 38%\* against strong prior year comparatives. We continued to build on our customer portfolio, our strong position in renewable energy and broadened our product offering. Life Sciences, our largest sector in the region, grew 11%\*, and Technology grew 9%\*.

Contract performance was very strong in 2019, with growth of 17%\*. We saw a double digit growth in our three biggest sectors. Life Sciences up 19%\*, Energy & Engineering up 45%\*, and Technology up 12%\*. Average headcount in Contract increased by 13%.

Our Permanent business saw a decline of 11%\*, as the new management team tightened the focus on niche skill sets hired into our biggest opportunity markets to build a platform for growth.

#### 2020 outlook

With a strong exit rate in number of contractors, especially in Energy & Engineering, Life Sciences and Technology, we expect continued growth into 2020. We expect Permanent to return to growth in 2020 as a result of the previously mentioned measures implemented 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. Moreover, we have a highly scalable platform for future growth in USA based on a clear and differentiated customer value proposition, mature product offering and infrastructure to support scale. We remain agile to cater for any risks or opportunities that are posed by the market.

\* In constant currency



## Business review

continued

### Asia Pacific & Middle East

**Timothy Moran**  
Regional Director  
Asia Pacific

**Marcos Simonetti**  
Regional Director  
Middle East

Net fees

**£20.8<sup>M</sup>**

(2018: £18.0m)

Average sales headcount change YoY

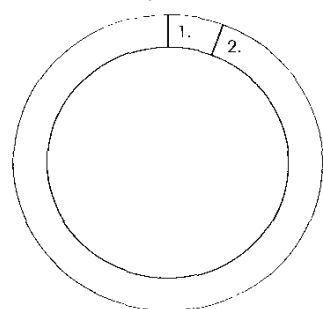
**+12%**

Year-end sales headcount

**177**

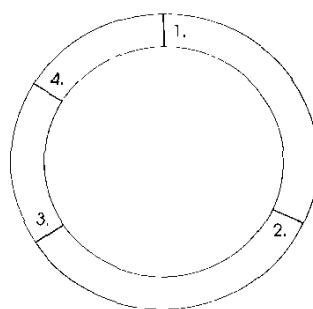
(2018: 181)

Share of Group net fees



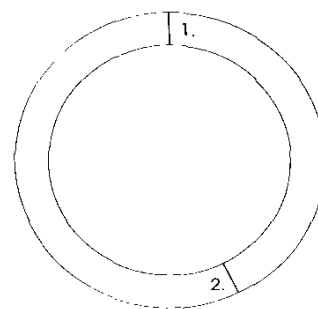
1. APAC & ME 6%  
2. Group 94%

Net fees per sector



1. Technology 32%  
2. Banking & Finance 34%  
3. Energy & Engineering 18%  
4. Life Sciences 16%

Net fees mix



1. Contract 43%  
2. Permanent 57%

## The region delivered a double digit growth of 12%\*, driven by excellent performance in Japan and strong performance in Dubai.

### Key developments in the year

- Office move in Dubai allowing the business to grow over the next four years
- Japan continued to grow aggressively and became our largest country in the region
- Hong Kong experienced some macro-economic challenges, with political instability impacting the hiring patterns of some of our key clients – mainly in Contract division
- We made key leadership appointments in 2019, mainly in Singapore and Australia; these are critical hires that we expect to have a positive impact on both countries in 2020
- Local credit control function in Middle East region hired in the second half of the year, allowing the business to mitigate the key risk of customer late payments

### Overview

2019 was a very encouraging year for the region as we grew our net fees and invested in headcount.

The continued growth in Japan, which saw average headcount grow 50%, was the highlight of the year.

We were also very pleased with our business in Dubai which saw a strong double digit growth in net fees.

Australia reported a 9% growth in Permanent net fees.

2019 was a bit more of a challenging year for our Singaporean business, which underwent a significant restructuring that set the platform for growth in 2020.

### 2019 net fees performance

Total net fees for the region grew 12%\* year on year. Our two largest sectors showed good growth within Technology, up 29%\* and Banking & Finance, up 8%\*. Energy & Engineering saw a small decline of 3%\*.

Our Permanent division, which accounted for 57% of net fees, saw very good growth of 16%\*. This was driven primarily by Japan which was up 42%\*. Japan Permanent grew across all sectors, with Technology growing 52%\*, Life Sciences up 30%\*, and Banking & Finance up 29%\*. Dubai saw growth of 7%\* in Permanent and Australia grew 9%\*. This was offset by a decline in Singapore, down 32%\*.

Our Contract business grew 6%\* in the year. Dubai Contract was up 19%\*, which was driven by a strong performance in Banking & Finance, up 87%\*. This was supported by our small but growing Contract business in Japan which grew 53%\*. Australia Contract was down in the year with net fees declining 7%\*.

### 2020 outlook

We will continue to invest in our Japanese Permanent business with planned investment in our operations and support functions as well as sales headcount.

In Asia Pacific the demand for Technology skills is growing very fast. As a global pure play STEM specialist, we are well-positioned against our competitors and occupy a position in the market that benefits from innovation and the ever-evolving technology market.

With our office move in Dubai completed, we will continue to invest in Middle East Contract across both Energy & Engineering and Banking & Finance sectors.

We will continue to maintain a market-leading position in Permanent division, with particular focus on placing candidates at an executive level within Banking & Finance sector.

\* In constant currency

# THE STRENGTH OF OUR MODEL HAS ENABLED US TO DELIVER ANOTHER YEAR OF STRONG PERFORMANCE IN 2019

### Income statement

Revenue for the year was up 7% to £1.35 billion on a reported basis and up 6% on a constant currency basis (2018: £1.26 billion). On a reported basis, net fees increased by 7%, and 5% on a constant currency basis, to £342.4 million (2018: £321.1 million).

In constant currency, growth in revenue exceeded the growth in net fees as the business continued to remix towards Contract.

Contract represented 74% of the Group net fees in the year (2018: 72%). This change in mix resulted in a marginal decrease in the overall net fees margin to 25.4% (2018: 25.5%), as Permanent revenue has no cost of sale, whereas the cost of paying a contractor is deducted to derive Contract net fees. The Contract margin increased marginally to 20.3% (2018: 19.9%).

The reported operating profit was £57.7 million, up 22%. The adjusted operating profit was £60.0 million, up 11% year on year (2018: reported £47.5 million and adjusted £53.9 million). The adjusted operating profit excluded exceptional costs of £2.3 million that were incurred in the current year primarily in respect of the CEO change and restructuring of senior leadership (2018: £6.4 million due to relocation of support functions).

Our operating profit conversion ratio has increased by 2.1 percentage points to 16.9% on a reported basis and 0.7 percentage points to 17.5% on an adjusted basis (2018: reported 14.8% and adjusted 16.8%). The increase reflects strong trading performance, primarily in our international markets, and operational cost savings delivered from the restructuring of our support functions.

### Adjusted profit before tax

2019	£59.1m
2018	£53.4m
2017	£44.5m
2016	£40.8m

### Adjusted operating profit conversion ratio

2019	17.5%
2018	16.8%
2017	15.6%
2016	16.0%

### Exceptional costs ('adjusting items')

In discussing the performance of the Group, comparable measures are used. This approach allows users of our financial statements to obtain a better understanding of the Group's operating and financial performance achieved from underlying activities. The following items of material or non-recurring nature were excluded from the directly reconcilable IFRS measures.

#### Restructuring

##### Support function relocation

In 2019, the Group recognised a net income of £0.1 million in relation to support functions restructuring. It comprised personnel costs of £0.3 million and property costs of £0.3 million, subsequently offset by the Government grant income of £0.7 million. The total net costs recognised to date amounted to £12.9 million (2018: £13.1 million). This restructuring has realised cost savings in excess of £5.0 million per annum.

##### Senior leadership restructuring

To continue to drive the Group growth plans, and deliver on our ambition to be the number one in our chosen STEM markets, a number of key changes were made to the senior leadership structure (impacting UK&I, Benelux, France & Spain, and Middle East). These changes will drive further alignment between our key markets, leading to a well-governed and efficient regional structure. Changes to the senior leadership structure resulted in the exceptional charge of £1.2 million in the current year.

In 2019, we delivered strong operational performance with 7% growth in net fees and 21% growth in reported profit before tax.

Net fees growth

**+7% to £342.4<sup>M</sup>**

(2018: +12% to £321.1m)

Adjusted profit before tax<sup>1</sup>

**+11% to £59.1<sup>M</sup>**

(2018: +20% to £53.4m)

Net cash balance

**£10.6<sup>M</sup>**

(2018: net debt £4.1m)

Basic earnings per share

**+20% to 31.8<sup>p</sup>**

(2018: +24% to 26.6p)

Adjusted basic earnings per share<sup>1</sup>

**+8% to 33.2<sup>p</sup>**

(2018: +19% to 30.7p)

<sup>1</sup> For details on APM, refer to Alternative Performance Measures note, see page 209.

## Chief Financial Officer's review

continued

### CEO change

The costs associated with the departure of the previous Chief Executive Officer ('CEO'), Gary Elden, and the appointment of the new CEO, Mark Dorman, led to the recognition of an exceptional charge of £1.2 million in 2019. The total charge comprised contractual payments, recruitment and other professional fees, double running costs and relocation costs.

The Group alternative performance measures, used throughout this Annual Report, are fully explained and reconciled to IFRS line items on pages 209 to 211.

### Accounting changes

On 1 December 2018, IFRS 9 *Financial Instruments* ('IFRS 9') and IFRS 15 *Revenue from Contracts with Customers* ('IFRS 15') became effective for the Group.

IFRS 9 introduced new requirements for classification, recognition and impairment of financial assets.

Overall, IFRS 9 had an immaterial impact on the Group and no retrospective adjustments were made. Under IFRS 9, the Group started to present changes in the fair value of all its equity investments in other comprehensive income, as these instruments are held for long-term strategic purposes. There were no changes to the Group's existing impairment methodology for trade receivables.

IFRS 15 was adopted on the modified retrospective basis. Under IFRS 15, the recognition of contingent consideration, such as Contract accrued income, is recognised as revenue provided that it is highly probable that its significant reversal will not occur when the uncertainty associated with the contingent consideration is subsequently resolved. Historically, the Group's policy of estimating Contract accrued income resulted in a certain amount of revenue being reversed. On 1 December 2018

the Group revised the way the Contract accrued income is estimated. This change resulted in a net post-tax adjustment of £2.3 million that reduced the opening balance of retained earnings on the date of initial application of IFRS 15.

On 1 December 2019, the Group adopted IFRS 16, a new lease accounting standard that requires to recognise a lease asset and lease liability for all contracts. The evaluation of the effect of adoption of the standard is substantially complete. On the date of initial application, we expect that the net assets will decrease by £0.8 million (a net result of an increase in total assets of £41.5 million offset by an increase in total liabilities of £42.3 million).

Further details are provided in note 1 to the consolidated financial statements.

### Operating costs

Adjusted operating costs, excluding exceptional costs of £2.3 million (2018: £6.4 million), increased by 6% to £282.3 million (2018: £267.2 million). The increase was mainly driven by additional investment in total headcount (6% increase year on year), 3%\* increase in personnel costs (an 8%\* increase in salaries partially offset by a reduction in redundancy costs and share-based benefits), and £3.2 million additional spend on IT licences.

Payroll costs represented 78% of our cost base. Average total headcount was up by 6% at 3,109 (2018: 2,926), with average sales headcount up 7%. The increase in average sales headcount was in response to supportive market conditions across most of our geographies primarily in Continental Europe (Benelux, France & Spain and DACH regions) and USA (headcount up 8% and 11% respectively). The year-end total headcount was up 7% at 3,196 (2018: 2,979).

### Key financial information

	2019		2018		Variance	
	Adjusted <sup>1</sup>	Reported	Adjusted <sup>2</sup>	Reported	Movement <sup>3</sup>	Constant CCY movement <sup>4</sup>
Revenue (£ million)	1,345.0	1,345.0	1,258.2	1,258.2	+7%	+6%
Net fees (£ million)	342.4	342.4	321.1	321.1	+7%	+5%
Operating profit (£ million)	60.0	57.7	53.9	47.5	+11%	+9%
Operating profit conversion ratio (%)	17.5%	16.9%	16.8%	14.8%	+0.7% pts	+0.6% pts
Profit before tax (£ million)	59.1	56.8	53.4	47.0	+11%	+9%
Basic earnings per share (pence)	33.2	31.8	30.7p	26.6p	+8%	+7%
Proposed final dividend (pence)	10.2	10.2	9.8p	9.8p	+4%	+4%
Total dividend (pence)	15.3	15.3	14.5p	14.5p	+6%	+6%
Net cash/(debt) <sup>5</sup> (£ million)	10.6	10.6	(4.1)	(4.1)	-	-

1 2019 figures exclude the impact of £2.3 million in net exceptional strategic restructuring costs and CEO change costs.

2 2018 figures exclude the impact of £6.4 million in net exceptional strategic restructuring costs.

3 Variance compares adjusted 2019 against adjusted 2018 to provide a like-for-like view.

4 Variance compares adjusted 2019 against adjusted 2018 on a constant currency basis, whereby the budgeted foreign exchange rates are applied to current and prior financial year results to remove the impact of exchange rate fluctuations.

5 Net cash/(debt) represents cash and cash equivalents less borrowings and bank overdrafts.

The year-end sales headcount represented 77% of the total Group headcount.

\* In constant currency.

### Investments

During the year, we continued to invest in in-house innovation initiatives, expensing a total of £2.2 million (2018: £2.4 million) on our 'build' programme. We have reprioritised our innovation effort towards our most promising initiative, HireFirst. It was launched in October 2018 and is at the early market testing stage. In the current year, HireFirst generated its first revenue of £0.3 million.

During the year we wrote off in full two equity investments that the Group held in the external innovation start-ups, i.e. The Sandpit Limited and Ryalto Limited.

The equity rights in The Sandpit Limited, which discontinued its operations earlier this year, were converted into a minority shareholding in The Sandpit Ventures Limited at an immaterial nominal book value.

Ryalto Limited continued to incur operating losses as it failed to gain momentum and build a customer base. Due to a lack of prospective buyers for the business, Ryalto's board of directors passed a resolution to liquidate the business.

In 2019, the Group transitioned to IFRS 9, a new financial instruments standard, accordingly, the write-offs of the equity investments were recognised in other comprehensive income.

### Taxation

The tax charge on pre-exceptional statutory profit before tax for the year was £15.9 million (2018: £13.9 million), representing an effective tax rate ('ETR') of 26.9% (2018: 25.9%). The ETR on post-exceptional statutory profit before tax was 27.3% (2018: 27.1%).

The ETR is primarily driven by country profit mix and their respective tax rates. However, a number of other factors overlay this base position, including:

(i) **Transfer pricing:** The Group recharges support costs, and royalties for assets used throughout the business. As the bulk of the support costs and assets are held in the UK, which benefits from a relatively low tax rate, compared to our main businesses in Continental Europe and USA, our transfer pricing policy gives rise to material tax credits each year. However, this is an inherent risk that we (and all multinationals) run, as tax authorities in all our jurisdictions question the policies. This risk is increasing as corporates must now provide increased information to tax authorities, following the OECD BEPS proposals, and governments around the world exchange this information.

(ii) **Loss-making business:** Tax credits on loss-making businesses may be recognised to the extent that we consider future profits are likely. This pushes the Group ETR up. Conversely, any such businesses which become profitable can benefit from historic tax losses without recognising a tax charge. Such profitable businesses will push the Group ETR down.

(iii) **Finance companies:** During the year the Group closed its finance companies in Luxembourg and Ireland which took advantage of regulatory arbitrage.

(iv) **Taxation of LTIPs:** Corporate tax deductions are not allowable on the accounting charge for LTIPs. Instead, a corporation tax credit is available when employees exercise. To the extent LTIPs pay out less than anticipated on grant, this can result in not all of the cost of LTIPs is deductible for tax. In particular, to the extent the total shareholder return underperforms, the tax deduction reduces proportionally, but the accounting charge does not.

### Earnings per share ('EPS')

On an adjusted basis, basic EPS was up by 2.5 pence, or 8%, at 33.2 pence (2018: adjusted 30.7 pence), due to an increase in the adjusted profit before tax, partially offset by a 1.2 million increase in weighted average number of shares. On a reported basis, EPS increased to 31.8 pence, up 5.2 pence on the prior year (2018: 26.6 pence), attributable mainly to an improved trading performance and decline in restructuring costs as explained above. The weighted average number of shares used for basic EPS grew to 129.9 million (2018: 128.7 million). Reported diluted EPS was 30.9 pence (2018: 25.7 pence), up 5.2 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

2019	33.2p*
2018	30.7p*
2017	25.7p
2016	23.2p

\* Excludes the impact of £2.3 million (2018: \$6.4 million) in net exceptional strategic restructuring costs and CEO change costs.

### Dividends

The Board proposed to increase a final dividend to 10.2 pence per share (2018: 9.8 pence). Taken together with the interim dividend of 5.1 pence per share (2018: 4.7 pence), this brings the total dividend for the year to 15.3 pence per share (2018: 14.5 pence). This represents a 6% increase in dividend per share versus the prior year. The final dividend, which amounts to approximately £13.5 million, will be subject to shareholder approval at the 2020 Annual General Meeting. It will be paid on 5 June 2020 to shareholders on the register on 1 May 2020.

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. As previously stated, the Board is targeting a dividend cover\* of between 2.0x and 2.5x, based on underlying EPS, over the short to medium term.

\* For details on dividend cover, its definition and how it was calculated, refer to Alternative Performance Measures note, see page 209.

## Chief Financial Officer's review

continued

### A clear and disciplined approach to cash that supports organic growth and delivers a sustainable dividend.

#### Share options and tracker share arrangements

We recognised a share-based payment charge of £2.7 million during the year (2018: £4.7 million) for the Group's various share-based incentive schemes. The lower charge in 2019 is primarily due to lower than expected non-market vesting conditions, such as strategic targets and regional trading performance. Furthermore, the share-based payment charge in the prior year was affected by the accelerated cost recognised for all 'good leavers' who left the Group as a result of strategic restructuring of our support functions.

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 2019, 52 employees invested an equivalent of £0.5 million in 23 Group businesses.

We settled certain tracker shares during the year for a total consideration of £4.4 million (2018: £3.7 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 (475,738 new shares were issued on settlement of vested tracker shares in 2019) or treasury shares (in total 974,583 were used in settlement of vested tracker shares in 2019). 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 £5.0 million to £10.0 million per annum. These settlements may either dilute the earnings of SThree plc's existing ordinary shareholders if funded by a new issue of shares or will result in a cash outflow if funded via treasury 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 2019, the Group's net assets increased to £116.8 million (2018: £101.7 million), mainly due to the excess of net profit over the dividend payments, offset by share buy backs and decline in fair valuation of equity investments during the year.

The most significant item in our statement of financial position is trade receivables (including accrued income) which decreased to £256.2 million (2018: £274.6 million).

The main drivers of the decline was an accounting adjustment of £13.0 million to the opening balance of the accrued income following the implementation of the new revenue standard IFRS 15. It was partially offset by a 3%\* increase in Contract net fees for Q4 year on year. Days Sales Outstanding ('DSO') remained flat at 44 days (2018: 44 days).

Trade and other payables decreased to £172.4 million in 2019 (2018: £191.7 million), primarily due to \$9.9 million in IFRS 15 adjustment, and the remainder is attributable to favourable movements in foreign exchange rates (£5.8 million), a 1% decline in contractors in Q4 year on year, and a decline in Creditor Days to 15 days (2018: 17 days).

Provisions decreased by £1.5 million primarily due to a utilisation in a restructuring provision for the relocation of central support functions from London to Glasgow.

#### Investment in subsidiaries (Company only)

During the year, the Directors reviewed the recoverable amount of the Company's own portfolio of investments. As a result, an impairment loss of \$8.2 million was recognised in respect of the UK operations. In 2019, the trading performance of the UK arm of the Group operations continued to decline due to the ongoing macro-economic uncertainty surrounding Brexit and its outcomes. Both Permanent and Contract divisions across all sectors experienced reduced margins impacting the profitability of the UK region.

After booking this impairment, the distributable retained earnings were £122.0 million (2018: £156.5 million).

#### Strong cash generation

On an adjusted basis, we generated net cash from operations at \$54.8 million (2018: \$40.6 million on an adjusted basis). It reflects a combination of: (i) the improved underlying trading performance, driven by our international markets; (ii) cost savings generated from the restructuring of support functions; and (iii) the benefits of operational efficiencies including cash collection.

Capital expenditure increased moderately to \$4.6 million (2018: \$4.2 million excluding \$1.0 million in exceptional capital expenditure), reflecting higher spend on IT infrastructure and office fittings.

Overall, the cash conversion ratio\* increased to 83.7% on an adjusted basis and 84.1% on a reported basis (2018: 67.4% on an adjusted basis and 52.3% on a reported basis). The net cash outflow associated with exceptional items was \$1.7 million (2018: \$10.5 million).

During the year, SThree plc bought back shares for \$2.5 million (2018: \$1.5 million) to satisfy employee share schemes in future periods. Small cash inflows were generated from Save As You Earn employee schemes.

Income tax paid decreased to \$12.9 million (2018: \$14.4 million). The Group paid \$0.9 million in net interest cost in the year. Foreign exchange had a moderate positive impact of \$0.6 million (2018: \$0.3 million).

Dividend payments increased to \$18.8 million (2018: \$18.0 million) as a result of the increased dividend per share and higher number of shares issued to the market. Distributions to tracker shareholders nearly doubled to \$0.2 million (2018: \$0.1 million) as a result of the improved trading performance of the tracker businesses.

We started the year with net debt of £4.1 million and closed the financial year with net cash of £10.6 million. The year-on-year improvement primarily reflected an increased cash collection focus and significantly reduced cash outflows associated with the Group restructuring.

\* For details on cash conversion ratio, its definition and how it was calculated, refer to Alternative Performance Measures note, see page 209.

### 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 £50.0 million, along with an uncommitted £20.0 million accordion facility, with HSBC and Citibank, giving the Group an option to increase its total borrowings under the facility to £70.0 million. At the year end, there were no draw downs (2018: £37.4 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. The Group was in compliance with these covenants throughout the year. We ended 2019 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 2.0% during the year (2018: 1.8%). The finance costs for the year amounted to £1.0 million (2018: £0.7 million).

The Group also has an uncommitted £5.0 million overdraft facility with HSBC.

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.

\* For details on EBITDA, its definition and how it was calculated, refer to Alternative Performance Measures note, see page 209.

### 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 US Dollar.

In 2019, movements in exchange rates between Sterling and the Euro and the US Dollar provided a moderate net tailwind to the reported performance of the Group with the highest impact coming from the Euro and US Dollar.

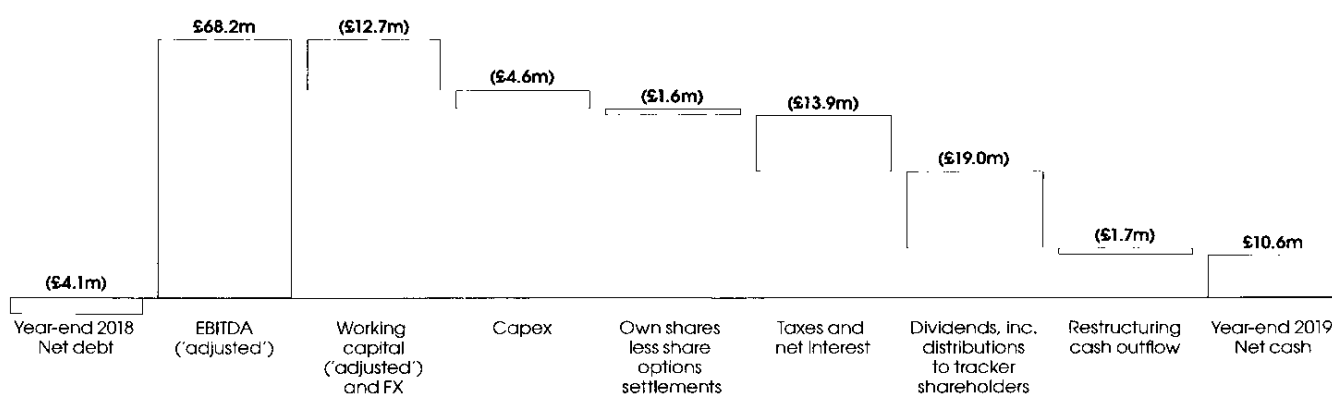
Year-on-year movements in foreign exchange rates increased our reported 2019 net fees by approximately £4.3 million and operating profit by £1.2 million.

Exchange rate movements remain a material sensitivity. By way of illustration, each one per cent movement in annual exchange rates of the Euro and US Dollar against Sterling impacted our 2019 net fees by £2.0 million and £0.8 million, respectively, and operating profit by £0.6 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  
24 January 2020

### Cash flow bridge 2019



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



## Chairman's governance statement

### Dear Shareholder

It is my responsibility as Chairman to ensure that the Group has sound corporate governance and that the Board continues to be effective. This is managed by ensuring that the Group and the Board are acting in the best interests of shareholders and our various stakeholders, and making sure that the Board discharges its responsibilities appropriately. This includes creating the right Board dynamic and ensuring that all important matters, in particular strategic decisions, receive adequate time and attention at Board meetings.

I am therefore pleased to introduce our Governance Report for the year ended 30 November 2019. The SThree Board aspires to adopt governance best practice wherever possible. Following the changes to the UK Corporate Governance Code published by the Financial Reporting Council ('FRC') in July 2018 (the 'Code'), the Board has decided to embrace corporate governance developments, by early adopting and reporting against the most recent Code even though the changes are not applicable for this reporting year. During the year, key governance activities included:

- Reframing of strategy, using a 'managing for value' approach, with outputs approved in July.
- Review of wider leadership roles, succession and 'capability gaps', including the next layer below, which have led to the recruitment of Chief People Officer ('CPO') and Chief Strategy Development Officer ('CSDO').
- Ensured remuneration arrangements generally, appropriately support retention and motivation of senior team members.
- Continued use of eNPS as well as dedicated Non-Executive Director ('NED') for employee engagement.
- Committed to reduce our absolute carbon emissions by 20% by 2024 under our ESG strategy.

In March 2019, we welcomed Mark Dorman as CEO. The benefits of his leadership are already evident in our business strategy, and together with the strength of our broader Executive Team the Group is well positioned to build on our ambitions for the future. During the year we also said goodbye to our long-serving CEO, Gary Elden, and COO, Justin Hughes, and we are grateful to both of them for helping to make the Group what it is today.

SThree has always been driven by core business principles, together with a desire to add value as a recruitment partner and play a positive role in corporate social responsibility. Our purpose, values and culture demonstrate a commitment to take long-term decisions and to treat all clients, candidates, employees, suppliers and communities with respect as key stakeholders and partners in our business. Our approach to stakeholder engagement during the year is set out in this report.

We held a Board Strategy Session in July 2019, at which our new CEO provided an overview of our strategy as we look to build further growth with STEM recruitment at our core. The session highlighted areas for further Board engagement and NED assistance for top priority programmes which have already begun.

Following on from the key themes highlighted by our external Board evaluation in 2018, the Board has conducted an internal evaluation, covering topics such as the strength of our Board composition, our understanding of our stakeholders, strategy, culture and risk management. Further details are provided in this report.

We continue to shape and develop our culture with a focus on diversity and inclusion, and have continued oversight of the Group's diversity and inclusion initiatives. Further information on diversity and gender pay can be found on pages 61 and 62.

Finally, I would like to take this opportunity to thank our shareholders for their support. I, along with the Board, am available to respond to any questions on this report or any of our activities both now and at the 2020 Annual General Meeting itself.

# Board and Committee structure

## Governance structure

Board				
Chairman	Chief Executive Officer/ Chief Financial Officer	Senior Independent Director	Non-Executive Directors ('NEDs')	Company Secretary
Responsible for:	Responsible for:	Responsible for:	Responsible for:	Responsible for:
<ul style="list-style-type: none"><li>- The leadership, effectiveness and governance of the Board</li><li>- Leading the setting of the Board agenda</li><li>- Ensuring the Board receive accurate, timely and clear information</li><li>- Ensuring effective Board contribution</li></ul>	<ul style="list-style-type: none"><li>- Developing and proposing the strategy of the Group</li><li>- Operational and financial performance of the Group</li><li>- Effective and ongoing communication with our key stakeholders</li><li>- Communicating the culture, values and behaviours of the Group</li></ul> <p>CFO responsible for:</p> <ul style="list-style-type: none"><li>- The financial aspects of the above</li></ul>	<ul style="list-style-type: none"><li>- Supporting the Chairman</li><li>- Acting as an intermediary for other Non-Executive Directors</li><li>- Leading the appraisal of the Chairman's performance</li><li>- Acting as an alternative point of contact for key stakeholders</li></ul>	<ul style="list-style-type: none"><li>- The Group's strategy being reviewed, monitored and examined</li><li>- Monitoring operational and financial performance</li><li>- Assessing the governance, internal controls and risk management framework</li><li>- Providing independent advice</li></ul>	<ul style="list-style-type: none"><li>- Advising the Board on governance matters</li><li>- Supporting the Board and Committees in the efficient and effective functioning of meetings</li><li>- Ensuring information flow between Board/ Committees and senior individuals/ NEDs</li><li>- Facilitating Board induction programmes and organising training as required</li></ul>

Board Committees		
Audit Committee	Nomination Committee	Remuneration Committee
Ensures the integrity of the Consolidated Financial Statements of the Group and maintenance of internal control and risk management systems.	Regularly reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and layer below.	Responsible for the Group's remuneration strategy and the development/oversight of the Company's remuneration policy.
Manages the relationship with the Group's external auditors and reviews and monitors the external auditors' independence and objectivity and the effectiveness of the audit process.	Provides recommendations with regard to any changes and reviews and prepares 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.	Leads discussions on Group employee remuneration and incentive arrangements that apply to the Group as a whole.

Executive Committees		
Senior Executive	Risk and Compliance	Corporate Social Responsibility ('CSR')
Assists Chief Executive Officer in development and implementation of strategy, operational plans, policies, procedures and budgets.	Assists the Group with its compliance function whilst also reviewing Group's internal controls, key risks, policies and health and safety procedures.	Assists with setting guidance, direction and overseeing policies and progress on CSR and related activities.

Strategic Report

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Supplementary Information

## Our Board

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

### Board and Committee composition and attendance

As illustrated, 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 CGI best practice guidelines.

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

Should Directors be unable to attend meetings due to unavoidable commitments, full Board packs are distributed and separate dialogue 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.

## Executive Directors

**Mark Dorman**  
Chief Executive Officer

**Appointed:**  
March 2019

### Experience

Mark Dorman was appointed SThree CEO in March 2019, joining the business from McGraw Hill Education, where he was President of Higher Education, International and Professional.

Prior to McGraw Hill, Mark worked at Wolters Kluwer where he was initially Vice President of their Legal Markets Group before becoming CEO of Wolters Kluwer Law & Business.

Prior to this, Mark was Head of Global Product Management at Gartner Inc. and Head of Strategy for LexisNexis UK, a unit of Reed Elsevier. A joint UK/US national originally from Dundee, Scotland, Mark graduated from the Royal Military Academy Sandhurst and served as an officer in the British Army's Corps of Royal Military Police.

**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 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.

### Board meetings attended (total of 8)

Mark Dorman <sup>1</sup>	6
Alex Smith	8
James Bilefield	8
Denise Collis	8
Anne Fahy	8
Barrie Brien	8
Gary Elden <sup>1</sup>	2
Justin Hughes <sup>1</sup>	4

<sup>1</sup> Mark Dorman, Gary Elden and Justin Hughes were appointed or departed during the year. Actual attendance represents the maximum number of meetings they were able to attend.



### Committee membership

A. Audit Committee  
N. Nomination Committee  
R. Remuneration Committee

## Non-Executive Directors

**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 Committees 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 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 Chief Executive Officer 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.

**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 in April 2018. Anne is also Non-Executive Director and Chair of the Audit Committee at Coats plc, the world's leading industrial thread company, and at Nyrstar NV, a company incorporated in Belgium which has, following completion of its recapitalisation/restructuring in 2019, a 2% shareholding in the Nyrstar group. 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 in July 2016, and the Audit Committee in April 2018. Denise was further appointed as Chair of the Remuneration Committee in September 2016 and Senior Independent Director ('SID') in October 2018.

Denise is a Non-Executive Director and Chair of the Remuneration Committee at Connect Group plc, the specialist distribution company, and Chair of the Remuneration Committee and a member of the Advisory Council at the British Heart Foundation. Prior to this, Denise was 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 at 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.



## Our Board

continued

### Non-Executive Directors

**Barrie Brien**  
Non-Executive Director

**Appointed:**  
September 2017

#### Experience

Barrie Brien was appointed to the STHree Board, Audit, Nomination and Remuneration Committees in September 2017.

Barrie is Group Chief Executive Officer of STRAT7, a data analytics and strategy consultancy, and was the former Chief Executive Officer of Creston plc (a media and marketing communications group), stepping down in 2017 following its sale and de-listing. Barrie was extensively involved in the growth of Creston plc from 2004 with its buy-and-build strategy and had also been Chief Operating and Financial Officer.

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, advising a portfolio of boards and clients across multiple industries on their growth strategies.

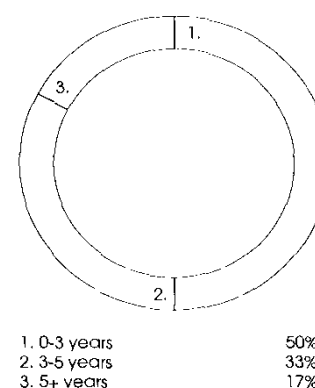
**Steve Hornbuckle**  
Group Company Secretary

**Appointed:**  
October 2006

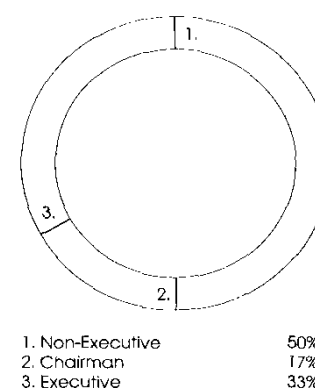
#### Experience

Steve Hornbuckle joined STHree as Group Company Secretary in October 2006, creating a new department with responsibility for company secretarial and corporate governance matters, later broadening to include Investor Relations matters. Steve also headed the Group's Legal Department from 2013 to 2019. 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 CGI and sits on its Company Secretaries' Forum and was formerly on the Investor Relations Society Policy Committee.

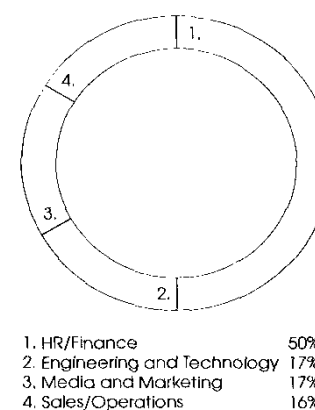
### Length of Directors' tenure



### Composition of the Board



### Directors' core area of expertise



A N R

### 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.

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

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.

### 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.

### Division of responsibilities

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, Risk & Compliance Committee, and a 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 CGI best practice guidelines.

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 for 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 for the Board is available on the Company's website at [www.sthree.com](http://www.sthree.com).

### 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. 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.

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.

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.

## Board in action

### **Purpose, values and culture**

As a purpose driven organisation, this drives our approach to values and culture, to help deliver on our strategy.

### **Section 172 Duties**

Directors must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the:

- likely consequences of any decision in the long term;
- interests of employees;
- need to foster business relationships with suppliers, customers and others;
- impact of operations on the community and the environment;
- desirability of maintaining a reputation for high standards of business conduct; and
- need to act fairly between members.

The Board has always considered the long-term impact of its decisions, and collectively aims to uphold the highest standards of governance.

Our Section 172 Statement can be found within the Compliance Statements section on page 91 of the Strategic Report.

## Board in action

continued

### Engagement

#### Engagement with shareholders/Constructive use of AGM

Communications with shareholders are given a high priority, as 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 is 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.

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 holding separate governance meetings. Appropriate feedback was provided to the Board.

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.

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.

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.

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.

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

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.

#### Engagement with employees

Denise Collis was appointed as the designated NED responsible for employee engagement, to gather views from employees, on 1 December 2018. In carrying out this role, Denise has met with a range of employees, at all levels, including office visits, whilst also engaging with Group and local HR teams. Reports are also received from CPO.

From eNPS surveys, our employees valued and truly endorsed SThree's culture and the importance of the Company's purpose and principles by which we all hold ourselves accountable. In particular, they like the collective focus on improving our customer experience and how we communicate with our customers.

However, our staff wanted to gain more understanding of the specific strategic steps that we as a Group intend to take to achieve our ambition of £100 million in annual operating profit by 2022. Clear Group direction-setting will allow business units and functions to execute against the overall strategy.

We also heard from employees who asked for greater consistency: (i) in SThree's leadership team to act and behave in line with our Leadership Principles; and (ii) in the ways we communicate internally.

#### Engagement with our clients/candidates

Our clients appreciate our vast network of candidates on top of valuable market knowledge and understanding of complex employment regulations, especially in the Contract recruitment specialism.

During the year, we often heard from our candidates who found themselves temporarily displaced, due to changing working patterns or the ebb and flow of the global economy.

#### Succession

During 2019, work was focused on transitioning of the new CEO, as well as the departure of COO, whilst also strengthening and ensuring the continuing development of, and adequate pipeline into, the Executive Team, with the appointment of a new CPO and creation of a CSDO role. 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.



## Nomination 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  
24 January 2020

### Committee meetings attended (total of 5)

James Bilefield (Chair)	5
Barrie Brien	5
Denise Collis	5
Anne Fahy	5

Full biographies are available on pages 112 to 114.

The Committee complies with the requirement to have a majority of independent Non-Executive Directors ('NEDs'). During the year, the Committee met five times, as follows:

- CPO appointment December 2018
- CEO change/succession December 2018/February 2019
- COO change/succession July 2019
- UK/Benelux reorganisation/succession September 2019

### 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, and 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 CEO appointment in March 2019.

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 role and capabilities required. In each case, there is an extensive interview process, with the successful appointees selected and chosen entirely on merit.

### Succession planning and diversity

During 2019, the Committee's work was focused on transitioning of the new CEO, as well as the departure of COO, whilst also strengthening and ensuring the continuing development of, and adequate pipeline into, the Executive Team, with the appointment of a new CPO and creation of a CSDO role. 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, overboarding, 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 diversity, we consider that the Board is well balanced.

### Appointments to the Board

In March 2019 we welcomed Mark Dorman to the Board as the Group's Chief Executive. 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.

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.

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.

#### Commitment

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.

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.

#### 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.

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.

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.

#### Board evaluation

As recommended by the Code, a Board/Committee evaluation was undertaken during the period under review. This took the form of electronic questionnaires circulated to all Board members and attendees. The key focus areas resulting from this exercise are summarised below and were discussed at the Board meeting in December 2019 with implementation to occur throughout 2020.

#### Stakeholder oversight

Scope to further develop engaging with customers and gain insight into our candidates across multiple geographies.

#### Employee engagement

Further develop the programme led by Denise Collis as the designated NED responsible for employee engagement and our CPO.

#### Culture and behaviour

Develop more effective reporting to understand current and future issues, challenges and opportunities.

#### Management of meetings

Further refining key strategic issues/rolling cycle of topics and taking a dynamic approach to identifying internal priorities and external influences.

#### Strategy session

Further improvement in the identification, action planning, implementation and monitoring of strategic priorities.

#### Risk management and internal control

Increase deep dives into specific risks/further develop appetite for risk.

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. The SID also 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.

## Audit Committee

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  
24 January 2020

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.

### 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;
- It is 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 internal Audit function;
- To agree the external auditors' engagement terms, scope, fees, non-audit services, to monitor and review the external auditors' effectiveness and associated independence and recommend re-appointment to the Board and shareholders;
- Reviewing arrangements by which the Group's employees may raise concerns about possible improprieties in financial reporting or other such matters and ensuring appropriate follow up;
- To monitor and review the 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.

Following the creation of a new Centre of Excellence ('CoE') in Glasgow in 2018, the Committee has continued to monitor the transition and stabilisation phases, with particular focus on internal control aspects and is pleased to report a number of improvements, all of which will bring further systems and people benefits, as well as reducing Group risks.

#### Committee meetings attended (total of 4)

Anne Fahy (Chair)	4
Barrie Brien	4
Denise Collis	4
James Bilefield	4

Full biographies are available on pages 112 to 114.

Aligned with this, the Committee has sought to continue to strengthen governance and compliance processes, most notably by expanding the Risk & Compliance Committee structures into the regions, led by the Head of Compliance & Risk and building on the risk workshops held last year in each region. Work has also progressed on updating a number of key policies, whilst also expanding the externally-led evaluation of the Group's Health and Safety procedures, to encompass further regions, differing business models and specialisms.

By doing this, the Committee is able to support 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. In line with best practice an external evaluation of the effectiveness and efficiency of IA was completed during the year with very positive results which included a recommendation to consider co-sourcing audits which might benefit from specialist knowledge or expertise. This will be considered as part of the 2020 IA work programme.

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

- Revenue recognition;
- Tracker share arrangements;
- Exceptional items; and
- Impairment of investments carrying value (Company only).

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

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 crisis management, systems implementation, and other key risk areas. The Committee also co-ordinated a response to the FRC's letter of June 2019 regarding certain financial disclosures in the 2018 Annual Report, with no further action necessary.

As in prior years, 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 internally. From this review, the Committee has concluded that it is functioning effectively, with an opportunity to work with management in articulating more clearly the Company's risk appetite.

#### **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 executive financial positions 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 during the year.

## Audit Committee

continued

### **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 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 continuing 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 re-appointment of PwC as external auditors, for subsequent ratification of their remuneration and terms of engagement by shareholders;
- Reviewed and monitored the external auditors' 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. Non-audit services relate to the half-year agreed-upon procedures, PwC inform subscription and FRC letter assistance, whilst net revenues generated to the Company through recruitment services provided to PwC as a client are not material.

The external auditors are required to rotate audit partners responsible for the Group audit every five years and the current lead audit partner, Kenneth Wilson, was appointed in 2019, following appropriate transition. This also reflected 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 most recent re-appointment, following a robust tender process, PwC originally replaced BDO as auditor in 1999 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 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 auditors 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 auditors 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 such 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 £415,000 (£390,000 base fee, plus £25,000 additional audit costs related to the transition of the support function to Glasgow). Prior year fees were £487,000 (£357,000 base fee, plus £130,000 additional audit costs related to the transition of the support function to Glasgow). 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, these fees were £13,000 in 2019 (2018: £37,000).

#### 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 2019 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. Furthermore, since the Group transitioned into IFRS 15 on 1 December 2018, a historical shrinkage rate started to be applied to the system-generated Contract accrued income. Shrinkage represents the difference between actual amounts billed and accrued revenue and costs. This adjustment ensures that the accrued income is only recognised as revenue to the extent that its significant reversal will not occur in the next financial year.

External and internal auditors verified procedures around revenue recognition and reported their findings. The estimation method applied and the use of the shrinkage rate to the system-generated Contract accrued income were considered appropriate by the Committee and in line with IFRS requirements.

## Audit Committee

continued

### 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 the 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 that the practice to date has been to settle tracker shares using SThree plc shares, and sought re-confirmation 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 re-issue 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.

### Exceptional items

As in 2018, certain items of cost and income were separately presented as exceptional items and excluded from the Group's performance measures on the face of the Consolidated Income Statement.

The majority of the exceptional items recognised in the current year were attributable to the CEO change and senior leadership restructuring. Cost items classified as exceptional were primarily contractual payments to the departing CEO and regional leaders.

As the classification of these costs is judgemental and the valuation of the provision requires estimation, these matters were discussed with senior members of the finance team. The Committee reviewed the applied criteria and timing of these costs to ensure such classification and presentation was consistent with the Group's accounting policy as set out in note 1 of the financial statements, internal policy, and external guidance.

The Committee considered that an appropriate disclosure as exceptional items continues to provide a better understanding of the Group's underlying results and is in line with IFRS requirements. Both external and internal auditors performed detailed verification procedures on the exceptional items and related provisions and the external auditors reported their findings to the Committee.

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

The parent Company held investments in UK and overseas subsidiaries, which had a total carrying value of £212.1 million (2018: £213.9 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 Chief Financial Officer that certain indicators of impairment of the UK business existed at the reporting date. It followed a review of key judgements on future trading performance of the Group's UK arm, and key estimates including growth and discount rates, which resulted in the impairment charge of £8.2 million recognised in the Company's accounts (see note 12). Given the downturn in the trading performance of the UK business, an impairment charge was anticipated by the Committee. Estimates and judgements applied in the valuation of the investment were considered to be appropriate by the Committee and in line with IFRS requirements. The external auditors and senior members of the finance team performed detailed verification procedures on the valuations of the investments and the external auditors also reported their findings to the Committee.

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 2019, 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. Again, the IA function was also heavily involved in reviewing the documentation of the processes and controls to enable a successful CoE transition and stabilisation, as well as assessing the Group's key risks, including Brexit readiness and its 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, working with the Group's compliance function, 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 and 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. In support of this view, an external evaluation of the IA function was conducted during 2019 which concluded that the IA function was highly effective.

#### **Risk & Compliance Committee ('R&CC')**

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. Resourcing requirements continue to be reviewed. 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 certain risk issues in USA; review of construction/SoW activity in DACH; reporting and investigation of compliance breaches in Benelux/France. There is also a dynamic input into the IA plan, with emerging 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 and was updated in 2019, in line with the policy review reported to the Committee. 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, with any notification reported to the Committee. Under this arrangement, employees are able to report any matters of concern, where this does not conflict with local laws or customs (see 'Company information and corporate advisors' section for details). Policy aligns with best practice, with a review of hotline provider and refresh communication of the whistleblowing arrangements undertaken last year. During the year, there was one incident reported. All issues raised are fully investigated and appropriate action taken.

#### **Committee evaluation**

Following an external evaluation in 2018, the Committee conducted an internal evaluation process which included feedback from management, external auditors, IA, as well as Committee members. From this review, the Committee has concluded that it continues to function effectively with an opportunity to work with management in articulating more clearly the Company's risk appetite.

#### **Anne Fahy**

Audit Committee Chair  
24 January 2020



## Directors' remuneration report

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 2019.

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### Denise Collis

Chair of the Remuneration Committee  
24 January 2020

#### Committee meetings attended (total of 4)

Denise Collis (Chair)	4
James Bilefield	4
Barrie Brien	4
Anne Fahy	4

Full biographies are available on pages 112 to 114.

### Dear Shareholder

On behalf of the Board, I am pleased to present this Directors' remuneration report for the period ended 30 November 2019. As the 2020 AGM will be the third anniversary of shareholders approving our remuneration policy, we are required to seek shareholder approval by a binding vote for a new policy for the next three-year period. The new Directors' remuneration policy is set out on pages 132 to 137, together with a summary of the changes, compared to our existing policy, that we propose to make. The Annual report on remuneration (set out on pages 138 to 154) describes how the current policy was implemented in 2019 and how the new policy will be implemented in 2020. The Annual report on remuneration, together with this Statement, will be subject to a separate, advisory vote.

As a Remuneration Committee, we remain sensitive to the topic of executive pay for all stakeholders, including companies, employees and shareholders, and have ensured that our new remuneration policy reflects best practice and investor guidelines. There has been a thorough engagement process with our major investors both in July 2019 and, following feedback, in December 2019.

We welcomed the views and opinions of those investors who responded who, despite some variations in perspective, were supportive of the new policy. This reinforced our view that our pay policy reflects our business strategy, with remuneration payments that are strongly linked to performance. We have also commenced this year a rolling programme of engagement with employees around reward, which we intend to build upon during 2020. I have personally engaged with employees across a number of our offices in the UK and overseas, and we recently held a very interactive and productive session with a diverse group, drawn from across the business, to explain our corporate governance processes and how our pay policy cascades throughout the Company.

### Summary of the new remuneration policy

The Committee has reviewed the market levels of the current remuneration arrangements, and considered alternative incentive models, and has concluded that the remuneration levels and the structure of the current remuneration policy should be unchanged, subject to careful consideration of the latest UK Corporate Governance Code requirements and investor guidance. Accordingly, there are a number of changes, including the structure and level of deferral applying to the annual bonus, and shareholding requirements. Full details of the changes are given in the Policy section.

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.

We are aware that the landscape is evolving rapidly on executive pensions and we will keep this issue under review in future years in relation to the pension contributions for the CEO and CFO (currently 5% and 15% of salary respectively). As previously communicated to shareholders, the pension contribution for the CFO will be frozen at the current monetary value and we will shortly be conducting a Group-wide review of pension provision.

#### Remuneration payable for performance in 2019

Despite the continuing uncertain macro-economic and geopolitical conditions, the Group delivered a record performance in 2019, whilst also witnessing share price growth following the new CEO, the CFO and other members of the senior team engaging with investors at the Capital Markets Day in November 2019. In relation to the annual bonus, the Group delivered a performance that was in line with market expectations, despite sector downgrades. This was driven by strong growth in Continental Europe, USA, and Japan. 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 and cash conversion. Looking at the wider context, good progress was also made on many of our KPIs, including our strategic and personal objectives.

Reflecting this record performance, the annual bonus paid to the CEO and CFO was 55.7% and 55.2% of the maximum respectively.

The 2017 LTIP award was based on our performance over the three financial years to the end of 2019. For the third of the award based on the EPS performance condition, this required adjusted EPS growth to be between 25.0p and 32.0p. Adjusted EPS performance for 2019 was 33.2p, resulting in 100% vesting of the EPS part of the award. For the third 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. Actual TSR was at the 61st percentile resulting in 55% pay-out of this part of the award. The final one third of the award was subject to a range of strategic measures relating to the customer and employee and relative net fees performance compared to our peers. The outturn in relation to the customer and employee targets was 53.3% of the maximum, reflecting improvement in revenue from new product lines and improvement in certain aspects of engagement. With regards to the net fees measure compared to our peers, most have a 31 December year end meaning that we cannot calculate the result yet. Consequently, vesting of this part of the award, if any, will be held back until the result is known. Overall the LTIP pay-out, on an interim basis excluding the net fees element, is 63.5% of the maximum.

The Committee has considered whether the formula-driven pay-outs 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:

- Profit performance represents a record achievement, with good year-on-year growth in a challenging market that has also seen recent sector downgrades.

- Sound progress has been made across a number of key strategic imperatives, including the development of the Centre of Excellence in Glasgow.
- This has been a year of significant internal change, with a new CEO and departures of the existing CEO and COO, as well as key changes in the wider senior management team. This has caused some inevitable disruption which has been well managed and has not deflected from delivering a strong performance for all stakeholders.

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.

#### Policy implementation for 2019

The Committee has increased the salary for the CEO, who joined mid-year, by 1.9% (2.5% pro-rata for time in role last year) and awarded the CFO an increase of 2.5%, which is in line with the average increase for employees generally.

The mix of measures for the annual bonus scheme has been changed so that the financial element has increased from 65% to 80%, with shared strategic and personal objectives reduced to 10% each. This increased focus on financial performance is appropriate as we seek to maximise returns from the significant investments in our people and operations. Appropriate measures have been set for the shared strategic and personal elements, with commensurate stretching targets.

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 2020 the grant level will be unchanged at 150% of base salary. It is again proposed that the weighting of performance measures should be 50% EPS, 30% TSR and 20% strategic. The Committee has given careful consideration to the setting of targets for 2020, looking to balance the forward momentum from a record performance in 2019 with continuing uncertain macro-economic and geopolitical conditions, which are starting to manifest themselves in the results of some of our competitor peer group. 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 2020-2022 LTIP award, the EPS range requires significant growth from the strong 2019 outturn in order for awards to reach threshold, with a 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 2020-2022 LTIP awards are set out in the Annual report on remuneration.

# Directors' remuneration report

continued

## Chief Executive Officer succession and Chief Operations Officer stepping down

As announced on 28 February 2019, the Board was delighted to secure the appointment of Mark Dorman as Chief Executive Officer, who commenced employment on 18 March 2019. Mark's starting salary of £475,000 together with a pension contribution of 5% of salary was lower overall than the total salary and pension contribution (combined) of his predecessor, Gary Elden. The remainder of Mark's starting package also was fully in line with the remuneration policy and there were no buy-out arrangements relating to remuneration forfeited from his previous employer.

Gary Elden stepped down from the Board as CEO on 18 March 2019 and remained with the Company until 24 April 2019 to ensure a smooth handover to his successor. Gary's notice period commenced on 18 December 2018 when the Company announced that he was stepping down. After ceasing active employment he was placed on garden leave for the remainder of his contractual notice period and continued to be paid his base salary, benefits and pension equivalent monthly, in the absence of any outside earnings during the period.

The Committee determined that Gary is a 'good leaver' for the purpose of incentive plan awards. On this basis he received an annual bonus in respect of 2019, pro-rated for active service, as set out in the Directors' emoluments table. For outstanding 2017, 2018 and 2019 LTIP awards, the performance conditions attached to these awards will be measured over the original performance periods and the awards have been scaled back pro-rata for the proportion of the vesting period completed.

As announced on 1 July 2019, Justin Hughes stepped down from the Board as COO on that date. He was served a 12-months' notice by the Company and following a short handover period was placed on garden leave for the remainder of his contractual notice period. To date he has continued to be paid his base salary, benefits and pension equivalent monthly, in the absence of any outside earnings during the period.

The treatment of Justin's outstanding incentive plan awards are the same as for Gary Elden, except that the two-year post-vesting holding period will continue to be applied for Justin, reflecting our policy at his date of leaving.

## Shareholder engagement, response to UK Corporate Governance Code changes and 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 proposed remuneration policy for 2020-2022 and also in assessing current policy application.

We also gathered broader stakeholder input, as required by the UK Corporate Governance Code reforms announced by the Financial Reporting Council in July 2018. This included my appointment as the designated NED responsible for employee engagement, which is aimed at ensuring that the voice of our people is heard around the Board table. The Committee also took a number of other steps, announced last year, to comply with the new Code requirements.

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 to that of the workforce.

## Chairman and NED fees

Following a review last year of the fee levels for the Chairman and NEDs, these remain unchanged for 2020.

## Conclusion

The Committee appreciates the support received from shareholders to date on its executive remuneration and governance approach and looks forward to this continued support for the resolutions to approve the new policy and the Annual report on remuneration at the AGM in April 2020.

## Denise Collis

Chair of the Remuneration Committee  
24 January 2020

## Remuneration at a glance

### How have we performed?

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

Metric	Threshold	Maximum	Actual	Achievement %
PBT	£54.0m	£62.0m	£59.1m	48.9%
Operating conversion ratio	17.0%	18.0%	17.5%	58.3%
Cash conversion ratio	79.0%	91.0%	84.0%	38.8%
Average shared strategic achievement*				65.0%
Personal achievement*				CEO: 75.0%; CFO 70.0%
Total achievement				CEO: 55.7%; CFO 55.2%
<b>Total bonus (% of maximum)</b>				<b>CEO: 55.7%; CFO 55.2%</b>

\* Full details set out in the report.

#### 2017 LTIP Award – grant 150% of base salary

Metric	Threshold	Maximum	Actual	Achievement %
EPS (adjusted)	25p	32p	33.2p	100%
TSR	Median	Upper quartile	61st percentile	55%
Customer, Employee and relative Gross Profit targets	See detailed breakdown of targets on page 145			53.3%*
Total award (% of maximum)				63.5%

\* This represents an interim assessment of performance.

#### Summary of total reward

	Reward component	CEO*	CFO
2019	<b>Base pay £'000</b>	<b>£335.5</b>	<b>£350.1</b>
	<b>Total remuneration £'000</b>	<b>£642.9</b>	<b>£1,013.4</b>
2018	Base pay £'000	£453.1	£341.6
	Total remuneration £'000	£1,064.0	£813.1

\* 2019 CEO figures relate to Mark Dorman, who served for part of the year.

#### How we will apply the remuneration policy in 2020

Key reward component	Key features
<b>Base salary and core benefits</b>	CEO salary increased by 1.9% (2.5% pro-rata); CFO salary increased by 2.5%, in line with average increase for employees  Pension contribution: 5% of salary for CEO and £51,237 for CFO
<b>Annual bonus</b> – 80% Group financial targets – 10% Strategic target – 10% Personal target	Maximum of 120% of salary, with one third of any bonus award paid in shares and held for two years
<b>LTIP award</b> – 50% EPS – 30% TSR – 20% Strategic targets (improving long-term operating margin)	Maximum award of shares worth 150% of annual salary, performance tested, vesting after three years with a further two-year holding period
<b>Shareholding requirements</b>	Requirement to build up and hold shares equivalent to 200% of salary whilst employed. Post service requirement to hold the lower of 200% of salary or actual shareholding for two years after cessation of employment

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# Remuneration policy report

## Policy report

This section of the Directors' remuneration report sets out the Group's remuneration policy for Directors. This will be subject to shareholder approval at the AGM held in April 2020 and will apply for three years from that date.

The remuneration policy is designed to support the strategic business objectives of the Group so as to attract, retain and motivate Directors and senior managers of a high calibre, in order to deliver sustainable increases in long-term shareholder value.

## Changes to the policy

The changes to the policy are as follows:

### Pension:

- The policy for new recruits will be to align the percentage contribution to the percentage rate applying to the majority of the workforce at that time. This is currently 4% but will be subject to a Group-wide pension review which is shortly to commence.
- The CEO receives a pension contribution of 5% of salary (reduced from the previous incumbent contribution of 15% of salary) which will continue. Under the current policy the CFO receives a pension contribution of 15% of salary. Under the new policy his pension contribution will be capped at £51,237 (which is the cash equivalent value of 15% of salary, based on the 2019 salary).

### Annual bonus:

- The current policy on bonus deferral requires any bonus paid in excess of 100% of salary to be deferred in shares, vesting equally after one and two years subject normally to continued employment. Under the new policy one third of any bonus earned will be required to be invested in shares. The shares will be beneficially owned by the executive at the outset but must be held for a minimum of two years. While the shares will not be subject to a risk of forfeiture if an individual were to leave, they must continue to be held and would be subject to robust malus and clawback provisions.
- The Committee will be able to apply discretion and adjust any formula driven outcome to reflect, for instance, broader performance factors (also applicable to the LTIP).

### Shareholding requirement:

- Individuals will be required to retain shares at the lower of the 200% of salary shareholding requirement, or the actual shareholding on departure, for two years after their employment has ceased. Self-purchases of shares will be excluded from counting towards this post-employment requirement. There will be a robust process to maximise the enforceability of the post-cessation holding requirement.
- There will be no early vesting of LTIP or bonus share awards on cessation of employment, or early release of shares during the post-cessation holding period (other than in exceptional circumstance such as serious ill-health).

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

Element	Purpose and link to strategy	Operation	Maximum	Performance metrics	Strategic Report
<b>Pension</b>	To provide a competitive pension provision.	Individuals may either participate in a pension plan into which the Group contributes or receive a salary supplement in lieu of pension.	A Group contribution to a pension scheme or cash in lieu, of 5% of salary for the CEO and a capped £51,237 for the CFO.  For new joiners a pension contribution in line with the rate applied to the majority of the workforce (currently 4%).	Not applicable	Corporate Governance
<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.	<p>Deferral into shares for one third of any bonus earned, which must be held for two years.</p> <p>Dividends or dividend equivalent payments accrue on deferred shares, payable normally in shares.</p> <p>Bonus may be subject to clawback or malus being applied, if appropriate, in the event of financial misstatement, error, misconduct, reputational damage or corporate failure, which has led to an over-payment.</p>	Maximum bonus payment is 120% of annual salary.	<p>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.</p> <p>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 for instance it considers the quantum to be inconsistent with the Group's overall performance during the year.</p>	<p>Financial Statements</p> <p>Supplementary Information</p>

## Remuneration policy report

continued

Element	Purpose and link to strategy	Operation	Maximum	Performance metrics
<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.	<p>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 normally in shares. Vested LTIP awards must be held for a further two years before the shares may be sold (other than to pay tax).</p> <p>LTIP awards may be subject to clawback or malus being applied, if appropriate, in the event of <i>financial misstatement, error, misconduct, reputational damage or corporate failure</i>, which has led to an over-payment.</p>	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 Group's overall performance during the performance period or for other factors, at its discretion.
<b>All employee 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 Group from time to time.	Not applicable
<b>Share ownership requirements</b>	Alignment of Executive Directors' interests with those of investors.	<p>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 share awards (after the expiry of any relevant holding period).</p> <p><i>After ceasing employment</i> Executive Directors must normally retain a level of shareholding for two years equivalent to the lower of 200% of salary, and the level of shareholding on ceasing employment with the Group. Self-purchased shares are excluded from this requirement.</p>	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

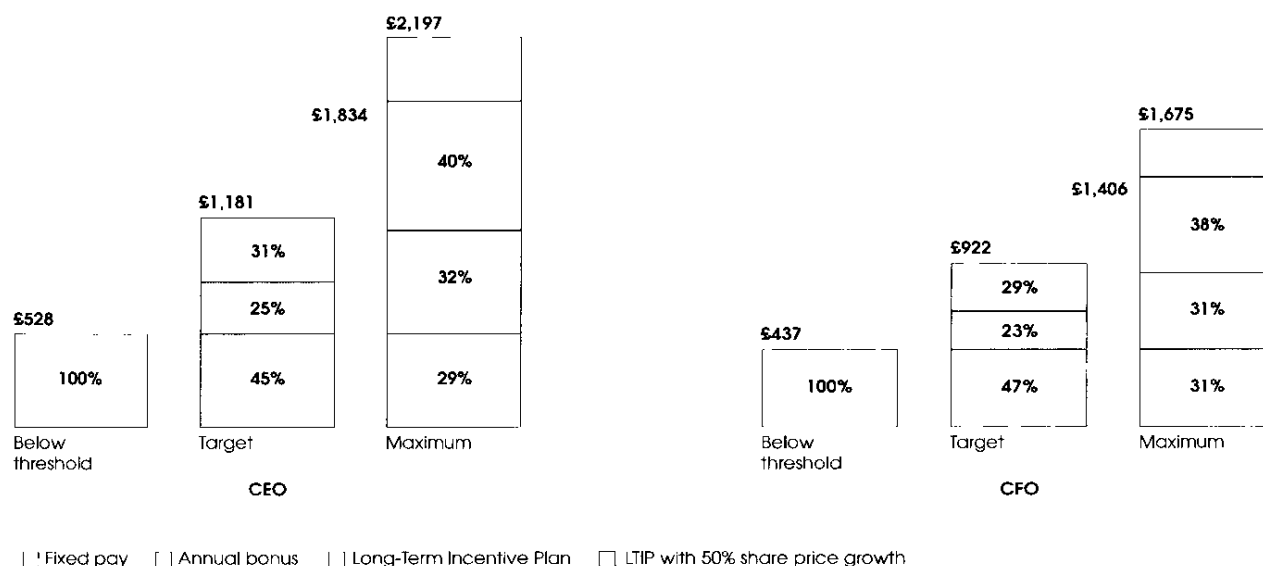
The Committee's policy is to review performance measures for the incentive schemes annually, so that they continually align with strategic objectives. The Committee considers that linking annual bonus and the vesting of LTIP awards to a combination of different measures, capturing share price, financial 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 2020 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 2019, pension contribution of 5% salary for the CEO and £51,237 for the CFO, and the value of benefits received in 2019.

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.



# Remuneration policy report

continued

## **Role of the Committee in overseeing broader employee pay and differences in remuneration policy for Executive Directors compared to other employees**

*The Committee actively considers the pay structures across the wider group when setting policy for Executive Directors to ensure that a consistent approach to reward is adopted that is in line with our values. There is a particular focus in relation to any base salary review.*

Overall, compared to most employees, the remuneration policy for Executive Directors is weighted more to long-term share-based incentives and stringent deferral and shareholding requirements. This is to ensure that the relatively higher pay levels are justifiable internally and externally to shareholders as a clear link between the long-term 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 and, at least once a year, is given full details of the remuneration policy across the Group, with any changes highlighted. As mentioned earlier, the Committee Chair also has responsibility to engage on employee pay.

During the year Denise Collis met with employees from across the organisation to explain how executive pay aligns to that of the workforce. Meetings were also held with regional management, employees and HR representatives as part of the Board's rolling programme of office visits.

## **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 Group follows shareholder sentiment on executive pay and takes it into account in considering the application of policy in the years between the development of a new policy. The last exercise was undertaken in July and December 2019, as outlined in the Chair's Statement and shareholder feedback was incorporated into the policy proposals.*

## **Remuneration policy for recruitment and promotion**

Base salary levels will be set in line with the policy taking account of individual circumstances.

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

*Annual bonus will be in line with the policy and there is 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 Group or Executive. At the Group'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 (pro-rata if active employment ceases part way through the year) or share-based awards, with LTIP awards scaled back on a pro-rata basis for the portion of the vesting period elapsed on cessation of active employment, subject to still achieving any relevant performance criteria. Awards would vest at the normal time and any deferral or holding periods would continue to apply for the normal duration. Only in exceptional circumstances would awards vest or shares be released early, such as serious ill-health.

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

### External appointments

Executive Directors are encouraged to undertake one external appointment, where they are able to combine this with their existing role. This helps to broaden experience and capability, which can benefit the Group. 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 Group or the NED giving a three-months' 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
Fees	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 Group's Articles of Association. Out of pocket expenses including travel may be reimbursed by the Group in accordance with the Group's expenses policy (and may settle any tax incurred in relation to these). 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 using market purchased shares via the EBT, if appropriate.

# Annual report on remuneration

## Section 1 – Total reward for 2019

- 1.1 Directors' remuneration for 2019
- 1.2 Annual bonus payable for 2019 performance
- 1.3 Shared strategic objectives 2019 performance
- 1.4 Personal objectives 2019 performance
- 1.5 LTIP awards vested by reference to performance over the three years to 2019

### 1.1 Directors' remuneration for 2019 (audited)

Director	Salary and fees £'000	Benefits <sup>1</sup> £'000	Annual bonus £'000	Long Term Incentive Plan <sup>2</sup> £'000	Pension £'000	Other	Total £'000
Gary Elden*	151.0	8.0	96.4	449.5	22.7		727.6
Mark Dorman*	335.5	14.7	238.2	–	17.8	36.7 <sup>1</sup>	642.9
Alex Smith	350.1	27.0	232.0	353.1	51.2		1,013.4
Justin Hughes*	149.7	9.8	93.8	272.0	21.9	47.9 <sup>1</sup>	595.1
Anne Fahy	58.0	–	–	–	–		58.0
Denise Collis	70.5	–	–	–	–		70.5
James Bilefield	150.0	–	–	–	–		150.0
Barrie Brien	48.0	–	–	–	–		48.0
<b>Aggregate emoluments</b>	<b>1,312.8</b>	<b>59.5</b>	<b>660.4</b>	<b>1,074.6</b>	<b>113.6</b>	<b>84.6</b>	<b>3,305.5</b>

2018 Director	Salary and fees £'000	Benefits <sup>1</sup> £'000	Annual bonus £'000	Long Term Incentive Plan <sup>3</sup> £'000	Pension £'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
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>

\* Pro-rated due to appointment or departure in year.

Notes:

- 1 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. The pension contribution equates to 15% of salary historically. As agreed on his appointment, Mark Dorman is entitled to up to \$60k in relocation/other costs in relation to his relocation from the US. In 2019, \$37k was incurred, which related to rent, legal and school fees. Justin Hughes' relocation costs of \$47.9k are in relation to his return to the UK.
- 2 2019 LTIP awards relate to those granted in early 2017 and vesting in early 2020, based on performance assessed over 2017 to 2019, 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 341.0p, being the share price on 29 November 2019, the last dealing day of the year. As the market price at grant was 312.0p, some of the value has arisen from the share price increasing.
- 3 2018 LTIP awards relate to those granted in early 2016, vested in early 2019, based on performance assessed over 2016 to 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.

## 1.2 Annual bonus payable for 2019 performance

Mark Dorman

Measures	Weighting	Actual performance against target				Threshold	Target	Max	Actual performance	Achievement %	Pay-out £'000
		Below Threshold	Target	Max							
Group financial target											
PBT	29.25%				£54.0m	£59.3m	£62.0m	£59.1m	48.9%		£61.1
Operating conversion ratio	19.50%				17.0%	17.4%	18.0%	17.5%	58.3%		£48.6
Cash conversion ratio	16.25%				79.0%	87.0%	91.0%	84.0%	38.8%		£26.9
Shared strategic objectives											
See section 1.3	25.0%							16.3%	65.0%		£69.5
Personal objectives											
See section 1.4	10.0%							7.5%	75.0%		£32.1
	100.0%								55.7%		£238.2

Alex Smith

Measures	Weighting	Actual performance against target				Threshold	Target	Max	Actual performance	Achievement %	Pay-out £'000
		Below	Threshold	Target	Max						
Group financial target											
PBT	29.25%					£54.0m	£59.3m	£62.0m	£59.1m	48.9%	£60.1
Operating conversion ratio	19.50%					17.0%	17.4%	18.0%	17.5%	58.3%	£47.8
Cash conversion ratio	16.25%					79.0%	87.0%	91.0%	84.0%	38.8%	£26.5
Shared strategic objectives											
See section 1.3	25.0%								16.3%	65.0%	£68.3
Personal objectives											
See section 1.4	10.0%								7.0%	70.0%	£29.3
	100.0%									55.2%	£232.0

## Annual report on remuneration

continued

Gary Elden

Measures	Weighting	Actual performance against target				Max	Threshold	Target	Max	Actual performance	Achievement %	Pay-out £'000
		Below	Threshold	Target	Max							
Group financial target												
PBT	29.25%					£54.0m		£59.3m	£62.0m	£59.1m	48.9%	£25.9
Operating conversion ratio	19.50%					17.0%		17.4%	18.0%	17.5%	58.3%	£20.6
Cash conversion ratio	16.25%					79.0%		87.0%	91.0%	84.0%	38.8%	£11.4
Shared strategic objectives												
See section 1.3	25.0%									16.3%	65.0%	£29.4
Personal objectives												
See section 1.4	10.0%									5.0%	50.0%	£9.1
	100.0%										53.2%	£96.4

Justin Hughes

Measures	Weighting	Actual performance against target				Max	Threshold	Target	Max	Actual performance	Achievement %	Pay-out £'000
		Below	Threshold	Target	Max							
Group financial target												
PBT	29.25%					£54.0m		£59.3m	£62.0m	£59.1m	48.9%	£25.7
Operating conversion ratio	19.50%					17.0%		17.4%	18.0%	17.5%	58.3%	£20.4
Cash conversion ratio	16.25%					79.0%		87.0%	91.0%	84.0%	38.8%	£11.3
Shared strategic objectives												
See section 1.3	25.0%									16.3%	65.0%	£29.2
Personal objectives												
See section 1.4	10.0%									4.0%	40.0%	£7.2
	100.0%										52.2%	£93.8

### 1.3 Shared strategic objectives for 2019 performance

Strategic measure and targets	Assessment of performance by the Committee	Overall result in judgement of the Committee (as % of maximum opportunity)	Strategic Report
<b>Scalable global operating model for ECM</b>			Corporate Governance
Creation of a scalable, efficient and highly effective Employed Contractor Model ('ECM') solution across our principle geographies, delivering substantial improvements to our post-sales service to contractors.	Overall, the project has been delivered to, and in a number of instances has exceeded, plan. Payroll metrics achieved in full against Hackett benchmarking, with payroll accounting and baseline metrics making good progress towards best-in-class operations. Successful enhancements made to compliance and controls. Following the outcome from the strategy implementation review, one target has necessarily been postponed to 2020.	45%	
<b>Purpose and Operating Principles</b>			Financial Statements
Embed our purpose and Operating Principles across the Group, covering both existing staff and new hires inducted into the organisation. Achievement to be qualitatively evaluated as well as by reference to employee net promoter score ('eNPS' score) targets: 1. Maintain the robust 2018 sales eNPS score of 34 2. Improve the support eNPS score from -3 to +2	Overall, the project has been successfully delivered with our purpose and Principles becoming embedded in the business and informing our ways of working and our interactions with stakeholders. Key achievements include the development of an agreed methodology and action plan roll-out (including all internal communications, leader briefings, new training materials and online workshops). Improvement in eNPS achieved as follows: - Sales 45.4 v 34 in 2018; and - Global Support +3 v -3 in 2018.  More detail is provided on purpose and Operating Principles throughout the 2019 Annual Report.	75%	
			Supplementary Information

# Annual report on remuneration

continued

Strategic measure and targets	Assessment of performance by the Committee	Overall result in judgement of the Committee (as % of maximum opportunity)
<b>Highgrove (CoE) stabilisation/get better phase</b>		
Complete the stabilisation phase of the project, and finalise/roll-out plans for phases 2 and 3, delivering agreed KPIs:	1. Process mapped and quick wins implemented. Tactical IT solutions identified and introduced. Significant improvements to workflow. Audited IT control improvements.	50%
1. Order-to-Bill Workflow – process mapped, pain points and issues documented and addressed, quick wins and tactical IT solutions implemented.	2. Achieved.	
2. Cost savings of £5.5 million maintained.	3. Significant improvement with partial achievement of target.	
3. Helpdesk – all tickets responded within 48 hours.	4. Debtor days and overdue percentages at a Group level have remained consistent year on year, with critical vendor review conducted and short-term cash flow model now in place.	
4. Working Capital – improvement of three debtor days year on year, reduction in overdue percentages by 5%-7.5% year on year, implemented standard terms and payment practices for AP trade and AP non-trade.		
5. Implemented 90-day cash flow model.		
<b>Transition and transformation of the business</b>		
This is an additional strategic objective, introduced following the appointment of the new CEO, and focused on:	- The transition to a new CEO has been smoothly achieved.	90%
- the achievement of a smooth transition from the change of leader;	- A record year in terms of profit and performance, in a market environment where three competitor organisations issued profit warnings.	
- an intense focus on the delivery of business performance through a period of change and uncertainty;	- A highly successful Capital Markets Day on the 21 November, as evidenced by the movement in the share price (290p – 20 November, 339p – 26 November, 379p – 31 December).	
- the review and evolution of current strategy;	- Re-modelling of the Senior Executive Team, including a new Chief People Officer and a new Chief Strategy and Development Officer.	
- the commencement of the roll-out of an underpinning operating model and operational infrastructure.		
<b>Total/average pay-out</b>		<b>65%</b>

#### 1.4 Personal objectives for 2019 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)
Mark Dorman	Group strategy Refine the Group strategy, develop a rigorous, multi-year operational implementation plan, and deliver against defined performance metrics and timelines for 2019.	<ul style="list-style-type: none"> <li>- Clear ambition for the Group articulated, under-pinned by a 3 to 5-year strategic direction. Full Board endorsement at annual Strategy Day.</li> <li>- Business priorities simplified, coded and cascaded to the organisation.</li> <li>- Strategic programme of work developed to drive operational plans, resource allocation and capability requirements.</li> <li>- Significant knowledge transfer of strategic planning to the management team.</li> <li>- Successful first Capital Markets Day.</li> </ul>	75%
	Senior Executive Team ('SET') Review the SET and SET-1 organisational structure, and implement changes to align with the strategy and operational implementation plan.	<ul style="list-style-type: none"> <li>- New Senior Executive Team structure developed.</li> <li>- Critical capability gaps identified and new members of the Senior Executive Team recruited and inducted.</li> <li>- Full organisational capability and capacity review conducted covering the most senior 130 roles.</li> <li>- Two new organisational constructs created, 'Top 20' and the Extended Leadership Team ('ELT'), with improvements delivered in inclusion and decision making.</li> <li>- Improved ways of working introduced resulting in enhanced global collaboration.</li> </ul>	
	People strategy Develop and commence implementation of a People Strategy Plan.	<ul style="list-style-type: none"> <li>- People priorities identified and Plan endorsed by the Board.</li> <li>- Good progress made against agreed deliverables, including a new approach to employee engagement, introduction of a talent development framework, and development of a new reward and recognition strategy.</li> <li>- People team strengthened.</li> </ul>	



## Annual report on remuneration

continued

Director	Personal objective	Assessment of performance by Committee	Overall result in judgement of the Committee (as % of maximum opportunity)
Alex Smith	Strategic planning Deliver an effective, rigorous and analysis-based strategic planning process for 2019 that demonstrates a step change improvement from 2018 and delivers quality outputs that shape both short-term and long-term business goals and objectives.	<ul style="list-style-type: none"> <li>- Board endorsement of step change improvement in the Strategy planning process over prior year.</li> <li>- Positive feedback received on the adoption of a more inclusive approach.</li> <li>- Successful introduction and application of a 'managing for value' methodology to the evaluation of priorities.</li> <li>- Positive engagement with investors on the updated plan as part of the Capital Markets Day.</li> </ul>	70%
	Investor relations Drive a more proactive investor relations strategy, effectively communicating the investment case, business model, and the strategy and governance framework. Reduce the main negative impacts of MiFID II and take advantage of new investor engagement opportunities.	<ul style="list-style-type: none"> <li>- Significant improvement achieved in investor engagement pre- and post-trading updates.</li> <li>- Developed and delivered a clearer investment case for holders and non-holders.</li> <li>- Conducted a more effective outreach to analysts to encourage greater coverage post-MiFID II, resulting in both HSBC and Investec initiating coverage in 2019.</li> <li>- Improved design of the Capital Markets Day.</li> <li>- Effective support of new plc CEO on capital markets outreach.</li> <li>- Successful broker and advisor review with new brokers installed.</li> </ul>	
Justin Hughes	Succession planning Define the senior succession pipeline and organisational structure for operations globally, with clear roles and responsibilities aligned to the strategic direction. Identify development gaps and progression opportunities across the Group.	<ul style="list-style-type: none"> <li>- Partial development of a high level global operations plan delivered prior to date of leaving.</li> </ul>	40%
	Global IT strategy Develop a clear, global IT strategy with supporting roll-out plan and initiation within 2019. Outputs to allow for a clear pathway into the development of 2020 objectives and deliverables.	<ul style="list-style-type: none"> <li>- High level IT strategy document developed and delivered prior to date of leaving.</li> </ul>	
Gary Elden	CEO transition Enable the induction of the new CEO and provide an effective handover. Actively facilitate the leadership transition through engagement with employees and other key stakeholders.	<ul style="list-style-type: none"> <li>- Provided an effective handover to the new CEO, and supported the transition.</li> </ul>	50%

**1.5 LTIP awards vested by reference to performance over the three years to 2019 (audited)**

Earnings Per Share ('EPS') for one third of the award:

EPS	Pay-out range	Actual performance	Vesting level	Vesting % of total LTIP award
Between 25.0p and 32.0p per share	30% - 100%	33.2p	100%	33.3%

Total Shareholder Return ('TSR') for one third of the award:

TSR - Rank of the Company compared to the peer group	Pay-out range	Actual performance	Vesting level	Vesting % of total LTIP award
TSR performance between the median and upper quartile	25% - 100%	61st percentile	55%	18.3%

Strategic objectives for one third of the award		Performance	Vesting % of total LTIP award
Measure	Target		
Customer (one third)	Revenue generation between £10 million to £15 million from new product lines	£25.1 million	3.7% out of 3.7%
	Improvement of customer NPS (interview and post placement) of 6-10 points over two years <sup>1</sup>	3 point improvement in interview NPS	0% out of 3.7%
		19 point improvement in placement NPS	3.7% out of 3.7%
Employee (one third)	Staff engagement improvement 3-5 point improvement	13 point growth in sales function	2.2% out of 2.2%
		-1.4 point growth in support function	0% out of 2.2%
	Sales churn 37%-35%	39.5%	0 out of 2.2%
	Sales level 3-4 Diversity and Inclusion gender representation targets must improve:		
	Level 3 from 26% to 30%	Level 3: 30.5%	2.2% out of 2.2%
	Level 4 from 15% to 20%	Level 4: 10.5%	0% out of 2.2%
Relative gross profit (one third) <sup>2</sup>	Percentage net fees growth over three years against the same peer group as used for TSR	To be assessed once results of gross profit performance measure are known with full disclosure in 2020 DRP	Estimated at 8.325% out of 11.1%
Total			20.2% out of 33.3%

<sup>1</sup> Derived from a baseline of the first year NPS.<sup>2</sup> As the majority of our peers have a 31 December year end, the result is not yet known. Consequently, payment, if any, will be held back until the vesting result is known.

## Annual report on remuneration

continued

Number of shares granted vs vested vs lapsed based on assessment versus targets for LTIP award granted in 2017 (excluding remaining shared strategic objective)

Executive Director	Number of shares granted	Number of shares vested	Number of shares lapsed	Value of share based on grant price £	Value of shares attributable to share price growth £	Dividend equivalent additional shares	Total £'000 <sup>1</sup>
Gary Elden	212,500	115,128	97,372 <sup>2</sup>	359,199	33,888	16,700	449,534
Alex Smith, CFO	160,216	90,436	69,780	282,160	26,226	13,118	353,119
Justin Hughes	159,519	69,657	89,862	217,330	20,201	10,104	271,985

<sup>1</sup> Based on share price of 341.0p on 29 November 2019.

<sup>2</sup> Of this lapsed amount, 8,539 shares lapsed as Gary Elden ceased employment prior to the vesting date.

### Section 2 – How we will apply our remuneration policy in 2020

- 2.1 Base salary
- 2.2 Benefits and pension
- 2.3 2020 annual bonus including financial, strategic and personal measures
- 2.4 Long Term Incentive Plan awards
- 2.5 Non-Executive Directors ('NEDs')
- 2.6 Payments to former Directors

#### 2.1 Base salary

The table below illustrates the most recent base salary changes (effective for 2020). The average budgeted salary increase for employees generally is 2.5%.

Executive Director	Base salary 2019 £'000	Increase (from 1 Dec 2019) £'000	Base salary 2020 £'000
Mark Dorman, CEO	475.0	1.9% <sup>1</sup>	483.9
Alex Smith, CFO	350.1	2.5%	358.8

<sup>1</sup> Pro-rated for time in role.

#### 2.2 Benefits and pension

There are no changes to benefits. The CEO will receive a pension contribution of 5% of salary. The CFO will receive a capped pension contribution of £51,237. The majority of UK employees receive a pension contribution of 4% of salary.

### 2.3 2020 annual bonus, including financial, strategic and personal measures

The maximum annual bonus remains capped at 120% of base salary. One third of bonus is deferred in shares for two years. The bonus metrics and weightings for the 2020 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>	80%			These are considered by the Committee to be the four most relevant financial KPIs for bonus purposes.
		- Adjusted operating profit	50%	Operating profit is the key underlying measure of profitability used within the business.
		- Free cash flow conversion ratio	20%	Free cash flow conversion ratio indicates how efficient the business is in terms of controlling costs and improving consultant productivity, turning profit into cash or collecting cash. As such, it is a key strategic measure.
		- Group revenue	5%	Revenue is a headline measure of income generation, used to assess the underlying financial performance delivered by management.
		- Net fees	5%	Revenue less cost of sales. A broad indicator of the trading.
<b>Shared strategic objectives</b>	10%	- Improvement to the customer net promoter score ('NPS')	5%	NPS has been used in SThree for several years and has become a key measure of the customer experience which includes candidate and client surveys introduced to capture regular feedback from customers about their experiences of working with SThree.
		- Improvement to the employee net promoter score ('eNPS')	5%	SThree have been monitoring employee engagement for several years and in 2017 introduced the current way of working focusing on eNPS as a means of evaluating our performance. This approach is now well embedded into the organisation. Our leadership team are committed to listening to all our people and will continue to use their feedback to inform our people strategy.
<b>Personal objectives</b>	10%		10%	Delivery versus agreed objectives to produce value or efficiency gains.
<b>Total</b>	<b>100%</b>		<b>100%</b>	

# Annual report on remuneration

continued

## 2.4 Long Term Incentive Plan awards

The LTIP awards to be granted in early 2020, 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 2018, 2019 and 2020:

LTIP weighting	EPS	TSR	Strategic
2018-2020	50%	30%	20%
2019-2021	50%	30%	20%
2020-2022	50%	30%	20%

LTIP targets	EPS	TSR	Strategic
2018-20	Between 30.0p (25% vesting) and 41.0p (100% vesting)	Between median (25% vesting) and UQ (100% vesting)	New product net fees between £11 million and £17 million/OP conversion between 17.3% and 21.1% (split equally)
2019-21	Between 35.5p (25% vesting) and 46.0p (100% vesting)	Between median (25% vesting) and UQ (100% vesting)	See notes under section 3.1
2020-22	Between 38.6p (25% vesting) and 46.9p (100% vesting)	Between median (25% vesting) and UQ (100% vesting)	Adjusted operating profit conversion ratio between 18.5% (25% vesting) & 22.0% (100% vesting)

Notes:

- 1 Composition of the TSR comparator groups and prior-year strategic targets for each LTIP award are shown under the table in section 3.1. For TSR the participant group approved for the 2019 grant has remained unchanged for subsequent grants

### 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 and increase of fee levels in December 2018, NED base fees will remain the same for 2020:

Role	2019 annual fee £'000	2020 annual fee £'000
Chair	150	150
NED base fee (x 3 NEDs)	48	48
Committee Chair (Audit and Remuneration)	10	10
SID	7.5	7.5
Employee engagement NED	5	5
Total (Articles of Association limit is \$500k per annum)	326.5	326.5

## 2.6 Payments to former Directors

### Gary Elden

Gary Elden stepped down from the Board as CEO on 18 March 2019 and remained with the Company until 24 April 2019 to ensure a smooth handover to his successor. Gary's notice period commenced on 18 December 2018 when the Company announced that he was stepping down. After ceasing active employment he was placed on garden leave for the remainder of his contractual notice period and continued to be paid his base salary, benefits and pension equivalent monthly, in the absence of any outside earnings during the period.

The Committee determined that Gary is a 'good leaver' for the purpose of incentive plan awards. On this basis he received an annual bonus in respect of 2019, pro-rated for active service, as set out in the Directors' emoluments table. For outstanding 2017, 2018 and 2019 LTIP awards, the performance conditions attached to these awards will be measured over the original performance periods and awards have been scaled back pro-rata for the proportion of the vesting period completed.

### Justin Hughes

As announced on 1 July 2019 Justin Hughes stepped down from the Board as COO on that date. He was served a 12-months' notice by the Company and following a short handover period was placed on garden leave for the remainder of his contractual notice period. During this period he continued to be paid his base salary, benefits and pension equivalent monthly, subject to these payments being offset against outside earnings during the period.

The treatment of Justin's outstanding incentive plan awards is the same as for Gary Elden, except for the two-year vesting period that will continue to be applied for Justin, reflecting our policy at his date of leaving.

The payments made for the remainder of the financial year from the time that Gary Elden and Justin Hughes stepped down from the Board comprise:

Director	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Long Term Incentive Plan £'000	Pension £'000	Total £'000
Gary Elden	302.1	16.1	-	-	45.3	363.5
Justin Hughes	149.7	9.8	-	-	21.9	181.4

# Annual report on remuneration

continued

## 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 Historical levels of CEO remuneration and incentive plan pay-outs

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 all employees' pay compared to dividend payments

### 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. rolled-up dividend shares)	Vesting date	Gain on exercise £	Remaining unexercised and unvested at 30 Nov 2019 (incl. rolled-up dividend shares)
<b>Mark Dorman</b>	30/01/2019	274.00	248,258	680,227	-	30/01/2022	-	248,258
<b>Alex Smith</b>	11/02/2010	299.40	117,935	353,097	160,570	10/02/2013	333,323.00	66,808
	01/02/2011	371.30	104,511	388,049	40,110	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	29,545	27/01/2019	92,328.30	-
	26/01/2017	312.00	160,216	499,874	-	26/01/2020	-	160,216
	02/02/2018	357.00	143,521	512,370	-	02/02/2021	-	143,521
	30/01/2019	274.00	191,672	525,181	-	30/01/2022	-	191,672
Deferred bonus	22/02/2016	295.00	12,131	35,786	6,331	22/02/2016	21,557.05	-
SAYE	20/09/2016	196.40	9,164	23,116	-	01/12/2019	-	9,164
<b>Gary Elden</b>	04/02/2014	364	165,535	602,547	93,371	04/02/2017	Not exercised	100,291
	17/02/2015	324	190,621	617,612	88,042	17/02/2018	Not exercised	90,527
	27/01/2016	297	217,677	646,501	44,684	27/01/2019	122,443.10	-
	26/01/2017	312	212,500	663,000	-	26/01/2020	-	212,500
	02/02/2018	357	190,366	679,607	-	02/02/2021	-	190,366
Deferred bonus	22/02/2016	295	15,770	46,522	8,230	22/02/2016	28,667.56	-
<b>Justin Hughes</b>	01/02/2011	371.3	45,005	167,104	13,557	01/02/2014	Not exercised	16,435
	08/02/2013	331.5	114,027	378,000	66,347	08/02/2016	Not exercised	74,373
	04/02/2014	364	106,961	389,338	40,222	04/02/2017	Not exercised	43,203
	17/02/2015	324	123,170	399,071	37,926	17/02/2018	131,792.85	-
	27/01/2016	297	140,404	417,000	19,212	27/01/2019	52,644.72	-
	26/01/2017	312	159,519	497,699	-	26/01/2020	-	159,519
	02/02/2018	357	122,742	438,189	-	02/02/2021	-	122,742
SAYE	20/09/2017	256.6	7,014	17,998	-	01/12/2020	-	7,014

## Notes:

- 1 The TSR comparator group for the 2020 LTIP awards will be: Adecco, Amadeus Fire, Brunel, Empresaria, Groupe Crt, Hays, Impellam, Kelly Services, Kforce, Korn Ferry, ManPower, Gattaca, Page Group, On Assignment, Randstad, Robert Half, Robert Walters and Staffline. This was also the comparator group used for awards in 2019. For awards in 2018, the comparator group also included Harvey Nash. For 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 cyclical correlation coefficient with SThree, being: Adecco, Amadeus Fire, Bovis Homes Group, Brunel International, Carillion, Dice Holdings, Electrocomponents, Exova Group, Galford Try, Grafton Group UTS, Groupe Crt, Harvey Nash Group, Hays, Hogg Robinson Group, Impellam Group, Insperty, 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, Telecty Group, Trueblue, USG People, Wetherspoon (JD).
- 2 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 £10 million and £15 million from new product lines by 2019.  
Broad NPS metric showing improvement of 3 to 5 basis points p.a. 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 to 5 basis points p.a. 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 15%-20%.
- Relative net fees:  
The relative net fees will be compared to the same group as used for the TSR metric with the same medium-to-upper quartile sliding scale. Net fees will be compared based on percentage net fees growth over a three-year performance period with adjustments made as necessary to ensure like-for-like comparison across the companies. Adding a relative net fees measure will provide a good balance to the non-financial strategic metrics, by focusing on growing our net fees at a faster rate than our competitors.
- 3 For the 2018 LTIP awards, the 20% of the award based on strategic targets is split between two targets equally: new product net fees between £11 million and £17 million/operating profit conversion ratio between 17.3% and 21.1%. Where sliding scales operate, 25% of the award will vest at threshold.
- 4 For the 2019 LTIP award, the 20% of the award based on strategic targets is 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%

- 5 For options which have vested but remain unexercised, dividends are accrued as additional shares, as shown in the final column above.



## Annual report on remuneration

continued

### 3.2 Statement of Directors' shareholdings (audited)

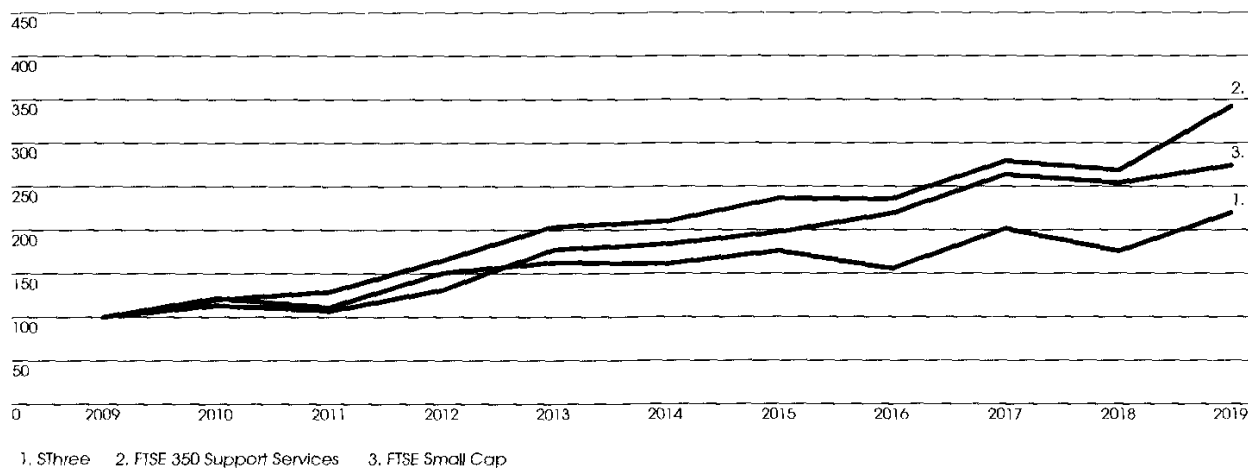
Under the remuneration policy Executive Directors must build and maintain a level of shares equivalent to at least 200% of base salary. Directors' interests in the ordinary share capital of the Company as at the year end, are shown in the table below, including any changes since the start of the year. There have been no changes since the year end 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 2018	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares held at 30 November 2019	Indirect interest	Shareholding requirement (% of salary)	Shareholding (% of 2019 salary)
Mark Dorman	-	4,150	-	4,150	248,258	200%	3.1%
Gary Elden*	2,176,675	24,517	-	2,201,192	593,684	-	-
Alex Smith	349,421	19,113	-	368,527	609,546	200%	476%
Justin Hughes*	197,688	14,976	-	212,664	423,286	-	-
James Bilefield	10,000	-	-	10,000	-	-	-
Anne Fahy	4,000	-	-	4,000	-	-	-
Denise Collis	5,000	-	-	5,000	-	-	-
Barrie Brien	-	-	-	-	-	-	-

\* As at date of leaving.

### 3.3 Total Shareholder Return ('TSR') performance of SThree over the last ten-year period

The following graph shows the 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 pay-outs

The table below shows historical levels of CEO 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 TSR of just over 100% over this ten-year period.

Year	CEO	CEO total remuneration £'000	Annual bonus (% of maximum)	LTIP awards vesting (% of maximum)
2019	Mark Dorman*	642.9	55.7%	–
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%

\* Mark Dorman was appointed during the year.

### 3.5 Year-on-year percentage change in CEO 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 CEO, compared with all Group employees.

Remuneration element	Percentage change 2018-2019	
	CEO	Average for all employees
Salary and fees	4.8%	6.3%
Other benefits <sup>1</sup>	(48.5%)	1.1%
Annual bonus	(20.4%)	(7.4%)

<sup>1</sup> Includes salary supplement of 5% in lieu of pension. Relocation costs have been excluded.

### 3.6 Comparison of CEO 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 2019 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 2019. 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 CEO pay ratio at the median, 25<sup>th</sup> and 75<sup>th</sup> percentile.

Financial year	Method	25 <sup>th</sup> percentile pay ratio	Median	75 <sup>th</sup> percentile pay ratio
2019	Option B	34.1	26.1	16.1
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.

# Annual report on remuneration

continued

The three employees used for comparison are shown below:

	Employees Total remuneration (£)	% Change
Q 25 pay	24,495	(11%)
Q 50 pay	32,021	(29%)
Q 75 pay	50,653	(5%)

Change from the prior year shows a slight increase to the median pay ratio, while the ratio to the 25th and 75th paid employees has reduced.

### 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	2019	2018	Change
Dividends	£18.8m	£18.0m	4.4%
Remuneration paid to employees (incl. Directors)	£214.3m	£206.7m	3.7%*

\* The change reflects an additional investment in headcount year on year, with a % increase in total costs (i.e. salaries, commission and bonuses), in line with the year-on-year increase in net fees.

## 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 CGI best practice guidelines. During the year, the Committee comprised only independent NEDs, being Denise Collis, Chair, James Billefield, Barrie Brien and 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, excluding matters related to their own remuneration. The Committee met four 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 \$64,971 (2018: \$35,742), 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 24 April 2019 and 20 April 2017, the following votes were cast in relation to the advisory vote on the Annual report on remuneration and the binding vote on the remuneration policy respectively.

Resolution	For	%	Against	%	Withheld
Directors' remuneration report (2019 AGM)	97,348,697	99.84	96,650	0.1	2,962,273
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

24 January 2020

# Directors' report

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 2019.

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. Our Compliance Statements and Corporate Governance Report section are presented separately and do 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 Compliance Statements, Corporate Governance section, Audit Committee, Nomination Committee, Directors' remuneration 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 advisors 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 Statements are included within the Compliance Statements section. No significant events have occurred since the year end.

## Directors and their interests

The Directors of the Company, including their biographies, are shown within 'Our Board' section of this Annual Report, with further details of Board Committee membership being set out in 'Board and Committee structure' section.

All Directors served throughout the financial year, except as disclosed, and in accordance with the UK Corporate Governance Code, will retire at the 2020 AGM and submit themselves for election or re-election, as necessary, as set out in the Notice of Meeting.

Other than employment contracts, tracker share, and 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 the notes to the financial statements.

## Essential contractors and implications following a change of control or takeover

The Group has business relationships with a number of clients and 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.

## 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.

Strategic Report

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## Directors' report

continued

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 860,000 shares were purchased in the market during the year at a cost of £2.5 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

The Directors have the benefit of the indemnity provisions contained in the Company's Articles of Association ('Articles'), and the Company has maintained throughout the year Directors' and officers' liability insurance for the benefit of the Company, the Directors and its officers. The Company has entered into qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force. 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 (from page 128)
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. No Director held over 3% of the Company's share capital.

Name of shareholder	Number of shares	Shareholding percentage
J O Hambro Capital Management Limited	13,130,330	9.93%
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	6,356,808	4.79%
Franklin Templeton Institutional, LLC	5,722,371	4.37%
William Frederick Botttriell	5,008,841	3.77%

**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 'How we are building the future' section of this Annual 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.

## Directors' report

continued

### 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 20 April 2020, at 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 STEM specialist recruitment company, we are committed to combating slavery and human trafficking. 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 known to be impacting the Group's business and the Directors do not consider there to be a risk of slavery or human trafficking taking place within its supplier base.

#### Our supply chains

Our supply chains include management companies, job boards, property, media, IT equipment, stationery and print suppliers, whilst our clients include 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, whilst also acting ethically and with integrity in all our business relationships. To do this we have implemented and enforce 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 whistleblowers, 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 2019. 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 re-appointed 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 Audit Committee report.

# Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and the Company 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 Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

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

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

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

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.

## Directors' confirmations

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

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

- the 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 results of the Company
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report, together with the Strategic Report, Chairman's and other Officers' section of this Annual Report, include a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

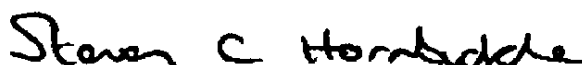
In the case of each Director in office at the date the Directors' report is approved:

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

By order of the Board

**Steve Hornbuckle**  
Group Company Secretary  
24 January 2020

Registered office:  
1st Floor  
75 King William Street  
London  
EC4N 7BE





# Independent auditors' report

to the members of SThree plc

## 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 2019 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 2019; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Cash Flow, the Consolidated Statement of Changes in Equity for the year then ended, the Company Statement 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.

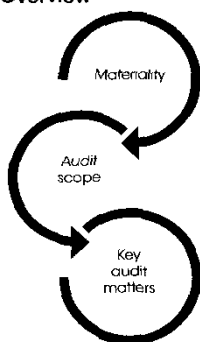
### Independence

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.

We have provided no non-audit services to the Group or the Company in the period from 1 December 2018 to 30 November 2019.

### Our audit approach Overview



- Overall Group materiality: £2.95 million (2018: £2.60 million), based on 5% of profit before tax and exceptional items.
- Overall Company materiality: £1.50 million (2018: £1.80 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 solely from the UK.
- In total we conducted audit work in 17 components in seven countries. We conducted full scope audits on four of these components and the audit of specified balances for the remaining components.
- The 17 components where we performed audit work accounted for 74% of Group revenue and 74% of profit before tax and exceptional items.
- Accrued income cut off (Group).
- Tracker share accounting judgement (Group).
- Disclosure of exceptional costs and provision for restructuring (Group).
- Impairment of plc investments in UK 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 industry, we identified that the principal risks of non-compliance with laws and regulations related to employment laws and indirect taxes impacting the 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 preparation of the financial statements such as the Companies Act 2006 and 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 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 and postings by unusual users;

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is 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	How our audit addressed the key audit matter
<p><b>Accrued income cut off (Group)</b></p> <p>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 \$65.7 million (2018: \$78.7 million). This estimate is a system-generated amount calculated by using standard contractor rates and estimated hours for placed contractors, and a historic 'shrinkage' calculation. Contractor revenues represented 71% (2018: 72%) of the Group's revenue during the year.</p> <p>We focused on this area due to the material quantum of accrued income, the estimated uncertainty and the potential for variances arising from applying the historic 'shrinkage' percentage to the full potential value of unsubmitted timesheets.</p> <p>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 'Audit Committee report'.</p>	<p>For Contract revenue, including accrued income, we:</p> <p>Tested the automated controls in the system to verify the accuracy of the accrued income calculation based on contracted hours and billing rates.</p> <p>Tested the business process controls supporting the accuracy of rates and hours input into the system.</p> <p>Reviewed a sample of accrued revenue and performed a re-calculation of the accrual based on timesheets submitted and contract rates.</p> <p>Performed detailed testing over the prior years' 'shrinkage' calculation by agreeing balances to timesheets submitted and/or billing raised subsequent to the 2018 year end. In addition, we have performed a calculation applying the 2018 'shrinkage' percentage to the year-end accrued income, and compared this to the 2019 shrinkage adjustment. We have also performed sensitivities against the current year accrued revenue balance. In both instances, this showed that any variance would not be material.</p> <p>We verified that accrued income was not older than three months in age in accordance with Group policy and examined the ageing profile of the balance, concluding that management were following their accounting policies in this area.</p>
<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 Group'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. We focused on this area given the material nature of the balances involved, and the significant judgement exercised in arriving at the accounting treatment.</p> <p>Details of the tracker share scheme are set out in 'Chief Financial Officer's review' 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 '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 a sample of 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>

# Independent auditor's report

continued

## Key audit matter

Disclosure of exceptional costs and provision for restructuring (Group)

On 1 November 2017 the Group announced the restructuring of its central support functions. Management recognised £6.8 million of costs related to this restructuring in the prior year 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.

In the current year, remaining costs in relation to the relocation of the support function amounted to £0.6 million, offset by £0.7 million of grant income. In addition, Board/leadership restructure costs of £2.4 million have been recognised and classified as exceptional items in the current year. 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.

We also focused on this area to ensure that disclosures made in the Annual Report 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.

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), 'Chief Financial Officer's review' and 'Audit Committee report'.

Impairment of plc investments in subsidiaries (Company) 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 \$212.1 million at 30 November 2019. 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 £40.1 million and £88.1 million respectively. In the current year, management's impairment test resulted in a further impairment of £8.1 million.

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. In addition, there are judgement and estimates used in determining the recoverable amount.

Refer to Investments (note 12 of the financial statements), Critical accounting judgements and key sources of estimation uncertainty (note 1 of the financial statements), 'Chief Financial Officer's review', 'Our principal risks' and 'Audit Committee report'.

## How our audit addressed the key audit matter

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 it was appropriate to classify the costs directly associated with the restructuring programme as exceptional items.

In relation to the exceptional costs identified:

For costs in relation to the relocation of the support function we performed a look back test to verify the accuracy of the provision booked by management in the prior year. For Board/leadership restructure costs, we selected a sample of impacted employees, verified the settlement agreement and performed a re-calculation of the amount recognised. In addition, we also considered its appropriateness to be classified as an exceptional item.

We reviewed the grant received during the year and verified the confirmation letter from Scottish Enterprise and results of the grant audit performed by a separate accounting firm.

We found no exceptions from our testing.

In our review of the Annual Report 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 obtained management's impairment test results with supporting computations and:

- verified that inputs to the model were accurate including estimates of future profitability;
- checked the mathematical accuracy of the model.

From these procedures we concluded the model inputs and calculation methodology were appropriate.

The model inputs which required management judgement and our procedures are set out below:

- Growth assumptions – we considered the Group's forecasts and the history of achieving these. We also sought independent market evidence such as views on the outlook published by the Group's peers or other economic data. We compared the five-year growth assumptions and the long-term growth rate of 2% to the range that we independently estimated based on market data and analysis of comparable companies. In the 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.
- Discount rate and long-term growth rate – we used our experts to consider the appropriateness of the pre-tax discount rate of 12.2%.

We concluded that taken together the assumptions used were reasonable.

We reviewed management's disclosed sensitivities and performed our own sensitivity analyses. We also considered that the disclosures made in the financial statements regarding the assumptions and the sensitivities drew appropriate attention to the more significant areas of estimation.

### 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 Group's components vary significantly in size and we identified four financially significant components that, in our view, required an audit of their complete financial information due to their relative size or risk characteristics. Although three out of the four full scope components are based overseas, the audit procedures have been performed by the UK engagement team as the Shared Service Centre is located in the UK.

The scope of work at each component was determined by its contribution to the Group's overall financial performance or revenue and its risk profile. We focused our testing on components which are individually financially significant and large or unusual non-significant components.

Together these full and specific scope component audits gave appropriate coverage of all material balances at a Group level. On a consolidated basis, these provided coverage of 74% of revenue and 74% of profit before tax and exceptional items.

### Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£2.95 million (2018: £2.60 million).	£1.50 million (2018: £1.80 million).
How we determined it	5% of profit before tax and exceptional items.	1% of net assets.
Rationale for benchmark applied	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, and is an accepted auditing benchmark.	We believe that net assets is the primary measure used by shareholders in assessing the position of the non-trading holding company, and is an accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.10 million and £2.80 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.30 million (Group audit) (2018: £0.30 million) and £0.10 million (Company audit) (2018: £0.10 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 12 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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
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.

# Independent auditor's report

continued

## 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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In the 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 'Corporate governance statement' (in the Chairman's governance statement) 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 the 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 'Corporate governance statement' (in the Chairman's governance statement) 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 155 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 88-89 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 155, 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 122 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 '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 'Statement of Directors' responsibilities', 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.

### 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 '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 during 1999 to audit the financial statements for the year ended 30 November 1999 and subsequent financial periods. The period of total uninterrupted engagement is 21 years, covering the years ended 30 November 1999 to 30 November 2019.

#### Kenneth Wilson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow  
24 January 2020



## Consolidated Income Statement

For the year ended 30 November 2019

	Note	2019			2018		
		Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
Revenue	2	1,345,021	-	1,345,021	1,258,152	-	1,258,152
Cost of sales		(1,002,669)	-	(1,002,669)	(937,026)	-	(937,026)
<b>Net fees</b>	2	<b>342,352</b>	-	<b>342,352</b>	321,126	-	321,126
Administrative expenses	3	(282,326)	(2,273)	(284,599)	(267,211)	(6,397)	(273,608)
<b>Operating profit</b>	4	<b>60,026</b>	<b>(2,273)</b>	<b>57,753</b>	53,915	(6,397)	47,518
Finance income	6	55	-	55	75	-	75
Finance costs	6	(1,009)	-	(1,009)	(743)	-	(743)
Gain on disposal of associate		-	-	-	146	-	146
<b>Profit before taxation</b>		<b>59,072</b>	<b>(2,273)</b>	<b>56,799</b>	53,393	(6,397)	46,996
Taxation	7	(15,908)	428	(15,480)	(13,851)	1,127	(12,724)
<b>Profit for the year attributable to owners of the Company</b>		<b>43,164</b>	<b>(1,845)</b>	<b>41,319</b>	39,542	(5,270)	34,272
<b>Earnings per share</b>	9	pence	pence	pence	pence	pence	pence
Basic		33.2	(1.4)	31.8	30.7	(4.1)	26.6
Diluted		32.3	(1.4)	30.9	29.7	(4.0)	25.7

The notes on pages 172 to 211 are an integral part of these financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 30 November 2019

	2019 £'000	2018 £'000
<b>Profit for the year</b>	<b>41,319</b>	<b>34,272</b>
<b>Other comprehensive (loss)/income:</b>		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Exchange differences on retranslation of foreign operations	(3,892)	2,572
<i>Items that will not be subsequently reclassified to profit or loss:</i>		
Net loss on equity instruments at fair value through other comprehensive income	(1,996)	-
Other comprehensive (loss)/income for the year (net of tax)	(5,888)	2,572
<b>Total comprehensive income for the year attributable to owners of the Company</b>	<b>35,431</b>	<b>36,844</b>

All amounts in the Consolidated Statement of Comprehensive Income relate to continuing operations.

The notes on pages 172 to 211 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.

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# Statements of Financial Position

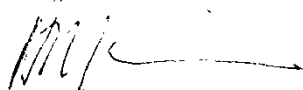
As at 30 November 2019

	Note	Consolidated		Company	
		30 November 2019 £'000	30 November 2018 £'000	30 November 2019 £'000	30 November 2018 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	6,804	6,915	-	-
Intangible assets	11	8,031	9,609	-	-
Investments	12	13	1,977	212,140	213,916
Deferred tax assets	18	4,167	2,750	482	295
		19,015	21,251	212,622	214,211
<b>Current assets</b>					
Trade and other receivables	13	270,350	285,618	3,917	18,857
Current tax assets		624	2,751	11,401	6,187
Cash and cash equivalents	14	15,093	50,844	633	4,859
		286,067	339,213	15,951	29,903
<b>Total assets</b>		<b>305,082</b>	<b>360,464</b>	<b>228,573</b>	<b>244,114</b>
<b>Equity and liabilities</b>					
<b>Equity attributable to owners of the Company</b>					
Share capital	19	1,326	1,319	1,326	1,319
Share premium		32,161	30,511	32,161	30,511
Other reserves		(8,338)	(5,275)	(3,955)	(6,780)
Retained earnings		91,622	75,116	122,039	156,486
<b>Total equity</b>		<b>116,771</b>	<b>101,671</b>	<b>151,571</b>	<b>181,536</b>
<b>Non-current liabilities</b>					
Provisions for liabilities and charges	17	1,403	1,569	-	-
<b>Current liabilities</b>					
Borrowings	16	-	37,428	-	37,428
Bank overdraft	14	4,538	17,521	-	-
Provisions for liabilities and charges	17	8,275	9,614	4	32
Trade and other payables	15	172,357	191,742	76,998	25,118
Current tax liabilities		1,738	919	-	-
		186,908	257,224	77,002	62,578
<b>Total liabilities</b>		<b>188,311</b>	<b>258,793</b>	<b>77,002</b>	<b>62,578</b>
<b>Total equity and liabilities</b>		<b>305,082</b>	<b>360,464</b>	<b>228,573</b>	<b>244,114</b>

The notes on pages 172 to 211 are an integral part of these financial statements.

The Company's loss after tax for the year was £16.1 million (2018: loss of £8.7 million).

The financial statements on pages 166 to 171 were approved by the Board of Directors on 24 January 2020 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 2019

	Note	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Treasury reserve £'000	Currency translation reserve £'000	Fair value reserve of equity investments £'000	Retained earnings £'000	Total equity attributable to owners of the Company £'000
<b>Balance at 1 December 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>-</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>-</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>-</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>-</b>	<b>75,116</b>	<b>101,671</b>
Effect of a change in accounting policy	1	-	-	-	-	-	-	-	(2,344)	(2,344)
<b>Restated total equity at 1 December 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>-</b>	<b>72,772</b>	<b>99,327</b>
Profit for the year		-	-	-	-	-	-	-	41,319	41,319
Other comprehensive loss for the year		-	-	-	-	-	(3,892)	(1,996)	-	(5,888)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,892)</b>	<b>(1,996)</b>	<b>41,319</b>	<b>35,431</b>
Dividends paid to equity holders	8	-	-	-	-	-	-	-	(18,778)	(18,778)
Distributions to tracker shareholders		-	-	-	-	-	-	-	(218)	(218)
Settlement of vested tracker shares	19(a)	5	1,325	-	-	3,245	-	-	(4,419)	156
Settlement of share-based payments		2	325	-	-	2,086	-	-	(2,086)	327
Purchase of own shares by Employee Benefit Trust	19(a)	-	-	-	-	(2,506)	-	-	-	(2,506)
Credit to equity for equity-settled share-based payments	19(b)	-	-	-	-	-	-	-	2,681	2,681
Deferred tax on share-based payment transactions	7	-	-	-	-	-	-	-	351	351
<b>Total movements in equity</b>		<b>7</b>	<b>1,650</b>	<b>-</b>	<b>-</b>	<b>2,825</b>	<b>(3,892)</b>	<b>(1,996)</b>	<b>18,850</b>	<b>17,444</b>
<b>Balance at 30 November 2019</b>		<b>1,326</b>	<b>32,161</b>	<b>172</b>	<b>878</b>	<b>(5,005)</b>	<b>(2,387)</b>	<b>(1,996)</b>	<b>91,622</b>	<b>116,771</b>

The notes on pages 172 to 211 are an integral part of these financial statements.

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# Company Statement of Changes in Equity

For the year ended 30 November 2019

	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 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>
<b>Total comprehensive loss for the year</b>	1	-	-	-	-	-	<b>(16,057)</b>	<b>(16,057)</b>
Dividends paid to equity holders	8	-	-	-	-	-	(18,778)	(18,778)
Settlement of vested tracker shares	19(a)	5	1,325	-	-	3,245	(230)	4,345
Settlement of share-based payments	2	-	325	-	-	2,086	(2,086)	327
Purchase of own shares by Employee Benefit Trust	19(a)	-	-	-	-	(2,506)	-	(2,506)
Credit to equity for equity-settled share-based payments		-	-	-	-	-	2,681	2,681
Deferred tax on share-based payment transactions		-	-	-	-	-	23	23
<b>Total movements in equity</b>		<b>7</b>	<b>1,650</b>	<b>-</b>	<b>-</b>	<b>2,825</b>	<b>(34,447)</b>	<b>(29,965)</b>
<b>Balance at 30 November 2019</b>		<b>1,326</b>	<b>32,161</b>	<b>172</b>	<b>878</b>	<b>(5,005)</b>	<b>122,039</b>	<b>151,571</b>

Of the above reserves, retained earnings of £122.0 million (2018: £156.5 million) are assessed by the Directors as being distributable.

The notes on pages 172 to 211 are an integral part of these financial statements.

# Statements of Cash Flow

For the year ended 30 November 2019

		Consolidated		Company	
	Notes	30 November 2019 £'000	30 November 2018 £'000	30 November 2019 £'000	30 November 2018 £'000
<b>Cash flows from operating activities</b>					
Profit/(loss) before taxation after exceptional items		<b>56,799</b>	46,996	<b>(18,095)</b>	(8,776)
<i>Adjustments for:</i>					
Depreciation and amortisation charge <sup>1</sup>	10,11	<b>6,040</b>	6,145	-	-
Accelerated amortisation and impairment of intangible assets	11	-	709	-	-
Finance income	6	<b>(55)</b>	(75)	<b>(34)</b>	(77)
Finance costs	6	<b>1,009</b>	743	<b>1,536</b>	825
(Gain)/loss on disposal of property, plant and equipment	4	<b>(3)</b>	8	-	-
Gain on disposal of associate		-	(146)	-	-
Loss on disposal of subsidiaries	4	-	70	-	-
Impairment of investments	12	-	-	<b>8,159</b>	-
FX revaluation gain on investments		-	(26)	-	-
Non-cash charge for share-based payments	19(b)	<b>2,681</b>	4,697	<b>783</b>	1,187
<b>Operating cash flows before changes in working capital and provisions</b>		<b>66,471</b>	59,121	<b>(7,651)</b>	(6,841)
(Increase)/decrease in receivables		<b>(8,020)</b>	(55,372)	<b>14,825</b>	(1,599)
(Decrease)/increase in payables		<b>(3,712)</b>	30,116	<b>51,785</b>	4,898
(Decrease)/increase in provisions		<b>(1,589)</b>	(3,796)	<b>(73)</b>	32
Cash generated from/(used in) operations		<b>53,150</b>	30,069	<b>58,886</b>	(3,510)
Interest received	6	<b>23</b>	35	<b>34</b>	77
Income tax paid – net		<b>(12,958)</b>	(14,391)	<b>(3,340)</b>	(2,942)
Net cash generated from/(used in) operating activities		<b>40,215</b>	15,713	<b>55,580</b>	(6,375)
<i>Cash generated from/(used in) operating activities before exceptional items</i>		<b>41,904</b>	26,208	<b>55,580</b>	(6,375)
<i>Net cash outflow from recognised exceptional items</i>		<b>(1,689)</b>	(10,495)	-	-
<i>Net cash generated from/(used in) operating activities</i>		<b>40,215</b>	15,713	<b>55,580</b>	(6,375)
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment <sup>2</sup>	10	<b>(3,102)</b>	(3,161)	-	-
Purchase of intangible assets	11	<b>(1,455)</b>	(2,043)	-	-
Net cash used in investing activities		<b>(4,557)</b>	(5,204)	-	-
<b>Cash flows from financing activities</b>					
(Repayment of)/proceeds from borrowings	16	<b>(37,428)</b>	25,428	<b>(37,428)</b>	25,428
Interest paid		<b>(894)</b>	(540)	<b>(1,421)</b>	(621)
Proceeds from exercise of share options		<b>327</b>	401	<b>327</b>	401
Employee subscriptions for tracker shares		<b>536</b>	644	-	-
Cancellation of share capital	19(a)	-	(1,468)	-	(1,468)
Purchase of own shares	19(a)	<b>(2,506)</b>	(1,484)	<b>(2,506)</b>	(1,484)
Dividends paid to equity holders	8	<b>(18,778)</b>	(18,007)	<b>(18,778)</b>	(18,007)
Distributions to tracker shareholders		<b>(218)</b>	(116)	-	-
Net cash (used in)/generated from financing activities		<b>(58,961)</b>	4,858	<b>(59,806)</b>	4,249
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(23,303)</b>	15,367	<b>(4,226)</b>	(2,126)
Cash and cash equivalents at beginning of the year		<b>33,323</b>	17,621	<b>4,859</b>	6,985
Exchange gains relating to cash and cash equivalents		<b>535</b>	335	-	-
<b>Net cash and cash equivalents at end of the year</b>	14	<b>10,555</b>	33,323	<b>633</b>	4,859

1 2018 included the impact of £0.2 million in accelerated depreciation classified as exceptional.

2 2018 included the impact of £1.0 million in capital expenditure classified as exceptional.

The notes on pages 172 to 211 are an integral part of these financial statements.

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# Notes to the financial statements

For the year ended 30 November 2019

## 1 Accounting policies

SThree plc ('the Company') and its subsidiaries (together 'the Group') operate predominantly in United Kingdom & Ireland, Continental Europe, USA and Asia Pacific & Middle East. The Group consists of different brands and provides both Permanent and Contract specialist staffing services, primarily in the Technology, Life Sciences, Banking & Finance, Energy and Engineering sectors. The Group's activities and business are set out further in the Strategic Report 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.

### 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 Report 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 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 applicable to companies reporting under IFRS. Therefore the Group financial statements comply with Article 4 of the EU International Accounting Standards Regulation.

The consolidated and Company only financial statements have been prepared under the historical cost convention, as modified by financial assets held at fair value through profit or loss or held at fair value through other comprehensive income. 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 £16.1 million (2018: £8.7 million).

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, except where otherwise indicated.

### New and amended accounting standards

The following two new standards and amendments have been adopted by the Group for the first time for the financial year beginning 1 December 2018:

IFRS 9 *Financial Instruments*

IFRS 15 *Revenue from Contracts with Customers*

There are no other new or amended standards or interpretations adopted during the year that had a significant impact on the consolidated financial statements.

The IASB has issued IFRS 16 *Leases* which became effective from financial reporting periods beginning on or after 1 January 2019 and has been adopted by the EU. The Group has not adopted IFRS 16 in these consolidated financial statements and will adopt it from 1 December 2019. There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group.

#### IFRS 16 *Leases*

IFRS 16 *Leases* ('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 *Leases*. For every lease brought onto the balance sheet, lessees will recognise a right-of-use asset and a lease liability. The only exceptions are short-term and low-value leases.

The Group will adopt IFRS 16 in the financial reporting period commencing 1 December 2019 and has elected to apply the modified retrospective transition approach in which the cumulative effect of initial application is recognised in opening retained earnings at the date of initial application with no restatement of comparative periods' financial information.

IFRS 16 introduces a revised definition of a lease. As permitted by the standard, the Group has elected not to reassess the existing population of leases under the new definition and will only apply the new definition for the assessment of contracts entered into after the transition date.

The standard will affect the accounting for the Group's operating leases. The Group's evaluation of the effect of adoption of the standard is substantially complete and a material effect on the Group's Consolidated Statement of Financial Position is expected, as set out further below. Short-term leases and low-value items have been included in these calculations.

The presentation and timing of recognition of charges in the Income Statement will also change as the operating lease expense currently reported under IAS 17, typically on a straight-line basis, will be replaced by depreciation of the right-of-use asset and interest on the lease liability. In the first year of adoption these are expected to be approximately £11.4 million and £0.7 million respectively against lease payments of approximately £13.2 million, hereby increasing profit before tax by £1.1 million.

## 1 Accounting policies continued

In the cash flow statement operating lease payments are currently presented within cash flows from operating activities but under IFRS 16 payments will be presented as financing cash flows, representing repayments of debt, and as operating cash flows, representing payments of interest.

Information on the Group's leases classified as operating leases under IAS 17, which are not recognised on the balance sheet as at 30 November 2019, is presented in note 21. The following table provides a reconciliation of the operating lease commitments disclosed in note 21 to the total lease liability expected to be recognised in the Group Consolidated Statement of Financial Position in accordance with IFRS 16 at 1 December 2019, with explanations below.

	£'000
Operating lease commitments at 30 November 2019	55,562
Non-lease payments	(7,022)
Effect of discounting	(6,185)
<b>Total expected lease liabilities at 1 December 2019</b>	<b>42,355</b>

Effect of discounting: the amount of lease liability recognised in accordance with IFRS 16 will be on a discounted basis whereas the operating lease commitments information in note 21 is presented on an undiscounted basis. The discount rates used on transition are incremental borrowing rates as appropriate for each lease based on factors such as the lessee legal entity, lease term and currency. For new leases commencing after 1 December 2019 the discount rate used will be the interest rate implicit in the lease, if this is readily determinable, or the incremental borrowing rate if the implicit rate cannot be readily determined.

Non-lease payments: service charges are considered to be non-lease payments. Therefore, they have been excluded from the initial recognition of lease liability.

In addition to the lease liability, which will be presented within borrowings, other line items in the Group's Consolidated Statement of Financial Position expected to be adjusted on transition to IFRS 16 include property, plant and equipment, provisions and deferred tax assets, as set out below.

	30 November 2019 £'000	IFRS 16 £'000	1 December 2019 £'000
<b>Impact on the Statement of Financial Position (extract)</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6,804	41,094	47,898
Deferred tax assets	4,167	433	4,600
	10,971	41,527	52,498
<b>Non-current liabilities</b>			
Borrowings and leases	-	(40,510)	(40,510)
<b>Current liabilities</b>			
Borrowings and leases	-	(1,845)	(1,845)
<b>Equity</b>			
Retained earnings	91,622	(828)	90,794

### Changes in accounting policies from 1 December 2018

This note provides a summary of the impact of the adoption of IFRS 9 *Financial Instruments* ('IFRS 9') and IFRS 15 *Revenue from Contracts with Customers* ('IFRS 15') on the Group's consolidated financial statements.

The Group's revised accounting policies in relation to financial instruments and revenue recognition are provided below.

#### (a) Impact on the financial statements

As a result of the changes in the Group's accounting policies, normally prior year financial statements have to be restated. As explained in point (b) below, IFRS 9 was adopted without restating comparative information. The reclassifications and the adjustments arising from the new fair valuation requirements and impairment were therefore not reflected in the Statement of Financial Position as at 30 November 2018. As explained in point (c) below, IFRS 15 was adopted on the modified retrospective basis, whereby the adjustment arising from the revised Contract accrued income policy was recognised in the opening balance of retained earnings on 1 December 2018.

## Notes to the financial statements continued

For the year ended 30 November 2019

### 1 Accounting policies continued

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

	30 November 2018 £'000	IFRS 9 £'000	IFRS 15 £'000	1 December 2018 £'000
<b>Impact on the Statement of Financial Position (extract)</b>				
<b>Current assets</b>				
Trade and other receivables	285,618	–	(13,017)	272,601
Current tax assets	2,751	–	814	3,565
	288,369	–	(12,203)	276,166
<b>Current liabilities</b>				
Trade and other payables	(191,742)	–	9,859	(181,883)
<b>Equity</b>				
Retained earnings	75,116	–	(2,344)	72,772

#### (b) IFRS 9 – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 resulted in changes in accounting policies; however, there were no adjustments to the amounts recognised in the financial statements at 1 December 2018, due to the immaterial impact of IFRS 9.

#### (i) Classification and measurement

On the date of initial application of IFRS 9, the Directors assessed which business models were applicable to the financial assets held by the Group, and classified its financial instruments into the appropriate IFRS 9 categories: financial assets held at fair value through profit or loss ('FVTPL'), financial assets held at fair value through other comprehensive income ('FVOCI'), and financial assets held at amortised cost (the latter comprise primarily 'Trade and other receivables'). The main effects resulting from this reclassification were as follows:

Financial assets – 1 December 2018	FVTPL £'000	FVOCI (available-for-sale 2018) £'000	Trade and other receivables £'000
Closing balance 30 November 2018 – IAS 39*	–	1,977	285,618
Reclassify debt investments from available-for-sale to FVTPL (note i.a)	435	(435)	–
Reclassify equity investments from available-for-sale to FVOCI* (note i.b)	–	–	–
Adjustments arising from the adoption of IFRS 15 (note c)	–	–	(13,017)
<b>Opening balance 1 December 2018 – IFRS 9</b>	<b>435</b>	<b>1,542</b>	<b>272,601</b>

\* The closing balances as at 30 November 2018 show available-for-sale financial assets under FVOCI.

#### (i.a) Reclassification from available-for-sale to FVTPL

Certain investments in convertible bonds with the embedded conversion rights were reclassified from available-for-sale to financial assets at FVTPL (£0.4 million at 1 December 2018). Due to the embedded call option, they did not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows did not represent solely payments of principal and interest.

There were no related fair value gains or losses to transfer from the available-for-sale financial assets reserve to retained earnings on 1 December 2018. Under IAS 39, the bonds were held at cost less impairment.

On the date of initial application of IFRS 9, the fair value of the bonds was equivalent to the cost for these assets. There was no impact on retained earnings at 1 December 2018 or in the year ended 30 November 2019, when only an immaterial uplift was determined in the fair value of one bond. Following the occurrence of a qualifying event (planned disposal of the investee), the Group exercised all its equity conversion rights.

#### (i.b) Equity investments previously classified as available-for-sale

The Group elected to present changes in the fair value of all its equity investments in OCI, as they are held for long-term strategic purposes. As a result, assets with the carrying value of £1.5 million under IAS 39 were reclassified from available-for-sale financial assets to financial assets at FVOCI under IFRS 9. There were no fair value gains or losses recognised for these investments in other reserves in prior years. On the date of initial application of IFRS 9, only an immaterial uplift from the carrying value of £1.5 million was determined under IAS 39, resulting in £nil impact on retained earnings at 1 December 2018.

During the year, the Directors wrote off £0.8 million in relation to the investment in The Sandpit Limited and £1.2 million in relation to Ryatto. The write-off amounts were recognised in OCI. The equity rights in The Sandpit Limited, which discontinued its operations, were converted into a minority shareholding in The Sandpit Ventures Limited at the immaterial nominal book value. The write-off of Ryatto equity rights was caused by operating losses that the business continued to incur as it failed to take off and build a customer base.

## 1 Accounting policies continued

### (ii) Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model: trade receivables and cash and cash equivalents.

The Directors determined that the Group's existing impairment methodology for trade receivables is overall compliant with IFRS 9.

Under the existing policy, trade receivables are grouped based on the days past due. For each category, the Group applies fixed provision rates based on historical collection experience and current economic trends. In addition, the Group performs an individual assessment for a selection of exposures, using qualitative factors such as forward-looking expectations about debtor's credit standing or macro-economic conditions.

As such, no adjustment to the loss allowance or opening balance of retained earnings was recognised on transition to IFRS 9.

The loss allowances increased by a further £1.3 million to £4.0 million for trade receivables during the year ended 30 November 2019. The increase would have been the same under the incurred loss model of IAS 39.

The expected credit losses on cash and cash equivalents were immaterial owing to the short-term nature of SThree's bank deposits and strict treasury policy which stipulates a list of approved counterparties, with reference to their high credit standing, resulting in £nil impact on retained earnings at 1 December 2018.

The Directors determined that IFRS 9 had immaterial impact on amounts due from fellow Group entities as recognised in the individual financial statements of the Company. As such, no adjustment to the loss allowance or opening balance of retained earnings was recognised on transition to IFRS 9. The Directors applied a probability of default approach, under which the amount of calculated expected credit losses was below the materiality threshold.

### (c) IFRS 15 – Impact of adoption

The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements on 1 December 2018. In line with the transition provisions in IFRS 15, the Group adopted the refined revenue recognition rules on the modified retrospective basis without restatement of comparatives. Under the modified transition method, on 1 December 2018, a net (post-tax) adjustment of £2.3 million was made to the opening balance of retained earnings, to recognise a new policy of estimating accrued income.

The following adjustments were made to the amounts recognised in the Statement of Financial Position at the date of initial application:

	IAS 18 carrying amount 30 November 2018 £'000	Remeasure- ments £'000	IFRS 15 carrying amount 1 December 2018 £'000
Trade and other receivables (accrued income only)	78,741	(13,017)	65,724
Trade and other payables (accruals)	(107,105)	9,859	(97,246)
Current tax assets	2,751	814	3,565
<b>Post-tax adjustment at the date of initial application of IFRS 15</b>		<b>(2,344)</b>	

The impact on the Group's retained earnings at 1 December 2018 is as follows:

	2018 £'000
<b>Retained earnings prior to adjustment</b>	75,116
Restatement of accrued income	(13,017)
Restatement of accrued cost of sales	9,859
Tax adjustment to retained earnings from adoption of IFRS 15	814
<b>Opening retained earnings 1 December post adoption of IFRS 15</b>	72,772

### (d) IFRS 15 – Accounting policies applied from 1 December 2018

Contract revenue ('accrued income') 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 reporting end date. Accrued income is recognised as revenue 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.

Previously, such accruals were systematically removed after a three-month cut-off date if no timesheet was received or no customer approval was obtained. That policy of estimating accrued income/cost historically resulted in a portion of revenue/cost being reversed (this is referred to as 'shrinkage').

Under IFRS 15, an amount of estimated Contract accrual can only be recognised if it is highly probable that a significant reversal in the amount of recognised revenue will not occur in subsequent periods.



## Notes to the financial statements continued

For the year ended 30 November 2019

### 1 Accounting policies continued

In line with this new requirement, to prevent the over-recognition of revenue, from 1 December 2018 the Group has applied the historical shrinkage rate to the amount of accrued income/cost determined for unsubmitted or unapproved timesheets. As a consequence, on 1 December 2018 the accrued income and cost would have been £13.0 million and £9.9 million lower respectively. This resulted in a net adjustment to the opening balance of retained earnings of £3.1 million pre-tax.

#### Summary of significant accounting policies

##### Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and all its subsidiaries.

Subsidiaries are all entities over which the Group has control. The Group has control when it has rights to variable returns from its involvement in the entity and has the ability to affect those returns through its power over the entity. The Group is deemed to have control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de facto control, taking account of how the entity operates in practice.

Subsidiaries are fully consolidated from the date on which the Group obtains control. 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. Where necessary, adjustments have been made to the financial statements of subsidiaries to bring the accounting policies used and accounting periods into line with those of the Group.

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

Revenue from contracts with customers is recognised when or as the Group satisfies a performance obligation by transferring service to a client. For Permanent placements, the Group principally satisfies its performance obligations at a point in time; for Contract placements, the Group satisfies its performance obligations over time.

When, or as, a performance obligation is satisfied, the Group recognises as revenue the amount of consideration received or receivable to which the Group expects to be entitled for the provision of services. Revenue is shown net of value added tax and other sales-related taxes, credit notes, 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' (it represents the variable consideration of revenue). From 1 December 2018, the date of initial application of IFRS 15, the Directors apply a constraint in the form of the historical shrinkage rate to Contract accrued income, aimed at preventing the over-recognition of revenue.

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.

A bad debt provision is established for non-fulfilment of Permanent placement and Contract revenue obligations, which is netted off against the gross trade receivables on the face of the Consolidated Statement of Financial Position.

##### Cost of sales

Cost of sales consists of the contractors' (including Employed contractors) cost of supplying services and any costs directly attributable to them.

##### Net fees

Net fees represent revenue less cost of sales and consist 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 or 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 income or expense from 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.

## 1 Accounting policies continued

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 classified 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 term of the lease term.

### 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 are measured using the currency of the primary economic environment in which that subsidiary operates (its 'functional currency'). The consolidated financial statements are presented in UK 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.

#### Consolidation

The results and financial position of all of the Group's subsidiaries (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 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:

## Notes to the financial statements continued

For the year ended 30 November 2019

### 1 Accounting policies continued

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. 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, 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 licenses 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).

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.

## 1 Accounting policies continued

The investments in shares in the undertakings outside of the Group, in particular where the Group does not have significant influence or control, are classified as financial assets held at fair value through other comprehensive income. At the reporting date, the Group held an investment in equity rights issued by a technology start-up. At the initial recognition, such shareholdings are measured at cost, on subsequent measurement dates they are fair valued on the basis of current prices generated for similar transactions or using EV/sales multiple valuation method.

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.

### Financial assets

Financial assets are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual terms of the instrument.

### Accounting policy applied from 1 December 2018

#### Financial assets – Classification

From 1 December 2018, the Group classifies its financial assets in the following measurement categories:

- those measured subsequently at fair value (either through OCI or through profit or loss); and
- those measured at amortised cost.

Classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will be recorded in either profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

#### Financial assets – Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

#### Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Directors have elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in the income statement as other income when the Group's right to receive payments is established.

#### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. At present, there are two measurement categories into which the Group classifies its debt instruments: those held at amortised cost ('trade receivables' and 'cash and cash equivalents') and those held at FVTPL (convertible bonds).

#### Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less any impairment provisions. The Group holds trade receivables with the objective to collect contractual cash flows.

#### Cash and cash equivalents

Cash and cash equivalents comprise deposits held with banks and other short-term highly liquid investments with no significant risk of changes in value. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a financial liability.

#### Convertible bonds

A gain or loss on convertible bonds is recognised in the income statement and presented below operating profit in the period in which it arises.

#### Impairment

Due to the adoption of IFRS 9, the Group recognises the expected credit losses ('ECLs') associated with all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. For invoices

# Notes to the financial statements continued

For the year ended 30 November 2019

## **1 Accounting policies** continued

reviewed on a portfolio basis (i.e. not individually reviewed), the loss allowance for ECLs is provided at differing percentages determined based on historical collection experience, adjusted for forward-looking market factors specific to the debtors and the economic environment.

Certain exposures within trade receivables are individually assessed for which the Directors make judgement on a client-by-client basis as to their ability to collect outstanding receivables. The individual assessment is a specific review of significant outstanding invoices and is based on qualitative factors that are available without undue cost or effort such as a decrease in debtor's credit worthiness, changes in external or internal credit ratings, macro-economic conditions, actual or expected deterioration in business performance of any particular debtor, and other known issues.

The carrying amount of the trade receivables is adjusted, with the amount of the impairment gain or loss recognised in the Income Statement.

Trade receivable balances are written off when the Directors have no reasonable expectation of recovering amounts due.

### **Accounting policy applied until 30 November 2018**

#### **Financial assets – Classification**

Non-derivative financial assets were classified as either 'loans and receivables' or 'available for sale'. The classification depended 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 were 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 was recognised using the effective interest method. Any changes in fair value arising from revised estimates of future cash flows were recognised in the Income Statement. If the investment was made in shares or debt instruments issued by an unlisted entity, and where fair value was readily determined, the investment was initially recognised at cost, and on subsequent measurement dates at cost less provision for impairment.

#### *Loans and receivables*

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were included in current assets, except for maturities greater than 12 months after the end of the reporting period. These were classified as non-current assets. The Group's loans and receivables comprised 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

#### *Trade and other receivables*

Trade receivables were recorded initially at fair value and thereafter at net realisable value after deducting an allowance for impairment. The Group made judgements on a client-by-client basis as to its ability to collect outstanding receivables and provided an allowance for impairment based on a specific review of significant outstanding invoices. For those invoices not specifically reviewed, provisions were provided at differing percentages based on the age of the receivable. In determining these percentages, the Group analysed its historical collection experience and current economic trends. Trade receivable balances were written off when the Group determined that it was unlikely that future remittances would be received.

#### *Cash and cash equivalents*

Cash and cash equivalents included cash in hand, deposits held on call with banks, and other short-term highly liquid investments with original maturities of three months or less.

#### *Disposal of financial assets*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred. On derecognition of a financial asset, any difference between the carrying amount of an asset, and the consideration received is recognised in the Income Statement.

#### *Financial liabilities, including bank overdrafts*

Financial liabilities are recognised in the Statement of Financial Position when the Group becomes a party to the contractual terms of the instrument.

All non-derivative financial liabilities are classified as 'financial liabilities measured at amortised cost'. They are initially measured at fair value, net of transaction costs incurred. They 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.

At present the Directors include in this category 'trade and other payables' and 'other financial liabilities'.

#### *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 bank overdraft, are initially measured at fair value, net of transaction costs and subsequently held at amortised cost.

## 1 Accounting policies continued

### 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.

### 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.

If the effect of discounting is material, 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.

### Dividends

Interim dividends are recognised in the financial statements at the earlier of the time they are paid or granted 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.

# Notes to the financial statements continued

For the year ended 30 November 2019

## 1 Accounting policies continued

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 *Share-based payments* ('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 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 net fees 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.

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 judgements 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 be different from initial 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 judgements*

The following are the significant 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.

## 1 Accounting policies continued

### (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. Historically, the Company's policy and intention has been 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 where it is necessary to do so to provide further understanding of the underlying financial performance of the Group. In addition to statutory measures of performance, the Directors' measure underlying performance by excluding items of income or expense of a non-recurring nature or material amount, 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 expense or income items 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.

During the year ended 30 November 2019, the exceptional items included the cost of CEO change, cost of senior leadership restructuring, and net income associated with support function relocation.

These are fully discussed in note 3 and in 'Chief Financial Officer's review'.

### 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. 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 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.

In addition, the Directors apply the historical 'shrinkage' rate to the system-generated Contract accrued income. The purpose is to ensure compliance with the new requirements introduced by IFRS 15, where any variable amount of revenue, such as an estimated amount of Contract accrued income, is recognised only to the extent that its significant reversal will not occur when the uncertainty associated with the accrual is subsequently resolved.

The key estimation uncertainty arises from determining the historical shrinkage rate which is used to constrain the variable part of revenue, i.e. accrued income, at the reporting date. The historical shrinkage rate applied to the current year (19.9%) represents the pattern in which in prior year Contract income accrued for expected timesheets was reduced versus the actual timesheets received and approved within the three-month period post the reporting date.

A 10% increase in this key assumption could have an impact of approximately £0.3 million on the amount of Contract net fees in the Group Income Statement in the next financial year.

#### (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.



## Notes to the financial statements continued

For the year ended 30 November 2019

### 1 Accounting policies *continued*

#### (iii) Impairment of investments in subsidiaries (Company only)

The Company assesses its investments in subsidiaries and other companies for impairment whenever events or changes in circumstances indicate that the recoverable amount of the investment could be less than the carrying value of the investment. If this is the case, the investment is considered to be impaired and is written down to its recoverable amount. Judgement is required in the determination of the recoverable amount as the Company evaluates various factors related to the operational and financial position of the relevant investee business, appropriate discounting and long-term growth rates.

A sensitivity analysis of the impact of changes in the assumptions on the impairment charge are provided in note 12.

### 2 Segmental analysis

The Group's operating segments are established on the basis of those components of the Group that are regularly reviewed by the Group's chief operating decision maker, in deciding how to allocate resources and in assessing performance. The Group's business is considered primarily from a geographical perspective.

The Directors have determined the chief operating decision maker to be the Executive Committee made up of Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief People Officer and Chief Sales Officer, with other senior management attending via invitation.

The Group segments the business into four reportable regions: United Kingdom & Ireland ('UK&I'), USA, Asia Pacific & Middle East ('APAC & ME') and Continental Europe. The latter comprises DACH (Germany, Switzerland and Austria) and 'Benelux, France & Spain' ('BFS'); both sub-regions were aggregated into one reportable segment based on the possession of similar economic characteristics. DACH and BFS generate a similar average net fees margin and long-term growth rates, and are similar in each of the following areas:

- the nature of the services (i.e. recruitment/candidate placement);
- the methods used in which they provide services to clients (i. Freelance contractors, ii. Employed contractors, and iii. Permanent candidates);
- the class of candidates (candidates, who we place with our clients, represent skill sets in Science, Technology, Engineering and Mathematics disciplines).

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 net fees 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 'net fees' in the management reporting and controlling systems. Net fees is the measure of segment profit comprising revenue less cost of sales.

Intersegment revenue is recorded at values which approximate third party selling prices and is not significant.

	Revenue		Net fees	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Continental Europe	796,438	716,058	196,665	183,367
UK&I	249,708	268,031	48,191	53,144
USA	237,702	215,099	76,706	66,654
APAC & ME	61,173	58,964	20,790	17,961
	1,345,021	1,258,152	342,352	321,126

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.

#### Split of revenue from contracts with customers

The Group derives revenue from the transfer of services over time and at a point in time in the following geographical regions:

#### 30 November 2019

	Continental Europe £'000	UK&I £'000	USA £'000	APAC & ME £'000	Total £'000
Timing of revenue recognition					
At a point in time	52,494	7,933	17,134	11,903	89,463
Over time	743,944	241,775	220,568	49,271	1,255,558
	796,438	249,708	237,702	61,173	1,345,021

#### Major customers

In 2019 and 2018, no single client generated more than 10% of the Group's revenue. The highest billed client generated approximately \$4.0 million in revenue.

## 2 Segmental analysis continued

### Other information

The Group's revenue from external customers, its net fees and information about its segment assets (non-current assets excluding deferred tax assets) by key location are detailed below:

	Revenue		Net fees	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Germany	342,345	310,399	101,480	93,701
Netherlands	261,429	237,904	52,396	48,563
USA	237,702	215,099	76,706	66,654
UK	236,323	256,056	43,817	48,814
Other	267,222	238,694	67,953	63,394
	1,345,021	1,258,152	342,352	321,126

	Non-current assets	
	30 November 2019 £'000	30 November 2018 £'000
UK	11,160	14,354
Germany	949	1,060
USA	600	1,136
Netherlands	596	803
Other	1,543	1,148
	14,848	18,501

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		Net fees	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Brands</b>				
Progressive	446,422	401,959	104,279	92,063
Computer Futures	400,184	362,958	103,533	96,672
Real Staffing Group	255,951	239,116	76,473	72,263
Huxley Associates	242,464	254,119	58,067	60,128
	1,345,021	1,258,152	342,352	321,126

Other brands including Global Enterprise Partners, JP Gray, Madison Black, Newington International and Orgtel are rolled into the above brands.

### Recruitment classification

Contract	1,255,558	1,169,141	254,547	232,115
Permanent	89,463	89,011	87,805	89,011
	1,345,021	1,258,152	342,352	321,126

### Sectors

Technology	641,977	580,732	152,717	141,970
Life Sciences	207,738	195,102	67,841	66,250
Energy	181,521	169,018	39,150	33,452
Banking & Finance	151,917	180,122	37,923	42,454
Engineering	131,189	111,608	34,764	30,618
Other	30,679	21,570	9,957	6,382
	1,345,021	1,258,152	342,352	321,126

Other includes Procurement & Supply Chain and Sales & Marketing.

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### 3 Administrative expenses – Exceptional items

#### CEO change costs

On 14 December 2018, the Group communicated to the market that Chief Executive Officer, Gary Elden, would step down from his role. After a rigorous recruitment process, the new Chief Executive Officer ("CEO"), Mark Dorman, joined the Group on 18 March 2019. This CEO change resulted in the exceptional charge of £1.2 million in 2019, mainly comprising contractual payments to the departing CEO and recruitment fees.

#### Restructuring costs

##### Senior leadership restructuring

To continue to drive the Group growth plans, and deliver on our ambition to be the number one in our chosen STEM markets, certain key changes were made to the senior leadership structure (impacting UK&I, Benelux, France & Spain, and ME) in the current year. These changes are expected to position the Group for a stronger growth by building upon the enhanced alignment being put in place between these important markets, and moving to a more efficient regional structure. These changes resulted in the exceptional charge of £1.2 million in the current year.

##### Support function relocation

The expected benefits are being realised from the successful restructure and relocation of the majority of our London-based support functions to our Centre of Excellence in Glasgow. This restructuring has realised cost savings in excess of £5.0 million per annum.

The restructuring resulted in the recognition of net exceptional income of £0.1 million in the current year. Personnel costs of £0.3 million and property costs £0.3 million, offset by the Government grant income of £0.7 million.

We do not expect to incur any further exceptional costs in respect of the move to Glasgow whilst the additional Government grant is anticipated to be received and recognised as exceptional income in the period through to the end of 2021.

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 2018. Disclosure of items as exceptional, highlights them and provides a clearer, comparable view of underlying earnings.

Items classified as exceptional were as follows:

Exceptional items charged/(credited) to operating profit	2019 £'000	2018 £'000
<b>CEO change</b>		
Contractual payments for CEO departure	716	-
Recruitment and other professional fees	342	-
Double running costs	83	-
Relocation costs	60	-
<b>Total – CEO change</b>	<b>1,201</b>	<b>-</b>
<b>Restructuring costs</b>		
Senior leadership restructuring	1,200	-
Support functions relocation		
Staff costs and redundancy	318	4,075
Property costs	261	898
Other	14	1,842
Grant income	(721)	(418)
<b>Total – Restructuring costs</b>	<b>1,072</b>	<b>6,397</b>
<b>Total net exceptional costs</b>	<b>2,273</b>	<b>6,397</b>

#### 4 Operating profit

Operating profit is stated after charging/(crediting):

	2019 £'000	2018 £'000
Depreciation (note 10)	3,058	2,852
Amortisation (note 11)	2,982	3,049
Accelerated depreciation (note 10)	-	244
Accelerated amortisation and impairment of intangible assets (note 11)	-	709
Foreign exchange gains	(523)	(644)
Staff costs (note 5)	214,264	206,713
Movement in bad debt provision and debts directly written off	2,380	1,279
(Gain)/loss on disposal of property, plant and equipment (note 10)	(3)	8
Loss on disposal of intangible assets (note 11)	51	62
Net exceptional costs (note 3)	2,273	6,397
Net gain on disposal of subsidiaries and associate	-	(76)
Operating lease charges		
- Motor vehicles	1,851	1,771
- Land and buildings	12,736	12,647

#### Auditors' remuneration

During the year, the Group (including its subsidiaries) obtained the following services from the Company's auditors and its associates:

	2019 £'000	2018 £'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	138	131
- Non-recurring audit fee (classified as exceptional item)	25	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	252	226
- Audit-related assurance services	11	10
- All other non-audit services	2	27
<b>Fees charged to operating profit</b>	<b>428</b>	<b>524</b>

#### 5 Directors and employees

Aggregate remuneration of employees including Directors was:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Wages and salaries (including bonuses)	184,163	174,593	2,386	2,572
Social security costs	24,729	23,797	490	599
Other pension costs	2,360	1,932	(8)	-
Temporary staff costs	844	2,149	-	-
Share-based payments*	2,168	4,242	370	1,187
	<b>214,264</b>	<b>206,713</b>	<b>3,238</b>	<b>4,358</b>

\* Excludes charge classified as exceptional.

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For the year ended 30 November 2019

### 5 Directors and employees continued

The staff costs capitalised during the year on internally developed assets (note 11) and not included in the above amounts were £0.3 million (2018: £1.0 million).

The average monthly number of employees (including Executive Directors) during the year was:

	2019					Company total
	UK&I	Continental Europe	USA	APAC & ME	Group total	
Sales	535	1,482	388	191	2,596	~
Non-sales	383	376	101	39	899	9
	918	1,858	489	230	3,495	9

	2018					Company total
	UK&I	Continental Europe	USA	APAC & ME	Group total	
Sales	532	1,346	350	172	2,400	-
Non-sales	430	247	91	29	797	8
	962	1,593	441	201	3,197	8

The average number of employees is derived by dividing the sum of the number of employees employed under contracts of service in each month (whether throughout the month or not) by the number of months in the financial year, irrespective of whether they are full-time or part-time.

There were also 2,549 (2018: 2,359) 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 Directors' remuneration report (section 1.1).

Directors' compensation for loss of office is £0.9 million (2018: £0.9 million).

### 6 Finance income and costs

	2019 £'000	2018 £'000
<b>Finance income</b>		
Bank interest receivable	13	18
Interest accrued on convertible bonds (note 12)	32	40
Other interest	10	17
	55	75
<b>Finance costs</b>		
Bank loans and overdrafts	(1,009)	(743)
<b>Net finance costs</b>	<b>(954)</b>	<b>(668)</b>

## 7 Taxation

### (a) Analysis of tax charge for the year

	2019			2018		
	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	15,917	(428)	15,489	12,862	(1,127)	11,735
Adjustments in respect of prior periods	1,110	-	1,110	(541)	-	(541)
Total current tax charge/(credit)	17,027	(428)	16,599	12,321	(1,127)	11,194
<b>Deferred taxation</b>						
Origination and reversal of temporary differences	(678)	-	(678)	2,308	-	2,308
Adjustments in respect of prior periods (note 18)	(441)	-	(441)	(778)	-	(778)
Total deferred tax (credit)/charge	(1,119)	-	(1,119)	1,530	-	1,530
<b>Total income tax charge/(credit) in the income statement</b>	<b>15,908</b>	<b>(428)</b>	<b>15,480</b>	<b>13,851</b>	<b>(1,127)</b>	<b>12,724</b>

### (b) Reconciliation of the effective tax rate

The Group's tax charge for the year exceeds (2018: exceeds) the UK statutory rate and can be reconciled as follows:

	2019			2018		
	Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
Profit before taxation	59,072	(2,273)	56,799	53,393	(6,397)	46,996
Profit before taxation multiplied by the standard rate of corporation tax in the UK at 19.00% (2018: 19.00%)	11,223	(432)	10,791	10,144	(1,215)	8,929
<b>Effects of:</b>						
Disallowable items	756	4	760	988	88	1,076
Differing tax rates on overseas earnings	4,369	-	4,369	3,029	-	3,029
Adjustments in respect of prior periods	669	-	669	(1,319)	-	(1,319)
Adjustment due to tax rate changes	(246)	-	(246)	816	-	816
Tax losses for which deferred tax asset was derecognised	(863)	-	(863)	193	-	193
<b>Total tax charge/(credit) for the year</b>	<b>15,908</b>	<b>(428)</b>	<b>15,480</b>	<b>13,851</b>	<b>(1,127)</b>	<b>12,724</b>
<b>Effective tax rate</b>	<b>26.9%</b>	<b>18.8%</b>	<b>27.3%</b>	<b>25.9%</b>	<b>17.6%</b>	<b>27.1%</b>

### (c) Current and deferred tax movement recognised directly in equity

	2019 £'000	2018 £'000
<b>Equity-settled share-based payments</b>		
Current tax	-	(2)
Deferred tax	351	(19)
<b>Current tax adjustment on transition to IFRS 15</b>	<b>814</b>	<b>-</b>
	<b>1,165</b>	<b>(21)</b>

The Group expects to receive additional tax deductions in respect of share options currently unexercised. Under IFRSs, 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 2019, a deferred tax asset of £1.9 million (2018: £0.9 million) was recognised in respect of these options (note 18).

Prior to the adoption of IFRS 15, income of £3.1 million was recognised and taxed. On transition to IFRS 15 this income was reversed via the opening balance of retained earnings, and hence a tax deduction was due on this reversal. This tax deduction resulted in a tax credit of £0.8 million.

## Notes to the financial statements continued

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### 8 Dividends

	2019 £'000	2018 £'000
<b>Amounts recognised as distributions to equity holders in the year</b>		
Interim dividend of 4.7p (2018: 4.7p) per share <sup>i</sup>	6,056	6,041
Final dividend of 9.8p (2018: 9.3p) per share <sup>ii</sup>	12,722	11,966
	<b>18,778</b>	<b>18,007</b>
<b>Amounts proposed as distributions to equity holders</b>		
Interim dividend of 5.1p (2018: 4.7p) per share <sup>iii</sup>	6,661	6,077
Final dividend of 10.2p (2018: 9.8p) per share <sup>iv</sup>	13,507	12,819

i 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.

ii 2018 final dividend of 9.8 pence (2017: 9.3 pence) per share was paid on 7 June 2019 to shareholders on record at 26 April 2019.

iii 2019 interim dividend of 5.1 pence (2018: 4.7 pence) per share was paid on 6 December 2019 to shareholders on record at 1 November 2019.

iv The Board has proposed a 2019 final dividend of 10.2 pence (2018: 9.8 pence) per share, to be paid on 5 June 2020 to shareholders on record at 1 May 2020. This proposed final dividend is subject to approval by shareholders at the Company's next Annual General Meeting on 20 April 2020, 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.

	2019 £'000	2018 £'000
<b>Earnings</b>		
Profit for the year after tax and before exceptional items	43,164	39,542
Exceptional items (net) of tax	(1,845)	(5,270)
Profit for the year attributable to owners of the Company	<b>41,319</b>	<b>34,272</b>
	million	million
<b>Number of shares</b>		
Weighted average number of shares used for basic EPS	129.9	128.7
Dilutive effect of share plans	3.7	4.4
Diluted weighted average number of shares used for diluted EPS	<b>133.6</b>	<b>133.1</b>
	2019 pence	2018 pence
<b>Basic</b>		
Basic EPS before exceptional items	33.2	30.7
Impact of exceptional items	(1.4)	(4.1)
Basic EPS after exceptional items	<b>31.8</b>	<b>26.6</b>
<b>Diluted</b>		
Diluted EPS before exceptional items	32.3	29.7
Impact of exceptional items	(1.4)	(4.0)
Diluted EPS after exceptional items	<b>30.9</b>	<b>25.7</b>

## 10 Property, plant and equipment

	Computer equipment £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>				
At 1 December 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
At 30 November 2018	10,919	10,104	5,057	26,080
Additions	1,555	965	582	3,102
Disposals	-	(3)	(59)	(62)
Exchange differences	(169)	(225)	(128)	(522)
<b>At 30 November 2019</b>	<b>12,305</b>	<b>10,841</b>	<b>5,452</b>	<b>28,598</b>
<b>Accumulated depreciation</b>				
At 1 December 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
At 30 November 2018	9,466	6,017	3,682	19,165
Depreciation charge for the year	989	1,501	568	3,058
Disposals	-	(3)	(50)	(53)
Exchange differences	(138)	(148)	(90)	(376)
<b>At 30 November 2019</b>	<b>10,317</b>	<b>7,367</b>	<b>4,110</b>	<b>21,794</b>
<b>Net book value</b>				
<b>At 30 November 2019</b>	<b>1,988</b>	<b>3,474</b>	<b>1,342</b>	<b>6,804</b>
At 30 November 2018	1,453	4,087	1,375	6,915

<sup>1</sup> In 2018, accelerated depreciation was in relation to one of our London offices, closed following the relocation of our support service function. The entire amount was classified as an exceptional item.

A depreciation charge of £3.1 million (2018: £2.9 million) was recognised in administrative expenses.

During the year, certain assets with a net book value of £0.01 million (2018: £0.01 million) were sold generating a small gain (see note 4).

The Group did not lease any assets under finance lease obligations.

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### 11 Intangible assets

	Internally generated					Total £'000
	Goodwill £'000	Computer software £'000	Assets under construction £'000	Software and system development costs £'000	Trademarks £'000	
<b>Cost</b>						
At 1 December 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	-	-
At 30 November 2018	206,313	9,079	1,319	40,173	71	256,955
Additions	-	-	1,161	294	-	1,455
Disposals	-	-	-	(51)	-	(51)
Reclassification	-	-	(1,743)	1,743	-	-
Exchange differences	-	(1)	-	-	-	(1)
<b>At 30 November 2019</b>	<b>206,313</b>	<b>9,078</b>	<b>737</b>	<b>42,159</b>	<b>71</b>	<b>258,358</b>
<b>Accumulated amortisation and impairment</b>						
At 1 December 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
At 30 November 2018	205,480	8,973	-	32,822	71	247,346
Amortisation charge for the year	-	94	-	2,888	-	2,982
Exchange differences	-	(1)	-	-	-	(1)
<b>At 30 November 2019</b>	<b>205,480</b>	<b>9,066</b>	<b>-</b>	<b>35,710</b>	<b>71</b>	<b>250,327</b>
<b>Net book value</b>						
<b>At 30 November 2019</b>	<b>833</b>	<b>12</b>	<b>737</b>	<b>6,449</b>	<b>-</b>	<b>8,031</b>
At 30 November 2018	833	106	1,319	7,351	-	9,609

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 (2018: £3.0 million) was 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 was £nil (2018: £0.7 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

#### Group

The following tables provide summarised information of the Group's investments in unlisted technology start-ups.

		30 November 2019 £'000	30 November 2018 £'000
<b>Equity investments</b>	<b>Current shareholding</b>		
Sandpit <sup>1</sup>	7.0% (2018: 7.2%)	-	802
Ryato	14.6% (2018: 11.3%)	-	727
RoboRecruiter	<1% (2018: 6.8%)	13	13
<b>Total – Equity investments</b>		<b>13</b>	<b>1,542</b>
<b>Debt investments</b>			
Convertible bonds		-	435
<b>Total investments</b>		<b>13</b>	<b>1,977</b>

## 12 Investments continued

Analysis of movement in carrying value of the Group's investments in innovation starts-ups is set out below.

	Sandpit £'000	Ryalto £'000	Robo Recruiter £'000	Total £'000
At 1 December 2018	801	1,163	13	1,977
Interest accrued on convertible bonds	-	32	-	32
Fair valuation loss	(801)	(1,195)	-	(1,996)
<b>At 30 November 2019</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>13</b>

### Information about individual investments

#### (i) Sandpit

During the year, the Group's investment in Sandpit was written down to £nil as The Sandpit Limited discontinued its operations. The derecognition of equity rights in The Sandpit Limited resulted in a £0.8 million write off through other comprehensive income. The Group's shareholding was converted into a minority shareholding in The Sandpit Ventures Limited at an immaterial nominal book value. At present, due to the uncertain nature of Sandpit's operations, the Directors did not attempt to fair value this investment.

#### (ii) Ryalto

At the year end, the Group held a 14.6% minority shareholding fair valued at £nil million. Our shareholding increased as a result of exercising all equity conversion rights following the occurrence of a qualifying event (planned disposal of the entity). Ryalto is a company which provides a mobile 'gig economy' - a type of platform designed and built as an online community of healthcare professionals. However, to date it failed to harness its capabilities effectively, and was put up for sale; as a result the investment was written off in full through other comprehensive income. Due to a lack of prospective buyers, the business was eventually liquidated.

#### (iii) RoboRecruiter

RoboRecruiter is a company that builds automated multichannel platforms connecting candidates with recruiters and employers in real time. In 2019, it continued to raise new capital to fund growth of its operations. As a result, the Group's minority shareholding in RoboRecruiter was significantly diluted, and at the year end fell below 1% of the total shared capital issued.

The investment is a financial asset classified as measured at fair value through other comprehensive income. The fair value was determined using a EV/sales multiple of 6.99, typical for a SaaS company, and is considered a level 3 valuation under the fair value hierarchy.

### Company

Cost	£'000
At 1 December 2017	341,811
<b>Additions</b>	
- Settlement of vested tracker shares	3,439
- Settlement of unvested tracker shares	241
- Capital contribution relating to share-based payments	3,486
Disposal of investments	(81)
At 30 November 2018	348,896
<b>Additions</b>	
- Settlement of vested tracker shares	3,744
- Settlement of unvested tracker shares	645
- Capital contribution relating to share-based payments	1,649
- Purchase of shares in a Group entity	345
<b>At 30 November 2019</b>	<b>355,279</b>
<b>Provision for impairment</b>	
At 1 December 2017	134,980
Provision made during the year	-
At 30 November 2018	134,980
Provision made during the year	8,159
<b>At 30 November 2019</b>	<b>143,139</b>
<b>Net carrying value</b>	
<b>At 30 November 2019</b>	<b>212,140</b>
At 30 November 2018	213,916

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### 12 Investments continued

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 2019, the Company recognised a net increase in investments in its subsidiaries of £1.7 million (2018: £3.5 million) relating to such share options and awards.

#### Investment impairment

During the year, the Company performed an investment impairment review and recognised an impairment charge of £8.2 million (2018: \$nil) in relation to its investment in SThree UK Holdings Limited. The impairment was attributable to our UK trading business, SThree Partnership LLP, controlled by SThree UK Holdings Limited, as its trading performance continued to deteriorate (for more details refer to the Strategic Report, Business review of UK & Ireland).

The impairment charge represented a difference between the recoverable amount of £118.8 million and the carrying value of the investment of £127.0 million 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 5.4.

The SThree Partnership LLP VIU valuation was determined from the 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 12.2% (2018: 11.1%) and a long-term growth rate of 2.0% (2018: 2.0%).

The impairment charge involves judgements and estimates prevailing at the time of the test. The actual outcomes may differ from the assumptions made. The Group considered reasonably possible changes to assumptions:

- (i) apply a 5% reduction in forecast net fees. This would result in further impairment of £29.3 million.
- (ii) apply a 5% reduction to forecast EBITDA. This would result in a further impairment of £13.2 million.
- (iii) increase pre-tax WACC by 10%. This would result in a further impairment of £19.3 million.

A full list of the Company's subsidiaries that existed as at 30 November 2019 is provided in note 24.

### 13 Trade and other receivables

	Group		Company	
	30 November 2019 £'000	30 November 2018 £'000	30 November 2019 £'000	30 November 2018 £'000
Trade receivables	194,448	198,523	-	-
Less allowance for expected credit losses and revenue reversals	(3,965)	(2,699)	-	-
Trade receivables – net	190,483	195,824	-	-
Other receivables	5,975	3,552	95	8,413
Amounts due from subsidiaries	-	-	8	9,947
Prepayments	8,199	7,501	392	497
Accrued income	65,693	78,741	-	-
Other taxes and social security – debtor	-	-	3,422	-
	270,350	285,618	3,917	18,857

Trade receivables are non-interest bearing current financial assets.

The Group establishes an allowance for doubtful accounts that represents an estimate of expected credit losses in respect of trade and other receivables. Movements in the impairment provision for trade receivables are shown in the table below.

Other receivables include £0.6 million (2018: £0.7 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% (2018: 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).

Amounts due from subsidiaries are subject to annual interest at a rate of 15 basis points in excess of the Group's external borrowing costs under its Revolving Credit Facility.

### 13 Trade and other receivables continued

	30 November 2019 £'000	30 November 2018 £'000
Provision for impairment of trade receivables		
At the beginning of the year	2,699	1,555
Charge for the year	2,261	1,512
Bad debts written off	(483)	(169)
Reversed as amounts recovered	(432)	(237)
Exchange differences	(80)	38
<b>At the end of the year</b>	<b>3,965</b>	<b>2,699</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 2019 £'000	30 November 2018 £'000	30 November 2019 £'000	30 November 2018 £'000
Cash at bank	15,093	50,844	633	4,859
Bank overdraft	(4,538)	(17,521)	-	-
<b>Net cash and cash equivalents per the statements of cash flows</b>	<b>10,555</b>	<b>33,323</b>	<b>633</b>	<b>4,859</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 amounts of these assets approximate their fair values. Substantially all of these assets are categorised within level 1 of the fair value hierarchy.

The Group has three cash pooling arrangements in place, at HSBC US (USD), NatWest (GBP) and Citibank (EUR).

### 15 Trade and other payables

	Group		Company	
	30 November 2019 £'000	30 November 2018 £'000	30 November 2019 £'000	30 November 2018 £'000
Trade payables	54,424	58,060	-	-
Amounts due to subsidiaries (note 22)	-	-	73,526	22,407
Other taxes and social security	13,515	10,761	842	657
Other payables	11,948	15,816	1,353	823
Accruals	92,470	107,105	1,277	1,231
	<b>172,357</b>	<b>191,742</b>	<b>76,998</b>	<b>25,118</b>

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

Trade and other payables are predominantly interest free.

Trade payables are unsecured and are usually paid within 15 days of recognition.

Amounts due to subsidiaries are subject to annual interest at a rate of 15 basis points below the Group's external borrowing costs under its Revolving Credit Facility.

Accruals include amounts payable to contractors in respect of unsubmitted and unapproved timesheets (note 13).

### 16 Borrowings

The Group has access to a committed Revolving Credit Facility ('RCF') of £50.0 million along with an uncommitted £20.0 million accordion facility in place with HSBC and Citibank, giving the Group an option to increase its total borrowings under the facility to £70.0 million. The funds borrowed under the facility bear interest at a minimum annual rate of 1.3% (2018: 1.3%) above the appropriate Sterling LIBOR. The average interest rate paid on the RCF during the year was 2.0% (2018: 1.8%). The Group also has an uncommitted £5.0 million overdraft facility with HSBC.

At the year end, the Group and the Company had drawn down £nil (2018: £37.4 million) on these facilities.

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### 16 Borrowings continued

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. The RCF facility is available under these terms and conditions until April 2023.

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)
At 30 November 2018	37,428
Net repayments during the year	(37,313)
Changes to unamortised transaction costs	(115)
<b>At 30 November 2019</b>	<b>-</b>

<sup>1</sup> In 2018, \$0.5 million represented the unamortised amount of transaction costs including those incurred on renegotiating the facility

The carrying amount of the Group's borrowing, comprising the RCF, approximates its fair value. The fair value of the RCF is estimated using discounted cash flow analysis based on the Group's current incremental borrowing rates for similar types and maturities of borrowing and is consequently categorised in level 2 of the fair value hierarchy.

### 17 Provisions

(i) Movements in each class of provision during the financial year are set out below:

Group	Dilapidations £'000	Restructuring £'000	Tracker share liability £'000	Legal £'000	Onerous contract £'000	Total £'000
At 1 December 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
At 30 November 2018	1,762	1,508	3,306	4,379	228	11,183
Charged/(released) to the income statement	289	289	(110)	(233)	-	235
Utilised during the year	(198)	(1,461)	(269)	-	(184)	(2,112)
New tracker share consideration	-	-	536	-	-	536
Revaluation	(42)	(4)	-	(115)	(3)	(164)
<b>At 30 November 2019</b>	<b>1,811</b>	<b>332</b>	<b>3,463</b>	<b>4,031</b>	<b>41</b>	<b>9,678</b>

	2019 £'000	2018 £'000
Analysis of total provisions		
Current	8,275	9,614
Non-current	1,403	1,569
	<b>9,678</b>	<b>11,183</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.

#### (ii) Information about individual provisions and significant estimates

##### Dilapidations

The Group is obliged to pay for dilapidations at the end of its tenancy of various properties. Provision was made based on independent professional estimates of the likely costs on vacating properties based on the current conditions of the properties. The provision was spread over the relevant lease term.

##### Restructuring

The outstanding balance of the provision relates to the costs associated with senior leadership restructuring.

The provisions have been made primarily to cover future redundancy payments.

## 17 Provisions continued

The liability in regards to dilapidation and restructuring provisions is expected to crystallise as follows:

	2019 £'000	2018 £'000
Within one year	740	1,701
One to five years	1,056	726
After five years	347	843
	<b>2,143</b>	<b>3,270</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 (2018: £0.3 million) of the provision was utilised, principally in relation to settled tracker shares. New consideration of £0.5 million (2018: £0.6 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 in 2018. Sublease of property ended in August 2019 and the property will remain unoccupied until the lease expires in December 2019.

## 18 Deferred tax

Group	Accelerated tax depreciation £'000	Share-based payments £'000	Tax losses £'000	Provisions £'000	Total £'000
<b>At 1 December 2017</b>	(74)	1,027	943	2,303	4,199
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>	22	882	174	1,672	2,750
Credit/(charge) to income statement for the year	108	689	395	(757)	435
Prior year credit/(charge) to income statement for the year	104	-	(62)	399	441
Adjustment due to tax rate changes	(4)	12	36	202	246
Credit directly to equity	-	351	-	-	351
Exchange differences	(3)	(15)	1	(39)	(56)
<b>At 30 November 2019</b>	<b>227</b>	<b>1,919</b>	<b>544</b>	<b>1,477</b>	<b>4,167</b>

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the deferred tax balances for financial reporting purposes:

	30 November 2019 £'000	30 November 2018 £'000
Deferred tax assets	4,537	3,596
Deferred tax liabilities	(370)	(846)
<b>Net deferred tax assets</b>	<b>4,167</b>	<b>2,750</b>

## Notes to the financial statements *continued*

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### 18 Deferred tax *continued*

Deferred tax assets that are expected to be recovered within one year are £2.4 million (2018: £2.6 million) and deferred tax liabilities that are expected to be settled within one year are £0.2 million (2018: £0.01 million).

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 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 unused tax losses of £24.0 million (2018: £29.6 million) available for offset against future profits. A deferred tax asset of £0.5 million (2018: £0.2 million) was recognised in respect of losses of £1.7 million (2018: £0.7 million). No deferred tax asset was recognised in respect of the remaining £22.3 million (2018: £28.9 million) losses. The reduction in losses arises from expiration, recognition, exchange differences, and utilisation.

Included in unrecognised tax losses are losses of £0.8 million (2018: £3.5 million) subject to expiry. Of this amount, £nil expires over the course of the next five years and the balance of £0.8 million up to 2037. A regional summary of our loss profile is shown below.

	Operating losses recognised 2019 £'000	Operating losses not recognised 2019 £'000	Total £'000
Europe	1,084	9,289	10,373
Asia Pacific	638	12,349	12,987
Rest of World	-	694	694
	1,722	22,332	24,054

### Uncertain tax positions

Several jurisdictions have now implemented domestic legislation in line with the Organisation for Economic Co-operation and Development base erosion and profit shifting (BEPS) recommendations which result in increased transparency, reporting requirements and information sharing amongst tax authorities. As such, the Group considered that transfer pricing risks increased and a provision for uncertain tax positions of £0.7 million was recognised during the year.

### Company

The Company's deferred tax asset relates in full to the equity-settled share-based payments.

	£'000
At 1 December 2017	298
Credited to income statement for the year	8
Charged directly to equity	(11)
At 30 November 2018	295
Credited to income statement for the year	164
Credited directly to equity	23
<b>At 30 November 2019</b>	<b>482</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 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 own shares	-	-	-	(1,484)
Utilisation of treasury shares	721,502	-	-	2,189
At 30 November 2018	130,809,154	1,319	172	(7,830)
Issue of new shares	636,595	7	-	-
Repurchase of shares by Employee Benefit Trust	-	-	-	(2,506)
Utilisation of shares held by Employee Benefit Trust	-	-	-	2,086
Utilisation of treasury shares	974,583	-	-	3,245
<b>At 30 November 2019</b>	<b>132,420,332</b>	<b>1,326</b>	<b>172</b>	<b>(5,005)</b>

## 19 Share capital continued

### Share capital

The nominal value per ordinary share is £0.01 (2018: £0.01).

During the year 636,595 (2018: 546,525) new ordinary shares were issued, resulting in a share premium of £1.7 million (2018: £1.7 million). Of the shares issued, 475,738 (2018: 398,298) 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, no SThree plc's shares were cancelled (2018: 411,354).

### Treasury reserve

Treasury shares represent SThree plc shares repurchased and available for specific and limited purposes.

During the year, no shares (2018: nil) were utilised from treasury on settlement of Long Term Incentive Plan ('LTIP') awards. No shares (2018: 21,302) were utilised on settlement of SAYE and Share Incentive Plan ('SIP') awards. 974,583 (2018: 700,200) shares were utilised on settlement of vested tracker shares. At the year end, 70,751 (2018: 1,045,334) 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 and are, therefore, included in the financial statements as part of the treasury reserve for the Group.

During the year, the EBT purchased 860,000 (2018: 430,000) of SThree plc shares. The average price paid per share was 291 pence (2018: 345 pence). The total acquisition cost of these shares was £2.5 million (2018: £1.5 million), for which the treasury reserve was reduced. During the year, the EBT utilised 654,994 (2018: nil) shares on settlement of LTIP awards. At the year end, the EBT held 1,712,522 (2018: 1,505,546) shares.

### (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 £4.4 million (2018: £3.7 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 a subscription value of £536,230 (2018: £644,000).

#### 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 2019		30 November 2018		Vesting period	Expiry date	Valuation method	Performance metrics
	Charge (£'000)	Number of share options	Charge (£'000)	Number of share options				
LTIP	2,429	5,629,434	4,455	5,877,073	3 years	10 years	Montecarlo model	Incremental EPS growth/TSR ranking against comparator group
SAYE	252	980,444	242	966,583	3 years	6 months after 3-year vesting period	Binomial	None
<b>Sub-total</b>	<b>2,681</b>	<b>6,609,878</b>	<b>4,697</b>	<b>6,843,656</b>				
SIP	21	n/a	7	n/a	1 year	n/a	n/a	None
<b>Total</b>	<b>2,702</b>	<b>6,609,878</b>	<b>4,704</b>	<b>6,843,656</b>				



# Notes to the financial statements continued

For the year ended 30 November 2019

## 19 Share capital continued

### LTIP

The conditions of the LTIP are provided in the Directors' remuneration report.

	Number of options
At 1 December 2018	5,877,073
Granted	2,463,309
Exercised	(550,035)
Forfeited	(2,160,913)
<b>At 30 November 2019</b>	<b>5,629,434</b>

Out of the 5,629,434 options outstanding (2018: 5,877,073), 518,443 options were exercisable (2018: 566,124). 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 £2.86 (2018: £3.57) per share. The related transaction costs were negligible. The share options had a weighted average exercise price of £nil (2018: £nil).

The 2019 share options granted in 2019 under the Group LTIP scheme were valued as follows:

	2019	2018
Weighted average fair value (£)	2.44	3.21
Key assumptions used:		
Share price at grant date (£)	2.74	3.57
Expected volatility*	30.8%	29.9%
Annual risk-free interest rate	0.84%	0.85%
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 June 2019, the UK Government filed an annulment application with the European Union General Court, against the European Commission's decision of April 2019, that certain parts of the UK's Controlled Foreign Company ('CFC') regime gave rise to State Aid. In addition, in October 2019, the Group filed its own annulment application. The Group has historically relied on the CFC regime in certain jurisdictions. Our maximum potential liability is estimated at £3.2 million. Given both applications, our assessment is that no provision is required in respect of this issue. Whilst the legal process continues, under EU law the UK Government is still required to recover aid in line with the Commission's findings. Any amount paid is therefore wholly or partly repayable, pending resolution of the annulment applications.

### 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 were not 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 13 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.

## 21 Commitments continued

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 2019 £'000	30 November 2018 £'000	30 November 2019 £'000	30 November 2018 £'000
Within one year	13,485	13,891	1,143	1,128
One to five years	34,153	37,196	1,097	861
After five years	5,684	10,809	-	-
	53,322	61,896	2,240	1,989

### Capital commitments

At the year end, the Group contracted capital expenditure but not yet incurred of £0.6 million (2018: £0.1 million).

### Guarantees

At the year end, the Group/SThree plc had bank guarantees in issue for commitments which amounted to £3.6 million (2018: £3.1 million).

### Company

In 2019, selected UK subsidiaries (see note 24) were exempt from the requirements of the UK Companies Act 2006 ('the Act') relating to the audit of individual accounts by virtue of s479A of the Act. The Company provides a guarantee concerning the outstanding liabilities of these subsidiaries under section 479C of the Act.

## 22 Related party transactions

### Group

Balances and transactions with subsidiaries were 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 13 (2018: 19). Total remuneration for members of KMP is detailed below:

	2019 £'000	2018 £'000
Short-term employee benefits	5,967	5,719
Share-based payments	1,752	2,611
Post-employment benefits	331	308
Termination benefits	488	476
	8,538	9,114

### 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.

	2019 £'000	2018 £'000
<b>Transactions with the related parties during the year</b>		
Investments in subsidiaries (note 12)	(6,383)	(7,085)
Impairment of investments in subsidiaries (note 12)	(8,159)	-
Loans and advances received from subsidiaries	51,119	5,224
Loans and advances given to subsidiaries	(9,939)	6,056
Loans repaid by Directors	1	1
Loans repaid by other KMP	4	65
Interest income received from subsidiaries	36	77
Interest paid by subsidiaries	(708)	(133)

No purchase or sales transactions were entered into between the Company and its subsidiaries.

## Notes to the financial statements continued

For the year ended 30 November 2019

### 22 Related party transactions continued

	30 November 2019 £'000	30 November 2018 £'000
<b>Year end balances arising from transactions with related parties</b>		
Investments in subsidiaries	212,140	213,916
Amounts due to subsidiaries	(73,526)	(22,407)
Amounts receivable from subsidiaries – net	8	9,947
Amounts receivable from Directors	186	187
Amounts receivable from other KMP	169	173

### 23 Financial instruments and financial risk management

#### Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate and liquidity risks. The Group primarily finances its operations using share capital, revenue and borrowings.

The accounting classification of each category of financial instruments and their carrying amounts are set out below. Current year amounts are presented based on the classification, measurement and impairment requirements of IFRS 9. Comparatives are presented based on the classification, measurement and impairment requirements of IAS 39.

	Note	Measured at amortised cost £'000	Elected to be measured at FV through OCI £'000	Total carrying amount £'000
<b>At 30 November 2019</b>				
<b>Financial assets</b>				
Investments	12	–	13	13
Trade receivables and accrued income	13	256,176	–	256,176
Other receivables*	13	4,327	–	4,327
Cash and cash equivalents	14	10,555	–	10,555
<b>Financial liabilities</b>				
Trade payables and accruals	15	(146,894)	–	(146,894)
Other payables**	15	(9,902)	–	(9,902)

\* Other receivables comprise mainly rental deposits and staff loans.

\*\* Other payables comprise mainly cash in transit and other trade creditors.

	Note	Loans and receivables £'000	Available-for- sale financial assets £'000	Financial liabilities measured at amortised cost £'000	Total carrying amount £'000
<b>At 30 November 2018</b>					
<b>Financial assets</b>					
Investments – equity rights	12	–	1,542	–	1,542
– convertible bonds	12	–	435	–	435
Trade receivables and accrued income	13	274,565	–	–	274,565
Other receivables*	13	3,162	–	–	3,162
Cash and cash equivalents	14	33,323	–	–	33,323
<b>Financial liabilities</b>					
Trade payables and accruals	15	–	–	(165,165)	(165,165)
Other payables**	15	–	–	(8,196)	(8,196)
Finance debt	16	–	–	(37,428)	(37,428)

\* Other receivables comprise mainly rental deposits and staff loans.

\*\* Other payables comprise mainly cash in transit and other trade creditors.

## 23 Financial instruments and financial risk management continued

### 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 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 corporate treasury function 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 (5.7 million), AUD 1.6 million, CHF (2.2 million), EUR (5.1 million), JPY 224.2 million, CAD (0.2 million), SGD (1.0 million), HKD 14.1 million and USD 10.7 million, being an overall equivalent of £21.7 million (2018: overall equivalent of £39.9 million). The contracts were mainly taken out close to the year end date for a period of 32 to 36 days (2018: 28 to 31 days), and they had net positive fair value of circa £43,700 (2018: net negative fair value of £47,900) 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.

#### (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 £116.8 million (2018: £101.7 million), comprising share capital, share premium, other reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity and cash of £10.6 million (2018: £33.3 million), comprising cash and cash equivalents less bank overdraft (note 14). In 2019, the Group reported net cash of £10.6 million (2018: net debt of £4.1 million). The net debt exposure, reported in the prior year, was considered to be unrepresentative due to material expenditure and associated cash outflows arising from the restructuring of Group support functions.

Except for compliance with certain bank covenants (note 23(c)), the Group is not subject to any externally imposed capital requirements.

#### (b) Foreign currency exchange 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 £5.9 million and £2.3 million (2018: £6.4 million and £2.0 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 £50.0 million along with an uncommitted £20.0 million accordion facility in place with HSBC and Citibank, giving the Group an option to increase its total borrowings under the facility to £70.0 million. The Group also has an uncommitted £5.0 million overdraft facility with HSBC.

At the year end, £nil (2018: £37.4 million) was drawn down on these facilities.

## Notes to the financial statements continued

For the year ended 30 November 2019

### 23 Financial instruments and financial risk management continued

The RCF is subject to certain covenants requiring the Group to maintain financial ratios over interest cover, leverage and guarantor cover. The Group was 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 2019</b>		
Within one year	158,842	76,156
<b>At 30 November 2018</b>		
Within one year	180,981	24,461

#### (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 \$5.3 million (2018: \$11.2 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 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 10,500 clients) helps to mitigate the risk of individual client failure having a material impact on the Group.

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.

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 (2019: 14 individuals; 2018: 16 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 2019, 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.

#### (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. 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.

**23 Financial instruments and financial risk management** continued  
(g) Currency profile of net cash and cash equivalents (including bank overdrafts)  
Functional currency of Group operations:

	Net cash and cash equivalents				
	Sterling £'000	Euro £'000	US Dollar £'000	Other currencies £'000	Total £'000
<b>At 30 November 2019</b>					
<b>Functional currency</b>					
Sterling	989	(802)	836	188	1,211
Euro	72	4,619	-	-	4,691
US Dollar	-	-	566	-	566
Other	26	-	308	3,753	4,087
<b>Total</b>	<b>1,087</b>	<b>3,817</b>	<b>1,710</b>	<b>3,941</b>	<b>10,555</b>
<b>At 30 November 2018</b>	£'000	£'000	£'000	£'000	£'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>

Other foreign currencies held by the Group include: Australian Dollar, Canadian Dollar, Chinese Renminbi, Hong Kong Dollar, Indian Rupee, Japanese Yen, Malaysian Ringgit, Norwegian Krone, Qatari Riyal, 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 value

For all financial instruments, the carrying amount is either the fair value, or approximates the 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 relevant, market values were used to determine fair values. Where market values were not available, fair value was calculated by discounting expected cash flows at prevailing interest rates and by applying year-end exchange rates.

The following table shows the fair value of financial assets within the Group, including their level in the fair value hierarchy. It does not include fair value information for financial assets or financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Level in fair value hierarchy	30 November 2019 £'000	1 December 2018 £'000
<b>Financial assets</b>			
Equity rights	Level 3	13	1,542
Convertible bonds	Level 3	-	435
<b>Total</b>		<b>13</b>	<b>1,977</b>

The following table shows the changes during the year in the net fair value of investments within level 3 of the fair value hierarchy. The fair valuation of investments started on the date of initial application of IFRS 9. Previously they were held at cost less any impairment

	Equity rights £'000	Convertible bonds £'000	Total £'000
<b>At 1 December 2018</b>	1,542	435	1,977
Interest accrued recognised in the income statement	-	32	32
Conversion to equity rights	467	(467)	-
Losses recognised in other comprehensive income	(1,996)	-	(1,996)
<b>At 30 November 2019</b>	<b>13</b>	<b>-</b>	<b>13</b>

## Notes to the financial statements continued

For the year ended 30 November 2019

### 23 Financial instruments and financial risk management continued

#### 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 amounts for current balances; there are no material longer-term balances.
Investments	Market valuation at the end of the reporting year.

#### 24 List of subsidiaries

Full list of STthree plc's subsidiaries at 30 November 2019 and the Group percentage of ordinary share capital is as follows:

Name of undertaking	% Country of incorporation	Principal activities	Registered office	Registered number
STthree Australia Pty Limited	100 Australia	Recruitment	Level 9, 1 Market Street, Sydney, NSW 2000, Australia	126 409 103
STthree Austria GmbH	100 Austria	Recruitment	Wiedner Gurtel 13, Turm 24, 10 OG, 1100 Vienna, Austria	FN 447727 y
STthree Temp Experts Österreich GmbH	100 Austria	Recruitment	Wiedner Gurtel 13, Turm 24, 10 OG, 1100 Vienna, Austria	FN 520633
Computer Futures Solutions NV	100 Belgium	Recruitment	Kreupelenstraat 9, 5de en 6de verdieping, B-1000 Brussel, Belgium	BE 0461.883.118
Huxley Associates Belgium NV	100 Belgium	Recruitment	Kreupelenstraat 9, 5de en 6de verdieping, B-1000 Brussel, Belgium	BE 0886.778.156
STthree Services NV	100 Belgium	Recruitment	Kreupelenstraat 9, 5de en 6de verdieping, B-1000 Brussel, Belgium	BE 0889.572.251
STthree Belgium NV	100 Belgium	Recruitment	Kreupelenstraat 9, 5de en 6de verdieping, B-1000 Brussel, Belgium	BE 0892.363.574
STthree Canada Limited	100 Canada	Recruitment	Sun Life Plaza West Tower, 144-4 Avenue SW, Suite 1600, Calgary AB T2P 3N4, Canada	810508-1
STthree SAS	100 France	Recruitment	20 Avenue André Prothin, La defense 4 - Europlaza 92400 Courbevoie, Paris, France	502 095 094 00053
STthree Holdings GmbH	100 Germany	Holding company	Goetheplatz 5-11, 60313, Frankfurt am Main, Germany	HRB 96507
STthree GmbH	100 Germany	Recruitment	Goetheplatz 5-11, 60313, Frankfurt am Main, Germany	HRB 78875
STthree Temp Experts GmbH	100 Germany	Recruitment	Goetheplatz 5-11, 60313, Frankfurt am Main, Germany	HRB 103758
STthree Limited	100 Hong Kong	Recruitment	10th Floor, MassMutual Tower, 33 Lockhart Road, Wan Chai, Hong Kong	1113048
STthree India Private Limited	100 India	Under liquidation	511 The Corporate Centre, Irmal Lifestyle Mall, LBS Road, Mulund (West), Mumbai, Maharashtra-MH, 400080, India	200224
STthree Staffing Ireland Limited	100 Ireland	Recruitment	3rd Floor, 80, Harcourt Street, Dublin, Ireland	283856
STthree Ireland Dollar Limited	- Ireland	Liquidated	3rd Floor, 80, Harcourt Street, Dublin, Ireland	573785
STthree K.K.	100 Japan	Recruitment	Ginza Wall Building, 13-16 Ginza 6-Chome, Chuo-ku, Tokyo, Japan	0100-01-147559
STthree Finance Euro S.à r.l.	- Luxembourg	Liquidated	5th Floor, 2 rue de Fosse, L-1536, Luxembourg	8196552
STthree Dollar S.à r.l.	- Luxembourg	Liquidated	5th Floor, 2 rue de Fosse, L-1536, Luxembourg	8203419
STthree S.à r.l.	100 Luxembourg	Recruitment	5th Floor, 2 rue de Fosse, L-1536, Luxembourg	8160680
Progressive Global Energy Sdn. Bhd.	49 Malaysia	Recruitment	10th Floor, Menara Hap Seng, No 1&3 Jalan 1033845-D P Ramiee, 50250 Kuala Lumpur, Malaysia	1033845-D
STthree Holdings BV	100 Netherlands	Recruitment	Gustav Mahlerlaan 38, Gebouw Som 1, 1082MC, Amsterdam, Netherlands	24295090

**24 List of subsidiaries continued**

Name of undertaking	%	Country of incorporation	Principal activities	Registered office	Registered number
Huxley BV	100	Netherlands	Recruitment	De 5 Keizers, Keizersgracht 281, 5th floor, 1016 ED Amsterdam, Netherlands	54742730
SThree Interim Services BV	100	Netherlands	Recruitment	Gustav Mahlerlaan 38, Gebouw Som 1, 1082MC, Amsterdam, Netherlands	58612122
SThree Pte. Ltd.	100	Singapore	Recruitment	#09-02, 18 Cross Street, China Square Central, Singapore, 48423, Singapore	200720126E
SThree Business Services Ibérica, S.L.	100	Spain	Recruitment	WeWork, Glories, Carrer Tànger 86, 08018 Barcelona, Spain	B87900593
SThree Switzerland GmbH	100	Switzerland	Recruitment	3rd Floor, Claridenstrasse 34, 8002 Zürich, Switzerland	CH-020.4.044.653-4
Cavendish Directors Limited*	100	UK	Dormant	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	04326888
SThree UK Holdings Limited*	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	03804468
SThree Overseas Holdings Limited*	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	03247281
SThree UK Management Limited*	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	07509542
SThree Overseas Management Limited*	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	07846499
SThree UK Operations Limited*	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	08628611
SThree Euro UK Limited	100	UK	Support services	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	04632138
SThree IP Limited*	100	UK	Support services	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	03682824
SThree Management Services Limited*	100	UK	Management services	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	04255086
SThree Partnership LLP	100	UK	Recruitment	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	OC387148
Huxley Associates Global Limited	100	UK	Recruitment	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	05908145
Progressive Global Energy Limited	100	UK	Recruitment	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	04883344
Progressive Global Energy Kurdistan Limited	100	UK	Dormant	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	08286247
Progressive GE Limited	100	UK	Dormant	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	03561279
HireFirst Limited	100	UK	Recruitment technology	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	11050648
Talent Deck Limited	100	UK	Dormant	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	10841039
Showcaser Limited	100	UK	Under liquidation	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	10873444
SThree Ventures Limited	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	11047674
SThree Dollar UK Limited	100	UK	Holding company	1st Floor, 75 King William Street, London, EC4N 7BE, United Kingdom	11740244
Specialist Staffing Holdings Inc	100	USA	Holding company	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware DE 19801, United States	5692896
Specialist Staffing Solutions Inc	100	USA	Recruitment	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware DE 19801, United States	4367091

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### 24 List of subsidiaries continued

Name of undertaking	%	Country of incorporation	Principal activities	Registered office	Registered number
Specialist Staffing Services Inc	100	USA	Recruitment	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware DE 19801, United States	5134909
Newington International Inc	100	USA	Recruitment	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware DE 19801, United States	5222208
Progressive Global Energy Inc	100	USA	Dormant	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware DE 19801, United States	5387733

\* Directly held subsidiaries. All other subsidiaries are indirectly held

### Audit exemptions:

From 2019 the following Group entities are exempt from audit by virtue of Section 479A of the Companies Act 2006:

SThree Euro UK Limited	Huxley Associates Global Limited	Talent Deck Limited
SThree IP Limited	Progressive Global Energy Limited	Showcaser Limited
SThree Dollar UK Limited	HireFirst Limited	SThree Ventures Limited
SThree UK Operations Limited	Progressive Global Energy Kurdistan Limited	SThree Management Services Limited

### Statutory guarantees:

SThree plc has provided statutory guarantees to the following entities in accordance with Section 479A of the Companies Act 2006:

SThree Euro UK Limited	Huxley Associates Global Limited	Talent Deck Limited
SThree IP Limited	Progressive Global Energy Limited	Showcaser Limited
SThree Dollar UK Limited	HireFirst Limited	SThree Ventures Limited
SThree UK Operations Limited	Progressive Global Energy Kurdistan Limited	SThree Management Services Limited

## Alternative Performance Measures ('APMs') – definitions and reconciliations

### Adjusted APMs

In discussing the performance of the Group, comparable measures are used, which are calculated by deducting from the directly reconcilable IFRS measures the impact of the Group's restructuring costs and CEO change costs, which are considered as items impacting comparability, due to their nature.

### Restructuring costs

#### Support function relocation

This category comprises costs and income arising from a strategic relocation of SThree central support functions away from London headquarters to the Centre of Excellence located in Glasgow. Further explained in note 3.

#### Senior leadership restructuring

This category of costs is attributable to a number of key changes made to the senior leadership structure (impacting UK&I, Benelux, France & Spain, and ME) in the current year. Further explained in note 3.

### CEO change costs

Costs associated with the departure of the previous CEO, Gary Elden, and the appointment of the new CEO, Mark Dorman.

The Group discloses comparable performance measures to enable users to focus on the underlying performance of the business on a basis which is common to both years for which these measures are presented. The reconciliation of comparable measures to the directly related measures calculated in accordance with IFRSs is as follows:

### Reconciliation of adjusted financial indicators

	2019							Basic EPS pence
	Revenue £'000	Net fees £'000	Administrative expenses £'000	Operating profit £'000	Profit before tax £'000	Tax £'000	Profit after tax £'000	
As reported	1,345,021	342,352	(284,599)	57,753	56,799	(15,480)	41,319	31.8
Exceptional costs	-	-	2,273	2,273	2,273	(428)	1,845	1.4
<b>Adjusted</b>	<b>1,345,021</b>	<b>342,352</b>	<b>(282,326)</b>	<b>60,026</b>	<b>59,072</b>	<b>(15,908)</b>	<b>43,164</b>	<b>33.2</b>

	2018							Basic EPS pence
	Revenue £'000	Net fees £'000	Administrative expenses £'000	Operating profit £'000	Profit before tax £'000	Tax £'000	Profit after tax £'000	
As reported	1,258,152	321,126	(273,608)	47,518	46,996	(12,724)	34,272	26.6
Exceptional costs	-	-	6,397	6,397	6,397	(1,127)	5,270	4.1
<b>Adjusted</b>	<b>1,258,152</b>	<b>321,126</b>	<b>(267,211)</b>	<b>53,915</b>	<b>53,393</b>	<b>(13,851)</b>	<b>39,542</b>	<b>30.7</b>

### APMs in constant currency

As we are operating in 16 countries and with many different currencies, we are affected by foreign exchange movements, and we report our financial results to reflect this. However, we manage the business against targets which are set to be comparable between years and within them, for otherwise foreign currency movements would undermine our ability to drive the business forward and control it. Within this Annual Report, we highlighted comparable results on a constant currency basis as well as the audited results ('on a reportable basis') which reflect the actual foreign currency effects experienced.

The Group evaluates its operating and financial performance on a constant currency basis (i.e. without giving effect to the impact of variation of foreign currency exchange rates from year to year). Constant currency APMs are calculated by applying the budgeted foreign exchange rates to current and prior financial year results to remove the impact of exchange rate. (Two main budgeted foreign exchange rates were GBP:EUR of 1.25 and GBP:USD of 1.40.) Measures on a constant currency basis enable users to focus on the performance of the business on a basis which is not affected by changes in foreign currency exchange rates applicable to the Group's operating activities from year to year.

The calculations of the APMs on a constant currency basis and the reconciliation to the most directly related measures calculated in accordance with IFRS are as follows:

	2019					Basic EPS pence
	Revenue £'000	Net fees £'000	Operating profit £'000	Operating profit conversion ratio*	Profit before tax £'000	
Adjusted	1,345,021	342,352	60,026	17.5%	59,072	33.2
Currency impact	(100,118)	(26,449)	(8,585)	(1.2%)	(8,584)	(4.8)
<b>Adjusted in constant currency</b>	<b>1,244,903</b>	<b>315,903</b>	<b>51,441</b>	<b>16.3%</b>	<b>50,488</b>	<b>28.4</b>

\* Operating profit conversion ratio represents operating profit over net fees.

## Notes to the financial statements continued

For the year ended 30 November 2019

### Alternative Performance Measures ('APMs') – definitions and reconciliations continued

	2018					
	Revenue £'000	Net fees £'000	Operating profit £'000	Operating profit conversion ratio*	Profit before tax £'000	Basic EPS pence
Adjusted	1,258,152	321,126	53,915	16.8%	53,393	30.7
Currency impact	(80,000)	(21,075)	(6,863)	(1.1%)	(7,008)	(4.0)
<b>Adjusted in constant currency</b>	<b>1,178,152</b>	<b>300,051</b>	<b>47,052</b>	<b>15.7%</b>	<b>46,385</b>	<b>26.7</b>

\* Operating profit conversion ratio represents operating profit over net fees.

#### Other APMs

##### Net debt

Net debt is an APM used by the Directors to evaluate the Group's capital structure and leverage. Net debt is defined as current and non-current borrowings, plus bank overdraft less cash and cash equivalents, as illustrated below:

	2019 £'000	2018 £'000
Borrowings	-	(37,428)
Bank overdraft	(4,538)	(17,521)
Cash and cash equivalents	15,093	50,844
<b>Net cash/(debt)</b>	<b>10,555</b>	<b>(4,105)</b>

##### Adjusted EBITDA

Adjusted EBITDA is calculated by adding back to the reported operating profit operating non-cash items such as the depreciation and impairment of property, plant and equipment, the amortisation and impairment of intangible assets, the employee share option and net exceptional costs. See the table below illustrating how the adjusted cash conversion ratio is calculated. Adjusted EBITDA is intended to provide useful information to analyse the Group's operating performance excluding the impact of operating non-cash items as defined above. The Group also uses adjusted EBITDA to measure the level of financial leverage of the Group by comparing adjusted EBITDA to net debt.

##### Dividend cover

The Group uses dividend cover as an APM to ensure that its dividend policy is sustainable and in line with the overall strategy for the use of cash. Dividend cover is defined as the number of times the Company is capable of paying dividends to shareholders from the profits earned during a financial year, and it is calculated as the Group profit for the year attributable to owners of the Company over the total dividend paid to ordinary shareholders.

		2019	2018
Profit for the year attributable to owners of the Company (£'000)	A	41,319	34,272
Dividend paid to shareholders (£'000)	B	20,168	18,778
<b>Dividend cover</b>	(A ÷ B)	<b>2.0</b>	<b>1.8</b>

##### Contract margin

The Group uses Contract margin as an APM to evaluate Contract business quality and the service offered to customers. Contract margin is defined as Contract net fees as a percentage of Contract revenue.

		2019	2018
Contract net fees (£'000)	A	254,547	232,115
Contract revenue (£'000)	B	1,255,558	1,169,141
<b>Contract margin (%)</b>	(A ÷ B)	<b>20.3%</b>	<b>19.9%</b>

##### Consultant yield

The Group uses consultant yield as an APM to assess the productivity of the sales teams. Consultant yield is defined as Group net fees divided by Group average sales headcount over a factor of 12.

		2019	2018
Total net fees (£'000)	A	342,352	321,126
Average sales headcount	B	2,423	2,254
<b>Consultant yield (£'000)</b>	(A ÷ B) ÷ 12	<b>11.8</b>	<b>11.9</b>

## Alternative Performance Measures ('APMs') – definitions and reconciliations continued

### Total shareholder return ('TSR')

The Group uses TSR as an APM to measure the growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional shares at the closing price applicable on the ex-dividend date. The TSR are calculated by the external independent data-stream party.

	2019	2018
SThree plc TSR return index value: three-month average to 30 Nov 2016 (2018: 30 Nov 2015) (pence)	<b>197.00</b>	266.85
SThree plc TSR return index value: three-month average to 30 Nov 2019 (2018: 30 Nov 2018) (pence)	<b>262.41</b>	284.75
<b>Total shareholder return</b>	<b>33.2%</b>	6.7%

### Cash conversion ratio

The Group uses cash conversion ratio as an APM to measure a business ability to convert profit into cash. It represents cash generated from operations for the year after deducting capex, stated as a percentage of operating profit.

The following table illustrates how the adjusted cash conversion ratio is calculated.

	2019					
	Operating profit A £'000	Operating non-cash items* £'000	Changes in working capital £'000	Cash generated from operations B £'000	Capex C £'000	Cash conversion ratio (B+C) ÷ A
As reported	57,753	8,718	(13,321)	53,150	(4,557)	84.1%
Exceptional costs	2,273	(518)	(79)	1,676	-	n/a
<b>Adjusted</b>	<b>60,026</b>	<b>8,200</b>	<b>(13,400)</b>	<b>54,826</b>	<b>(4,557)</b>	<b>83.7%</b>

\* Operating non-cash items represent primarily depreciation, amortisation and impairment of intangible assets, and employee share option and performance share costs as presented in the line 'Non-cash charge for share-based payments' of the Consolidated Statement of Cash Flows.

	2018					
	Operating profit A £'000	Operating non-cash items* £'000	Changes in working capital £'000	Cash generated from operations B £'000	Capex C £'000	Cash conversion ratio (B+C) ÷ A
As reported	47,518	11,603	(29,052)	30,069	(5,204)	52.3%
Exceptional costs	6,397	(503)	4,644	10,538	1,000	n/a
<b>Adjusted</b>	<b>53,915</b>	<b>11,100</b>	<b>(24,408)</b>	<b>40,607</b>	<b>(4,204)</b>	<b>67.4%</b>

\* Operating non-cash items represent primarily depreciation, amortisation and impairment of intangible assets, and employee share option and performance share costs as presented in the line 'Non-cash charge for share-based payments' of the Consolidated Cash Flow Statement.

### Free cash flow conversion

The Group uses the free cash flow conversion ratio to measure how effectively it converts operating profit to free cash flow (i.e. after payment of taxes and financing costs). This free cash flow can then be used to fund Group operations such as capex, share buybacks, dividends etc.

## Five-year financial summary

	30 November 2019	30 November 2018	30 November 2017	30 November 2016	30 November 2015
<b>Financial performance</b>					
Revenue (£'m)	1,345.0	1,258.2	1,114.5	959.9	848.8
Net fees (£'m)	342.4	321.1	287.7	258.7	235.7
Adjusted operating profit (£'m)	60.0	53.9	44.9	37.8	38.4
Total assets (£'m)	305.1	360.5	273.5	231.5	204.9
Total equity (£'m)	116.8	101.7	80.7	75.7	59.4
Net cash/(debt) (£'m)	10.6	(4.1)	5.6	10.0	6.2
Adjusted cash from operations (£'m)	54.8	40.6	41.1	43.1	60.3
<b>Financial ratios</b>					
Adjusted operating profit conversion ratio (%)	17.5	16.8	15.6	14.6	16.3
Adjusted cash conversion ratio (%)	83.7	67.4	78.6	96.1	134.4
Adjusted basic EPS (pence)	33.2	30.7	25.7	21.2	20.8
Dividends per share (pence)	15.3	14.5	14.0	14.0	14.0
<b>Operational statistics</b>					
Average total headcount*	3,109	2,926	2,668	2,675	2,607
Average sales headcount*	2,423	2,254	2,090	2,113	2,086
Active contractors at year end	11,110	11,203	10,197	9,078	8,412

\* Based on Full Time Equivalents.

## Announcement timetable

SThree, the global pure play specialist recruitment business focused on roles in STEM (Science, Technology, Engineering and Mathematics), confirms the following forthcoming dates in the Group's financial calendar:

27 January 2020	Annual results for the year ended 30 November 2019
16 March 2020	Q1 Trading Statement
20 April 2020	Annual General Meeting*
15 June 2020	Trading update for the six months ended 31 May 2020
20 July 2020	Interim results for the six months ended 31 May 2020
14 September 2020	Q3 Trading Statement
14 December 2020	Trading update for the year ended 30 November 2020
25 January 2021	Annual results for the year ended 30 November 2021

\* The Group does not normally provide a trading update at the time of its AGM.

## Shareholder information

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.sthree.com](http://www.sthree.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 notification 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 to 5.30pm, Monday to Friday) or +44 371 664 0300 (Non UK) or register online at: [www.sthree.com](http://www.sthree.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 Services Authority ('FSA') 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 FSA 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).

### 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 and 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 and 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: 0207 930 3737

## Company information and corporate advisors

### Executive Directors

#### Mark Dorman

Chief Executive Officer

#### Alex Smith

Chief Financial Officer

### Whistleblowing hotline

Tel: (UK) 0800 915 1571

Website: [www.safecall.co.uk/report](http://www.safecall.co.uk/report)

### Financial advisors and stockbrokers

#### Liberum

25 Ropemaker Street

London

EC2Y 9LY

#### Panmure Gordon

1 New Change

London

EC4M 9AF

### Financial PR

#### Alma PR

71-73 Carter Lane

London

EC4V 5EQ

### Auditors

#### PricewaterhouseCoopers LLP

141 Bothwell Street

Glasgow

G2 7EQ

### 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)

Website: [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 9.00am to 5.30pm Monday to Friday, excluding public holidays in England and Wales

### Group Company Secretary and 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

Tel: 0207 268 6000

Fax: 0207 268 6001

Email: [enquiries@sthree.com](mailto:enquiries@sthree.com)

Website: [www.sthree.com](http://www.sthree.com)





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