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

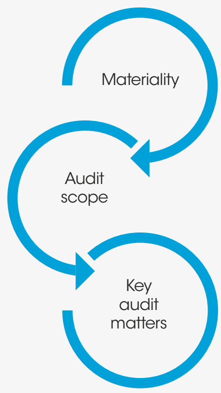
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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
Accrued income cut off (Group) The Group's accounting process means that there is a material amount of accrued rather than billed contractor revenue at each period end ('accrued income'). At year end the accrued income was £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. 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. 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'.	For Contract revenue, including accrued income, we: Tested the automated controls in the system to verify the accuracy of the accrued income calculation based on contracted hours and billing rates. Tested the business process controls supporting the accuracy of rates and hours input into the system. Reviewed a sample of accrued revenue and performed a re-calculation of the accrual based on timesheets submitted and contract rates. 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. 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.
Tracker share accounting judgement (Group) 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. 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'.	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. 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.

Key audit matter	How our audit addressed the 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'.	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.
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'.	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.

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. 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)
Net fees	2	**342,352**	**–**	**342,352**	321,126	–	321,126
Administrative expenses	3	**(282,326)**	**(2,273)**	**(284,599)**	(267,211)	(6,397)	(273,608)
Operating profit	4	**60,026**	**(2,273)**	**57,753**	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
Profit before taxation		**59,072**	**(2,273)**	**56,799**	53,393	(6,397)	46,996
Taxation	7	**(15,908)**	**428**	**(15,480)**	(13,851)	1,127	(12,724)
Profit for the year attributable to owners of the Company		**43,164**	**(1,845)**	**41,319**	39,542	(5,270)	34,272
Earnings per share	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
Profit for the year	**41,319**	34,272
Other comprehensive (loss)/income:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on retranslation of foreign operations	**(3,892)**	2,572
Items that will not be subsequently reclassified to profit or loss:		
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
Total comprehensive income for the year attributable to owners of the Company	**35,431**	36,844

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.

Statements of Financial Position

As at 30 November 2019

		Consolidated		Company	
	Note	**30 November 2019 £'000**	30 November 2018 £'000	**30 November 2019 £'000**	30 November 2018 £'000
Assets					
Non-current assets					
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
Current assets					
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
Total assets		**305,082**	360,464	**228,573**	244,114
Equity and liabilities					
Equity attributable to owners of the Company					
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
Total equity		**116,771**	101,671	**151,571**	181,536
Non-current liabilities					
Provisions for liabilities and charges	17	**1,403**	1,569	**–**	–
Current liabilities					
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
Total liabilities		**188,311**	258,793	**77,002**	62,578
Total equity and liabilities		**305,082**	360,464	**228,573**	244,114

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
Balance at 1 December 2017		**1,317**	**28,806**	**168**	**878**	**(8,535)**	**(1,067)**	**–**	**59,138**	**80,705**
Profit for the year		–	–	–	–	–	–	–	34,272	34,272
Other comprehensive income for the year		–	–	–	–	–	2,572	–	–	2,572
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**2,572**	**–**	**34,272**	**36,844**
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)
Total movements in equity		**2**	**1,705**	**4**	**–**	**705**	**2,572**	**–**	**15,978**	**20,966**
Balance at 30 November 2018		**1,319**	**30,511**	**172**	**878**	**(7,830)**	**1,505**	**–**	**75,116**	**101,671**
Effect of a change in accounting policy	1	–	–	–	–	–	–	–	(2,344)	(2,344)
Restated total equity at 1 December 2018		**1,319**	**30,511**	**172**	**878**	**(7,830)**	**1,505**	**–**	**72,772**	**99,327**
Profit for the year		–	–	–	–	–	–	–	41,319	41,319
Other comprehensive loss for the year		–	–	–	–	–	(3,892)	(1,996)	–	(5,888)
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**(3,892)**	**(1,996)**	**41,319**	**35,431**
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
Total movements in equity		**7**	**1,650**	**–**	**–**	**2,825**	**(3,892)**	**(1,996)**	**18,850**	**17,444**
Balance at 30 November 2019		**1,326**	**32,161**	**172**	**878**	**(5,005)**	**(2,387)**	**(1,996)**	**91,622**	**116,771**

The notes on pages 172 to 211 are an integral part of these financial statements.

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
Balance at 1 December 2017		**1,317**	**28,806**	**168**	**878**	**(8,535)**	**179,906**	**202,540**
Total comprehensive loss for the year	1	**–**	**–**	**–**	**–**	**–**	**(8,733)**	**(8,733)**
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)
Total movements in equity		**2**	**1,705**	**4**	**–**	**705**	**(23,420)**	**(21,004)**
Balance at 30 November 2018		**1,319**	**30,511**	**172**	**878**	**(7,830)**	**156,486**	**181,536**
Total comprehensive loss for the year	1	**–**	**–**	**–**	**–**	**–**	**(16,057)**	**(16,057)**
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
Total movements in equity		**7**	**1,650**	**–**	**–**	**2,825**	**(34,447)**	**(29,965)**
Balance at 30 November 2019		**1,326**	**32,161**	**172**	**878**	**(5,005)**	**122,039**	**151,571**

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

	Notes	Consolidated 30 November 2019 £'000	Consolidated 30 November 2018 £'000	Company 30 November 2019 £'000	Company 30 November 2018 £'000
Cash flows from operating activities					
Profit/(loss) before taxation after exceptional items		**56,799**	46,996	**(18,095)**	(8,776)
Adjustments for:					
Depreciation and amortisation charge[1]	10,11	**6,040**	6,145	**–**	–
Accelerated amortisation and impairment of intangible assets	11	**–**	709	**–**	–
Finance income	6	**(55)**	(75)	**(34)**	(77)
Finance costs	6	**1,009**	743	**1,536**	825
(Gain)/loss on disposal of property, plant and equipment	4	**(3)**	8	**–**	–
Gain on disposal of associate		**–**	(146)	**–**	–
Loss on disposal of subsidiaries	4	**–**	70	**–**	–
Impairment of investments	12	**–**	–	**8,159**	–
FX revaluation gain on investments		**–**	(26)	**–**	–
Non-cash charge for share-based payments	19(b)	**2,681**	4,697	**783**	1,187
Operating cash flows before changes in working capital and provisions		**66,471**	59,121	**(7,651)**	(6,841)
(Increase)/decrease in receivables		**(8,020)**	(55,372)	**14,825**	(1,599)
(Decrease)/increase in payables		**(3,712)**	30,116	**51,785**	4,898
(Decrease)/increase in provisions		**(1,589)**	(3,796)	**(73)**	32
Cash generated from/(used in) operations		**53,150**	30,069	**58,886**	(3,510)
Interest received	6	**23**	35	**34**	77
Income tax paid – net		**(12,958)**	(14,391)	**(3,340)**	(2,942)
Net cash generated from/(used in) operating activities		**40,215**	15,713	**55,580**	(6,375)
Cash generated from/(used in) operating activities before exceptional items		**41,904**	26,208	**55,580**	(6,375)
Net cash outflow from recognised exceptional items		**(1,689)**	(10,495)	**–**	–
Net cash generated from/(used in) operating activities		**40,215**	15,713	**55,580**	(6,375)
Cash flows from investing activities					
Purchase of property, plant and equipment[2]	10	**(3,102)**	(3,161)	**–**	–
Purchase of intangible assets	11	**(1,455)**	(2,043)	**–**	–
Net cash used in investing activities		**(4,557)**	(5,204)	**–**	–
Cash flows from financing activities					
(Repayment of)/proceeds from borrowings	16	**(37,428)**	25,428	**(37,428)**	25,428
Interest paid		**(894)**	(540)	**(1,421)**	(621)
Proceeds from exercise of share options		**327**	401	**327**	401
Employee subscriptions for tracker shares		**536**	644	**–**	–
Cancellation of share capital	19(a)	**–**	(1,468)	**–**	(1,468)
Purchase of own shares	19(a)	**(2,506)**	(1,484)	**(2,506)**	(1,484)
Dividends paid to equity holders	8	**(18,778)**	(18,007)	**(18,778)**	(18,007)
Distributions to tracker shareholders		**(218)**	(116)	**–**	–
Net cash (used in)/generated from financing activities		**(58,961)**	4,858	**(59,806)**	4,249
Net (decrease)/increase in cash and cash equivalents		**(23,303)**	15,367	**(4,226)**	(2,126)
Cash and cash equivalents at beginning of the year		**33,323**	17,621	**4,859**	6,985
Exchange gains relating to cash and cash equivalents		**535**	335	**–**	–
Net cash and cash equivalents at end of the year	14	**10,555**	33,323	**633**	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.

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)**
Total expected lease liabilities at 1 December 2019	**42,355**

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.

Impact on the Statement of Financial Position (extract)	30 November 2019 £'000	IFRS 16 £'000	1 December 2019 £'000
Non-current assets			
Property, plant and equipment	**6,804**	**41,094**	**47,898**
Deferred tax assets	**4,167**	**433**	**4,600**
	10,971	**41,527**	**52,498**
Non-current liabilities			
Borrowings and leases	**–**	**(40,510)**	**(40,510)**
Current liabilities			
Borrowings and leases	**–**	**(1,845)**	**(1,845)**
Equity			
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.

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.

Impact on the Statement of Financial Position (extract)	30 November 2018 £'000	IFRS 9 £'000	IFRS 15 £'000	1 December 2018 £'000
Current assets				
Trade and other receivables	285,618	–	(13,017)	272,601
Current tax assets	2,751	–	814	3,565
	288,369	–	(12,203)	276,166
Current liabilities				
Trade and other payables	(191,742)	–	9,859	(181,883)
Equity				
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)
Opening balance 1 December 2018 – IFRS 9	435	1,542	272,601

* 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 Ryalto. 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 Ryalto 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
Post-tax adjustment at the date of initial application of IFRS 15		**(2,344)**	

The impact on the Group's retained earnings at 1 December 2018 is as follows:

	2018 £'000
Retained earnings prior to adjustment	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
Opening retained earnings 1 December post adoption of IFRS 15	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.

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:

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

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.

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.

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
Brands				
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.

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 £1.2million 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
CEO change		
Contractual payments for CEO departure	**716**	–
Recruitment and other professional fees	**342**	–
Double running costs	**83**	–
Relocation costs	**60**	–
Total – CEO change	**1,201**	–
Restructuring costs		
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)
Total – Restructuring costs	**1,072**	6,397
Total net exceptional costs	**2,273**	6,397

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:

Amounts payable to PricewaterhouseCoopers LLP and its associates:	2019 £'000	2018 £'000
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
Fees charged to operating profit	**428**	524

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
	214,264	206,713	**3,238**	4,358

* Excludes charge classified as exceptional.

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					
	UK&I	**Continental Europe**	**USA**	**APAC & ME**	**Group total**	**Company 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					
	UK&I	Continental Europe	USA	APAC & ME	Group total	Company 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
Finance income		
Bank interest receivable	**13**	18
Interest accrued on convertible bonds (note 12)	**32**	40
Other interest	**10**	17
	55	75
Finance costs		
Bank loans and overdrafts	**(1,009)**	(743)
Net finance costs	**(954)**	(668)

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
Current taxation						
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
Deferred taxation						
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
Total income tax charge/(credit) in the income statement	**15,908**	**(428)**	**15,480**	13,851	(1,127)	12,724

(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
Effects of:						
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
Total tax charge/(credit) for the year	**15,908**	**(428)**	**15,480**	13,851	(1,127)	12,724
Effective tax rate	**26.9%**	**18.8%**	**27.3%**	25.9%	17.6%	27.1%

(c) Current and deferred tax movement recognised directly in equity

	2019 £'000	2018 £'000
Equity-settled share-based payments		
Current tax	**–**	(2)
Deferred tax	**351**	(19)
Current tax adjustment on transition to IFRS 15	**814**	–
	1,165	(21)

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.

8 Dividends

	2019 £'000	2018 £'000
Amounts recognised as distributions to equity holders in the year		
Interim dividend of 4.7p (2018: 4.7p) per share[i]	**6,056**	6,041
Final dividend of 9.8p (2018: 9.3p) per share[ii]	**12,722**	11,966
	18,778	**18,007**
Amounts proposed as distributions to equity holders		
Interim dividend of 5.1p (2018: 4.7p) per share[iii]	**6,661**	6,077
Final dividend of 10.2p (2018: 9.8p) per share[iv]	**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
Earnings		
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	**41,319**	34,272

	million	million
Number of shares		
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	**133.6**	133.1

	2019 pence	2018 pence
Basic		
Basic EPS before exceptional items	**33.2**	30.7
Impact of exceptional items	**(1.4)**	(4.1)
Basic EPS after exceptional items	**31.8**	26.6
Diluted		
Diluted EPS before exceptional items	**32.3**	29.7
Impact of exceptional items	**(1.4)**	(4.0)
Diluted EPS after exceptional items	**30.9**	25.7

10 Property, plant and equipment

	Computer equipment £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Total £'000
Cost				
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)
At 30 November 2019	**12,305**	**10,841**	**5,452**	**28,598**
Accumulated depreciation				
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[1]	–	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)
At 30 November 2019	**10,317**	**7,367**	**4,110**	**21,794**
Net book value				
At 30 November 2019	**1,988**	**3,474**	**1,342**	**6,804**
At 30 November 2018	1,453	4,087	1,375	6,915

1 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.

11 Intangible assets

	Goodwill £'000	Computer software £'000 (Internally generated)	Assets under construction £'000 (Internally generated)	Software and system development costs £'000 (Internally generated)	Trademarks £'000	Total £'000
Cost						
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)
Reclassfication	–	–	(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)
Reclassfication	–	–	(1,743)	1,743	–	–
Exchange differences	–	(1)	–	–	–	(1)
At 30 November 2019	**206,313**	**9,078**	**737**	**42,159**	**71**	**258,358**
Accumulated amortisation and impairment						
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)
At 30 November 2019	**205,480**	**9,066**	**–**	**35,710**	**71**	**250,327**
Net book value						
At 30 November 2019	**833**	**12**	**737**	**6,449**	**–**	**8,031**
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
Equity investments	**Current shareholding**		
Sandpit[1]	7.0% (2018: 7.2%)	**–**	802
Ryalto	14.6% (2018: 11.3%)	**–**	727
RoboRecruiter	<1% (2018: 6.8%)	**13**	13
Total – Equity investments		**13**	1,542
Debt investments			
Convertible bonds		**–**	435
Total investments		**13**	1,977

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)
At 30 November 2019	**–**	**–**	**13**	**13**

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
Additions	
– 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
Additions	
– 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
At 30 November 2019	**355,279**
Provision for impairment	
At 1 December 2017	134,980
Provision made during the year	–
At 30 November 2018	134,980
Provision made during the year	8,159
At 30 November 2019	**143,139**
Net carrying value	
At 30 November 2019	**212,140**
At 30 November 2018	213,916

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 at £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

Provision for impairment of trade receivables	30 November 2019 £'000	30 November 2018 £'000
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
At the end of the year	**3,965**	2,699

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)	**–**	–
Net cash and cash equivalents per the statements of cash flows	**10,555**	33,323	**633**	4,859

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
	172,357	191,742	**76,998**	25,118

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.

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[1]	(539)
At 30 November 2018	37,428
Net repayments during the year	(37,313)
Changes to unamortised transaction costs	(115)
At 30 November 2019	**–**

1 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)
At 30 November 2019	**1,811**	**332**	**3,463**	**4,031**	**41**	**9,678**

Analysis of total provisions	**2019 £'000**	2018 £'000
Current	**8,275**	9,614
Non-current	**1,403**	1,569
	9,678	11,183

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
	2,143	3,270

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
At 1 December 2017	(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
At 30 November 2018	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)
At 30 November 2019	**227**	**1,919**	**544**	**1,477**	**4,167**

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)
Net deferred tax assets	**4,167**	2,750

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
At 30 November 2019	**482**

19 Share capital
Group and Company
(a) Share capital

Issued and fully paid	Number of ordinary shares	Share capital £'000	Capital redemption reserve £'000	Treasury reserve £'000
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
At 30 November 2019	**132,420,332**	**1,326**	**172**	**(5,005)**

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.

	30 November 2019		30 November 2018					
Scheme	**Charge (£'000)**	**Number of share options**	Charge (£'000)	Number of share options	Vesting period	Expiry date	Valuation method	Performance metrics
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
Sub-total	**2,681**	**6,609,878**	4,697	6,843,656				
SIP	**21**	**n/a**	7	n/a	1 year	n/a	n/a	None
Total	**2,702**	**6,609,878**	4,704	6,843,656				

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)
At 30 November 2019	**5,629,434**

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.

Transactions with the related parties during the year	**2019 £'000**	2018 £'000
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.

22 Related party transactions continued

Year end balances arising from transactions with related parties	30 November 2019 £'000	30 November 2018 £'000
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.

At 30 November 2019	Note	Measured at amortised cost £'000	Elected to be measured at FV through OCI £'000	Total carrying amount £'000
Financial assets				
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**
Financial liabilities				
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.

At 30 November 2018	Note	Loans and receivables £'000	Available-for-sale financial assets £'000	Financial liabilities measured at amortised cost £'000	Total carrying amount £'000
Financial assets					
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
Financial liabilities					
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.

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
At 30 November 2019		
Within one year	**158,842**	**76,156**
At 30 November 2018		
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:

At 30 November 2019	Net cash and cash equivalents Sterling £'000	Euro £'000	US Dollar £'000	Other currencies £'000	Total £'000
Functional currency					
Sterling	**989**	**(802)**	**836**	**188**	**1,211**
Euro	**72**	**4,619**	**–**	**–**	**4,691**
US Dollar	**–**	**–**	**566**	**–**	**566**
Other	**26**	**–**	**308**	**3,753**	**4,087**
Total	**1,087**	**3,817**	**1,710**	**3,941**	**10,555**

At 30 November 2018	£'000	£'000	£'000	£'000	£'000
Functional currency					
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
Total	2,191	18,653	3,932	8,547	33,323

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
Financial assets			
Equity rights	Level 3	**13**	1,542
Convertible bonds	Level 3	**–**	435
Total		**13**	1,977

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
At 1 December 2018	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)
At 30 November 2019	**13**	**–**	**13**

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 SThree 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
SThree Australia Pty Limited	100	Australia	Recruitment	Level 9, 1 Market Street, Sydney, NSW 2000, Australia	126 409 103
SThree Austria GmbH	100	Austria	Recruitment	Wiedner Gurtel 13, Turm 24, 10 OG. 1100 Vienna, Austria	FN 447727 y
SThree 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
SThree Services NV	100	Belgium	Recruitment	Kreupelenstraat 9, 5de en 6de verdieping, B-1000 Brussel, Belgium	BE 0889.572.251
SThree Belgium NV	100	Belgium	Recruitment	Kreupelenstraat 9, 5de en 6de verdieping, B-1000 Brussel, Belgium	BE 0892.363.574
SThree Canada Limited	100	Canada	Recruitment	Sun Life Plaza West Tower, 144-4 Avenue SW, Suite 1600, Calgary AB T2P 3N4, Canada	810508-1
SThree SAS	100	France	Recruitment	20 Avenue André Prothin, La defense 4 – Europlaza 92400 Courbevoie, Paris, France	502 095 094 00053
SThree Holdings GmbH	100	Germany	Holding company	Goetheplatz 5-11, 60313, Frankfurt am Main, Germany	HRB 96507
SThree GmbH	100	Germany	Recruitment	Goetheplatz 5-11, 60313, Frankfurt am Main, Germany	HRB 78875
SThree Temp Experts GmbH	100	Germany	Recruitment	Goetheplatz 5-11, 60313, Frankfurt am Main, Germany	HRB 103758
SThree Limited	100	Hong Kong	Recruitment	10th Floor, MassMutual Tower, 33 Lockhart Road, Wan Chai, Hong Kong	1113048
SThree India Private Limited	100	India	Under liquidation	511 The Corporate Centre, irmal Lifestyle Mall, LBS Road, Mulund (West), Mumbai, Maharashtra-MH, 400080, India	200224
SThree Staffing Ireland Limited	100	Ireland	Recruitment	3rd Floor, 80, Harcourt Street, Dublin, Ireland	283856
SThree Ireland Dollar Limited	–	Ireland	Liquidated	3rd Floor, 80, Harcourt Street, Dublin, Ireland	573785
SThree K.K.	100	Japan	Recruitment	Ginza Wall Building, 13-16 Ginza 6-Chome, Chuo-ku, Tokyo, Japan	0100-01-147559
SThree Finance Euro S.à r.l.	–	Luxembourg	Liquidated	5th Floor, 2 rue de Fosse, L-1536, Luxembourg	B196552
SThree Dollar S.à r.l.	–	Luxembourg	Liquidated	5th Floor, 2 rue de Fosse, L-1536, Luxembourg	B203419
SThree S.à r.l.	100	Luxembourg	Recruitment	5th Floor, 2 rue de Fosse, L-1536, Luxembourg	B160680
Progressive Global Energy Sdn. Bhd.	49	Malaysia	Recruitment	10th Floor, Menara Hap Seng, No 1&3 Jalan P Ramlee, 50250 Kuala Lumpur, Malaysia	1033845-D
SThree 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

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
SThree IP Limited
SThree Dollar UK Limited
SThree UK Operations Limited
Huxley Associates Global Limited
Progressive Global Energy Limited
HireFirst Limited
Progressive Global Energy Kurdistan Limited
Talent Deck Limited
Showcaser Limited
SThree Ventures 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
SThree IP Limited
SThree Dollar UK Limited
SThree UK Operations Limited
Huxley Associates Global Limited
Progressive Global Energy Limited
HireFirst Limited
Progressive Global Energy Kurdistan Limited
Talent Deck Limited
Showcaser Limited
SThree Ventures 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							
	Revenue £'000	**Net fees £'000**	**Administrative expenses £'000**	**Operating profit £'000**	**Profit before tax £'000**	**Tax £'000**	**Profit after tax £'000**	**Basic EPS pence**
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**
Adjusted	**1,345,021**	**342,352**	**(282,326)**	**60,026**	**59,072**	**(15,908)**	**43,164**	**33.2**

	2018							
	Revenue £'000	Net fees £'000	Administrative expenses £'000	Operating profit £'000	Profit before tax £'000	Tax £'000	Profit after tax £'000	Basic EPS pence
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
Adjusted	1,258,152	321,126	(267,211)	53,915	53,393	(13,851)	39,542	30.7

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					
	Revenue £'000	**Net fees £'000**	**Operating profit £'000**	**Operating profit conversion ratio***	**Profit before tax £'000**	**Basic EPS pence**
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)**
Adjusted in constant currency	**1,244,903**	**315,903**	**51,441**	**16.3%**	**50,488**	**28.4**

* Operating profit conversion ratio represents operating profit over net fees.

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)
Adjusted in constant currency	1,178,152	300,051	47,052	15.7%	46,385	26.7

* 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
Net cash/(debt)	**10,555**	(4,105)

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
Dividend cover	(A ÷ B)	**2.0**	1.8

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
Contract margin (%)	(A ÷ B)	**20.3%**	19.9%

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
Consultant yield (£'000)	(A ÷ B) ÷ 12	**11.8**	11.9

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)	**197.00**	266.85
SThree plc TSR return index value: three-month average to 30 Nov 2019 (2018: 30 Nov 2018) (pence)	**262.41**	284.75
Total shareholder return	**33.2%**	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**
Adjusted	**60,026**	**8,200**	**(13,400)**	**54,826**	**(4,557)**	**83.7%**

* 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
Adjusted	53,915	11,100	(24,408)	40,607	(4,204)	67.4%

* 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
Financial performance					
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
Financial ratios					
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
Operational statistics					
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.