Strategic report

A review of our business and an analysis of our performance throughout the financial year.

In this section:

OUR FOUR POINT INVESTMENT CASE

Our business philosophy centres on the need to invest to support long-term growth, but also to generate profits and cash along the way.

In practical terms, this means we continually focus on: consultant and business productivity; profitability; strategic reinvestment of our profits to support growth; cash generation and returns to shareholders.

In addition, we believe there are four simple and compelling reasons to invest in Hays.

1. THE BREADTH OF OUR BUSINESS MODEL ACROSS SECTOR AND CONTRACT TYPE

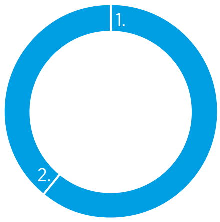
- We have built a global platform with unrivalled scale, balance and diversity.
- We have exposure across permanent, temporary and contractor recruitment markets at a scale, which is unique amongst our peers.
- We focus on execution in each of our local markets delivered by the best people, sector-leading technology, tools and a world-class single brand.
- We have strong and experienced operational and senior regional management teams across the Group.
- We focus on developing and delivering the best services and products for clients and candidates, meeting their evolving needs.

Sectors
20

Countries
33

2. A BALANCED EXPOSURE TO BOTH MATURE AND STRUCTURAL GROWTH MARKETS

- Many of the 33 countries across our global platform represent clear structural growth opportunities, where the use of agencies such as Hays to source skilled employees is a relatively new practice.
- 39% of our Group net fees are generated in these structural growth markets which include Germany, Latin America and Japan.
- The remaining 61% of net fees come from more mature markets, such as the UK, the US or Australia, where the use of agencies is a long-established practice in the skilled jobs market.



Group net fees
1. Mature markets **61%**
2. Structural growth markets **39%**

3. OUR ABILITY TO DELIVER SUPERIOR FINANCIAL PERFORMANCE THROUGH THE CYCLE

- Three years into our five-year plan, we are where we expected to be in terms of our aspiration to broadly double 2013's operating profit of £125 million to £250 million in 2018.
- We have a balanced exposure across countries, specialist areas and contract forms (between temp, contracting and perm).
- We believe this balance adds relative resilience to our earnings throughout the economic cycle and drives the outperformance of our business versus the peer group.
- Despite this existing balance we remain focused on further diversifying our earnings, building scale across our existing global platform.

FY16 operating profit
£181.0m

Earnings per share
8.48p

4. OUR POTENTIAL TO GENERATE SIGNIFICANT CASH FLOW AND DIVIDENDS

- Delivering our plan would allow us to generate material cash returns, increase our net cash position and grow the Group's dividend.
- We target core dividend cover of 3.0x earnings and are building cover towards this level, with this year's at 2.9x.
- It is our intention that once we have built a net cash position of c.£50 million, any free cash generated over and above this level will be distributed to shareholders annually, at year end, assuming a positive outlook, most likely as a special dividend, supplementing the core dividend.
- This year we achieved our long-standing ambition of eliminating net debt, a significant milestone for the Group.

Net cash
£36.8m

Dividend per share
2.90p

CHIEF EXECUTIVE'S REVIEW

Alistair Cox
Chief Executive

Our Chief Executive, Alistair Cox, discusses the Group's performance in 2016 and looks ahead to our areas of focus for 2017 and beyond.

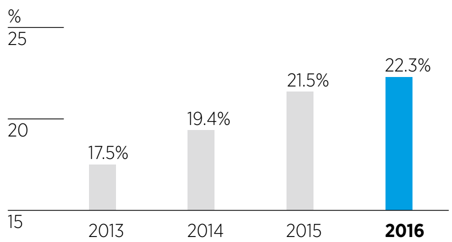
Q.

Was the financial performance of the business this year in line with your expectations?

A.

I was pleased with our strong set of financial results for the year, particularly as we delivered a performance that was above market consensus expectations. We grew our net fees by 7%[1] and very importantly converted that into strong operating profit growth of 13%[1], thereby further improving our conversion rate by 80bps to 22.3%[2]. The conversion rate is the key measure of how effectively we convert net fees into operating profits, so it is an important indicator as to how efficiently and productively the business is performing around the world. We have long enjoyed the leading conversion rate amongst our peers in the industry, so it was very rewarding to see it continue to grow.

Conversion rate progression since FY13



I was also very pleased with our good underlying cash performance, meaning that we achieved our long-standing goal of eliminating the Group's net debt – and again we delivered this ahead of when the market expected us to do so. We achieved this despite paying £40 million in dividends to shareholders in the year and investing rapidly to drive organic growth around the world. Becoming debt-free means we face the future with our balance sheet healthier than it has been for many years. That gives me even greater reassurance in our ability to deal with future market ups and downs, having the firepower to both invest where appropriate as well as continue to reward our shareholders via the dividend.

Q.

What were your key areas of operational focus during the year, and what progress did you make against your non-financial objectives?

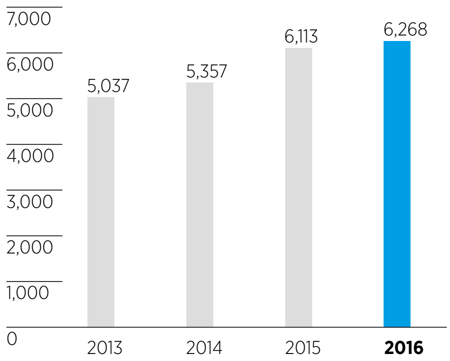
A.

The two routes to grow our business organically are by adding additional capacity via headcount investment and by further improving the productivity of our existing consultant base. Our focus is to strike the right balance between these two. Many of our markets offer significant structural growth opportunities, so we invest to build capacity to exploit those opportunities for the long term. However, we also believe it is vital to deliver meaningful profits along the way and productivity improvements play a large part in achieving that. During the year, many of our markets were very supportive so we invested in additional capacity and grew our headcount by 3% globally, helping to drive our net fee growth around the Group. A good example is Germany where we ramped up investment in the summer of 2015, with a specific emphasis on targeting the SME client sector. Over the year we increased headcount in Germany by 11%[3] to over 1,200 consultants at year-end. As the German market improved during the course of the year, this investment delivered quick returns, as we had in place the capacity to meet the growing demand and our fee growth accelerated accordingly.

> "One of the key challenges we face is the fast-moving economic environment"

One of the key challenges we face is the fast-moving economic environment, and how changes in the world around us can very quickly and materially impact trading conditions in our markets. For example, this year our forward indicators in the UK suggested a softening market in Autumn 2015. Consequently, we took quick action to reduce costs and capacity. This allowed us to continue to deliver excellent profit leverage, even as the market then did soften, as we'd predicted as macroeconomic concerns intensified and the EU Referendum approached. These actions allowed us to grow UK profits by 14%[1] or £6.4 million even though net fees were flat on the prior year – an excellent result. These are both examples of how the combination of strong local management teams supported by powerful management information systems equips our business to take rapid and informed decisions that are fundamental to our financial performance.

Consultant headcount



Over the year we further improved consultant productivity by 1%[1]. This alone added £6 million to our operating profit. Key to achieving this was our investment in consultant training and the development of more tools that would enable our consultants to become even more expert and effective in their roles. Over the year we delivered 4,000 days of training across our business, designed to make our consultants expert in their jobs and to further develop our management teams to run ever-larger businesses. We also continued to invest in new and emerging technologies, designed to assist our consultants find exactly the right candidates for their clients and to do that faster than ever before. An example of this is our recent partnership in Australia with SEEK, the leading job board in that region. Such partnerships, blending the skills, systems and insights of other organisations with those of our own are an important element of our own development and I am proud of the relationships we have built with enterprises such as Google, LinkedIn, Oracle, the Confederation of British Industry and Manchester City Football Club. I expect more such collaborations to flourish over time.

This year we made further inroads in understanding how we can best use the massive quantities of data our business holds in order to deliver even better service to our clients and candidates. Our business has a relationship with literally millions of highly skilled individuals and organisations around the world. Data science has a role to play assisting our consultants make the very best match between these candidates and current client opportunities and we have invested in growing our internal capabilities in data analysis and digital marketing accordingly. This team's role is to analyse our data, unlocking insights which will allow us to focus our consultants' efforts and expertise into the most fertile areas. Above all though, all of these initiatives are designed to make our consultants even more productive and profitable than they might be otherwise. This data-focused team works very closely with our well-established Innovation group, whose primary focus is on understanding the many new and emerging business models in the recruitment space. Again, where we see a potential threat or challenge to our existing core business or indeed when a new opportunity or route to market arises we want to ensure we fully understand that change, forge relationships where we can, and also build, test and learn from our own new tools and products. This approach is designed to ensure we can quickly identify and mitigate any risk or threat to our business and fully capitalise on any new opportunities that come our way.

We made significant progress diversifying our business by further expanding our Contractor business into newer markets, using the experience and expertise that has been at the heart of our success in Germany. The worldwide Contractor market is benefiting from a structural shift towards highly skilled freelancer roles in a number of sectors, and is set for long-term growth as we discuss in more detail on page 18. It also provides us greater earnings resilience, particularly when markets are more uncertain. However, it requires different skills, systems and business models to the permanent recruitment market. As a leader and expert in both permanent and contracting recruitment, we are well positioned to leverage both opportunities, and that is a unique positioning in today's recruitment industry as our peers tend to focus on one or other of these two sectors. I expect Contracting to become a more important part of many of our businesses around the world. For example, from a standing start just a few years ago, our French business now generates over one-third of its net fees from temporary and contractor recruitment and we are continuing to invest to grow these businesses further.

Finally, we made good progress developing the Veredus business in the US, following its acquisition in December 2014. All post-acquisition integration plans were successfully completed including implementation of the Hays proprietary front office system OneTouch, introduction of the Hays brand and harmonisation of the finance and controls systems under the Veredus management. We also expanded the core IT business as well as investing in the recently launched Construction & Property and Life Sciences specialisms.

CHIEF EXECUTIVE'S REVIEW
CONTINUED

Q.
Three years into your five-year plan, are you on track? Do you still feel confident in delivering on those aspirations?

A.
Three years into our five-year plan, we are in line with where we expected to be at this stage, having delivered £56 million of headline profit growth since 2013. I am delighted with that progress, not least because over the first three years we have faced significant currency headwinds of £22 million, which materially reduced our reported sterling profits, and it is very encouraging that our strong trading has mitigated these adverse forex movements. However, as expected in a cyclical business such as ours, after three years the geographic source of profit growth has been different to that which we envisaged, with Australia and Germany slightly behind track, largely as result of currency headwinds, while the UK and the rest of the world are well ahead of plan due to strong trading and operational performances.

In Australia this year, we benefited from a gradual improvement in sentiment in the private sector, led by the eastern states of New South Wales and Victoria, as well as increasing demand from the public sector. The mining sector continued to prove very challenging but stabilised towards the end of the year. These dynamics enabled us to modestly increase our fee growth rate through the year and increase consultant headcount by 5%.

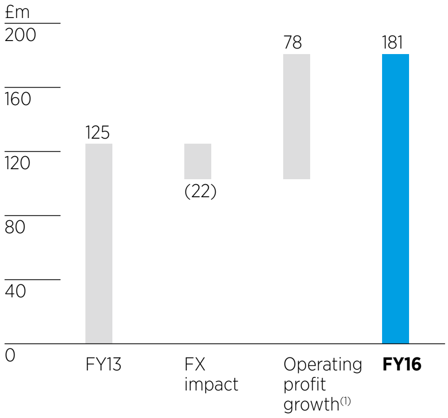
In Germany, we grew headcount to take advantage of improved market conditions, as mentioned earlier. This allowed us to gradually accelerate our net fee growth rate through the year, reaching an underlying 17%[1] in the final quarter. At these growth levels, Germany now has the potential to deliver on the 2018 profit range we originally targeted, which had a mid point of £100 million, and continues to represent a material structural growth opportunity for our Group.

The UK is worth a specific mention as we have made significantly more progress there than we might have originally expected. The exceptional operating leverage the team have delivered is particularly impressive. In fact, over the last three years, we have converted over 90% of our incremental net fees into operating profits, way ahead of our historical norms or any of our competitors.

Finally, our remaining 30 countries have collectively performed beyond our initial expectations and several countries are now reaching real scale, including France,

Operating profit
£181m
2015: £164m

Three-year operating profit growth[1]
£78m



Switzerland and Japan. Equally we are benefiting from many smaller businesses which are growing rapidly and are collectively delivering meaningful profits, including Spain, China, Belgium and New Zealand.

Our five-year plan was based on a set of clear assumptions for the market backdrop; steady overall economic growth over the plan period, with no recessions in any of our major markets and a modest acceleration in growth in the final two years. We also assumed that while there may be the occasional minor economic 'shock', no major shock such as those we've experienced previously including the Global Banking crisis or Eurozone crisis would occur. Three years into the plan, these assumptions have been proven valid. However, the UK's decision to leave the EU at the end of our last financial year has undoubtedly created greater economic uncertainty. It remains to be seen how this will impact our important economies and what the implications might be on our financial performance for the remaining two years of the plan period. What I can say though is that our business is adaptable and managed by a strong and stable team around the world who are experienced in managing our business to maximum effect in any market environment.

Q.
How do you think about the uses of cash within the business?

A.
Over and above the investment we make into people, our business has very low capital requirements and is highly cash generative. This year we converted 88%[4] of our operating profits into operating cash flow, generating over £159 million of cash in the process. We believe in rewarding our shareholders and have a clear distribution policy in place, designed to be appropriate for the cyclicality inherent in our industry.

The primary element of distribution is the core dividend, which is set at a level which we believe to be secure under all predictable scenarios. Over the last few years, we have built the core dividend cover up towards our target of 3x EPS, and when we reach this level of cover, the core dividend will grow in line with earnings.

Now we have eliminated our net debt, our next goal is to build a net cash position of around £50 million, which we expect to achieve in FY17. Once this is achieved, it is our intention that any excess cash that is generated over and above this level will be distributed to shareholders, provided our market outlook is positive. The most likely form of distribution will be via a special dividend, supplementing the existing core dividend. We believe this combination of secure, progressive core dividend supplemented by regular and material special dividends in the good years is an effective way of distributing our cash returns to shareholders. Our policy also ensures the business remains securely financed and appropriately invested and reflects both the cyclicality as well as the attractive cash generation capability of our business.

Q.
What will be the main areas of focus for you and your management team in the year ahead?

A.
We have a clearly defined long-term strategy and objectives so in the year ahead our focus and priorities will be largely unchanged as we seek to make further progress against those established goals. We will continue to focus on driving profitable, cash generative fee growth, as well as investing to deliver on

our long-term strategic ambitions. Day-to-day, this means continuing to invest in improving consultant productivity, adding additional capacity where demand warrants and rapidly investing in the longer-term initiatives that will become large and important aspects of our business in the future. This single-minded focus on our core business, supplemented by a continual strive to improve and expand that core, has served us well and will continue to be our primary theme.

The success of our business is based on the quality and expertise of all of our colleagues across Hays worldwide. Key to our growth and continuing success therefore will remain our ability to hire, train, motivate and retain the best people in our industry. That's why people risk is one of the key challenges we face. It's why we are so focused on the global mobility of our people (which we discuss on page 27), moving high performers from established businesses to help grow and develop newer ones. We address the risk of losing key people through industry-leading training and development programmes, succession planning and incentive schemes (discussed on page 26). Over the years, we have invested to build the resources and infrastructure to manage these things well but we will continue to invest in upgrading this capability. For example, we will add additional training and development resources into the US to enable faster growth and we will roll out new leadership development programmes, to equip our global management to deal with larger and more complex businesses.

> "The success of our business is based on the expertise of our colleagues"

Most of our markets are supportive today so we will capitalise on this by investing both in additional consultant capacity in our existing businesses as well as more rapid investment in newer areas that offer longer-term opportunities. If current market trends continue, I expect us to grow headcount next year, but only in those markets where we see a positive outlook

and where current productivity has reached an acceptable level to justify adding more capacity. Clearly the UK vote to leave the EU has increased uncertainty in that market, at least in the short term. And although it remains too early to tell what the longer-term impact may be, we are, as ever, monitoring activity levels closely. Regardless, the UK remains a large and important skilled labour market, despite the current uncertainty and we will continue to reinforce our market-leading position there as the exit negotiations and implications unfurl. In terms of newer market areas, we will continue to ramp up our Contracting business in a number of countries as discussed earlier. Similarly, we have already started to invest in new niche specialisms in the technology sector, serving the rapidly growing market for advanced digital skills across the technology and marketing sectors, and this investment will be accelerated across key countries including the UK, Australia, Germany, North America and Asia. Finally, the US market offers significant opportunities for us to build a very large business over time. Our priorities there remain to grow our core IT business as well as launch and rapidly expand additional specialisms. We will accelerate investment in the recently launched Construction & Property and Life Sciences specialisms for example and will also explore opportunities to invest in other areas including Accounting & Finance.

Technology impacts every industry so we will continue to explore how we can best exploit the evolving technology landscape to make our own business ever more productive and valuable. As discussed earlier, we have in place the internal resources to focus on this but will also continue to build relationships with external partners where we see benefit. This market moves so quickly that it is impossible to predict the future. Rather, our approach is to be deeply involved in its evolution, working alongside our partners so that we keep abreast of developments, adapt our business where we see competitive threats and exploit new ideas and tools where they provide us with competitive advantage. Above all, these investments are all designed to enhance the expertise and capability of all Hays employees. Our recipe is simple: hire the very best people to work for Hays, provide them with world-class training and career development opportunities, equip them with state-of-the-art technology tools to be better at their jobs than their competitors and reward them based on their performance. All our investments are designed so that our teams can better help our clients find the scarce talent they need and help millions of candidates we are connected to secure the perfect next role in their career. That's why I believe Hays is the ultimate people business.

Alistair Cox
Chief Executive

(1) LFL (like-for-like) growth represents organic growth of continuing operations at constant currency.
(2) Conversion rate is the proportion of net fees converted into operating profit (before exceptional items).
(3) Consultant headcount at June 2015 has been restated to include 144 resourcers previously not reported as consultants in Germany and Switzerland.
(4) Cash conversion is the conversion of operating profit into operating cash flow (before exceptional items and capital expenditure).

OUR MARKET

The stage of the macroeconomic cycle and outlook, and prevailing sentiment in each of our markets, have a direct and often significant impact on activity levels within our business. This can be both positive and negative, particularly with respect to the confidence levels of businesses to invest in hiring, and candidates to move jobs. We call this 'job churn', and it is the primary driver of activity in the short term.

The macroeconomic environment

UK & Ireland

For most of the year, especially the first half, the UK economic and market backdrop was broadly stable and supportive. As we started the second half, however, we saw increased caution amongst clients as geopolitical instability in parts of Europe and worries about the state of the Chinese economy weighed on sentiment. Confidence was also impacted by the UK Referendum on EU membership which, although it did not take place until June 2016, created further increased uncertainty, adding to the sense that the UK was experiencing a 'pause for breath'. As we exited the year, following the vote to leave the EU, this level of uncertainty (notably amongst clients) increased significantly and so remains a key factor in the market, though it is too early to tell what the longer-term impact may be. In the year, UK unemployment fell further, employment levels hit all-time records, and the Bank of England held interest rates at historically low levels.

Asia Pacific

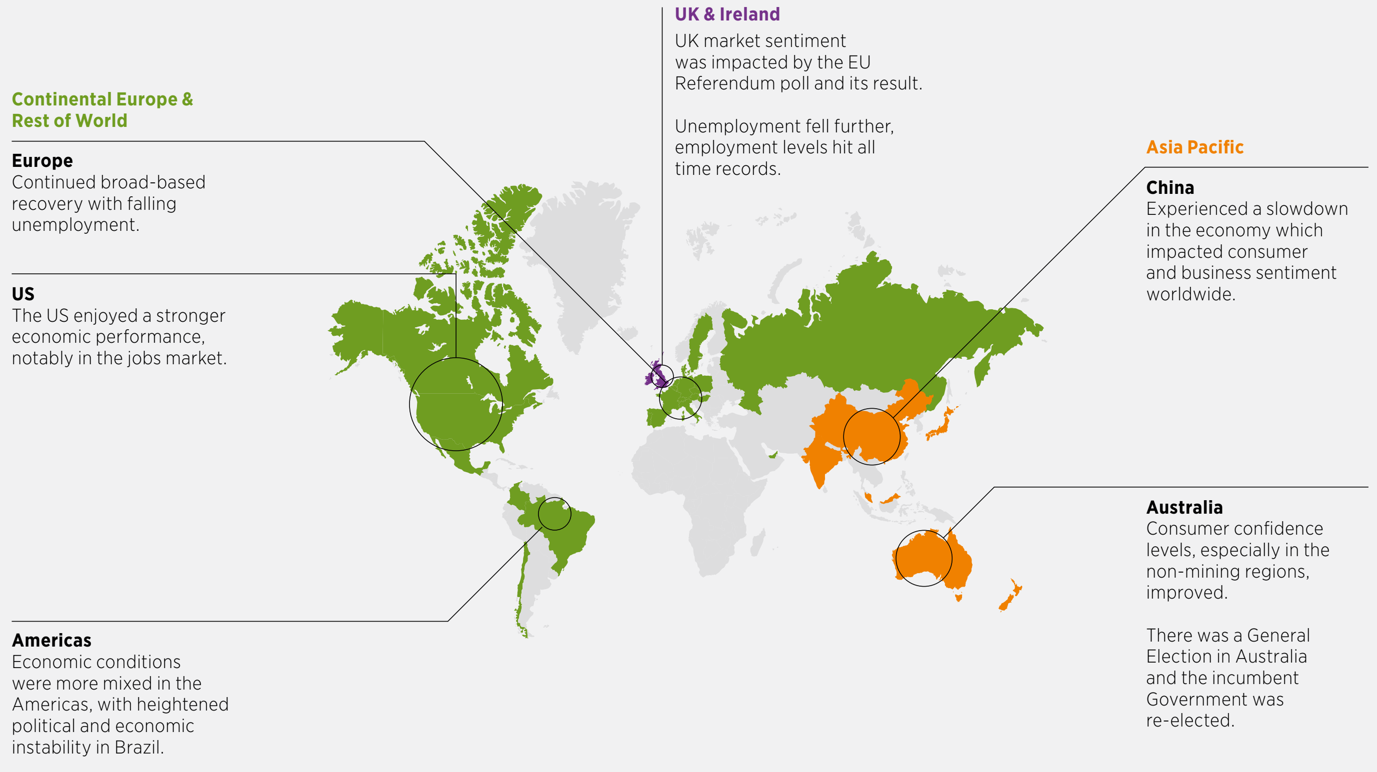
In Australia, while the resources-driven parts of the economy remained subdued, overall sentiment improved steadily over the year despite some concerns over the impact of a China slowdown on the economy. Consumer confidence levels in the non-mining regions improved, there was an uptick in public sector backed investment and interest rates were lowered. As the year ended, there was a General Election in Australia and the incumbent Government was re-elected, albeit with a slim majority. In Asia, China grew at the slowest rate in 25 years as the transition to move towards an economy led by consumption and services, rather than one driven by exports, continued. In the rest of Asia subdued banking markets weighed down on sentiment, especially in the second half of the year in Hong Kong and Singapore.

Continental Europe & Rest of World

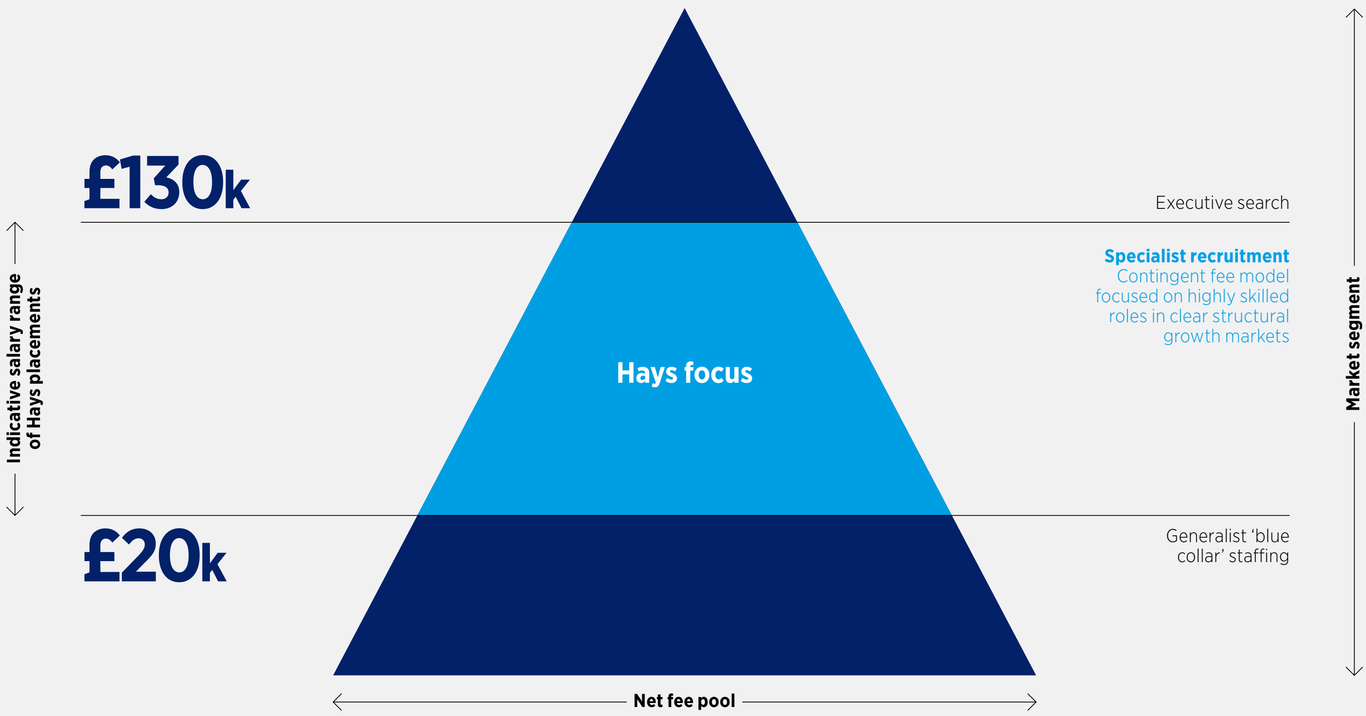
Overall, Europe continued its broad-based recovery during the year, with falling unemployment, rising incomes and supportive monetary policy measures from the ECB all strengthening consumer and business confidence, which in turn supported activity levels in many markets. In the Americas, economic conditions were more mixed, with heightened political and economic instability in Brazil, while in North America although the Canadian economy remained subdued, hampered by falls in commodity prices, the US enjoyed a more robust economic performance. This was most evident in the jobs market, where non-farm payroll, a key employment measure, rose by an average of 206,000 per month, leading the Federal Reserve to increase interest rates for the first time in nine years.

To see how we performed across our three divisions go to **page 35**

Key economic and political events in our major markets during FY16



The structure of the global recruitment market



The competitive environment

We focus on the segment of the recruitment market referred to as professional, 'white collar' skilled or specialist recruitment. The salary of the candidates we place ranges from roughly £20,000 to £130,000 p.a. and we operate across 20 different areas of specialism, including white collar professions such as Accountancy & Finance and IT, and more technical disciplines such as Engineering and Construction & Property. The competitive landscape across most of our markets is extremely fragmented and characterised by a large number of companies, which are often very small and focus on local, niche markets, and with a few large global players.

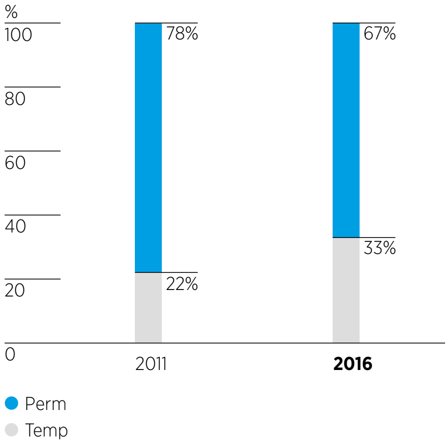
Despite the fragmented nature of the industry, however, in the majority of our markets the main competition we face is from in-house recruiting teams within the HR function of corporates. While we estimate that in more mature markets like the UK or the US around 80% of addressable skilled jobs are filled via recruitment agencies, in less mature markets like Germany that figure is only around 20% according to our analysis. The first time outsourcing of the recruitment of professional staff is therefore a key driver of growth in many of our businesses.

The main UK listed specialist recruitment businesses we identify are PageGroup, Robert Walters and SThree, all of which have varying exposures and business mix, but do have a presence in many of the markets in which we operate (though do not have the scale of Hays' operations in some of the more technical recruitment markets such as Construction & Property). We also identify many other competitors across each of our local markets. These include larger, so called 'generalist' recruiters such as Adecco, Randstad and Manpower, who also have operations in the specialist recruitment space, but are predominantly focused on lower-salary 'blue collar' segment of the market. There are also several other sector or region-specific businesses such as KForce in the US or Amadeus FiRe in Germany.

We have deliberately built a business that is well-balanced and exposed to both mature, cyclical markets and emerging structural markets. In FY16 61% of our net fees were generated in mature markets and 39% in more immature markets. The latter have significant structural growth opportunities and are less impacted by the economic cycle. We believe this balance, as well as our mix of temporary, contractor and permanent recruitment combined with genuine scale across a range of 20 specialist areas and 33 countries, is unique to the specialist recruitment space, adds relative resilience to our business model through the economic cycle and acts as a genuine differentiator in our industry.

In FY16 58% of our fees came from the Temp and Contracting market, although this is weighted towards just three countries where Hays has a market-leading position: Germany, Australia and the UK. In most of the other countries in the Group we have historically been predominantly perm focused, however where market conditions and local legislation have allowed it, we have successfully been pursuing a strategy to build a meaningful temp and contractor business, which today represents one-third of our business outside of the three core markets.

Group net fees excluding Germany, Australia and the UK



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OUR MARKET
CONTINUED

Longer-term market trends

In addition to these short-term macroeconomic conditions and competitive trends, we see many other factors that influence our business, which can represent opportunities and/or risks or challenges to our existing business model.

The emergence of structural growth markets in specialist recruitment, skills shortages in certain recruitment markets and the globalisation of the flow of labour all have an influence. In addition, we identify four 'mega trends' which also have an impact on the future shape and direction of our industry and inform how we run the business and develop our strategy:

Mega trend 1: Labour force evolutions

These include the rise of the digital economy driving new job creation in more niche areas such as social media, increased IT spend and demand for more flexible, project-based work or greater mobility of experienced workers and globalisation of labour.

Many of the factors above are why we believe Contracting is a key structural growth market and has become one of our fastest-growing business sectors. We have made further strategic progress rolling out our market-leading IT Contracting business from Germany into other markets where we believe the model can be successful, including Canada, France and Japan. This, coupled with the established IT contracting business we now have in the US following the acquisition of Veredus, means we are at the forefront of this evolving market trend.

Opportunities for Hays

- Further build scale within our Contractor business
- Offer a truly globally-integrated service to respond to increased candidate global mobility, capitalise on cross border client relationships
- Continue to build our brand in new emerging country markets and industry niches

Potential challenges or threats

- Sourcing highly-skilled contractors to place with clients
- Jobs are created in new, niche specialisms in which Hays has limited presence
- Being able to quickly understand and adapt to changing regulatory environments in many local markets
- Technological and demographic factors which may constrain growth

Mega trend 2: Changing client behaviour

Many companies are increasingly employing skilled people on a contract or project basis, introducing more flexibility in their cost base and benefiting from a workforce with a wide portfolio of relevant experience. For an increasing number of businesses therefore, contract and temporary workers make up an essential, and in some cases substantial, part of their workforce. Hays act as intermediary for highly skilled professionals searching for short-term vacancies.

Opportunities for Hays

- Work with existing clients to help them manage and shape their skilled Temp & Contractor workforces
- Establish new client relationships as more businesses adopt this model
- Bring the expertise of our existing Temp & Contractor businesses to bear in new and opening markets

Potential challenges or threats

- The risk of more 'in-house' recruitment and direct sourcing of temp and contractor labour by corporates
- Adverse changes in local market regulations governing the Temp & Contractor markets

Mega trend 3: Changing business practices

These include increased outsourcing of recruitment in many immature markets around the world where most professional recruitment is still done by in-house HR teams, as well as the increased levels of centralised procurement seen in large corporates in more mature markets

Opportunities for Hays

- Open-up markets where the majority of recruitment is still performed by in-house teams
- Drive growth over-and-above the economic cycle, capitalising on first time outsourcing

Potential challenges or threats

- Margin pressure as more recruitment purchasing decisions are actioned by procurement teams
- The need to continue to invest in developing new tools and resources to provide first-class large-scale HR services
- The risk of disintermediation by newly developed technology tools embedded within our clients
- Sourcing and retaining skilled people and management depth in newer markets

We operate in both mature, cyclical and less mature structural-growth markets. We have been building a strong presence in markets like Germany which, despite being a developed economy, has a low penetration rate when it comes to the outsourcing of recruitment services. Therefore, notwithstanding our market-leading position there we still see many growth opportunities as more businesses start to outsource their recruitment of skilled labour. Our services must be tailored to these different client needs, whether SMEs or large corporates and the way we provide those services has to be adapted to match those unique requirements. For instance we offer Managed Service Programme (MSP) services, where we manage contingent workforces, as well as Recruitment Process Outsourcing (RPO) services, where we manage all permanent recruitment needs. Additionally, to help clients of any size tracking all aspects of their contingent workforce we also offer technology-enabled solutions like our 3 Story Software, a cloud-based vendor management and workforce management software solution.

Mega trend 4: Evolving technology

Technology is in many ways transforming how people work, enabling remote working and impacting on how clients and candidates engage and interact with the jobs market and with Hays. Also, the digitalisation of both supply and demand creates vast quantities of data to be analysed and put to use.

Opportunities for Hays

- Leverage our IT architecture to efficiently handle the increasing volumes of data in our business, enabling our consultants to focus on the relationships with clients and candidates
- Understand and manage the data within our business to drive better results for clients and candidates

Potential challenges or threats

- Invest in understanding and responding to new trends, routes to market and disruptive technologies
- Continue to develop our systems and capabilities to interact with external data sources, new routes to market and to be able to offer clients and candidates the products and systems they demand such as mobile and social media technologies

Our sector-leading technology and partnerships help us drive growth by improving our consultants' productivity. We also have an Innovation team which is tasked with assessing the technology landscape, identifying new industry trends, opportunities and threats and building partnerships with key emerging players.

Market trends case study:

DRIVING MANY OF THESE MEGA-TRENDS IS THE WAY THAT FLEXIBLE PROJECT-BASED WORK AND INCREASED GLOBAL MOBILITY OF SKILLED CANDIDATES HAS CHANGED THE WAY WE WORK.

Like many things at Hays, our German IT Contracting business is based on strong, long-lasting relationships we build with clients and candidates. Arno has been a business partner of Hays for more than 10 years. He is a Senior IT Consultant, specialising in the migration of core banking systems. "In my previous projects at Deutsche Bank and Commerzbank I was in touch with Hays on a regular basis and had a personal recruitment expert who looked after me throughout my various assignments. I enjoy the opportunity and the flexibility to shape my career according to my own needs and I am looking forward to the new project I am about to start with Hays."

Arno Mathiszik
Senior IT Consultant, Germany

Over the last few years the roll-out of our market-leading Contracting business into France has enabled us to capitalise on a macro shift in the French skilled workforce marketplace towards more flexible working arrangements. David Michelin has been part of this trend. He is an IT Project Director and over the last three years Hays has helped him secure positions with clients including Publicis, Pixmania and Isobar. "Over the years, I have created a strong relationship with Hays, who have given me the opportunity to grow professionally in projects which matched my expectations."

David Michelin
IT Project Director, France

Acquisition of Veredus Corp.

In 2014 Hays acquired Veredus Corp., a pure play IT staffing company that generates c.80% of its net fees from Contracting and Temporary assignments. The ingredients for success in the Veredus business were the same as those in our other major contracting businesses around the world: acting as trusted long-term career advisers to highly-skilled professionals, finding them the roles to develop and match their skills. Bobby Higbea has been a Veredus contractor for over 10 years. He is a Senior .Net Developer who has been placed on assignment through Veredus with clients including Tech Data, Elsevier and PwC.

Our consultants have built a real understanding for what Bobby's requirements are and how they've changed over time and have been successfully matching them with our clients' evolving needs. "I've worked with Veredus for over 10 years, and have a genuine two-way relationship with them. They have always taken a genuine interest in the development of my career, which has shown with each assignment as well as the advice they are able to give. They understand my career goals as well as the way I work and have consistently offered attractive roles that suited my skillset and lifestyle."

Bobby Higbea
Senior .Net Developer, USA

> "Hays understand my career goals as well as the way I work"
>
> **Bobby Higbea**
> Senior .Net Developer, USA

OUR STRATEGY

Our ultimate aim is to be the undisputed leader in global specialist recruitment. As we build towards this, we have a set of four, long-established strategic priorities which remain unchanged throughout the various stages of the economic cycle. They are informed and driven by our aims, as well as the long-term mega-trends we identify in our marketplace, described on page 18.

See also our Resources and relationships section where we describe in detail how our values give us a competitive advantage on **page 26**

Strategic roadmap

We have a clear and disciplined approach to the prioritisation of investment to deliver on our long-term goals.

Prioritised pipeline

Timeline

Strategic priority	Description
1. Materially increase and diversify Group profits	We are now three years into our five-year plan to broadly double and materially diversify the Group's profits by 2018. We have a clear framework for how we prioritise investment in order to build towards these aspirations, outlined above. Our plan is underpinned by some clear assumptions: a continued gradual economic recovery, no material economic shocks or recessions in any of our major markets and a modest acceleration of growth in the outer two years of the plan.
2. Build critical mass and diversity across our global platform	Increased geographic and sectoral diversification and exposure to perm, temp and contractor markets across the business reduces the relative volatility of earnings through the various stages of the economic cycle. We invest to rapidly build our own headcount, office capacity and introduce new specialisms where and when appropriate. Our investment approach is driven by the long-term opportunity to reach significant scale where we see the potential, as well as the shorter-term need to deliver profits along the way.
3. Invest in people and technology, responding to change and build relationships	We believe that hiring, training and developing the best people in our industry is key to our success. We also think that by equipping those people with the most advanced tools and technology products, we can make them even more effective and better serve our customers. We recognise that our operating environment and the demands of our customers is evolving constantly, with new routes to market emerging and the amount and type of data we need to interact with constantly increasing. We are proactive in responding to these changes investing in internal expertise, processes and technology as well as seeking to form mutually beneficial external relationships.
4. Generate and distribute meaningful cash returns	Our business is highly cash generative with low capital requirements and we have a clear policy in place when It comes to shareholder distributions. We have a core dividend which is set to a level which we believe to be secure under all predictable scenarios, is well covered by earnings and therefore appropriately reflects the cyclicality inherent in our business. We also have a long-standing goal of eliminating the Group's net debt, and building a net cash position of around £50 million. Once this is achieved, we anticipate that any free cash flow which is generated every year over-and-above this level will be distributed to shareholders, assuming a positive outlook, most likely in the form of a special dividend.

Core profit drivers	**Future material profit drivers**	**Meaningful contributors**	**Network critical**
These businesses are, and will remain, our largest profit contributors.	Each have the potential to develop into significant profit contributors.	High quality businesses but market size, or reinvestment to drive growth, limits short-term profits.	Vital to our global business, serving clients and candidates locally and cross-border and developing people.
Germany United Kingdom Australia	France Canada Japan US	Switzerland Belgium Brazil New Zealand China Mexico	20 other countries

0-5 years

0-10 years

Ongoing

What we achieved in FY16	Our objectives for FY17	Link to relevant KPIs
– Three years into the plan period, we are in line with where we expected to be at this stage – The mix of profitability is different to that which we had assumed, but given the lack of visibility inherent in our business, this was always likely to be the case. In particular, after three years, the UK has outperformed expectations – So far over the three years to date, we've experienced material FX headwinds of £22 million in our International business, but this has been mitigated ahead-of-plan operating performance	– There is material increased uncertainty in the UK market as a result of the vote to leave the EU and this is likely to have an impact on our UK earnings in the current year, though it remains too early to fully assess what that impact may be, and we will continue to monitor activity levels closely – In our international businesses, where markets remain supportive, we will continue to focus on driving fee and profit growth as we work towards our objectives	1 2 4 6 7
– Further expansion of our temp/contracting business, which now represents a material proportion of Group net fee income – Material increase in the percentage of non-perm net fees generated in the Group, excluding the UK, Germany and Australia (from 22% in 2011 to 33% in 2016) – Successfully completed the integration of our contractor-focused Veredus business and expanded our footprint in the US by opening one new office	– We will focus on organic growth and further investment in headcount where conditions are supportive – Continue to expand the percentage of net fee income generated outside of our largest businesses (the UK, Germany and Australia) – Drive further growth in our contracting business in newer markets and invest to grow the US business	1 2 3
– We have continued to develop external relationships across a range of areas, most recently with SEEK in Australia, adding to existing relationships with LinkedIn and Google, amongst others. We discuss this more on page 30 – We established a dedicated Data Analytics & Marketing function, working alongside our existing R&D function and Corporate Development teams – We made further progress with a project to automate our German back office, ensuring it is fit for purpose in a growing contractor business, and could drive further profit efficiencies in our business	– We will continue to explore and develop mutually beneficial relationships and partnerships with other organisations, and further develop our internal capabilities and expertise in terms of data science and analytics, bringing those to bear to improve our business efficiency and service to clients and candidates – Further explore new and emerging business models to ensure we understand all new market opportunities, and ways to make our own business more effective, as well as potential threats to our existing model	5 8
– Strong profit growth and a good underlying cash performance meant that we achieved our long-standing aim of eliminating the Group's net debt this year, finishing the year with a net cash balance of £36.8 million, ahead of expectations – We increased the core dividend this year by 5%, with a full year dividend of 2.90 pence, and cover of 2.9x EPS, in line with our policy of building cover towards 3x	– Once core dividend cover reaches 3x earnings, we intend to grow the core dividend in line with growth in earnings – Build our net cash position to £50 million. Once we achieve this net cash position, it is our intention that any excess cash that is generated over and above this level will be distributed to shareholders, provided our market outlook is positive	1 8

OUR BUSINESS MODEL
HOW IT WORKS

We earn fees on a contingent basis, when we successfully place a candidate in a role with a client. These fees, paid by the client, are derived as a percentage of the candidate's salary.

Our consultants develop long-term relationships with clients and candidates to understand their local markets and are equipped with the latest technology, tools and data to match candidates to roles.

We understand the needs and challenges of our clients and candidates locally and employ the power of our integrated global business to meet them quickly and effectively.

Our resources and relationships
What we need to make our business model work

People and culture
Hays is the ultimate people business and as such our ability to attract, develop, enable and retain the very best consultants and managers in our industry is vital to our success.

For more information go to **page 26**

Technology and data
Our sector-leading global technology platform is able to interact with other applications and third-party technologies to enable our consultants to make sense of the vast amount of data generated in today's world, source real-time, accurate information on their market and ultimately to get the best candidates to clients faster than anyone else.

For more information go to **page 29**

Brand
Our reputation as a world-leader in the specialist recruitment market is supported and reinforced by our world-class global brand, which is consistent in each of our markets around the world. We constantly focus on building and enhancing our reputation by supplementing our core brand with thought-leadership publications, such as The Hays Journal, Hays Global Skills Index, salary guides, white papers and market reports.

For more information go to **page 30**

Relationships and collaborations
Our philosophy is to form and maintain strong relationships not only with clients and candidates, but also with other like-minded organisations, creating mutually-beneficial collaborations which help us better understand and serve our customers.

For more information go to **page 30**

Environment and community
We believe that what we do makes a big difference to the world around us. We help hundreds of thousands of people every year to secure the next leg on their personal career journey, and companies source the skilled employees they need to grow. This all contributes to the wider growth and success of the economies and communities in which we operate.

For more information go to **page 31**

How we create value

As the ultimate people business, everything we do is focused on placing the right people into the right roles

Stakeholder benefits

The value we create not only creates returns for our shareholders, but also for our other stakeholders

Clients

We work closely with our clients to help them find the skilled people they need to drive growth in their businesses. We work with thousands of companies every year, with no single client representing more than 1% of Group net fees. Whether it is local SMEs or global multinationals, we help companies deal with skills shortages in certain markets, whilst reshaping workforces in others.

Candidates

We help candidates securing their next permanent job or temporary assignment. We connect our candidates with the world of work through an array of events, debates, seminars and networking opportunities across our network of 33 countries. Last year we filled 67,000 permanent jobs and over 220,000 temporary assignments.

Employees

We invest a significant amount of time and effort to ensure Hays is a great place to work. We offer our consultants the best training to become experts in their market and develop their careers, along with the best technology and tools in the industry to enable them to be as productive and successful as possible.

Shareholders

We are working towards our objective of building the world's pre-eminent specialist recruitment business and in doing so we aim to create long-term sustainable value for our shareholders. The breadth, scale and balance of our business model, together with our industry-leading operating leverage, allow us to deliver superior financial performance through the cycle. This, combined with our focus on working capital management and the cash generative nature of our business, means we have the potential to generate meaningful shareholder returns as our business grows.

OUR BUSINESS MODEL
WHAT IT GIVES US

We have a business with scale, breadth and diversity of exposure, which is built to take into account the mega-trends driving change in our industry, the short-term market movements we experience and positions us to work towards our long-term aims and strategy.

A balanced and diverse model
We have deliberately and strategically built a business which is balanced and diverse.

We have exposure to both more cyclical, mature markets such as the UK and more immature, structural growth markets such as Germany. We are exposed to the temporary, contractor and permanent recruitment markets and have long-established scale and expertise in 20 specialist areas of skilled employment.

We have public sector and private sector clients, and work on one-off placements for SMEs and global multi-nationals as well as contract-based higher volume recruitment for our larger clients.

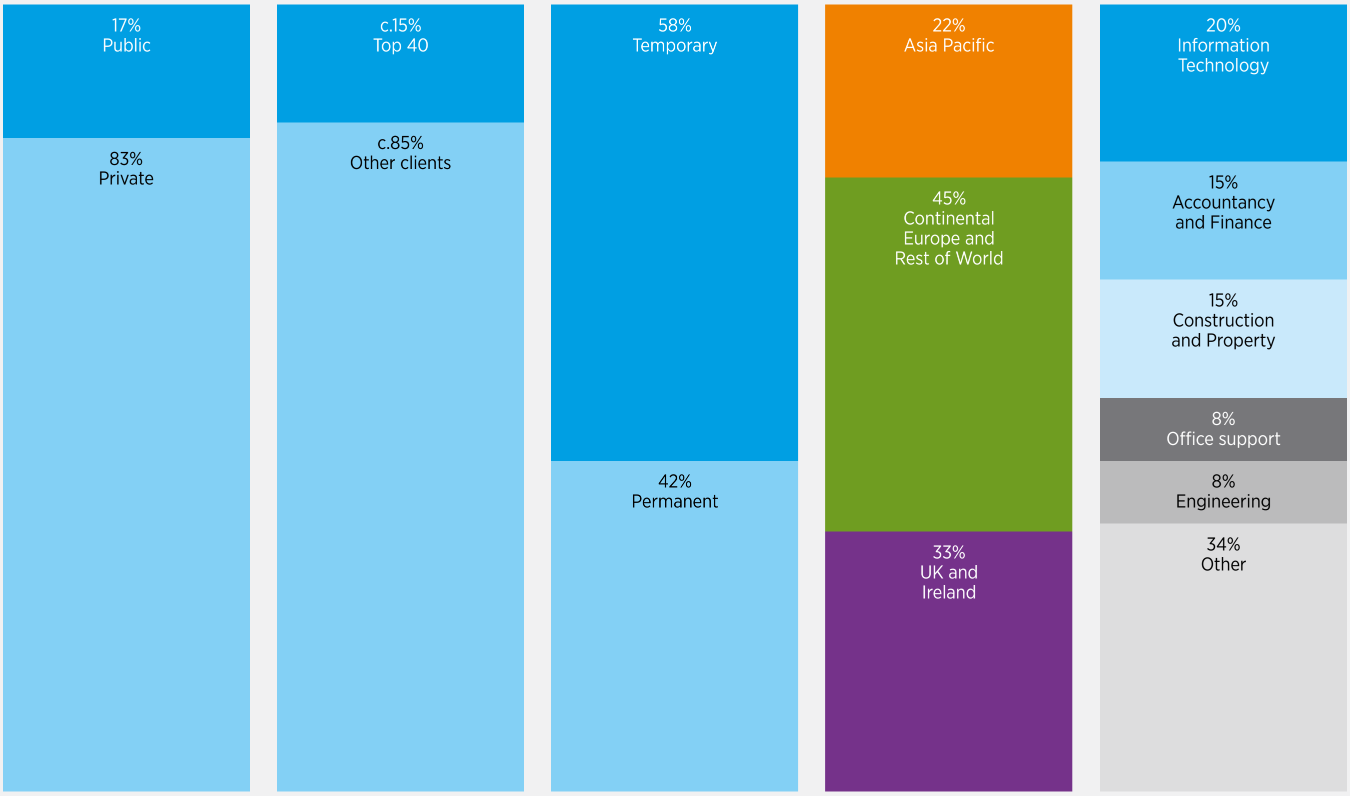
The balance, breadth and scale of our business is unique in the world of specialist recruitment.

This is a key differentiator, and we believe it is important as it makes our business and its earnings relatively more resilient to today's ever changing macroeconomic and political landscape.

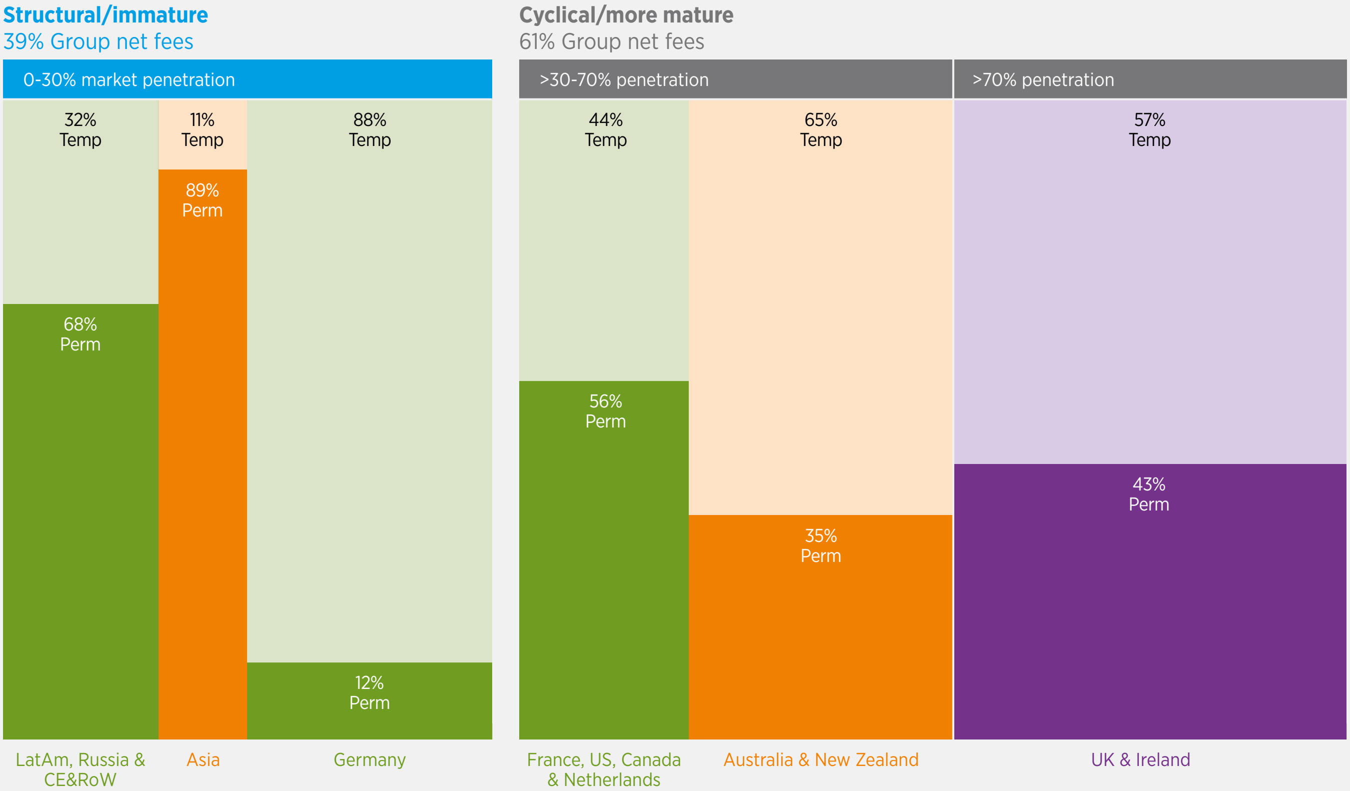
Exposure to mature and less-mature markets
Structural growth markets are those where the use of agencies like Hays to source skilled candidates is a relatively new practice. Traditionally in these markets, this recruitment is undertaken by companies themselves, using hiring teams within their own HR functions. A key driver of our growth is therefore the first time outsourcing of this recruitment to third parties. This means that these markets are relatively less cyclical by nature, and less driven by the prevailing economic backdrop, or short-term sentiment.

More mature markets are those where the use of agencies is a well established, long-standing norm. Here, clients will use agencies to help them fill roles in the majority of cases. As such, these markets tend to be more cyclical in nature, with activity levels dependant far more on the amount of job churn occurring at any particular time. That is, the confidence of clients to replace leavers in their businesses, or hire extra people, and the confidence amongst candidates to move jobs.

Balanced exposure across markets is key to our model
Breadth of expertise



Net fees by geography, type and market maturity



OUR BUSINESS MODEL
OUR RESOURCES AND RELATIONSHIPS

In this section we discuss the drivers of our business: the resources and relationships we have around the world.

Achieving our goals requires a mixture of components all working together. Key to our success is our ability to attract the very best talent and provide an attractive career path that will make them experts in their fields. We also equip our consultants with a powerful, global brand and with sector-leading technology tools and products so that they can interact with clients and candidates in multiple ways, using various different channels. Our philosophy is not just to invest in technology solutions, but more importantly to build strong collaborations with leading providers and innovators and influential organisations, creating long-term relationships which help us better understand our markets and serve our customers. All of this is key to enabling our model to function, and our ability to respond to a fast-moving market and deliver on our strategic aims.

Formal training days last year

4,000

People and culture

Hays is the ultimate people business and our ability to attract, retain and develop the best people is vital to our success. To achieve this we focus on:

- reward, with commission structures to ensure that team and individual contributions are competitively rewarded;
- providing attractive career development paths for new recruits, starting with a structured induction programme and ongoing training as they progress their careers;
- equipping consultants with the latest technology, tools and products and embrace digital technology as an enabler to make them as effective as possible;
- encouraging employees to develop their careers by moving internationally;
- continually investing in our leadership and development programmes which are aligned with the Group's business strategy. 240 senior managers have now attended our '*Fast Forward*' and '*Advanced Management Development*' programmes; and
- promoting a strong sense of corporate social responsibility at Hays. After all, everything we do contributes to finding people jobs, changing people's lives, and fuelling the wider economy. CSR is embedded in our academically recognised leadership development programme in which a cadre of senior leaders work with a charity to solve real strategic problems.

Hays programmes to boost performance and recognise achievement include:

- our international '*Hays Elite*' competition which rewards the 50 top fee-earners from around the world with company-wide recognition and an all-expenses paid trip to a popular holiday destination;
- our '*Summer Boot Camp*' where consultants are invited to enlist for a 12-week 'workout' and complete designated activities to boost their fees by 20% and qualify for attendance at a prestigious finishing event; and
- monthly themed '*National Business Development Days*' on which consultants compete to see who can generate the most new business leads.

People and culture case study:

ATTRACTING, MOTIVATING AND RETAINING THE BEST PEOPLE AT HAYS.

Individuals relocated internationally within our business in the last three years

175

After spending the first three years of my Hays career in the UK, I took the opportunity to move to Australia in 1998, where I worked across various different specialisms, firstly in Sydney and then Perth. After 11 years in Australia, I was promoted to be the Managing Director of our new business in Japan. This was an exciting opportunity, given the relative immaturity of the market there, which is a key strategic growth business for the Group. Since 2012 I've seen my role expand to cover the whole of the Asia region reporting into the Group CEO, with the task of overseeing Hays' organic expansion in one of the most exciting, fast-growing markets in the world.

Christine Wright
Asia Managing Director, Hays

I joined Hays in 2008, as an Associate on the Construction & Property desk in Melbourne. Following the acquisition of Veredus, in the US, in 2014, an opportunity arose to establish and build a team focused on the Construction & Property market in Orlando, Florida, a large and established Veredus office. I took on a Senior Manager role there, and have responsibility for building a market-leading business in an area which is new for us in the USA, but in which we are expert global leaders across the rest of our Group. It's also an exciting challenge to take experiences I gained in more established parts of the Group and apply them in a new country for our business.

Shen Walker
Senior Manager, Hays US

My Hays career has taken me across three countries and has been a fulfilling and a varied one. I began in London in 1995, before moving to Dublin a year later to help expand the Irish business. Having proven my capabilities I was quickly promoted to regional manager and I was then asked to join a task force of fee-earners to lead Hays' entry into the Canadian market in 2001. I then returned to Hays in Ireland in 2004, but not long after that I had the opportunity to return to Canada and make a contribution on a much bigger scale as Managing Director.

Rowan O'Grady
Canada Managing Director, Hays

OUR BUSINESS MODEL
OUR RESOURCES AND RELATIONSHIPS
CONTINUED

Diversity at Hays

At Hays, diversity means understanding and reflecting the community in which we operate, building loyalty with our colleagues, candidates and clients. Differences such as age, gender, ethnicity, physical appearance, religion, education and beliefs are valued and everyone has the opportunity to contribute to the Company and fulfil their potential.

Respect for people and becoming an 'Employer of Choice' are the core values in our approach. Our aim is to create an open, honest and unprejudiced working environment and to ensure that all our colleagues feel part of Hays and are respected as individuals.

We value and utilise the differences that our people bring to our business and in the competitive environment in which we operate it is essential that we attract and retain the best people and those that reflect the client and candidate groups we serve.

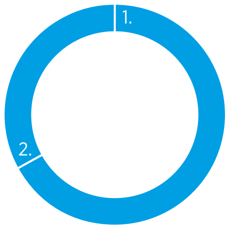
At Hays, our culture is meritocratic; we share a passion for creating opportunities for our people to flourish and succeed, whatever their background. We know that diversity of perspective and an inclusive approach is great for business and careers with us. By reflecting our marketplace and embracing difference we can continue to drive an outstanding organisation culture that impacts business results and delivers world-class service to our customers. Fundamental to our leading expertise is a shared commitment to equality and to harnessing the dynamism that diversity and inclusion bring to our workplace.

We were named as one of the Best Places to Work in the UK

In the 2016 Glassdoor Employees' Choice Award we ranked second overall in the Best Places to Work, and the top rated recruiter listed. The Employees' Choice Awards programme relies solely on the input of employees, who provide feedback on their jobs, work environments and companies via Glassdoor's anonymous online company reviews survey.

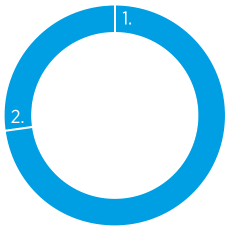
Gender diversity within Hays

Split of PLC Board members



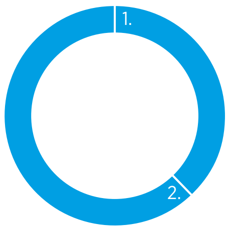
1. Male **6 (67%)**
2. Female **3 (33%)**

Split of Senior Management team members



1. Male **46 (73%)**
2. Female **17 (27%)**

Split of employees



1. Male **3,528 (38%)**
2. Female **5,686 (62%)**

People love working here
Best Places to Work 2016
glassdoor

Glassdoor Employees' Choice Award winners

We were named as one of the Best Places to Work in the UK in 2016.

No.2

“Capturing, analysing and making sense of this wealth of data has become a strategic imperative”

Technology and data

In today’s digitally-enabled and data-rich world it is essential that we equip our people with the latest technology tools and products to maximise their productivity and to ultimately get the best candidates to clients faster than anyone else.

Use of data

The amount and variety of data that is being generated in our industry has increased exponentially over recent years. We now receive over six million CVs a year and around three million hits on our jobs websites every month. Capturing, analysing and making sense of this wealth of data has become a strategic imperative.

Clients and candidates interact with us in multiple and evolving ways, using various channels and it is part of our philosophy to recognise and quickly respond to these trends. For example, candidate profiles have moved away from traditional printed formats, first to email and now increasingly onto various social media platforms. We have responded to this online world, but equally we recognise that data must be managed in an integrated manner with our own proprietary database, OneTouch, to give us a competitive edge. This is why we ensured that OneTouch was built not only to be fully integrated internally within our business, but that it would also have the ability to interact and connect with external platforms, as they evolve.

This not only enables us to have an up-to-date list of active candidates ready to be placed into jobs, but also to maintain relationships with the passive candidate pool.

At the heart of our business is the protection of candidate personal data and client confidential information. We respect the trust individuals and companies place in us to look after the information they provide us on a daily basis. Hays has systems and processes in operation to best ensure that this information is held and transferred, where appropriate, in a secure manner. Hays recognises the importance of complying with all relevant data protection and privacy laws in each of our local markets.

As well as investing in technology solutions for the front office, we also recognise the importance of having a largely-automated back office, which has driven significant financial benefit to the profitability of the Group. Equally important is having access to our real-time, detailed management information system, which allows management teams to make accurate and timely business decisions.

OUR BUSINESS MODEL
OUR RESOURCES AND RELATIONSHIPS
CONTINUED

Key relationships and collaborations

We believe that it is important to be outward-looking and to develop strong relationships not only with clients and candidates, but also with other organisations, where we see an opportunity to deliver mutual benefit.

Our long-standing arrangement with Google allows our consultants to index 20 million documents across 33 countries in real time, giving us a competitive edge when it comes to sourcing the perfect candidate for any given role. Our relationship with LinkedIn means that our consultants have access to LinkedIn's member database so they can search LinkedIn and our own database, OneTouch, side-by-side. This Cross System Awareness allows us to connect millions of people globally with relevant job opportunities, materials and employment-related content. Most recently, we have partnered with SEEK, the world's biggest online employment marketplace, to create a leading and innovative position in the use of cloud-computing and data science in the recruiting industry, bringing value to hirers and jobseekers alike. Additionally, we recognise that there are a number of smaller, innovative organisations that are working on developing new technology solutions to challenge and improve the landscape of the recruitment world. We are a committed partner to Seedcamp, a pan European Founder's First Round Fund, helping to identify and support the next generation of market leaders powering the world of work.

Our relationships are not limited to the technology sector however. We have been working with research consultancy Oxford Economics since 2012 to develop the Hays Global Skills Index, an annual Index that looks at the labour market dynamics across 31 countries, giving a clear picture of the dynamics that are playing a role in the global labour markets and the changing nature of the global skills landscape. We have also been a strategic partner of the CBI's Annual Conference since 2013. The CBI is the UK's premier business lobbying organisation. Its flagship event, the Annual Conference, attracts over 1,000 influential business professionals and political leaders to discuss the state of the economy and the most critical issues affecting global business today.

Brand

We have focused on building the reputation of Hays as the respected industry standard in the specialist recruitment market, and also as being the leading commentator on issues impacting the world of work.

Our brand lies at the heart of everything we do
We have been building wider recognition and awareness of Hays as a market leader through partnerships with the CBI and Manchester City Football Club, amongst others, and by building a portfolio of high quality and respected publications that demonstrate the thought-leadership credentials of Hays and our people.

These include the Hays Journal, the Hays Global Skills Index as well as white papers and industry-leading content that we publish via our corporate blog, Viewpoint, and on social media platforms such as LinkedIn, where Hays is the most followed recruitment company, with over 1.4 million followers.

We believe that establishing a powerful, global brand helps us drive net fee income, as it opens doors for our consultants and makes it easier for them to build relationships. People also aspire to work for the leading brand in any industry sector, so the strength of our brand helps us attract the very best new recruits to join Hays.

LinkedIn followers
over 1.4 million

Twitter followers
75,000

Facebook likes
80,000

Brand case study:

BUILDING A BRAND THAT PEOPLE LOVE.

Every day we provide our clients and candidates around the world with industry-leading content, with the aim of helping them to succeed in their careers and source the right talent for their businesses. The key platform which enables us to do this is Viewpoint, our global careers advice blog.

Viewpoint currently hosts over 500 blogs, authored by over 30 experts from various fields.

Last year, our content generated over 855,000 views and almost 200,000 social shares. By sharing our targeted and relevant content with our audience this way, we are able to both demonstrate the expertise of our people and strengthen the unique positioning of our brand.

Environment and community

Human rights

At Hays we are committed to our Code of Conduct and Ethics Policy which reflects the way we operate including in relation to human rights. All staff within Hays are expected to act with integrity and honesty and behave in a way that is above reproach, as well as treat people fairly, with courtesy and respect, be responsible, respect diversity and communicate openly.

Included in our Code of Conduct is an Equal Opportunity Policy. We make every effort to ensure that no discrimination arises during the recruitment, employment and period after employment of any employee for reasons of gender, sexual orientation, marital status, creed, colour, race, nationality, ethnic or national origin, religious or other belief, political opinion, spent convictions, disability or age, and all employees are expected to deal with all persons with the same attention, courtesy and consideration. This support of equal opportunities applies not only as a direct employer but also in our introduction of candidates to clients.

Supplier Code of Conduct

We expect our suppliers to operate in an ethical, legally compliant and professional manner.

The standards we expect are detailed in our Supplier Code of Conduct, a copy of which can be found on our website, haysplc.com.

Community support

As the ultimate people business, our employees are keen to support their local communities and charities in any way they can. This effort is operated on local and national levels to great effect through volunteering, fundraising activities and donations. The many activities undertaken during the year include collections and fundraising to provide food for those at risk of social exclusion in Spain and to refugees in Germany; a five city cycle ride, over 700km, in Ireland for charity partner Aware; various sporting and other fundraising activities for Make-A-Wish Australia; supporting young people living with cancer in New Zealand; and funding 6,000 hours of children's hospice care in the UK for charity partner Together for Short Lives, exceeding our two-year fundraising target in the first year of our partnership.

The environment in which we work

Hays in the UK has ISO 14001 environmental management certification, which demonstrates our commitment to environmental management.

Hays gathers data from every office around the world in order to calculate our greenhouse gas (GHG) emissions in accordance with the World Resources Institute (WRI) Greenhouse Gas Protocol.

Our data is independently verified by Carbon Smart Ltd who conduct the verification engagement in accordance with the ISO 14064 part 3 standard with guidance for the validation and verification of greenhouse gas assertions.

We measure our annual emissions in relation to employees (our 'intensity ratio'). As a people-based business, number of employees is a quantifiable factor associated with our activities. Our reporting year for GHG emissions is 1 April 2015 to 31 March 2016, and this year our employee intensity per tonne CO_2e was 1.58 (against 1.98 last year).

			2016		2015	
Impact	Scope	Resource	Total GHGs (tonnes CO_2e)(1)	% contribution to total	Total GHGs (tonnes CO_2e)(1)	% contribution to total
Direct	Scope 1	Operational fuel	**245**	**2**	199	1
		Vehicle fuel	**4,331**	**28**	4,201	24
		Refrigerant	**344**	**2**	264	2
Indirect	Scope 2	Electricity(2)	**5,775**	**38**	6,546	37
		District heating	**396**	**2**	370	2
	Scope 3	Air travel	**3,219**	**21**	4,569	26
		Rail travel	**329**	**2**	611	3
		Electricity T&D losses	**570**	**4**	602	3
		Private cars (business use)	**153**	**1**	377	2
Total direct and indirect			**15,362**	**100**	17,739	100

(1) Greenhouse gas emissions are stated in tonnes of CO_2e (carbon dioxide equivalent, comprising carbon dioxide, methane and nitrous oxide) for the 12-month period ended 31 March 2016. Out of scope Indirect emissions, which were the biogenic part of vehicle fuels, totalled 167 tonnes of CO_2e (106 tonnes in FY15).

(2) All electricity totals are calculated using 2015 government location-based conversion factors.

KEY PERFORMANCE INDICATORS

Our long-term aim is to be the undisputed leader in global specialist recruitment. Along the way, we are focused on delivering well-diversified, profitable and cash-generative net fee growth.

We measure our progress in this respect, as well as against our areas of operational focus, using a series of KPIs.

Why we have chosen these KPIs
We have chosen a range of KPIs which are both financial and non-financial. They are focused on the overall Group financial performance, as well as changes we are making within the Group, such as the internationalisation of the business. As well as growth, we measure KPIs which illustrate the efficiency of our operations, such as the Conversion Rate and Cash Conversion.

As we work towards our aims, and the shape and size of our business, or our strategic priorities evolve, then our KPIs will evolve too.

Measured against our strategy
We clearly link each of our KPIs to our four strategic priorities, which are outlined on page 20.

Strategic priority 1:
Materially increase and diversify group profits

Strategic priority 2:
Build critical mass and diversity across our global platform

Strategic priority 3:
Invest in people and technology, responding to change and build relationships

Strategic priority 4:
Generate and distribute meaningful cash returns

On page 68 we reference how we link our strategic priorities and KPIs to the Group's remuneration policy.

(1) LFL (like-for-like) growth represents organic growth of continuing operations at constant currency.

1. Like-for-like net fee growth (%)

2016	7
2015	9
2014	5
2013	-1

Measure
How the Group's business is developing and growing over time, measured as net fee growth on a constant currency basis.

Progress made in 2015–16
We delivered good net fee growth of 7%[1], primarily driven by our European businesses. The rate of growth slowed versus last year due mainly to slower growth in the UK.

Link to relevant strategic priority

1 2

5. Employee engagement (%)

2016	83
2015	84
2014	85
2013	84

Measure
Based on the results of our internal employee engagement survey which tracks their sense of belonging, discretionary effort, personal motivation and job satisfaction.

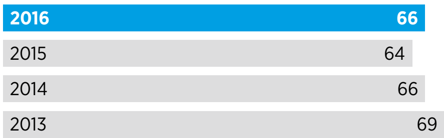
Progress made in 2015–16
Over 80% of our employees again engaged in our annual TALKback survey this year, reflecting our continuous efforts to focus on employee training, retention and effectiveness. See overleaf for more detail on this process.

See case study on **page 34**

Link to relevant strategic priority

3

2. Proportion of Group net fees generated by our international business (%)



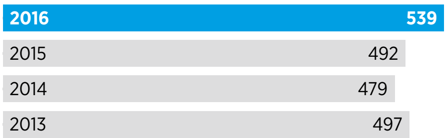
Measure
The Group's relative exposure to markets which are typically more immature and underpenetrated than the UK&I, calculated as the percentage of non-UK&I net fees.

Progress made in 2015–16
66% of Group net fees were generated outside of the UK&I this year, led by a material increase in net fee coming from our European businesses.

Link to relevant strategic priority

1 2

3. Headline international net fee base (£m)



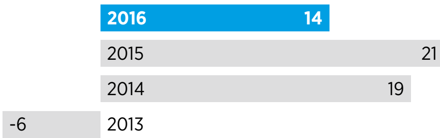
Measure
The absolute scale of the non-UK&I businesses in net fee terms (Asia Pacific and Continental Europe & RoW).

Progress made in 2015–16
Like-for-like[1] net fees in the international business grew by 13% in the year. Australia continued to grow, and we saw strong, broad-based growth across many European markets and much of the Americas.

Link to relevant strategic priority

2

4. Basic continuing earnings per share growth (%)



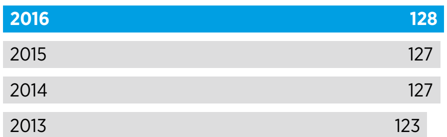
Measure
The underlying profitability of the Group, measured by the Earnings per share of the Groups continuing operations.

Progress made in 2015–16
Basic earnings per share increased by 14% to 8.48 pence, reflecting the Group's higher operating profit and lower effective tax rate. Growth slowed on last year primarily due to the lower rate of profit growth in the UK.

Link to relevant strategic priority

1

6. Like-for-like net fees per consultant (£000s)



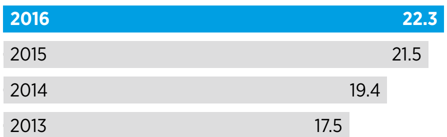
Measure
The productivity of the Group's fee earners. Calculated as total Group net fees divided by average consultant numbers.

Progress made in 2015–16
Group like-for-like[1] net fees per consultants increased by 1% in the year. In the UK productivity rose by 2%, driving excellent operating leverage and profit growth.

Link to relevant strategic priority

1 3

7. Conversion rate (%)



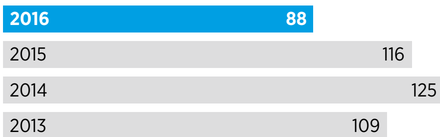
Measure
Calculated as operating profit divided by net fees. Measures the Group's effectiveness in managing our level of investment for future growth and controlling costs.

Progress made in 2015–16
Conversion rate improved to 22.3% as a result of this good net fee growth, the ongoing benefit of our largely automated back office platform and our continued strong control of operating costs.

Link to relevant strategic priority

1

8. Cash conversion (%)



Measure
The Group's ability to convert profit into cash. Calculated as cash generated by operations as a percentage of operating profit from continuing operations.

Progress made in 2015–16
88% cash conversion was a result of good working capital management, especially considering the strong growth of our working-capital intensive German contracting business, and the reversal of an FY15 £20 million benefit due to the favourable day on which that year end fell.

Link to relevant strategic priority

4

KEY PERFORMANCE INDICATORS
CONTINUED

Employee engagement KPI case study:

SUSTAINING HIGH ENGAGEMENT AT HAYS.

Hays plc first implemented TALKback – our global employee engagement survey – in 2009. The survey tracks our employees' sense of belonging, discretionary effort, personal motivation and job satisfaction.

Hays is a cyclical business and constantly exposed to the prevailing economic climate. It is therefore essential that we maintain engagement to ensure retention and productivity. Despite the amount of change that employees have experienced since 2009 for instance with new systems and ways of working, as well as fast changing economic environments, continued high levels of individual engagement and performance have enabled Hays to outperform our competitors and retain our position as the market leader in specialist recruitment services.

Employee engagement is a key performance indicator which measures our success in attracting, training and developing people. Therefore a primary objective for Hays has been to sustain this high level of engagement across all regions – a challenge that has spawned a multitude of approaches to achieving ongoing employee commitment and driving performance.

Results

In 2016 our global engagement score was 83% and employee participation in the annual TALKback survey was 84%, which is an excellent response rate for an international support services business.

"There is a clear focus on culture, quality of leadership and reward."

DIVISIONAL OPERATING REVIEW
ASIA PACIFIC

Facts and figures

Consultants
1,210
2015: 1,195

Net fees (£m)
176.1
2015: 178.5

Offices
49
2015: 45

Operating profit (£m)
50.2
2015: 49.7

Net fees by specialism

1. Construction & Property **21%**
2. Accountancy & Finance **14%**
3. Office Support **11%**
4. IT **11%**
5. Sales & Marketing **6%**
6. Resources & Mining **3%**
7. Other **34%**

Net fees by country

1. Australia **69%**
2. Japan **9%**
3. New Zealand **7%**
4. China **6%**
5. Singapore **4%**
6. Hong Kong **4%**
7. Malaysia **1%**

Net fees by contract type

1. Temp **52%**
2. Perm **48%**

Net fees by sector

1. Private sector **74%**
2. Public sector **26%**

Hays is the market-leading specialist recruitment company in Australia, having been a pioneer of the industry in the country since 1976.

In Asia Pacific, net fees decreased by 1% (but increased 4% on a like-for-like basis[1]) to £176.1 million and operating profit increased 1% (up 8% on a like-for-like basis[1]) to £50.2 million, representing a conversion rate of 28.5% (2015: 27.8%). The difference between actual growth and like-for-like growth rates is primarily the result of the depreciation in the average rate of exchange between the Australian Dollar and Japanese Yen versus sterling during the year, which reduced net fees in the division by £9.4 million and operating profits by £3.4 million.

In Australia & New Zealand net fees were up 4%[1] and operating profit was up 8%[1]. Our Perm business grew by 5%[1] and Temp, which represented 65% net fees in the year, grew by 4%[1]. In Australia we delivered good net fee growth of 5%[1], with market conditions and performances varying between states and specialisms. Our largest regions of New South Wales and Victoria, which accounted for 56% of Australia net fees, were up 12%[1], and ACT delivered excellent growth of 21%[1], driven by continued strength in our public sector business.

Western Australia was down 33%[1] as reduced activity in the Resources & Mining sector continued to significantly impact trading across the state, although we were sequentially stable in the latter part of the year. Excluding Western Australia, net fees in Australia were up 11%[1], with activity led by the technical specialisms such as Construction & Property, our largest specialism, which was up 9%[1] and IT, up 10%[1]. Overall, our public sector business delivered growth of 18%[1], while the private sector declined by 2%[1]. Net fees in New Zealand were flat[1] in the year.

In Asia, which accounted for 24% of the division's net fees, we delivered solid net fee growth of 4%[1] and operating profits increased by 10%[1] to £6.2 million. Overall market conditions worsened as the year progressed, particularly in the banking sector. Despite this, net fees increased by 4%[1] in Japan, 12%[1] in China, 3%[1] in Hong Kong and 7%[1] in Malaysia, with all four countries posting record net fees for the year. In Singapore net fees were down 7%[1].

Consultant headcount in the Asia Pacific division increased by 1% year-on-year. Consultant headcount in Australia & New Zealand increased by 5%. In Asia, consultant headcount fell by 6% during the year as we responded to more challenging market conditions.

> "Australia delivered good net fee growth led by excellent public sector growth"

Operating performance

Year ended 30 June	2016	2015	Actual growth	LFL growth[1]
Net fees (£m)	**176.1**	178.5	(1%)	4%
Operating profit (£m)	**50.2**	49.7	1%	8%
Conversion rate[2]	**28.5%**	27.8%		
Period-end consultant headcount[3]	**1,210**	1,195	1%	

(1) LFL (like-for-like) growth represents organic growth of continuing operations at constant currency.
(2) Conversion rate is the proportion of net fees converted into operating profit (before exceptional items).
(3) Closing consultant headcount as at 30 June.

DIVISIONAL OPERATING REVIEW
CONTINENTAL EUROPE & REST OF WORLD

Facts and figures

Consultants
3,034
2015: 2,715

Net fees (£m)
362.5
2015: 313.8

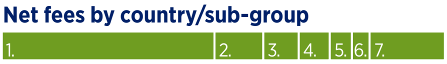
Offices
103
2015: 96

Operating profit (£m)
78.7
2015: 68.7

Net fees by specialism

1. IT **32%**
2. Engineering **18%**
3. Accountancy & Finance **12%**
4. Construction & Property **9%**
5. Life Sciences **7%**
6. Sales & Marketing **4%**
7. Other **18%**

Net fees by country/sub-group



1. Germany **48%**
2. France **11%**
3. Benelux **8%**
4. USA **7%**
5. Switzerland **5%**
6. Canada **4%**
7. Other **17%**

Net fees by contract type

1. Temp **62%**
2. Perm **38%**

Net fees by sector

1. Private sector **97%**
2. Public sector **3%**

We entered the German market in 2003 and we have built a business that is today our largest contributor to Group operating profits. It still represents a unique structural opportunity for Hays and our focus remains on making Germany a £100 million operating profit business.

In Continental Europe & RoW, we delivered excellent net fee growth of 16% (15% on a like-for-like basis[1]) to £362.5 million, driving strong operating profit growth of 15% (16% on a like-for-like basis[1]) to £78.7 million. The difference between actual and like-for-like growth rates is primarily the result of the depreciation in the average rate of exchange between the Euro versus sterling, which reduced net fees by £6.9 million and operating profit by £1.1 million. The conversion rate of the division at 21.7% (2015: 21.9%), reduced slightly as we continued to invest in new consultant headcount, notably across several continental European markets, including Germany and France and in the US.

In Germany, which represented 48% of the division's net fees, we saw an acceleration in growth to 13%[1] and an all-time net fee record performance in the year. Growth was strong across Contracting and Temp, which together grew by 12%[1], while Perm net fees grew by an excellent 24%[1]. We saw strong growth in our newer specialisms, which now represent 27% of Germany net fees, particularly Accountancy & Finance, Sales & Marketing and Legal which all grew by more than 10%[1]. Net fees in IT, which represents 42% of Germany business, grew by 16%[1] and net fees in Engineering increased by 8%[1]. Consultant headcount was up 11%[3] year-on-year as we invested significantly to continue to build critical mass and scale in our IT and Engineering specialisms as well as expanding our offering to our mid-size client base.

> "Strong broad-based growth across many European markets and much of the Americas"

Across the rest of the division, net fees were up 17%[1] and operating profit increased by £5.7 million[1]. In France, our second largest country in the division, we grew 17%[1] and posted an all-time record net fees performance, outperforming the market and taking clear market share. In addition, we delivered strong growth and all-time record net fee performances in each of Switzerland, up 19%[1], Belgium, up 20%[1] and Spain, up 34%[1].

In North America, our US business delivered strong net fee growth of 15%[1], while our business in Canada was flat[1], due primarily to continued challenging conditions in the resources-focused regions. In Latin America, Chile, Colombia and Mexico all continued to perform well, delivering strong growth. In Brazil, although market conditions remained challenging, net fees were flat[1], and we returned to growth in the second half.

Within the division, 11 countries delivered net fee growth of 20%[1] or more, and the region as a whole delivered an all-time record net fee performance.

Consultant headcount in the division increased by 12%[3] year-on-year, including increases of 11%[3] in Germany and 10% in France.

Operating performance

Year ended 30 June	2016	2015	Actual growth	LFL growth[1]
Net fees (£m)	**362.5**	313.8	16%	15%
Operating profit (£m)	**78.7**	68.7	14%	16%
Conversion rate[2]	**21.7%**	21.9%		
Period-end consultant headcount[3][4]	**3,034**	2,715	12%	

(1) LFL (like-for-like) growth represents organic growth of continuing operations at constant currency.
(2) Conversion rate is the proportion of net fees converted into operating profit (before exceptional items).
(3) Closing consultant headcount as at 30 June.
(4) Consultant headcount at June 2015 has been restated to include 144 resourcers previously not reported as consultants in Germany and Switzerland.

UK & IRELAND

Facts and figures

Consultants
2,024
2015: 2,203

Net fees (£m)
271.7
2015: 271.9

Offices
100
2015: 99

Operating profit (£m)
52.1
2015: 45.7

Net fees by specialism

1. Accountancy & Finance **21%**
2. Construction & Property **19%**
3. Office Support **11%**
4. Education **10%**
5. IT **9%**
6. Banking & Financial Services **9%**
7. Other **21%**

Net fees by region

1. London **35%**
2. North & Scotland **25%**
3. Midlands & East Anglia **17%**
4. Home Counties **11%**
5. South West & Wales **9%**
6. Ireland **3%**

Net fees by contract type

1. Temp **57%**
2. Perm **43%**

Net fees by sector

1. Private sector **72%**
2. Public sector **28%**

We entered our home market in 1968 and today we are the leading specialist recruiter in what is the world's most mature and competitive market.

In the United Kingdom & Ireland we delivered an excellent profit performance, with operating profit up 14%[1] to £52.1 million (2015: £45.7 million) as a result of a combination of further improvements in the productivity of our consultants, which increased by 2%[1], and active cost control throughout the business. This is despite the fact that net fees were flat[1] at £271.7 million. As a result, the conversion rate of the United Kingdom & Ireland increased to 19.2% (2015: 16.8%). Our Temp business decreased by 1%[1], largely as a result of a more challenging public sector market, while Perm grew 2%[1].

We saw more uncertainty across the UK market, notably in the second half, as increased risks regarding the macroeconomic outlook impacted negatively on private sector sentiment, especially amongst clients. This uncertainty increased in the period leading up to, and immediately after, the EU Referendum and we saw activity levels weaken significantly at the end of the financial year.

Against this backdrop, our private sector business, which represented 72% of the division's net fees, grew 2%[1], while net fees in our public sector business decreased by 4%[1] as conditions became increasingly challenging in that market, particularly in local Government and Healthcare focused markets.

Over the course of the year, London ex-City grew 11%, with mid-single digit growth in Scotland, the North and the Midlands. Our City business was down 3%, with a tough banking market. In Ireland our business delivered excellent net fee growth of 24%[1].

At the specialism level, Office Support delivered good growth of 6%[1], IT grew 3%[1] while Banking, where markets remain difficult, decreased by 12%[1]. Net fees across the rest of our major specialisms, including Accountancy & Finance and Construction & Property, performed in line with the overall UK & Ireland business and were broadly flat[1], although we saw trends weakening towards the end of the financial year, particularly in our Construction & Property business.

Consultant headcount in the division was down 8% year-on-year (average consultant headcount down 2%), all by natural attrition, as we reacted to the decrease in activity levels and focused on consultant productivity, cost control and maximising our UK & Ireland financial performance.

> "Excellent operating leverage drives strong profit growth"

Operating performance

Year ended 30 June	2016	2015	Actual growth	LFL growth[1]
Net fees (£m)	**271.7**	271.9	0%	0%
Operating profit (£m)	**52.1**	45.7	14%	14%
Conversion rate[2]	**19.2%**	16.8%		
Period-end consultant headcount[3]	**2,024**	2,203	(8%)	

(1) LFL (like-for-like) growth represents organic growth of continuing operations at constant currency.
(2) Conversion rate is the proportion of net fees converted into operating profit (before exceptional items).
(3) Closing consultant headcount as at 30 June.

FINANCIAL REVIEW

Paul Venables
Group Finance Director

Performance highlights

Strong 13%[1] operating profit growth, with a 40%[1] drop-through of incremental net fees into operating profit

Sector-leading conversion rate, the proportion of net fees converted into operating profit, further improved by 80 basis points to 22.3%

Consultant headcount up 3%[3], with targeted investment in markets such as Europe and the USA partially offset by reductions in the UK, all through natural attrition

Good underlying cash performance with 88% conversion of operating profit into operating cash flow driving the elimination of net debt, with year-end cash position of £36.8 million

Strong EPS growth of 14%, reflecting strong operating profit growth and lower effective tax rate

Full year dividend up 5% to 2.90 pence, with cover of 2.9x, in line with our strategy to build cover towards 3.0x earnings

Increase in Group net fees[1]
+7%
2015: +9%

Increase in operating profit[1]
+13%
2015: +25%

Conversion rate of Group net fees into operating profit[2]
+22.3%
2015: +21.5%

Group consultant headcount up 3%[3] year-on-year
6,268
2015: 6,113

For more information on our strategy go to **page 20**

Introduction

Turnover for the year to 30 June 2016 was up 10% (12% on a like-for-like basis[1]) and net fees increased by 6% (7% on a like-for-like basis[1]). Growth in turnover exceeded growth in net fees due to a large number of MSP contracts won in the year primarily in Germany, where we inherited a large number of long-term contractors/interims previously paid directly by the client. Operating profit increased by 10% (13% on a like-for-like basis[1]). Exchange rate movements decreased net fees and operating profit by £16.4 million and £4.5 million respectively, primarily as a result of a material depreciation in the average rate of exchange of the major currencies to which the Group has exposure versus sterling, most notably the Australian Dollar and the Euro which remain significant sensitivities for the Group.

Operating costs were 5% higher than prior year (5% higher on a like-for-like basis[1]), primarily due to a rise in commission payments in line with net fees and costs associated with the 6% average increase in Group consultant headcount.

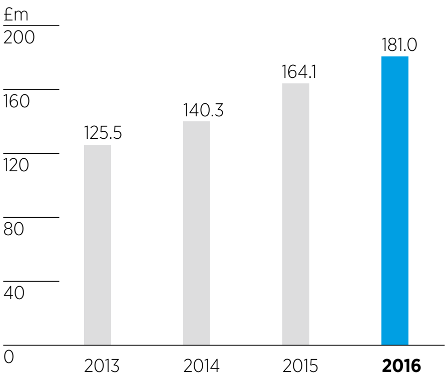
Summary income statement

Year ended 30 June (£m)	2016	2015	Actual growth	LFL growth(1)
Turnover(5)	**4,231.4**	3,842.8	10%	12%
Net fees(5)	**810.3**	764.2	6%	7%
Operating profit from continuing operations	**181.0**	164.1	10%	13%
Cash generated by operations	**159.3**	189.8	(16%)	
Profit before tax	**173.0**	156.1	11%	
Basic earnings per share	**8.48p**	7.44p	14%	
Dividend per share	**2.90p**	2.76p	5%	

(1) LFL (like-for-like) growth represents organic growth of continuing operations at constant currency.
(2) Conversion rate is the proportion of net fees converted into operating profit (before exceptional items).
(3) Consultant headcount at 30 June 2015 has been restated to include 144 resourcers previously not reported as consultants in Germany and Switzerland.
(4) The underlying Temp gross margin is calculated as Temp net fees divided by Temp gross revenue and relates solely to Temp placements in which Hays generates net fees and specifically excludes transactions in which Hays acts as agent on behalf of workers supplied by third-party agencies and arrangements where the Company provides major payrolling services.
(5) Net fees of £810.3 million (2015: £764.2 million) are reconciled to statutory turnover of £4,231.2 million (2015: £3,842.8 million) in note 5 to the Consolidated Financial Statements.

The Group's conversion rate, which is the proportion of net fees converted into operating profit, improved by 80 basis points to 22.3% (2015: 21.5%) as a result of this good net fee growth, the ongoing benefit of our largely automated back office platform and our continued strong control of operating costs.

Operating profit



Consultant headcount at the end of June 2016 was 6,268, up 3% year-on-year but down 3% versus December 2015. In our UK & Ireland business consultant headcount was down 8% year-on-year, all by natural attrition, as we controlled costs in response to worsening market conditions. In our International business, we increased consultant headcount by 9% year-on-year.

> "Another strong financial performance as we delivered excellent operating profit growth"

Foreign exchange

Currency movements versus sterling represented a significant headwind for the reported performance in the year. Over the course of the year to June 2016, the total combined operating profit impact of average exchange rate movements was £4.5 million negative.

Exchange rate movements remain a material sensitivity and by way of illustration, each 1 cent movement in annual exchange rates of the Australian Dollar and Euro impacts net fees by £0.8 million and £2.5 million respectively per annum; and operating profits by £0.3 million and £0.8 million respectively per annum.

The rate of exchange between the Australian Dollar and sterling over the year ended 30 June 2016 averaged AUD2.0392 and closed at AUD1.7877. As at 30 August 2016 the rate stood at AUD1.7421. The rate of exchange between the Euro and sterling over the year ended 30 June 2016 averaged €1.3373 and closed at €1.1989. As at 30 August 2016 the rate stood at €1.1744.

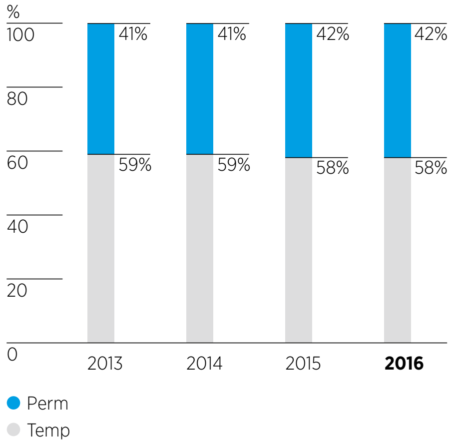
The impact of these material movements in foreign exchange rates means that if we retranslate the Group's full-year operating profit of £181.0 million at current exchange rates, the actual reported result would increase by c.£26 million to c.£207 million.

Good growth in both Perm and Temp

Net fees in the Perm business increased by 7%(1), as volumes increased 6%, driven by improved client and candidate confidence, especially in Europe. This was supported by an increase in the average fee per placement of 1%(1).

Net fees in the Temp business, which represented 58% of Group net fees, also increased by 7%(1). This was driven by an increase in volumes, up 5%, and a 4% increase in the mix/hours worked over the year. Underlying Temp margins(2) were down 20 bps at 16.7% (2015: 16.9%), primarily in Australia & New Zealand.

Net fees by contract type



Movements in consultant headcount

Consultant headcount ended June at 6,268, up 3% year-on-year. In our Continental Europe & Rest of World (RoW) division we increased consultant headcount by 12%(3) year-on-year, including Germany which was up 11% and France which was up 10%. In Asia Pacific, consultant headcount was up 1% year-on-year, within which Australia consultant headcount was up 6%, while in Asia consultant headcount decreased by 6%, mainly in response to challenging conditions in the banking market. In the UK & Ireland consultant headcount was down 8%, all by natural attrition, as we focused on consultant productivity and maximising our financial performance. Over the last six months, Group consultant headcount was down 3% (versus December 2015), primarily in the UK.

FINANCIAL REVIEW
CONTINUED

Current trading
At this early stage in our new financial year, we see solid overall net fee growth. In most of our markets, we see many clear opportunities to grow further and we will continue to invest in a targeted way to capitalise on these opportunities. In the UK, following a step down in Perm activity immediately after the EU Referendum, conditions are tough but broadly sequentially stable and it is too early to have a clear view on the extent to which the post-Brexit uncertainty will impact our business in the current financial year.

Movements in the rates of exchange of the Group's key currencies, notably the Australian Dollar and the Euro, remain a material sensitivity to our reported financial performance, and we have seen significant movements since the EU Referendum in the UK. If we retranslate the Group's full-year operating profit of £181.0 million at current exchange rates, the actual reported result would increase by c.£26 million to c.£207 million.

Asia Pacific
We continue to see good levels of growth in Australia overall, as market confidence continues to recover gradually. Growth in New South Wales, Victoria and ACT is good, and conditions are stable in the mining-dominated state of Western Australia. We continue to see strong growth in our public sector business and growth is solid in the private sector. In Asia markets such as Hong Kong and Singapore, which have a high exposure to banking, remain subdued. We expect headcount to increase modestly in the first half of the year, mainly in Australia.

Continental Europe & ROW
In Continental Europe & RoW, growth remains strong overall, albeit against tough comparators. In Germany and France we continue to see strong growth and in the rest of Europe and the Americas conditions remain strong in most markets. To date, we have seen no evidence of contagion into Europe following the outcome of the EU Referendum. Overall we expect headcount in the division to increase significantly in Germany and France and on a selective basis elsewhere.

United Kingdom & Ireland
In the UK, the market is tough but broadly sequentially stable. We saw a step down in Perm activity immediately after the EU Referendum, but since then activity levels have been broadly stable. In Temp, activity levels have remained broadly at pre-referendum levels. It is too early to determine whether these trends will continue beyond the summer period.

We continue to review underlying activity levels, but having taken action to reduce headcount in the last financial year, we expect headcount to remain broadly flat in the early part of the new financial year.

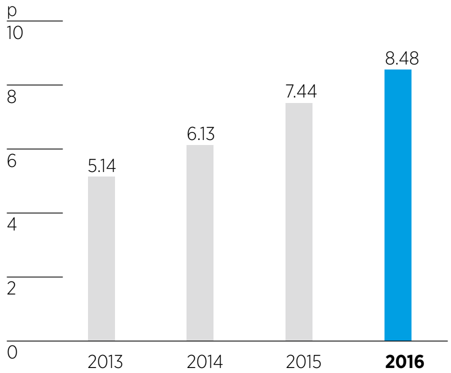
See also our divisional operating review on **page 35**

Net finance charge
The net finance charge for the year was £8.0 million (2015: £8.0 million). The average interest rate on gross debt during the period was 2.3% (2015: 2.5%), generating net bank interest payable including amortisation of arrangement fees of £2.9 million (2015: £4.1 million) with the reduction primarily due to the lower levels of average net debt compared to the prior year. The net interest charge on defined benefit pension scheme obligations was £3.9 million (2015: £3.0 million) and the Pension Protection Fund levy was £0.3 million (2015: £0.5 million). The unwind of the discount applied to the future Veredus acquisition liability is recorded within interest, and was £0.9 million (2015: £0.4 million). We expect the net finance charge for the year ending 30 June 2017 to be around £7.0 million.

Included within the net finance charge is an unrealised gain of £6.6 million on the derivative current asset, offset by a £6.6 million revaluation loss on the Euro denominated overdraft within the Group's European cash pool arrangements, the net impact of which is £Nil. There was no such gain in 2015.

Taxation
Taxation for the year was £51.9 million (2015: £50.7 million), representing an effective tax rate of 30.0% (2015: 32.5%). The effective tax rate reflects the Group's geographical mix of profits, with the reduction in the rate due to the material improvement of profitability in the UK and the reduction in the UK corporation tax rate. The Group's effective tax rate for the year to June 2017 will be driven by the mix of profits generated during the year. We currently expect the rate to be between 30% and 35%.

Earnings per share
Basic earnings per share increased by 14% to 8.48 pence (2015: 7.44 pence), reflecting the Group's higher operating profit and lower effective tax rate.



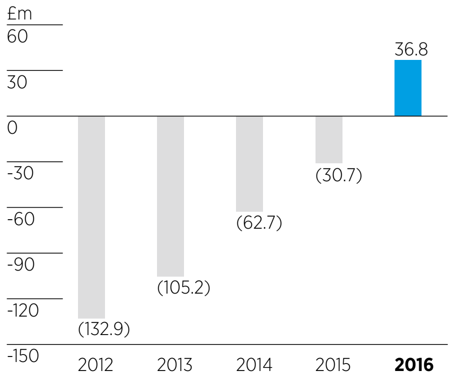
Cash flow and balance sheet
Good underlying cash performance with 88% conversion of operating profit into operating cash flow (2015: 116%). This was a result of good working capital management throughout the year, especially considering the strong growth in our German and European contracting businesses, which are relatively working capital-intensive, and the reversal of the £20 million cash flow benefit reported in FY15 due to the favourable day upon which that year-end fell.

Net capital expenditure was £14.9 million (2015: £11.9 million). We expect capital expenditure to be around £15 million for the year to June 2017.

Dividends paid in the year totalled £39.9 million and pension deficit contributions were £14.4 million. Net interest paid was £3.6 million and the cash tax payment was £41.7 million.

We eliminated net debt, which stood at £30.7 million at the start of the year, achieving a net cash position of £36.8 million at the end of the year.

Closing net cash/(net debt)



Retirement benefits

The Group's pension liability under IAS19 at 30 June 2016 of £14.3 million decreased by £44.4 million compared to June 2015 primarily due to an increase in asset values, a decrease in the inflation rate and favourable changes in experience and demographics assumptions following the 2015 triennial actuarial valuation, partially offset by a decrease in the discount rate.

During the year the Company contributed £14.4 million of cash to the defined benefit scheme (2015: £14.0 million), in line with the agreed deficit recovery plan. The 2015 triennial valuation quantified the actuarial deficit at c.£95 million and the recovery plan comprises an annual payment of £14.0 million from July 2015 with a fixed 3% uplift per year, over a period of just under 10 years. The scheme was closed to future accrual in June 2012.

Capital structure and dividend

The Board's priorities for free cash flow are to fund the Group's investment and development, maintain a strong balance sheet and deliver a sustainable core dividend at a level which is both affordable and appropriate.

Taking into account the financial performance of the Group this year and as we build core dividend cover towards 3.0x earnings, the Board proposes to increase the final core dividend by 5% to 1.99 pence, resulting in an increase to the full year dividend to 2.90 pence, also up 5% on the prior year. As such, the full year dividend will be covered 2.9x by earnings.

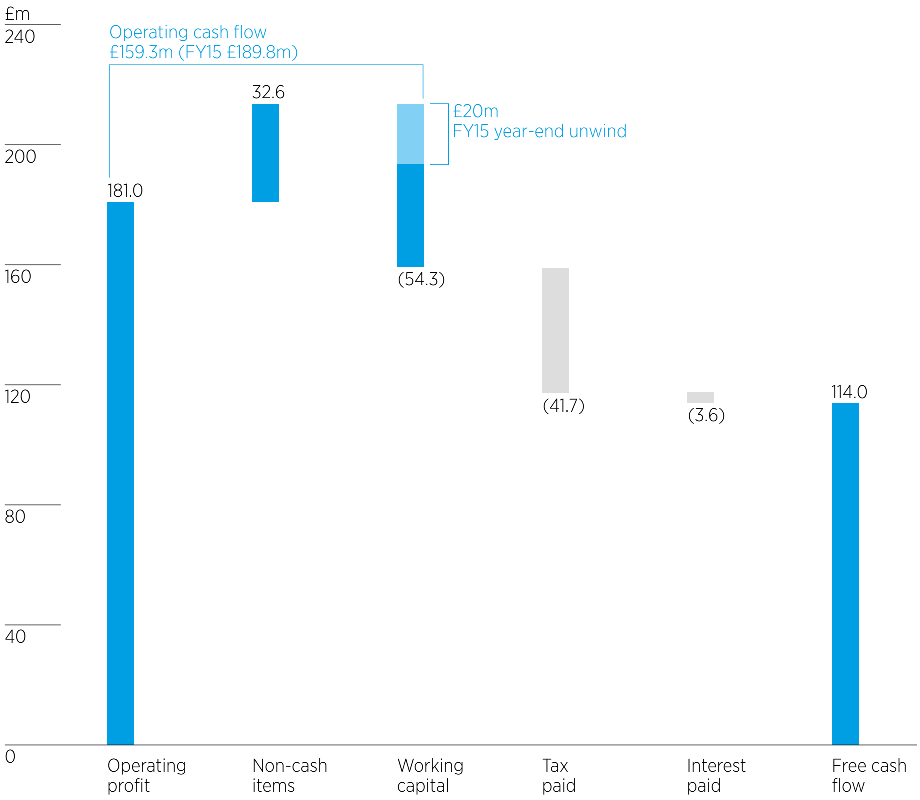
The Board remains committed to this sustainable and progressive dividend policy and will continue to review the core dividend level in line with our stated dividend cover policy. Additionally, we reiterate our policy regarding the uses of excess free cash flow as follows. Once we have built a net cash position in the region of £50 million and assuming a positive outlook, it is our intention that any excess free cash flow generated over-and-above this net cash position, that is not needed for the priorities outlined above, will then be distributed to shareholders via special dividends, or other appropriate methods, to supplement the core dividend.

The final dividend will be paid, subject to shareholder approval, on 11 November 2016 to shareholders on the register on 14 October 2016.

Treasury management

The Group's operations are financed by retained earnings and bank borrowings. The Group has in place a £210 million revolving credit facility, maturing in April 2020, which provides considerable headroom versus current and future expected levels of Group

Operating profit to free cash flow conversion



debt. The covenants within the facility require the Group's interest cover ratio to be at least 4:1 (ratio as at June 2016: 60:1) and its leverage ratio (defined as net debt: EBITDA) to be no greater than 2.5:1 (as at June 2016 the Group held a net cash position). The interest rate of the facility is on a ratchet mechanism with a margin payable over LIBOR in the range 0.90% to 1.55%.

The Group's UK-based treasury function manages the Group's treasury risks in accordance with policies and procedures set by the Board, and is responsible for day-to-day cash management; the arrangement of external borrowing facilities; the investment of surplus funds; and the management of the Group's interest rate and foreign exchange risks. The Treasury function does not engage in speculative transactions and does not operate as a profit centre, and the Group does not hold or use derivative financial instruments for speculative purposes. The Group's cash management policy is to minimise interest payments by closely managing group cash balances and external borrowings. Euro-denominated cash positions are managed centrally using a cash pooling facility which provides visibility over participating country bank balances on a daily basis. Any group surplus balance is used to repay any maturing loans under the Group's revolving credit facility or is invested in overnight money market funds. As the Group holds a sterling denominated debt facility and generates significant foreign currency cash flows, the Board considers it appropriate in certain cases to use derivative financial instruments as part of its day-to-day cash management to reduce the Group's exposure to foreign exchange risk. The Group does not use derivatives to hedge balance sheet and income statement translation exposure.

The Group is exposed to interest rate risk on floating rate bank loans and overdrafts. It is the Group's policy to limit its exposure to interest rates by selectively hedging interest rate risk using derivative financial instruments.

Counterparty credit risk arises primarily from the investment of surplus funds. Risks are closely monitored using credit ratings assigned to financial institutions by international credit rating agencies. The Group restricts transactions to banks and money market funds that have an acceptable credit profile and limits its exposure to each institution accordingly.

Paul Venables
Group Finance Director
1 September 2016

PRINCIPAL RISKS

Managing risks so we achieve our strategic growth targets.

We focus on key risks which could impact on the achievement of our strategic goals and therefore on the performance of our business.

Our risk appetite
Hays has a proactive approach to measuring performance and considers risk as an integral part of decision-making, both about current and future performance throughout the global businesses. With the Board being responsible for the level of risk that the Group is willing to accept, the Board manages this by linking risk appetite to its strategic objectives, being mapped against defined impact and likelihood scales, in order to define where the level of risk sits.

The principal risks have all been mapped through the risk appetite process in order to identify both position and tolerance levels and to assess the mitigating actions.

Hays operates a measured risk appetite position due to the nature of the recruitment market, being a cyclical business and highly sensitive to macroeconomic conditions, which results in a lack of forward visibility of fees and increases the overall risk environment.

Risk attributes
When considering the risk appetite the Board considers this in terms of the following attributes:
- Experienced and stable management team globally;
- Strong balance sheet, including the level of operational gearing;
- Clear and open communication channels.

Risk governance – identifying, evaluating and managing risk
The Board has overall responsibility for the Group's internal control systems and for reviewing their effectiveness. This has been designed to assist the Board in making better, more risk-informed, strategic decisions with a view to creating and protecting shareholder value. In practice, the Board delegates the task of implementing its policy on risk and control to management and needs to assure itself on an ongoing basis that management is responding appropriately to these risks and controls.

How we monitor our progress – three lines of defence

Board & Audit Committee

Management Board

First line of defence:	Second line of defence:	Third line of defence:
– Management Controls – Policies and Procedures – Internal Control Measures	– Financial Control – Security – Risk Management – KPIs – Compliance – Group Risk Committee	– Internal Audit – External Advisers
Ownership & Management	Monitor & Oversight	Independent Assurance

The Board delegates to management ownership and responsibility for operating risk management and controls, and management need to provide leadership and direction to the employees to ensure the organisation's overall risk-taking activity is managed in relation to the agreed level of risk appetite.

To manage the effectiveness of this the Board and management need to rely on adequate line functions – including monitoring and assurance functions – within the organisation. As such the organisation operates the 'Three Lines of Defence' model as a way of explaining the relationship between these functions and demonstrating how responsibilities are allocated:
- The first line of defence – responsibility to own and manage risk;
- The second line of defence – responsibility to monitor and oversee risk;
- The third line of defence – functions that provide independent assurance.

The Group Risk Committee, chaired by the Group Finance Director and comprising senior operational, IT, legal and finance representatives, assists in the strategic management of risk in the Group.

Risk identification and impact – Hays' principal risks are analysed on a gross (pre-mitigation) and net (post-mitigation) basis
The Management Board oversees an enterprise risk management framework, which allows for a holistic, top-down and bottom-up view of key risks facing the business. These are recorded in a Group risk register, which is reviewed at least annually by the Management Board and submitted to the Board thereafter to enable it to carry out its risk oversight responsibility. This exercise involves a current and forward look at various risks affecting the business and prioritising them according to risk magnitude and likelihood. Risks covered include operational, financial and reputational risks, as well as compliance and people-related risks. Each risk is assigned an owner with current and future risk mitigation procedures detailed, with the continuing monitoring of these undertaken on an ongoing basis.

Viability statement
In accordance with provision C.2.2 of the UK Corporate Governance Code 2014 the directors have assessed the prospects of the Group over a period longer than the 12 months from the approval of the financial statements.

The directors have determined that the three-year period ending 30 June 2019 is the most relevant time period over which to provide the viability statement. This is because it is aligned with the strategic planning cycle and, given the fast moving nature of the industry, using a three-year period it is possible to form a reasonable expectation as to the Group's longer-term viability.

Process to assess the Group's prospects
As in prior years, the Board undertook a strategic business review in the current year taking into account the Group's current position and the potential impact of the principal risks set out on pages 43 to 45 of the Annual Report.

In addition and in making this statement, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten the Group's business model, future performance and liquidity. While the review has considered all the principal risks identified by the Group, the resilience of the Group to the occurrence of these risks in severe yet plausible scenarios has been evaluated.

Stress testing

The Board approves an annual budget and reviews monthly management reports and quarterly forecasts. The output of the strategic planning and budgeting processes has been used to perform a sensitivity analysis to the Group's cash flow to model the potential effects should principal risks actually occur either individually or in unison.

The sensitivity analysis included loss of business arising from a prolonged global downturn, material movements in foreign exchange rates, and a detailed assessment of a range of possible outcomes arising from the UK's vote to leave the European Union.

Set against these downside risks the Board considered key mitigating factors including the geographic diversity of the Group, its balanced business model across temporary, permanent and contract recruitment services, and the significant working capital inflows which arise in periods of severe downturn, particularly in the temporary recruitment business, thus protecting liquidity as was the case during the global financial crisis of 2008-09.

In addition, the Group's history of strong cash generation, tight cost control and flexible workforce management provide further protection. The Group also has in place a £210 million revolving credit facility with a suite of banks until 2020, and has recently signed a new actuarial valuation of its defined benefit pension scheme which maintains cash outflows broadly at their existing level.

Confirmation of longer-term viability

Based on the above assessment the directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 30 June 2019.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review, with details of the Group's treasury activities, long-term funding arrangements and exposure to financial risk included in notes 18 to 20 to the Consolidated Financial Statements.

The Group has sufficient financial resources which, together with internally generated cash flows, will continue to provide sufficient sources of liquidity to fund its current operations, including its contractual and commercial commitments and any proposed dividends. The Group is therefore well placed to manage its business risks. After making enquiries, the directors have formed the judgment at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.

Risk trends

The ongoing review of the Group's principal risks focuses on how these risks may evolve. Since the publication of last year's Annual Report, our principal risks have changed as follows:

Increased risks

Risk 1
Macroeconomic/cyclical business exposure
The Brexit decision has increased the level of uncertainty and thus risk to the trading performance of our UK business and potentially to the broader European market.

Risk 2
Business model
The pace of change in social media and internet-enabled digital dynamics, allied to changes in the structure of the professional workforce, is increasing the potential risk of insourcing and disintermediation.

Risks 5 and 6
Reliance on technology
Data governance
The increasing prevalence of cyber attack across the world, means that along with all large corporates, our business systems are under increasing level of attack. Over the last two years as explained in the detailed risk sections, we have invested significantly in this area both in upgrading all aspects of our systems and our internal resources and also using external consultants to perform regular external and internal penetration tests and using the results to drive a continuous improvement programme.

Decreased risks

While foreign exchange remains a risk to the Group, in light of the assessment under the annual review and the elimination of net debt, it has been removed from the list of the Group's Principal Risks.

1. Macroeconomic/cyclical business exposure

Movement in year

Risk description
The performance of the Group is significantly impacted by changes to underlying economic activity, particularly in the UK, Germany and Australia, the levels of business confidence as businesses consider permanent and temporary hiring decisions and levels of candidate confidence which impact their propensity to change jobs.

Risk impact
– Financial

Risk mitigation
Hays has continued to diversify its operations to include a balance of both temporary and permanent recruitment services to private and public sector markets, and operates across 33 countries and 20 sector specialisms. Progress is being made to further diversify the business to reduce the Group's reliance on the UK, Germany and Australia, which currently represent 70% of the Group's net fees.

Hays' cost base is highly variable and carefully managed to align with business activity, and can be focused and scaled accordingly to react to the individual markets, with temporary recruitment being more resilient in times of economic uncertainty or downturn.

Hays is highly cash generative, requiring low levels of asset investment. Cash collection is a priority and the Group has made appropriate investment in its credit control and working capital management processes, resulting in the elimination of Group net debt and a year-end net cash positive position.

It is too early to have a clear view on the impact of Brexit on our UK business, but its potential to have an impact is fully acknowledged.

Link to relevant strategic priority

2

PRINCIPAL RISKS
CONTINUED

2. Business model

Movement in year

Risk description
The Group faces competition from the increasing use of social media for recruitment purposes and a growing trend towards outsourced recruitment models with associated margin pressures, which may impact on the business should Hays not continue to take appropriate actions and respond effectively.

Risk impact
- Operational
- Financial

Risk mitigation
Hays monitors industry trends and opportunities, including social media and insourcing, and continues to invest in our online presence to provide a high-quality customer experience.

Our key relationships (such as with SEEK in Australia) increase our exposure to online professional networking and recruitment portals and enhance our value proposition to clients and candidates.

Our expert and specialised consultants are trained in utilising social media to enhance their day-to-day activities in providing the best quality candidates for our clients.

We continue to leverage our broad geographical and sectoral footprint to win and maintain a significant number of multi-specialism contracts with large corporate organisations, which has strengthened our relationship with these clients and increased our share of their recruitment spend.

We have made a significant investment in FY16 to address data analytics in order to significantly improve our candidate acquisition strategy. The initiative is supported by increasing our digital capability with the appointment of a Group Data Marketing Director.

Link to relevant strategic priority

3

3. Talent

Movement in year

Risk description
The Group is reliant on its ability to recruit, develop and retain staff to protect the business it has today and to deliver its future growth plans, especially internationally both at a manager and consultant level. Its strategy is to grow and nurture talent internally into senior roles wherever possible.

Risk impact
- People
- Financial

Risk mitigation
Hays provides a defined and sustainable career development path for new hires, starting with a structured induction programme and ongoing training as they advance their careers, supported by formalised performance and career tracking.

Development Centres focus on the progress of high-potential individuals, providing further development opportunities and also helping to identify any talent gaps and training needs. Leadership and development programmes are aligned with the Group's business strategy.

Overall remuneration packages are competitive, including an employee benefit programme, together with a long-term incentive scheme that is offered to some 320 senior managers, which encourages a performance led culture and aids retention.

Succession plans identify future potential leaders of the business and produce individual development plans in which to harness and cultivate talent.

The Group's standard employment contracts include notice periods and non-solicitation provisions in the event of an employee leaving.

Link to relevant strategic priority.

3

4. Compliance

Movement in year

Risk description
The Group operates in 33 countries, with each operating its own legislative, regulative, compliance and tax rules, especially for temporary workers, with any non-compliance increasing the Group's exposure to potential legal, financial and reputational risk.

Risk impact
- Compliance
- Financial
- Reputational

Risk mitigation
Compliance processes and monitoring are tailored to specific specialisms, ensuring additional focus is given to higher-risk specialisms such as Education and Healthcare in the UK, Construction & Property in Australia and specialised corporate contracts through Hays Talent Solutions.

Employees receive training in respect of the operating standards applicable to their role, with additional support provided by compliance functions, regional legal teams and, where necessary, external advisers.

All staff receive regular training to ensure that legal and compliance updates are understood and applied. In territories where legislation sets out additional compliance requirements, specialists are employed.

Dedicated compliance auditors conduct sample checks to ensure that the appropriate candidate vetting checks and due diligence obligations are carried out in line with legal and contractual requirements.

The Group holds all standard business insurance cover, including employers' liability, public liability and professional indemnity insurance.

Link to relevant strategic priority

3

5. Reliance on technology

Movement in year

Risk description
Our dependence on technology in our day-to-day business means that systems failure due to technical issues or cyber attack, may have a significant impact on our operations and ability to deliver our services if it continued for a period of days and as such could negatively impact our financial performance and reputation.

Risk impact
- Operational
- Financial
- Reputational

Risk mitigation
The Group's technology strategy is continually reviewed to ensure that the systems it operates across the Group support its strategic direction.

Ongoing asset lifecycle management programmes mitigate risks of hardware and software obsolescence.

Technology systems are housed in various data centres and the Group has capacity to cope with a data centre's loss through the establishment of disaster recovery sites, that are physically based in separate locations to the ongoing operations, intrinsically linked to the country business continuity plans.

Across the regions we have established dedicated security teams in order to ensure that the systems are protected from unauthorised access, both externally and internally, and includes ensuring that anti-virus software is in place and up-to-date, with regular testing of these environments by external providers.

We use external advisers to perform regular external and internal physical and logical penetration tests on all major systems and operations and implement any required improvements coming out of such tests as part of a continuous improvement process.

Link to relevant strategic priority

3

6. Data governance

Movement in year

Risk description
The business works with personal data in all 33 countries on a daily basis under a variety of laws and regulations. A material data breach or data loss could expose the Group to potential legal, financial and reputational risks in the form of penalties and loss of business.

Risk impact
- Operational
- Financial
- Reputational

Risk mitigation
Robust procedures for handling, storing and transfer of personal data are in place across the Group, on both a physical and logical security basis.

Comprehensive data protection and information security policies and procedures are in place across the Group and, where data protection and privacy legislation allows, protective email monitoring programmes are undertaken to address potential areas of concern, to best protect our confidential information and candidates' personal data.

Attention has been focused in this area, with the increased threat of cyber crime globally, and security vulnerability is assessed as part of the ongoing IT strategy across the Group.

Hays is preparing for the implementation of the EU General Data Protection Regulations in May 2018.

We use external advisers to perform regular external and internal physical and logical penetration tests on all major systems and operations and implement any required improvements coming out of such tests as part of a continuous improvement process.

Link to relevant strategic priority

3

7. Contracts

Movement in year

Risk description
The Group enters into contractual arrangements with clients, some of which can be on onerous terms and/or impacted by local regulatory requirements, especially in relation to temp/contracting markets.

Risk impact
- Operational
- Financial
- Reputational

Risk mitigation
During contract negotiations management seeks to minimise risk and ensure that the nature of risks and their potential impact is understood.

Our global legal team has the depth of knowledge and experience to enable them to advise management on the level of risk presented in increasingly onerous contracts, with clear guidelines in operation.

The Group Finance Director reviews all commercial contracts with onerous non-standard terms in accordance with the Group's risk appetite. In addition the Group's Insurance Manager reviews and where necessary engages with insurance providers to ensure that risks are covered.

Reviews are performed on a risk basis across key contracts to identify compliance and agree improvements to the way in which we deliver services to clients.

Assurance work is undertaken in key countries by Internal Audit to ensure contractual obligations are appropriately managed.

Link to relevant strategic priority

2

By order of the Board

Doug Evans
Company Secretary
1 September 2016