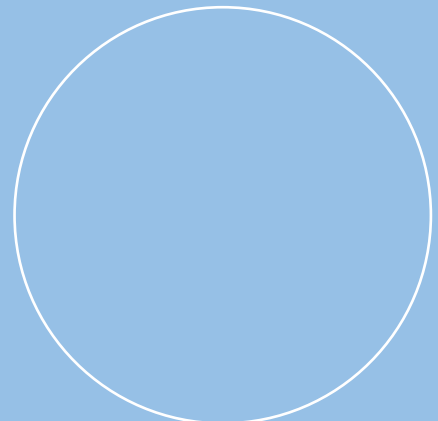
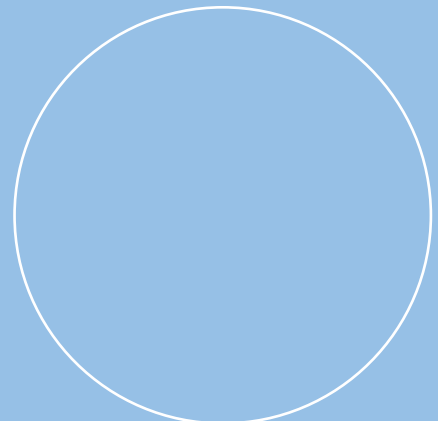
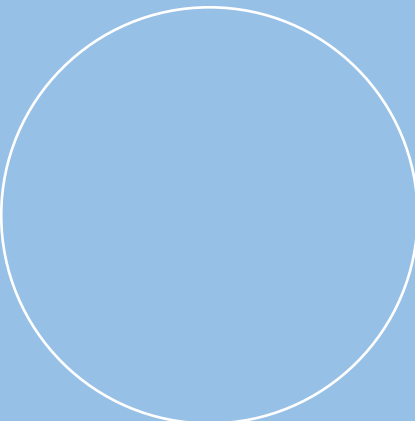
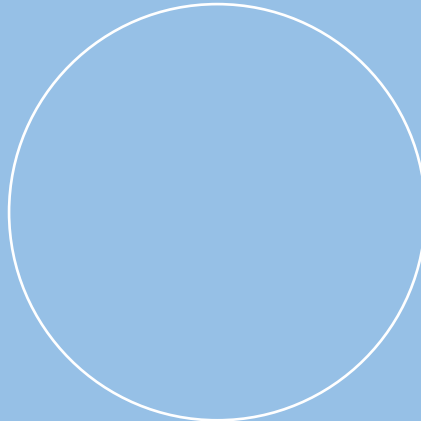


# SThree plc

## Interim statement 2007



# SThree plc

## Company Information and Corporate Advisers

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### Executive Directors

Russell Clements  
Sunil Wickremeratne  
Michael Nelson

### Non-Executive Directors

Sir Anthony Cleaver  
Alicja Lesniak  
Brian McBride  
Tony Ward

### Secretary and Registered Office

Steve Hornbuckle  
41-44 Great Windmill Street  
London  
W1D 7NB

### Company number

3805979

### Contact details

Tel: 020 7292 3838  
Fax: 020 7292 3839  
Email: [enquiries@sthree.com](mailto:enquiries@sthree.com)  
Web: [www.sthree.com](http://www.sthree.com)

### Auditors

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

### Solicitors

**Linklaters**  
One Silk Street  
London  
EC2Y 8HQ

### Clifford Chance LLP

10 Upper Bank Street  
London  
E14 5JJ

### Registrars

#### Capita IRG Registrars

The Registry  
34 Beckenham Road  
Beckenham  
BR3 4TU  
Tel: 0870 162 3100  
Fax: 020 8658 3430  
Email: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)  
Web: [www.capitaregistrars.com](http://www.capitaregistrars.com)

### Depository Bank - ADRs

#### The Bank of New York Mellon

Investor Services  
P.O. Box 11258  
Church Street Station  
New York, NY 10286-1258  
Callers (Non US): 212-815-3700  
Callers (US): 1-888-BNY-ADR  
[www.adrbny.com](http://www.adrbny.com)

### Financial Advisers & Stockbrokers

#### UBS Investment Bank

1 Finsbury Avenue  
London  
EC2M 2PP

#### Investec Investment Banking

2 Gresham Street  
London EC2V 7QP

### Financial PR

#### Citigate Dewe Rogerson

3 London Wall Buildings  
London Wall  
London EC2M 5SY

# SThree plc

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Name: Justine Czesnik

Position: Recruitment Consultant

Birthplace: Warsaw, Poland

Why I work for SThree:

"Focus on teamwork, growth and rewards. Great place to be!"

# Interim Highlights

Interim Results for the Six Month Period Ended 3 June 2007



'The first-half of 2007 has seen the Group report a further strong set of results and it is particularly pleasing to once again report growth across all sectors and geographies. During the period we invested significantly in the future of the business in terms of human capital, systems, infrastructure and in further enhancing our geographical presence. These decisions were made to provide us with the foundations for a future business which is ever more multi-dimensional and geographically diverse. We feel that this broad-based performance further demonstrates the validity of our strategy and the scalability of the SThree business model. We therefore remain confident that the results achieved in the first half provide us with a strong platform to make further progress in the remainder of the year and beyond.'

Russell Clements,  
Chief Executive Officer

## Operational Highlights

- Strong first-half performance, continuing the trend since IPO in 2005
- Permanent placements increased by 31.8% to 4,580 in the first-half (2006: 3,475), with average fees increased by 10.2%
- Number of active contractors at period end increased by 14.7% to 4,974 (2006: 4,335), with average gross profit per day rates increased by 19.3%
- Information and Communications Technology ("ICT") business segment increased gross profit by 38.1% to £68.6m (2006: £49.7m)
- Further growth in non-ICT, with banking and finance, accountancy, human resources, engineering, pharmaceuticals, energy and job board businesses increasing gross profit by 46.8% to £13.9m (2006: £9.5m)
- Non-UK businesses continue to perform very strongly, with gross profit increased by 70.5% to £26.8m (2006: £15.7m). Longer-established UK businesses also grew by 28.3%
- Total headcount increased by 24.2% to 1,840 since year-end with sales consultant headcount up 17.6% to 1,051 over the same period
- Further expansion of international network, with new offices opened in Rotterdam and Brussels in the first-half, and further openings in Hong Kong and Dubai scheduled for the second half
- Basic earnings per share before exceptional items increased by 14.8% to 9.3p (2006: 8.1p)
- Interim dividend of 3.1p (2006: 2.4p) per share declared, an increase of 29.2%

# Operating Review

Interim Results for the Six Month Period Ended 3 June 2007

## Operating Review

The Group achieved another strong set of results in the first half, continuing the trends evidenced last year and in line with the Board's expectations at the beginning of the financial year.

Revenue for the six-month period ended 3 June 2007 increased by 35.1% to £240.4m (2006: £178.0m). Gross profit increased by 39.5% to £82.5m (2006: £59.2m). Operating profit before exceptional items increased by 29.7% to £19.6m (2006: £15.1m). As we indicated at the time of the full year results, the first half has seen a significant further investment in upgrading offices within the existing network as well as expanding into new geographical locations. In addition we launched non-ICT divisions into a number of brands that had hitherto solely addressed the ICT market and implemented the first stage of a major new ERP system roll-out. As a result of these factors the conversion ratio of operating profit (before exceptional items) to gross profit was 23.8% (2006: 25.6%). Profit before tax and exceptional items increased by 32.0% to £19.2m (2006: £14.5m). After taking account of the prior-year exceptional items, profit before tax grew by 54.0%.

In addition to our ongoing investment in human capital, we have continued to invest in our international office network and systems infrastructure. At 3 June 2007, staff numbers had increased since year-end to 1,840 (30 November 2006: 1,481) operating from 48 offices in 7 countries. Sales headcount increased by 17.6% to 1,051 over the same period. During the period under review, we extended our footprint in Benelux by opening new offices for Computer Futures in Rotterdam and for Huxley in Brussels. We continue to expand organically and during the second half of 2007 are planning to open offices in Hong Kong and Dubai, both of which are markets we are already successfully servicing remotely from London.

In early 2007 we implemented the first phase of a new Enterprise Resource Planning (ERP) system for the Group. The new system replaced

a number of non-scaleable legacy applications with the aim of providing an integrated platform to support our future international growth. As is common with systems implementation on this scale, there was some short-term disruption in the period immediately following its introduction, which mainly impacted cash collections. However, as the system matures we expect to start to see the flow through of additional benefits in terms of staffing efficiencies and other cost savings. In parallel with the ERP system we have begun the phased rollout of Siebel CRM to complement our proprietary front-office systems. This investment focuses on optimising our client database to support our ongoing expansion into new sectors and geographies.

## Permanent/Contract Contribution

The rate of growth in total Group gross profit accelerated during the first-half of 2007 to 39.5% (2006: 28.7%), with permanent and contract gross profit growing by 45.2% (2006: 40.5%) and 34.2% (2006: 19.5%) respectively. The ratio of gross profit between the contract and permanent segments reached 50:50 (2006: 52:48), reflecting the strength of the permanent business and our increased exposure to non-UK and non-ICT markets which tend to be more skewed towards permanent placements. The gross margin on contract placements increased slightly to 20.8% (2006: 20.6%).

The number of active contractors at the half-year end increased by 14.7% to 4,974, and we also saw a year-on-year increase in average gross profit per day rates of 19.3% to £71.24. This was partly due to continued flow-through of the management actions taken in the second half of 2006 to improve both the level of seniority of contractors placed and the contractual terms of the deals concluded. The number of permanent placements also increased significantly by 31.8% to 4,580. This was enhanced by an increase in average fees for the six-month period of 10.2% to £8,968. The latter is attributable to a combination of healthy levels of wage inflation,

coupled with our success in attracting higher-calibre business and placing better-qualified candidates.

## UK/Non-UK Contribution

Gross profit from UK-based clients continued to increase strongly, growing by 28.3% to £55.8m (2006: 24.1% to £43.5m). Gross profit from non-UK based clients accelerated even more rapidly by 70.5% to £26.8m (2006: 43.7% to £15.7m), reflecting our ongoing geographical expansion. Our non-UK business now represents 32.4% of Group gross profit (2006: 26.5%).

## ICT/Non-ICT Contribution

Gross profit from our ICT business increased rapidly by 38.1% to £68.6m (2006: 23.0% to £49.7m), reflecting the high level of non-UK growth which is currently predominantly ICT-based. Gross profit from non-ICT (banking and finance, accountancy, human resources, engineering, pharmaceuticals, energy and job board businesses) increased by 46.8% to £13.9m (2006: 70.4% to £9.5m). This growth was achieved against challenging comparatives and reflected our increased focus on non-ICT revenue streams. We are also starting to see encouraging early returns from a number of our recently-established teams.

## Brand Contribution

Gross profit from our four largest brands, Computer Futures, Huxley, Progressive and Pathway increased by 36.4%, 48.0%, 27.3% and 26.1%, respectively (2006: 14.8%, 41.3%, 20.2% and 39.8%). It is pleasing that our longest-established brands continue to post strong growth and have, in every case other than Pathway, increased the rate of growth in fee income, compared to the same period last year. Once again the exceptional performance of Huxley reflects not only its established presence in ICT, but also particularly strong growth outside the ICT sector, coupled with an increasing international presence such as its recently-established New York office and its increased exposure to the Far East.

# Operating Review

Interim Results for the Six Month Period Ended 3 June 2007

Our longest-established brand, Computer Futures, accelerated its growth significantly, helped from an extremely strong performance from its non-UK business. Here it is worth emphasising that virtually all of this growth came from ICT as this brand's expansion into newer sectors is still at an embryonic stage. A similar picture is seen at Progressive, our second longest-established brand. Although this brand has modestly greater exposure to non-ICT than Computer Futures, at this stage it is still largely delivering its impressive growth from its well-established ICT franchise. Pathway continues to grow healthily but in the face of tougher comparatives and is scheduled to begin its overseas expansion through the opening of an office in Dubai.

Gross profit from our smaller brands also continued to increase strongly by 49.3% to £17.8m (2006: 42.9% to £11.9m). On a selective basis some of these brands have begun trading with overseas clients from their UK offices and we see opportunities for these revenue streams to develop further through future openings of international offices. This initiative will see the IT Job Board and Real Resourcing open offices in Amsterdam by the end of the year.

## Taxation

The charge for taxation on profits before exceptional items amounted to £6.0m (2006: £4.2m), an effective tax rate of 31.3% (2006: 29.0%). Under Schedule 23 of the Finance Act 2003, the Group obtains a corporation tax deduction relating to the various share awards and options exercised. The amount of the tax deduction is calculated by reference to the share price at the time of award or exercise. As a consequence, there is a cash benefit to the Group of such tax deductions. Under IFRS this tax benefit is dealt with through equity. The total Schedule 23 tax benefit amounts to £9.1m.

## Earnings Per Share

Basic earnings per share before exceptional items increased by 14.8% to 9.3p (2006: 8.1p). After taking account of the prior-year exceptional items, earnings per share increased by 34.8%. Diluted earnings per share

before exceptional items increased by 13.9% to 9.0p (2006: 7.9p).

## Cash Flow

At the start of 2007, the Group had net debt of £2.8m. This increased significantly to £40.6m at the end of the first half. During the period, the Group generated £21.0m of cash before changes in working capital. We invested £5.8m in fixed and intangible assets mainly related to new office fit-out and ongoing development of our ERP and CRM systems. Tax paid amounted to only £0.4m due to the Schedule 23 benefits mentioned above and we paid dividends of £6.3m.

The principal cash flow movement was a £45.7m increase in working capital. This was partly due to increased business activity, but in the main related to a significant increase in debtor days from 54 to 80, following the implementation of the new ERP system and the associated restructuring and relocation of the relevant departments onto a single site. This combination of factors had a significant short-term impact on cash collection activity in the immediate post-implementation period.

We have proactively addressed these issues and as we work through the collection backlog we are already starting to see a significant improvement in debtor days and cash. As at 20 July 2007, net debt had reduced significantly from the half-year position to approximately £19m. We are therefore confident that any outstanding collection issues will be resolved by year-end, at which point we expect debtor days to have improved substantially and for the Group to be moderately cash positive.

## Dividends

It is the Board's intention to pay dividends at a level that it believes is sustainable throughout the economic cycle and is in line with comparable quoted businesses' dividend cover. The Board proposes to pay an interim dividend of 3.1p (2006: 2.4p) per share, an increase of 29.2%. The interim dividend will be paid on 7 December 2007 to those shareholders on the register at 9 November 2007.

## Current Trading and Future Prospects

The first half of 2007 has seen the Group report a further strong set of results and it is particularly pleasing to once again report growth across all sectors and geographies. This reflects the fact that trading conditions in the specialist recruitment markets we service remain positive. During the period we invested significantly in the future of the business in terms of human capital, systems, infrastructure and in further enhancing our geographical presence. These decisions were made to provide us with the foundations for a future business which is ever more multi-dimensional and geographically diverse.

Our UK business continues to demonstrate its capacity to deliver robust growth and its position will be strengthened further as we increasingly add new sector disciplines alongside our core ICT franchise. Our non-UK business has performed exceptionally well and it is encouraging to see that this applies both to markets with substantial structural growth potential such as those of continental Europe and the Far East, as well as more established markets such as the U.S. Indeed, although still in its relatively early stages, the experience of our US business suggests that the future potential of the American market could be significantly greater than we first anticipated.

We feel that this broad-based performance further demonstrates the validity of our strategy and the scalability of the STthree business model. We therefore remain confident that the results achieved in the first half provide us with a strong platform to make further progress in the remainder of the year and beyond.



**Russell Clements**  
CHIEF EXECUTIVE OFFICER

# SThree plc

## Consolidated Income Statement – unaudited

for the six months ended 3 June 2007

Six months ended 3 June 2007

	Note	Ordinary activities £'000
<b>Revenue</b>	2	240,387
Cost of sales		(157,875)
<b>Gross profit</b>	2	82,512
Administrative expenses	3	(63,022)
Other operating income		132
<b>Operating profit</b>		19,622
Finance income		3
Finance cost		(482)
Share of profit of joint venture		31
<b>Profit before taxation</b>		19,174
Taxation	4	(6,008)
<b>Profit for the period</b>		<b>13,166</b>
Attributable to:		
Equity holders of the Company		12,053
Minority interest		1,113
		<b>13,166</b>
<b>Earnings per share</b>	6	<b>pence</b>
Basic		9.3
Diluted		9.0

*All amounts relate to continuing operations.*

An interim dividend of 3.1 pence (2006: 2.4 pence) per Ordinary Share will be paid on 7 December 2007 to shareholders on the register at the close of business on 9 November 2007.

The second interim dividend of 4.8 pence (2006: Nil) per Ordinary Share was paid on 4 June 2007.

**Six months ended 31 May 2006**

**Year ended 30 November 2006**

Ordinary activities	Exceptional items	Total	Ordinary activities	Exceptional items	Total
£'000	£'000	£'000	£'000	£'000	£'000
177,993	–	177,993	393,262	–	393,262
(118,829)	–	(118,829)	(257,742)	–	(257,742)
59,164	–	59,164	135,520	–	135,520
(44,038)	(2,068)	(46,106)	(94,487)	(22,143)	(116,630)
–	–	–	–	–	–
15,126	(2,068)	13,058	41,033	(22,143)	18,890
84	–	84	432	–	432
(738)	–	(738)	(1,284)	–	(1,284)
49	–	49	89	–	89
14,521	(2,068)	12,453	40,270	(22,143)	18,127
(4,214)	621	(3,593)	(12,289)	6,242	(6,047)
<b>10,307</b>	<b>(1,447)</b>	<b>8,860</b>	<b>27,981</b>	<b>(15,901)</b>	<b>12,080</b>
10,173	(1,447)	8,726	27,703	(15,901)	11,802
134	–	134	278	–	278
<b>10,307</b>	<b>(1,447)</b>	<b>8,860</b>	<b>27,981</b>	<b>(15,901)</b>	<b>12,080</b>
<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>
8.1	(1.2)	6.9	22.4	(12.9)	9.5
7.9	(1.1)	6.8	21.4	(12.3)	9.1

# SThree plc

## Consolidated Statement of Changes in Equity – unaudited as at 3 June 2007

	Share capital	Share premium	Capital reserve	Currency translation reserve	Retained earnings	Attributable to Company's shareholders	Minority Interest	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 30 November 2005</b>	<b>1,380</b>	<b>2,925</b>	<b>878</b>	<b>(146)</b>	<b>24,050</b>	<b>29,087</b>	<b>171</b>	<b>29,258</b>
Deferred tax on employee share options	–	–	–	–	2,337	2,337	–	2,337
Current tax on employee share awards and share options	–	–	–	–	1,231	1,231	–	1,231
Currency translation differences	–	–	–	63	–	63	–	63
Net income recognised in equity	–	–	–	63	3,568	3,631	–	3,631
Profit for the 6 months to 31 May 2006	–	–	–	–	8,726	8,726	134	8,860
Total recognised income for the period	–	–	–	63	12,294	12,357	134	12,491
Employee share award and share option credit	–	–	–	–	1,874	1,874	–	1,874
Total movements in equity	–	–	–	63	14,168	14,231	134	14,365
<b>Balance at 31 May 2006</b>	<b>1,380</b>	<b>2,925</b>	<b>878</b>	<b>(83)</b>	<b>38,218</b>	<b>43,318</b>	<b>305</b>	<b>43,623</b>
Currency translation differences	–	–	–	(165)	–	(165)	–	(165)
Deferred tax on employee share options	–	–	–	–	(283)	(283)	–	(283)
Current tax on employee share awards and share options	–	–	–	–	3,185	3,185	–	3,185
Net income/(expense) recognised directly in equity	–	–	–	(165)	2,902	2,737	–	2,737
Profit for the six months to 30 November 2006	–	–	–	–	3,076	3,076	144	3,220
Total recognised income and expense for the period	–	–	–	(165)	5,978	5,813	144	5,957
Repurchase of minority interest	–	–	–	–	–	–	(36)	(36)
Dividends paid (note 5)	–	–	–	–	(3,038)	(3,038)	(65)	(3,103)
Employee share award and share option credit	–	–	–	–	17,670	17,670	–	17,670
Total movements in equity	–	–	–	(165)	20,610	20,445	43	20,488
<b>Balance at 30 November 2006</b>	<b>1,380</b>	<b>2,925</b>	<b>878</b>	<b>(248)</b>	<b>58,828</b>	<b>63,763</b>	<b>348</b>	<b>64,111</b>
Currency translation differences	–	–	–	73	–	73	–	73
Deferred tax on employee share options	–	–	–	–	494	494	–	494
Current tax on employee share awards and share options	–	–	–	–	9,136	9,136	–	9,136
Net income recognised directly in equity	–	–	–	73	9,630	9,703	–	9,703
Profit for the six months to 3 June 2007	–	–	–	–	12,053	12,053	1,113	13,166
Total recognised income for the period	–	–	–	73	21,683	21,756	1,113	22,869
Dividends paid (note 5)	–	–	–	–	(6,345)	(6,345)	–	(6,345)
New share issue	1	–	–	–	–	1	–	1
Employee share award and share option credit	5	–	–	–	131	136	–	136
Total movements in equity	6	–	–	73	15,469	15,548	1,113	16,661
<b>Balance at 3 June 2007</b>	<b>1,386</b>	<b>2,925</b>	<b>878</b>	<b>(175)</b>	<b>74,297</b>	<b>79,311</b>	<b>1,461</b>	<b>80,772</b>

# SThree plc

## Consolidated Balance Sheet – unaudited as at 3 June 2007

		3 June 2007	31 May 2006	30 November 2006
	Note	£'000	£'000	£'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets – other		6,033	68	3,012
Intangible assets – goodwill		364	–	364
Property, plant and equipment		5,038	2,623	3,558
Assets under construction		–	790	–
Investment in joint venture		120	49	89
Deferred tax asset		12,062	12,115	11,459
		23,617	15,645	18,482
<b>Current assets</b>				
Trade and other receivables		148,339	83,761	92,585
Current tax debtor		3,981	–	533
Cash and cash equivalents		–	2,468	2,440
		152,320	86,229	95,558
<b>Total assets</b>	2	175,937	101,874	114,040
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Provisions for liabilities and charges		(345)	(484)	(188)
Trade and other payables		(48,010)	(38,342)	(39,024)
Financial liabilities – borrowings		(40,545)	(12,250)	(5,281)
Current tax liabilities		–	(1,114)	–
		(88,900)	(52,190)	(44,493)
<b>Non-current liabilities</b>				
Provisions for liabilities and charges		(6,265)	(6,061)	(5,436)
		(6,265)	(6,061)	(5,436)
<b>Total liabilities</b>		(95,165)	(58,251)	(49,929)
<b>Net Assets</b>		80,772	43,623	64,111
<b>EQUITY</b>				
<b>Capital and reserves attributable to the Company's shareholders</b>				
Share capital		1,386	1,380	1,380
Share premium		2,925	2,925	2,925
Capital reserve		878	878	878
Currency translation reserve		(175)	(83)	(248)
Retained earnings		74,297	38,218	58,828
		79,311	43,318	63,763
Minority interest		1,461	305	348
<b>Total equity</b>		80,772	43,623	64,111

# SThree plc

## Consolidated Cash Flow Statement – unaudited for the six months ended 3 June 2007

		6 months 3 June 2007	31 May 2006	Year ended 30 November 2006
	Note	£'000	£'000	£'000
<b>Cash flows from operating activities</b>				
Cash (used in)/generated from operating activities	7	(24,679)	(179)	15,025
Income tax (paid)/received		(429)	1,978	1,459
Net cash (used in)/generated from operating activities		(25,108)	1,799	16,484
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		(2,758)	(1,446)	(2,442)
Purchase of intangible assets		(3,021)	–	(3,001)
Proceeds from disposal of property, plant and equipment		–	56	56
Net cash used in investing activities		(5,779)	(1,390)	(5,387)
<b>Cash flows from financing activities</b>				
Drawdown on loan facility		39,000	3,250	–
Repayment of loan stock		–	–	(8,000)
Foreign exchange from financing activities		–	–	265
Interest received		3	84	167
Interest paid		(482)	(738)	(1,284)
Purchase of minority interest		–	–	(400)
Proceeds from issue of ordinary shares		6	–	–
Dividends paid		(6,345)	–	(3,038)
Dividends paid to minority interest		–	–	(65)
Net cash generated from/(used in) financing activities		32,182	2,596	(12,355)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,295</b>	<b>3,005</b>	<b>(1,258)</b>
Cash and cash equivalents at beginning of the period		(1,841)	(550)	(550)
Exchange gains/(losses) on cash and cash equivalents		1	13	(33)
<b>Cash and cash equivalents at the end of the period</b>	<b>8</b>	<b>(545)</b>	<b>2,468</b>	<b>(1,841)</b>

# SThree plc

## Notes to the Financial Statements – unaudited

### 1. Accounting policies

The consolidated interim financial statements are for the six months ended 3 June 2007. These financial statements have been prepared in accordance with accounting policies expected to be followed for the year ending 2 December 2007 and the Listing Rules of the London Stock Exchange. European Union (EU) law requires that the consolidated financial statements for the year ending 2 December 2007 be prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Committee (IFRIC) interpretations as adopted by the European Union in response to the IAS regulation (EC 1606.2002), under the historic cost convention modified to include revaluation of certain financial instruments. The interim financial statements are unaudited but have been reviewed by the auditors and their report is set out on page 20.

SThree plc's accounting policies, as set out below, have been consistently applied to all the periods presented, unless otherwise stated.

#### Consolidation

The consolidated financial statements incorporate the financial statements of SThree plc and of its subsidiaries, together with the Group's share of the results of its joint ventures. Subsidiaries are all entities over which SThree plc has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to SThree plc; they are de-consolidated from the date when control ceases. Joint ventures are defined as where the Group has joint control and are accounted for using the equity method of accounting.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### Foreign currencies

Items included in the financial statements of each of SThree plc's subsidiaries are measured using the currency of the primary economic environment in which that subsidiary operates (its "functional currency"). The consolidated financial statements of SThree plc are presented in sterling which is SThree plc's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

The results and financial position of all of SThree plc's subsidiaries (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from SThree plc's presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

#### Intangible assets

##### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is included in intangible assets and is tested annually for impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

# SThree plc

## Notes to the Financial Statements – unaudited

### 1. Accounting policies (continued)

#### *Computer software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives.

Costs that are directly associated with the production of identifiable and unique software products, controlled by SThree plc and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the employee costs of the development team and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their expected useful lives (not exceeding five years). Amortisation will commence once the computer software is fully implemented and put into use.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

#### *Trademarks*

Trademarks are recognised at cost. They have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives.

#### **Property plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight line method to allocate the depreciable value of property, plant and equipment to the income statement over their useful economic lives as follows:

Furniture, fittings and equipment	20%
Computer equipment	33.33%
Motor vehicles	33.33%
Leasehold improvements	20%

Assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to SThree plc and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

#### **Impairment of assets**

Assets that have an indefinite life are not subject to amortisation and are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

#### **Trade receivables**

Trade receivables are measured at cost, less any provision necessary when there is objective evidence that SThree plc will not be able to collect all amounts due.

# SThree plc

## Notes to the Financial Statements – unaudited

### 1. Accounting policies (continued)

#### Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

#### Assets leased under an operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight line basis over the lease periods.

#### Provisions, contingent liabilities and contingent assets

Provisions for dilapidations, onerous leases and deemed employment exposures are recognised when SThree plc has a legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are recognised as the present value of the expenditures expected to be required to settle the obligation. No provision is recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. A provision may be recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

#### Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### Employee benefits

– Pension obligations – SThree plc has defined contribution plans and pays contributions to privately administered pension plans on a mandatory, contractual or voluntary basis. SThree plc has no further payment obligations once the contributions have been paid.

– Bonus plans – SThree plc recognises a liability and an expense for bonuses based on the Directors' best estimate of the amounts due. SThree plc recognises a provision where contractually obliged or where there is a past practice of payments that has created a constructive obligation.

– Termination benefits – Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for those benefits. SThree plc recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

# SThree plc

## Notes to the Financial Statements – unaudited

### 1. Accounting policies (continued)

#### Employee Benefit Trusts

The Employee Benefit Trusts ("EBT") were funded by gifts from certain SThree plc shareholders and Directors. The assets and liabilities of the EBT are consolidated into the SThree plc consolidated financial statements.

The EBTs' only assets are the shares in SThree plc which were gifted and hence no cost is attributed to those shares and no amounts are shown in SThree plc's financial statements.

#### Share-based compensation

The shares in the EBT are held for awards and grants under the employee share award and share option schemes.

Where shares are awarded, the fair value of the shares on the date of the grant is charged to the income statement in the year of grant, or over the period to which any performance criteria relate until the vesting date. Corresponding adjustment is made to equity.

Where options are awarded, the fair value of the share options on the date of grant is charged to the income statement over the vesting period of the share option, based on the number of options which are expected to become exercisable. A corresponding adjustment is made to equity. At each balance sheet date, SThree revises its estimates of the number of options that are expected to become exercisable and recognises the impact of any revision of original estimates in the income statement.

#### Revenue

Revenue represents sales to third parties for services provided during the period, excluding value added tax and other sales taxes outside the UK.

Contract revenue for the supply of professional services is based on the number of hours worked by a contractor.

Revenue for permanent placements is recognised when employment candidates commence employment.

#### Exceptional items

Items which are non-recurring and sufficiently material are presented separately within their relevant consolidated income statement category. The separate reporting of such items helps provide a better indication of the Group's underlying business performance.

# SThree plc

## Notes to the Financial Statements – unaudited

### 2. Segmental analysis

As the Group operates in one business segment, being that of recruitment services, no additional business segment information is required to be provided. The Group's secondary segment is geographical and the segmental results by geographical area are shown below.

	By location of client			By location of operating company		
	Six months ended 3 June 2007	31 May 2006	Year ended 30 November 2006	Six months ended 3 June 2007	31 May 2006	Year ended 30 November 2006
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Revenue</b>						
United Kingdom	171,557	134,676	295,666	222,889	168,750	372,563
Europe and rest of the world	68,830	43,317	97,596	17,498	9,243	20,699
	<b>240,387</b>	<b>177,993</b>	<b>393,262</b>	<b>240,387</b>	<b>177,993</b>	<b>393,262</b>
<b>Gross profit</b>						
United Kingdom	55,750	43,469	98,937	66,815	51,663	118,612
Europe and rest of the world	26,762	15,695	36,583	15,697	7,501	16,908
	<b>82,512</b>	<b>59,164</b>	<b>135,520</b>	<b>82,512</b>	<b>59,164</b>	<b>135,520</b>
<b>Operating profit</b>						
<i>Operating profit before exceptional items</i>						
United Kingdom				17,459	13,339	38,659
Europe and rest of the world				2,163	1,787	2,374
				19,622	15,126	41,033
<i>Exceptional items:</i>						
United Kingdom				–	(2,068)	(22,143)
				<b>19,622</b>	<b>13,058</b>	<b>18,890</b>
<b>Total assets</b>						
United Kingdom				145,688	96,140	106,193
Europe and rest of the world				30,249	5,734	7,847
				<b>175,937</b>	<b>101,874</b>	<b>114,040</b>
<b>Capital expenditure</b>						
United Kingdom				5,422	1,446	5,154
Europe and rest of the world				357	–	289
				<b>5,779</b>	<b>1,446</b>	<b>5,443</b>

# SThree plc

## Notes to the Financial Statements – unaudited

### 2. Segmental analysis (continued)

The following segmental analyses, by brand, by recruitment classification and by discipline, have been included as additional disclosure over and above the requirements of IAS 14 "Segment Reporting".

	Revenue			Gross profit		
	Six months ended 3 June 2007	31 May 2006	Year ended 30 November 2006	Six months ended 3 June 2007	31 May 2006	Year ended 30 November 2006
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Brand</b>						
Computer Futures Solutions	68,748	51,492	113,391	23,111	16,948	36,749
Huxley Associates	60,413	39,654	91,198	22,159	14,973	35,609
Progressive Computer Recruitment	44,254	36,375	77,288	14,087	11,070	24,777
Pathway	21,363	16,769	36,649	5,400	4,281	9,469
Others	45,609	33,703	74,736	17,755	11,892	28,916
	<b>240,387</b>	<b>177,993</b>	<b>393,262</b>	<b>82,512</b>	<b>59,164</b>	<b>135,520</b>
<b>Recruitment classification</b>						
Contract	199,313	149,707	327,459	41,438	30,878	69,717
Permanent	41,074	28,286	65,803	41,074	28,286	65,803
	<b>240,387</b>	<b>177,993</b>	<b>393,262</b>	<b>82,512</b>	<b>59,164</b>	<b>135,520</b>
<b>Discipline</b>						
Information & communication technology	217,523	160,862	351,038	68,570	49,666	111,121
Other <sup>(1)</sup>	22,864	17,131	42,224	13,942	9,498	24,399
	<b>240,387</b>	<b>177,993</b>	<b>393,262</b>	<b>82,512</b>	<b>59,164</b>	<b>135,520</b>

<sup>(1)</sup> Including banking and finance, accountancy, human resources, engineering, pharmaceutical and jobboard sectors.

# SThree plc

## Notes to the Financial Statements – unaudited

### 3. Administrative expenses – exceptional items

	Six months ended 3 June 2007	31 May 2006	Year ended 30 November 2006
	£'000	£'000	£'000
Employee share awards and share options	–	1,874	19,544
Employer's National Insurance on share awards, share options and related costs	–	194	2,599
	–	<b>2,068</b>	<b>22,143</b>

Certain employees received share awards and share options at flotation and subsequently under related arrangements. In accordance with IFRS 2 "Share-based Payment", a charge has been reflected in the income statement, with a corresponding charge for Employer's National Insurance.

# SThree plc

## Notes to the Financial Statements – unaudited

### 4. Taxation

		Six months ended 3 June 2007	31 May 2006	Year ended 30 November 2006
		£'000	£'000	£'000
Current tax	– United Kingdom	4,776	2,801	4,339
	– Overseas	1,451	729	1,099
Deferred tax		(219)	63	609
		<b>6,008</b>	<b>3,593</b>	<b>6,047</b>

The total tax charge is in line with the standard rate of corporation tax in the UK (30%).

In the six months to 3 June 2007 a current tax credit of £9.1m (31 May 2006: £1.2m; 30 November 2006: £4.4m) has been taken directly to equity under IFRS 2 "Share-based Payment" and IAS 12 "Income Taxes".

On 21 March 2007, the Chancellor of the Exchequer announced in his Budget Statement that the rate of UK corporation tax is to be reduced from 30% to 28% with effect from April 2008. As this change was announced after the balance sheet date, it is a non-adjusting event and hence the amount recognised in deferred tax as at 3 June 2007 has not been adjusted to reflect the new rate of tax. If the new rate had been applied, the deferred tax asset would have been reduced by £0.5m, of which £0.1m would have been taken through the Income statement.

### 5. Dividends

	Six months ended 3 June 2007	31 May 2006	Year ended 30 November 2006
	£'000	£'000	£'000
<b>Amounts paid as distributions to equity holders in the period:</b>			
Dividend paid of 4.8p (2006: 2.4p) per Ordinary Shares	6,345	–	3,038
<b>Amounts proposed as distributions to equity holders in the period:</b>			
Proposed interim dividend for the six months ending 3 June 2007 of 3.1p (2006: 2.4p) per Ordinary Share	4,011	3,038	–

An interim dividend of 3.1 pence (2006: 2.4 pence) per Ordinary Share will be paid on 7 December 2007 to shareholders on the register at the close of business on 9 November 2007.

The proposed interim dividend was approved by the Board on 20 July 2007.

# SThree plc

## Notes to the Financial Statements – unaudited

### 6. Earnings per share

	Six months ended 3 June 2007	31 May 2006	Year ended 30 November 2006
	£'000	£'000	£'000
<b>Earnings</b>			
Profit for the period	12,053	8,726	11,802
Effect of exceptional items (net of tax)	–	1,447	15,901
Profit for the period excluding exceptional items	<b>12,053</b>	<b>10,173</b>	<b>27,703</b>
	millions	millions	millions
<b>Number of shares</b>			
Weighted average number of shares used for basic EPS	129.3	125.9	123.9
Dilution effect of share plans	5.1	2.1	5.8
Diluted weighted average number of shares used for diluted EPS	<b>134.4</b>	<b>128.0</b>	<b>129.7</b>
	pence	pence	pence
<b>Basic</b>			
Basic earnings per share	9.3	6.9	9.5
Basic earnings per share excluding exceptional items	9.3	8.1	22.4
<b>Dilutive</b>			
Diluted earnings per share	9.0	6.8	9.1
Diluted earnings per share excluding exceptional items	9.0	7.9	21.4

*All earnings are derived from continuing operations*

# SThree plc

## Notes to the Financial Statements – unaudited

### 7. Cash flows from operating activities

	Six months ended 3 June 2007	31 May 2006	Year ended 30 November 2006
	£'000	£'000	£'000
Profit before taxation	19,174	12,453	18,127
Adjustments for:			
Depreciation and amortisation	1,278	708	1,556
Loss on disposal of property, plant and equipment	–	23	116
Non-cash element of the charge for share awards and share options	119	1,874	19,544
Profit attributable to the joint venture	(31)	(49)	(89)
Interest receivable	(3)	(84)	(167)
Interest payable	482	738	1,284
Foreign exchange from financing activities	–	–	(265)
Operating cashflow before changes in working capital and provision	21,019	15,663	40,106
Changes in working capital and provisions:			
Increase in debtors	(55,670)	(8,842)	(17,760)
Increase/(decrease) in creditors	8,986	(7,728)	(7,128)
Increase in provisions	986	728	(193)
Cash (used in)/generated from operations	(24,679)	(179)	15,025

### 8. Cash and cash equivalents

	Six months ended 3 June 2007	31 May 2006	Year ended 30 November 2006
	£'000	£'000	£'000
Cash and cash equivalents include the following for the purposes of the cash flow statement:			
Cash at bank and in hand	–	2,468	2,440
Bank overdrafts	(545)	–	(4,281)
	(545)	2,468	(1,841)

# SThree plc

## Notes to the Financial Statements – unaudited

### 9. Capital commitments

The Group had capital commitments of £1.5m (31 May 2006: £5.8m; 30 November 2006: £0.1m).

### 10. Basis of preparation

The financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. Statutory accounts for the year ended 30 November 2006, which were prepared under accounting policies generally accepted in the UK, have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement made under Section 237(2) or Section 237(3) of the Companies Act 1985.

### 11. Date of approval of interim statements

The interim announcement covers the period 1 December 2006 to 3 June 2007 and was approved by the Board on 20 July 2007.

The interim report will be sent to shareholders in due course. Further copies will be available from the Company's registered office, 41-44 Great Windmill Street, London W1D 7NB, and can be accessed on the SThree website, [www.sthree.com](http://www.sthree.com).

# Review Report

## Independent review report to SThree plc

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### Introduction

We have been instructed by the company to review the financial information for the six-month period ended 3 June 2007 which comprises the consolidated income statement, the statement of changes in equity, the consolidated balance sheet, the consolidated cash-flow statement, the comparative figures and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

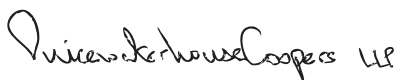
This interim report has been prepared in accordance with the basis set out in the interim report.

### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six-month period ended 3 June 2007.



PricewaterhouseCoopers LLP  
Chartered Accountants  
London  
20 July 2007

### Notes:

- (a) The maintenance and integrity of the SThree plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.





# SThree plc

## Shareholder Information

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### Shareholders Enquiries and Electronic Communications - [www.capitaregistrars.com](http://www.capitaregistrars.com)

Any shareholders with enquiries relating to their shareholding should, in the first instance, contact Capita Registrars. Shareholders who would prefer to view documentation electronically can elect to receive automatic notification by e-mail each time the Company distributes documents, instead of receiving a paper version of such documents, by registering a request at the Registrar's website, [www.capitaregistrars.com](http://www.capitaregistrars.com).

There is no fee for using this service and you will automatically receive confirmation that a request has been registered. Should you wish to change your mind or request a paper version of any document in the future, you may do so by contacting the Registrar by e-mail or by post.

To access your account, you will need to have your shareholder reference available when you first log in, which may be found on your dividend voucher, share certificate or form of proxy. The facility also allows shareholders to view their holding details, find out how to register a change of name or what to do if a share certificate is lost, as well as download forms in respect of changes of address, dividend mandates and share transfers.

### Share price information

Information on the Company's share price can be found on [www.sthree.com](http://www.sthree.com), or via the FT Cityline Service, telephone 0906 003 0000 (code 3912). Calls are charged at 60p per minute from a BT landline, and charges from other telephone networks may vary.

### Share dealing service

A share dealing service for the purchase or sale of shares in SThree plc is available through:

Hargreave Hale Limited  
Accurist House, 44 Baker Street,  
London W1U 7AL  
Tel: 0207 0094900  
Fax: 0207 0094999  
Att: Mark Chadwick ([mc@hargreave.com](mailto:mc@hargreave.com))

### ShareGift

The Orr Mackintosh Foundation operates a charity share donation scheme for shareholders with small parcels of shares whose value may make it uneconomic to sell. Details of the scheme are available from:

ShareGift at [www.sharegift.org](http://www.sharegift.org)  
Telephone 0 20 7828 1151

### Financial Calendar 2007/8

Half-year period end – 3 June 2007  
Interim results announced – 23 July 2007  
Ex-div date for interim dividend – 7 Nov 2007  
Record date for interim dividend – 9 Nov 2007  
Interim dividend payable – 7 Dec 2007  
Financial year period end – 2 Dec 2007  
Full-year results announced – February 2008  
Annual General Meeting – April/May 2008  
Final dividend payable – Mid-June 2008

