SThree plc
Report & Accounts 2007

SThree plc

Company Information and Corporate Advisers

Executive Directors

Russell Clements
Sunil Wickremeratne
David Tilston

Non-Executive Directors

Sir Anthony Cleaver
Paul Bowtell
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
Web: www.sthree.com

Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Registrars (ordinary shares)

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
BR3 4TU
Tel: (UK) 0871 664 0300*
Tel: (Non UK) +44 208 639 3399
Fax: 020 8658 3430
Email: ssd@capitaregistrars.com
Web: www.capitaregistrars.com
* Calls at 10p per minute plus network extras

Solicitors

Linklaters
One Silk Street
London
EC2Y 8HQ

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

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

Contents

From left to right: Paul Bowtell, Sir Anthony Cleaver, Alicja Lesniak, Russell Clements
Steve Hornbuckle, Tony Ward, Sunil Wickremeratne, Brian McBride

Board of Directors and Secretary

Year ended 2 December 2007

The Board brings together a wealth of experience across differing sectors and businesses on an international basis. Most importantly they share a passion for the business and the outstanding opportunities ahead.

Chairman

Sir Anthony Cleaver (age 69) has served as SThree's Non-Executive Chairman since July 2000 and sits on the SThree Nomination Committee. He spent the majority of his career with IBM, where he served as European Vice-President of Marketing and Chairman and Chief Executive in the United Kingdom. Sir Anthony has also served as Chairman of the Nuclear Decommissioning Authority, IX Europe plc, United Kingdom Atomic Energy Authority, AEA Technology plc, General Cable plc, and the Medical Research Council, and as a Non-Executive Director of Lockheed Martin UK Limited. He currently serves as Chairman of Novia Holdings Limited, Working Links (Employment) Limited, the Engineering and Technology Board, and as a Director of the Links Foundation. Sir Anthony was President of the Chartered Management Institute.

Chief Executive Officer

Russell Clements (age 43) has served as SThree's Chief Executive Officer since 2004 having previously held the position of Deputy Chief Executive Officer since 2001. He worked for VNU Business Publications, a Dutch international publishing company, before joining Computer Futures in 1986 shortly after its inception. He subsequently served as Director and as Joint Managing Director of Computer Futures. Russell holds a degree in Government from the University of Essex and is also a graduate of the Advanced Management Program at the Wharton Business School, University of Pennsylvania. He is former Chairman of the Association of Technology Staffing Companies (ATSCo).

Chief Operating Officer

Sunil Wickremeratne (age 43) has served as SThree's Chief Operating Officer since 2004 having previously been Managing Director of Progressive. After working for VNU Business Publications, he joined Computer Futures in 1988 and subsequently established Progressive in 1990, Pathway in 1997 and Real I.T. Resourcing in 1998. Sunil holds a degree in Economics from University College, London.

Interim Chief Financial Officer

David Tilston (age 50) joined SThree in January 2008 and is currently Non-Executive and Audit Committee Chairman of Sepura plc, having been Finance Director of Victrex plc from 1997 to 2000 and Finance Director of OverNet Data plc from 2000 to 2004, the latter of which was floated on AIM. He has also held senior finance roles in a number of FTSE 250 and other large UK listed plcs. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of The Association of Corporate Treasurers, where he is currently a member of its Audit and Remuneration Committee.

Non-Executive Director (Senior Independent Non-Executive Director)

Brian McBride (age 52) has served as a Non-Executive Director of SThree since 2001 and sits on the SThree Remuneration, Audit and Nomination Committees. Brian has over twenty-seven years of experience in the IT industry and has worked at Xerox, IBM, Crossfield Electronics, Madge Networks, Lucent, Dell Computers and T-Mobile UK. He is currently Managing Director of Amazon.co.uk and a Non-Executive Director of the football club, Celtic PLC. Brian holds a Masters degree in Economic History from Glasgow University.

Non-Executive Director

Alicja Lesniak (age 56) was appointed to the SThree Board in May 2006 and to the SThree Audit Committee in July 2006 and the Remuneration Committee in February 2008. Alicja is currently a Non-Executive Director of DTZ Holdings plc and CFO of Aegis plc and has over thirty years experience in fast moving service businesses, in the latter twenty years holding senior financial and managerial roles within the advertising/media sector, including seven years with BBDO Worldwide, latterly as Chief Financial Officer for BBDO EMEA, and seven years at WPP Group plc, where she held positions as Chief Financial Officer for Ogilvy & Mather Worldwide and Managing Director of J Walter Thompson in the UK. Prior to joining the advertising sector she held senior management positions with Arthur Andersen & Co, having originally qualified as a Chartered Accountant with them in 1976. Alicja is a Fellow of the Institute of Chartered Accountants in England & Wales and holds a degree in Mathematics from Imperial College.

Non-Executive Director

Tony Ward, OBE (age 58) was appointed to the SThree board Board in August 2006 and to the SThree Remuneration and Nomination Committees in October 2006. Tony currently chairs the Remuneration Committee and has over thirty years experience in a variety of senior executive roles with blue chip companies, including BAA plc, Kingfisher plc and Grand Metropolitan Group plc. He joined BAA in 1997 as Group HR Director and was Services Director from 1999 until March 2007, being responsible for activities including IT, Security, Rail and Airside Operations. Tony was a board director of BAA plc between November 1999 and July 2006. Tony is a Non-Executive Director of the OCS Group Limited, and an advisor to Manchester Square Partners LLP; a Fellow of the Chartered Institute of Personnel Development; a former Deputy Chairman of the Commission for Racial Equality; and a graduate of the university of Leeds.

Non-Executive Director

Paul Bowtell (age 39) was appointed to the SThree Board and as Chairman of the SThree Audit Committee, in November 2007 and is currently Chief Financial Officer of TUI Travel PLC, the company formed through the merger of First Choice Holidays plc and the tourism businesses of TUI AG. Paul has extensive experience gained from senior finance roles in a variety of companies including First Choice Holidays PLC, British Gas, a subsidiary of Centrica plc, where he was appointed Finance Director in 2002. Prior to that, Paul was with W H Smith plc, where he held a number of corporate centre roles before becoming Finance Director of the UK Retail business, as well as senior tax roles at Forte and Arthur Andersen. Paul is an Associate of the Institute of Chartered Accountants in England and Wales.

Company Secretary

Steve Hornbuckle, (age 40) was appointed to the role in October 2006. Steve has over twenty years company secretarial experience, having held Deputy and Assistant Secretary positions within a variety of listed companies, including Intertek Group plc, BPB plc, Kidde plc, Railtrack Group plc, London & Manchester Group plc and English China Clays plc. Steve is a Fellow of the Institute of Chartered Secretaries.

Name: **Jason French**

Position: **Business Sales Leader, Progressive, Sydney**

Birthplace: **Perth, Austrailia**

Why I work for SThree:

"Working for SThree has created opportunities of a life time."

Chairman's Statement

Year ended 2 December 2007

In our third Annual Report as a listed Company, I am very pleased to say that, during the year, we have continued to build on the excellent progress made in both 2005 and 2006. The support we received from institutional investors at flotation has also continued, albeit in turbulent trading during the latter half of the year, and we have refined, as well as further strengthened, our core strategy, business model and market position, while working hard to deliver growth and positive returns for all shareholders.

Throughout this time, our business focus has been to continue to deliver strong, profitable growth and this focus has again generated a strong performance across our business. We grew turnover and gross profits by 32.9% and 34.8%, respectively, and operating profit by 27.6% to £52.3m; with the exception of the unbudgeted additional one-off costs caused by the roll-out of major ERP package and associated business process re-engineering, these results are in line with the Board's expectations, once again reflecting the quality of the Company and its management team at all levels.

As in previous years, our clear strategy focuses on pursuing organic growth through continued development of the Group's well-established UK Information, Communication and Technology ("ICT") staffing business, while also increasing the Group's revenues from other sectors and countries. Our business model will continue to prioritise high quality over high volume and seek to optimise the superior margins we consistently achieve as a consequence of this approach. Our multi-brand strategy and highly diversified client base will, as ever, be crucial in achieving this goal and we believe that all current SThree businesses have excellent scope for further growth. However, as always, we will remain open-minded with regard to the launch of new ventures, continuing to back home-grown entrepreneurial talent, utilising the established minority-stakes model where appropriate, and expanding beyond our existing base in the UK, the Netherlands, Belgium, France, Germany, Ireland and the USA, into new markets in Hong Kong, Australia and Dubai.

As always, there will be competitive and market challenges ahead of us. Nevertheless we take confidence from the Group's long track record of success to date and look forward to seeing the achievements of the last financial year acting as a platform for further substantial progress in the new year, whilst maintaining flexibility to adapt to any change in market conditions.

The Directors recommend a final dividend of 6.2p per share for the year ended 2 December 2007, to be paid on 9 June 2008, to those on the register as at 2 May 2008. This follows the interim dividend of 3.1p per share declared earlier in the year and paid in December 2007. A detailed review of trading and results is provided in the Chief Executive Officer's and Financial Review. Once again, as well as providing greater detail on Remuneration and Governance issues, we have also expanded our Corporate Social Responsibility Report and intend to implement the recommendations of ReputationInc, a specialist advisor in CSR best practice, during the course of 2008.

The SThree business is built on an absolute focus on delivering high quality and timely permanent and contract specialist staffing services to our clients. It remains therefore, first and foremost a people business and it is only as a direct result of the talent and dedication of our people that we are able to continue to post such positive results. At the year-end the Group employed some 2,035 people worldwide, an increase of 37.4% on the prior year, and our consistent performance in growing the business is particularly notable given this significant increase. As such, I would like to thank all of our employees again, not just for this year but also for their contribution during the twenty years since the business was established.

Brian McBride will retire at the forthcoming Annual General Meeting, having served on both our Audit and Remuneration Committees. On behalf of the Board, I would like to thank Brian for his commitment and outstanding personal contribution through and since our IPO. He has helped shape the Group into what it is today and will be sorely missed. Michael Nelson also left the Group in December 2007.

Paul Bowtell was appointed as a Non-Executive Director during the year in order to add further strength and quality to the Board and I welcome him to the Group. Paul takes over from Baroness Noakes, who retired at the last AGM, as Chairman of the Audit Committee.

While our business will always depend, to a degree, on the overall strength of the economy, we believe our prospects for further growth and success remain strong and we enter the new year with confidence.

Tony Cleaver

Sir Anthony Cleaver
CHAIRMAN

Name: Andrea Brinkschulte

Position: Senior Recruitment Consultant, Computer Futures, Frankfurt

Birthplace: Münster, Germany

Why I work for SThree:

"The opportunuity to determine your own future and career."

Financial Highlights

Year ended 2 December 2007

"2007 was another year of significant growth for SThree and it is particularly encouraging to see the excellent progress made with our ongoing strategy of geographical and sector expansion. The success of this strategy is well illustrated by the fact that we expect approximately half of gross profit in the current year to come from non-ICT and non-UK sources. It was also a year of unusually high levels of investment to ensure that the Group has the best possible platform for sustainable future growth. We are confident that we will see the returns on this investment programme into 2008 and beyond."

"Trading in the first months of the current financial year has been in line with our expectations and at this point we have no reason to assume that market conditions in the coming year will be anything other than supportive of another year of growth. However, SThree is an agile business with a seasoned management team and is well positioned to respond quickly and effectively in the event of a change in overall market sentiment."

£m	2007	2006	Change
Revenue	£522.7m	£393.3m	+ 32.9%
Gross Profit (Fee Income)	£182.7m	£135.5m	+ 34.8%
Operating profit*	£52.3m	£41.0m	+ 27.6%
Profit before taxation*	£50.3m	£40.3m	+ 24.8%
Basic earnings per share*	25.2p	22.4p	+ 12.5%
Final dividend	6.2p	4.8p	+ 29.2%
Total dividend	9.3p	7.2p	+ 29.2%

The above results have been prepared under International Financial Reporting Standards (IFRS)

* Prior year EPS and profit figures are shown pre-exceptional charges of £22.1m, in respect of float-related share awards.

Operational Highlights

- Continued strong growth with substantial volume increases achieved across all sectors whilst maintaining gross margins – gross profit increased by 34.8% to £182.7m;
- Both Contract and Permanent businesses delivered further strong growth:
  - Permanent placements increased by 29.4% to 9,945 (2006: 7,685), with average fees increased by 9.9%;
  - Contractors at period end increased by 20.8% to 5,700 (2006: 4,719), with average gross profit per day rates increased by 10.0%;
- Continued roll-out of international office network resulted in a 62.2% growth in non-UK gross profit to £59.3m (2006: £36.6m):
  - New offices opened in Hong Kong, Amsterdam (x2), Rotterdam and Brussels during the year with Dubai and Sydney added at start of 2008;
- Excellent progress made with roll-out of new sector disciplines (accountancy, banking & finance, human resources, engineering, pharmaceuticals and energy) resulting in non-ICT gross profit increasing by 33.3% to £32.5m (2006: £24.4m);
- Total headcount increased by 37.4% to 2,035 (2006: 1,481) at year-end. Sales consultant headcount increased by 40.4% to 1,537 (2006: 1,095) with over three-quarters of new staff hired for new geographies and/or sectors;
- Final dividend of 6.2p per share declared taking full year dividend to 9.3p (2006: 7.2p), an increase of 29.2%;
- Current trading in line with expectations with no material change in overall recruitment market conditions;
- Share buy back of 4.4m shares for cancellation completed to date at a total cost of £9.2m; Further market purchases anticipated.

Name: Quasi Hasnain

Position: Business Manager, Pathway, Dubai

Birthplace: Leeds, England

Why I work for SThree:

"The opportunity to develop internationally through setting up our Dubai office."

Chief Executive Officer's and Financial Review

Year ended 2 December 2007

The 2007 financial year was one in which the Group made very substantial investments in its future and implemented a major reorganisation of some of its key business processes. In this context it is pleasing to be able to report that once again the Group made noteworthy progress, posting substantial year on year growth. We also took significant further steps towards our goal of becoming an ever more international and broadly based specialist staffing business.

Notwithstanding the well-documented turmoil in the financial markets experienced in the second half of the year, overall business sentiment remained supportive. The only exceptions to this were those areas of the investment banking sector particularly exposed to the credit and risk markets, a sub sector that represented only a small percentage of Group revenue.

In general, candidates continued to have the confidence to actively pursue new opportunities and in the process generate vacancies as their employers looked to replace them with similarly qualified specialist staff. In addition the Group benefited from its ever-increasing exposure to territories with staffing markets which have strong structural growth characteristics.

During the year the Group continued to roll out its well-proven business model to drive expansion into new geographies and staffing sectors. A clear indication of the robustness of this strategy is provided by the fact that over the year, only a little over half (53%) of Group Gross Profit was derived from our UK ICT franchise (2006: 58%).

As such, although the UK ICT business continues to deliver very healthy growth, the particularly rapid expansion of our non ICT and non-UK businesses means we expect to see an ongoing reduction in the proportion of overall Group business derived from our UK ICT franchise.

The substantial increases in sales headcount that we made during the year reflect this growth theme. Overall we grew the number of sales staff by approximately 40% with over three-quarters of this increase accounted for by teams servicing non-UK and/or non-ICT marketplaces.

Irrespective of sector or geography, the Group remained highly selective in terms of the type of business it transacted, maintaining healthy margins by not pursuing volume over value. This focus on quality, combined with a healthy level of demand-driven wage inflation allowed us to post record fee levels in both the permanent and contract markets.

During the year the Group invested particularly heavily to ensure that the rapid growth of the business continues to be reflected in fit-for-purpose infrastructure and support functions. In addition to a substantial increase in office space (circa 40%) we also undertook a major programme of systems roll out with large-scale ERP and CRM package implementations.

The impact of these factors was felt in terms of the Group's operating profit to gross profit conversion ratio, which declined to 28.6% (2006: 30.3%). However, given the unusually high level of investment and the one-off nature of some of the more significant costs, we see this year as an exception. As such, we anticipate a return to trend going forward.

Group gross profit for the year improved by 34.8% to £182.7m (2006: £135.5m) with a corresponding increase in operating profit of 27.6% (2006: 39.3% before exceptional items). Against a backdrop of a higher than anticipated cost base as discussed above, we believe that this was an acceptable performance for a year in which the Group undertook a step change in terms of investing for future growth.

Strategy

The Group continued to pursue its stated strategy of adding additional revenue streams through expansion into newer geographies and staffing sectors, while at the same time driving the continued growth of its longer established franchises. Increasing the number of sales staff to ensure we were able to take full advantage of available market opportunities remained a key element of our strategy.

We remained focused on high value markets in which the candidate supply and demand dynamics were in our favour and hence supportive of our higher margin model. The latter was once again reinforced by our preference for growing through highly specialist niche-within-niche teams who are able to gain in-depth understanding of their particular markets. This approach justifies a premium pricing position relative to less specialised peers.

We continued to enjoy the benefits of a highly diversified client base with relatively low exposure to any individual client or small group of clients. In this respect, our strong SME franchise helps de-risk the business as a whole, as well as mitigating the downward price pressure often associated with exposure to a limited number of influential customers.

Chief Executive Officer's and Financial Review (continued)

Year ended 2 December 2007

Our multi-brand approach remained a central element of our strategy. The brands reinforce our niche specialisation, allowing us to further segment and subdivide our markets. As always they also provided a vehicle to attract and retain entrepreneurial talent who are strongly attracted to the potential of equity participation through the Group's minority stakes model.

Once again our focus was on the extension of the existing brand portfolio into newer sectors and geographies rather than the creation of entirely new brands. Given the success of this approach we anticipate that this will remain our strategy going forward.

Geographical Expansion

As at the end of the year the Group had a total of fifty offices in eight countries. During the year we added five new international offices, two in Amsterdam (Real Resourcing/ IT Job Board and SThree Group training) and one in each of Rotterdam (Computer Futures), Brussels (Huxley) and Hong Kong (Huxley). In addition in Q1 2008 we opened in Dubai (Pathway) and Sydney (Progressive) which brings the overall total to fifty-two offices in ten countries.

For the first time the Group's physical presence outside the UK was extended beyond the three largest brands to also include Pathway, Real Resourcing and ITJB. The Group also extended its geographical reach significantly with its first office in the Far East, a region with significant structural growth potential.

Overall the Group grew its non-UK gross profit by 62.2% to £59.3m (2006: £36.6m). Although non-ICT sector growth outside of the UK was a more significant factor than in previous years, it is still true to say that the non-UK expansion was heavily ICT orientated. This illustrates both the robustness of the ICT market as well as the potential for further non-ICT growth as the Group rolls out more of its non-ICT disciplines into a greater number of non-UK regions.

The roll out of newer sectors into the UK market is a more developed programme and this played a part in this business achieving gross profits of £123.3m, a year on year increase of 24.6% (2006: £98.9m). Given the relatively mature UK specialist staffing market this is a strong performance particularly given that we were able to achieve significant volume growth without compromising our margins.

By the year-end the UK versus non-UK business mix had once again shifted towards a greater percentage being attributable to teams outside of the UK. Total non-UK gross profit represented 32.5% of the overall total compared to 27.0% in 2006.We anticipate that this trend will continue going forward with 2008 expected to be the first full year in which UK ICT will represent under half of our gross profit.

Our further international growth will continue to benefit from the gradual evolution in the political and legislative environment in Europe becoming more sympathetic to the private staffing sector. Although jurisdictions such as France and Germany have a long way to go before they compare positively with the UK from a legislative standpoint, they are moving in the right direction, driven by a need to support labour market flexibility.

Sector Expansion

A major investment was made during the year to substantially increase sales head count in newer sectors. In particular, a number of brands that had taken their first, relatively minor steps in terms of sector diversification during 2006 accelerated this programme during 2007.This required teams in new disciplines to be seeded through the movement of experienced sales consultants/management from more established markets.

At the same time our non-UK ICT business expanded very rapidly. As such, although by year-end ICT still represented 82% of the Group's business, unchanged from the previous year, in absolute terms non-ICT gross profit increased by 33.3% to £32.5m. This compares to a 2006 growth of 49.8% achieved off less challenging comparatives.

As the more recently established teams start to come fully on stream and as non-ICT is rolled out outside of the UK to an ever greater extent, we would expect the non-ICT business to represent an increasingly significant part of the overall mix.

However, the Group's sector expansion should be viewed in terms of adding valuable new revenue streams rather than as a defensive strategy. In our view the ICT sector remains a robust market for our services. This is reflected in the fact that during the year even in the relatively mature UK ICT market the Group grew gross profit by 23.7%.

Staffing Levels

The Group expanded headcount significantly during the year by a total of 554 to 2,035 (2006: 1,481) of which a total of 442 were recruited as sales consultants. The largest increases were in newer sectors and /or geographies which between them accounted for 81% of the total new hires. This cohort included a significant increase in the number of consultants addressing new sectors in new geographies.

This investment in sales headcount growth naturally necessitated a commensurate expansion of the HR, Information Services and Training functions. In the case of the Finance function, issues concerning the ERP implementation caused a temporary spike in mid year headcount which had normalised by the end of the year.

Our strategy of hiring sales staff at a junior level from outside of the staffing industry was maintained. Our in-house training and development programme was enhanced to accommodate the higher percentage of non-UK hires. This included the establishment of our first non-UK training facility in Amsterdam.

The Group's remuneration strategy for its sales consultants remained strongly biased towards variable over fixed remuneration. This ensures the focus is towards encouraging higher individual performance and also provides the Group with considerable flexibility with regard to its cost base. As such the business has the potential to quickly respond to any change in market conditions.

Contract/Permanent Business Mix

The Group saw healthy increases in both volume and value in both the Permanent and Contact sides of the business. During the course of the year we made a total of 9,945 permanent placements, an increase of 29.4% on the previous year (2006: 7,685). By the end of the year our total of 5,700 contractors represented a 21% increase on the previous year (2006: 4,719).

Once again, the increase in volume was not achieved at the expense of the quality of business completed. The average value of each Permanent and Contract placement also improved substantially. Over the period the Group's average Permanent placement fee grew by 9.9% to £9,409 (2006: £8,563). Similarly, the average Contract day rate achieved was a substantial 10% increase to £71.42 (2006: £64.91).

As in the previous year the element of Permanent business as a percentage of the overall business mix increased marginally. This of course reflects the fact that employers continued to have the confidence to make permanent hires. In addition, the non-ICT sectors to which we are increasingly exposed are structurally less geared towards contract hiring.

The impact of this change in the mix was further reinforced by the fact that the contract market in some of our non-UK geographies is less established. The overall impact was that the business was very slightly biased 51% to 49% in favour of Permanent (2006: Contract 51% Permanent 49%).

Investments for the future

The Group has always been prepared to investment in its future. Nonetheless, 2007 was an exceptional year in this respect with a combination of headcount growth, office roll-outs and systems implementations all playing their part in accounting for a substantial increase in capital expenditure to £14.1m (2006: £5.4m).

The majority of the costs in question were expected and planned for accordingly. In other cases future investments originally anticipated for 2008 were brought forward for commercial reasons – for example the opening of our new European training centre in Amsterdam. However, we were also impacted by approximately £3m of unbudgeted additional costs associated with disruption caused by our roll-out of a major ERP package and the associated business process reengineering.

The impact of these items was also seen on the Group's conversion ratio of Gross Profit to Operating Profit, which reduced to 28.6% (2007:30.3%).

We anticipate that 2008 will see a return to normalised levels of expenditure with capital expenditure of approximately £7m and a commensurate recovery in our conversion ratio.

Brand Analysis

The four largest brands in the Group, Computer Futures, Huxley, Progressive and Pathway were responsible for 81.0% of the Group's gross profit during the year compared with a total of 78.7% for the previous financial year. All four brands posted significant growth.

Computer Futures was once again the largest brand by gross profit contribution, achieving £53.9m (2006: £36.7m) and thus accelerating its year on year growth to 46.5% from 20% the previous year. This is a noteworthy achievement for the Group's oldest business. During the year this brand took its first meaningful steps to add new sectors alongside its ICT franchise, establishing teams in the Accountancy and HR markets. During the year Computer Futures also added a new office in Rotterdam.

Huxley remained the second largest business, posting a total of £50.7m of gross profit (2006: £35.6m) representing an increase of 42.5%.

Chief Executive Officer's and Financial Review (continued)

Year ended 2 December 2007

Huxley benefited from having the most developed programme of sector diversification, with newer sectors increasingly being rolled out outside of the UK. Huxley enjoyed another strong year of growth despite being the brand most exposed to the investment banking market. Huxley also opened new offices in Brussels and Hong Kong.

Our third largest brand, Progressive, achieved a 27.9% increase in gross profit to a total of £31.7m (2006: £24.8m). In common with the other brands, it enhanced its sector portfolio, making significant progress in the engineering market in particular. Progressive also continued its programme of international expansion by establishing a presence in Sydney, the office officially going live in Q1 2008.

Pathway was the fourth largest Group brand once again, recording £11.6m of gross profit, a year on year improvement of 22.5% (2006: £9.5m). During the year Pathway established a team to address the Dubai market which operated out of London before physically relocating to Dubai at the beginning of 2008.

In aggregate the other Group brands accounted for 19.0% of total gross profit compared to 21.3% in 2006. Of particular note was that two of these brands, the IT Job Board and Real Resourcing, took their first steps in terms of international expansion, both opening offices in Amsterdam. Similarly our accountancy brand JP Gray started to roll out in Europe; in its early stages this initiative will leverage the Computer Future's office network.

Outlook

We enter 2008 in good shape to take full advantage of the investments made in 2007.

The Group's strong growth in Gross Profit of 34.8% (2006: 29.7%) reflects the overall strength of the market for the Group's services. The second half slowdown in certain niche areas of the banking sector did not have a meaningful impact on the 2007 financial year. We do not anticipate this changing during 2008 despite the fact that we do not see these markets staging a full recovery in the short term.

We base this assessment on a number of factors: First, the areas particularly negatively impacted represent a small part of the Group's business; second other areas of our market, even in mature geographies remained robust; and third the Group's international and sector expansion increases our exposure to secular growth opportunities. We believe that together these factors are capable of offsetting the effects of less activity in certain areas of the banking market.

In terms of the wider economic backdrop, the history of the specialist staffing market demonstrates that we do not need a particularly strong economic tailwind to post substantial growth. As such, we are confident that the prospect of some degree of slowdown during 2008 should not represent a significant obstacle to the Group's continuing growth.

In the event of major economic recession the Group could not expect to be unaffected. However our twenty-one year history encompasses all phases of the economic cycle and the ability of the Group's management team to cope with highly challenging market conditions has been thoroughly tested on a number of occasions.

In such circumstances the Group has proved to be an agile business, well capable of responding quickly and decisively to macro-economic changes. We are helped by the flexibility afforded by our sales consultants having relatively low fixed to variable remuneration.

That said, based on 2007 and looking at the first two months trading for 2008 we have no reason to assume that market conditions in the coming year will be anything other than supportive of another year of growth for SThree. It is on this basis that we have made plans to continue to roll out the SThree model to an ever-increasing number of sectors and geographies.

In summary SThree looks forward to the new financial year with a realistic but positive view. We understand that the economic picture is more uncertain than it has been in recent years, but believe continued healthy growth for SThree remains the most likely scenario given the available evidence.

Name: Jiro Taylor

Position: Senior Recruitment Consultant, Huxley, Hong Kong

Birthplace: Hong Kong

Why I work for SThree:

"I enjoy working for a group that is constantly striving for growth and improvement."

Chief Executive Officer's and Financial Review (continued)

Year ended 2 December 2007

Financial Review

Income Statement	2007	2006
Revenue	£m	£m
Contract	429.1	327.5
Permanent	93.6	65.8
	522.7	393.3

Gross Profit ("Fee Income") for the year increased by 34.8% to £182.7m (2006: £135.5m pre-exceptional items) representing an overall gross profit margin of 34.9% (2006: 34.5%). The increase in margin is predominantly due to a higher proportion of permanent revenue, which is at 100% gross margin. The permanent revenue ratio grew from 16.7% to 17.9% of total revenue. Contract gross profit margins at 20.8% were 0.5 percentage points lower than 2006; however absolute average gross profit per day rates grew by 10%.

Administration expenses before exceptional items increased by 38.0% to £130.4m (2006: £94.5m pre-exceptional items) principally due to increasing numbers of staff along with the previously announced one-off systems related costs of approximately £3m. As a result the Group's conversion ratio (operating profit divided by gross profit) stood at 28.6% (2006: 30.3%). Operating profit nevertheless increased by 27.6% to £52.3m (2006: £41.0m pre-exceptional items).

Headcount of the Group totalled 1,481 at 30 November 2006 and increased by 37.4% to 2,035 by 2 December 2007. Sales consultant headcount increased by 40.4% to 1537 (2006: 1,095). Average total headcount for the year was 1,755 (2006: 1,288). Sales headcount year by year comparatives are not strictly like for like as the Group took steps in the year to more accurately define its sales cohort, resulting in some reclassification.

The net finance charges of £2.0m (2006: £0.8m) increased as a result of higher borrowing requirements during the year following disruption to cash collections during implementation of our ERP package. These issues have now been resolved resulting in a significant improvement in DSO's compared to the half year. During the year, the Group re-assessed the historical risk associated with its Non-UK contract business and released provisions earlier set aside. This had a positive impact on the years' results.

Profit before taxation and before exceptional items amounted to £50.3m (£40.3m), an increase of 24.8%.

Taxation on profits was £16.5m (2006: £12.3m pre-exceptional items) representing an effective tax rate of 32.8% (2006: 30.5% pre-exceptional items). The increase in the effective tax rate year on year was in part a reflection of the 2006 rate being positively impacted by one-off items. We anticipate that the effective tax rate will fall going forwards, as the Group benefits from a reduction of UK corporate tax rates, albeit this may be partially offset by an increase in business in some territories with higher taxation regimes. The Group's cash tax rate was 16.7% (2006: 6.5%), reflecting the Schedule 23 tax benefit. However, we anticipate that this rate will gradually increase to a more normalised effective rate in the future.

Basic earnings per share were 25.2p (2006: 22.4p pre-exceptional items). This reflects an increase in the weighted average number of shares for the year of 129.8m (2006: 123.9m) and the deduction of profits attributable to minority interests of £1.2m (2006: £0.3m). The significant increase in the minority charge reflected the fact that a number of minorities were included in the calculation for the first time, resulting in an unusually large one-off year on year increase. As the minority charge normalises, we would expect the charge to grow from its current level slightly ahead of the overall percentage growth of Group profits, reflecting the fast growing nature of these businesses.

The Board previously declared an interim dividend of 3.1p (2006: 2.4p). The Board proposes to pay a final dividend of 6.2p per share (2006: 4.8p) bringing the total dividend for the year to 9.3p per share (2006: 7.2p), an increase of 29.2%. The final dividend will be paid on 9 June 2008 to those shareholders on the register at 2 May 2008.

Chief Executive Officer's and Financial Review (continued)

Year ended 2 December 2007

Balance Sheet

The Group had net assets of £93.4m at 2 December 2007 (2006: £64.1m). Net cash amounted to £3.5m (2006: net debt £2.8m), the improvement reflecting the net impact of increased profitability, working capital growth and capital investment.

Capital expenditure amounted to £5.2m (2006: £2.4m) predominantly related to upgrades of IT hardware and fit-out of new offices across the Group in line with its geographic expansion plans. In addition, expenditure of £8.9m (2006: £3.0m) on new ERP and candidate/client management systems has been capitalised within intangible assets. Total capital expenditure next year is expected to fall significantly to around £7m now that this phase of investment in the core IT infrastructure is largely complete.

Net trade debtors increased by 58.2% to £109.6m at 2 December 2007 (2006: £69.3m) representing debtor days of 59 days (2006: 54 days). Total trade and other payables increased from £39.0m to £73.2m as the Group sought to manage its supply chain more effectively.

Cash Flow

At the start of the year the Group had net debt of £2.8m. During the year the Group generated cash from operating activities of £29.3m (2006: £15.0m) being £56.6m of operating cashflow before changes in working capital and provisions (2006: £40.1m) and an increase in working capital requirements and provisions of £27.3m (2006: £25.1m). At 2 December 2007 the Group had net cash of £3.5m.

Since the year-end the Group has finalised an invoice discounting facility which provides funding flexibility of up to £50m.

The Group has also spent £9.2m purchasing 4.4m of its own shares since November 2007.

Treasury Management and Currency Risk

The main functional currencies of the Group are Sterling and the Euro. The Group does not have material transactional currency exposures although is exposed to translation differences on the profits and cash flows generated by its overseas operations. Some derivative transactions have been undertaken to mitigate these exposures and the 2007 results include a £1.0m loss arising from these investments.
We expect to incur a further £1.9m loss in the first half of 2008 having closed these positions down.
As a consequence, the Board is undertaking a review of its currency hedging strategy to ensure that it is appropriate given the Group's increasing international business.

Russell Clements
Chief Executive Officer
7 March 2008

Directors' Report

Year ended 2 December 2007

The Directors present their Annual Report on the activities of the Group, together with the financial statements and auditors' report for the year-ended 2 December 2007.

Group overview, principal activities and business review

SThree, founded in 1986, is an international specialist staffing business, providing both permanent and contract staff to a diverse, client base of well over 6,000 clients. From its well-established position as a major player in the information and communications technology ("ICT") sector the Group has broadened the base of its operations by building fast-growing businesses serving the banking and finance, accountancy, human resources, engineering, energy and pharmaceuticals sectors.

Following the establishment of its first business, Computer Futures, in 1986, the Group adopted a multi-brand strategy. SThree currently operates 12 separately managed brands, the four largest being Computer Futures, Huxley Associates, Progressive and Pathway, and has 33 offices in the UK and 19 overseas offices, 15 elsewhere in Europe, the Netherlands, Belgium, France, Germany and Ireland. In 2006, the Group opened its first North American office, in New York, and recently opened offices in Australia, Hong Kong and Dubai.

SThree has a selective approach to clients and focuses on high margin opportunities, predominantly within the small to medium-sized enterprises ("SMEs") market and, from its inception, the Group has avoided the high volume, low margin business model in favour of a focus on high quality business.

The Group has developed its multi-brand approach over a number of years in order to, among other things, expand the Group's business, access new markets, foster an entrepreneurial culture among its employees and retain key personnel. The brands have evolved organically out of the Group's existing businesses. Each brand operates independently, but they share common services such as finance, information services, human resources and legal. The Group had 2,035 employees at year-end.

The Group's main subsidiary undertakings are listed in the Notes to the financial statements.

Principal risks facing the business

Macro economic environment – The performance of the Group has a relationship with the underlying growth of the economies of the countries in which we operate. Our strategy is to continue to grow the size of our international business in both financial terms and in geographic coverage in order to reduce the Group's exposure or dependence on any one specific economy. A downturn in the ICT or banking markets could, in particular, adversely impact the Group's business.

Competitive environment – In the United Kingdom and Ireland, the markets for the provision of permanent and temporary recruitment are highly competitive and fragmented. In these more developed markets, competitor risk manifests itself in increased competition for clients and candidates and in pricing pressures.

Outside the UK, the markets for the provision of recruitment services are generally less developed and the market place is more fragmented. As these markets are still in a development phase, pricing pressure is less of a risk and our strategy is to rapidly grow our businesses in these territories.

Competitors in our markets range from large multi-national organisations to small, boutique, privately owned businesses. In all of our markets we are continually subject to both existing and new competitors entering into the markets in which we operate, both by geographic region and specialist activity. The competitive threat is from both small start-up operations and large multi-nationals as the costs of entry into specialist recruitment can be relatively low, although these costs have risen with the increased levels of compliance required from local regulators and clients.

Commercial relationships – The Group benefits from close commercial relationships with key clients, particularly in the SMEs market, although the Group is not dependent on any single key client.

Technology systems – The Group is reliant on a number of technology systems in providing its services to clients. These systems are housed in various locations and the business continues to review and enhance its ability to cope with a significant data or other loss. The business is also reliant upon a number of important suppliers that provide critical information technology infrastructure.

Regulatory environment – In common with many other sectors, the specialist recruitment industry is now governed by an increased level of compliance; this varies from country to country and market to market. In addition, our clients now require more complex levels of compliance in their contractual arrangements. The Group takes its responsibilities seriously, is committed to meeting all of its regulatory responsibilities and continues to strengthen its internal controls and processes with respect to legal and contractual obligations.

Treasury Management and Currency Risk – The main functional currencies of the Group are Sterling and the Euro. The Group does not have material transactional currency exposures although is exposed to translation differences on the profits and cash flows generated by its overseas operations. The Board is undertaking a review of its currency hedging strategy to ensure that it is appropriate given the Group's increasing international business.

A review of the Group's activities and details of its business and strategy are included in the Chairman's Statement and the Chief Executive Officer's and Financial Review.

The Chairman's Statement, Chief Executive Officer's and Financial Review, and Directors' and Corporate Social Responsibility Reports, provide information relating to the Group's business, a description of principal risks and uncertainties faced, including analysis using financial and other KPIs where necessary, as well as details of environmental and employee matters, and an indication of future developments in the Group's business. These, taken together, provide a balanced and understandable assessment of the Company's position and prospects, in accordance with the revised business review requirements of the Companies Act.

Post balance sheet events

As announced, the Company began making purchases of its own shares for cancellation on 30 November 2007 and has so far purchased some 4.4m shares at a total cost of £9.2m. There have been no other significant events since the balance sheet date.

Results and dividends

The Group's profit on ordinary activities before taxation was £50.3m for the year ended 2 December 2007 (2006: £40.3m pre-exceptional items). The Directors recommend a final dividend of 6.2 pence per share in respect of the year ended 2 December 2007 (2006: 4.8 pence per share), to be paid on 9 June 2008, to those ordinary shareholders on the register at 2 May 2008. This follows the interim dividend of 3.1 pence per share declared earlier in the year and paid in December 2007.

Directors and their interests

The current Directors of the Company are:

- Sir Anthony Cleaver, Chairman
- Russell Clements, Chief Executive Officer
- Sunil Wickremeratne, Chief Operating Officer
- David Tilston, Interim Chief Financial Officer (appointed 23 January 2008)
- Brian McBride, Senior Independent Non-Executive Director
- Paul Bowtell, Independent Non-Executive Director (appointed 5 November 2007)
- Alicja Lesniak, Independent Non-Executive Director
- Tony Ward, Independent Non-Executive Director

Biographies are shown earlier in this Annual Report, with details of Board Committee membership being set out in the Corporate Governance Report. All Directors served throughout the financial year, except where shown. The Baroness Noakes retired at the Annual General Meeting ('AGM') held on 27 April 2007 and Michael Nelson resigned on 20 December 2007.

In accordance with the Articles of Association, Russell Clements will retire at the next AGM and, being eligible, offers himself for re-election. Paul Bowtell, who was appointed during the year, hereby retires and, being eligible, offers himself for election. Brian McBride will retire at the AGM and does not plan to seek re-election, whilst as Interim Chief Financial Officer, David Tilston will retire at the AGM should he still hold office at that time. Further information is contained in the Notice of Meeting.

Other than employment contracts, none of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings. The terms of the Directors' service contracts and the Directors' interests in the shares and options of the Company are disclosed in the Directors' Remuneration Report.

Supplier payment policy

It is the Group's policy to comply with terms of payment negotiated with suppliers. Where payment terms are not negotiated, the Group endeavours to adhere to the suppliers' standard terms. SThree plc acts as a holding company for the Group and does not trade and consequently

Directors' Report (continued)

Year ended 2 December 2007

cannot disclose an average creditors' payment period. Trade creditors of the Group at 2 December 2007 and 2006 were equivalent to 24 days' purchases.

Share capital

The authorised and issued share capital of the Company, together with details of the movements in the Company's issued share capital during the year, are shown in the Notes to the financial statements.

Minority Interests Model

Since flotation, the Group's 'Minority Interests' or 'Minority Stakes' model has been a key factor in its success and it is planned to create more of these, on similar terms to those previously created, subject to shareholder approval at the AGM in April 2008.

Entrepreneurial employees within the Group often create ideas for new business opportunities, which the Group may elect to pursue and develop. Historically the Group has engaged with such key employees in setting up new brands for the purpose of pursuing these new ideas, which have typically evolved out of one of the existing SThree businesses. For example, JP Gray was established as a result of an idea presented to the Directors by certain senior managers of Computer Futures, who were then given the opportunity to manage and develop that new brand. Typically, those managers of the new SThree brand will be able to invest, at the Company's discretion, in the new entity and share in its success as well as the risk of failure.

As in prior years, only the Group's key entrepreneurial employees may be invited to invest in the creation of any new minority shareholding business. Such employees must invest in any stake at fair value and be actively engaged in that business for a minimum term of between three and five years. Should the employee wish to dispose of their stake the Company retains pre-emption rights.

The minimum term for each minority stake will be set at the outset and will normally be five years, but will never be less than three years, in order to allow the Group flexibility to adapt to the individual needs of its brands and businesses and differing rates of growth.

Although there are a number of different companies in which key employees will be invited to invest, each invitation will be on generally similar terms to that used previously and it is therefore appropriate to put only one resolution to shareholders each year.

The proposed resolution, together with the standard terms upon which the minority stakes are based, are outlined within the Notice of Meeting.

Authority to make purchases of own shares

The Company is, until the date of the forthcoming Annual General Meeting, generally and unconditionally authorised to buy back a proportion of its own ordinary shares. To date, the Company has purchased 4.4m ordinary shares under this authority and the Directors will seek to renew the authority for up to 10% of the Company's issued share capital at the Annual General Meeting.

Substantial shareholdings

As at the date of this Report, the Company had been notified, in accordance with the Companies Act, of the following interests in the ordinary share capital of the Company:

Name of holder	Number of shares	Percentage shareholding
Aegon UK plc Group	1,623,407	Below 3%
Allianz Global Investors Global Equity Business Unit	N/A	Below 3%
UBS AG London Branch	N/A	Below 3%
Barclays plc	N/A	Below 3%
Standard Life Investments Limited	19,218,319	14.060%
William Frederick Bottriell	11,405,739	8.51%
Sunil Wickremeratne	10,686,875	7.97%
Simon Peter Arber	8,165,244	6.09%
JP Morgan Asset Management (UK) Limited	7,021,061	5.070%
Legal & General Group plc	4,858,690	3.520%
Russell Clements	4,738,151	3.53%
Martin Currie Investment Management Limited	4,314,627	3.116%

Directors' indemnities

The Companies (Audit, Investigations and Community Enterprise) Act 2004, which came into force in 2005, changes the provisions of the Companies Act, and gives companies the power to extend indemnities to Directors against liability to third parties (excluding criminal and regulatory penalties) and also to pay Directors' legal costs in advance, provided that these are reimbursed to the Company should the individual Director be convicted or, in an action brought by the Company, where judgement is given against the Director. The Company currently has a Directors' and Officers' Insurance policy in place, which provides this cover.

Corporate governance

There is a separate Corporate Governance Report.

Financial instruments

Information in respect of financial instruments is set out in the Notes to the financial statements.

Corporate responsibility

The Board recognises its environmental, health and safety and employment responsibilities and devotes appropriate resources towards monitoring compliance with and improving existing standards. The Chief Executive Officer has responsibility for these areas at Board level, ensuring that the Group's policies are upheld and providing the necessary resources.

(a) Environmental

The Group remains committed to operating in an environmentally responsible manner.

(b) Health and safety

The Group is committed to providing for the health, safety and welfare of all its employees. Every effort is made to ensure that the requirements of the Health and Safety at Work Act 1974 and all other relevant regulations and codes of practice are complied with.

(c) Employees

The Group has continued its policy of informing all employees of matters of concern to them as employees, both in their immediate work situation and in the wider context of the Group's well being. It encourages participation and involvement in matters which affect their interests as employees. Communication with employees is effected through the Group's management briefings structure, Board Committees, formal and informal meetings and through the Group's information systems. Informal communication is facilitated by emails to all Group companies.

The Group is also committed to achieving equal opportunities and to complying with anti-discrimination legislation. In addition, employees are encouraged to train and develop their careers. It is established Group policy to offer employees and job applicants the opportunity to benefit from fair employment, without regard to their sex, sexual orientation, marital status, race, religion or belief, age or disability.

The Group gives full and fair consideration to the employment of disabled persons for suitable jobs. In the event of members of staff becoming disabled every effort is made to ensure that their employment within the Group continues either in the job or in a suitable alternative. It is the Group's policy to support disabled employees in all aspects of their training, development and promotion where it benefits the employee and the Group.

The Group has a culture that encourages share participation at all levels. Two Employee Benefit Trusts ('EBTs'), which were funded by gifts from some of the current and former Directors, hold assets comprising shares in the Company. The shares in the EBTs are held for awards and grants under share option and share award schemes introduced prior to flotation, in which a number of employees currently participate. In November 2006, Shareholders also approved the introduction of a Long Term Incentive Plan ('LTIP').

It is currently estimated that, in total, approximately 30% of the Company's share capital is held by Directors, Founders, the Employee Benefit Trusts, senior management and other employees.

(d) The Community

The Group is committed to providing support to the community and society through a number of charitable activities. During the period the Group made charitable donations of £30,962 (2006: £32,373). The Group made no donations for political purposes either in the UK or overseas during the year.

Additionally, the Group has a Charities Committee and has actively encouraged its employees to raise funds over many years for NCH (formerly known as The National Children's Home) and has also participated in events sponsored by the NSPCC. These are two of the UK's leading children's charities.

Further information is contained in the Group's Corporate Social Responsibility Report.

Annual General Meeting ('AGM')

The AGM of the Company will be held on 24 April 2008, at Home House, 20 Portman Square, London W1H 6LW. A separate formal Notice of Meeting details all business to be transacted.

Auditors

As required by Sections 8&9 of the Companies (Audit, Investigations and Community Enterprise) Act 2004, which introduced key changes to the Companies Act, each Director in office, at the date of this Report, hereby confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he/she has taken all steps that he/she ought to have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's Auditors are aware of such information.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office. Accordingly, a resolution will be put to the forthcoming Annual General Meeting proposing their re-appointment as auditors for the ensuing year.

Statement of Directors' Responsibilities in respect of the Annual Report, the Directors' Remuneration Report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the Directors have also elected to comply with certain IFRSs, issued by the International Accounting Standards Board (IASB) – see Note 1 to the financial statements. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by IASB
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on the Company's website, www.sthree.com and the Directors are responsible for the maintenance and integrity of all statutory and audited information on that website and legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

By order of the Board

Steve Hornbuckle, FCIS
Company Secretary
7 March 2008

Registered Office:
41-44 Great Wiindmill Street, London,
W1D 7NB

Directors' Remuneration Report

Year ended 2 December 2007

Introduction

This report has been prepared in accordance with the Companies Act (as amended by the Directors' Remuneration Regulations 2002 (the 'Regulations')), relevant provisions of the Listing Rules and the Combined Code.

The Regulations require the auditors to report to the Company's shareholders on the 'auditable part' of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

As required by the Regulations, a resolution to approve the report will be proposed at the forthcoming Annual General Meeting.

Unaudited Information

Remuneration Committee

The Remuneration Committee (the 'Committee') determines the remuneration policy and the individual remuneration packages of the Chairman, the Executive Directors, the Company Secretary and certain key senior management posts. The Committee's Terms of Reference are available at www.sthree.com.

During the year the Committee comprised only independent Non-Executive Directors, its current members being Tony Ward (Chairman), Brian McBride and, from 1 February 2008, Alicja Lesniak. Russell Clements (Chief Executive Officer) regularly attends meetings by invitation, except for matters related to his own remuneration. The Committee met five times during the year and no member of the Committee has any personal financial interest (other than as a shareholder) in the matters decided.

To help achieve its objectives, the Committee has appointed and taken independent advice from Deloitte & Touche LLP ('Deloitte'), in relation to remuneration matters and on share incentive arrangements. Deloitte do not undertake any other work for the Company.

Remuneration policy

The remuneration policy has been designed to ensure that the Group has the ability to attract and retain Directors and senior managers of a high calibre, to align the interests of senior management with those of shareholders and be compliant with recommended practice. Individual pay levels are determined by reference to competitive market conditions, performance, experience and potential. In setting the policy the Committee considers, for benchmarking purposes, the remuneration of relevant senior management in comparable quoted or similar companies.

There are three main elements of the remuneration package for Executive Directors:

- basic annual salary and benefits, including company car allowance, pension contributions, and health insurance cover;
- annual cash bonus payments; and
- share-based long-term incentives (see Long Term Incentive Plan below).

The Group's policy is to position the base salaries of Directors and senior management at between lower quartile and median for the relevant competitive market, with a substantial proportion of their remuneration being performance related. The Directors may earn annual bonus payments as a percentage of their basic salary, as defined and agreed by the Committee. This policy was examined by Deloitte in the course of a benchmarking exercise undertaken during the year and no substantive changes are planned for 2008 or the foreseeable future.

In order to ensure an appropriate balance between fixed and performance-related pay, annual cash bonus payments are dependent on the Group's annual financial performance and the receipt of shares under the new Long Term Incentive Plan will be primarily dependent on enhanced relative returns to shareholders over a three-year period.

Executive Directors are required to obtain the Board's prior written consent to accept external appointments. Currently they hold no such positions.

Executive Directors' remuneration, bonus and pension arrangements

During the year ended 2 December 2007, the basic annual salaries of Russell Clements and Sunil Wickremeratne were £262,500 and £220,500, respectively. Salaries are normally reviewed in December each year and during 2007 the Committee undertook a benchmarking of total compensation with the support of Deloitte. The Committee concluded from the market data that the current base salary levels were significantly below market levels. In accordance with the policy stated above, the Committee decided that the salaries should be adjusted to a level between the lower quartile and the median of the data over a period of two to three years. From 1 December 2007 therefore, the salaries of Russell Clements and Sunil Wickremeratne were increased to £288,500 and £242,500, respectively, while further increases are expected to be made in December 2008 and December 2009 in order to move salaries to the determined level. Michael Nelson resigned on 20 December 2007 and David Tilston was appointed as Interim Chief Financial Officer on 23 January 2008.

Executives receive annual bonus payments based on the achievement of Group profit targets, which are reviewed by the Committee at the start of the year and the maximum bonus opportunity is currently 100% of salary. Where agreed targets, based on profit before tax, are achieved, 50% of salary is paid. For achievement above these targets, bonus is paid, based on a pool of 10% of profits achieved above target, up to the maximum 100% salary. No bonus is paid for achievement below 85% of target, with pro-rata payment for achievement between 85% and 100% of target. During the year, a bonus equivalent to 42% of salary was accrued for all Executive Directors.

The Committee has discretion to consider, if deemed necessary, performance on environmental, social and governance (ESG) issues when setting the remuneration of Executives and is satisfied that ESG risks are not raised by the incentive structure for senior management by inadvertently motivating irresponsible behaviour.

Executive Directors also receive an employers' contribution to their personal pension schemes equivalent to 10% of their basic salaries, subject to each Executive Director making 5% personal contributions. Bonuses and benefits are not pensionable.

Long Term Incentive Plan

In November 2006, shareholders approved a share-based Long Term Incentive Plan ('LTIP') for Executive Directors and other members of the senior management team to provide an incentive to increase shareholder value and support alignment with shareholder interests through building a stake in SThree shares. No further awards will be made under the existing Executive Share Option Scheme operated by the Company before flotation.

The main features of the LTIP are as follows:

- Awards of shares can be made, each year, to Executive Directors and other senior executives.
- Awards can take the form of forfeitable shares or share options (nil-cost or market value);
- The maximum face value of the first awards made to Executive Directors was 120% of salary. For ongoing awards, there is an annual maximum face value of 175% of salary, whilst over a three-year period the Committee intends that no Executive Director will receive aggregate awards in excess of a face value of 450% of salary.
- All Executive Directors' awards must be subject to a performance condition, assessed over the three years following the date of grant, with no facility to re-test performance. For other participants, the Committee has discretion to decide whether or not a performance condition should apply to grants.
- Performance conditions are attached to all awards made. This performance condition was relative total shareholder return ('TSR'), in addition to budget or personal targets. However, in 2008, for awards below Executive Committee level, the TSR condition was only applied in respect of half the award. In respect of the TSR condition, all the shares will vest only where SThree's TSR is at or above the upper quartile of a selection of UK-listed peer group companies. No shares will vest if SThree's TSR performance is below median and 30% of the shares will vest at median rising on a straight line basis to full vesting for TSR at or above the upper quartile. The Committee will also ensure that the underlying financial performance of the Company, i.e. EPS growth, is taken into account when determining to what extent awards vest. The Committee believes that TSR is the most appropriate performance condition at this time given the clear link between the reward provided to Executive Directors and the investment return enjoyed by our shareholders.
- The peer group is reviewed annually and consists of 18 companies, primarily from the FTSE Support Services sector. These companies are currently: BPP Holdings plc, Berkeley Scott Group plc, Corporate Services Group, Harvey Nash Group, Hays, Imprint, Interserve, Michael Page International, Mitie, Mouchel Parkman, OPD Group, Robert Walters, RPS, Scott Wilson Group plc, Serco, Spring Group, White Young Green plc and WS Atkins.

Directors' Remuneration Report

Year ended 2 December 2007 (continued)

Employee Benefit Trusts and other Share Plans

The Group has a culture that encourages share participation at all levels. Two Employee Benefit Trusts ('EBTs'), which were funded by gifts from some of the current and former Directors, hold assets comprising shares in the Company. The shares in the EBTs are held for awards and grants under share option and share award schemes introduced prior to flotation, in which a number of employees currently participate.

In respect of those share plans and related Trusts introduced prior to flotation, specifically these comprise an Executive Share Option Scheme, the Forfeitable Share Plan, the Share Gift Plan, and the No.1 ESOP and No.2 ESOP. In respect of the No.2 ESOP, this had adopted a Trust Option Plan (the 'Trust Option Plan') and had agreed to satisfy the majority of options granted under the Executive Share Option Scheme, and all awards under the Forfeitable Share Plan, with shares existing in the Trust. Under the terms of the Trust Deed constituting the No.2 ESOP, the Trustees have undertaken to waive all dividend rights on Ordinary Shares comprised in the trust fund, above 0.01p per share. The Executive Directors do not currently participate in any of these arrangements.

In terms of dilution, the Committee's intention is that awards under the LTIP, EBTs and other share plans are predominantly to be satisfied by shares currently held through the EBTs. If newly issued shares are used, this will be done in accordance with the guidelines provided by the Association of British Insurers.

Executive Directors' service contracts

It is the Company's policy that Executive Directors should have contracts with a rolling term providing for a maximum of one year's notice. Consequently, no Executive Director has a contractual notice period in excess of 12 months. In the event of early termination, this ensures that compensation is restricted to a maximum of 12 months' basic salary, benefits and appropriate bonus. The Committee will generally require mitigation to reduce the compensation payable to a departing Director.

Russell Clements and Sunil Wickremeratne are employed under service contracts with the Company which commenced on 11 November 2005. Each of these contracts provide entitlement to a basic annual salary, performance bonus scheme participation, a company car allowance, pension contributions and health insurance cover. Each contract is terminable by 12 months' notice given by either party.

Non-Executive Directors

All Non-Executive Directors have specific letters of appointment, available upon request, and their remuneration is determined by the Board within the limits set by the Articles of Association and normally based on independent surveys of fees paid to Non-Executive Directors of similar companies. Remuneration is set taking account of the commitment and responsibilities of the relevant role. The Non-Executive Directors do not have service contracts. In 2007, the Committee undertook a benchmarking review of fees payable to the Chairman and Non Executive Directors with the support of Deloitte and the resulting proposals were agreed with the Board.

Sir Anthony Cleaver and Brian McBride each have letters of appointment as Non-Executive Directors dated 11 November 2005. These replaced prior letters of appointment signed before flotation. The current annual fees paid to Sir Anthony Cleaver and Brian McBride are £100,000 (increased from £70,000 in December 2007) and £35,000 respectively.

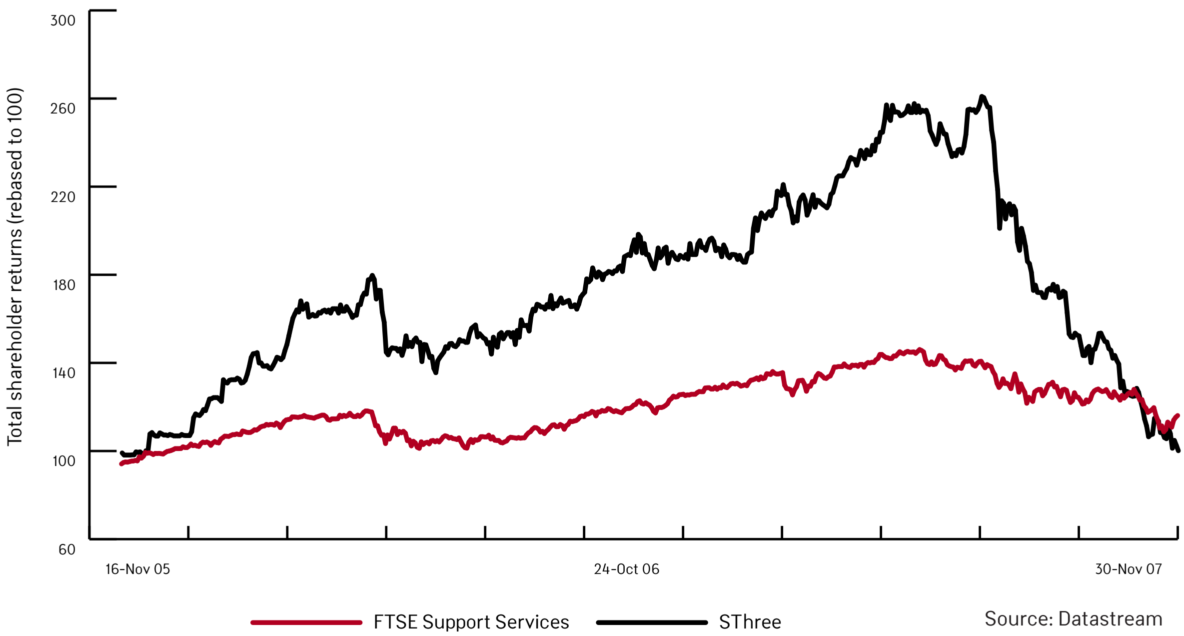
Alicja Lesniak, Tony Ward and Paul Bowtell were appointed Non-Executive Directors on 3 May 2006, 14 August 2006 and 5 November 2007 respectively, and receive annual fees of £35,000 each.

Sir Anthony Cleaver is Chairman of the Nomination Committee, but receives no additional fee (previously £5,000 pa). Paul Bowtell is Chairman of the Audit Committee for which he receives an additional fee of £5,000 pa. During the year, Brian McBride chaired the Remuneration Committee and received an additional fee of £5,000 pa. On 1 February 2008, Tony Ward replaced Brian McBride as Chairman of the Remuneration Committee for which he will receive an additional fee of £5,000 pa.

Non-Executive Directors are appointed for an initial term of three years, terminable by either the Company or the Non-Executive Director at will, and, in normal circumstances, and subject to performance and re-election at Annual General Meetings, they would be expected to serve for a second three-year term. Non-Executive Directors may be requested to serve for a further (third) three-year term subject to rigorous review at the relevant time and their agreement. Upon termination or resignation, Non-Executive Directors are not entitled to compensation and no fee is payable in respect of the unexpired portion of the term of appointment. Non-Executive Directors cannot participate in any Company incentive scheme.

TOTAL SHAREHOLDER RETURN ('TSR')

The graph below illustrates the Total Shareholder Return ('TSR') of the Company since flotation on 16 November 2005, for the Group and the FTSE Support Services index, which is considered the most appropriate comparator index, as the Company is a constituent of this index and its constituents are also used for comparing pay and benefit levels.



Source: Datastream

AUDITED INFORMATION

Directors' remuneration

The table below summarises all Directors' emoluments and pension contributions for the current and the prior year for comparison. No payments for loss of office were made during the year and no other awards were made to any Director during the year to 2 December 2007.

Directors' Remuneration Report

Year ended 2 December 2007 (continued)

Name of Director	Salary & fees £'000	Pension contributions £'000	Benefits £'000	Bonuses £'000	2007 Total £'000	2006 Total £'000
Executive Directors						
Russell Clements	263	26	11	111	411	536
Michael Nelson	210	21	11	89	331	431
Sunil Wickremeratne	221	22	11	93	347	452
Non-Executive Directors						
Sir Anthony Cleaver	75	–	–	–	75	75
Paul Bowtell (from 5 November 2007)	3	–	–	–	3	–
Alicja Lesniak	35	–	–	–	35	20
The Baroness Noakes (until 27 April 2007)	17	–	–	–	17	40
Brian McBride	40	–	–	–	40	40
Tony Ward	35	–	–	–	35	10
Aggregate emoluments	**899**	**69**	**33**	**293**	**1,294**	**1,604**

Benefits in kind include car allowance, medical and life insurance.

Michael Nelson resigned as a director of the Company on 20 December 2007. In line with his contractual entitlement, he will receive a bonus payment equivalent to 42% of salary for the year ended 2 December 2007. He is also entitled (subject to mitigation) to payment in lieu of base salary and benefits of up to £265,000 and in lieu of bonus of £172,500, for the year ending 30 November 2008, together with other normal benefits in kind over that period. Under contractual arrangements, Michael Nelson is obliged to transfer 25,000 shares to SThree's Employee Benefit Trust at the price he paid for them (£1 per share), as he ceased to be a Director before 13 April 2008.

David Tilston was appointed on 23 January 2008, on an extendable contract initially until the end of March 2008 and receives a 'day rate'. The contract may be terminated by two weeks notice and will be terminated prior to or shortly after the AGM.

Long Term Incentive Plan and other share option awards

The Committee made awards of forfeitable shares under the LTIP to the Executive Directors and others. Share-based incentive awards have been made to Executive Directors as follows:

Name of Director	Date of award	Plan	Market price at award	At 1 Dec 2006 or on appointment	Shares awarded during 2007	Vesting date	At 2 Dec 2007 or on resignation
Russell Clements	8/2/2007	LTIP	402p	–	78,358	8/2/2010	78,358
Michael Nelson	8/2/2007	LTIP	402p	–	62,686	8/2/2010	62,686*
Sunil Wickremeratne	8/2/2007	LTIP	402p	–	65,820	8/2/2010	65,820

* Michael Nelson resigned as a Director of SThree on 20 December 2007 and the shares awarded on 8 February 2007 lapsed in full.

Directors' Remuneration Report

Year ended 2 December 2007 (continued)

On 6 February 2008, further awards were made under the LTIP. Russell Clements received an award of 175,959 shares and Sunil Wickremeratne received an award of 147,903 shares. The market price at the date of award was 196.75p per share.

The awards in the above table are subject to the Company's TSR performance relative to the peer group listed earlier. Where the Company's TSR performance is below median, no part of the awards will vest. For median performance, 30% of the awards will vest rising on a straight-line basis to full vesting for upper-quartile performance and above. No other awards or share options are held by the Executive Directors.

Directors' interests in shares

At flotation, all classes of share were converted into Ordinary shares of 1 pence each. In accordance with the Listing Rules, the Directors' interests in the share capital of the Company at 2 December 2007 are shown below. Since the year-end, Sunil Wickremeratne transferred 99,200 shares into the Company's Employee Benefit Trust as a gift and Michael Nelson also transferred 25,000 shares into the Company's Employee Benefit Trust. There have been no other changes to this information as at the date of this report. No Director had any other interest in the share capital of the Company or its subsidiaries, or exercised any share options, during the year, other than as already disclosed.

Name of Director	Ordinary shares held at 1 Dec 2006*	Changes in year	Ordinary shares held at 2 Dec 2007	Percengate of Share Capital
Sir Anthony Cleaver	152,446	–	152,446	0.11%
Russell Clements	4,738,151	–	4,738,151	3.53%
Michael Nelson	145,415	48,500	193,915	0.14%
Sunil Wickremeratne	10,786,075	–	10,786,075	8.05%
Paul Bowtell	–	–	–	–
Alicja Lesniak	4,245	–	4,245	0.01%
Brian McBride	12,500	–	12,500	0.01%
Tony Ward	–	5,447	5,447	0.01%

* or as at date of appointment

Whilst the Company does not have formal share retention guidelines in place, the Group has a culture which encourages share participation at all levels. In particular, as shown above, both Russell Clements and Sunil Wickremeratne have significant shareholdings. It is currently estimated that, in total, nearly 30% of the Company's share capital is held by Directors, Founders, the Employee Benefit Trusts, senior management and other employees.

On 30 November 2007, the closing market price of SThree plc Ordinary shares was 195.75p. The highest and lowest closing prices of these shares during the year were 519.5p and 195.75p respectively, based on the London Stock Exchange Daily Official List.

Approval

This report was approved by the Committee, on behalf of the Board, on the date shown below and signed on its behalf by:

T Ward

Tony Ward, OBE
Chairman of the Remuneration Committee
7 March 2008

Corporate Governance Report

Year ended 2 December 2007

The Company is committed to high standards of corporate governance and this report outlines how it has complied with the provisions of the Combined Code on Corporate Governance revised by the Financial Reporting Council in June 2006 ('the Code'). During 2007, the Company complied with all key provisions of the Code, except where explained below. The Board is accountable to the Company's shareholders for good corporate governance and this statement describes how the relevant principles of governance have been applied.

The Board – Framework

An effective Board is in place, which provides entrepreneurial leadership and overall control of the Group. The Board's main role is to create value for shareholders, to approve the Group's long-term strategic objectives, and to develop robust corporate governance and risk management practices, whilst ensuring that the necessary financial and other resources are made available to enable those objectives to be met. The Board is responsible to shareholders for the proper management of the Group.

A statement of the Directors' responsibilities in respect of the Annual Report is set out in the Directors' Report. Directors have a wide range of experience of various industry sectors relevant to the Group's business and each member brings independent judgement to bear in the interests of the Company on issues of strategy, performance, resources and standards of conduct. The Board has an appropriate and varied range of skills, vital to the success of the Group.

Board and Committee meeting papers are circulated well in advance of the relevant meeting and where a Director is unable to attend he/she is provided with a copy of the papers and has the opportunity to comment on the matters to be discussed. Minutes of all Committee meetings are circulated to all the Directors, irrespective of Committee membership. Each Director ensures that if he/she has any concerns, which cannot be resolved, about the Company or a proposed action, such concerns are recorded in the Board minutes. Appropriate insurance cover is in place in respect of legal action against the Directors.

The number of, and attendance at, Board and Committee meetings during the year, is shown under the relevant section below. Outside these, there was frequent contact between Directors to discuss the Company's affairs and develop its business. Arrangements are in place for the Chairman to meet with the Non-Executive Directors without the Executive Directors being present, either before or after each Board meeting.

The Group has identified a number of key areas that are subject to regular reporting to the Board and this enables the performance of management to be reviewed and monitored. A schedule of matters reserved for the Board is reviewed and approved on a regular basis. This formally outlines all matters requiring specific consent of the Board and includes, inter-alia, the approval of Group strategy and operating plans, the annual budget, the Annual Report, the Interim Report and related announcements, major divestments and capital expenditure, large acquisitions and disposals, the recommendation of dividends and the approval of treasury and risk management policies.

The schedule facilitates structured delegation, subject to certain financial limits, and thereby provides a practical framework for executive management, which seeks to achieve the objectives of maintaining effective financial and operational controls while providing sufficient flexibility to manage the business.

Certain powers are delegated to the Remuneration Committee, Audit Committee and Nomination Committee. Details of the roles and responsibilities of these Committees are set out under the relevant section below.

The Board – balance, independence and appointments

The Board comprises a balance of Executive and Non-Executive Directors who bring a wide range of skills and experience to its deliberations. The Non-Executive Directors fulfil a vital role in corporate accountability and have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully discussed and critically examined, not only in the best long-term interests of shareholders, but also to take proper account of the interests of customers, employees and other stakeholders. The Non-Executive Directors are all experienced and influential individuals and through their mix of skills and business experience they contribute significantly to the effective functioning of the Board and its Committees, ensuring that matters are fully debated and that no one individual or group dominates the decision making process.

The Board comprises the Chairman, three Executive Directors and four independent Non-Executive Directors. The Chairman and Senior Independent Non-Executive Director are available to shareholders to discuss governance issues or should there be matters of concern that have not, or cannot, be addressed through the Chief Executive Officer, Chief Financial Officer or Chief Operating Officer. However, no requests to meet with the Chairman or Senior Independent Non-Executive Director were made by shareholders during the year.

Appointments to the Board are the responsibility of the full Board, on the recommendation of the Nomination Committee. During the year, and after appropriate external consultation and selection, this Committee recommended the appointment of Paul Bowtell as a Non-Executive Director, to replace a retiring Non-Executive Director. On joining the Board, all Directors receive a formal appointment letter, which identifies the time commitment and responsibilities expected of them. Any potential Director candidate is required to disclose all significant outside commitments prior to appointment. All Non-Executive Directors have undertaken that they have sufficient time to meet these commitments and major shareholders may, upon appropriate request, meet new Non-Executive Directors.

The composition of the Board and its various Committees is reviewed and evaluated so as to reflect the Board's and the Committees' balance of skills, expected time commitment, knowledge and experience. The Directors' aim is to ensure that the balance of the Board reflects the changing needs of the Group's business and therefore composition, balance and skills are all regularly monitored. Excluding the Chairman, the Board considers all Non-Executive Directors to be independent. This is in compliance with the Code, which requires at least half of the Board to consist of independent Non-Executive Directors.

The Company's Articles of Association state that a Director appointed by the Board in accordance with the Articles of Association shall hold office only until the next Annual General Meeting, unless elected during that meeting. Additionally, each Director must retire at the Annual General Meeting held in the third calendar year following the year in which he/she was elected or last re-elected, but shall be eligible for re-election. Any Director who has agreed to do so shall retire at the Annual General Meeting (whether in accordance with terms of appointment or otherwise) and, unless the other Directors have agreed, he/she shall not be eligible for re-election.

The Board explains the reasons why it believes each retiring Director should be re-elected in the Notice of Annual General Meeting ('AGM') and complies fully with the Code in respect of its AGM arrangements.

Chairman and Chief Executive Officer

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer and they have been set out in writing and approved by the Board so that no one individual has unfettered powers of decision. Upon appointment, the Chairman met the independence criteria set out in the Code. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives and is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda but has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of the Non-Executive Directors, and constructive relations between Executive and Non-Executive Directors, ensures Directors receive accurate, timely and clear information and effective communication with shareholders. The Chief Executive Officer has direct charge of the Group on a day-to-day basis and overall responsibility to the Board for the financial and operational performance of the Group.

Information and professional development

A formal induction programme has been established for new Directors and this is tailored to each individual to ensure that it is appropriate for their level of previous experience. At scheduled Board meetings Directors receive detailed reports from executive management on the performance of the Group and senior management regularly make presentations on their areas of responsibility. Board members are invited to the Group's annual conference, together with senior management from each brand and geographic area, in order to discuss relevant initiatives. Regular updates are provided on other topics as required and Directors are encouraged to attend external seminars on areas of relevance to their role. These measures help to ensure that the Directors continue to develop their knowledge of the Group's business and get to know its senior management.

Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with and to assist in arranging any additional information as required. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole and the Board last appointed a Company Secretary in October 2006. All Directors are entitled to obtain independent professional advice, at the Company's expense, in the performance of their duties as Directors. No such advice was sought during the year.

Performance Evaluation

During the year a performance evaluation process, led by the Chairman, was established to evaluate the Board, Committees and individual Directors. This ensures that the performance of each individual Director and the functioning and constitution of the Board and each Committee are assessed. The Chairman also discusses the individual performance of Directors, in consultation with other Directors, whilst the Senior Independent Director has held discussions with the other Non-Executive Directors without the Chairman being present and also with the Executives, in order to appraise the Chairman's performance. These assessments concluded that the performance of the Board, each Committee and each Director was and is effective and that Directors demonstrate full commitment in their respective roles. The Board will continue to develop this process as necessary in order to ensure that it can properly review, on an annual basis, its performance and that of its Committees and individual Directors.

Board and Committee Composition and Attendance

The Board has established various Committees, each with clearly defined terms of reference, procedures and powers, as summarised below, which are regularly reviewed. All Committees operate in accordance with the relevant terms of reference as approved by the Board. Copies of the terms of reference for each of these Committees are available on request from the Company Secretary at the registered office or can be downloaded from www.sthree.com. In addition to the nine scheduled Board meetings during the year, the Board met at the AGM and strategy away day. The number of Committee meetings held for each respective Committee is shown under the relevant section below. During the year The Baroness Noakes was absent for one Board and one Remuneration Committee meeting, whilst Brian McBride and Tony Ward were each absent for one Board meeting, otherwise there was full attendance.

Audit Committee

The Audit Committee met five times during the year and comprises only Paul Bowtell (Chairman), Brian McBride and Alicja Lesniak, and accordingly has at least three independent Non-Executive Directors as required by the Code. The Chief Executive Officer, the Chief Financial Officer and the external auditors attend all meetings at the request of the Committee. Paul Bowtell is a Chartered Accountant and is considered by the Board to have recent and relevant financial experience.

The Committee's principal responsibilities are to monitor the integrity of the Company's Annual and Interim Reports, preliminary results announcements and any other formal announcements relating to financial performance, reviewing particularly any significant financial reporting judgements contained therein; to review the Group's systems of internal control and risk management; to identify and report on any business areas where action or improvement are needed and recommend actions to be taken; to review arrangements by which Group employees may raise concerns about possible improprieties in financial reporting or other such matters, and ensure appropriate follow up; to monitor the effectiveness of the external audit process; and to ensure that the audit report and all related work are properly completed.

The Committee considers matters relating to the recommendation for appointment, re-appointment, remuneration and terms of engagement of the Company's auditor, PricewaterhouseCoopers LLP. Both the Committee and the auditors themselves have safeguards in place to ensure that the objectivity and independence of the auditors is maintained, including the periodic rotation of the audit partner. In addition to the annual appointment of the auditors by the shareholders, the Committee regularly reviews their independence taking into consideration relevant UK professional and regulatory requirements. The Committee reviews auditor performance and fees charged and meets with the auditor at least once a year without management present.

The Committee's policy is that non-audit work is carried out by the auditors only where that work does not impair the auditor's independence and where the Committee believes that it is in the Group's best interests to make use of the auditor's knowledge of the business. The Committee continuously monitors the quality and volume of this work in order to assess whether to use other accounting firms (or appropriately qualified organisations).

Details of fees paid to the auditors for both audit and non-audit work, are given in Note 4 to the financial statements.

Following a review by the Audit Committee in the light of the growth of the business and its current needs, the Group plans to create an internal audit function in 2008.

Nomination Committee

The Nomination Committee met once during the year and consists of Sir Anthony Cleaver (Chairman), Brian McBride and Tony Ward and accordingly comprises a majority of independent Non-Executive Directors as required by the Code.

The Nomination Committee's terms of reference are to review regularly the structure, size and composition (including the skills, knowledge and experience) of the Board, make recommendations with regard to any changes, and to review and prepare relevant job descriptions for new appointees. The Committee also considers future succession for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and expertise within the Company and on the Board. Where appropriate, the Committee engages external search consultants with respect to both Executive and Non-Executive Board appointments, as was the case for the appointment of Paul Bowtell.

Remuneration Committee

The Remuneration Committee met five times during the year and is responsible for making recommendations to the Board on Group policy for the remuneration of the Executive Directors and senior executives and for the determination, within agreed terms of reference, of additional benefits for each of the Executive Directors, including pension rights and any compensation for loss of office. The Committee is also responsible for the implementation and operation of employee share incentive arrangements. The Committee comprises solely independent Non-Executive Directors as required by the Code. Following a retirement at the AGM in April 2007, the Committee comprised only two independent Non-Executive Directors. However, following the appointment of Alicja Lesniak on 1 February 2008, the Committee now comprises three independent Non-Executive Directors, as required by the Code. Full information on the composition, role and operation of the Remuneration Committee and Directors' Remuneration is detailed in the Directors' Remuneration Report.

Internal control

The Board has overall responsibility for the Group's internal control systems and for monitoring their effectiveness in order to safeguard shareholders' investments and the Group's assets. Executive Directors and senior management are responsible for the implementation and maintenance of the internal control systems, which are subject to periodic, and at least annual, review by the Board. As explained above, the Group plans to create an internal audit function in 2008.

The Board monitors the ongoing process by which critical risks to the business are identified, evaluated and managed. This process is consistent with the Turnbull Guidance on Internal Control and has been in operation for the period under review and up to the date of approval of this Annual Report.

The Board assesses the effectiveness of the Group's system of internal controls, including financial, organisational and compliance controls and risk management systems. These are designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives, and can only provide reasonable, and not absolute, assurance against material mis-statement or loss. The Board considers, in assessing what constitutes reasonable accuracy, the materiality of financial and non-financial risks and the relationship between the cost of, and benefit from, internal control systems.

The Board regularly reviews the actual results compared with the budgeted and forecast performance of the Group, as well as other key performance indicators.

Lines of responsibility and delegated authorities are areas which continue to be defined and the Group's policies and procedures therefore continue to be updated and communicated internally.

Assessment of risk

The Board has developed a corporate risk register for review via the Audit Committee twice a year. The purpose of the register is to record the key risks facing the business, the assessment of the likelihood of the risks crystallising, their potential materiality and the Group's response to each risk. Responsibility for management of the risks is attributed typically to senior management.

Going concern

The Board has reviewed the Group's budget for the financial year ending 30 November 2008 and for the foreseeable future. After taking account of the cash flow projections, including proposed capital expenditure and considering the availability of borrowing facilities, the Board has concluded that it is appropriate to prepare the accounts of both the Group and the Company on the going concern basis.

Corporate Social Responsibility

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

Environmental Responsibility

Information is disclosed in the Corporate Social Responsibility Report.

Steven C Hornbuckle

Steve Hornbuckle, FCIS
Company Secretary
7 March 2008

Corporate Social Responsibility Report

Year ended 2 December 2007

Introduction

At SThree plc, we take our duty to behave responsibly in governance and ethics seriously. During the year, the Board commissioned a review of the Group's Corporate Social Responsibility ('CSR') practices, in order to benchmark and improve these wherever possible. This review was undertaken by ReputationInc, a specialist advisor in CSR best practice, and their recommendations are to be implemented during 2008. These include setting targets and implementing office-wide sustainability policies to reduce office waste and increase energy efficiency. In addition, the existing Group Charities Committee is to be redefined as the Group CSR Committee, with more appropriate membership, formal Terms of Reference and reporting structure implemented and a dedicated CSR Section of the SThree website (www.sthree.com) is to be developed. We will continue to review, build on and report our CSR commitments in the coming years, in addition to fulfilling national and international legal requirements. The Group's CSR policy can be summarised as follows:

Governance

SThree is committed to high standards of corporate governance as outlined in the Corporate Governance Report and the Board is accountable to the Company's shareholders for ensuring that principles of good governance are applied.

Ethics

The foundation of Group policy rests with our employees, each of whom must adhere to the Group's values as follows:

- Value trust and personal responsibility;
- Act with integrity, honesty and respect;
- Deliver excellent services that add value to our customers' businesses;
- Focus on continual growth and outstanding performance;
- Strive to create a safer working environment;
- Value each employee's contribution towards achieving our business objectives;
- Promote a culture where motivated customer-orientated employees can flourish, experience professional fulfilment and reach their highest potential; and
- Respect diverse perspectives, experiences and traditions as essential.

Our Stakeholders

We aim to be as responsive as possible and to engage with a wide range of stakeholders.

• Shareholders

Communications with shareholders are given a high priority. The Company produces an Annual Report, which is sent to shareholders. At the half-year, an Interim Report is published. The Company's website contains up-to-date information on the Group's activities, investor presentations and published financial results. Shareholders can also subscribe for e-mail alerts of important announcements made by the Company.

There is regular dialogue with institutional shareholders, whilst ensuring that price sensitive information is released at the same time to all shareholders in accordance with the requirements of the UK Listing Authority. Presentations are made after the Company has published its full-year and half-year results, and there is also dialogue on specific issues, such as Minority Stakes, the introduction of the Long Term Incentive Plan and on other key remuneration issues.

The Chairman is available to discuss strategy and governance issues with shareholders and is available to shareholders if they have concerns that have not, or cannot, be addressed through the Chief Executive Officer, Chief Financial Officer or Chief Operating Officer. The Senior Independent Non-Executive Director, Brian McBride, is available to shareholders if they have concerns that have not, or cannot, be addressed through the Chairman, Chief Executive Officer, Chief Financial Officer or Chief Operating Officer.

The Group obtains feedback from its brokers on the views of institutional investors on a non-attributed basis and any issues or concerns are communicated to the Board. The Board routinely receives regular reports on issues relating to share price, trading activity, institutional investor sentiment and sector updates.

The Board views the Annual General Meeting as a valuable opportunity to communicate with private and institutional investors and welcomes their participation. Normally, all Board members attend the Annual General Meeting and in particular, the Chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions. At General Meetings, a schedule of the proxy votes cast is made available to all shareholders and may also be accessed via the Company's website. The Company proposes a resolution on each substantially separate issue and does not combine resolutions inappropriately. The website contains

Corporate Social Responsibility Report (continued)

Year ended 2 December 2007

copies of all Notices of Meeting and explanatory notes, once issued and the Notice of AGM is posted at least twenty working days prior to the date of the meeting.

- **Customers/Clients**

SThree is built upon a strong ethos of customer/client service. A combination of years of experience, detailed knowledge of our specialist recruitment sectors and local legislation, culture and market conditions, as well as comprehensive training programmes, mean that clients receive the most professional service. We conduct internal and external customer care surveys and regular client contact reports. Listening to our clients helps us understand what they expect from us and how we can meet and exceed their expectations.

- **Employees**

The Group provides equal opportunities for its staff as disclosed in the Directors' Report. Employees have regular appraisals with their line managers in order to address any concerns and the Human Resources Director is available in the event of dissatisfaction. Where this does not conflict with local laws or customs, employees will be able to report any matters of concern via a dedicated telephone line or via the Company Secretary.

Diversity

SThree has 2,035 employees in 10 countries and, together with our policy to recruit qualified local people wherever possible, this diversity is one of our biggest assets. Combined with pursuing practices that are sensitive to the needs and cultures of our staff, diversity allows us to be adaptable and more open to different ways of doing business, in line with local practices and customs. The Group provides equal opportunities for its entire staff, irrespective of their age, ethnic or religious background, sex, sexual orientation or disability, as disclosed in the Directors' Report. SThree employs only the best people for their role irrespective of gender; nevertheless we are keen to see the ratio of women in senior positions improve.

Environmental Responsibility

SThree remains committed to operating in an environmentally responsible manner and all offices are encouraged to recycle paper, IT equipment and other relevant materials used. Wherever possible, preference is given to purchasing equipment which incorporates the latest power saving or other environmentally friendly capabilities, and disposal of such equipment is undertaken in a controlled manner, in conjunction with suppliers or other bodies. In addition, the company off-sets the carbon emissions of all unnecessary business travel.

Steven C Hornbuckle

Steve Hornbuckle, FCIS
Company Secretary
7 March 2008

Audit Opinion

Year ended 2 December 2007

Independent Auditors' Report to the Members of Sthree plc

We have audited the group and parent company financial statements (the "financial statements") of SThree plc for the year ended 2 December 2007 which comprise the consolidated income statement, the group and parent company balance sheets, the group and parent company cash flow statements, the group and parent company statements of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Chief Executive Officer's and Financial Review, the detail of the Board of Directors, the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Corporate Governance Report, the Corporate Social Responsibility Report and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material

Audit Opinion (continued)

Year ended 2 December 2007

misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 2 December 2007 and of its profit and cash flows for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 2 December 2007 and cash flows for the year then ended;

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

7 March 2008

SThree plc

Consolidated Income Statement
Year ended 2 December 2007

	Note	2 December 2007 Total £'000	30 November 2006 Before exceptional items £'000	30 November 2006 Exceptional items £'000	30 November 2006 Total £'000
Revenue	2	**522,698**	**393,262**	**–**	**393,262**
Cost of sales		(340,033)	(257,742)	–	(257,742)
Gross profit	2	**182,665**	**135,520**	**–**	**135,520**
Administrative expenses	3	(130,408)	(94,487)	(22,143)	(116,630)
Operating profit	4	**52,257**	**41,033**	**(22,143)**	**18,890**
Finance income	6	6	432	–	432
Finance cost	6	(1,985)	(1,284)	–	(1,284)
Share of profit of joint venture	13	46	89	–	89
Profit before taxation		**50,324**	**40,270**	**(22,143)**	**18,127**
Taxation	7	(16,509)	(12,289)	6,242	(6,047)
Profit for the year		**33,815**	**27,981**	**(15,901)**	**12,080**
Attributable to:					
Equity holders of the Company		32,648	27,703	(15,901)	11,802
Minority interest		1,167	278	–	278
		33,815	**27,981**	**(15,901)**	**12,080**
Earnings per share	9	**pence**	**pence**	**pence**	**pence**
Basic		25.2	22.4	(12.9)	9.5
Diluted		24.1	21.4	(12.3)	9.1

All amounts relate to continuing operations.

SThree plc

Balance Sheet

Year ended 2 December 2007

	Note	Consolidated 2 December 2007 £'000	Consolidated 30 November 2006 £'000	Company 2 December 2007 £'000	Company 30 November 2006 £'000
Assets					
Non-current assets					
Property, plant and equipment	10	6,479	3,558	–	–
Intangible assets — other	11	10,389	3,012	–	–
Intangible assets — goodwill	11	382	364	–	–
Investments	12	–	–	234,383	196,553
Investment in joint venture	13	135	89	–	–
Deferred tax asset	19	3,052	11,459	1,265	2,319
		20,437	18,482	235,648	198,872
Current assets					
Trade and other receivables	14	151,085	92,585	2,024	24,718
Current tax debtor	15	–	533	261	261
Cash and cash equivalents	24	4,771	2,440	143	30
		155,856	95,558	2,428	25,009
Total assets	2	**176,293**	**114,040**	**238,076**	**223,881**
Liabilities					
Current liabilities					
Provisions for liabilities and charges	18	(250)	(188)	–	–
Trade and other payables	16	(73,180)	(39,024)	(10,218)	(33,178)
Borrowings	17	(1,267)	(5,281)	(2,809)	(1,081)
Current tax liability	15	(4,911)	–	–	–
		(79,608)	(44,493)	(13,027)	(34,259)
Non-current liabilities					
Provisions for liabilities and charges	18	(3,252)	(5,436)	–	–
		(3,252)	(5,436)	–	–
Total liabilities		**(82,860)**	**(49,929)**	**(13,027)**	**(34,259)**
Net assets		**93,433**	**64,111**	**225,049**	**189,622**
Equity					
Capital and reserves attributable to the Company's equity holders					
Share capital	20	1,383	1,380	1,383	1,380
Share premium		2,925	2,925	2,925	2,925
Capital redemption reserve	20	2	–	2	–
Capital reserve	20	878	878	878	878
Currency translation reserve		69	(248)	–	–
Retained earnings		85,751	58,828	219,861	184,439
		91,008	63,763	225,049	189,622
Minority interest		2,425	348	–	–
Total equity		**93,433**	**64,111**	**225,049**	**189,622**

These financial statements were approved by the Board of Directors on 7 March 2008.
On behalf of the Board of Directors.

Sir Anthony Cleaver
Chairman

David Tilston
Interim Chief Financial Officer

SThree plc

Consolidated Statement of Changes in Equity

Year ended 2 December 2007

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Currency translation reserve £'000	Retained earnings £'000	Attributable to Company shareholders £'000	Minority interest £'000	Total equity £'000
Balance at 1 December 2005	**1,380**	**2,925**	**–**	**878**	**(146)**	**24,050**	**29,087**	**171**	**29,258**
Currency translation differences	–	–	–	–	(102)	–	(102)	–	(102)
Deferred tax on employee share options	–	–	–	–	–	2,054	2,054	–	2,054
Current tax on employee share options	–	–	–	–	–	4,416	4,416	–	4,416
Net income/(expense) recognised directly in equity	–	–	–	–	(102)	6,470	6,368	–	6,368
Profit for the year to 30 November 2006	–	–	–	–	–	11,802	11,802	278	12,080
Total recognised income and expense for the period	–	–	–	–	(102)	18,272	18,170	278	18,448
Repurchase of minority interest	–	–	–	–	–	–	–	(36)	(36)
Dividends paid to equity holders (note 8)	–	–	–	–	–	(3,038)	(3,038)	–	(3,038)
Dividends paid to minority interest	–	–	–	–	–	–	–	(65)	(65)
Employee share award and share option credit	–	–	–	–	–	19,544	19,544	–	19,544
Total movements in equity	–	–	–	–	(102)	34,778	34,676	177	34,853
Balance at 30 November 2006	**1,380**	**2,925**	**–**	**878**	**(248)**	**58,828**	**63,763**	**348**	**64,111**
Currency translation differences	–	–	–	–	317	–	317	–	317
Deferred tax on employee share options	–	–	–	–	–	(7,597)	(7,597)	–	(7,597)
Current tax on employee share options	–	–	–	–	–	8,258	8,258	–	8,258
Net income recognised directly in equity	–	–	–	–	317	661	978	–	978
Profit for the year to 2 December 2007	–	–	–	–	–	32,648	32,648	1,167	33,815
Total recognised income and expense for the period	–	–	–	–	317	33,309	33,626	1,167	34,793
Repurchase of share capital	(2)	–	2	–	–	(388)	(388)	–	(388)
Issue of share capital to minority interest	–	–	–	–	–	–	–	990	990
Repurchase of minority interest	–	–	–	–	–	–	–	(10)	(10)
Dividends paid to equity holders (note 8)	–	–	–	–	–	(6,345)	(6,345)	–	(6,345)
Dividends paid to minority interest	–	–	–	–	–	–	–	(70)	(70)
Employee share award and share option credit	5	–	–	–	–	347	352	–	352
Total movements in equity	3	–	2	–	317	26,923	27,245	2,077	29,322
Balance at 2 December 2007	**1,383**	**2,925**	**2**	**878**	**69**	**85,751**	**91,008**	**2,425**	**93,433**

SThree plc

Company Statement of Changes in Equity

Year ended 2 December 2007

	Share Capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Retained earnings £'000	Attributable to Company shareholders £'000
Balance at 1 December 2005	**1,380**	**2,925**	**–**	**878**	**135,741**	**140,924**
Deferred tax on employee share options	–	–	–	–	1,878	1,878
Net income recognised directly in equity	–	–	–	–	1,878	1,878
Profit for the year to 30 November 2006	–	–	–	–	30,314	30,314
Total recognised income and expense for the period	–	–	–	–	32,192	32,192
Increase in value of investments (IFRIC 11)	–	–	–	–	19,544	19,544
Dividends paid to equity holders (note 8)	–	–	–	–	(3,038)	(3,038)
Total movements in equity	–	–	–	–	48,698	48,698
Balance at 30 November 2006	**1,380**	**2,925**	**–**	**878**	**184,439**	**189,622**
Deferred tax on employee share options	–	–	–	–	(1,664)	(1,664)
Expenses recognised directly in equity	–	–	–	–	(1,664)	(1,664)
Profit for the year to 2 December 2007	–	–	–	–	43,472	43,472
Total recognised income and expense for the period	–	–	–	–	41,808	41,808
Repurchase of share capital	(2)	–	2	–	(388)	(388)
Issue of share capital	5	–	–	–	–	5
Increase in value of investments (IFRIC 11)	–	–	–	–	347	347
Dividends paid to equity holders (note 8)	–	–	–	–	(6,345)	(6,345)
Total movements in equity	3	–	2	–	35,422	35,427
Balance at 2 December 2007	**1,383**	**2,925**	**2**	**878**	**219,861**	**225,049**

Of the above reserves only the retained profit of £219,861,000 (2006: £184,439,000) is distributable.

SThree plc

Cash Flow Statement
Year ended 2 December 2007

		Consolidated		Company	
	Note	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
Cash flows from operating activities					
Cash generated from operating activities	23	29,316	15,025	7,103	18,526
Income tax (paid)/received		(2,113)	1,459	–	(5,568)
Net cash generated from operating activities		27,203	16,484	7,103	12,958
Cash flows from investing activities					
Purchase of property, plant and equipment		(5,173)	(2,442)	–	–
Purchase of intangible assets		(8,901)	(3,001)	–	–
Purchase of investment		–	–	(131)	–
Proceeds from sale of property, plant and equipment		30	56	–	–
Net cash used in investing activities		(14,044)	(5,387)	(131)	–
Cash flows from financing activities					
Repayment of loan facility		–	(8,000)	–	(8,000)
Foreign exchange from financing activities		–	265	–	–
Finance income		6	167	335	1,065
Finance cost		(1,985)	(1,284)	(2,194)	(2,690)
Proceeds from issue of ordinary shares		5	–	5	–
Issue of share capital to minority interest		1,845	–	–	–
Repurchase of share capital		(388)	–	(388)	–
Purchase of minority interest		(28)	(400)	–	(400)
Dividends paid		(6,345)	(3,038)	(6,345)	(3,038)
Dividend paid to minority interest		(70)	(65)	–	–
Net cash used in financing activities		(6,960)	(12,355)	(8,587)	(13,063)
Net increase/(decrease) in cash and cash equivalents		**6,199**	**(1,258)**	**(1,615)**	**(105)**
Cash and cash equivalents at beginning of the year		(1,841)	(550)	(51)	54
Exchange losses on cash and cash equivalents		146	(33)	–	–
Cash and cash equivalents at the end of the year	24	**4,504**	**(1,841)**	**(1,666)**	**(51)**

SThree plc

Notes to the Financial Statements
Year ended 2 December 2007

1 Accounting policies

SThree plc ("the Company") and its subsidiaries (together "the Group") operate predominantly in the United Kingdom and Europe. The Group consists of 12 different brands and provides both permanent and contract specialist staffing services, primarily in the ICT sector and, to an increasing extent, the banking and finance, accountancy, human resources, engineering, pharmaceutical and jobboard sectors.

The Company is a limited liability company incorporated and domiciled in the United Kingdom. The Company is listed on the London Stock Exchange.

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

Basis of preparation

The financial statements of SThree plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union and also comply with IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the income statement. The Company's financial statements have been prepared on the same basis and as permitted by Section 230(3) of the Companies Act 1985, no income statement is presented for the Company.

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

The Group's consolidated financial statements were prepared in accordance with IFRS since 1 December 2004.
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Management anticipate that the areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates affect the consolidated financial statements, do not substantially impact the results.

The following IFRS and IFRICs have been issued but have not been adopted early by the Group:

> IFRS 7 'Financial instruments: disclosures' (effective from period commencing 1 January 2007) introduces new disclosures for financial instruments. It replaces requirements in IAS 32 Financial instruments: disclosure and presentation and will introduce additional disclosures in the Group's financial statements for the period in which it is adopted.
>
> IFRS 8 'Operating segments' (effective from period commencing 1 January 2008) sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

The Group has adopted, on transition to IFRS, the requirements of IFRIC 11 'IFRS 2 Group and Treasury share transactions' (effective 1 March 2007). This interpretation gives guidance on accounting for shares issued by a parent company to employees of its subsidiary companies.

1 Accounting policies (continued)

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.

Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests are accounted for using the parent company method. Goodwill is calculated as being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Foreign currencies

(i) Functional and presentation currency
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 Pounds Sterling which is SThree plc's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies
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.

SThree plc

Notes to the Financial Statements
Year ended 2 December 2007

1 Accounting policies (continued)

Revenue and revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services provided in the ordinary course of the Group's activities. Revenue is shown net of value added tax and other sales taxes, returns, rebates and discounts and after elimination of sales within the Group.

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.

Segment reporting

The Group operates in one business segment being that of recruitment services (primary segment). Therefore no additional business segment information is required to be provided. The Group operates in two geographic segments (secondary segment) being the United Kingdom and Europe and the Rest of the World.

Dividends

Dividends declared to the Company's shareholders are recognised as a liability in the Company's and Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

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.

1 Accounting policies (continued)

Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Computer software
The cost of acquired computer software licenses is capitalised. These costs are amortised over their estimated useful lives (up to three years).

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

Assets under construction
Purchased fixed assets or internally generated intangible assets that are still under development are classified as 'Assets under construction'. These assets are reclassified over the phased completion dates and are amortised from the date they are reclassified.

Development costs
Costs incurred on development projects (relating to the design or improvement of systems) are recognised as intangible assets when the IAS 38 'Intangible assets' recognition criteria are met. Capitalised development costs are amortised from the date available for use of the system over their expected useful lives (not exceeding five years).

Research expenditure is recognised as an expense as incurred.

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

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, by analysing individual assets or classes of assets that naturally belong together. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is measured based on the expected future discounted cash flows ("DCF" model) attributable to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

A number of significant assumptions and estimates are involved in using DCF models to forecast operating cash flows, e.g. with respect to factors such as market growth rates, revenue volumes, market prices for services and working capital requirements. Forecasts of future cash flows are based on best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other available information. These assumptions are subject to review by management and the Board of Directors. The cash flow forecasts are adjusted by an appropriate discount rate derived from SThree plc's cost of capital.

1 Accounting policies (continued)

Derivative financial instruments

The Group uses derivative financial instruments such as foreign exchange contracts as economic hedges of the risk associated with foreign currency fluctuations. Such financial derivatives are stated at their fair value.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designed as a hedging instrument and, if so, the nature of the item being hedged.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

The Group has no derivatives that qualify for hedge accounting at the year end.

Significant Judgements and estimates

In determining and applying accounting policies, judgement is often required where the choice of specific policy, assumption or accounting estimate to be followed could materially affect the reported results or net position of the group, should it later be determined that a different choice be more appropriate.

Management considers the following to be areas of significant judgement and estimation for the group:

(i) The determination of the carrying amount of intangibles assets and related amortisation; capitalisation of development costs, estimation of useful economic life and recoverability of such assets is deemed to be judgemental. The development costs capitalised during the year amounted to £ 7.4m (see note 11).

(ii) The Group follows the guidance of IAS 39 to determine when trade and other receivables are impaired. This determination requires significant judgement. In making this judgement, the group evaluates, among other factors, the duration and extent to which the carrying values of a receivable is less than its cost, the risk profile of the client and other credit rating factors are assessed; and the financial health of and near-term business outlook for the client.

(iii) Revenue is recognised when the supply of professional services has been rendered, it also includes an assessment of professional services received by the client for the placement of temporary services between the date of the last received timesheet and the year end. Unsubmitted timesheets are estimated to the extent that an open contract has not expired during the period under assessment. Management apply judgement to several factors in estimating the revenue and cost of sales accruals; any difference compared to actual experience would result in the amount payable to the contractor and receivable from the client being adjusted in the next financial year. The judgement applied, and the assumptions underpinning these judgements are considered to be appropriate. However, a change in these assumptions would impact upon both the amount of revenue and cost of sales recognised.

Fixed asset investments

The Company's investments in shares in Group companies are stated at cost less provisions for impairment. Any impairment is charged to the income statement as it arises.

Trade and other receivables

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

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.

Leases

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

Trade and other payables

Trade and other payables are stated at cost.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Provisions, contingent liabilities and contingent assets

Provisions 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.

Taxation

Corporation tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profits for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred 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 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 tax asset is realised or the deferred tax liability is settled.

Deferred 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.

1 Accounting policies (continued)

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 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.

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 EBT's 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, share option schemes and LTIP.

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.

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 plc 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.

Exceptional items

These are non-recurring items which are presented separately due to their nature, size or incidence. The separate reporting of such items helps provide a better indication of the Group's underlying business performance.

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.

Geographic analysis

	By location of client		By location of operating company	
	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
Revenue				
United Kingdom	369,735	295,666	479,521	372,563
Europe and Rest of World	152,963	97,596	43,177	20,699
	522,698	**393,262**	**522,698**	**393,262**
Gross Profit				
United Kingdom	123,321	98,937	147,459	118,612
Europe and Rest of World	59,344	36,583	35,206	16,908
	182,665	**135,520**	**182,665**	**135,520**
Operating Profit				
Operating profit before exceptional items:				
United Kingdom			44,472	38,659
Europe and Rest of World			7,785	2,374
			52,257	41,033
Exceptional items (note 3)				
United Kingdom			–	(22,143)
			52,257	**18,890**

	Total assets		Capital expenditure	
	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
United Kingdom	155,898	106,193	12,811	5,154
Europe and Rest of World	20,395	7,847	1,263	289
	176,293	**114,040**	**14,074**	**5,443**

SThree plc

Notes to the Financial Statements
Year ended 2 December 2007

2 Segmental analysis (continued)

The following segmental analyses by brand, recruitment classification and by discipline (being the profession of candidates placed) have been included as additional disclosure over and above the requirements of IAS14 "Segment Reporting".

	Revenue		Gross profit	
	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
Brand				
Computer Futures Solutions	148,096	113,391	53,850	36,749
Huxley Associates	134,374	91,198	50,746	35,609
Progressive	95,067	77,288	31,688	24,777
Pathway	45,279	36,649	11,595	9,469
Others	99,882	74,736	34,786	28,916
	522,698	**393,262**	**182,665**	**135,520**
Recruitment classification				
Contract	429,121	327,459	89,143	69,717
Permanent	93,577	65,803	93,522	65,803
	522,698	**393,262**	**182,665**	**135,520**
Discipline				
Information & communication technology	469,883	351,038	150,139	111,121
Other [1]	52,815	42,224	32,526	24,399
	522,698	**393,262**	**182,665**	**135,520**

[1] Including banking and finance, accountancy, human resources, engineering, pharmaceutical and jobboard sectors.

3 Administrative expenses — exceptional items

Exceptional items are those items which, because of their size, incidence or nature, are disclosed to give a proper understanding of the underlying results for the period. Items classified as exceptional are as follows:

	2 December 2007 £'000	30 November 2006 £'000
Exceptional items — charged to operating profit		
Employee share awards and share options charge	–	19,544
Employer's National Insurance on share awards and options, and related costs	–	2,599
Exceptional items — before taxation	**–**	**22,143**

Certain current and former employees received share awards and share options that were granted during the previous financial year but linked to arrangements made at IPO. In accordance with IFRS 2 'Share based payments' a charge was reflected in last year's income statement. This also resulted in a corresponding charge for Employer's National Insurance contributions. The Group received tax relief in respect of these share awards and other options and will receive tax relief in respect of options to be exercised in the future. These credits were also classified as exceptional. The taxation element of the exceptional items is dealt with in note 7.

The charge in respect of the employee share awards and options is a non-cash item. The related Employer's National Insurance contributions were paid in cash.

4 Other operating expenses

Operating profit is stated after charging/(crediting):

	2 December 2007 £'000	30 November 2006 £'000
Impairment of trade receivables	1,799	420
Depreciation	2,237	1,490
Amortisation of Intangible assets		
— Development costs	1,019	12
— Trademarks	6	6
— Computer software	499	48
Unrealised losses on financial instruments	999	–
Foreign exchange (gains)/losses	(2,241)	106
Profit on deemed disposal of subsidiary [1]	(855)	–
Staff costs (note 5)	92,884	92,369
Loss on sale of tangible fixed assets	46	116
Reorganisation costs	–	540
Operating lease charges		
— Motor vehicles	1,914	1,171
— Land and buildings	4,762	4,645

[1] Profit on deemed partial disposal relates to shares issued by a subsidiary of the SThree Group and sold to third parties.

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs detailed below:

Amounts paid to PricewaterhouseCoopers LLP:	2 December 2007 £'000	30 November 2006 £'000
Fees payable to the company's auditor for the audit of parent company and consolidated financial statements	165	132
Fees payable to the company's auditor and its associates for other services:		
— The audit of the company's subsidiaries pursuant to legislation	197	155
— Other services pursuant to legislation	45	30
— Other assurance services	42	60
— Taxation advice	167	64
— Other services	24	8
Costs charged to operating profit	**640**	**449**

5 Directors and employees

Staff costs and numbers consist of:

	2 December 2007 £'000	30 November 2006 £'000
Wages and salaries (including bonuses)	77,991	61,281
Social security costs	10,866	10,084
Pension costs	298	216
Temporary staff costs	3,382	1,244
Cost of employee share options and awards	347	19,544
	92,884	**92,369**

The staff costs disclosure has been re-analysed resulting in a change to the comparative figures. This additional analysis has no effect on the consolidated income statement for the prior year.

The average number of employees (including Directors) during the year was:

	2 December 2007 Number	30 November 2006 Number
Geographic analysis		
United Kingdom		
Sales	973	752
Non-sales	416	328
	1,389	1,080
Europe and Rest of World		
Sales	372	195
Non-sales	25	13
	397	208
	1,786	**1,288**

Included in the headcount numbers above is a total of 64 (2006: 38) temporary short-term full time employees.

Information on Directors' emoluments and interests, which forms part of these audited financial statements, is given in the Directors Remuneration Report (the auditable part).

The Company had an average of 8 (2006: 8) employees in the year to 2 December 2007.

6 Finance income and cost

	2 December 2007 £'000	30 November 2006 £'000
Finance income		
Bank interest receivable	6	167
Foreign exchange from financing activities	–	265
	6	**432**
Finance cost		
Bank loans and overdraft	(1,985)	(1,284)
	(1,985)	**(1,284)**
Net finance cost	**(1,979)**	**(852)**

7 Taxation

(a) Analysis of tax charge for the year

	2 December 2007	30 November 2006		
	Total £'000	Ordinary activities £'000	Exceptional items £'000	Total £'000
Current taxation				
UK				
Corporation tax at 30% (2006: 30%) on profits for the year	12,646	11,155	(6,642)	4,513
Adjustments in respect of prior periods	–	(174)	–	(174)
Overseas				
Corporation tax on profits for the year	2,778	1,594	–	1,594
Adjustments in respect of prior periods	278	(495)	–	(495)
Total current tax charge/(credit)	15,702	12,080	(6,642)	5,438
Deferred taxation				
Origination and reversal of temporary differences	473	209	–	209
Adjustments in respect of prior periods	571	–	–	–
Schedule 23 deferred tax (credit)/charge in respect of unexercised employee share awards and options	(32)	–	400	400
Impact of change in UK tax rate	(205)	–	–	–
Total deferred tax charge	807	209	400	609
Total income tax expense in the income statement	**16,509**	**12,289**	**(6,242)**	**6,047**

7 Taxation (continued)

(b) Reconciliation of the effective tax rate

The total tax charge for the year is higher than the standard rate of corporation tax in the UK (30%).
The differences are explained below:

	2 December 2007 £'000	2 December 2007 %	30 November 2006 £'000	30 November 2006 %
Profit before taxation	50,324		18,127	
Profit before tax multiplied by standard rate of corporation tax in the UK of 30%	15,097	30%	5,438	30%
Effects of:				
Other expenses not deductible for tax purposes	679	1%	461	3%
Capital charge in excess of depreciation and amortisation	–	0%	153	1%
Other timing differences	–	0%	384	2%
IFRS 2 charge in respect of employee share options and awards	102	0%	5,863	32%
Schedule 23 tax credit in respect of employee share options and awards	(32)	0%	(5,543)	(31%)
Lower tax rates on overseas earnings	19	0%	(149)	(1%)
Tax losses not utilised within the year	–	0%	109	1%
Adjustments to tax in respect of previous periods (UK)	571	1%	(174)	(1%)
Adjustments to tax in respect of previous periods (Overseas)	278	1%	(495)	(3%)
Remeasurement of deferred tax change in UK tax rate	(205)	0%	–	0%
Tax expense and effective tax rate	**16,509**	33%	**6,047**	33%

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2008, deferred tax balances have been remeasured. Deferred tax relating to temporary differences is measured at the tax rate of 28% as this is the tax rate that will apply on reversal.

7 Taxation (continued)

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

	2 December 2007 £'000	30 November 2006 £'000
Current tax		
Equity settled employee share options	8,258	4,416
Deferred tax		
Equity settled employee share options	(7,597)	2,054
	661	**6,470**

Corporation tax deductions have arisen on the exercise of options granted to certain current and former employees of the Group during the financial year. The corporation tax deduction amounted to £27.6m (2006: £33.2m) which reduces the current year's taxable profits of the Group. The current tax effect of this deduction amounted to £0.03m (2006: £5.6m) recognised in the income statement in the current year. This credit had been treated as exceptional in the prior year financial statements due to its unusual nature and its materiality. The current tax recognised directly in equity amounted to £8.3m (2006: £4.4m).

In addition to the tax deductions described above, the Directors expect to receive additional tax deductions in respect of the share awards and share options currently unexercised. Under IFRS the Group is required to provide for deferred tax on all unexercised share awards and options. At 2 December 2007 a deferred tax asset of £1.8m (2006: £9.4m) has been recognised in respect of this (note 19).

8 Dividends

	2 December 2007 £'000	30 November 2006 £'000
Amounts recognised and distributed to shareholders in the year		
Equity		
Dividend paid of 4.8p per Ordinary Share (2006: 2.4p)	6,345	3,038
Proposed interim dividend of 3.1p per Ordinary Share	4,011	–
	10,356	**3,038**
Amounts proposed for approval at the AGM		
Proposed final dividend for the year ended 2 December 2007: 6.2p (2006: 4.8p)	8,573	6,307

An interim dividend of 3.1p (2006: 2.4p) per Ordinary Share was 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.

The proposed final dividend had not been approved by the shareholders at 2 December 2007 and consequently has not been included as a liability within the financial statements.

If approved the proposed final dividend of 6.2p (2006: 4.8p) per Ordinary share will be paid on 9 June 2008 to shareholders on the register at the close of business on 2 May 2008.

9 Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data.

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary shares in issue during the year, excluding those held in the EBT which are treated as cancelled.

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary shares.

	2 December 2007 £'000	30 November 2006 £'000
Earnings		
Profit after taxation	33,815	12,080
Minority Interest	(1,167)	(278)
Basic earnings	32,648	11,802
Effect of exceptional items (net of tax)	–	15,901
Profit for the year excluding exceptional items	32,648	27,703

	millions	millions
Number of shares		
Weighted average number of shares used for basic EPS	129.8	123.9
Dilution effect of share plans	5.9	5.8
Diluted weighted average number of shares used for diluted EPS	135.7	129.7

	pence	pence
Basic		
Basic earnings per share	25.2	9.5
Basic earnings per share excluding exceptional items	25.2	22.4
Diluted		
Diluted earnings per share	24.1	9.1
Diluted earnings per share excluding exceptional items	24.1	21.4

10 Property, plant and equipment

	IT hardware £'000	Leasehold improvement £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 December 2005	6,246	1,385	1,059	224	8,914
Additions	1,202	629	526	85	2,442
Disposals	(231)	(11)	(86)	(88)	(416)
Reclassification	(296)	–	–	–	(296)
Exchange difference	(2)	(2)	–	–	(4)
At 30 November 2006	6,919	2,001	1,499	221	10,640
Additions	2,248	1,458	1,297	170	5,173
Disposals	(94)	(67)	(37)	(69)	(267)
Exchange difference	71	20	36	–	127
At 2 December 2007	**9,144**	**3,412**	**2,795**	**322**	**15,673**
Depreciation					
At 1 December 2005	5,010	425	551	113	6,099
Charge for the year	1,019	300	164	7	1,490
Disposals	(191)	(9)	(27)	(22)	(249)
Reclassification	(256)	–	–	–	(256)
Exchange difference	(2)	–	–	–	(2)
At 30 November 2006	5,580	716	688	98	7,082
Charge for the year	1,248	507	437	45	2,237
Disposals	(90)	(46)	(25)	(30)	(191)
Exchange difference	50	5	11	–	66
At 2 December 2007	**6,788**	**1,182**	**1,111**	**113**	**9,194**
Net book value					
At 2 December 2007	**2,356**	**2,230**	**1,684**	**209**	**6,479**
At 30 November 2006	1,339	1,285	811	123	3,558

11 Intangible assets

	Goodwill £'000	Assets under construction £'000	Computer software £'000	Development costs £'000	Trademarks £'000	Total £'000
Cost						
At 1 December 2005	205,687	–	–	95	63	205,845
Additions	364	2,361	115	524	–	3,364
Disposals	–	–	(5)	–	–	(5)
Reclassification	–	–	296	–	–	296
At 30 November 2006	206,051	2,361	406	619	63	209,500
Additions	18	2,372	1,536	4,993	–	8,919
Reclassification	–	(2,361)	–	2,361	–	–
At 2 December 2007	**206,069**	**2,372**	**1,942**	**7,973**	**63**	**218,419**
Amortisation and Impairment						
At 1 December 2005	205,687	–	–	78	37	205,802
Charge for the year	–	–	48	12	6	66
Reclassification	–	–	256	–	–	256
At 30 November 2006	205,687	–	304	90	43	206,124
Charge for the year	–	–	499	1,019	6	1,524
At 2 December 2007	**205,687**	**–**	**803**	**1,109**	**49**	**207,648**
Net book value						
At 2 December 2007	**382**	**2,372**	**1,139**	**6,864**	**14**	**10,771**
At 30 November 2006	364	2,361	102	529	20	3,376

11 Intangible assets (continued)

Goodwill

Goodwill has been recognised after the purchase of a 2% minority interest holding in Staff Search Group Limited, increasing the Group share of identifiable net assets from 96% to 98%.

Goodwill in 2006 was recognised after the purchase of a 7% minority interest holding in Madison Black Limited, increasing the Group share of identifiable net assets from 80% to 87%.

Impairment of Goodwill

Goodwill has been tested for impairment by comparing the carrying amount of each cash-generating unit, including goodwill, with the recoverable amount of that income-generating unit.

In assessing the value in use, the estimated future cash flows are calculated by preparing cash flow forecasts derived from the most recent financial budget and an assumed growth rate of 2%, which does not exceed the long-term average growth rate of the relevant markets. A terminal value of the cash flow is then calculated by discounting using the Group's weighted average cost of capital. If the recoverable amount of the cash generating-unit is less than the carrying value, then an impairment loss is recognised in the income statement.

Development costs

During the current year, the company has brought into use a new Enterprise Resource Planning ("ERP") system. The company has also begun a phased rollout of a Customer Relationship Management ("CRM") system to complement the front-office system. Costs directly attributable to the development of the new systems have been capitalised.

12 Investments — Company

	Shares in Subsidiaries £'000
Cost	
At 1 December 2005	223,559
Capital contribution relating to sharebased payments (IFRS2)	19,544
Additions	400
At 30 November 2006	243,503
Capital contribution relating to sharebased payments (IFRS2)	347
Additions	131
At 2 December 2007	**243,981**
Provision for impairment	
At 1 December 2005	62,708
Reversal of impairment	(15,758)
At 30 November 2006	46,950
Reversal of impairment	(37,352)
At 2 December 2007	**9,598**
Net carrying value	
At 2 December 2007	**234,383**
At 30 November 2006	196,553

In accordance with IAS 36 'Impairment of assets' the carrying values of the Company's investments in subsidiaries have been allocated to their cash-generating units to assess their value in use. The discounted estimated future cash flow forecast, covering a period of 5 years, derived from the latest financial budgets with an assumed growth of 2% a year, of each cash-generating unit is undertaken to assess the value in use. The terminal value and discount rate used are derived from the Group's weighted average cost of capital. Management's annual review procedures have identified a reversal of the impairment provision of £37.4m (2006: £15.8m) to the Company's income statement. The pre-tax discount rate applied to projected future net cash flows to arrive at the valuation was 11.6% (2006: 14%).

IFRS 2 also requires that any options or awards granted to employees of a subsidiary company will increase the carrying value of the investment held. In 2007, the Group has recognised an increase in the investments in its subsidiaries of £0.3m (2006: £19.5m) relating to these share options and awards.

In 2006, the increase in the investment relates to the purchase of an additional 7% of Madison Black Limited for £0.4m which increased the Group's holding to 87% of their share capital. In the current year, there was a subsequent payment of £0.1m relating to this addition.

12 Investments — Company (continued)

Investments comprise the following principal subsidiary companies:

	Note	Shareholding 2007	Shareholding 2006	Country of incorporation	Principal Activity
SThree Australia Pty Limited		100%	–	Australia	IT Recruitment
Computer Futures Solutions International NV		100%	100%	Belgium	IT Recruitment
Computer Futures Solutions NV		100%	100%	Belgium	IT Recruitment
Huxley Associates Belgium (Contract) NV		100%	–	Belgium	IT Recruitment
Huxley Associates Belgium NV		100%	–	Belgium	IT Recruitment
Progressive Belgium NV		100%	–	Belgium	IT Recruitment
SThree Belgium NV		100%	–	Belgium	IT Recruitment
SThree Services NV		100%	–	Belgium	IT Recruitment
Computer Futures Solutions SAS		100%	100%	France	IT Recruitment
Progressive SAS	(a)	82%	100%	France	IT Recruitment
SThree France SAS		100%	–	France	IT Recruitment
Computer Futures Solutions GmbH		100%	100%	Germany	IT Recruitment
Huxley Associates Deutschland GmbH		100%	100%	Germany	IT Recruitment
Huxley Associates GmbH		100%	100%	Germany	IT Recruitment
Progressive GmbH	(a)	82%	100%	Germany	IT Recruitment
Sthree Deutschland GmbH *(Formally Huxley Associates Finance Recruitment GmbH)*		100%	100%	Germany	Finance Recruitment
Sthree GmbH *(Formally Huxley Associates Finance Recruitment Deutschland GmbH)*		100%	100%	Germany	IT Recruitment
Huxley Associates Finance Hong Kong Limited		100%	–	Hong Kong	Finance Recruitment
Computer Futures Solutions Limited		100%	100%	Ireland	IT Recruitment
Computer Futures Solutions BV		100%	100%	Netherlands	IT Recruitment
Computer Futures Solutions Nederland BV		100%	–	Netherlands	IT Recruitment
Huxley Associates Banking and Finance BV	(b)	71%	100%	Netherlands	Finance Recruitment
Huxley Associates BV	(c)	70%	100%	Netherlands	IT Recruitment
Huxley Associates Nederland BV	(c)	70%	100%	Netherlands	IT Recruitment
Jobboard Enterprises BV		100%	–	Netherlands	IT Recruitment
Progressive BV *(Formally Progressive Computer Recruitment BV)*		100%	100%	Netherlands	IT Recruitment
Progressive Nederland BV *(Formally Progressive Computer Recruitment Nederland BV)*	(d)	80%	100%	Netherlands	IT Recruitment
SThree Holdings BV *(Formally Solutions in Staffing & Software BV)*		100%	100%	Netherlands	IT Recruitment
SThree Nederland B.V.		100%	–	Netherlands	IT Recruitment
SThree Pte. Ltd.		100%	–	Singapore	IT Recruitment
SThree Singapore Pte. Ltd.		100%	–	Singapore	IT Recruitment
Banking People Limited		100%	100%	UK	IT Recruitment
Cavendish Directors Limited		100%	100%	UK	Management company
Cavendish Services Limited		100%	100%	UK	Management company
Computer Futures Solutions (BE) Limited		100%	100%	UK	IT Recruitment
Computer Futures Solutions Belgium Limited		100%	100%	UK	IT Recruitment
Computer Futures Solutions Deutschland Limited		100%	100%	UK	IT Recruitment
Computer Futures Solutions Europe Limited		100%	100%	UK	IT Recruitment
Computer Futures Solutions France Limited		100%	100%	UK	IT Recruitment

SThree plc

Notes to the Financial Statements
Year ended 2 December 2007

12 Investments — Company (continued)

Investments comprise the following principal subsidiary companies:

	Note	Shareholding 2007	2006	Country of incorporation	Principal Activity
Computer Futures Solutions International Limited		100%	100%	UK	IT Recruitment
Computer Futures Solutions Limited		100%	100%	UK	IT Recruitment
Computer Futures Solutions Nederland Limited		100%	100%	UK	IT Recruitment
Computer Futures Solutions Netherlands Limited		100%	100%	UK	IT Recruitment
Computer Futures Solutions Norge Limited		100%	100%	UK	IT Recruitment
Computer Futures Solutions Sverige Limited		100%	100%	UK	IT Recruitment
Conexus Recruitment Consultants Limited		100%	100%	UK	IT Recruitment
Huxley Associates Banking and Finance Nederland Limited		100%	100%	UK	Finance Recruitment
Huxley Associates Belgium Limited		100%	100%	UK	IT Recruitment
Huxley Associates Deutschland Limited		100%	100%	UK	IT Recruitment
Huxley Associates Finance Recruitment Deutschland Limited		100%	100%	UK	Finance Recruitment
Huxley Associates International Limited		100%	100%	UK	IT Recruitment
Huxley Associates Limited		100%	100%	UK	IT Recruitment
Huxley Associates M Limited	(c)	70%	100%	UK	Engineering Recruitment
Huxley Associates N Limited	(e)	72%	100%	UK	Engineering Recruitment
Huxley Associates Nederland Limited		100%	100%	UK	IT Recruitment
Huxley Associates S Limited	(b)	71%	100%	UK	Engineering Recruitment
Huxley Banking and Finance Limited	(b)	71%	100%	UK	Finance Recruitment
I R Solutions Limited		100%	100%	UK	IT Recruitment
J P Gray Limited	(g)	80%	80%	UK	Finance Recruitment
Jobboard Enterprises Limited	(g)	80%	80%	UK	IT Recruitment
Madison Black Limited	(h)	80%	87%	UK	IT Recruitment
MG Resourcing Limited		100%	100%	UK	IT Recruitment
New Wave Resourcing Limited		100%	80%	UK	IT Recruitment
Orgtel Contract Limited	(f)	78%	100%	UK	IT Recruitment
Orgtel Limited	(g)	80%	80%	UK	IT Recruitment
Pathway Resourcing Limited		100%	100%	UK	IT Recruitment
PCR Europe Limited		100%	100%	UK	IT Recruitment
Peoplequest Limited		100%	100%	UK	IT Recruitment
Progressive Belgium Limited *(Formally Progressive Computer Recruitment Belgium Limited)*		100%	100%	UK	IT Recruitment
Progressive Computer Recruitment Limited *(Formally Progressive Recruitment Limited)*		100%	100%	UK	IT Recruitment
Progressive Deutschland Limited *(Formally Progressive Computer Recruitment Deutschland Limited)*	(a)	82%	100%	UK	IT Recruitment
Progressive Europe Limited *(Formally Progressive Computer Recruitment Europe Limited)*		100%	100%	UK	IT Recruitment
Progressive France Limited *(Formally Progressive Computer Recruitment France Limited)*	(a)	82%	100%	UK	IT Recruitment
Progressive Germany Limited *(Formally Progressive Computer Recruitment Germany Limited)*	(a)	82%	100%	UK	IT Recruitment

12 Investments — Company (continued)

Investments comprise the following principal subsidiary companies:

	Note	Shareholding 2007	2006	Country of incorporation	Principal Activity
Progressive International (France) Limited *(Formally Progressive Computer Recruitment International (France) Limited)*	(a)	82%	100%	UK	IT Recruitment
Progressive Nederland Limited *(Formally Progressive Computer Recruitment Nederland Limited)*		100%	100%	UK	IT Recruitment
Progressive Netherlands Limited *(Formally Progressive Computer Recruitment Netherlands Limited)*		100%	100%	UK	IT Recruitment
Progressive Recruitment International Limited *(Formally Progressive Computer Recruitment International Limited)*		100%	100%	UK	IT Recruitment
Progressive Recruitment Limited *(Formally Progressive Computer Recruitment Limited)*		100%	100%	UK	IT Recruitment
Real Resourcing Limited *(Formally Real IT Resourcing Limited)*		100%	100%	UK	IT Recruitment
SThree Management Services Limited		100%	100%	UK	Management Services
Staff Search Group Limited	(i)	98%	96%	UK	IT & Human Resource Recruitment
SThree Overseas Holdings Limited		100%	100%	UK	Holding company
SThree UK Holdings Limited		100%	100%	UK	Holding company
Strategic Resource Group Limited	(d)	80%	100%	UK	IT Recruitment
Sunsync Limited		100%	100%	UK	Employee Trust
Tactical Resourcing Limited		100%	100%	UK	IT Recruitment
Huxley Associates Finance Resourcing Inc	(c)	70%	100%	USA	Finance Recruitment
Huxley Associates, Inc		100%	100%	USA	IT Recruitment
Resourcing Services Inc		100%	–	USA	IT Recruitment
Resourcing Services USA Inc		100%	–	USA	IT Recruitment

(a) During 2007, the company disposed of an 18% interest in the equity of the companies noted above. The minority interest is entitled to 18% of voting rights, but only 12% of dividend declared.
(b) During 2007, the company disposed of a 29% interest in the equity of the companies noted above. The minority interest is entitled to 29% of voting rights and only 19% of dividend declared.
(c) During 2007, the company disposed of a 30% interest in the equity of the companies noted above. The minority interest is entitled to 25% of voting rights but only 20% of the dividend declared.
(d) During 2007, the company disposed of a 20% interest in the equity of the companies noted above. The minority interest is entitled to 20%, but only 10% of the dividend declared.
(e) During 2007, the company disposed of a 28% interest in the equity of the company noted above. The minority interest is entitled to 25% voting rights, but only 20% of the dividend declared.
(f) During 2007, the company disposed of a 22% interest in the equity of the company noted above. The minority interest is entitled to 22% voting rights, but only 15% of the dividend declared.
(g) The minority interest is entitled to 20% of the voting rights, but only 10% of the dividend declared.
(h) During 2007, the company disposed of a 7% interest in the equity of the company noted above. The minority interest is entitled to 20% (2006: 13%) of voting the voting rights, but only 10% (2006: 6.5%) of the dividend declared.
(i) During 2007, the company acquired a 2% interest in the equity of the company noted above. The minority interest is entitled to 2% (2006: 4%) of the voting rights, but only 2% (2006: 1%) of the dividend declared.

SThree plc

Notes to the Financial Statements
Year ended 2 December 2007

13 Investment in joint ventures

On 12 December 2005, the Group entered into a joint venture arrangement with a third party (Interactive Prospect Targeting Limited). The primary activity of this joint venture is recruitment advertising through the medium of the internet. The results of the joint venture, which is unlisted, and its assets and liabilities are as follows:

Name	Country of Incorporation	Assets £'000	Liabilities £'000	Revenues £'000	Profit after tax £'000	Interest held %
2007						
All the Jobs Limited	UK	339	(69)	92	92	50
2006						
All the Jobs Limited	UK	252	(74)	179	178	50

There are no current contingent liabilities which the Group would have to disclose in relation to IAS 31 'Interests in joint ventures'. The joint venture has no capital commitments and no non-current assets and liabilities as at 2 December 2007 (2006: nil).

14 Trade and other receivables

	Group		Company	
	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
Current				
Trade receivables	113,850	72,348	12	–
Less provision for impairment of trade receivables	(4,226)	(3,073)	–	–
Net trade receivables	109,624	69,275	12	–
Other receivables	2,754	709	1,532	10
Amounts due from Group companies	–	–	–	24,701
Prepayments and accrued income	38,707	22,601	480	7
	151,085	**92,585**	**2,024**	**24,718**

Trade receivables do not carry interest. There is a credit policy in place and the exposure to credit risk is monitored, client by client, on an ongoing basis. The provision against trade debtors is based on a specific risk assessment and reference to past default experience. At the balance sheet date there was no significant concentration of credit risk with exposure being spread over a large number of clients. Management considers the carrying value of trade and other receivables are equal to the fair value.

15 Current tax liability

The current tax liability of £4.9m (2006: asset of £0.5m) for the Group and the current tax assets £0.3m (2006: £0.3m) for the Company represent current tax payable/recoverable relating to current and prior periods.

16 Trade and other payables

	Group		Company	
	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
Current				
Trade payables	22,806	1,597	1,591	–
Amounts due to Group companies	–	–	6,051	31,187
Other tax and social security	3,061	6,040	–	–
Other payables	5,721	6,536	1,224	1,041
Accruals	41,592	24,851	1,352	950
	73,180	**39,024**	**10,218**	**33,178**

All amounts detailed above are payable within one year. The fair values of trade and other payables are not materially different from those disclosed above.

The prior year accruals have been reclassified to ensure like for like comparison.

Trade payables has increased year on year due to a change in the contractor payment terms .

17 Borrowings

	Group		Company	
	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
Bank overdrafts	267	4,281	1,809	81
Bank borrowings	1,000	1,000	1,000	1,000
	1,267	**5,281**	**2,809**	**1,081**

The borrowings stated above are repayable on demand or otherwise within one year.

The carrying amounts of the Group's borrowing are denominated in Sterling.

A new flexible loan arrangement was set up with the Royal Bank of Scotland Group ("RBSG"). Under this arrangement the Group was able to borrow up to £40.0m reducing during 2007 and expiring in March 2008. The previous years loan arrangement was as up to £25.0m until 30 November 2006 and up to £15.0m from 1 December 2006. Funds borrowed under this facility bear interest at a rate of 0.75 per cent above UK LIBOR rate.

The new loan facility has been disclosed in note 26 subsequent events.

(a) Maturity profile of bank overdrafts and loans

	Group		Company	
	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
Within 1 year, or on demand	1,267	5,281	2,809	1,081

(b) Interest rate risk profile of bank overdrafts and loans

The interest rate risk profile of bank overdrafts and loans are as follows:

	Group		Company	
	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
Floating rate — overdraft	267	4,281	1,809	81
Floating rate — loans	1,000	1,000	1,000	1,000
	1,267	5,281	2,809	1,081

18 Provisions for liabilities and charges

	Property £'000	Other £'000	Total £'000
At 1 December 2005	1,222	4,595	5,817
Utilised	(298)	–	(298)
(Released)/charged to the income statement	(252)	357	105
At 30 November 2006	672	4,952	5,624
Charged/(released) to the income statement	146	(2,268)	(2,122)
At 2 December 2007	**818**	**2,684**	**3,502**

Current / non-current analysis:	2 December 2007 £'000	30 November 2006 £'000
Non-current liabilities	3,252	5,436
Current liabilities	250	188
	3,502	**5,624**

Property

Dilapidations — The Group is obliged to pay for dilapidations at the end of its tenancy of various properties. Provision has been made based on independent professional estimates of the likely costs based on current conditions and these have been spread over the relevant lease term. The liability will crystallise as follows:

	2 December 2007 £'000	30 November 2006 £'000
Within one year	250	188
One to five years	390	300
After five years	178	184
	818	672

Other

Onerous Contracts — The Group has a provision of £0.1m (2006: £nil) for the onerous elements of a lease on a vacant property. This is based on the difference between income from sub-letting the vacant property and the Group's head lease obligations, and provisions have been made to the end of each lease. The lease expires in December 2009.

This provision meets the definition of a financial liability and arises from a contractual obligation.

Other provisions principally include amounts in respect of contractual liabilities resulting from indemnities given to Group clients in continental Europe arising in the normal course of business in respect of the employment status of contractors.

The timing of settlement is uncertain but the Directors expect that the provision will be utilised within the average statute of limitation period in the countries to which this exposure relates. During the year, the Group re-assessed the historical risk associated with its Non-UK contract business and released provisions earlier set aside.

19 Deferred taxation

Group	Excess tax depreciation £'000	European contractor liabilities £'000	Share-based payments £'000	Other £'000	Total £'000
At 1 December 2005	832	1,275	7,756	151	10,014
(Charge)/credit to income statement for the year	(153)	211	(400)	(267)	(609)
Credit to equity for the year	–	–	2,054	–	2,054
At 30 November 2006	679	1,486	9,410	(116)	11,459
(Charge)/credit to income statement for the year	(1,040)	(774)	32	975	(807)
Charge to equity for the year	–	–	(7,597)	–	(7,597)
Exchange differences	–	–	–	(3)	(3)
At 2 December 2007	**(361)**	**712**	**1,845**	**856**	**3,052**
Deferred tax asset					
At 2 December 2007	**(361)**	**712**	**1,845**	**856**	**3,052**
At 30 November 2006	679	1,486	9,410	(116)	11,459

The Group also has tax losses of £nil (2006: £0.1m) for which claims to recover prior period tax payments have been submitted.

Unremitted earnings

As at 2 December 2007, unremitted earnings of overseas Group companies amounted to £6.1m (2006: £2.1m). Unremitted earnings may be liable to some overseas tax and UK tax (after allowing for double taxation relief) if they were to be distributed as dividends. However, no tax is expected to be payable on them because, as at the balance sheet date, there are no plans to remit these earnings and therefore no tax is expected to be payable on them in the foreseeable future.

Company	Share-based payments £'000	Other £'000	Total £'000
At 1 December 2005	–	–	–
Credit to income statement for the year	441	–	441
Credit to equity for the year	1,878	–	1,878
At 30 November 2006 — asset	2,319	–	2,319
Credit to income statement for the year	–	610	610
Charge to equity for the year	(1,664)	–	(1,664)
At 2 December 2007 — asset	**655**	**610**	**1,265**

20 Share capital

(a) Share capital

Authorised	2 December 2007 Number of shares	2 December 2007 £'000	30 November 2006 Number of shares	30 November 2006 £'000
Ordinary Shares of 1p each	300,000,000	3,000	300,000,000	3,000

Allotted and fully paid	Number	Ordinary shares £'000	Capital redemption reserve £'000	Capital reserve £'000	Total £'000
At 1 December 2005	137,970,170	1,380	–	878	2,258
Issue of share capital	21,000	–	–	–	–
At 30 November 2006	137,991,170	1,380	–	878	2,258
Repurchase of own share	(200,000)	(2)	2	–	–
Issue of share capital — LTIP	474,993	5	–	–	5
Issue of share capital	11,000	–	–	–	–
At 2 December 2007	**138,277,163**	**1,383**	**2**	**878**	**2,263**

Capital Redemption Reserve

On 30 November 2007 the Group purchased 200,000 of its own shares for cancellation on the London Stock Exchange, the average price paid per share amounted to 194.0845p. Total consideration paid was £388,000.

Share issue

Share options that were issued in November 2000 were satisfied in the current period with a new issue of 11,000 (2006: 21,000) Ordinary Shares.

20 Share capital (continued)

(b) Share options

Certain employees hold options to subscribe for Ordinary shares in the Company under the share option schemes approved by the Directors on 28 November 2000, 25 October 2002 and 28 May 2004. The number of shares subject to options, the period in which they were granted and the period in which they may be exercised are given below. On exercise 11,000 (2006: 21,000) of these options were satisfied by the issue of new Ordinary shares and 2,500 (2006: 10,000) were settled by the EBT.

Year of grant	Note	Number of options outstanding 1 December 2005	Granted in year	Exercised in year	Lapsed in year	Number of options outstanding 30 November 2006	Exercise price per share	Exercise period
2000	a	132,000	–	21,500	16,500	94,000	1p	2000-2010*
2002	b	17,500	–	9,500	1,000	7,000	1p	2002-2012*
2004	c	4,000	–	–	–	4,000	1p	2004-2014*
		153,500	–	31,000	17,500	105,000		

Year of grant	Note	Number of options outstanding 1 December 2006	Granted in year	Exercised in year	Lapsed in year	Number of options outstanding 2 December 2007	Exercise price per share	Exercise period
2000	a	94,000	–	12,500	–	81,500	1p	2000-2010*
2002	b	7,000	–	1,000	–	6,000	1p	2002-2012*
2004	c	4,000	–	–	–	4,000	1p	2004-2014*
2007	d	–	474,993	474,993	–	–	–	2007-2017
		105,000	474,993	488,493	–	91,500		

* Exercisable at IPO (15 November 2005), but granted in the disclosed years, prior to IPO.

Note

a) 8,500 share options became exercisable on 15 November 2005, the remainder of these share options will remain exercisable until 2010; 36,000 (2006: 48,500) can be exercised from 16 November 2006 until 16 November 2010 and 37,000 can be exercised from 16 November 2007 until 16 November 2010.

b) All of these options became exercisable on 15 November 2005 and will remain exercisable until 2012

c) All of these options became exercisable on 15 November 2005 and will remain exercisable until 2014

Long-term incentive plan

d) In November 2006, shareholders approved a share-based Long Term Incentive Plan ('LTIP') for Executive Directors and other members of the senior management team to provide an incentive to increase shareholder value and support alignment with shareholder interests through building a stake in SThree shares. The main features of the LTIP are discussed in the Directors' Remuneration Report on pages 21 to 26 of this report.

The weighted average fair value of the equity-settled share awards granted during the year amounted to 402.0p per award. The fair value of the share awards was calculated using the Monte-Carlo simulation model. The Monte-Carlo simulation model reflected the historical volatilities of the Company's share price and those other companies to which the Company's performance is compared, over a period equal to the vesting period. The average share price on the date of grant is 402.0p, the vesting period in which performance of the TSR is assessed is 3 years, expected dividends 4.5% and a risk-free interest rate of 5.25%.

SThree plc

Notes to the Financial Statements
Year ended 2 December 2007

20 Share capital (continued)

(b) Share options (continued)

Employee benefit trusts

In addition to the share options set out above the Company has issued further share options and awards which will be satisfied by shares held by the Group's EBT. The shares held by the EBT are shown as a deduction from shareholders' funds.

The EBT waive their rights to receive a dividend under the terms of the trusts. No other shareholder waives their rights to dividends.

Ordinary Shares

1 December 2005			13,640,081
Movement in the year	Options/awards exercised	(7,439,725)	
	Share options settled on behalf of the Company	(10,000)	
	Forfeitable Ordinary Shares lapsed in year	412,500	(7,037,225)
1 December 2006			6,602,856
Movement in the year	Options/awards exercised	(648,986)	(648,986)
2 December 2007			**5,953,870**

Options granted and awards to be settled by shares held in the EBT are as follows:

Year of grant/award	Note	Number of options/awards outstanding 1 December 2005	Granted/awards in year	Exercised in year	Lapsed in year	Number of options/awards outstanding 30 November 2006	Exercise price per share	Exercise period
2000	a	1,376,165	–	1,203,271	2,795	170,099	1p	2000-2010*
2004	b	527,149	–	85,685	2,500	438,964	1p	2004-2014*
2004	c	44,200	–	3,900	–	40,300	1p	2004-2014*
2004	d	5,250,000	–	–	–	5,250,000	1p	2004-2014*
2004	e	–	–	–	–	–	1p	2004
2005	f	198,921	4,729,783	4,726,081	198,921	3,702	n/a	2005-2015*
2005	g	340,566	–	34,250	250,387	55,929	£1 total	2005-2015*
2006	h	–	1,386,538	1,386,538	–	–	–	2006-2016
		7,737,001	6,116,321	7,439,725	454,603	5,958,994		

* Providing certain conditions have been met at the time of exercise

SThree plc

Notes to the Financial Statements
Year ended 2 December 2007

20 Share capital (continued)

(b) Share options (continued)

Employee benefit trusts (continued)

Year of grant/award	Note	Number of options/ awards outstanding 1 December 2006	Granted/ awards in year	Exercised in year	Lapsed in year	Number of options/ awards outstanding 30 December 2007	Exercise price per share	Exercise period
2000	a	170,099	–	107,622	–	62,477	1p	2000-2010*
2004	b	438,964	–	296,949	1,000	141,015	1p	2004-2014*
2004	c	40,300	–	9,500	1,800	29,000	1p	2004-2014*
2004	d	5,250,000	–	207,871	78,162	4,963,967	1p	2004-2014*
2004	e	–	–	–	–	–	1p	2004
2005	f	3,702	–	3,702	–	–	n/a	2005-2015*
2005	g	55,929	–	23,342	–	32,587	£1 total	2005-2015*
2006	h	–	–	–	–	–	–	2006-2016
2007	i	–	37,200	–	–	37,200	–	2007-2017
		5,958,994	37,200	648,986	80,962	5,266,246		

* Providing certain conditions have been met at the time of exercise

The weighted average market share price for shares exercised during the year was 408p (2006: 294p).

Approved executive share option scheme

a) Options over 4.0 million of the Ordinary shares were granted by the Board to certain employees on 27 November 2000 at an exercise price of 1p. These options are exercisable, under normal circumstances, within 10 years from the date of grant. The number outstanding at 2 December 2007 was 62,477 (2006: 170,099).

b) On 28 May 2004 options over 650,720 Ordinary shares were issued at an exercise price of 1p. These options replaced options that had lapsed in the previous grant of options in 2000. There are no performance conditions attached and the options are exercisable within 10 years from the date of grant. The number of options outstanding at 2 December 2007 was 141,015 (2006: 438,964).

c) On 3 December 2004 options over 49,600 Ordinary shares were issued at an exercise price of 1p. These options replaced options that had lapsed in the previous grants of options in November 2000 and May 2004. There are no performance conditions attached and the share options are exercisable within 10 years from the date of grant. The number of options outstanding at 2 December 2007 was 29,000 (2006: 40,300).

d) Options over 5.25 million Ordinary shares were granted by the Board to certain employees on 3 December 2004. These are exercisable within 10 years from the date of grant. These options are subject to a performance condition requiring that over a five year period a certain level of profits has to be achieved. If these performance targets are achieved in each of the relevant periods, a total of 1,050,000 options are available for allocation in each year following the target being achieved. The number of options outstanding at 2 December 2007 was 4,963,967 (2006: 5,250,000).

20 Share capital (continued)

(b) Share options (continued)

Employee benefit trusts (continued)

Variation to the terms of the approved share scheme
The Directors gained approval at the AGM held on 21 May 2006 to modify the terms of the executive share option scheme. Under the modification the exercise period has been reduced from five years to three years. There is no effect on the incremental fair value of these options.

e) The Company adopted the Forfeitable Share Plan on 3 December 2004. Between 15 December 2004 and 25 January 2005 awards over a total of 3,481,250 Ordinary shares were made to 65 employees at a price of £0.01 per Ordinary share. The EBT satisfied all of the awards made. The number of shares returned to the trust, due to employees leaving, under the scheme rules amounted to nil (2006: 412,500) Ordinary shares.

The Directors assessed the fair value of all share options and awards issued during December 2004 and January 2005 as £nil. In reaching this valuation, the Directors ascribed an enterprise valuation of approximately £215m to the business at that time, after assuming conversion of the preferred loan stock and the repayment of the debt, only a minimal value attributable to the equity shareholders remained.

Unapproved share option scheme

f) On 16 November 2005 the Zero Coupon Preference shares held by the EBT were converted into 10,244,748 Ordinary shares. The Board decided to award 5,006,128 of the resulting Ordinary shares to employees, for £Nil consideration. In accordance with IFRS 2 a charge was recognised in the income statement for the year ended 30 November 2005. The charge was calculated as the fair value of the awards granted, which amounted to £10,012,318. The Board expected to make an additional gift of shares from the EBT not earlier than nine months after flotation. This additional award of shares was made on 26 September 2006 and amounted to 4,729,783 Ordinary shares, with a charge of £15,951,193 being recognised in the income statement in the year ended 30 November 2006. The number of shares awarded but not yet accepted at 2 December 2007 was nil (2006: 3,702). No further awards have been made during this financial year and therefore no income statement charges have been recognised during this financial year.

g) At IPO (16 November 2005), the Board awarded 433,749 Ordinary shares and issued 505,710 share options to certain current and former employees who were considered to have contributed to the Group's continued success. The share options are exercisable immediately upon grant and expire 10 years from the date of grant. The number of options outstanding at 2 December 2007 was 32,587 (2006: 55,929). The Group recognised a charge in the income statement in the year ended 30 November 2005, in accordance with IFRS 2, amounting to £1,878,918, representing the fair value of the options awarded at the date of grant. There have been no awards in the current year.

h) On 16 November 2006 the Directors made share awards over 1,386,538 Ordinary shares to certain current and former employees who were considered to have contributed to the Group's continued success. The share awards are exercisable immediately upon grant and expire 10 years after the date of grant. The number of options outstanding at 2 December 2007 amounted to nil (2006: nil). The Group recognised a charge in accordance with IFRS 2 amounting to £nil (2006: £3,592,792). No further awards have been made during this financial year and therefore no income statement charges have been recognised during this financial year.

i) On 16 September 2007 the Directors made share awards over 37,200 Ordinary shares to certain current employees who were considered to have contributed to the Group's continued success. The share awards are exercisable immediately upon grant and expire 10 years after the date of grant. The number of options outstanding at 2 December 2007 amounted to nil. The Group recognised a charge in accordance with IFRS 2 amounting to £113,181. For the calculation of the charge the fair value of these share awards is based on the mid-price on the day that the award was granted to the employees.

21 Results of holding company

Of the results for the financial year, a retained profit of £43.5m (2006: £30.3m) is dealt with in the accounts of SThree plc. This is stated after an exceptional credit of £37.4m (2006: £15.8m) arising from the reversal of an impairment charge previously recorded against the cost of investments in the Company's subsidiaries (note 12). The Directors have taken advantage of the exemption available under Section 230 (3) of the Companies Act 1985 and do not present an income statement for the Company alone.

22 Commitments

Group

Operating leases

At the balance sheet date the Group had annual commitments under non-cancellable operating leases as set out below:

	Motor vehicles		Land and buildings	
	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
Total minimum operating lease payments due:				
Within one year	1,789	1,101	7,047	4,133
One to five years	1,787	857	27,188	13,510
After 5 years	–	–	10,761	6,224
	3,576	**1,958**	**44,996**	**23,867**

Capital commitments

The Group had contractual commitments of £0.6m (2006: £0.1m) relating to property, plant and equipment and £nil (2006: £1.6m) relating to computer software at the balance sheet date.

VAT group registration

As a result of the group registration for VAT purposes, the Company is contingently liable for VAT liabilities arising in other companies within the VAT group. The total VAT liability as at the 2 December 2007 amounted to £4.7m (2006: £3.2m).

Guarantees

The Group issued bank guarantees for commitments which amounted to £0.3m (2006: £0.1m).

Company

The Company held no outstanding lease or capital commitments at the year end (2006: nil).

SThree plc

Notes to the Financial Statements
Year ended 2 December 2007

23 Cash flows from operating activities

		Group		Company	
	Note	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
Profit before taxation		50,324	18,127	42,862	30,741
Depreciation and amortisation charge		3,761	1,556	–	–
Foreign exchange from financing activities		–	(265)	–	–
Unrealised losses on financial instruments	27	999	–	999	–
Finance income		(6)	(167)	(335)	(1,065)
Finance cost		1,985	1,284	2,194	2,690
Loss on disposal of property, plant and equipment		46	116	–	–
Profit attributable to joint venture		(46)	(89)	–	–
Profit from partial deemed disposal of subsidiary		(855)	–	–	–
Non-cash exceptional charge for employee			–	–	–
share options and awards		347	19,544	–	–
Non-cash reversal of impairment		–	–	(37,352)	(15,758)
Operating cashflow before changes in working capital and provisions		**56,555**	**40,106**	**8,368**	**16,608**
(Increase)/decrease in receivables		(58,500)	(17,760)	22,694	(19,286)
Increase/(decrease) in payables		33,383	(7,128)	(23,959)	21,204
Decrease in provisions		(2,122)	(193)	–	–
Net cash inflow from operating activities		**29,316**	**15,025**	**7,103**	**18,526**

24 Cash and cash equivalents

	Group		Company	
	2 December 2007 £'000	30 November 2006 £'000	2 December 2007 £'000	30 November 2006 £'000
Cash in hand and at bank	4,771	2,440	143	30
Bank overdraft	(267)	(4,281)	(1,809)	(81)
	4,504	**(1,841)**	**(1,666)**	**(51)**

Due to the Group netting arrangement, an overdraft amount of £1.8m (2006: £3.9m) is subsumed in the cash balance at year end.

25 Related party transactions

Group

The Group has related party relationships with its subsidiaries (note 12), with its Directors and with members of the Executive Board. Details of transactions between the Group and other related parties are disclosed below.

Key management personnel

The key management under IAS 24 'Related party disclosure' is defined as those persons who have authority and responsibility for planning, directing and controlling the entity's activities, directly or indirectly. The Group's key management comprises the Executive Directors, and other key managers who are deemed to influence the day-to-day activities. Details of Directors' remuneration are given in the Directors' Remuneration Report on pages 21 to 26. The remuneration of Directors is determined by the SThree plc Board Remuneration Committee having regard to the performance of the individual, market trends and taking advice from our external advisors. Total remuneration for members of key management excluding Executive Directors is detailed below.

	2 December 2007 £'000	30 November 2006 £'000
Salaries and other short-term	2,790	2,665
Termination benefits	–	300
Post-employment benefits	69	68

Other related parties disclosures

	2 December 2007 £'000	30 November 2006 £'000
Fees payable for services of former Directors	22	25

Disclosures are detailed above in respect of former Directors. All details relating to current Directors are disclosed in the Directors' Remuneration Report.

25 Related party transactions (continued)

Company

The Company has related party relationships with its subsidiaries (note 12), and with members of the Executive Board. The Directors receive remuneration from the Company, which is disclosed in the Directors' Remuneration Report. The Company did not have any transactions other than those disclosed in the Remuneration Report with the Directors during the financial year. Details of transactions between the Company and other related parties are disclosed below.

	2 December 2007 £'000	30 November 2006 £'000
Loans and advances given to and dividend received from subsidiaries		
Loans and advances given	(25,136)	22,476
Interest income received in respect of interest bearing loans and advances	335	780
Dividend income received	10,250	18,180
Loans and advances received from subsidiaries		
Loans and advances received	(24,701)	17,913
Interest expense paid in respect of interest bearing loans and advances	350	1,753

Year end balances arising from transactions with subsidiaries

	2 December 2007 £'000	30 November 2006 £'000
Amounts payable to subsidiary companies	6,051	31,187
Amounts receivable from subsidiary companies	–	24,701

SThree plc

Notes to the Financial Statements
Year ended 2 December 2007

26 Subsequent events

Share buy back

As announced, the Company began making purchases of its own shares for cancellation on 30 November 2007 and has so far purchased some 4.4m shares at a total cost of £9.2m.

Derivative transactions

The Group does not have material transactional currency exposures although is exposed to translation differences on the profits and cash flows generated by its overseas operations. Some derivative transactions have been undertaken to mitigate these exposures and the 2007 results include a £1.0m loss arising from these transactions. We expect to incur a further £1.9m loss in the first half of 2008 having closed these positions down. The Board is undertaking a review of its currency hedging strategy to ensure that it is appropriate given the Group's increasing international business.

New loan facility

On the 28 February 2008, the Group entered into a 2 year invoice discounting facility secured against the Group's UK receivables balance. The Group has a £20m committed facility element and can borrow up to £50m subject to meeting qualifying loan requirements under this new arrangement. Interest is incurred on a daily basis and is calculated at 0.75% above RBS base rate.

27 Financial instruments

The main risks arising from the Group's financial instruments are foreign currency movements, liquidity risk and interest rate risk. The Group's objective and strategy in responding to these risks are set out below. During 2008, the Group will assess the effectiveness of the current treasury policies and ensure that they remain appropriate given the Group's increasing international business.

During the year the Group held various financial instruments. These instruments were undertaken to mitigate exposures arising from movements in foreign exchange rates. Derivative financial instruments held by the Group are foreign currency swaps and a variety of other more complex foreign exchange derivative instruments. As permitted by IAS 39 'Financial Instruments: Recognition and measurement', short-term receivables and payables have been excluded from all the following disclosures, other than the currency risk disclosures, because their carrying value is a good representation of the fair value.

(a) Foreign currency risk

The Group has significant investments in overseas subsidiaries, primarily based in Europe but recently also in the USA. The revenues and expenses of these subsidiaries are denominated in their local currencies, being Euros and US Dollars.

The Group's businesses generally raise invoices and incur expenses in their local currencies. Local currency cash generated is remitted via intercompany transfers to the UK where derivative financial instruments are used to eliminate the resulting currency exposures. The Group generally coverts foreign currency balances in to Sterling to manage its cash flows.

As a result the Group entered into a variety of complex derivative transactions with notional values of £32.1m (2006: £13.3m) outstanding at the year end, these included foreign currency swaps, forward foreign exchange contracts with extension options, and forward foreign exchange contracts with options based on foreign exchange rate movements. Although these have not been designated as hedges under the definitions set out by IAS 39, they act as economic hedges of the Group's foreign currency exposures and are accounted for at fair value through the income statement.

These deals have been closed out after the year-end (see note 26.).

(b) Liquidity risk

The Group actively maintains committed facilities to enable it to finance its day-to-day operations, based on cash flow projections. The Group invests surplus cash in floating rate interest-earning deposit accounts with UK and European banks (notes 17 and 24).

On the 28 February 2008, the Group entered into a 2 year invoice discounting facility secured against the Group's UK receivables balance. The Group can borrow up to £50m in any currency under this new arrangement. Interest is incurred on a daily basis and is calculated at 0.75% above RBS base rate.

(c) Interest rate risk

The Group finances its operations through a mixture of retained profit, a variable interest secured loan facility and, when required, bank overdrafts. From the 28 February 2008 the Group entered into an invoice discounting facility (see note (b) above).

The Group does not hedge the exposure to variations in interest rates presented by the above instruments.

Based on the composition of the net debt as at 2 December 2007, and taking into consideration all variable rate borrowings and cash in place, one percentage point (100 basis points) change in average floating interest rates would have a £0.01m (2006: £0.01m) impact on the Group's profit before taxation.

27 Financial instruments (continued)

(d) Credit Risk

In the normal course of business, the Group participates in cash pooling arrangements with its counterparty bank. The maximum exposure with a single bank for deposits is £1.0m (2006: £0.6m). Any risk is mitigated by the Group's policy of only selecting counterparties clients with a strong investment-graded long term credit rating (note 14).

(e) Interest rate profile of financial assets and liabilities

The following tables set out the exposure of financial assets and liabilities to either fixed interest rates, floating interest rates or no interest rates. The maturity profile of financial assets and liabilities exposed to interest rate risk in the tables below indicates the contractual repricing and maturity dates of these instruments.

Financial Assets	Group		Company		
At 2 December 2007	Cash and cash equivalents £'000	Other £'000	Cash and cash equivalents £'000	Investments £'000	Other £'000
Less than one year	4,771	–	143	–	–
Total interest-bearing	4,771	–	143	–	–
Analysed as:					
Floating rate	4,771	–	143	–	–
Total interest-bearing	4,771	–	143	–	–
Non-interest-bearing	–	–	–	234,383	–
Total	4,771	–	143	234,383	–
At 30 November 2006					
Less than one year	2,440	–	30	–	–
Total interest-bearing	2,440	–	30	–	–
Analysed as:					
Floating rate	2,440	–	30	–	–
Total interest-bearing	2,440	–	30	–	–
Non-interest-bearing	–	312	–	196,553	312
Total	2,440	312	30	196,553	312

Floating rate cash earns interest based on relevant national LIBOR equivalents or government bond rates.

27 Financial instruments (continued)

(e) Interest rate profile of financial assets and liabilities (continued)

Financial Liabilities		Group			Company	
		Overdraft	Borrowings	Other	Overdraft	Borrowings
Other **At 2 December 2007**	£'000	£'000	£'000	£'000	£'000	£'000
Less than one year	267	1,000	–	1,809	1,000	
Total interest-bearing	267	1,000	–	1,809	1,000	–
Analysed as: Floating rate	267	1,000	–	1,809	1,000	–
Total interest-bearing	267	1,000	–	1,809	1,000	–
Non-interest-bearing	–	–	999	–	–	999
Total interest-bearing	267	1,000	999	1,809	1,000	999
At 30 November 2006						
Less than one year	4,281	1,000	–	81	1,000	–
Total interest-bearing	4,281	1,000	–	81	1,000	–
Analysed as: Floating rate	4,281	1,000	–	81	1,000	–
Total interest-bearing	4,281	1,000	–	81	1,000	–

The Group pays interest on borrowings based on relevant national LIBOR equivalents or government bond rates.

In addition to the above, the Group's onerous lease provisions of £0.1m (2006: £nil) for vacant leasehold properties (note 18) meet the definition of financial liabilities. These financial liabilities arise from contractual obligations.

27 Financial instruments (continued)

(f) Currency profile of financial assets/(liabilities)

Functional currency of Group operations:

	Net foreign currency monetary assets				
At 2 December 2007	Sterling £'000	Euro £'000	US Dollars £'000	Other Currencies £'000	Total £'000
Sterling	–	446	58	85	589
Euro	50	–	–	–	50
Total	50	446	58	85	639
At 30 November 2006					
Sterling	–	59	95	–	154
Euro	5	–	–	–	5
Total	5	59	95	–	159

Other foreign currencies held by the Group include the following: Swiss Francs, Norwegian Krone, Swedish Krone and Danish Krone.

Financial derivatives

The table below sets out the net principal amount and fair value of derivative contracts held by the Group and the Company.

Group

	Notional amounts of the derivative instrument	Fair value		
Currency and interest related instruments:				
At 2 December 2007	£'000	Assets £'000	Liabilities £'000	Net (gain)/loss £'000
Foreign currency swaps	2,406	50	–	50
Other foreign exchange derivative instruments	30,552	4,883	(3,934)	949
Total financial derivatives	32,958	4,933	(3,934)	999
At 30 November 2006	£'000	£'000	£'000	£'000
Foreign currency swaps	5,476	–	(55)	(55)
Other foreign exchange derivative instruments	7,844	528	(785)	(257)
Total financial derivatives	13,320	528	(840)	(312)

The net position of the above trades is disclosed within the balance sheet.

27 Financial instruments (continued)

(f) Currency profile of financial assets/(liabilities) (continued)

Financial derivatives (continued)

Company

	Notional amounts of the derivative instrument	Fair value		
Currency and interest related instruments:		Assets	Liabilities	Net (gain)/loss
At 2 December 2007	£'000	£'000	£'000	£'000
Foreign currency swaps	2,406	50	–	50
Other foreign exchange derivative instruments	30,552	4,883	(3,934)	949
Total financial derivatives	32,958	4,933	(3,934)	999
At 30 November 2006	£'000	£'000	£'000	£'000
Foreign currency swaps	5,476	–	(55)	(55)
Other foreign exchange derivative instruments	7,844	528	(785)	(257)
Total financial derivatives	13,320	528	(840)	(312)

(g) Hedges

The foreign currency swaps and other foreign exchange derivative instruments outstanding at both year ends are not part of a designated hedging relationship as defined by IAS 39 but are designed to act as economic hedges of foreign currency exposures. There were no other unrecognised or deferred gains or losses in respect of hedging instruments at the balance sheet date.

27 Financial instruments (continued)

(h) Fair values of financial assets and liabilities

The carrying amounts of financial assets and financial liabilities are equal to their fair values.

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale, and excludes accrued interest.

Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates and by applying year end exchange rates. A summary of the assumptions used for each category of financial instrument is set out below.

Summary of methods and assumptions

Short-term deposits and borrowings	Approximates to the carrying amount because of the short maturity of these instruments.
Cash and cash equivalents	Approximates to the carrying amount.
Receivables and payables	Approximates to the carrying amount for current balances; there are no material longer term balances.
Onerous lease provision	Approximates to the carrying value.
Derivative financial instruments	Market valuations at the balance sheet date.

SThree plc

Financial Summary

	2 December 2007 IFRS £'m	30 November 2006 IFRS £'m	30 November 2005 IFRS £'m	30 November 2004 UK GAAP £'m	30 November 2003 UK GAAP £'m
Turnover					
Geographic analysis – by destination					
United Kingdom	369.7	295.7	243.6	184.4	146.0
Europe and Rest of World	153.0	97.6	71.5	58.0	44.5
	522.7	393.3	315.1	242.4	190.5
– by origin					
United Kingdom	479.5	372.6	299.0	227.9	182.4
Europe and Rest of World	43.2	20.7	16.1	14.5	8.1
	522.7	393.3	315.1	242.4	190.5
Gross profit					
Geographic analysis – by destination					
United Kingdom	123.3	98.9	79.5	56.5	44.1
Europe and Rest of World	59.4	36.6	25.0	19.4	14.6
	182.7	135.5	104.5	75.9	58.7
– by origin					
United Kingdom	147.5	118.6	92.2	66.5	50.9
Europe and Rest of World	35.2	16.9	12.3	9.4	7.8
	182.7	135.5	104.5	75.9	58.7
Operating profit					
Excluding exceptional items and amortisation of goodwill	52.3	41.0	29.5	17.4	6.1

Other key performance indicators	numbers	numbers	numbers	numbers	numbers
Average headcount	1,786	1,288	1,037	808	781
Permanent placements in financial year	9,945	7,685	6,023	4,460	3,845
Active contractors at year end	5,700	4,719	4,365	3,735	3,027
	£	£	£	£	£
Average placement fee — permanent	9,409	8,563	7,972	7,407	6,154
Average gross profit per day — contractors	71.4	64.9	58.4	51.1	51.1

The comparative figures for 2003 and 2004 have not been restated to reflect the adoption of IFRS which was adopted from 1 December 2004.

SThree plc

Notes

SThree plc

Notes

Shareholder Information

Shareholders Enquiries and Electronic Communications – www.capitaregistrars.com

Shareholders with enquiries relating to their shareholding should contact Capita Registrars. Alternatively, you may access your account via www.capitaregistrars.com, but 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 online 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.

Shareholders who would prefer to view documentation electronically can elect to receive automatic notification by e-mail each time the Company distributes documents, instead of receiving a paper version of such documents, by registering a request via the Registrar by calling 0871 664 0391 (from UK - calls cost 10p per min plus network extras) or + 44 208 639 3367 (Non UK) or by registering online at: http://www.capitaregistrars.com/shareholders/products/ecommunications.asp

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

Potential targeting of shareholders

Companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation.
  Check that they are properly authorised by the FSA before getting involved. You can check at www.fsa.gov.uk/register
- The FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml
- Inform the Registrar as shown above.

Details of share dealing facilities that the Company endorses will only be included in mailings direct from the Company.

More detailed information on this or similar activity can be found on the FSA website www.fsa.gov.uk/consumer/

ADR information

For US investors, the Company has set up a Level One ADR facility, under the ticker symbol 'SERTY'. The Bank of New York (BNY) act as both ADR depositary bank & registrar for this facility. For further information, please visit BNY's website at www.adrbny.com and search for the SThree profile page. Holders can also access their account with BNY, using the following contact details:

The Bank of New York
Investor Services
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Toll Free Tel # for US domestic callers:
1-888-BNY-ADRs
International callers: 212-815-3700
For the issuance of ADRs please contact:
Jason Paltrowitz
Tel: +1 212 815 2077
Fax: +1 212 571 3050
E-mail: jpaltrowitz@bankofny.com
Email: shareowners@bankofny.com
Websites: http://www.stockbny.com

Share price information

Information on the Company's share price can be found on 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)

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
Telephone 0207 930 3737

Financial Calendar 2007/8

Financial year end – 2 December 2007
Results announced – 4 February 2008
Annual General Meeting – 24 April 2008
Ex-div date for final dividend – 30 April 2008
Record date for final dividend – 2 May 2008
Final dividend payable – 9 June 2008
Interim results announced – July 2008
Interim dividend payable – December 2008