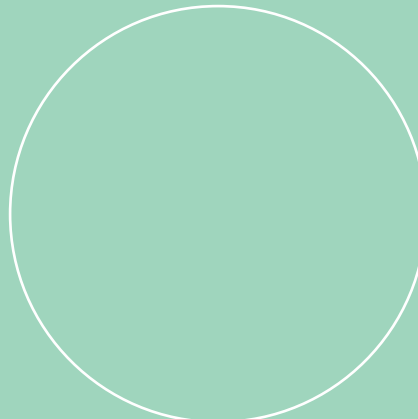
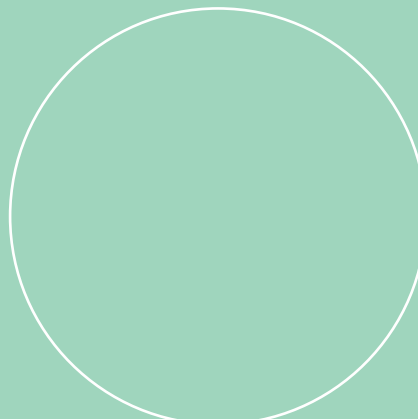
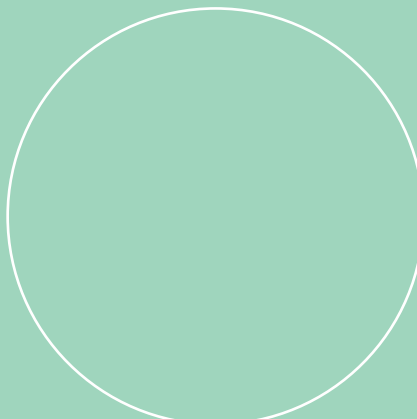


# SThree plc

## Report & Accounts 2009



# SThree plc

## Company Information and Corporate Advisers

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### Executive Directors

Russell Clements  
Gary Elden  
Alex Smith  
Sunil Wickremeratne

### Non Executive Directors

Sir Anthony Cleaver  
Paul Bowtell  
Alicja Lesniak  
Tony Ward  
Nadhim Zahawi

### Secretary and Registered Office

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

### Company number

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### Auditors

PricewaterhouseCoopers LLP  
1 Embankment Place  
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WC2N 6RH

### Registrars (ordinary shares)

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\* Calls cost 10p per minute plus network extras, lines are open 8.30am-5.30pm Mon-Fri

### Financial Advisers & Stockbrokers

UBS Investment Bank  
1 Finsbury Avenue  
London  
EC2M 2PP

Investec Investment Banking  
2 Gresham Street  
London EC2V 7QP

### Financial PR

Citigate Dewe Rogerson  
3 London Wall Buildings  
London Wall  
London EC2M 5SY

# SThree plc

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# Board of Directors and Secretary

## Report & Accounts 2009

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.



### Sir Anthony Cleaver

#### **Chairman** (retires at the Annual General Meeting on 23 April 2010)

**Sir Anthony Cleaver** 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 General Accident, Lockheed Martin UK Limited and Smith & Nephew plc. He currently serves as Chairman of EngineeringUK and Novia Financial plc. Sir Anthony was President of the Chartered Management Institute.



### Russell Clements

#### **Chief Executive Officer**

**Russell Clements** 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, before joining Computer Futures in 1986 shortly after its inception as the group's second employee. He subsequently served as Sales Director and 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 Professional Staffing Companies (APSCO).



### Gary Elden

#### **Chief Development Officer**

**Gary Elden** was appointed to the Board in July 2008, having been with the Group since 1990, when he joined Computer Futures. He has held a number of senior positions, including that of founding Managing Director of Huxley Associates. In his role as Chief Development Officer, he has special responsibility for the expansion of the Group's international operations and non-ICT disciplines.



### Alex Smith

#### **Chief Financial Officer**

**Alex Smith** joined SThree in May 2008, having held a number of senior financial and operational roles in the leisure and retail sectors. Most recently he held the position of Integration Finance Director at TUI Travel PLC. Prior to this he was Finance Director of First Choice's UK Mainstream business, at WH Smith plc, as Managing Director of its Travel Retail business and held senior financial roles at Travelodge and Forte PLC. Alex has a degree in Economics from Durham University and is an Associate of the Institute of Chartered Accountants in England & Wales.



### Sunil Wickremeratne

#### **Chief Operating Officer**

**Sunil Wickremeratne** 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 IT Resourcing (now Real Staffing Group) in 1998. Sunil holds a degree in Economics from University College, London.

# Board of Directors and Secretary

Report & Accounts 2009

(continued)



**Tony Ward**

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

**Tony Ward, OBE** was appointed to the STthree board in August 2006 and to the STthree 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.



**Alicja Lesniak**

## **Non-Executive Director**

**Alicja Lesniak** was appointed to the STthree Board in May 2006, to the STthree Audit Committee in July 2006, the Remuneration Committee in February 2008 and the Nomination Committee in April 2008. Alicja is currently a Non-Executive Director of DTZ Holdings plc and was, until 30 September 2009, 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.



**Paul Bowtell**

## **Non-Executive Director**

**Paul Bowtell** was appointed to the STthree Board and as Chairman of the STthree Audit Committee, in November 2007 and Nomination Committee in April 2008 and is currently Chief Financial Officer of TUI Travel PLC. Paul has extensive experience gained from senior finance roles in a variety of companies including First Choice Holidays PLC and British Gas, a subsidiary of Centrica plc, where he was appointed Finance Director in 2002. Prior to that, Paul was with WH 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 & Wales.



**Nadhim Zahawi**

## **Non-Executive Director**

**Nadhim Zahawi** was appointed to the STthree Board and to the Remuneration and Audit Committees in May 2008. Nadhim is CEO and co-founder of YouGov plc, a leading international online market research agency. He was previously European marketing director at Smith & Brooks, with responsibility for marketing brands such as Warner Bros, Disney and Barbie, after stepping down as a councillor for the London Borough of Wandsworth, a post he had held since 1994, in which he worked on public-sector consultation, planning, social services and research within local government. Nadhim was previously a director at Allen Hinckley, the property rights licensing group, Marketing Director at Global Inc, a supplier to major retailers, and a Conservative Party candidate in the 1997 General Election. Nadhim is a patron of the Genesis Initiative and Peace One Day.



**Steve Hornbuckle**

## **Company Secretary**

**Steve Hornbuckle** 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.



# Chairman's Statement

## Report & Accounts 2009



In my fifth, and sadly final, Annual Report as Chairman, I am very pleased to say that, given the economic uncertainty which continued throughout 2009, the Group was able to achieve a very good set of results, building on the strengths of our strategy, business model and market position. This meant that, despite challenging market conditions, we were able to find areas of growth in order to benefit our stakeholders. In this respect I would like to take the opportunity to thank all those shareholders who have stuck with the Company through these more recent difficult times, many of whom are employees.

While our primary business focus in the year was to consolidate, we have also pursued niche growth opportunities wherever possible. This has naturally led to an even more diversified business, both in terms of geographic and sector spread, which will enable us to optimise our performance as the market improves. In fact, our non-UK gross profit now represents 55% of the Group's gross profit (2008: 45%).

As a result of the continued global uncertainty, revenue for the year decreased by 17.8% to £519.4m (2008: £631.5m), while gross profit ('net fee income') for the year decreased by

21.8% to £171.2m (2008: £218.9m). Profit before tax and exceptional items amounted to £18.0m (2008: £56.0m), a reduction of 67.9%, although this was in line with both the Board's and market expectations, once again reflecting the resilience and quality within the Group's management teams at all levels. This result was particularly commendable, given the reduction in headcount and restructuring of brands which took place in the year.

Our net cash balance at the year-end, including term investments, stood at £48.5m (2008: £24.6m), while we also further reduced our average days' sales outstanding from 43 days in 2008 to 37 days in 2009. Along with our improved Enterprise Risk Management ('ERM') processes, which we continue to roll out across our business, these are measures which clearly demonstrate our solid stewardship and which position the Group exceptionally well as we begin to see some very early signs of growth in certain markets and sectors.

Our tried and tested strategy remains primarily to focus on pursuing organic growth, through continued development of the Group's well-established Information, Communication and Technology ('ICT') staffing business, while also increasing the Group's revenues from other sectors and countries. Our business model continues to prioritise high quality over high volume and seeks to optimise the superior margins we consistently achieve as a consequence of this approach. The multi-brand strategy we operate and our highly diversified client base will, as ever, be crucial in achieving this goal and we believe that all STthree businesses have scope for significant further growth.

As always, we remain open-minded with regard to the launch of new ventures, continuing to back our own entrepreneurial talent and utilise the established minority-stakes model where appropriate, in order to expand beyond our existing bases in the UK, continental Europe, USA, Asia-Pacific and the Middle East, as we move into 2010 and beyond.

Like 2009, 2010 will be an extremely challenging year as we invest in our business in order to take full advantage of any economic improvements, when they occur. Nevertheless we take confidence from the Group's long track record of success to date and look forward to seeing the achievements of this year acting as a platform for further progress as we move forward.

The Board has declared a second interim dividend of 8.0p per share in place of the final dividend, bringing the total dividend for the year to 12.0p per share (2008: 12.0p). The second interim dividend will be paid on 31 March 2010 to those shareholders on the register as at 26 February 2010. This follows the interim dividend of 4.0p (2008: 4.0p) per share declared earlier in the year and paid on 4 December 2009. A detailed review of our trading and results is provided within the Chief Executive Officer's and Chief Financial Officer's Reviews. During the year, we have also continued to improve our reporting on Remuneration, Governance and Corporate Social Responsibility ('CSR') issues, wherever we can, to accommodate best practice and investor requirements. In particular, our CSR Report illustrates how we have further embedded our CSR strategy within the business and we will continue to expand these areas as the business moves forward.

# Chairman's Statement (continued)

## Report & Accounts 2009

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The STthree 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 resilient results. At the year end the Group employed a total of 1,597 people worldwide and, although this number decreased from 2,274 at the prior year end, we have a clear strategy to grow this significantly over the next five years, particularly outside the UK. I would therefore like to thank all our employees across the world once again for their contribution during the year. Many of them have been with the Group from its inception in 1986. Some of these individuals are featured in the front half of this Annual Report, which shows highlights from the Group's 2009 annual management conference.

As mentioned earlier, this is sadly my final statement as Chairman and the Board is well advanced in recruiting a successor. It has been a great privilege to have chaired the Company for the past 10 years and to have worked with the Executive team and the Board in creating a highly successful and diversified international Group.

While our business will ultimately depend on the overall strength of the worldwide economy, we believe that our prospects for further growth and success remain excellent and while we enter the new-year with a realistic view of what lies ahead, we have great confidence in the quality of the business and the opportunities to be taken.



**Sir Anthony Cleaver**  
CHAIRMAN  
29 January 2010



# Financial Highlights

Year ended 29 November 2009



"The Group now has a broader geographical base and addresses a more diverse range of sectors than ever before. Our seasoned management team has used the challenging circumstances to make positive changes in many areas of the business. Although by no means yet close to fully recovered, the market is showing some positive signs. As such we look forward to 2010 with a pragmatic but positive mindset."

	2009	2008	Change
Revenue	£519.4m	£631.5m	-17.8%
Gross Profit	£171.2m	£218.9m	-21.8%
Operating profit*	£18.0m	£56.8m	-68.3%
Profit before taxation*	£18.0m	£56.0m	-67.9%
Statutory profit before taxation	£8.9m	£54.1m	-83.5%
Basic earnings per share*	9.5p	29.9p	-68.2%
Statutory basic earnings per share	4.0p	28.8p	-86.1%
Proposed dividend	8.0p	8.0p	—
Total dividend	12.0p	12.0p	—

\* Current year operating profit, profit before taxation and EPS are shown before exceptional charges of £9.1m before tax, £6.5m after tax relating to a Group restructuring (2008: £2m before tax, £1.4m after tax, in respect of the early close out of foreign exchange derivative transactions, which were entered into in 2007).

## Operational Highlights

- A very good performance given the highly challenging market conditions;
- Non-UK share of gross profit increased significantly to 55% (2008: 45%), with trend expected to continue as the Group becomes ever more international;
- New offices opened in Düsseldorf, Hamburg, Stuttgart, Marseille and Singapore and a second office added in Frankfurt, during 2009. Second Australian office (Perth) and additional offices in Munich and Düsseldorf already opened in January 2010, with further openings in San Francisco and Delhi expected this year. Further international expansion in the pipeline;
- Permanent placements decreased by 40.8% to 6,060 (2008:10,236), with average fees increased by 15.2% (+3.9% on a constant currency basis);
- Number of active contractors at year end decreased by 27.6% to 4,157 (2008: 5,745), with average gross profit per day rates up by 8.1% (+1.4% on a constant currency basis);
- Contract versus Permanent mix of gross profit now 58:42 in favour of Contract, providing the Group with an excellent "cash hedge" in challenging market conditions;
- Continued sector diversification, with non-ICT disciplines (principally Banking, Engineering, Finance and Accountancy, Oil & Gas and Pharmaceuticals) now representing 28.4% of total gross profit (2008: 23.1%);
- 69.2% of gross profit now derived from outside of the UK ICT market (2008: 59.2%);
- Total Group headcount at year end reduced by 29.8% to 1,597 (2008: 2,274) but up 6.0% from end third quarter as stabilising market conditions have supported selective hiring;
- Year end net cash and term investments of £48.5m (2008: £24.6m) reflecting continued strong cash generation with Days Sales Outstanding at 37 days (2008: 43 days);
- Maintained total dividend for the year reflecting strong Group cash position and confidence in the strength of the STthree business model;
- Entered 2010 with most markets now stable or modestly improving.



# Chief Executive Officer's Review

Year ended 29 November 2009

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## Overview

2009 was by any standards an extraordinary year and was without question one of the most difficult the Group has faced in its twenty three year history. The impact of the global crisis on demand for specialist staff was as tough, if not worse than the dot com crash – in itself a slow down of historical severity and certainly the sternest test the Group had faced up until that point.

The slowdown evident in the UK and US by Q2 of 2008 was highly indicative that 2009 was likely to be a far more difficult market than the Group had to deal with in some years. Normal levels of expectation, either internal or external, had quite clearly been overtaken by external events.

Nonetheless the extent and rapidity of the further decline seen in the early part of 2009 was striking. In particular the Group's international businesses, which had very largely showed remarkable robustness throughout 2008, demonstrated that they were not immune to the impact of the global recession. For its part, the UK market demonstrated that although conditions were already bad, they had the capacity to get substantially worse.

This then is the only context in which the Group's 2009 performance can be judged. And if we bear in mind these unprecedented headwinds, it is pleasing to say that the 2009 STthree results can be characterised as a very commendable outcome in exceptionally difficult circumstances. The fact that the Group adapted to the exceptional conditions with outstanding levels of grit and determination is what we would expect. The fact that we were also able to take further steps towards

achieving our strategic goals gives a further perspective on what was achieved.

## Financial outcome

Inevitably given the circumstances the Group saw a reduction in gross profit (GP). The 2009 GP figure of £171.2m was 21.8% down on the prior year (2008: £218.9m). This converted to a profit before tax (PBT) of £18.0m (2008: £56.0m) down 67.9% before exceptional items. Post exceptional items PBT was £8.9m (2008: £54.1m), down 83.5% on 2008. All exceptional items related to the restructuring exercise undertaken by the Group in Q2 2009.

During the year the Group continued to focus on maximising cash. At the end of 2009 net cash including term investments almost doubled to £48.5m (2008: £24.6m). Approximately £12.0m of the improvement was attributable to the unwinding of working capital associated with the reduction in contract runners. However, the net cash position also reflected strong cash management, with Days Sales Outstanding (DSO's) improving to 37 days (2008: 43 days).

The Group's strong and improving cash position combined with a high degree of confidence in the fundamental robustness of the Group's business model informed the decision to maintain the total 2009 dividend at 12.0p (2008: 12.0p). Although uncovered by earnings, the Board took the view that this level of payment was prudent, being very comfortably covered by the level of cash available to the Group.

Notwithstanding the fact that the Group's finances strengthened during the year and the Group is cash rich

and debt free, steps were also taken to ensure that the Group retains maximum financial flexibility. A new 30 month banking facility was negotiated in October 2009, providing £20m of committed funds at highly competitive rates.

## Restructuring

By Q1 of 2009 it had become evident that compared to Q4 2008, the market had taken a further step downwards. As a result, Group headcount was out of line with market demand and the business was running at an approximately break-even level. It was clear that the Group needed to urgently address its cost base and restructure the business in line with a substantially reduced market opportunity.

As a consequence Group headcount was reduced by approximately 25%. In addition the Group closed four offices and consolidated a number of others, resulting in it exiting a total of eleven leases. Together these actions incurred a one off exceptional charge of £9.1m which paid back within the financial year. Most significantly the actions taken successfully recalibrated the Group's overheads resulting in a commensurate and rapid return to profitability.

## Strategy

### "High margin, high value"

Although 2009 offered no shortage of short term challenges and tactical difficulties, the Group did not lose sight of its medium/long term priorities. A notable example of the latter is the Group's commitment to its "High margin, high value" model. Notwithstanding the fact that the market inevitably became more price sensitive during 2009, the Group successfully resisted any downward pricing pressure, which would

# Chief Executive Officer's Review

Year ended 29 November 2009

(continued)

otherwise have impacted the quality of the business executed.

As a result, the Group's overall contract margin actually improved to 22.1% (2008: 21.5%), a noteworthy result in the circumstances. In absolute terms the average gross profit per day rate (GPDR) increased to £84.69 (2008: £78.30). This represents an 8.1% year on year increase on an externally reported basis or a 1.4% improvement on a constant currency basis.



A similar theme was seen in the Group's permanent business but with a still stronger value performance. The average permanent fee recorded in 2009 was £11,930 (2008: £10,355) up 15.2% on an unadjusted basis or 3.9% on a constant currency basis.

## Geographical Expansion

The Group continued its successful strategy of geographical expansion, opening six international offices during the year. In addition to a further office in Frankfurt, new offices were rolled out in Düsseldorf, Hamburg, Stuttgart, Marseilles and Singapore.

The strong German theme of 2009 office openings reflected the relative robustness of demand in the German specialist staffing market during the year which showed 28% growth. However, it is equally indicative of the outstanding long term growth potential of what is currently a very underdeveloped market.

The Group ended the year with a total of 46 offices in 11 countries. In aggregate Group GP generated from outside of the UK was £94.2m (2008: £97.4m). Although down 3.2%, this contrasts starkly with the 64.1% year on year growth achieved in 2008. Nonetheless the non UK businesses still performed substantially better than the UK. In the absence of any structural growth to mitigate the wider economic situation, UK GP of £76.9m was down 36.7% (2008: £121.6m)

As a consequence of the significant difference in relative performance, the overall UK/non UK business mix underwent a marked change. During 2009 the ratio was 55:45 in favour of non UK GP compared with 45:55 in 2008. It is likely that this shift will prove permanent as the Group becomes ever more international. However, the fact remains that the UK has consistently showed itself to be capable of very robust growth in more typical market conditions.

We remain convinced that a substantial opportunity exists to move the proven STthree model into an ever-wider range of international markets.

In early 2010 the Group launched its second Australian office in Perth and opened additional offices in Munich and Düsseldorf. In the second half of the year we expect to open in San Francisco and Delhi. Additional international offices are in the pipeline subject to final approval and it is likely that the total for the year will be similar to the six that came on stream during 2009.

## Sector Diversification

In parallel with its greater geographical diversity, in recent years the Group has made significant progress in developing a meaningful presence outside of its traditional

Information, Communication and Technology ('ICT' or 'IT') franchise. It is worth clarifying that this metric is measured by the skillsets of the candidates the Group places rather than the nature of the business of the client company. By the latter metric the Group has only a 21% exposure to the IT industry per se.

The major non IT segments for the Group are Banking, Engineering, Finance and Accountancy, Oil & Gas and Pharmaceuticals; the Group also has a smaller presence in HR and Sales & Marketing. In aggregate these niches accounted for £48.5m of GP in 2009 (2008: £50.5m). Although this was modestly down by 3.8% on the prior year, the non IT franchises represented 28.4% of total Group GP compared to 23.1% in the previous year. The (generally more competitive) IT market performed less robustly with 2009 GP of £122.6m (2008: £168.5m) down 27.2%.

Although it showed definite signs



of improvement in the latter part of 2009, the Banking market remained, by normal standards, very subdued and when taking the year as a whole was weak. Given that historically the Group's largest non IT sector has been Banking, the positive momentum seen more recently is an encouraging trend particularly given that the Group now has a presence in most of the world's major financial centres.

# Chief Executive Officer's Review

Year ended 29 November 2009

(continued)

## Contract/Permanent Business Mix

It is an accepted feature of the specialist staffing market that temporary hiring tends to be more robust in a downturn. Therefore it is unsurprising that a shift in this direction that started in 2008 continued throughout 2009. During the year the Group made a total of 6,060 permanent placements (2008: 10,236) a reduction of 40.8%. It is pleasing to reiterate that this significant decline in volume was not accompanied by a commensurate decline in quality, but an improvement in the average placement fee achieved.

The number of contract runners at the end of 2009 was 4,157 (2008: 5,745) representing a reduction of 27.6%, illustrating the relatively better health of the temporary sector. As with the permanent market, the average value of each contractor improved. The net effect of the above was that contract GP represented 58% of the Group's total in 2009 compared with 52% of GP for 2008. However, as market conditions improve and the recent trends favouring contract normalise, the Group's permanent GP will once again become an increasingly significant part of the mix.

## Headcount

The Group ended 2009 with a total of 1,597 staff (2008: 2,274) a reduction of 29.8% on the prior year. Clearly the large part of this reduction was attributable to the rightsizing exercise undertaken in Q2 of 2009 which saw approximately 25% of the Group's staff exit the business.

In 2008, normal natural attrition aided by the Group's remuneration strategy was enough to ensure that the size of sales teams flexed in line with changes in market conditions. However, as discussed above, in the

substantially worse market of early 2009 it was agreed necessary to take a more proactive approach.

Following this exercise the Group's approach was to broadly maintain the post-rightsizing staffing levels and little active hiring/replacement was undertaken until some signs of improvement in certain markets were detected later in the year. As a consequence of the latter the Q4 headcount was up sequentially on Q3 and the Group is now selectively growing headcount where appropriate.



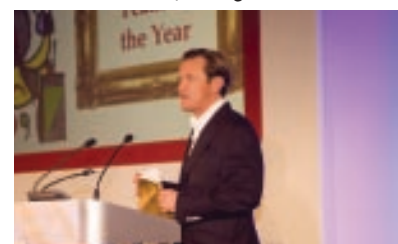
It is worth noting that one of the key strengths of the Group is significant flexibility in terms of headcount. Staffing levels can be reduced aggressively if needed but by the same token can be rebuilt almost equally quickly. Indeed the level of staff reduction seen in 2009 is not unprecedented, being comparable in percentage terms to the 2002/03 downturn. As the market recovered the Group was able to rebuild its teams and took full advantage of the upturn.

## Outlook

The experience of 2009 clearly demonstrates the risk inherent in attempting to predict market trends. Although we began the last year with "our eyes open and mindful of the risks and challenges", the market we actually faced was of an order of magnitude more difficult still.

Towards the end of the year there were signs that certain markets were improving and that others were at the least stable and, so far, this has continued into 2010. Compared with what the Group has been used to in recent times, this was a welcome positive trend which was reflected in the Group's return to headcount growth. Whilst there are indications that confidence is gradually returning to the market and this above all else is what is needed for a full recovery to gain traction, it remains true that in overall terms market conditions have yet to recover to anything close to normal.

Market conditions like those the Group faced in 2009 have a creative dimension. They force an in depth and uncompromising assessment of all aspects of the business. As a result changes are made, some of which are overdue and would be more difficult to envisage and execute in more benign times. Moreover, many individuals



who have not previously been tested to the same degree mature as a result of their experiences. Given that the Group also has a broader geographical base and a more diverse range of sectors than ever before, we look forward to 2010 with a pragmatic but positive mindset.

A handwritten signature in dark ink, reading 'Russell Clements'.

**Russell Clements**  
Chief Executive Officer  
29 January 2010

# Chief Financial Officer's Review

Year ended 29 November 2009



## Financial Review

	2009		2008	
	Revenue	Gross Profit	Revenue	Gross Profit
Contract	£447.0m	£98.8m	£525.5m	£113.1m
Permanent	£72.4m	£72.4m	£106.0m	£105.8m
<b>Total</b>	<b>£519.4m</b>	<b>£171.2m</b>	<b>£631.5m</b>	<b>£218.9m</b>

Revenue for the year decreased by 17.8% to £519.4m (2008: £631.5m). Gross profit for the year decreased by 21.8% to £171.2m (2008: £218.9m), representing a Group gross profit margin of 33.0% (2008: 34.7%). The Group gross profit margin reduced as a result of the remix in business from permanent, which represented 48% of gross profit in 2008, to 42% in 2009. Permanent revenues are accounted for at 100% gross margin, whereas contract gross profit is shown after the associated cost of sale. As the contract margin improved year on year to 22.1% from 21.5% in 2008, the reduction in Group gross margin is driven by a permanent/contract mix effect and not by a weakness in underlying margin discipline.

Administration expenses before exceptional items decreased by 5.5% to £153.2m (2008: £162.1m), primarily driven by the reduced number of staff, and savings on the exit of certain leases. On 15 April, the Group announced a restructuring of the business in line with the markedly reduced market opportunity, and an exceptional charge of £9.1m has been recognised. As a result, the Group's pre-exceptional conversion ratio (pre-exceptional operating profit divided by gross profit) fell to 10.5% (2008: 25.9%).

Group headcount was 1,597 at 29 November 2009, down 29.8% on

the opening headcount at 1 December 2008 of 2,274. Average total headcount for the year was 1,841 (2008: 2,157), as a result of the restructuring and natural attrition in the year.

Profit before tax and exceptional items amounted to £18.0m (2008: £56.0m), a reduction of 67.9%, whilst profit before tax after exceptional items reduced by 83.5% to £8.9m (2008: £54.1m).

Taxation on profit before exceptional items was £5.5m (2008: £16.8m), representing an effective tax rate of 31% (2008: 30%). The slight increase in the effective tax rate was driven by a remix of the business towards jurisdictions with higher tax rates. Based on the current structure of the Group and existing local taxation rates and legislation, it is expected that the underlying effective tax rate will remain at around this level. The Group's effective cash tax rate was 25.0% (2008: 26.4%), reflecting the relatively higher Schedule 23 tax benefit (re share options) compared to the previous year.

Basic earnings per share before exceptional items were 9.5p (2008: 29.9p), down 68.2%. This was driven by a reduction in profit before taxation before exceptional items of 67.9%, the marginally higher effective tax rate of 31% (2008: 30%), a reduction

in the minority charge to £1.2m (2008: £2.0m) and a reduction in the weighted average number of shares to 118.7m (2008: 124.7m). Fully diluted earnings per share before exceptional items were 9.2p (2008: 29.2p), down 68.5%. Basic earnings per share after exceptional items were 4.0p (2008: 28.8p), down 86.1%. Fully diluted earnings per share after exceptional items were 3.9p (2008: 28.1p), down 86.1%.

The Board previously declared an interim dividend of 4.0p per share (2008: 4.0p). The Board has declared a second interim dividend of 8.0p per share in place of the final dividend, bringing the total dividend for the year to 12.0p per share (2008: 12.0p). The second interim dividend will be paid on 31 March 2010 to those shareholders on the register as at 26 February 2010.

## Balance Sheet

The Group had net assets of £84.8m at 29 November 2009 (2008: £90.6m). Net cash including term investments amounted to £48.5m (2008: £24.6m), the improvement in our cash position reflecting the net impact of the profitability of the Group, the improved management of working capital and the release of working capital as the number of contractors reduced during the year.



# Chief Financial Officer's Review

Year ended 29 November 2009

(continued)

Tangible fixed asset capital expenditure amounted to £2.7m (2008: £2.3m), relating to a more normalised level of investment in IT hardware and fit out of new offices, as expected, following the high level of investment in 2007. Intangible asset additions, primarily relating to IT software purchases and development costs, reduced significantly to £2.1m (2008: £3.9m). Total capital expenditure is planned to grow slightly ahead of these levels in 2010, as the business accelerates its office opening programme.

Net trade debtors reduced by 42.7% to £58.3m (2008: £101.9m) representing DSOs of 37 days (2008: 43 days). Total trade and other payables reduced from £81.2m to £76.1m as the volumes of business reduced.

## Cash Flow

At the start of the year the Group had net cash of £24.6m. During the year, the Group generated cash from operating activities of £63.7m (2008: £87.0m). The Group achieved a significant reduction in working capital of £45.3m through improved debtor management and a reduction in the working capital funding of the reduced contractor book. Income taxes paid increased to £18.3m (2008: £11.4m) as we settled overseas tax liabilities relating to prior years.

During the year, the Group repurchased certain minority stakes for £1.4m and paid dividends of £14.4m. The group also invested £3.2m in an A rated Euro bond with a maturity of less than 6 months.

At 29 November 2009 the Group had net cash of £45.3m.

In October 2009, the Group renewed a committed invoice discounting facility of £20m with Royal Bank of Scotland Invoice Finance ('RBS') for a 30 month term. The Group is not currently drawing down against this.

## Treasury Management and Currency Risk

The main functional currencies of the Group are Sterling and the Euro. The Group has significant operations outside the United Kingdom and as such is exposed to movements in exchange rates.

The Board has undertaken a review of its currency hedging strategy to ensure that it is appropriate and currently the Group does not actively manage its exposure to foreign exchange risk by the use of financial instruments. The impact of foreign exchange will become a more significant issue for the Group as we expect the business mix to move further towards International, with the International business accounting for 55% of gross profit in 2009 (2008: 45%). The Group will continue to monitor its policies in this area.

During the year, the Group implemented a European cash pooling arrangement, with a target to invest at least 85% of the Group's cash, returning in excess of the 7 day LIBID rate on average.

Having been tested by extraordinary market conditions in 2009, the Group has been successful in strengthening its financial position. Our strong balance sheet and net cash give us the confidence to maximise the opportunities that lie ahead in an uncertain environment.



**Alex Smith**  
Chief Financial Officer  
29 January 2010





# Directors' Report

Year ended 29 November 2009



The Directors present their Annual Report on the activities of the Group, together with the financial statements and auditors' report for the year-ended 29 November 2009.

## Group business review, principal activities and risks facing the business

The Chairman's Statement, Chief Executive Officer's and Chief Financial Officer's Reviews, taken together with this Directors' Report, provide information relating to the Group's activities, its business and strategy and principal risks and uncertainties faced by the business, including analysis using financial and other KPIs where necessary. These, together with the Directors' Remuneration Report, Corporate Governance and Corporate Social Responsibility Reports, provide an overview of the Group, including environmental and employee matters and give an indication of future developments in the Group's business. This provides a balanced and understandable assessment of the Group's position and prospects, in accordance with the Business Review requirements of the Companies Act 2006.

SThree is a specialist permanent and contract staffing business, currently comprised of four operating brands, being FS Group (Computer Futures),

Huxley Associates, Progressive and Real Staffing Group, all of which operate under a well established multi-brand strategy. The first office, as Computer Futures, opened in London in 1986, whilst international expansion started in 1998 with the launch of an office in Brussels. Each brand operates independently, but share common services such as finance, information services, human resources and legal.

The Group has grown organically and has a diverse client base of over 7,000 clients. Offices are currently located in Europe, USA, Asia-Pacific and Middle East, with further offices planned to be opened in 2010.

From our well-established position in the ICT sector, the Group has broadened its operations by building fast-growing businesses serving the accountancy & finance, banking, engineering, oil & gas, pharmaceuticals, human resources, energy and legal sectors. The Group began trading on the London Stock Exchange in November 2005 and in 2007 launched a US Level One ADR facility.

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's main subsidiary undertakings are disclosed in the notes to the financial statements.

## Key Performance Indicators ("KPIs")

Both financial and non-financial Key Performance indicators (KPIs) are

used throughout the Group to monitor progress, with the principal indicators listed in the table overleaf. Where these relate to a strategic Group level, analysis is provided within the Chief Executive Officer's and Chief Financial Officer's reviews. For the financial KPIs, comparison figures are shown for the current and prior year. No figures are applicable for non-financial KPIs.

The specific KPIs used will depend on the split of business, i.e. whether it is contract or permanent, as well as whether it is in a new sector or geography and annual bonuses are linked to a mixture of these, as well as other KPIs, depending on the specific role of the individual concerned.



# Directors' Report (continued)

Year ended 29 November 2009

KPIs (financial)	2009	2008	Definition and method of calculation
<b>Revenue</b>	£519.4m	£631.5m	Total fees earned by the Group, before any cost deductions.
<b>Gross Profit</b>	£171.2m	£218.9m	Revenue less cost of sales. Also known as Net Fee Income.
<b>Profit Before Tax (adjusted)</b>	£18.0m	£56.0m	Gross profit, less administration expenses and finance income/costs before exceptional items.
<b>Total Shareholder Return ('TSR')</b>	105%	(28%)	TSR is defined as share price growth plus dividends attributable to shareholders attributable to shareholders over a specific period. This measure is also used for the Group's LTIP, but over a three year period.
<b>Earnings Per Share ('EPS') (adjusted)</b>	9.5p	29.9p	EPS is defined as profit before exceptional items for the year attributable to the Group's equity shareholders divided by the weighted average number of shares in issue during the year. This measure is also to be used for the Group's LTIP, but over a three year period.
<b>Group gross margin</b>	33.0%	34.7%	Gross profit as a percentage of revenue.
<b>Contract margin</b>	22.1%	21.5%	Contract gross profit as a percentage of contract revenue.
<b>Gross Profit per Day Rate</b>	£84.69	£78.30	Contract gross profit per average number of working days.
<b>Permanent fees</b>	£11.9k	£10.4k	Average fees of permanent placements that started during the period.
<b>Geographical diversification – international mix</b>	55.0%	45.0%	Split of gross profit by location of client.
<b>Sectoral diversification – non ICT</b>	28.0%	23.0%	Split of gross profit by candidate skill set.
<b>Contract/Perm mix</b>	58%/42%	52%/48%	Proportion of gross profit attributable to contract and permanent placements.
<b>Conversion ratio</b>	10.5%	25.9%	The conversion ratio is the operating profit stated as a percentage of net fees and measures how effective the Group is at controlling the costs and expenses associated with its normal operations and its level of investment for the future.
<b>Cash Conversion</b>	326%	142%	Cash conversion is calculated as the cash flows from operating activities for the year after deducting net normal capex stated as a percentage of operating profit before exceptional items and is a measure of the Group's ability to convert profit into cash.
<b>Debtor days</b>	37	43	Represents the length of time it takes the Company to receive payments from its debtors. It is calculated by comparing how many days' billings it takes to cover the debtor balance.
<b>KPIs (non financial)</b>			
<b>Risk Management</b>	<p>As detailed within the Corporate Governance Report, the Group has continued to roll out its ERM framework throughout the business and has consequently further developed and enhanced its risk evaluation and ERM reporting mechanism.</p> <p>During 2010, key Executive job descriptions are to be re-drafted to include reference to risk responsibility, with annual bonus linked to up to 20% of their bonus opportunity and relating directly to progress towards the Company's strategic objectives, in support of managing any related business risk.</p>		
<b>Headcount/Churn</b>	This is the measure of employee retention. Lower churn and higher headcount retention generally means increased productivity. It is also an indicator of morale.		
<b>Environmental</b>	In late 2008, a strategic decision was made to conduct a Company-wide initiative to establish our carbon footprint and reduce energy consumption whilst taking steps to increase recycling by 50%. Specific initiatives are detailed within the CSR report.		

# Directors' Report (continued)

Year ended 29 November 2009

## Principal risks and uncertainties

The principal risks facing the business include the following:

**Macro-economic environment** – The performance of the Group has a relationship and dependence on the underlying growth of the economies of the countries in which it operates in so far as it impacts client and candidate confidence. 2009 saw a crisis in confidence, which impacted our business volumes significantly. This is mitigated in part by maintaining:

- a balance of temporary and permanent recruitment, increasingly in the public sector;
- a broad exposure across geographies and sectors;
- a flexible cost base that enables us to react swiftly to changes in market conditions by increasing or reducing costs as appropriate; and
- a strong balance sheet with manageable debt levels.

A key part of the Group's strategy is to continue to grow the size of its international businesses to reduce the Group's reliance on any one specific economy, geography or sector.

**Competitive environment** – The Group continues to face competitor risk in the markets where the provision of permanent and temporary recruitment is most competitive and fragmented, being generally the UK, Ireland and the Netherlands. There is strong competition for clients and candidates, although we generally resist pricing and margin pressures across our major specialist activities. The Group's strategy is to continue to grow its international

businesses more aggressively in other geographies and sectors, including the less-developed markets of Asia Pacific and Rest of the World, whilst also improving the efficiency and operations of our businesses throughout the organisation.

In Continental Europe and many parts of the world, the markets for the provision of recruitment services are somewhat less developed and the market place is also fragmented, although the markets in Continental Europe and Asia are developing more quickly. Where 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, in terms of 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 increased levels of compliance required from local regulators and clients.

**Commercial relationships/customer credit risk** – The Group benefits from close commercial relationships with key clients, particularly in the SMEs market, in both the private and, increasingly, the public sectors, although it is not dependent on any single key client. However, like most companies, the Group is always subject to the risk that some customers might be unable to fulfil

obligations, which could impact results.

**Availability of candidates** – the availability of highly skilled/quality candidates is essential to operating in niche/high margin areas. Changes in the other risk areas can affect candidate supply.

**Contractual risk** – Clients increasingly require more complex levels of compliance in their contractual arrangements. The Group takes these responsibilities seriously and contracts are therefore closely controlled via the Group's centralised Legal and Business Administration functions and subject to regular audit by the Internal Audit function in order to reduce the risk of non-compliance. The Group also has clear guidance on the approval of contractual terms and monitors the application thereof, especially any exceptions to our standard liability position and insurance protection, which require the approval of the Legal Department/Company Secretary. The placing of temporary workers generally represents greater risk for the organisation than permanent placements. Wherever possible, contracts include clauses which place the responsibility for supervision and control of each contractor directly with the client, excluding any consequential loss and limiting the Group's aggregate liability under the contract.

**People** – The Group is heavily reliant on the ability to recruit, train and develop people to meet its growth strategy. At the same time, the Group's business model demands flexibility to consolidate or expand, depending on the economic environment. In response to this, the Group is focused on

# Directors' Report (continued)

Year ended 29 November 2009

engaging with and developing its key managers in each sector/ geography and is committed to ensuring it has competitive pay and benefits structures, clearly linked to performance, combined with a succession planning process. Through training and development, it seeks to provide individuals with the leadership, sales, key customer management and general business skills that support the Group's expansion needs, whilst providing a rewarding and challenging career. Brand and Country managers are also focused on allocating resources in respect of the best Group opportunities available.

**Information Technology** – The Group is reliant on delivering its service to clients through a number of technology systems. These are housed in various locations and the Group has capacity to cope with a data or system loss as a result of a significant event through the establishment of disaster recovery sites that are physically based in separate locations to the ongoing operations. The Group is also reliant upon a number of important suppliers that provide critical information technology infrastructure. It continually monitors the performance and robustness of these suppliers to ensure business-critical processes are safeguarded as far as is practicably possible. Whilst the Group replaced its financial systems in 2006, these are periodically reviewed to ensure they are fully utilised and remain effective. In order to reduce any risks associated in upgrading key operational and financial systems, project management teams are appointed, including specialist IT, operational and external resource, utilising robust management tools which monitor progress across the life of any project. The business also continues to review and enhance its ability to cope with a significant data or

other loss via its Business Continuity Plan arrangements.

**Regulatory environment and legislative changes** – The specialist recruitment industry is governed by increasing levels of compliance, which vary from country to country and market to market. The Group 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. As employment laws are changed and harmonised in certain geographies, this creates new risks and opportunities. The contract market is more heavily regulated and changes in legislation (such as changes in managed service company legislation or to contract worker rights) may impact the Group. The Group ensures that its policies, processes and systems reflect best practice, wherever possible in order to meet the legal requirements of the markets in which it operates.

**Foreign exchange** – The Group has significant operations outside the United Kingdom and is therefore exposed to movements in exchange rates. As profits from the Euro-based markets increase in proportion to the Group's total profits, the foreign exchange risk also increases. The Board has undertaken a review of its currency hedging strategy to ensure that it is appropriate and currently the Group does not actively manage its exposure to foreign exchange risk by the use of financial instruments. However, the impact of foreign exchange will become a more significant issue for the Group as the business mix moves further towards international. And the Group will continue to monitor its policies in this area.



## Post balance sheet events

There have been no significant events since the balance sheet date.

## Results and dividends

Information in respect of the Group's profits, dividends and other key financial information is contained within the Chairman's Statement, the Chief Executive Officer's and Chief Financial Officer's Reviews.

## Directors and their interests

The current Directors of the Company are:

- Sir Anthony Cleaver, retiring Chairman
- Russell Clements, Chief Executive Officer
- Gary Elden, Chief Development Officer
- Alex Smith, Chief Financial Officer
- Sunil Wickremeratne, Chief Operating Officer
- Paul Bowtell, Independent Non-Executive Director
- Alicja Lesniak, Independent Non-Executive Director
- Tony Ward, Senior Independent Non-Executive Director
- Nadhim Zahawi, Independent Non-Executive Director

# Directors' Report (continued)

Year ended 29 November 2009

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.

Brian McBride and David Tilston retired as Directors at the Annual General Meeting on 24 April 2009, whilst, in accordance with the Company's Articles of Association, Sunil Wickremaratne, Tony Ward and Alicja Lesniak will retire at the 2010 AGM and submit themselves for re-election. In accordance with the terms of his re-appointment, Sir Anthony Cleaver will also retire at the Annual General Meeting in 2010. Full information is contained in the Notice of Meeting.

Other than employment contracts and Minority Interest loans to Gary Elden, none of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings. The key terms of the Directors' service contracts, the Directors' interests in the shares and options of the Company and Minority Interest loans to Gary Elden (in respect of Minority Interests approved prior to him becoming an STthree plc director) are disclosed in the Directors' Remuneration Report.

## Supplier payment policy, Essential Contractors and Change of Control

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. STthree plc acts as a holding company for the Group and does not trade and consequently does not have an average creditors' payment period. Trade creditors of the Group at 29 November 2009 were equivalent to

21 days' purchases (2008: 24 days). The Group has business relationships with a number of contractors but is not reliant on any single one.

There are no significant agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover offer, with the exception of the RBS Invoice Finance agreement regarding the Group's invoice discounting facility, dated 8 October 2009.

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Group's share plans and Minority Interest arrangements, may cause options, awards or minority shareholdings to vest on a takeover.

## 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 ('MI') Model

Since flotation, the Group has regarded its Minority Interests (or

Minority Stakes) model as a key factor in its success and it is planned to create more of these this year, on similar terms to those previously created, subject to shareholder approval at the AGM in April 2010.

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 organically out of one of the existing STthree businesses, for example, JP Gray was established as a result of an idea presented to the Directors by certain senior managers of FS Group, who were then given the opportunity to manage and develop that new brand. Typically, those managers of the new STthree brand will be able to invest, at the Company's discretion, in the new venture 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. In order to receive equity ownership 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 new 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.



# Directors' Report (continued)

Year ended 29 November 2009

## Substantial shareholdings

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

Name of holder	Number of shares	Percentage shareholding
AXA	5,153,356	4.23%
Simon Peter Arber	3,392,047	2.79%
William Frederick Bottriell	9,327,764	7.66%
Russell Clements	4,738,729	3.89%
Fidelity	6,028,475	4.95%
HBOS plc	6,983,314	5.21%
JP Morgan Asset Management (UK) Limited	7,021,061	5.07%
Legal & General Group plc	4,841,179	3.97%
Martin Currie Investment Management Limited	4,314,627	3.12%
Standard Life Investments Limited	10,747,159	8.83%
Sunil Wickremeratne	10,671,553	8.76%

In line with this, approval is also being sought to amend the specified period provisions of the previous offers approved by shareholders at AGM in 2006 and 2007. These provisions stated that the specified period would always be five years. However, for offers of unallocated shares, in respect of new MI contracts only, it is proposed to amend this so that the specified period will still normally be five years but will never be less than three years, provided there are exceptional circumstances, in order to match the more recent minority structures.

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

Also note that, for all prior shareholder authorities granted, the five year period available to the Company to make such offers to employees is to be renewed from the date of each Annual General Meeting, or any adjournment thereof.

The proposed resolution, together with the standard terms upon which the Minority Stakes are normally based, are outlined within the Notice of Meeting.

Whilst the Group refers to its 'Minority Interests' model throughout these financial statements, in recent years the Group has evolved its method of administering these arrangements and has developed a 'tracker share' model. There are technical accounting differences between historic entity based MIs and newer tracker share based MIs which are accounted for as share based payments under IFRS2 and not as traditional equity based

MIs.

## 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. During the year no purchases were made, although the Directors will seek to renew the authority for up to 10% of the Company's issued share capital at the Annual General Meeting.

## Directors' indemnities, insurance and conflicts of interest

Section 236 of the Companies Act 2006 allows 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

# Directors' Report (continued)

Year ended 29 November 2009

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.

The Board also confirms that there are appropriate procedures in place to ensure that its powers to authorise any Directors' conflicts of interest operated effectively during the year.



## Corporate Governance

Please refer to the separate Corporate Governance Report.

## Financial instruments

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

## Corporate and Social 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. Further information is contained in the Corporate Social

Responsibility Report section.

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 etc Act 1974 and all other relevant regulations and codes of practice are complied with.

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.

Information on employee share plans and share ownership is contained in the Directors' Remuneration Report.

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 £51,000 (2008: £81,000). The Group made no donations for political purposes either in the UK or overseas during the year.

## Annual General Meeting

The Annual General Meeting of the Company will be held on 23 April 2010, 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 Section 418(2) of the Companies Act 2006, 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

# Directors' Report (continued)

Year ended 29 November 2009

will be put to the forthcoming Annual General Meeting proposing their re-appointment as auditors for the ensuing year.



## Statement of Directors' responsibilities

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. The Directors have elected to prepare 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 IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies

and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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 Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed above confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial

position and profit of the Group; and

- the Directors' Report, taken together with the Chairman's Statement, the Chief Executive Officer's and Chief Financial Officer's Reviews, contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

**Steve Hornbuckle**  
Company Secretary  
29 January 2010

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

# Directors' Remuneration Report

Year ended 29 November 2009



## Introduction

This report has been prepared in accordance with the Companies Act 2006 and the Directors' Remuneration Regulations 2002, 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 this part of the report has been properly prepared in accordance with the Companies Act 2006 (as amended by the Regulations). The report has therefore been divided into separate sections for unaudited and audited information.

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

## Year in focus – summary

- Continued policy of positioning base salaries between lower quartile and median for the relevant competitive market;
- No salary increases proposed for the Executive Directors in light of the challenging economic background and the associated

impact on the majority of our employees;

- Maximum bonus opportunity to be increased in 2010, in line with our stated policy;
- Up to 20% of bonus opportunity to relate to strategic objectives, in support of managing business risk;
- LTIP TSR comparator group to be broadened and additional EPS growth measure to be applied;
- Introduction of two UK all employee share schemes (SAYE and SIP), with other jurisdictions to be added.

## 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](http://www.sthree.com).

During the year the Committee comprised only independent Non Executive Directors, being Tony Ward (Chairman), Alicja Lesniak and Nadhim Zahawi. The Chief Executive Officer, Group HR Director and remuneration advisors regularly attend meetings by invitation, except for matters related to their own remuneration. The Committee met four 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/tax efficiencies. Fees paid to Deloitte during the year amounted to £44,825 (excluding VAT). 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 capability 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 or LTIP below).

In setting the policy on total remuneration, the Group's policy is to position the base salaries of Directors and senior management at between lower quartile and median for the

# Directors' Remuneration Report

Year ended 29 November 2009

(continued)

relevant competitive market, with a higher than average proportion of their remuneration being performance related. This policy was examined by Deloitte during the last benchmarking exercise and will continue to be reviewed to ensure that it remains in line with market practice.

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 Executive Directors' receipt of shares under the Long Term Incentive Plan will be dependent on enhanced relative returns to shareholders as well as Earnings Per Share ('EPS') growth over a three-year period.

## Executive Directors' basic salary and pension arrangements

The basic annual salaries of the Executive Directors for the year-ended 29 November 2009 were Russell Clements, £317,000; Gary Elden, £241,500; Alex Smith, £235,400; and Sunil Wickremaratne, £266,500. Salaries are normally reviewed in December each year and during 2009 the Committee undertook a detailed benchmarking of total compensation with the support of Deloitte. The Committee concluded from the market data that the base salary level for Russell Clements remained significantly below the comparable market level, with others less markedly below.

However, the Committee agreed with the Executive Directors' request that, in the light of the current economic background and the associated impact on the majority of our employees, no salary increases should be awarded to any of the Executive Directors, with the proviso that the

Committee will resume its policy of making sure that salaries are adjusted to a level between the lower quartile and the median of the data when conditions change.

Executive Directors also receive an employer's 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.

## Annual Bonus Scheme

Executives receive annual bonus payments based on the achievement of Group profit targets, underpinned by objectives linked to specific Group targets, which are agreed by the Committee. For 2009, the maximum bonus opportunity for Executive Directors was 100% of salary, although for individuals below Board level this was uncapped, with deferral into shares for any achievement over 100% of salary. Where agreed targets, based on profit before tax, are achieved, 50% of salary was paid. For achievement above these targets, bonus was paid on a pro-rata basis, with maximum bonus payable for achieving substantially above target (i.e. achieving 110% of target). No bonus was paid for achievement below a certain threshold (90% of target), with pro rata payment for achievement between 90% and 110% of target. During the year, an average bonus equal to 50% of salary was accrued for all Executive Directors based on the Committee's assessment of achieving a level of profit that was appropriate, in light of the exceptional market conditions, and the very good performance which resulted.

For 2010, the bonus maximum for Executive Directors is to be increased

to 120% of salary, with any element over 100% of salary being paid in deferred shares, vesting in equal tranches over two years, provided the Executive remains employed with the Group. Up to 20% of the bonus opportunity will relate directly to progress towards the Company's strategic objectives, as agreed by the Board and in support of managing any related business risk. The Committee considers overall performance, including environmental, social and governance ('ESG') issues, when calibrating the remuneration of Executives, to ensure that the incentive structure for senior management does not inadvertently encourage irresponsible behaviour.

## Long Term Incentive Plan

In November 2006, shareholders approved a share-based 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 STthree shares. No further awards are planned to be made under the Executive Share Option Scheme operated by the Company before flotation.

During 2009, the Committee commissioned Deloitte to review the Long Term Incentive Plan ('LTIP') performance criteria and concluded that: a) relative total shareholder return ('TSR') remains an important measure of Executive performance; b) the TSR comparator group should be broadened to avoid high levels of volatility and ensure valid comparisons; and c) an Earnings Per Share ('EPS') growth measure should be applied to ensure that Executives are appropriately incentivised



# Directors' Remuneration Report

Year ended 29 November 2009

(continued)

and rewarded. Views of major shareholders on these proposed improvements were sought during December 2009 and there were no objections. Therefore, whilst no changes are proposed to the already approved TSR vesting hurdles, 50% of awards to Executive Directors made from February 2010 onwards will be made subject to TSR and 50% subject to EPS performance measures.

The main features of the LTIP are as follows:

- Awards of shares can be made, each year, to Executive Directors and other senior executives in the form of forfeitable shares or share options (nil-cost or market value);
- The maximum annual face value of awards which may be made to Executive Directors is 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;

- For the reasons stated above, from February 2010, the current peer group of approximately 18 mainly recruitment or service related businesses used for the TSR measure is to be expanded to comprise some 40 UK-listed peer group companies, all being recruitment or service companies from the FTSE Support Services, AIM or Fledgling indices, set out as follows: Empresaria Group plc, Experian plc, Garner plc, Harvey Nash Group plc, Hays plc, Healthcare Locums plc, Hexagon Human Capital plc, Highams Systems Services Group plc, Hyder Consulting plc, Hydrogen Group plc, Impeilam Group plc, Interquest Group plc, Kellan Group plc, Management Consulting Group plc, Matchtech Group plc, Michael Page International plc, Mitie Group plc, Morson Group plc, Mouchel Group plc, Network Group Holdings plc, Networkers International plc, Office2office plc, Penna Consulting plc, Pinnacle Staffing Group plc, Prime People plc, Regus plc, Rethink Group plc,

Ricardo plc, Robert Walters plc, RPS Group plc, RTC Group plc, Saville Group plc, Servoca plc, Staffline Group plc, Tribal Group plc, Waterman Group plc, White Young plc, Work Group plc, World Careers Network plc and WS Atkins plc. This list is reviewed annually;

- The preferred EPS growth measure is to be Compound Average Growth Rate ('CAGR'), as it rewards value creation equally over the period covered by the incentive. Pre-exceptional, undiluted EPS, is to be used as the basis for awards, so that any material abnormal influences are taken as pre-exceptional items and any abnormal influences which are not material but still significant are highlighted to the Committee for consideration;
- Both the TSR and EPS measures to be used for awards in 2010 are summarised below. For the EPS measure the Committee will take into consideration both internal and external forecasts in setting targets, as well as the guidelines of key investor bodies. The TSR measure remains as previously approved by shareholders.

Percentage of award that vests	Company's TSR ranking against comparator group over performance period	Company's EPS growth over performance period
None	Below median	Below RPI plus 5%
30%	Median	RPI plus 5%
100%	Upper quartile or better	RPI plus 10% or better
Pro rata on a straight line between 30% and 100%	Between median and upper quartile	Between RPI plus 5% and RPI plus 10%

# Directors' Remuneration Report

Year ended 29 November 2009

(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. Shares in the EBTs are mainly held for awards and grants under share option and share award schemes introduced prior to flotation, in which a number of employees still participate. In 2009, shareholders approved the introduction of a Savings-Related Share Option Scheme ('SAYE Scheme') and a Savings & Investment Plan ('SIP'), so that those UK employees who joined the Group after 2004 and who could not benefit from the earlier share schemes could then have access to such all employee schemes. The Company intends to make available similar arrangements in other jurisdictions, subject to local laws, etc, where commercially justifiable and has set the critical mass of headcount for roll out in each country at 100 employees. Roll out will begin in 2010 for those countries which have already met this criteria, with new countries to be progressively added each year in line with the agreed headcount threshold.

In respect of those share plans and related Trusts introduced prior to flotation 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 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. The Executive Directors do not currently participate in any of these arrangements.

In terms of dilution, the Committee intends that awards under the LTIP, EBTs and other share plans should be satisfied by a combination of existing EBT shares, market purchases and new issue shares. Where new issue 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 12 months' notice. Consequently, in the event of an early termination, the contractual right is to 12 months' basic salary and benefits, with mitigation being generally required to reduce any compensation payable to a departing Director.

The Executive Directors are employed on service contracts with the Group which commenced on 11 November 2005 (both Russell Clements and Sunil Wickremeratne), 14 April 2008 (Gary Elden) and 7 May 2008 (Alex Smith). Each of these contracts provides an entitlement to a basic annual salary, performance bonus scheme participation, a company car allowance, pension contributions as well as health insurance cover and 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 2009, the Committee undertook a benchmarking review of fees payable to the Chairman and Non-Executive Directors with the support of Deloitte and the resulting proposal, that there should be no fee increase, was agreed with the Board.

Sir Anthony Cleaver has a letter of appointment dated 11 November 2005, which replaced a prior letter of appointment signed before flotation. The current annual fees paid to Sir Anthony Cleaver are £100,000.

Alicja Lesniak, Tony Ward, Paul Bowtell and Nadhim Zahawi were appointed Non-Executive Directors on 3 May 2006, 14 August 2006, 5 November 2007 and 1 May 2008, respectively, and receive annual fees of £35,000 each.

Sir Anthony Cleaver is Chairman of the Nomination Committee, but receives no additional fee. Paul Bowtell is Chairman of the Audit Committee for which he receives an additional fee of £5,000 pa, whilst Tony Ward also receives an additional fee of £5,000 pa as Chairman of the Remuneration Committee.

# Directors' Remuneration Report

Year ended 29 November 2009

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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, 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 shows 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 illustrative comparator index for investors, as the Company is a constituent of this index and its constituents are also used for comparing pay and benefit levels.



# Directors' Remuneration Report

Year ended 29 November 2009

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## AUDITED INFORMATION

### Directors' remuneration

The table below summarises all Directors' emoluments and pension contributions for the current and the prior year for comparison. No other awards were made to any Director during the year to 29 November 2009.

					2009	2008
Name of Director	Salary and fees £'000	Pension contributions £'000	Benefits £'000	Bonuses £'000	Total £'000	Total £'000
<b>Executive Directors</b>						
Russell Clements	317.0	31.7	10.5	158.5	517.7	544.3
Gary Elden	234.5	23.4	10.5	120.7	389.1	181.7
Alex Smith	235.4	23.5	10.5	117.7	387.1	237.3
Sunil Wickremeratne	266.5	26.7	10.5	133.2	436.9	459.1
David Tilston – interim appointment (23/01/08 to 24/04/08)	–	–	–	–	–	83.6
<b>Non-Executive Directors</b>						
Sir Anthony Cleaver	100	–	–	–	100	100
Paul Bowtell	40	–	–	–	40	40
Alicja Lesniak	35	–	–	–	35	37.5
Tony Ward	40	–	–	–	40	39.2
Nadhim Zahawi	35	–	–	–	35	20.4
Brian McBride (retired 24/04/08)	–	–	–	–	–	16.1
<b>Aggregate emoluments</b>	<b>1,303.4</b>	<b>105.3</b>	<b>42.0</b>	<b>530.1</b>	<b>1,980.8</b>	<b>1,759.2</b>

Benefits in kind include car allowance, medical and life insurance. Gary Elden received a reduction in salary between 1 March and 30 September 2009, due to him taking a pension salary sacrifice.

### Long Term Incentive Plan, Minority Stakes and other share options or awards

The Committee has made the following awards to Executive Directors of forfeitable and deferred shares under the LTIP, with awards being subject to the Company's TSR performance relative to peer group, as well as EPS from 2010, as detailed earlier. The next awards are to be made in February 2010.

LTIP – Name of Director	Date of grant/award	Market price at grant/award	Shares awarded	Vesting date	Shares outstanding as at 29 Nov 2009
Russell Clements	8/2/2007	402p	78,358	8/2/2010	78,358
Russell Clements	6/2/2008	196.75p	175,959	6/2/2011	175,959
Russell Clements	3/2/2009	154.50p	246,213	2/2/2012	246,213
Gary Elden	8/2/2007	402p	49,751	8/2/2010	49,751
Gary Elden	6/2/2008	196.75p	108,476	6/2/2011	108,476
Gary Elden	3/2/2009	154.50p	187,572	2/2/2012	187,572
Alex Smith	8/5/2008	183.5p	143,869	8/5/2011	143,869
Alex Smith	3/2/2009	154.50p	182,834	2/2/2012	182,834
Sunil Wickremeratne	8/2/2007	402p	65,820	8/2/2010	65,820
Sunil Wickremeratne	6/2/2008	196.75p	147,903	6/2/2011	147,903
Sunil Wickremeratne	3/2/2009	154.50p	206,990	2/2/2012	206,990

# Directors' Remuneration Report

Year ended 29 November 2009

(continued)

The following SAYE awards are held, each being exercisable three years from the date of grant, for a period of six months, at the option price.

SAYE – Name of Director	Date of grant/award	Option price at grant/award	Shares awarded	Vesting date	Shares outstanding as at 29 Nov 2009
Russell Clements	26/6/2009	158.40p	5,729	1/11/2012	5,729
Gary Elden	26/6/2009	158.40p	5,729	1/11/2012	5,729
Alex Smith	26/6/2009	158.40p	5,729	1/11/2012	5,729
Sunil Wickremeratne	26/6/2009	158.40p	5,729	1/11/2012	5,729

Gary Elden also holds small percentage shareholdings in a number of STthree businesses under the Group's Minority Stake arrangements. The earliest of these was created in November 2006 and in some cases loans were provided by the Group to enable all senior individuals to acquire their shares. In Gary Elden's case, loans totalling £305,216 were granted under normal commercial terms on 30 November 2006 and 6 February 2007. All loans outstanding are expected to be repaid in full and details of the individual arrangements are also disclosed in the statutory accounts of the relevant businesses concerned. As an Executive Director, Gary cannot participate in any Minority Stake arrangement approved by shareholders after his appointment to the Board. However, at the AGM in April 2009, shareholders ratified his participation in the 2008 arrangements, as these were approved at the AGM in April 2008, but not actually created until after his Board appointment in July 2008. Accordingly, Gary will be offered the opportunity to invest in these Minority Stakes in early 2010, in line with other senior individuals within the Group.

No other awards or share options are held by the Executive Directors.

## Directors' interests in shares

In accordance with the Listing Rules, the Directors' interests in the share capital of the Company at 29 November 2009 are shown below and there have been no 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 2008	Changes in year	Ordinary shares held at 29 Nov 2009	Percentage of Share Capital
Russell Clements	4,738,151	398	4,738,549	3.89%
Gary Elden	3,384,620	398	3,385,018	2.78%
Alex Smith	–	398	398	Below 0.1%
Sunil Wickremeratne	10,670,975	398	10,671,373	8.76%
Sir Anthony Cleaver	152,446	–	152,446	0.13%
Paul Bowtell	10,000	–	10,000	0.01%
Alicja Lesniak	4,245	–	4,245	0.01%
Tony Ward	12,063	–	12,063	0.01%
Nadhim Zahawi	14,720	–	14,720	0.01%

Interests in shares relate only to ordinary shares of 1 pence each, but may include partnership and matching shares held in trust under the SIP, which are subject to forfeiture conditions in certain circumstances.

During 2008, following a review of market practice in conjunction with Deloitte, the Committee decided to introduce formal shareholding guidelines for Executive Directors. As such, all Executive Directors must attain a level of shares equivalent to at least 100% base salary within five years of 1 December 2008, or their date of appointment. Although there is no formal shareholding requirement below Executive Director level, most Executive Committee members already hold shareholdings



# Directors' Remuneration Report

Year ended 29 November 2009

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well in excess of this level in line with the Group's culture of encouraging share participation at all levels. In particular, It is currently estimated that, in total, over 30% of the Company's share capital is held by Directors, Founders, the Employee Benefit Trusts, senior management and other employees.

On 27 November 2009, the last dealing day before the year end, the closing market price of SThree plc ordinary shares was 250p. The highest and lowest closing prices of these shares during the year, was 276.3p and 124.0p 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:



**Tony Ward, OBE**  
Chairman of the Remuneration Committee  
29 January 2010

# Corporate Governance Report

Year ended 29 November 2009

The Board believes that high standards of corporate governance are intrinsic to the Company's culture and values. In particular:

- They are central to its core values and strategy, including integrity, professional excellence and sustainability, as stated in this Annual Report;
- They underpin the objectivity

of such processes as balance sheet and cash management, risk management, the design and operation of Executive remuneration and succession planning;

- They are the basis for the accountability of Executive management to the Board and of the Board to Company's shareholders.

This report outlines how the Company has complied with the provisions of the Combined Code on Corporate Governance, revised by the Financial Reporting Council in June 2008 ('the Code'). The Board considers that it complied with all key provisions of section 1 (Companies) of the Code and the table below summarises how the Company has applied the main and supporting principles of the Code during the year.

Relevant area of Section 1  
of the Combined Code

Commentary (including relevant Code provision)

## A. Directors

### A.1 The Board

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

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. In addition, the Board has agreed Terms of Reference for its other formal committees in order to facilitate more efficient working practices and these include the Executive Committee, the Investment Committee, a Routine Business Committee and CSR Committee, to provide a clear framework of delegated and other authorities.

A.1.1 The Board is responsible to shareholders for the proper management of the Group and has identified key financial and operational areas that require regular reporting and which enable the performance of Executive management to be reviewed and monitored. These are set out in a schedule of matters reserved to the Board, which is reviewed and kept updated on a regular basis. The schedule outlines all matters requiring specific consent of the Board, which include, 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 therefore facilitates structured delegation, subject to certain financial limits and provides a practical framework for executive management/reporting, which seeks to achieve the objectives of maintaining effective financial and operational controls, while providing sufficient flexibility to manage the business. The current schedule of matters reserved to the Board is available on the Company's website, [www.sthree.com](http://www.sthree.com).

A.1.2 The number of, and attendance at, Board and Committee meetings during the year, is shown in a table below. Almost all meetings were fully attended and, outside these, there was frequent contact between Directors to discuss the Company's affairs and develop its business.

# Corporate Governance Report

Year ended 29 November 2009

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## A.2 Chairman and Chief Executive

A.1.3 The Chairman meets with the Non Executive Directors ('NEDs') without the Executive Directors being present, either before or after each Board meeting and this is formally minuted, whilst the Senior Independent Non Executive Director ('SID') holds annual discussions with the other NEDs without the Chairman being present and also with the Executives, in order to appraise the Chairman's performance.

A.1.4 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, whilst upon resignation, Non-Executives are invited to provide a written statement to the Chairman for circulation to the Board, should they have any concerns.

A.1.5 Appropriate insurance cover is in place in respect of legal action against the Directors.

A.2.1 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.

In particular, 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 NEDs, including Board induction and evaluation, ensures constructive relations between Executive and NEDs and that the Directors receive accurate, timely and clear information, to facilitate 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, under a job description which clearly sets out these responsibilities.

## A.3 Board balance and independence

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

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

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.

# Corporate Governance Report

Year ended 29 November 2009

(continued)

A.3.1 Excluding the Chairman the other NEDs have been determined by the Board throughout the year as being independent in character and judgement with no relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement.

A.3.2 The Board comprises the Non Executive Chairman, who is not classed as independent because of his position but who met the independence criteria set out in the Code on appointment, four Executive Directors and four independent NEDs. This is in compliance with the Code, which requires at least half of the Board to consist of independent NEDs.

A.3.3 Tony Ward is appointed as the Senior Independent NED and is available to shareholders to discuss strategy or governance issues or should there be matters of concern that have not, or cannot, be addressed through the normal channels.

## A.4 Appointments to the Board

A.4.1 Appointments to the Board are the responsibility of the full Board, upon the recommendation of the Nomination Committee and after appropriate external consultation and selection through advisors. Details of the composition, work and responsibilities of this Committee are set out under the relevant section below.

A.4.4 Upon joining the Board, each NED receives a formal appointment letter which identifies their responsibilities and expected minimum time commitment, being typically two days per month. These letters are available for inspection at the Company's registered office. All potential Director candidates are required to disclose any significant outside commitments prior to appointment and must undertake that they have sufficient time to meet such commitments, in addition to Company business.

The Company's Articles of Association also set out clear powers of removal, appointment, election and re-election of directors.

## A.5 Information and professional development

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.

A.5.1 An induction programme is in place for new appointments and this is tailored to each individual to ensure that it is appropriate for their role and level of previous experience. At scheduled Board meetings, Directors receive detailed reports from executive management on the performance of the Group and such managers give regular presentations on their areas of responsibility. Board members are invited to attend the Group's annual conference in order to join senior management from each brand and geographic area, to discuss current initiatives and Board meetings are also scheduled at office locations spread throughout the globe, in order to allow all Directors to meet local managers and improve international understanding. Directors are provided with written materials on their responsibilities as directors of a public company and on other relevant regulatory, legal, governance and accounting matters. Regular updates are provided on other relevant topics, as required, and Directors are also encouraged to attend external seminars on areas of relevance to their role in order to facilitate their professional development. 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, as well as being aware of their general responsibilities.

# Corporate Governance Report

Year ended 29 November 2009

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Major shareholders may, upon appropriate request, meet new NEDs.

The Board encourages Executive Directors to accept external appointments in order to broaden their experience, although currently no such positions are held.

A.5.2 Directors are entitled to obtain independent professional advice, at the Company's expense, in the performance of their duties as Directors and no such advice was sought during the year.

All Committees are serviced by the Company Secretary's team and are appropriately resourced.

A.5.3 Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that its procedures are complied with and to assist in arranging any additional information as required. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole and the last appointment was made in October 2006.

## A.6 Performance evaluation

A.6.1 An annual performance evaluation process, led by the Chairman, is in place 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 properly assessed. The Chairman also discusses the individual performance of Directors, in consultation with other Directors, whilst the SID holds annual discussions with the other NEDs without the Chairman being present and also with the Executives, in order to appraise the Chairman's performance. 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 evaluation process takes the form of a questionnaire completed by each Director, giving his/her assessment of both collective and individual performances and the results are reviewed and debated both at Board and Committee level as well as with the individual Director concerned, if appropriate.

The Board will continue to develop this process, as necessary, in order to take into account evolving best practice and will be reviewing its procedures after the AGM in 2010, following the appointment of a new Chairman.

## A.7 Re-election

A.7.1 The Company's Articles of Association state that a Director appointed by the Board shall hold office only until the next AGM, unless re-elected during that meeting. Additionally, each Director must retire at the AGM 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.

A.7.2 Reference to performance, commitment and biographical details of Directors, as well as an explanation of the reason why each retiring Director should be re-elected, are all provided in the Notice of Annual General Meeting ('AGM'). The Company also complies fully with the Code in respect of its AGM voting arrangements and RNS disclosure.



# Corporate Governance Report

Year ended 29 November 2009

(continued)

## B. Remuneration

### B.1 Level and make-up

The Directors' Remuneration Report sets out in full, the policies and practices which demonstrate the Company's implementation of this Code principle and provisions.

### B.2 Procedure

Details of the composition, work and responsibilities of this Committee are set out under the relevant section below and in the Directors' Remuneration report.

## C. Accountability and audit

### C.1 Financial reporting

C.1.1 The Directors' responsibility for preparing the accounts and statement by the auditors about their reporting responsibilities are set out in the Directors' Report and Independent Auditors' Report, respectively.

C.1.2 A 'going concern' statement is included in the Directors' report.

### C.2 Internal control

C.2.1 The Board's statement regarding its review of the effectiveness of the Group's system of internal controls is set out below and this is reviewed annually.

### C.3 Audit Committee and auditors

Details of the composition, work and responsibilities of this Committee are set out under the relevant section below.

## D. Relations with shareholders

### D.1 Dialogue with institutional shareholders

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

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 and half year results and there is also dialogue on specific issues, such as the re-election of the Chairman, Minority Interests, introduction of and changes to the Long Term Incentive Plan and on other key remuneration issues.

D.1.1 The Chairman, Senior Independent and other NEDs are available to shareholders to discuss strategy or governance issues or should there be matters of concern that have not, or cannot, be addressed through the Executive Directors, although no requests were made by shareholders to meet with these individuals during the year.

D.1.2 Views of analysts, brokers and institutional investors are sought on a non-attributed basis via periodic sentiment surveys and these, as well as analyst and broker publications, are circulated to all Directors to ensure that all can develop an understanding of the views of major shareholders. Any issues or concerns are raised at the Board and Directors routinely receive regular reports on share price, trading activity and sector updates.

### D.2 Constructive use of AGM

The Board views the AGM as a valuable opportunity to communicate with private and institutional investors and welcomes their participation.

# Corporate Governance Report

Year ended 29 November 2009

(continued)

D.2.1 The Company proposes a separate resolution on each substantially separate issue and the proxy appointment forms for each resolution provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote.

D.2.2 The Company's registrars ensure that all valid proxy appointments received for the AGM are properly recorded and counted and a schedule of proxy votes cast is made available to all shareholders attending the meeting. There is full disclosure of the voting result via RNS and on the Company's website as soon as practicable after the AGM has concluded.

D.2.3 All Board members are encouraged to attend the AGM and in particular, the Chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions.

D.2.4 The Notice of AGM is posted at least twenty working days prior to the date of the meeting and the Company's website contains copies of all Notices issued.

## Board and Committee Composition and Attendance (in accordance with A.1.2 of the Code)

As stated, the Board has established various Committees, each with clearly defined terms of reference, procedures and powers, which are regularly reviewed. All Committees operate in accordance with the relevant terms of reference, approved by the Board, with copies of these being available on request from the Company Secretary or downloadable from [www.sthree.com](http://www.sthree.com). In addition to scheduled Board meetings during the year, the Board met for the AGM and strategy away day. The number of Committee meetings held for each respective Committee, and attendance thereat, is as follows.

Directors	Possible attendance				Actual attendance			
	Board	Audit	Remun- eration	Nom- ination	Board	Audit	Remun- eration	Nom- ination
Sir Anthony Cleaver	9	N/A	N/A	2	9	N/A	N/A	1*
Russell Clements	9	N/A	N/A	N/A	9	N/A	N/A	N/A
Sunil Wickremeratne	9	N/A	N/A	N/A	9	N/A	N/A	N/A
Alex Smith	9	N/A	N/A	N/A	9	N/A	N/A	N/A
Gary Elden	9	N/A	N/A	N/A	8	N/A	N/A	N/A
Tony Ward	9	N/A	4	2	9	N/A	4	2
Alicja Lesniak	9	3	4	2	8	3	4	2
Paul Bowtell	9	3	N/A	2	8	3	N/A	2
Nadhim Zahawi	9	3	4	N/A	9	3	4	N/A

\*Sir Anthony Cleaver was not able to attend the other Nomination Committee meeting as the business related to the recruitment of his successor.

# Corporate Governance Report

Year ended 29 November 2009

(continued)

## **Audit Committee (in accordance with C.3.1 to C.3.7 of the Code)**

The Audit Committee consists of Paul Bowtell (Chairman), Alicja Lesniak and Nadhim Zahawi, and accordingly comprises at least three independent NEDs as required by the Code. The Chief Executive Officer, the Chief Financial Officer, the Company Secretary 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, particularly in view of his role as Chief Financial Officer of TUI Travel PLC.

The Committee's principal responsibilities are set out in its terms of reference and, broadly, are: to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them; to review the Company's internal financial controls and to review the Company's internal control and risk management systems and identify and report on any business areas where action or improvement are needed and recommend actions to be taken; to monitor and review the effectiveness of the Company's internal audit function; 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 (currently via a confidential telephone helpline, with detail published on the Group's intranet); to make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and

terms of engagement of the external auditor; to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

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

The Committee considers that the relationship with the external auditors is working well and remains satisfied with their effectiveness. Accordingly, to date, it has not considered it necessary to require PwC to re-tender for the audit work. The external auditors are required to rotate audit partners responsible for the Group

and subsidiary audits every five years and the current lead audit partner has been in place for one year. There are no contractual obligations restricting the Group's choice of external auditor.

During the year, the Committee reviewed its policy on non audit work which may be undertaken by the external auditor and closely monitors such work. This policy provides that non-audit work may be carried out by the external auditor only where that work does not impair independence and where the Committee believes that it is in the Group's best interests to make use of the external auditor's knowledge of the business. Such work has included detailed local statutory audits required due to legislation, other services required due to legislation, assurance work, taxation advice and other specialist services where no internal resource is currently available. 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 external auditors for both audit and non-audit work are given in the Notes to the financial statements. The Committee has fully evaluated this work and remains comfortable that it is appropriate and the fees justified.

Following its creation, the Group has continued to expand its internal audit function, which is now at full strength. The Committee believes that this function remains effective and adds significant value.

## **Nomination Committee (in accordance with A.4.1, A.4.2, A.4.3 and A.4.6 of the Code)**

The Nomination Committee consists of Sir Anthony Cleaver (Chairman), Tony Ward, Alicja Lesniak and Paul Bowtell and accordingly comprises

# Corporate Governance Report

Year ended 29 November 2009

(continued)

a majority of independent NEDs 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 most recent appointments, being Nadhim Zahawi and Alex Smith. In all such cases the Committee first conducted an evaluation of the balance of skills, knowledge and experience on the Board and, in the light of this, prepared an appropriate description of the role and capabilities required for the particular appointment.

As Sir Anthony Cleaver is to retire as Chairman at the forthcoming AGM, the Nomination Committee has already engaged external search consultants and prepared a job specification, which includes an assessment of the time commitment expected, as well as recognising the need for availability, both for induction and in the event of a crisis.

In terms of succession planning, the Group has continued its 'Top 60' leadership initiative, bringing together key managers from around the globe at regular sessions, in order to identify and develop the most talented individuals for executive positions. As part of this initiative, Egon Zehnder International, were engaged to

undertake evaluations of a number of key individuals. The Nomination Committee closely monitors these activities to ensure that they are continually aligned with the Group's strategy.

## **Remuneration Committee (in accordance with B.2.1 of the Code)**

The Remuneration Committee 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 a majority of independent NEDs 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.

## **System of internal controls (in accordance with C.2.1 of the Code)**

The Board has overall responsibility for the Group's internal controls system and for monitoring 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 system, which is subject to periodic, and at least annual, review by the Board. As explained above, in response to business requirements, the Group created an internal audit function in 2008 in order to facilitate this process.

The Board monitors the continuous process by which critical risks to the

business are identified, evaluated and managed and this process explicitly includes the risks and opportunities to enhance value arising from environmental, social and governance ('ESG') matters. 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 material controls such as financial, operational 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.

During 2009 the Group rationalised its brands to implement a Country Director structure and lines of responsibility and delegated authorities are areas which continue to be reviewed, with policies and procedures updated and communicated accordingly.

## **Assessment of risk and Enterprise Risk Management ('ERM') framework**

The Board, through the Audit Committee, has overall responsibility for risk management activities and implementing policies to ensure that

# Corporate Governance Report

Year ended 29 November 2009

(continued)

all risks are evaluated, measured and kept under review by way of appropriate KPIs. Following the thorough review of risk control processes undertaken in 2008, the Group has continued to roll out its ERM framework throughout the business and has consequently further developed and enhanced its risk evaluation and ERM reporting mechanism. To objectively assess progress made, in October 2009 the Committee commissioned a gap analysis which was undertaken by external ERM specialists. This was facilitated by interviews with key management as well as a strategic risk workshop involving Executive directors, brand MDs, Country Directors as well as key function heads. This gap analysis identified a number of areas that had already been improved, but also areas for further improvement, summarised as follows:

Improvements already made:

- Group key risk register now better targeted, with risk profile movement illustrated, with Country/Support function sub-registers;
- Country Directors being engaged to set up regular local workshop sessions to review/update risks and improve risk ownership;
- Regular reviews of risks/integrity in place via a standing risk item as part of the quarterly Country Directors/brand MDs and Support meetings;
- Additional Audit Committee meetings scheduled each year, with regular presentations by brands, etc, on their approach to business risk management/tracking of improvement areas;
- Further 'risk focussed' leadership workshops being scheduled,

with ERM specialists to be in attendance.

## Areas for potential improvement:

- Group wide communication of risk management processes was patchy;
- No formal risk management policy and procedure document approved by the Board;
- The Group's risk appetite could be better defined and formalised;
- Some key Executive job descriptions should be re-drafted to include reference to their risk responsibility;
- The Group's Annual Report disclosure could be improved to better describe its good progress on risk areas.

The Group has already seen the benefits of its enhanced ERM framework through improved strategic and individual brand focus on key risk areas, with greater clarity on risk ownership, identification of opportunities as well as threats, whilst also facilitating better monitoring of progress, mitigation measures and forward looking assessment, including, where appropriate, reference to ESG matters.

Consequently, work is already well advanced to address the areas for improvement, working closely with all parties, commencing with Group-wide communication of the ERM framework, underpinned by a formal ERM policy, endorsed by the Audit Committee, in early 2010. It is expected that, when fully rolled out, the ERM arrangements will meet, as closely as possible, the appropriate BSI standard (BS 3100) on risk management processes and that the resulting corporate risk register will improve risk areas, such as the

recording of the key risks facing the business; assessment of the likelihood of risks crystallising; their potential materiality; progress on reducing each risk area; and the Group's response to each risk. Responsibility for management of each risk identified is typically attributed to the most senior appropriate person and, as previously, the Audit Committee will review the register twice a year as well as receiving the various presentations from key business areas.



# Corporate Governance Report

Year ended 29 November 2009

(continued)

## Association of British Insurers ('ABI') guidelines on responsible investment disclosures

In respect of the Company's compliance with the ABI guidelines on responsible investment disclosures, the Board confirms the following, in relation to its responsibilities, policies and procedures:

- As part of its ERM procedures, the Board takes account of the significance of environmental, social and governance ('ESG') matters to the business of the Company. Adherence to these procedures and disclosure of relevant issues is monitored by the Internal Audit function.
- The Board has reviewed but has not identified any significant ESG risks to the Company's short and long-term value or opportunities to enhance value.
- The Board has received adequate information to make this assessment by way of its ERM procedures and, where necessary, has taken account of ESG matters in the training of directors as well as ensuring inclusion in bonus structures.
- The Board has ensured that the Company has in place effective systems for managing and mitigating significant risks. Where relevant, these incorporate performance management systems and appropriate remuneration incentives.
- There are no ESG-related risks and opportunities that may significantly affect the Company's short and long term value or the future of the business.

## Going concern

The Board has reviewed the Group's budget for the financial year ending 28 November 2010 and medium term financial projections, for the next three years. 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 and Environmental 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.



**Steve Hornbuckle**  
Company Secretary  
29 January 2010



# Corporate Social Responsibility Report

Year ended 29 November 2009

## Introduction

We believe that proper understanding and management of our social and environmental impacts are important to the continued success of our business. As we focus on long term success, our CSR strategy, called Giving Something Back, concentrates on tackling issues that will have a sustained effect on our local and international communities, our environment, our people – and ultimately, our business.

We strive to be the best company to work for and we cannot achieve this without being a socially and environmentally responsible business. Our global success will be increasingly reliant on the breadth and effectiveness of our CSR programme and we now have a solid base linking people, committees and policies to make this programme an integral part of how we run our business.

## Background

During 2007 we commissioned a specialist CSR advisor to undertake a review of our CSR practices. This led to the launch of our Giving Something Back programme detailed in this report. Putting together the programme involved the development of a clear strategy and framework to ensure the strategy was implemented within the desired timeframe. In 2009 a cross-disciplinary team of managers started working together on a regular basis to further develop and implement our CSR programme and the progress made forms the basis of this report. 2010 will see us build a fully-fledged programme on the foundations laid over the last two years.

## Principles

In 2007, we defined our corporate social responsibility ambitions that underpin everything we do as follows:

- Give those in the community that most need it opportunity and aspiration;
- Respect the environment we live in;
- Give back to the people who work so hard to make this a great company.

## Governance

Our CSR strategy is set by a Committee which meets regularly and is chaired by the Group HR Director, who briefs the Board on appropriate matters. Separate meetings are held with non executive directors on relevant matters periodically. The Board receives regular progress updates on matters from the Committee.

Our CSR programme is reviewed on a regular basis to make sure that the Company adheres to national and international legal and environmental requirements.

## What happened in 2009?

Giving Something Back concentrates on three areas: community, environment and workplace. The following details progress made against our CSR strategic objectives in 2009.

## Community

We want to give those that most need it opportunity and aspiration – this applies to the communities in which we work and beyond. We have a wealth of talent and energy at STthree that can be harnessed to benefit communities local to our offices and we will continue to partner with charities and community groups to facilitate this. Fulfilling our community commitments influences the way we do business and we hope they will contribute to our continued success.



One of the key achievements of 2009 was to ratify our first volunteering and fundraising policy that underpins all the work we do for communities and enabled us to clearly state to employees how they can get involved with our community work. Activities that took place in 2009 include:

## Volunteering

Following an award-winning 'Apprentice Day' held in 2008, we were keen to build on this success in 2009. This involved working closely with Time & Talents Westminster, a not for profit partnership enabling private, public and voluntary sector organisations to work together to deliver effective Employer Supported Volunteering (ESV). Our membership of this organisation gives us access to charities that are interested in employers providing skilled volunteers that would take a lot of effort and time to achieve ourselves.

Our main focus for any work we do in the community is young people, especially those classified as NEET – Not in Education, Employment or Training. To that end, we worked hard with Time & Talents and Connexions (who we organised the Apprentice Day with) to find ways of providing support to young people to help them find jobs. Unfortunately, due to Connexions becoming a part of City of Westminster Council and a strengthening of child protection laws, we weren't able to progress this initiative.

Towards the end of 2009, we started working with the Paddington Academy (a non-selective school in West London for 11 to 18 year olds) and look forward to offering our employees the chance to volunteer at the academy in 2010. We have agreed a series of activities, the first being a teacher mentoring scheme for our senior managers. Other activities will quickly be developed that will focus on employability.

# Corporate Social Responsibility Report (continued)

Year ended 29 November 2009

In addition to the policy developed in 2009 that outlines how employees can get involved in volunteering supported by us or arranged by the individual, we have online application forms and an approval process that ensures everyone benefits from the experience. Each permanent employee at STthree is entitled to two volunteer days per year that can be used to attend a volunteering activity.

As a corporate partner of Time & Talents Westminster, we meet regularly with other corporate, community and third sector partners to share our collective experiences and work together to build a strong network that will benefit each partner and their stakeholders. We will host an employability working group in spring 2010 with the objective of setting the agenda for any volunteering done in this area within Westminster.

## Fundraising

Raising funds for charitable causes has always been important at STthree and we continued to fundraise for some great charities in 2009. Our current charity partner, SOS Children's Villages, has benefited from three major fundraising events – a Fun Day in June, a Dress Down Day in September and a prize draw at our annual Battersea Christmas party. SOS Children provide homes for orphans and abandoned children worldwide and were chosen at the end of 2008 because of their young person focus and international scope. As a growing international company, we wanted to have a charity partner that represented our network of offices around the world.

We are very pleased to have raised nearly £37,000 for SOS Children this year – with matched funding, it takes the grand total to just short of £60,000 as non direct donations are not matched. In April of this year, we asked our employees which village should benefit from our support during the partnership and they had two to choose from. Our employees chose Chipata and we are excited to report that we have raised nearly enough to



Nursery school pupils at an existing SOS Children Village in Lusaka, Zambia

pay for one of the 15 houses that will form part of the village when it is built in 2010/11. As well as homes for the children, there will be a nursery school and a medical centre.

As well as raising money for our charity partner, we raise money through other Dress Down Days for charities that are nominated by employees and chosen by the charity committee, which is formed from a cross-section of employees within the Group. This year we raised over £45,000 on these days for the following charities: Comic Relief in March, Street Child Africa and Motor Neurone Disease Scotland in May and The Alzheimer's Society in October.

In total, with matched funding, six charities have received £100,000 from STthree and its employees and we are very proud of this amount and are looking forward to raising more in 2010. Our future focus will be to enable employees in each region to choose a local charity to fundraise for and to have an international network of community champions throughout the Group to engage employees and

ensure that we maximise impact in this area.



## Environment

With 1,500 employees spread across the globe, managing our environmental impact is a challenge and one that we are fully committed to. We have started to measure and reduce our carbon footprint throughout our UK operations and will implement individual carbon reduction plans for each UK office in 2010. By introducing technology to allow us to hold meetings and conferences via video links and the web, we will continue to reduce the amount we travel and lessen our contribution to worldwide CO<sub>2</sub> emissions.

To kick start the measure and management of our carbon emissions in the UK, we commissioned an energy consultancy called Adian Consulting to measure our carbon footprint in early 2009. This will change the way we manage energy at STthree and will lay the foundations for becoming an energy efficient company in the future. Our carbon footprint is disclosed below.

# Corporate Social Responsibility Report (continued)

Year ended 29 November 2009

Currently, less than 20% of FTSE companies publish this figure although this will undoubtedly increase with the introduction of the UK Carbon Reduction Commitment Energy Efficiency Scheme (CRC). Although we fall outside the requirements of CRC due to the amount of electricity we use, we are pleased that we will be compliant with the scheme when it is introduced in April 2010.

## Carbon footprint and energy management

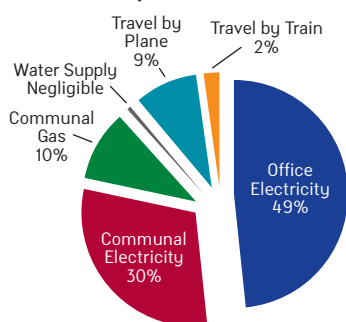
In late 2008, a strategic decision was made to conduct a Company-wide initiative to establish our carbon footprint and reduce energy consumption whilst taking steps to increase recycling by 50%. Adian Consulting were engaged to manage and deliver the project using a phased approach.

Phase One looked into data availability in relation to carbon emissions associated with office energy efficiency, business travel and our company car fleet. In addition, waste management and utilities cost management were singled out for future consideration and action. This phase took place from March to May with the report being issued in the summer. The report found information on energy consumption and cost was patchy across the whole organisation, whilst there were few waste management systems in place to record the quantities generated and the rates at which waste may have been recycled.

Phase Two commenced in May 2009 to verify preliminary findings and to identify opportunities for change. Adian Consulting visited and surveyed nineteen STthree offices in the UK and inspected landlords' plant rooms, service equipment and installations. The end goal of both phases was a carbon footprint figure for our business in the UK. The following are highlights of Phase Two that was delivered in September:

- The Company's UK carbon footprint was estimated at 2,299 tonnes for the year 2007/8;
- 89% (2,048 tonnes) was due to building related energy usage;
- 11% (249 tonnes) was due to business travel excluding cars journeys;
- Energy efficiency could reduce the building related CO<sub>2</sub> emissions by approximately 11% (195 tonnes); and
- For an organisation of our size and activity profile, the suggested footprint was between 1,600 tonnes and 3,500 tonnes.

## Carbon Footprint



We are currently in a transition phase as we look at scoping Phase Three of the carbon footprint project that will see us implement some of the recommendations from Phase Two. Phase Three will also be focussed on putting systems in place in order that we can measure our carbon footprint internally from 2010 onwards.

## Waste Management

Although we chose not to pursue actions to reduce the waste we create in Phase Two, this does not mean that the subject was completely ignored. While some offices in the UK have recycling facilities, we do not have a UK-wide solution to managing waste. We therefore approached several waste management companies asking them to tender for a contract to manage all our waste in the UK and we expect to start implementing a waste

management programme with the aid of one of these suppliers in 2010.

## Offsetting

As a result of the carbon footprint project, we will start implementing ways of managing our energy and reducing our carbon emissions in the future. To add to our commitment to respecting the environment, we will invest in carbon reduction projects through ClimateCare to offset our annual carbon footprint. This means that we will invest around £15,000 in projects in 2010.

We have taken a number of steps to reduce the amount of business travel our employees make over the last two years although we are conscious that this area still represents over 10% of our carbon footprint figure. To minimise the impact of this travel on the environment, we will be offsetting all incentive-related travel through ClimateCare.

## Workplace

We want our people to thrive in the workplace and consider it our responsibility to provide an engaging, supportive and safe environment that encourages them to make the best use of their talents and personalities. We welcome anyone with the skills and abilities to succeed and are committed to offering our employees a balance of professional development, benefits and rewards. By not putting any restrictions on the type of people we recruit and by treating everyone equally, we have established a truly diverse workforce. We regularly review our working practices to ensure that they meet the needs of our employees and the cultures we operate in. During 2009, we pushed forward with new initiatives that fall under the workplace banner, the most notable of these being a UK-wide Health & Safety project and also being awarded diversity accreditation by the recruitment industry. A summary of our 2009 initiatives is as follows:



# Corporate Social Responsibility Report (continued)

Year ended 29 November 2009

## Diversity

We completed The Recruitment & Employment Confederation's Diversity Assured Health Check in October 2009 and are proud to have been awarded the Diversity Assured Recruitment Kitemark. Being a Diversity Assured Recruiter confirms that we take a proactive approach to improving diversity in the workplace and show commitment to deliver diversity through better recruitment practices.

We also developed our first Group-wide diversity statement that outlines our aims in this area and confirms that we are currently concentrating on finding an accurate and efficient way of measuring how diverse our workforce is. Additionally, we are in the early stages of developing a 'Women in the Workplace' initiative that will help attract, retain and promote existing and prospective female employees. As part of the programme, we will look at introducing forums, mentoring schemes and undertake a review of benefits that directly affect the Group.

## Health & Safety

To review and ultimately improve our health & safety practices, a project team was put together in the spring of 2009 and many improvements have now been implemented. Key amongst these was the development and subsequent ratification of a Health & Safety policy for the UK and ownership was established in each office location for adherence to this policy. A working environment self-assessment was sent to all UK employees and actions were taken at the end of the year to rectify any issues. Office visits were also made by the project manager to further understand local issues in the UK.

A mirror project will be run in all international offices during 2010 now that a blueprint for an effective initiative has been established.



Workplace

## Learning & Development

Many positive changes have been made to the structure and content of our training courses and our development programmes in 2009. As a sales-orientated business, we have traditionally only offered training to our employees working in sales teams. However, this changed in 2009 when we introduced a key skills programme for employees working in support roles along with learning plans for these employees.

One of the major developments in our Learning & Development capability was to launch an online learning tool called MyLearning, which will allow all our international employees to take part in the full complement of training courses available. In tandem with the launch of MyLearning, the entire training programme for sales consultants was redesigned to reflect the changing needs of our business.

## Wellbeing

A number of new employee benefits were introduced in 2009 as we look to standardise and increase the number of benefits offered to our employees worldwide. For our UK employees we introduced new healthcare and dental plans and launched a salary exchange scheme, which allows employees to contribute more to their Company-sponsored pension fund. We also introduced a new Save As You Earn (SAYE) scheme and Share Incentive Plan (SIP) to enable UK employees to buy shares in STthree.

A pension scheme and healthcare plan were made available to employees in Singapore and a healthcare scheme was launched for colleagues in the US.

## What is going to happen in 2010?

Following a successful year of progression in 2009, STthree's Giving

Something Back programme in 2010 will focus on increasing employee participation in the initiatives that will be launched throughout the year. We will also be focussed on reducing our carbon footprint figure.

A brief summary of key initiatives for 2010 is as follows:

## Community

Our fundraising goal is to pay for the building of two houses in the SOS Children's village that will be built in Chipata, Zambia, costing around £126,000 in total. We aim to achieve this through a variety of established events as well as encouraging our employees to take part in individual fundraising activities and already have several employees planning to take part in a 10K run in London in July.

Supported volunteering activities will be launched this year in the UK with the first due to take place in the spring. We are working with a number of charities and not-for-profit organisations in London to kick start the process before establishing opportunities in other areas in the second half of 2010.

## Environment

Phase 3 of our carbon emissions project will run throughout most of 2010 and will see the implementation of several energy saving and energy management initiatives across UK offices. The project will also see us implement systems and processes to enable the in-house measurement of our carbon footprint in future years. As we make efforts to reduce our carbon emissions as a Group, we are committed to offsetting our footprint every year by investing in carbon reduction projects across the globe.

We aim to introduce waste reduction and management in all UK offices in 2010. This will involve finding a suitable national provider, with the



# Corporate Social Responsibility Report (continued)

Year ended 29 November 2009

process of selection already having begun. As we open more and more offices globally, we will look to decrease the environmental impact of each new office and will provide guidance to employees on how they can take personal ownership of environmental issues while at work.

## Workplace

Being awarded diversity accreditation in 2009 was an important step for the Group and we want to build on that success in 2010. We will be piloting a 'Woman in Management' programme with the aim of increasing the number of female employees moving into management roles and the number of female managers being promoted to senior roles. Focus will also be on the implementation of a consistent method of measuring and monitoring our diversity footprint.

We will continue the roll out of the health and safety project established in the UK in 2009 to all international offices as well as further developing our online learning portal to deliver worldwide training programmes.

## Summary

We are well on track with our CSR programme and fully expect to make further progress throughout 2010.



**Russell Clements**  
Chief Executive Officer  
29 January 2010



Prizewinners at the SThree Christmas charity event



The winning team from SThree's fundraising five-a-side football tournament, June 2009

# Independent Auditors' Report

Year ended 29 November 2009

## Independent Auditors' Report to the Members of SThree plc

We have audited the financial statements of SThree plc for the year ended 29 November 2009 which comprise the Consolidated Income Statement, the Consolidated and Company Balance sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume

responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 29 November 2009 and of the Group's profit and Group's and parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with

the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the information given in the Corporate Governance Report set out on pages 27 to 36 with respect to internal control and risk management systems is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent

# Independent Auditors' Report (continued)

Year ended 29 November 2009

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Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 36, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.



Julian Jenkins  
(Senior Statutory Auditor)  
For and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants and  
Registered Auditors

London

29 January 2010

# SThree plc

## Consolidated Income Statement Year ended 29 November 2009

		29 November 2009			30 November 2008		
	Note	Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
<b>Revenue</b>	2	<b>519,372</b>	–	<b>519,372</b>	<b>631,520</b>	–	<b>631,520</b>
Cost of sales		(348,217)	–	(348,217)	(412,581)	–	(412,581)
<b>Gross profit</b>	2	<b>171,155</b>	–	<b>171,155</b>	<b>218,939</b>	–	<b>218,939</b>
Administrative expenses	3	(153,159)	(9,050)	(162,209)	(162,129)	(1,957)	(164,086)
<b>Operating profit</b>		<b>17,996</b>	<b>(9,050)</b>	<b>8,946</b>	<b>56,810</b>	<b>(1,957)</b>	<b>54,853</b>
Finance income	5	359	–	359	25	–	25
Finance cost	5	(378)	–	(378)	(827)	–	(827)
<b>Profit before taxation</b>		<b>17,977</b>	<b>(9,050)</b>	<b>8,927</b>	<b>56,008</b>	<b>(1,957)</b>	<b>54,051</b>
Taxation	6	(5,539)	2,574	(2,965)	(16,809)	594	(16,215)
<b>Profit for the year</b>		<b>12,438</b>	<b>(6,476)</b>	<b>5,962</b>	<b>39,199</b>	<b>(1,363)</b>	<b>37,836</b>
<b>Attributable to:</b>							
Equity holders of the Company		11,274	(6,476)	4,798	37,241	(1,363)	35,878
Minority interest		1,164	–	1,164	1,958	–	1,958
		<b>12,438</b>	<b>(6,476)</b>	<b>5,962</b>	<b>39,199</b>	<b>(1,363)</b>	<b>37,836</b>
<b>Earnings per share</b>	8	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>
Basic		9.5	(5.5)	4.0	29.9	(1.1)	28.8
Diluted		9.2	(5.3)	3.9	29.2	(1.1)	28.1

The accompanying notes on pages 49 to 98 are an integral part of these consolidated financial statements.

All amounts relate to continuing operations.

# SThree plc

## Balance Sheets

As at 29 November 2009

		Consolidated		Company	
	Note	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	9	5,398	6,575	–	–
Intangible assets	10	10,899	12,262	–	–
Investments in subsidiaries	11	–	–	238,543	237,117
Deferred tax assets	18	5,515	3,146	1,157	226
		21,812	21,983	239,700	237,343
<b>Current assets</b>					
Trade and other receivables	12	93,229	139,937	2,536	2,374
Current tax assets	14	3,309	–	–	–
Cash and cash equivalents	22	45,272	24,584	150	–
Assets classified as held-to-maturity	13	3,203	–	–	–
		145,013	164,521	2,686	2,374
<b>Total assets</b>		<b>166,825</b>	<b>186,504</b>	<b>242,386</b>	<b>239,717</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Provisions for liabilities and charges	17	(3,063)	(332)	–	–
Trade and other payables	15	(76,056)	(81,246)	(53,194)	(66,376)
Financial liabilities	16, 22	–	–	–	(1,167)
Current tax liabilities	14	–	(10,818)	(497)	–
		(79,119)	(92,396)	(53,691)	(67,543)
<b>Non-current liabilities</b>					
Provisions for liabilities and charges	17	(2,889)	(3,535)	–	–
		(2,889)	(3,535)	–	–
<b>Total liabilities</b>		<b>(82,008)</b>	<b>(95,931)</b>	<b>(53,691)</b>	<b>(67,543)</b>
<b>Net assets</b>		<b>84,817</b>	<b>90,573</b>	<b>188,695</b>	<b>172,174</b>
<b>EQUITY</b>					
<b>Capital and reserves attributable to the Company's equity holders</b>					
Share capital	19	1,218	1,218	1,218	1,218
Share premium		2,925	2,925	2,925	2,925
Capital redemption reserve	19	168	168	168	168
Capital reserve	19	878	878	878	878
Currency translation reserve		2,416	2,331	–	–
Retained earnings		72,562	78,906	183,506	166,985
		80,167	86,426	188,695	172,174
<b>Minority interest</b>		<b>4,650</b>	<b>4,147</b>	<b>–</b>	<b>–</b>
<b>Total equity</b>		<b>84,817</b>	<b>90,573</b>	<b>188,695</b>	<b>172,174</b>

The accompanying notes on pages 49 to 98 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 29 January 2010.  
On behalf of the Board of Directors.

Sir Anthony Cleaver  
Chairman



Alex Smith  
Chief Financial Officer



## Consolidated Statement of Changes in Equity

Year ended 29 November 2009

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Currency translation reserve £'000	Retained earnings £'000	Attributable to Company equity shareholders £'000	Minority interest £'000	Total equity £'000
<b>Balance at 2 December 2007</b>	<b>1,383</b>	<b>2,925</b>	<b>2</b>	<b>878</b>	<b>69</b>	<b>85,751</b>	<b>91,008</b>	<b>2,425</b>	<b>93,433</b>
Exchange differences on retranslation of foreign operations	–	–	–	–	2,262	–	2,262	95	2,357
Deferred tax on employee share options	–	–	–	–	–	(1,297)	(1,297)	–	(1,297)
Current tax on employee share options	–	–	–	–	–	1,043	1,043	–	1,043
Net income recognised directly in equity	–	–	–	–	2,262	(254)	2,008	95	2,103
Profit for the year to 30 November 2008	–	–	–	–	–	35,878	35,878	1,958	37,836
Total recognised income and expense for the period	–	–	–	–	2,262	35,624	37,886	2,053	39,939
Repurchase of share capital	(166)	–	166	–	–	(31,250)	(31,250)	–	(31,250)
Issue of share capital	1	–	–	–	–	–	1	–	1
Employee subscription for share awards	–	–	–	–	–	127	127	–	127
Repurchase of minority interest	–	–	–	–	–	–	–	(242)	(242)
Dividends paid to equity holders	–	–	–	–	–	(12,004)	(12,004)	–	(12,004)
Dividends paid to minority interest	–	–	–	–	–	–	–	(89)	(89)
Employee share award and share option credit	–	–	–	–	–	658	658	–	658
Total movements in equity	(165)	–	166	–	2,262	(6,845)	(4,582)	1,722	(2,860)
<b>Balance at 30 November 2008</b>	<b>1,218</b>	<b>2,925</b>	<b>168</b>	<b>878</b>	<b>2,331</b>	<b>78,906</b>	<b>86,426</b>	<b>4,147</b>	<b>90,573</b>
Exchange differences on retranslation of foreign operations	–	–	–	–	85	–	85	158	243
Deferred tax on employee share options	–	–	–	–	–	620	620	–	620
Current tax on employee share options	–	–	–	–	–	1,042	1,042	–	1,042
Net income recognised directly in equity	–	–	–	–	85	1,662	1,747	158	1,905
Profit for the year to 29 November 2009	–	–	–	–	–	4,798	4,798	1,164	5,962
Total recognised income and expense for the period	–	–	–	–	85	6,460	6,545	1,322	7,867
Issue of share capital to minority interest	–	–	–	–	–	–	–	160	160
Employee subscription for share awards	–	–	–	–	–	182	182	–	182
Repurchase of minority interest	–	–	–	–	–	–	–	(898)	(898)
Dividends paid to equity holders	–	–	–	–	–	(14,434)	(14,434)	–	(14,434)
Dividends paid to minority interest	–	–	–	–	–	–	–	(81)	(81)
Employee share award and share option credit	–	–	–	–	–	1,448	1,448	–	1,448
Total movements in equity	–	–	–	–	85	(6,344)	(6,259)	503	(5,756)
<b>Balance at 29 November 2009</b>	<b>1,218</b>	<b>2,925</b>	<b>168</b>	<b>878</b>	<b>2,416</b>	<b>72,562</b>	<b>80,167</b>	<b>4,650</b>	<b>84,817</b>

The accompanying notes on pages 49 to 98 are an integral part of these consolidated financial statements.



## Company Statement of Changes in Equity

Year ended 29 November 2009

	Share Capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Retained earnings £'000	Attributable to Company shareholders £'000
<b>Balance at 2 December 2007</b>	<b>1,383</b>	<b>2,925</b>	<b>2</b>	<b>878</b>	<b>219,861</b>	<b>225,049</b>
Deferred tax on employee share options	–	–	–	–	(693)	(693)
Expenses recognised directly in equity	–	–	–	–	(693)	(693)
Loss for the year to 30 November 2008	–	–	–	–	(9,587)	(9,587)
Total recognised income and expense for the period	–	–	–	–	(10,280)	(10,280)
Repurchase of share capital	(166)	–	166	–	(31,250)	(31,250)
Issue of share capital	1	–	–	–	–	1
Increase in value of investments (note 11)	–	–	–	–	658	658
Dividends paid to equity holders (note 7)	–	–	–	–	(12,004)	(12,004)
Total movements in equity	(165)	–	166	–	(52,876)	(52,875)
<b>Balance at 30 November 2008</b>	<b>1,218</b>	<b>2,925</b>	<b>168</b>	<b>878</b>	<b>166,985</b>	<b>172,174</b>
Deferred tax on employee share options	–	–	–	–	762	762
Expenses recognised directly in equity	–	–	–	–	762	762
Profit for the year to 29 November 2009	–	–	–	–	28,745	28,745
Total recognised income and expense for the period	–	–	–	–	29,507	29,507
Increase in value of investments (note 11)	–	–	–	–	1,448	1,448
Dividends paid to equity holders (note 7)	–	–	–	–	(14,434)	(14,434)
Total movements in equity	–	–	–	–	16,521	16,521
<b>Balance at 29 November 2009</b>	<b>1,218</b>	<b>2,925</b>	<b>168</b>	<b>878</b>	<b>183,506</b>	<b>188,695</b>

Of the above reserves only the retained profit of £183,506,000 (2008: £166,985,000) is distributable.

The accompanying notes on pages 49 to 98 are an integral part of these financial statements.

# SThree plc

## Cash Flow Statements

Year ended 29 November 2009

	Note	Consolidated		Company	
		29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
Profit/(loss) before taxation		8,927	54,051	27,003	(9,853)
Depreciation and amortisation charge		6,128	5,895	–	–
Goodwill recognised in the income statement		(237)	–	–	–
Loss on disposal of investments		478	–	632	–
Realised losses on financial instruments	3	–	1,957	–	1,957
Finance income	5	(359)	(25)	(162)	(666)
Finance cost	5	378	827	1,674	6,435
Loss on disposal of property, plant and equipment		1,107	–	–	–
Loss on disposal of intangible assets		355	–	–	–
Non-cash charge for employee share options and awards		1,448	658	511	–
Employee subscription for share awards	19c	182	127	–	–
<b>Operating cashflow before changes in working capital and provisions</b>		<b>18,407</b>	<b>63,490</b>	<b>29,658</b>	<b>(2,127)</b>
Decrease/(increase) in receivables		50,952	16,455	(162)	(350)
(Decrease)/increase in payables		(7,704)	6,731	10,563	57,769
Increase in provisions		2,011	295	–	–
<b>Cash flows from operating activities</b>					
Cash generated from operating activities		63,666	86,971	18,933	55,292
Income tax (paid)/received		(18,267)	(11,449)	(351)	261
<b>Net cash generated from operating activities</b>		<b>45,399</b>	<b>75,522</b>	<b>18,582</b>	<b>55,553</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	9	(2,726)	(2,341)	–	–
Purchase of intangible assets	10	(2,128)	(3,861)	–	–
Purchase of held-to-maturity investment	13	(3,203)	–	–	–
Capital injection		–	–	–	(1,004)
Proceeds from disposal of investments		40	–	30	–
<b>Net cash used in investing activities</b>		<b>(8,017)</b>	<b>(6,202)</b>	<b>30</b>	<b>(1,004)</b>
<b>Cash flows from financing activities</b>					
Repayment of loan facility		–	(1,000)	–	(1,000)
Cash loss on settlement of treasury investments		–	(2,956)	–	(2,956)
Finance income	5	359	25	162	666
Finance cost	5	(378)	(827)	(1,674)	(6,435)
Proceeds from issue of ordinary shares		–	1	–	1
Issue of share capital of subsidiary companies to minority interest		10	–	–	–
Repurchase of share capital		–	(31,250)	–	(31,250)
Repurchase of minority interest		(1,371)	(1,072)	(1,349)	(1,072)
Dividends paid to equity holders	7	(14,434)	(12,004)	(14,434)	(12,004)
Dividends paid to minority interest		(81)	(89)	–	–
<b>Net cash used in financing activities</b>		<b>(15,895)</b>	<b>(49,172)</b>	<b>(17,295)</b>	<b>(54,050)</b>
<b>Net increase in cash and cash equivalents</b>		<b>21,487</b>	<b>20,148</b>	<b>1,317</b>	<b>499</b>
Cash and cash equivalents at the beginning of the year		24,584	4,504	(1,167)	(1,666)
Effect of exchange rate changes		(799)	(68)	–	–
<b>Cash and cash equivalents at the end of the year</b>	22	<b>45,272</b>	<b>24,584</b>	<b>150</b>	<b>(1,167)</b>

The accompanying notes on pages 49 to 98 are an integral part of these financial statements.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 1 Accounting policies

The Company ('the Company') and its subsidiaries (together 'the Group') operate predominantly in the United Kingdom and Europe. The Group's activities and business are set out in the Directors' Report.

The Company is a public limited liability company incorporated and domiciled in the United Kingdom and the Company is listed on the London Stock Exchange. The address of its registered office is 41-44 Great Windmill Street, London, W1D 7NB.

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

#### Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations and Standing Interpretations Committee ('SIC') interpretations as adopted and endorsed by the European Union ('EU') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Therefore the Group financial statements comply with Article 4 of the EU International Accounting Standards Regulation.

The Groups 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 408 of the Companies Act 2006, no income statement is presented for the Company.

The financial year of the Group comprises 52 weeks and not a calendar year.

The Group'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 have been 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 consider 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 Group has adopted the following IFRS, IFRIC and amendments with effect from 1 December 2008. They did not have a material effect on the results or net assets of the Group:

Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosure' in respect to disclosures that would permit reclassification of some financial instruments out of the fair-value through profit or loss category.

IFRIC 12 'Service Concession Arrangements' gives guidance on the accounting by operators for public-to-private service concession arrangements.

IFRIC 13 'Customer Loyalty Programmes' applies to customer loyalty award credits that an entity grants to its customers as part of a sales transaction.

IFRIC 14 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' explains when refunds or reductions in future contributions should be regarded as available, particularly when a minimum funding requirement exists.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 1 Accounting policies (continued)

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39.

As at the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective. The Group has not applied these standards and interpretations in the preparation of financial statements:

Amendments to IAS 1 'Presentation of Financial Statements' (effective from periods commencing on or after 1 January 2009). The revised standard affects the presentation of other changes in equity and introduces a statement of comprehensive income. The Group will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income).

Amendments to IAS 19 'Employee Benefits' in respect of definition of 'return on plan assets' to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the actuarial assumptions used to measure the defined benefit obligation. Effective from periods commencing on or after 1 January 2009, it also amends the definition of 'short-term employee benefits' and 'other long-term employee benefits' to refer to when the benefits are 'due to be settled', rather than when they 'fall due'.

Amendments to IAS 23 'Borrowing Costs' (effective from periods commencing on or after 1 January 2009) eliminates the option to recognise all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised Standard requires that they be capitalised as part of the cost of that asset. All other borrowing costs should be expensed as incurred.

The revised Standard IAS 24 'Related Parties Disclosure' is effective from periods commencing on or after 1 January 2011. The standard revises the definition of a related party and clarifies that disclosure is required of any commitments of a related party to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised).

Amendments to IAS 27 'Consolidated and Separate Financial Statements' and IFRS 3 'Business Combinations' are effective from periods commencing on or after 1 July 2009. The amendments relate primarily to accounting for non-controlling interests and the losses of control of a subsidiary. It also addresses the guidance for applying the acquisition method of accounting.

Amendments to IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements' in respect to puttable financial instruments and obligations arising on liquidation are effective from periods commencing on or after 1 January 2009. Subject to specified criteria being met, these instruments will be classified as equity whereas, prior to these amendments, they would have been classified as financial liabilities.

Amended IAS 32 'Financial Instruments: Presentation' addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. It requires that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount of any currency are equity instruments (regardless of the currency in which the exercise price is denominated) if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is effective from periods commencing on or after 1 February 2010.

Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of eligible hedged items. Effective from periods commencing on or after 1 July 2009, it provides clarification on identifying inflation as a hedged risk or portion and hedging with options.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 1 Accounting policies (continued)

Amendments to IFRS 2 'Share-Based Payment' (effective from periods commencing on or after 1 January 2009) clarifies terms 'vesting conditions' and 'cancellations' with proposed recognition and measurement criteria.

Effective from periods commencing on or after 1 January 2009, the amendments to IFRS 7 'Financial Instruments: Disclosures' require enhanced disclosures about fair value measurements and liquidity risk in the wake of the recent financial crisis.

IFRS 8 'Operating segments' (effective from periods commencing on or after 1 January 2009) 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. This standard replaces IAS 14 'Segment Reporting' and will require a change in the disclosure of segmental information.

IFRS 9 'Financial Instruments' will establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. The standard is applicable for periods commencing on or after 1 January 2013.

Amendments to IFRIC 14 'Prepayments of a Minimum Funding Requirement' (effective from periods commencing on or after 1 January 2011) remove an unintended consequence arising from the treatment of prepayments of future contributions in some circumstances when there is a minimum funding requirement.

IFRIC 15 'Agreements for the Construction of Real Estate' (effective from periods commencing on or after 1 January 2009) applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors.

IFRIC 17 'Distributions of Non-cash Assets to Owners' (effective from periods commencing on or after 1 July 2009) provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

IFRIC 18 'Transfers of Assets from Customers' (effective from periods commencing on or after 1 July 2009) concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the accordance with IAS 18 'Revenue'.

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective from periods commencing on or after 1 July 2010) addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

The impact on the Group's financial statements of the future adoption of these standards and interpretations is still under review, but the Group does not expect any of these changes to have a material effect on the results or net assets of the Group.

#### Consolidation

The consolidated financial statements incorporate the financial statements of the Company and of its subsidiaries. Subsidiaries are all entities over which the Company 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 the Group; they are de-consolidated from the date when control ceases.

Disposals of 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.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 1 Accounting policies (continued)

#### Foreign currencies

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which that subsidiary operates (its 'functional currency'). The consolidated financial statements of the Group are presented in Pounds Sterling which is the Group's 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 the Group's subsidiaries (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the Group's presentational currency are translated into the presentational currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the rate ruling at the balance sheet date;
- Income and expenses for each income statement are translated using the average rate of exchange (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.

The Group treats specific inter-company loan balances, which are not intended to be settled for the foreseeable future, as part of its net investment in the relevant subsidiaries. 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 removed from equity and recognised in the income statement as part of the gain or loss on sale.

#### Revenue and revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision 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 recognised based on the number of hours worked by a contractor.

Revenue for permanent placements is recognised when candidates commence employment. A provision is established for nonfulfilment of permanent placement obligations.

Interest income is recognised as the interest accrues to the net carrying amount of the financial asset.

#### Segment reporting

The Group operates in one business segment being that of recruitment services (primary segment). The Group operates in two geographic segments (secondary segment) being the United Kingdom and Europe and the Rest of the World.



# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 1 Accounting policies (continued)

#### Dividends

Interim dividends are recognised in the financial statements at the time they are paid. The final dividends declared to the Company's shareholders are recognised as a liability in the Company's and Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

The Company recognises dividends from subsidiaries at the time that they are received.

#### Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated 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:

Computer equipment	33.33% per annum
Leasehold improvement	20% per annum
Fixtures and fittings	20% per annum
Motor vehicles	33.33% per annum

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 the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the 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.

#### 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.

##### *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.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 1 Accounting policies (continued)

#### **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 to the income statement when incurred.

#### **Software and system 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 software and system development costs are amortised from the date the system is available for use over their expected useful lives (not exceeding five years).

Research expenditure is recognised as an expense to the income statement 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 are not subject to amortisation 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 pre-tax discount rate derived from the Group's cost of capital.

#### **Significant judgements and estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amounts, actual results may ultimately differ from those estimates. The 'critical accounting judgements and key sources of estimation uncertainty' made by the Directors in these financial statements are set out below.

- (i) The determination of the carrying amount of capitalised software and systems development costs and assets under construction with the related amortisation, estimation of useful economic life and recoverability of such assets is deemed to be judgemental.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 1 Accounting policies (continued)

- (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, amongst 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, the financial health, historical experience 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 underlying 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.
- (iv) The Group recognised a net deferred tax asset of £5.5m (2008: £3.1m), of which £4.4m (2008: £1.3m) related to trading losses that arose during the year that are to be carried forward and relieved against profits arising in future periods. The judgement to recognise the deferred tax asset is dependent upon the Group's expectations regarding future profitability based upon subsidiary revenue and cost forecasts for future years which contain a degree of inherent uncertainty.

#### 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.

Where share-based payments are granted to the employees of subsidiary undertakings by the parent company, they are treated as a capital contribution to the subsidiary and the Company's investment in the subsidiary is increased accordingly.

#### Financial assets

Non-derivative financial assets are classified as either 'held to maturity', 'available for sale financial assets' or 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### Held to maturity financial assets

Held-to-maturity financial assets comprises investments with fixed or determinable payments and fixed maturity for which there is a positive intention and ability to hold to maturity and which have not been designated at fair value through the income statement or as available for sale.

Held-to-maturity financial assets are measured at amortised cost using the effective interest method.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 1 Accounting policies (continued)

#### Trade and other receivables

Trade accounts receivable are recorded at net realisable value after deducting an allowance for doubtful accounts. The Group makes judgements on an entity by entity basis as to its ability to collect outstanding receivables and provides an allowance for doubtful accounts based on a specific review of significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing percentages based on the age of the receivable. In determining these percentages, the Group analyses its historical collection experience and current economic trends. Trade receivable balances are written off when the Group determines that it is unlikely that future remittances will be received.

#### 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 current financial liabilities on the balance sheet unless they form part of a cash pooling arrangement in which case they are reported net of related cash balances.

#### Financial instruments

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

Financial instruments are initially recognised at fair value on the date a 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 financial instrument is designed as a hedging instrument and, if so, the nature of the item being hedged.

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

#### Financial liabilities

All non-derivative financial liabilities are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the 'effective interest rate' method. Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

#### Net investment hedging

Financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the derivative instrument is recognised directly in equity. Any ineffective element is recognised immediately in the Group income statement.

#### 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.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 1 Accounting policies (continued)

#### Trade and other payables

Trade and other payables are stated at cost.

#### Short term financial liabilities and overdrafts

Financial liabilities are recognised initially at fair value, net of transaction costs incurred. Financial liabilities 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.

Financial liabilities 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

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events and 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 period. 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.

#### 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.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 1 Accounting policies (continued)

#### Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the Group.

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

Bonus plans — The Group recognises a liability and an expense for bonuses based on the Directors' best estimate of the amounts due. The Group 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. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

#### Employee Benefit Trusts

The Employee Benefit Trusts ('EBT') were funded by gifts from certain of the Company's shareholders and Directors. The assets and liabilities of the EBT are consolidated into the Group's consolidated financial statements.

The EBT's main assets are the ordinary shares in the Group which were gifted and hence no cost is attributed to those shares and no amounts are shown in the Group's financial statements. The EBT also holds shares which were subsequently newly issued in order to satisfy awards under the share option schemes and Long Term Incentive Plan ('LTIP').

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

#### Share-based compensation

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which equity instruments are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate valuation model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than market conditions.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.



# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 1 Accounting policies (continued)

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid, up to the fair value of the award, at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

#### **Exceptional items**

Items which are of a non-recurring nature and material, when considering both size and nature, have been disclosed separately to give a clearer presentation of the Group's results. These items are shown as "exceptional items" on the face of the income statement.

#### **Restructuring costs**

Provision is made for restructuring costs, including the costs of redundancy, when the Group has an actual or constructive obligation to pay amounts to third parties. An obligation exists when the Group has a detailed formal plan for the restructuring and has raised a valid expectation of those affected by starting to implement the plan or announcing its main features.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 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	
	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
<b>Revenue</b>				
United Kingdom	271,248	386,934	381,965	486,944
Europe and Rest of World	248,124	244,586	137,407	144,576
	<b>519,372</b>	<b>631,520</b>	<b>519,372</b>	<b>631,520</b>
<b>Gross Profit</b>				
United Kingdom	76,939	121,566	103,713	144,975
Europe and Rest of World	94,216	97,373	67,442	73,964
	<b>171,155</b>	<b>218,939</b>	<b>171,155</b>	<b>218,939</b>
	Total assets		Capital expenditure	
	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
United Kingdom	130,518	124,817	3,411	4,806
Europe and Rest of World	36,307	61,687	1,443	1,396
	<b>166,825</b>	<b>186,504</b>	<b>4,854</b>	<b>6,202</b>

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 2 Segmental analysis (continued)

The following supplemental segmental analyses have been included as additional disclosure over and above the requirements of IAS 14 'Segment Reporting'.

	By location of operating company	
	29 November 2009 £'000	30 November 2008 £'000
<b>Operating Profit</b>		
<i>Operating profit before exceptional items</i>		
United Kingdom	5,543	27,372
Europe and Rest of World	12,453	29,438
	<b>17,996</b>	<b>56,810</b>
<i>Exceptional items (note 3)</i>		
United Kingdom	(7,478)	(1,957)
Europe and Rest of World	(1,572)	–
	(9,050)	(1,957)
<b>Operating (loss)/profit after exceptional items</b>		
United Kingdom	(1,935)	25,415
Europe and Rest of World	10,881	29,438
	<b>8,946</b>	<b>54,853</b>

The analysis of operating profit above does not include inter-segment recharges.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 2 Segmental analysis (continued)

	Revenue		Gross profit	
	29 November 2009	30 November 2008 (restated)	29 November 2009	30 November 2008 (restated)
	£'000	£'000	£'000	£'000
<b>Brand</b>				
Computer Futures	149,247	180,295	51,526	65,345
Huxley	132,670	169,338	44,839	59,911
Progressive <sup>1</sup>	132,461	150,811	41,918	50,099
Real Staffing Group <sup>2</sup>	101,679	125,893	29,557	38,437
Other	3,315	5,183	3,315	5,147
	<b>519,372</b>	<b>631,520</b>	<b>171,155</b>	<b>218,939</b>
<b>Recruitment classification</b>				
Contract	447,077	525,531	98,816	113,098
Permanent	72,295	105,989	72,339	105,841
	<b>519,372</b>	<b>631,520</b>	<b>171,155</b>	<b>218,939</b>
<b>Discipline</b>				
Information & communication technology	411,761	535,164	122,612	168,465
Others <sup>3</sup>	107,611	96,356	48,543	50,474
	<b>519,372</b>	<b>631,520</b>	<b>171,155</b>	<b>218,939</b>

During the year, the Group announced that the divisional management of the business segments would be combined. At the heart of this restructuring was a desire to eliminate duplication, save costs and better align the management teams to the businesses. As a result the Group now reports Pathway, Madison Black and JP Gray as part of the Real Staffing Group brand segment and Orgtel as part of the Progressive brand. The comparative analysis has been changed to reflect this structure.

<sup>1</sup> Includes Orgtel.

<sup>2</sup> Includes Real Resourcing, Madison Black, JP Gray and Pathway.

<sup>3</sup> Including accountancy and finance, banking, engineering, oil and gas, pharmaceuticals, human resources, energy, jobboard and legal sectors.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 3 Administrative expenses

#### (a) Exceptional items

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

	29 November 2009 £'000	30 November 2008 £'000
<b>Exceptional items — charged to operating profit</b>		
Corporate and divisional restructuring	(9,050)	—
Exchange loss on settlement of financial instruments	—	(1,957)
<b>Exceptional items — before taxation</b>	<b>(9,050)</b>	<b>(1,957)</b>

#### Corporate and divisional restructuring

On 15 April 2009, the Company announced a number of changes relating to corporate and divisional restructuring. The total cost of this restructuring including redundancy, relocation and consolidation of business, is considered exceptional by virtue of its size. The Group has charged the restructuring cost incurred in the current period to the income statement.

#### Exchange loss on settlement of financial instruments

During the prior period, some complex financial instruments transactions were undertaken to mitigate certain foreign currency exposures. These resulted in a £2.0m loss arising when a series of equal and opposite positions were taken during the previous financial year in order to reduce the Group's total exposure from these positions to a minimal level. The Board has undertaken a review of its currency hedging strategy to ensure that it is appropriate and currently the Group does not actively manage its exposure to foreign exchange risk by the use of financial instruments. The impact of foreign exchange will become a more significant issue for the Group as we expect the business mix to move further towards our international business. The Group will continue to monitor its policies in this area. As a result of earlier mitigation, the Group no longer has net exposure to complex derivative financial instruments, which the Board believes are not appropriate for the Group going forward.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 3 Administrative expenses (continued)

#### (b) Administrative expenses — other

Operating profit is stated after charging/(crediting):

	29 November 2009 £'000	30 November 2008 £'000
Net trade receivables provision charge/(release) (note 12)	736	(697)
Depreciation (note 9)	2,953	2,767
Amortisation of intangible assets (note 10)		
— Software and systems development costs	2,466	2,301
— Trademarks	6	6
— Computer software	703	821
Foreign exchange gains	(2,772)	(4,447)
Staff costs (note 4)	107,363	124,564
Loss on disposal of investments	478	—
Loss on disposal of property, plant and equipment	1,107	—
Loss on disposal of intangible assets	355	—
Operating lease charges		
— Motor vehicles	2,251	2,410
— Land and buildings	7,608	11,202

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

	29 November 2009 £'000	30 November 2008 £'000
<b>Amounts payable to PricewaterhouseCoopers:</b>		
Fees payable to the Company's auditor for the audit of parent and consolidated financial statements	120	120
Fees payable to the Company's auditor and its associates for other services:		
— The audit of the Company's subsidiaries pursuant to legislation	383	587
— Other services pursuant to legislation	55	55
— Other assurance services	134	185
— Taxation advice	401	350
— Other services	42	47
<b>Costs charged to operating profit</b>	<b>1,135</b>	<b>1,344</b>



# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 4 Directors and employees

Staff costs and numbers consist of:

	29 November 2009 £'000	30 November 2008 £'000
Wages and salaries (including bonuses)	92,319	107,530
Social security costs	12,576	14,500
Pension costs	678	519
Temporary staff costs	342	1,357
Cost of employee share options and awards	1,448	658
	<b>107,363</b>	<b>124,564</b>

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

	29 November 2009 Number	30 November 2008 Number
<b>Geographic analysis</b>		
United Kingdom		
— Sales	638	996
— Non-sales	411	498
	<b>1,049</b>	<b>1,494</b>
Europe and Rest of World		
— Sales	723	599
— Non-sales	69	64
	<b>792</b>	<b>663</b>
	<b>1,841</b>	<b>2,157</b>

Included in the headcount numbers above is a total of 52 (2008: 56) 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 Company had an average of 4 (2008: 4) employees in the year ended 29 November 2009.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 5 Finance income and cost

	29 November 2009 £'000	30 November 2008 £'000
<b>Finance income</b>		
Bank interest receivable	359	25
	<b>359</b>	<b>25</b>
<b>Finance cost</b>		
Bank loans and overdrafts	(378)	(827)
	<b>(378)</b>	<b>(827)</b>
<b>Net finance cost</b>	<b>(19)</b>	<b>(802)</b>

### 6 Taxation

#### (a) Analysis of tax charge for the year

	Before exceptional items £'000	Exceptional items £'000	29 November 2009 Total £'000	Before exceptional items £'000	Exceptional items £'000	30 November 2008 Total £'000
<b>Current taxation</b>						
<b>UK</b>						
Corporation tax charged/(credited) at 28% (2008: 28%) on profits for the year	6,834	(2,102)	4,732	12,592	(876)	11,716
Adjustments in respect of prior periods	(1,447)	–	(1,447)	33	–	33
<b>Overseas</b>						
Corporation tax charged/(credited) on profits for the year	2,197	(472)	1,725	5,857	–	5,857
Adjustments in respect of prior periods	(329)	–	(329)	–	–	–
<b>Total current tax charge/(credit)</b>	<b>7,255</b>	<b>(2,574)</b>	<b>4,681</b>	<b>18,482</b>	<b>(876)</b>	<b>17,606</b>
<b>Deferred taxation</b>						
Origination and reversal of temporary differences	(3,401)	–	(3,401)	(1,193)	282	(911)
Adjustments in respect of prior periods	2,079	–	2,079	(216)	–	(216)
Schedule 23 deferred tax credit in respect of unexercised employee share awards and options	(394)	–	(394)	(264)	–	(264)
<b>Total deferred tax (credit)/charge</b>	<b>(1,716)</b>	<b>–</b>	<b>(1,716)</b>	<b>(1,673)</b>	<b>282</b>	<b>(1,391)</b>
<b>Total income tax charge/(credit) in the income statement</b>	<b>5,539</b>	<b>(2,574)</b>	<b>2,965</b>	<b>16,809</b>	<b>(594)</b>	<b>16,215</b>

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 6 Taxation (continued)

#### (b) Reconciliation of the effective tax rate

The Group's tax charge for the year ended 29 November 2009 exceeds the UK statutory rate and can be reconciled as follows:

	29 November 2009 £'000	%	30 November 2008 £'000	%
Profit before taxation	8,927		54,051	
Profit before tax multiplied by standard rate of corporation tax in the UK	2,500	28%	15,134	28%
<b>Effects of:</b>				
Disallowable items and other timing differences	59	1%	283	—
Higher tax rates on overseas earnings	103	1%	959	2%
Utilisation of tax losses brought forward	—	—	(235)	—
Unrelieved overseas losses net of deferred tax	—	—	(23)	—
Adjustment due to UK tax rate change	—	—	280	—
Adjustments to tax in respect of previous periods	303	3%	(183)	—
<b>Tax expense and effective tax rate</b>	<b>2,965</b>	<b>33%</b>	<b>16,215</b>	<b>30%</b>

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

	29 November 2009 £'000	30 November 2008 £'000
<b>Current tax</b>		
Equity settled employee share options	1,042	1,043
<b>Deferred tax</b>		
Equity settled employee share options	620	(1,297)
	<b>1,662</b>	<b>(254)</b>

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 29 November 2009 a deferred tax asset of £1.8m (2008: £0.8m) has been recognised in respect of these options (note 18).

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 7 Dividends

	29 November 2009 £'000	30 November 2008 £'000
<b>Amounts recognised and distributed to shareholders in the year</b>		
<b>Equity</b>		
Interim dividend of 4.0p (2008: 3.1p) per ordinary share	4,738	4,101
Final dividend paid of 8.0p (2008: 6.2p) per ordinary share	9,696	7,903
	<b>14,434</b>	<b>12,004</b>

#### Amounts proposed

Interim dividend for the period ended 31 May 2009: 4.0p (2008: 4.0p) per ordinary share	4,782	4,738
Second interim dividend of 8.0p (2008: nil) per ordinary share for the year ended 29 November 2009	9,544	–
Final dividend of 0 pence (2008: 8.0 pence) per ordinary share for the year ended 29 November 2009	–	9,280

An interim dividend of 4.0 pence (2008: 3.1 pence) per ordinary share for the six months ended 1 June 2008 was paid on 5 December 2008 to shareholders on record at 7 November 2008.

The final dividend of 8.0 pence (2008: 6.2 pence) per ordinary share for the year ended 30 November 2008 was paid on 8 June 2009 to shareholders on record at 1 May 2009.

An interim dividend of 4.0 pence (2008: 4.0 pence) per ordinary share for the six months ended 31 May 2009 was paid on 4 December 2009 to shareholders on record at 6 November 2009.

No final dividend is proposed for the year ended 29 November 2009 (2008: 8.0 pence). The Board propose a second interim dividend for the year ended 29 November 2009 of 8.0 pence per ordinary share to be paid on 31 March 2010 to shareholders on record at the close of business on 26 February 2010.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 8 Earnings per share

The calculation of the basic and diluted earnings per share ('EPS') 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.

	29 November 2009 £'000	30 November 2008 £'000
<b>Earnings</b>		
Profit after taxation excluding exceptional items	12,438	39,199
Minority interest	(1,164)	(1,958)
Adjusted profit for the year attributable to the equity holders of the Company excluding exceptional items	11,274	37,241
Effect of exceptional items (net of tax)	(6,476)	(1,363)
Profit after taxation attributable to equity holders of the Company	4,798	35,878
	millions	millions
<b>Number of shares</b>		
Weighted average number of shares used for basic EPS	118.7	124.7
Dilutive effect of share plans	3.8	3.0
<b>Diluted weighted average number of shares used for diluted EPS</b>	<b>122.5</b>	<b>127.7</b>
	pence	pence
<b>Basic</b>		
Basic earnings per share	4.0	28.8
Adjusted basic earnings per share excluding exceptional items	9.5	29.9
<b>Diluted</b>		
Diluted earnings per share	3.9	28.1
Adjusted diluted earnings per share excluding exceptional items	9.2	29.2

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 9 Property, plant and equipment

	Computer equipment £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 2 December 2007	9,144	3,412	2,795	322	15,673
Additions	919	821	454	147	2,341
Reclassification (note 10)	72	–	–	–	72
Exchange difference	289	275	156	–	720
At 30 November 2008	10,424	4,508	3,405	469	18,806
Additions	1,493	765	337	131	2,726
Disposal	(905)	(1,009)	(790)	(322)	(3,026)
Exchange difference	193	83	117	–	393
<b>At 29 November 2009</b>	<b>11,205</b>	<b>4,347</b>	<b>3,069</b>	<b>278</b>	<b>18,899</b>
<b>Depreciation</b>					
At 2 December 2007	6,788	1,182	1,111	113	9,194
Charge for the year	1,393	679	613	82	2,767
Exchange difference	180	37	53	–	270
At 30 November 2008	8,361	1,898	1,777	195	12,231
Charge for the year	1,561	785	504	103	2,953
Disposal	(699)	(618)	(444)	(158)	(1,919)
Exchange difference	147	36	53	–	236
<b>At 29 November 2009</b>	<b>9,370</b>	<b>2,101</b>	<b>1,890</b>	<b>140</b>	<b>13,501</b>
<b>Net book value</b>					
<b>At 29 November 2009</b>	<b>1,835</b>	<b>2,246</b>	<b>1,179</b>	<b>138</b>	<b>5,398</b>
At 30 November 2008	2,063	2,610	1,628	274	6,575



# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 10 Intangible assets

	Goodwill £'000	Assets under construction £'000	Computer software £'000	Software and system development cost £'000	Trademarks £'000	Total £'000
<b>Cost</b>						
At 2 December 2007	206,069	2,372	1,942	7,973	63	218,419
Additions	830	3,305	515	33	8	4,691
Reclassification (note 9)	–	(5,038)	107	4,859	–	(72)
<b>At 30 November 2008</b>	<b>206,899</b>	<b>639</b>	<b>2,564</b>	<b>12,865</b>	<b>71</b>	<b>223,038</b>
Additions	710	1,479	199	450	–	2,838
Disposals	(674)	–	–	(355)	–	(1,029)
Exchange difference	–	–	3	–	–	3
Reclassification	–	(790)	–	790	–	–
<b>At 29 November 2009</b>	<b>206,935</b>	<b>1,328</b>	<b>2,766</b>	<b>13,750</b>	<b>71</b>	<b>224,850</b>
<b>Amortisation and Impairment</b>						
At 2 December 2007	205,687	–	803	1,109	49	207,648
Charge for the year	–	–	821	2,301	6	3,128
At 30 November 2008	205,687	–	1,624	3,410	55	210,776
Charge for the year	–	–	703	2,466	6	3,175
<b>At 29 November 2009</b>	<b>205,687</b>	<b>–</b>	<b>2,327</b>	<b>5,876</b>	<b>61</b>	<b>213,951</b>
<b>Net book value</b>						
<b>At 29 November 2009</b>	<b>1,248</b>	<b>1,328</b>	<b>439</b>	<b>7,874</b>	<b>10</b>	<b>10,899</b>
At 30 November 2008	1,212	639	940	9,455	16	12,262

The remaining useful life of significant intangible assets ranges between 1 to 3 years.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 10 Intangible assets (continued)

#### Goodwill

The net book value at 29 November 2009 and 30 November 2008 along with additions in goodwill relate to the following acquisitions:

Investment in	Group's shareholding		Additions in Goodwill		Net book value	
	Before acquisition	After acquisition	2009 £000	2008 £000	2009 £000	2008 £000
Strategic Resource Group Limited	90%	100%	–	206	154	206
Jobboard Enterprises Limited	80%	95%	–	623	415	623
New Wave Resourcing Limited	82%	100%	–	1	1	1
Staff Search Group Limited	98%	100%	7	–	26	19
Progressive France Limited	83%	92%	41	–	–	–
Progressive SAS	82%	92%	15	–	5	–
Madison Black Limited	82%	100%	421	–	421	363
J P Gray Limited	80%	100%	226	–	226	–
			<b>710</b>	<b>830</b>	<b>1,248</b>	<b>1,212</b>

Amount paid to increase the Group's holdings in the above companies was £1.2m.

The Group disposed its interest to reduce shareholding in the following subsidiaries:

Investment in	Group's shareholding Before disposal	Group's shareholding After disposal
Madison Black Limited	89%	82%
Progressive SAS	92%	86%
Progressive France Limited	92%	84%
Jobboard Enterprises Limited	95%	90%
Strategic Resource Group Limited	92%	90%

The amount received to reduce the Group's holdings in the above companies was £0.2m.

#### 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 cash-generating unit. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

In assessing the value in use, the estimated future cash flows are calculated by preparing cash flow forecasts derived from the most recent financial budgets and an average annual growth rate of 2% over the next five years, 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 assuming growth of 2%, discounted 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.

#### Software and system development cost

In 2008, the Group began 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 were capitalised.

Additions during the year represent development of automated commission calculations system that will integrate to ERP payroll module. Investments were also made to develop integration of web portals with candidate CV details. This allows contractors to file online time sheets and also enables the development of a candidate/client management system. The Group has also developed and configured Human Resource, Payroll and Business Consolidation modules within the ERP system.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 10 Intangible assets (continued)

#### Recoverable amounts

The recoverable amounts used for impairment testing of intangible fixed assets is based on value-in-use calculations using a pre-tax discount rate based on the Group's weighted average cost of capital of 10.1% (2008: 12.8%). The future cash flow projections are based on approved financial budgets. Average growth rates used to estimate cash flows for the first five years are in line with Board approved forecast, with the growth rate assumption thereafter limited to the expected growth rate of the local economy.

### 11 Investments in subsidiaries

	Shares in Subsidiaries £'000
<b>Cost</b>	
At 2 December 2007	243,981
Capital contribution relating to share based payments (IFRS 2)	658
Additions	
– Capital injection	1,004
– Repurchase of Minority Interest	1,072
At 30 November 2008	246,715
Capital contribution relating to share based payments (IFRS 2)	936
Additions	
– Repurchase of Minority Interest	1,349
– Disposal of investments	(859)
<b>At 29 November 2009</b>	<b>248,141</b>
<b>Provision for impairment</b>	
At 2 December 2007, 30 November 2008 and 29 November 2009	9,598
<b>Net carrying value</b>	
<b>At 29 November 2009</b>	<b>238,543</b>
At 30 November 2008	237,117

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. 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 average annual growth rate of 5% (2008: 2%), discounted 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. The pre-tax discount rate applied to projected future net cash flows to arrive at the valuation was 10.1% (2008: 12.8%).

IFRS 2 requires that any options or awards granted to employees of a subsidiary company will increase the carrying value of the investment held. In 2009, the Group has recognised an increase in the investments in its subsidiaries of £0.9m (2008: £0.7m) relating to these share options and awards.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 11 Investments in subsidiaries (continued)

In 2009, the additions in the investment relates to the following:

Repurchase of Minority interest	Group's shareholding	
	Before acquisition	After acquisition
Progressive Nederland BV	80.8%	87.0%
Staff Search Group Limited	98.0%	100.0%
Progressive France Limited	83.0%	92.0%
Progressive SAS	83.0%	92.0%
Huxley Associates Finance Resourcing Inc	74.5%	80.5%
Huxley Associates BV	70.0%	73.5%
Huxley Associates Banking & Finance Limited	70.0%	83.0%
Huxley Associates Banking and Finance BV	70.0%	74.5%
Madison Black Limited	82.0%	100.0%
J P Gray Limited	80.0%	100.0%
Huxley Associates S Limited	70.0%	72.0%

The amount paid to increase the Group's holdings in the above companies was £1.4m

Disposal of investments relate to the following:

Disposal of investment	Group's shareholding	
	Before disposal	After disposal
Progressive GmbH	80.8%	78.0%
Progressive Nederland BV	87.0%	81.0%
Progressive France Limited	92.0%	84.0%
Progressive SAS	92.0%	86.0%
Huxley Associates Finance Resourcing Inc	80.5%	74.5%
Progressive Germany Limited	83.0%	80.0%
Jobboard Enterprises Limited	95.0%	90.0%

The amount received to reduce the Group's holdings in the above companies was £0.3m

- (i) Goodwill amounting to £0.7m was capitalised where value of net assets acquired was lower than total consideration paid.
- (ii) Goodwill amounting to £0.2m was charged to the income statement where value of net assets acquired was in excess of total consideration paid.
- (iii) Loss of £0.5m was charged to the income statement on disposal of investments.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 11 Investments in subsidiaries (continued)

Investments comprise the following principal subsidiary companies:

	Shareholding 2009	2008	Country of incorporation	Principal Activity
SThree Australia Pty Limited	100%	100%	Australia	IT Recruitment
Computer Futures Solutions NV	100%	100%	Belgium	IT Recruitment
Huxley Associates Belgium NV	100%	100%	Belgium	IT Recruitment
Progressive Belgium NV	100%	100%	Belgium	IT Recruitment
Computer Futures Solutions SAS	100%	100%	France	IT Recruitment
Progressive SAS	86%	83%	France	IT Recruitment
Computer Futures Solutions GmbH	100%	100%	Germany	IT Recruitment
Huxley Associates GmbH	100%	100%	Germany	IT Recruitment
Progressive GmbH	78%	80.8%	Germany	IT Recruitment
SThree Limited	100%	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%	100%	Netherlands	IT Recruitment
Huxley Associates Banking and Finance BV	74.5%	70%	Netherlands	Finance Recruitment
Huxley Associates BV	73.5%	70%	Netherlands	IT Recruitment
Huxley Associates Nederland BV	70%	70%	Netherlands	IT Recruitment
Jobboard Enterprises BV	100%	100%	Netherlands	IT Recruitment
Progressive BV	100%	100%	Netherlands	IT Recruitment
Progressive Nederland BV	81%	80.8%	Netherlands	IT Recruitment
SThree Holdings BV	100%	100%	Netherlands	IT Recruitment
SThree Pte. Ltd.	100%	100%	Singapore	IT Recruitment
Computer Futures Solutions Limited	100%	100%	UK	IT Recruitment
Huxley Associates Banking & Finance Limited	83%	70%	UK	IT Recruitment
Huxley Associates Belgium Limited	100%	100%	UK	IT Recruitment
Huxley Associates France Limited	100%	100%	UK	IT Recruitment
Huxley Associates International Limited	100%	100%	UK	IT Recruitment
Huxley Associates Limited	100%	100%	UK	IT Recruitment
Huxley Associates M Limited	70%	70%	UK	Engineering Recruitment
Huxley Associates N Limited	70%	70%	UK	Engineering Recruitment
Huxley Associates S Limited	72%	70%	UK	Engineering Recruitment
J P Gray Limited	100%	80%	UK	Finance Recruitment
Jobboard Enterprises Limited	90%	95%	UK	IT Recruitment
Madison Black Limited	100%	82%	UK	IT Recruitment
Orgtel Contract Limited	79.5%	79.5%	UK	IT Recruitment
Orgtel Limited	80%	80%	UK	IT Recruitment
Pathway Resourcing Limited	100%	100%	UK	IT Recruitment
Progressive France Limited	84%	83%	UK	IT Recruitment
Progressive Germany Limited	80%	83%	UK	IT Recruitment
SThree Middle East Limited	100%	100%	UK	IT Recruitment
Real Staffing Group Limited	100%	100%	UK	IT Recruitment
S Three Management Services Limited	100%	100%	UK	Management Services
Staff Search Group Limited	100%	98%	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	100%	100%	UK	IT Recruitment
Huxley Associates Finance Resourcing Inc	74.5%	74.5%	USA	Finance Recruitment
Huxley Associates, Inc	100%	100%	USA	IT Recruitment

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 11 Investments in subsidiaries (continued)

#### Group Reorganisation

During the prior year the Group reorganised the corporate structure and incorporated two new holding companies namely, SThree UK Holdings Limited and SThree Overseas Holding Limited. These holding companies either incorporated or purchased the share capital in number of UK and overseas subsidiaries in a share for share exchange. This has no effect on the net assets of the Group.

#### Minority Interest Rights

In the event of a return of capital in a winding up or capital reduction the minority interest holding reverts to the 'right to dividend' percentage in any distribution.

### 12 Trade and other receivables

	Group		Company	
	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
<b>Current</b>				
Trade receivables	60,813	104,675	21	56
Less: Provision for impairment of trade receivables	(2,473)	(2,772)	–	–
Net trade receivables	58,340	101,903	21	56
Other receivables	5,392	1,228	2,515	2,258
Prepayments and accrued income	29,497	36,806	–	60
	<b>93,229</b>	<b>139,937</b>	<b>2,536</b>	<b>2,374</b>

Trade receivables do not carry interest. The Group makes judgements on an entity by entity basis as to its ability to collect outstanding receivables and provides an allowance for doubtful accounts based on a specific review of significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing percentages based on the age of the receivable. In determining these percentages, the Group analyses its historical collection experience and current economic trends. Trade receivable balances are written off when the Group determines that it is unlikely that future remittances will be received. Management considers the carrying values of trade and other receivables are equal to the fair value and are deemed to be current assets.

Trade receivables and cash and cash equivalents are deemed to be all current loan and receivables for disclosure under IFRS 7 'Financial Instruments' – Disclosures (note 25e).

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 12 Trade and other receivables (continued)

	Group		Company	
	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
The following table shows the development of allowances on receivables:				
<b>Allowances at start of financial year</b>	2,772	4,226	–	–
Charge for the year	1,968	1,321	–	–
Amounts written down during the year	(1,035)	(757)	–	–
Amounts recovered during the year	(1,232)	(2,018)	–	–
<b>Allowances at end of financial year</b>	<b>2,473</b>	<b>2,772</b>	<b>–</b>	<b>–</b>

### 13 Assets classified as held-to-maturity

	Group		Company	
	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
Fixed rate Euro Bond	3,203	–	–	–

The Group invested in a fixed rate Euro bond. The weighted average interest rate on this security is 1.4% per annum (2008: nil% per annum). The bond has a fixed maturity date of 6 May 2010, that is, between 3 to 6 months from the end of the reporting period. The counterparty has a minimum A credit rating. None of these assets is past due or impaired.

### 14 Current tax assets/liabilities

The current tax asset of £3.3m (2008: tax liability of £10.8m) for the Group and the current tax liability of £0.5m (2008: £nil) for the Company represent current tax recoverable/payable relating to current and prior periods respectively.



# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 15 Trade and other payables

	Group		Company	
	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
Trade payables	25,479	30,261	86	98
Amounts due to Group companies	–	–	52,451	63,791
Other taxes and social security	4,393	5,945	–	–
Other payables	3,032	4,697	196	–
Accruals	43,152	40,343	461	2,487
	<b>76,056</b>	<b>81,246</b>	<b>53,194</b>	<b>66,376</b>

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.

Trade and other payables are predominantly interest free.

Amounts due to Group companies are charged interest at an average rate of 1.75% (2008: 6.75%) for Sterling denominated balances and at 1% above the local base rate for other currencies.

### 16 Financial liabilities

	Group		Company	
	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
<b>Bank overdraft</b>	–	–	–	<b>1,167</b>

A committed flexible invoice financing arrangement has renewed with the Royal Bank of Scotland Group (RBS) until April 2012. Under this arrangement the Group is able to borrow up to £20m. Funds borrowed under this facility bear interest at the rate of 1.75% above the RBS base rate. The Group has not drawn down any amount on this facility.

Borrowing levels are subject to maximum of 85% of trade receivables that meets Daily Sales Outstanding target in the range of 40-50 days.

# SThree plc

## Notes to the Financial Statements Year ended 29 November 2009

### 16 Financial liabilities (continued)

#### (i) Maturity profile of bank overdrafts

	Group		Company	
	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
Within 1 year, or on demand	–	–	–	1,167

#### (ii) Interest rate risk profile of bank overdrafts

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

	Group		Company	
	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
Floating rate – overdraft	–	–	–	1,167

During the year, the Group entered into cash pooling arrangement which allowed netting off the overdraft balances to mitigate finance costs.

Notes to the Financial Statements  
Year ended 29 November 2009

## 17 Provisions for liabilities and charges

	Corporate and divisional restructuring £'000	Property £'000	Other £'000	Total £'000
At 30 November 2007	–	818	2,684	3,502
Utilised during the year	–	(175)	–	(175)
Charged/(released) to the income statement	–	645	(105)	540
At 2 December 2008	–	1,288	2,579	3,867
Utilised during the year	(6,974)	(223)	–	(7,197)
Charged/(released) to the income statement	9,050	539	(307)	9,282
<b>At 29 November 2009</b>	<b>2,076</b>	<b>1,604</b>	<b>2,272</b>	<b>5,952</b>
			<b>29 November 2009 £'000</b>	<b>30 November 2008 £'000</b>
<b>Current/non-current analysis:</b>				
Current liabilities			3,063	332
Non-current liabilities			2,889	3,535
			<b>5,952</b>	<b>3,867</b>

Provisions are not discounted as the Group believes that the effect of the time value of money is immaterial and the amount of provisions measured at cost approximate to the present value of the expenditure required to settle the obligation.

## Corporate and divisional restructuring

On 15 April 2009, the Company announced a number of changes relating to corporate and divisional restructuring. The total cost of this restructuring including redundancy, relocation and consolidation of business, is considered exceptional by virtue of its size. The Group has charged the restructuring cost incurred of £9.1m to the income statement in the current period. As at 29 November 2009, £2.1m remains as a provision relating to people exit and property rationalisation costs. This provision is expected to be utilised within 2 years.

## 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 is expected to crystallise as follows:

	29 November 2009 £'000	30 November 2008 £'000
Within one year	683	332
One to five years	782	713
After five years	139	243
	<b>1,604</b>	<b>1,288</b>

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 17 Provisions for liabilities and charges (continued)

#### Other

Other provisions principally include amounts in respect of 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 management expects that the provision will be utilised within the average statute of limitation period in the countries to which this exposure relates. Unutilised provisions in respect of earlier years where no further exposure remains have been released.

### 18 Deferred tax assets/(liabilities)

Group	Excess tax depreciation £'000	European contractor liabilities £'000	Share-based payments £'000	Other £'000	Total £'000
At 2 December 2007	(361)	712	1,845	856	3,052
Credit/(charge) to income statement for the year	482	(11)	264	440	1,175
Prior year credit/(charge) to income statement for the year	250	(34)	–	–	216
Charge to equity for the year	–	–	(1,297)	–	(1,297)
At 30 November 2008	371	667	812	1,296	3,146
Credit/(charge) to income statement for the year	601	(82)	394	2,915	3,828
Prior year (charge)/credit to income statement for the year	(2,314)	33	–	202	(2,079)
Charge to equity for the year	–	–	620	–	620
<b>At 29 November 2009</b>	<b>(1,342)</b>	<b>618</b>	<b>1,826</b>	<b>4,413</b>	<b>5,515</b>

The Group believes that the deferred tax assets will be recoverable against projected taxable profits over the foreseeable future in the companies to which they relate.

The Group has tax losses of £11.2m for the year (2008: £3.9m) in respect of overseas territories. A deferred tax asset in respect of these losses has been recognised on consolidation.

#### Unremitted earnings

As at 29 November 2009, unremitted earnings of overseas Group companies amounted to £35.5m (2008: £32.3m). Following the introduction of the dividend exemption on 1 July 2009, the Group expects to benefit from this exemption on future remittances. However, unremitted earnings may still be liable to withholding tax if they were distributed as dividends. No such tax is expected to be payable as there are no plans to remit these earnings.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 18 Deferred tax assets/(liabilities) (continued)

Company	Share-based payments £'000	Other £'000	Total £'000
At 2 December 2007	655	610	1,265
Credit to income statement for the year	–	(18)	(18)
Credit to equity for the year	(693)	–	(693)
Transferred to Group Companies	–	(328)	(328)
At 30 November 2008	(38)	264	226
Charge/(Credit) to income statement for the year	433	(264)	169
Charge/(Credit) to equity for the year	762	–	762
At 29 November 2009	1,157	–	1,157

### 19 Share Capital

#### (a) Share capital

		29 November 2009		30 November 2008	
Authorised		Number of shares	£'000	Number of shares	£'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
At 2 December 2007		138,277,163	1,383	2	878
Repurchase of own shares		(16,613,387)	(166)	166	–
Issue of share capital		63,000	1	–	–
At 30 November 2008		121,726,776	1,218	168	878
Issue of share capital		29,500	–	–	–
At 29 November 2009		121,756,276	1,218	168	878

#### Capital redemption reserve

During the year ended 29 November 2009 the Group purchased nil (2008: 16,613,387) of its own shares for cancellation on the London Stock Exchange. The average price paid per share amounted to nil p (2008: 188.0994p) and the total consideration paid was £nil (2008: £31,249,681).

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 19 Share Capital (continued)

#### Share issue

Share options that were granted in November 2000 were satisfied in the current period with a new issue of 29,500 (2008: 59,000) ordinary shares. No (2008: 4,000) shares were also issued during the year in order to reimburse the EBT for shares used to settle share awards on behalf of the company.

#### (b) Share options

Certain employees hold options to subscribe for ordinary shares in the Company under the share option schemes. 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. During this financial year, 88,265 (2008: 58,500) of these options were exercised of which 29,000 were satisfied by the issue of new ordinary shares and the remaining 59,265 were satisfied by the shares held in the EBT.

Year of grant	Note	Number of options outstanding 3 December 2007	Granted in year	Exercised in year	Lapsed in year	Number of options outstanding 30 November 2008	Exercise price per share	Exercise period
2000	a	81,500	–	49,500	–	32,000	1p	2000-2010*
2002	b	6,000	–	5,000	500	500	1p	2002-2012*
2004	c	4,000	–	4,000	–	–	1p	2004-2014*
2007	d	469,859	–	–	100,809	369,050	–	2007-2017
2008	e	–	1,153,352	–	22,836	1,130,516	–	2008-2018
		561,359	1,153,352	58,500	124,145	1,532,066		

Year of grant	Note	Number of options outstanding 1 December 2008	Granted in year	Exercised in year	Lapsed in year	Number of options outstanding 29 November 2009	Exercise price per share	Exercise period
2000	a	32,000	–	29,000	–	3,000	1p	2000-2010*
2002	b	500	–	–	500	–	1p	2002-2012*
2004	c	–	–	–	–	–	1p	2004-2014*
2007	d	369,050	–	710	23,008	345,332	–	2007-2017
2008	e	1,130,516	–	22,053	69,368	1,039,095	–	2008-2018
2009	f	–	1,689,438	36,502	27,353	1,625,583	–	2009-2019
		1,532,066	1,689,438	88,265	120,229	3,013,010		

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

#### Note

- 8,500 share options became exercisable on 15 November 2005, the remainder of these share options remain exercisable until 2010; 36,000 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.
- All of these options became exercisable on 15 November 2005 and remain exercisable until 2012.
- All of these options became exercisable on 15 November 2005 and remain exercisable until 2014.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 19 Share Capital (continued)

#### (b) Share options (continued)

##### *Long-term incentive plan (LTIP)*

In November 2006, shareholders approved a share-based LTIP. The main features of the LTIP are discussed in the Directors' Remuneration Report.

- d) The weighted average fair value of the equity-settled share awards granted in 2007 amounted to 226.64p 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 was 402.0p, the vesting period in which performance of the TSR is assessed is 3 years.
- e) The weighted average fair value of the equity-settled share awards granted during the year amounted to 117.42p per award. The average share price on the date of grant was 196.75p, the vesting period in which performance of the TSR is assessed is 3 years.
- f) The weighted average fair value of the equity-settled share awards granted during 2009 amounted to 110.99p per award. The average share price on the date of grant was 170.0p, the vesting period in which performance of the TSR is assessed is 3 years.

##### *Other employees share option schemes*

	SAYE £'000	SIP £'000	Total £'000
At 30 November 2008	—	—	—
Granted	59	58	117
<b>At 29 November 2009</b>	<b>59</b>	<b>58</b>	<b>117</b>

##### *Save as you Earn (SAYE)*

The SAYE share option scheme was approved by the shareholders on 24 April 2009. The SAYE was implemented in order to promote share ownership amongst all UK employees of the Company, linking employee benefit to the performance of the Company, and to aid retention of staff. All UK employees and Executive Directors who have continuous service of more than six months, ending on the date of grant, or such shorter period as the Board may decide, with the Company, or any subsidiary in the Group nominated to join in the SAYE, are eligible to participate in the scheme. The Board has discretion to reduce the period of qualifying service and to invite other employees of the Group to participate. Under the SAYE, employees can save up to £250 per month for three or five years and receive options to purchase the Company's shares at a discount of up to 20% on the market value. During 2009, 233 employees (30% of those eligible) applied to participate in the SAYE. Options awarded under SAYE scheme are not subject to any performance conditions.

For the purpose of valuing options to arrive at the share-based payment charge, the Binomial option pricing model has been used for schemes with total shareholder return performance targets. The assumptions used in the models are as follows:

Weighted average fair value (£)	61.24p
Key assumptions used:	
Weighted average share price	198.00p
Exercise prices (£)	158.40p
Range of expected volatility	40%
Risk-free interest rate	4.75%
Range of expected option term (life)	3 years
Dividend yield	6.06%



# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 19 Share Capital (continued)

#### (b) Share options (continued)

##### *Share Incentive Plan (SIP)*

The SIP was approved by shareholders on 24 April 2009. Under the SIP employees are invited to make contributions to buy Partnership Shares. If an employee agrees to buy Partnership Shares the company currently matches the number of Partnership Shares bought with an award of shares (Matching Shares), on a one-for-one basis.

Assumptions on expected volatility and expected option term have been made on the basis of historical data, wherever available, for the period corresponding with the vesting period of the option. Best estimates have been used where historical data is not available in the respect.

During the year, the Group recognised a cost of £0.06m (2008: £nil) related to equity-settled share-based payment transactions. The weighted average price paid for plan during the year was 253.80p.

##### *Employee benefit trusts (EBT)*

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		Number	Number
2 December 2007			6,428,863
Movement in the year	Director gift to the trust	37,200	
	Forfeitable ordinary shares lapsed in year	31,250	
	Shares issued to reimburse EBT for share awards settled	4,000	
	Options/awards exercised	(2,236,252)	(2,163,802)
30 November 2008			4,265,061
Movement in the year	Director gift to the trust	11,111	
	LTIP options exercised	(59,265)	
	Options/awards exercised	(1,965,919)	(2,014,073)
29 November 2009			2,250,988

All shares held in the trust were gifted from Directors at nil cost to the EBT.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 19 Share Capital (continued)

#### (b) Share options (continued)

##### *Employee benefit trusts (EBT) (continued)*

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 3 December 2007	Granted/awards in year	Exercised in year	Lapsed in year	Number of options/awards outstanding 30 November 2008	Exercise price per share	Exercise period
2000	a	62,477	–	28,586	–	33,891	1p	2000-2010*
2004	b	141,015	–	84,461	2,500	54,054	1p	2004-2014*
2004	c	29,000	–	15,900	–	13,100	1p	2004-2014*
2004	d	4,963,967	–	1,925,995	89,325	2,948,647	1p	2004-2014*
2005	e	–	–	–	–	–	n/a	2005-2015*
2005	f	32,587	–	1,500	1,087	30,000	£1 total	2005-2015*
2007	g	37,200	–	37,200	–	–	–	2007-2017
2008	h	–	226,700	142,610	–	84,090	–	2008-2018
		5,266,246	226,700	2,236,252	92,912	3,163,782		

Year of grant/award	Note	Number of options/awards outstanding 1 December 2008	Granted/awards in year	Exercised in year	Lapsed in year	Number of options/awards outstanding 29 November 2009	Exercise price per share	Exercise period
2000	a	33,891	–	33,891	–	–	1p	2000-2010*
2004	b	54,054	–	42,054	–	12,000	1p	2004-2014*
2004	c	13,100	–	8,300	–	4,800	1p	2004-2014*
2004	d	2,948,647	–	1,760,887	13,042	1,174,718	1p	2004-2014*
2005	e	–	–	–	–	–	n/a	2005-2015*
2005	f	30,000	–	28,300	–	1,700	£1 total	2005-2015*
2007	g	–	–	–	–	–	–	2007-2017
2008	h	84,090	–	29,590	18,500	36,000	–	2008-2018
2009	i	–	62,897	62,897	–	–	–	2009-2019
		3,163,782	62,897	1,965,919	31,542	1,229,218		

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

The weighted average market share price for shares exercised during the year was 203p (2008: 163p).

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 19 Share Capital (continued)

#### (b) Share options (continued)

##### *Employee benefit trusts (EBT) (continued)*

##### **Approved executive share option scheme**

- a) Options over 4 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 29 November 2009 was nil (2008: 33,891).
- 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 29 November 2009 was 12,000 (2008: 54,054).
- 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 29 November 2009 was 4,800 (2008: 13,100).
- 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 29 November 2009 was 1,174,718 (2008: 2,948,647).

##### **Unapproved share option scheme**

- e) 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 no 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 for the year ended 30 November 2006. The number of shares awarded but not yet accepted at 29 November 2009 was nil (2008: nil). No further awards have been made during this financial year and therefore no income statement charges have been recognised during this financial year.
- f) 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 29 November 2009 was 1,700 (2008: 30,000). The Group recognised a charge in the income statement for 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.
- g) 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 vest immediately. There are nil share awards outstanding at the year end (2008: nil).
- h) On 15 October 2008 the Directors made share awards over 226 700 ordinary shares to certain current employees who were considered to have contributed to the Group's continued success. The share awards vest either immediately or after two years. The Group recognised a charge in accordance with IFRS 2 amounting to £nil (2008: £215,278). 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. The number outstanding at the year end was 36,000 (2008: 84,090).

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 19 Share Capital (continued)

- i) On 9 April 2009, the Directors made share awards of 62,897 ordinary shares to certain employees who were considered to have contributed to the Group's continued success. The share awards vest immediately. The Group recognise a charge in accordance with IFRS 2 amounting to £143,000 (2008: £nil). 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. All the above shares were exercised in the current period.

#### (c) Share awards in subsidiary companies

As described in the Directors' report the Group makes awards of shares in subsidiary businesses to certain entrepreneurial employees who will participate in the development of those businesses.

These awards generally have the following characteristics:

- an employee receives an award of a "tracker share" in a subsidiary business. This share gives the employee certain rights to income and capital growth of a "tracked" business;
- the employee must subscribe for his award of tracker shares at fair value, as determined by an independent third party share valuer and taking into account the particular rights attached to the shares described in the relevant businesses' Articles of Association;
- if the employee remains in employment with the Group for a pre-agreed period, not less than three years, he may then offer his tracker shares for sale to SThree plc. Should SThree plc decide to buy back the tracker shares, it will do so at a price based on a multiple of the tracker shares' fair value at that date and SThree plc may choose to settle this transaction in cash or in SThree plc shares, as it chooses.

During the prior year, the following awards have been made under the tracker share arrangements:

	Number of awards outstanding 3 December 2007	Number of awards created during the year	Number of awards bought back during the year	Number of awards outstanding 30 November 2008
Tracker share awards made – 2008	–	941	–	941

	Number of awards outstanding 30 November 2008	Number of awards created during the year	Number of awards bought back during the year	Number of awards outstanding 29 November 2009
Tracker share awards made – 2009	941	619	94	1,466

The fair value of the tracker share awards made during the period is nil, as employees must subscribe for the awards at fair value. The total net subscription proceeds received for 2009 tracker share awards was £192,000 (2008: £127,000), with proceeds in respect of individual awards ranging from £337.00 to £17,452.74 (2008: £253.33 to £17,634.67). The Group also bought back 94 tracker shares during the year for a total consideration of £10,000

The subscription price of the tracker share awards is determined by an independent valuer, taking into account the expected performance of each tracked business and the likelihood of ultimate buy-back by SThree plc.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 20 Results of holding company

Of the results for the financial year, a retained profit of £28.7m (2008: retained loss of £9.6m) was recorded. The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and do not present an income statement for the Company alone.

### 21 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	
	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
Total minimum operating lease payments due:				
Within one year	1,244	1,948	11,459	11,368
One to five years	400	1,582	35,191	34,606
After 5 years	–	–	13,083	15,902
	<b>1,644</b>	<b>3,530</b>	<b>59,733</b>	<b>61,876</b>

##### Capital commitments

The Group had contractual commitments of £0.5m (2008: £0.4m) relating to property, plant and equipment 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 29 November 2009 amounted to £1.8m (2008: £4.2m).

##### Guarantees

The Group issued bank guarantees for commitments which amounted to £2.1m (2008: £1.9m).

#### Company

The Company held no outstanding lease or capital commitments at the year end (2008: nil).

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 22 Cash and cash equivalents

	Group		Company	
	29 November 2009 £'000	30 November 2008 £'000	29 November 2009 £'000	30 November 2008 £'000
Cash in hand and at bank	45,272	24,584	150	–
Bank overdraft	–	–	–	(1,167)
	<b>45,272</b>	<b>24,584</b>	<b>150</b>	<b>(1,167)</b>

Due to the Group pooling arrangement, an overdraft amount of £nil (2008: £1.2m) in SThree plc is netted out against cash balance in Group companies.

Included within cash and cash equivalents is £0.4m (2008: £nil) against which the Group has issued cash collateralised bank guarantees. This amount is not immediately available for use in the business.

### 23 Related party transactions

#### Group

The Group has related party relationships with its subsidiaries (note 11), 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 of the Executive Directors, Executive Committee 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. The remuneration of the Directors is determined by the SThree plc Remuneration Committee in accordance with its stated policy. Total remuneration for members of key management is detailed below.

	29 November 2009 £'000	30 November 2008 £'000
Salaries and other short-term benefits	3,005	3,471
Fair value of share awards granted	810	455
Post-employment benefits	156	78
Termination benefits	448	438
	<b>4,419</b>	<b>4,442</b>

The above figure includes £259,000 which have been recognised in the corporate and divisional restructuring exceptional items.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 23 Related party transactions (continued)

#### Company

The Company has related party relationships with its subsidiaries (note 11), 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.

	29 November 2009 £'000	30 November 2008 £'000
<b>Loans and advances given to and dividends received from subsidiaries</b>		
Loans and advances given to subsidiaries	11,340	57,740
Loans and advances given to directors	305	–
Interest income received in respect of interest bearing loans and advances	162	666
Dividend income received	25,745	197

#### Loans and advances received from subsidiaries

Loans and advances received	–	–
Interest expense paid in respect of interest bearing loans and advances	1,674	6,435

#### Year end balances arising from transactions with subsidiaries

	29 November 2009 £'000	30 November 2008 £'000
Amounts payable to subsidiary companies	52,451	63,791

### 24 Subsequent events

The Group does not have any post balance sheet events that require disclosure as at 29 January 2010.



# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 25 Financial instruments and financial risk factors

#### Financial risk factors

The Group reports in Sterling and pays dividends out of Sterling profits. The role of Corporate Treasury is to manage and monitor external and internal funding requirements and financial risks in support of corporate objectives. Treasury activities are governed by policies and procedures approved by the Board of Directors, most recently on 27 November 2009. Treasury management chaired by our Chief Financial Officer meets on a monthly basis to review treasury activities. Its members receive management information relating to treasury activities. Our internal auditors regularly review the Treasury internal control environment.

In previous years, the Group treasury entered into few derivative transactions, principally currency swaps and forward currency contracts with the purpose to manage the currency risks arising from operations and financing. During 2008, a series of equal and opposite derivative positions were taken to reduce the Group's total exposure to derivatives to nil. All above derivative transactions were closed during the year with minimal impact on income statement. The Board undertook review of its currency hedging strategy to ensure it is appropriate and currently does not actively manage its exposure to foreign exchange risk by the use of financial instruments. The Group does not hold or issue derivative financial instruments for speculative purposes and our Treasury policies specifically prohibit such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

The treasury function is managed as a cost centre and thus not engaged in speculative trading.

The Group has nil (2008: 46) derivative financial instruments open at the year end.

The Group is exposed to a number of different financial risks including foreign currency exchange rates, liquidity, interest rates, and credit risk. The Group's objective and strategy in responding to these risks is set out below.

#### (a) Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

#### (b) Foreign currency exchange risk

The Group publishes its consolidated financial statements in Sterling and conducts business in a number of other currencies, principally the Euro. Consequently the Group is exposed to foreign exchange risk due to exchange rate movements which affect the Group's transactional revenues, cost of sales, the translation of the earnings and net assets of its overseas operations.

The Group is also exposed to foreign currency exchange risk from the value of net investments outside the United Kingdom. The settlement of intercompany balances held with foreign operations is neither planned nor likely to occur in the foreseeable future. Therefore, exchange differences arising from the translation of the net investments are taken into equity.

The Group's businesses generally raise invoices and incur expenses in their local currencies. Local currency cash generated is remitted via intercompany transfers to the United Kingdom. The Group generally converts foreign currency balances into Sterling to manage its cash flows.

The anticipated impact on the Group's results if the Euro strengthened against Sterling by a movement of more than 10% in terms of transactional exposure amounts to an increase in profit before tax by £3.1m (2008: £3.1m). If the Euro weakened against Sterling by more than 10% this would result in a decrease in profit before tax of £3.1m (2008 £3.1m). The effect to Equity would result in a movement of £3.3m.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 25 Financial instruments and financial risk factors (continued)

#### (b) Foreign currency exchange risk (continued)

The table below provides exchange rates used by the Group for translation of the earnings and net assets of its overseas operations.

	Weighted average rate		Closing rate	
	2009	2008	2009	2008
Euro	0.8977	0.7755	0.9087	0.8268
US dollar	0.6530	0.5198	0.6061	0.6518
Hong Kong dollar	0.0843	0.0667	0.0782	0.0841
Australian dollar	0.4924	0.4561	0.5496	0.4265
Singapore dollar	0.4448	0.3690	0.4368	0.4306

#### (c) 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 (note 17).

The Group's treasury function centrally co-ordinates relationships with banks, borrowing requirements, foreign exchange requirements and cash management. The Group believes it has access to sufficient funding through an invoice financing arrangement that provides a committed borrowing facility of £20m.

The table below shows the maturity profile of the Group's financial liabilities based on the contractual amounts payable on the date of repayment:

	Trade and other payables		Financial liabilities	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
<b>At 29 November 2009</b>				
Within one year	(76,056)	(53,194)	–	–
<b>At 30 November 2008</b>				
Within one year	(81,246)	(66,376)	–	(1,167)

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 25 Financial instruments and financial risk factors (continued)

#### (d) Interest rate risk

The Group is also exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments, principally financial liabilities. The Group finances its operations through a mixture of retained profit, the invoice discounting facility and, when required, bank overdrafts.

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 29 November 2009, and taking into consideration all variable rate borrowings and cash in place if the interest rate payable or receivable moved by a 100 basis points in either direction then the effect to the Group would be minimal.

Profit is more sensitive to interest rate decrease than increase because of borrowing with uncapped interest rates. The sensitivity is lower in 2009 than in 2008 because of reduction in outstanding borrowings that has occurred as the entity's debt has matured.

#### (e) 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 £45.2m (2008: £24.4m).

Trade and other receivables of the Group are analysed in the table below. With respect to the trade and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The Group mitigates its credit risk by using a credit rating agency to assess new clients and payment history to assess further credit extensions to existing clients. In addition, the spread of SME client base (circa 7,000 clients) helps to mitigate the risk of individual client failure having a material impact on the Group.

The Group does not typically renegotiate the terms of trade receivables, hence the outstanding balance is included in the analysis based on the original payment terms. There were no significant renegotiated balances outstanding at year end.

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
<b>Trade and other receivables</b>				
Neither impaired nor past due	70,417	105,288	2,536	2,374
Impaired (net of valuation allowance)	392	3,600	–	–
Not impaired and past due in the following periods				
within 30 days	17,599	21,647	–	–
31 to 60 days	3,894	7,163	–	–
61 to 90 days	927	2,239	–	–
over 90 days	–	–	–	–
<b>Total</b>	<b>93,229</b>	<b>139,937</b>	<b>2,536</b>	<b>2,374</b>

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 25 Financial instruments and financial risk factors (continued)

#### (f) 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 table below indicates the contractual repricing and maturity dates of these interest rates.

##### Financial Assets

		Group		Company
	Cash and cash equivalents £'000	Held-to- maturity investments £'000	Cash and cash equivalents £'000	Investments £'000
<b>At 29 November 2009</b>				
Less than one year	45,272	3,203	150	–
<b>Total interest-bearing</b>	<b>45,272</b>	<b>3,203</b>	<b>150</b>	<b>–</b>
Analysed as:				
Floating rate	45,272	–	150	–
Fixed rate	–	3,203	–	–
Total interest-bearing	45,272	3,203	150	–
Non-interest-bearing	–	–	–	238,543
	<b>45,272</b>	<b>3,203</b>	<b>150</b>	<b>238,543</b>
<b>At 30 November 2008</b>				
Less than one year	24,584	–	–	–
<b>Total interest-bearing</b>	<b>24,584</b>	<b>–</b>	<b>–</b>	<b>–</b>
Analysed as:				
Floating rate	24,584	–	–	–
Total interest-bearing	24,584	–	–	–
Non-interest-bearing	–	–	–	237,117
	<b>24,584</b>	<b>–</b>	<b>–</b>	<b>237,117</b>

#### (g) Price risk

As part of the presentation of the market risk, IFRS 7 requires disclosure on how hypothetical changes in risk affect the price of financial instruments. Important risk variables are stock exchange prices or indices. As of 29 November 2009, the entity did not hold any material investments to be classified as 'available for sale' or as 'held for trading'. Therefore there are no financial instruments which would be materially impacted by risk variables affecting the price of financial instruments.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 25 Financial instruments and financial risk factors (continued)

#### (h) Currency profile of financial assets/(liabilities)

	Net foreign currency monetary assets				
	Sterling £'000	Euro £'000	US Dollars £'000	Other Currencies £'000	Total £'000
<b>At 29 November 2009</b>					
Sterling	–	9,865	518	1,063	11,446
Euro	10	–	–	–	10
Other	–	–	248	–	248
<b>Total</b>	<b>10</b>	<b>9,865</b>	<b>766</b>	<b>1,063</b>	<b>11,704</b>
<b>At 30 November 2008</b>					
Sterling	–	6,225	624	802	7,651
Euro	56	–	–	–	56
Other	–	–	–	–	–
<b>Total</b>	<b>56</b>	<b>6,225</b>	<b>624</b>	<b>802</b>	<b>7,707</b>

The Company does not have any exposure to other currencies other than its functional currency of sterling.

Other foreign currencies held by the Group include the following: Swiss Francs, United Arab Emirates Dirhams, Australian Dollars, Hong Kong Dollars, Singapore Dollars, Swedish Kronor, Bahrain Dinars, Kuwait Dinars, Qatar Riyals and Saudi Arabia Riyals.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 25 Financial instruments and financial risk factors (continued)

#### (h) Currency profile of financial assets/(liabilities) (continued)

##### Financial derivatives

##### Group and Company

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

	Notional amounts of the derivative instrument	Fair value		
Currency and interest related instruments:		Assets	Liabilities	Net (gain)/loss
At 30 November 2009	£'000	£'000	£'000	£'000
Foreign currency swaps	–	–	–	–
Other foreign exchange derivative instruments	–	–	–	–
Total financial derivatives	–	–	–	–
At 29 November 2008				
Foreign currency swaps	–	–	–	–
Other foreign exchange derivative instruments	24,567	–	–	–
Total financial derivatives	24,567	–	–	–

In previous years the Group entered into a variety of complex derivative transactions with notional values of £33.0m. 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 were not designated as hedges under the definitions as set out by IAS 39, they acted as economic hedges of the Group's foreign currency exposures and were accounted for at fair value through the income statement.

On 1st February 2008, the Group closed out these positions early, crystallising a £2.0m exceptional charge. To close out these positions, exactly equal and opposite transactions were entered into, the last of which matured on 28 September 2009. These resulted in a notional value of £24.6m. These transactions were settled.

# SThree plc

## Notes to the Financial Statements

Year ended 29 November 2009

### 25 Financial instruments and financial risk factors (continued)

#### (i) 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.
Financial instruments	Market valuations at the balance sheet date.



# SThree plc

## Five Year Financial Summary

	29 November 2009 £'m	30 November 2008 £'m	2 December 2007 £'m	30 November 2006 £'m	30 November 2005 £'m
<b>Turnover</b>					
<i>Geographic analysis</i>					
– <i>by location of client</i>					
United Kingdom	271.3	386.9	369.7	295.7	243.6
Europe and Rest of World	248.1	244.6	153.0	97.6	71.5
	<b>519.4</b>	<b>631.5</b>	<b>522.7</b>	<b>393.3</b>	<b>315.1</b>
– <i>by location of operating company</i>					
United Kingdom	382.0	486.9	479.5	372.6	299.0
Europe and Rest of World	137.4	144.6	43.2	20.7	16.1
	<b>519.4</b>	<b>631.5</b>	<b>522.7</b>	<b>393.3</b>	<b>315.1</b>
<b>Gross profit</b>					
<i>Geographic analysis</i>					
– <i>by location of client</i>					
United Kingdom	76.9	121.6	123.3	98.9	79.5
Europe and Rest of World	94.3	97.3	59.4	36.6	25.0
	<b>171.2</b>	<b>218.9</b>	<b>182.7</b>	<b>135.5</b>	<b>104.5</b>
– <i>by location of operating company</i>					
United Kingdom	103.7	145.0	147.5	118.6	92.2
Europe and Rest of World	67.5	73.9	35.2	16.9	12.3
	<b>171.2</b>	<b>218.9</b>	<b>182.7</b>	<b>135.5</b>	<b>104.5</b>
<b>Operating profit</b>					
<b>Before exceptional items</b>	<b>18.0</b>	<b>56.8</b>	<b>52.3</b>	<b>41.0</b>	<b>29.5</b>
<b>Other key performance indicators</b>					
	numbers	numbers	numbers	numbers	numbers
Average headcount	1,863	2,157	1,786	1,288	1,037
Permanent placements in financial year	6,060	10,236	9,568	7,685	6,023
Active contractors at year end	4,157	5,745	5,662	4,719	4,365
	£	£	£	£	£
Average placement fee — permanent	11,930	10,355	9,780	8,563	7,972
Average gross profit per day — contractors	84.69	78.30	71.42	64.90	58.40

# SThree plc

Notes

# Shareholder Information

## Shareholder Enquiries and Electronic Communications – [www.capitashareportal.com](http://www.capitashareportal.com)

Shareholders with enquiries relating to their shareholding should contact Capita Registrars. Alternatively, you may access your account via [www.capitashareportal.com](http://www.capitashareportal.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; lines are open 8.30am – 5.30pm Mon to Fri) or + 44 208 639 3367 (Non UK) or register online at:

[www.capitashareportal.com](http://www.capitashareportal.com).

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

## Potential targeting of shareholders

Companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive and a 2006 survey by the Financial Services Authority (FSA) 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](http://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](http://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 publications issued by the Company. More detailed information on this or similar activity can be found on the FSA website [www.fsa.gov.uk/consumer/](http://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'. BNY Mellon act as both ADR depositary bank & registrar for this facility. For further information, please visit BNY Mellon's website at [www.adrbnymellon.com](http://www.adrbnymellon.com) and search for the STthree profile page. Holders can also access details using the following:

BNY Mellon Shareowner Services  
P.O. Box 358016  
Pittsburgh, PA 15252-8016  
Customer service Tel: 1 800 522-6645 (from outside the U.S. 001 201 680-6578)  
[mailto:shrrelations@mellon.com](mailto:mailto:shrrelations@mellon.com)  
For the issuance of ADRs please contact:  
Jason Paltrowitz  
Tel: +1 212 815 2077  
Fax: +1 212 571 3050  
E-mail: [jpaltrowitz@bankofny.com](mailto:jpaltrowitz@bankofny.com)  
Websites: <http://www.adrbnymellon.com>

## Share price information

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

## Share dealing service

Capita Share Dealing Services provide a telephone and online share dealing service for UK and EEA resident shareholders. To use this service, shareholders should contact Capita, telephone 0871 664 0454 – lines are open Mon to Fri 8.00am – 4.30pm UK time (calls cost 10p per min plus network extras). Alternatively log on to [www.capitadeal.com](http://www.capitadeal.com).

(Capita Share Dealing Services is a trading name of Capita IRG Trustees Limited which is authorised and regulated by the FSA)

## Dividend Re-investment Plan (DRIP) (non sponsored)

For any shareholders who wish to re-invest dividend payments in additional shares of the Company, a facility is provided by Capita IRG Trustees Ltd in conjunction with Capita Registrars. Under this facility, accrued dividends are used to purchase additional shares. Any shareholder requiring further information should contact Capita on (UK) 0871 664 0381\* or (Non-UK) +44 208 639 3402 or e-mail: [shares@capitaregistrars.com](mailto:shares@capitaregistrars.com).

\* Calls cost 10p per minute plus network extras; lines are open 8.30am – 5.30pm Mon to Fri

## ShareGift

ShareGift (registered charity no. 1052686) operates a charity share donation scheme for shareholders with small parcels of shares whose value may make it uneconomic to sell. Details of the scheme are available from:

ShareGift at [www.sharegift.org](http://www.sharegift.org)  
Telephone 0207 930 3737

## Financial Calendar 2009/10

Financial year-end – 29 November 2009  
Results announced – 1 February 2010  
Ex-div date for dividend – 24 February 2010  
Record date for dividend – 26 February 2010  
Dividend paid – 31 March 2010  
Annual General Meeting – 23 April 2010  
Half-year period end – 30 May 2010  
Interim results announced – 19 July 2010  
Interim dividend payable – early December 2010

