Building the future

Interim Report and Accounts 2019

SThree plc
("SThree" or the "Group")

INTERIM RESULTS FOR THE HALF YEAR ENDED 31 MAY 2019

Encouraging first half performance

FINANCIAL HIGHLIGHTS

	HY 2019		HY 2018		Variance	
	Adjusted (1)	*Reported*	*Adjusted* (2)	*Reported*	*Movement* (3)	*Constant Currency Movement* (4)
	£m	£m	£m	£m	%	%
Revenue	**653.3**	**653.3**	**585.9**	**585.9**	**+12%**	**+10%**
Contract net fees (5)	121.1	121.1	106.7	106.7	+13%	+12%
Permanent net fees	41.9	41.9	41.7	41.7	-	-1%
Net fees	**163.0**	**163.0**	**148.4**	**148.4**	**+10%**	**+9%**
Operating profit	**24.6**	**23.3**	**20.4**	**18.0**	**+21%**	**+18%**
OP Conversion ratio (%)	15.1%	14.3%	13.7%	12.1%	+1.4%pts	+1.2%pts
Profit before taxation	**24.0**	**22.7**	**20.3**	**17.8**	**+18%**	**+16%**
Basic earnings per share	**13.5p**	**12.7p**	**11.6p**	**10.1p**	**+16%**	**+14%**
Interim dividend per share	5.1p	5.1p	4.7p	4.7p	+0.4p	-
Net debt (6)	(8.0)	(8.0)	(6.2)	(6.2)	-	-

(1) HY 2019 figures exclude the impact of £1.3 million in net exceptional strategic restructuring costs and Senior Management change costs
(2) HY 2018 figures exclude the impact of £2.4 million in exceptional strategic restructuring costs
(3) Variance compares adjusted HY 2019 against adjusted HY 2018 to provide a like-for-like view
(4) Variance compares adjusted HY 2019 against adjusted HY 2018 on a constant currency basis, whereby the prior financial year foreign exchange rates are applied to current financial year results to remove the impact of exchange rate fluctuations
(5) Net fees were previously referred to as gross profit
(6) Net debt represents cash & cash equivalents less borrowings and bank overdrafts

OPERATIONAL HIGHLIGHTS

- Double digit growth in net fees across three of the Group's four regions, driving profitability
  - Adjusted profit before tax up 18% YoY to £24.0 million (HY 2018: £20.3 million)
  - Reported profit before tax up 27% YoY to £22.7 million (HY 2018: £17.8 million)
  - 86% of net fees generated from our international business (HY 2018: 82%)
- Strategic focus on Contract continuing to drive growth
  - Contract represented 74% of Group net fees (HY 2018: 72%)
  - Contract ahead by 12%* YoY, with strong growth across Energy, Engineering and Technology
  - Permanent net fees down 1%* YoY, with good growth in DACH (Germany, Austria & Switzerland) and Japan offset by declines in UK&I and USA
- Investment in the Group delivering returns
  - Group period-end sales headcount up 12% YoY. Average sales headcount up 7% YoY
  - The expected benefits are being realised from the successful restructure and relocation of the majority of our London-based support functions to Glasgow
- Interim dividend of 5.1p up 0.4p (HY 2018: 4.7p)

** Variances are held in constant currency*

Mark Dorman, CEO, commented: "This set of results, the first since I joined the Group, demonstrates that our strategy is putting SThree ahead of the field. The engine room of our growth has continued to be the key strategic focus areas of our business - progress within the key STEM markets, particularly the USA and Continental Europe, as well as an increased Contract weighting.

"Alongside our teams having capitalised on these major structural trends, it has been pleasing to note a number of other highlights for the Group. Our small but rapidly growing Permanent business in Japan, the strong performance for Energy in the US driven by trends to renewable energy and power transmission, and the strengthening of our market leading position in Life Sciences, where we continue to benefit from the emergence of new sector technology and data analytics.

"To build on this growth, we are continuing to strategically invest in the areas of the business which present the greatest opportunity, consistent with our vision to be the number one STEM talent provider in the best STEM markets. With the scale of the opportunity available to us, we look forward to continuing to execute in the period ahead.

"Notwithstanding the macro-economic backdrop in certain regions, the Group remains well positioned as we enter the second half, and the Board's expectations for the full year remain unchanged."

SThree will host a presentation and conference call for analysts at 0930 GMT today. The conference call participant telephone details are as follows:

Dial in: 0800 358 9473
Call passcode: 35582282#

This event will also be simultaneously audio webcast, at https://plcwebcast.uk/sthreeh1july19. Please note that this is a listen only facility. An archive of the presentation will be available via the same link following the event.

A video overview of the results from the CEO, Mark Dorman, and CFO, Alex Smith, is available to watch here: http://bit.ly/STHRh1interview.

SThree will issue its Q3 trading update on 13 September 2019.

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Notes to editors

SThree is a leading international STEM (Science, Technology, Engineering and Mathematics) recruitment company. It brings skilled people together to build the future through the provision of specialist Contract and Permanent services to a diverse client base of over 9,000 clients. From its well-established position as a major player in the Technology sector, the Group has broadened the base of its operations to include businesses serving the Banking & Finance, Energy, Engineering and Life Sciences sectors.

Since launching its original business, Computer Futures, in 1986, the Group has adopted a multi-brand strategy, establishing new operations to address growth opportunities. SThree brands include Progressive, Computer Futures, Huxley Associates and Real Staffing Group. The Group has circa 3,100 employees in sixteen countries.

SThree plc is quoted on the Official List of the UK Listing Authority under the ticker symbol STHR and also has a USA level one ADR facility, symbol SERTY.

Important notice
Certain statements in this announcement are forward looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward-looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Data from the announcement is sourced from unaudited internal management information. Accordingly, undue reliance should not be placed on forward looking statements.

INTERIM MANAGEMENT REPORT

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

At this, my first set of interim results as CEO of SThree, I am pleased to say that my time with the business so far has reinforced my confidence in the three core strengths of SThree that initially attracted me to the Group; our purpose, the strong structural growth drivers in our markets, and the high quality of our people.

The clear benefits of our model and the structural growth drivers in our markets have shaped the encouraging results we are reporting today. It is a great demonstration that the Group's focus on STEM and Contract is delivering effectively. Particular highlights include Group net fees up 9%* year on year, double-digit growth across three of our four regions, and Contract, our strategic focus, delivering 12%* growth in the first half and now representing 74% of Group net fees.

Our purpose

Our purpose is central to everything we do as a business and is why we exist, "to bring skilled people together to build the future". Our work is aimed at changing people's lives for the better and this is something that motivates my colleagues and I on a daily basis. As market trends shift and STEM skills become ever more prevalent, we are helping build communities of talent and future-proof people's careers while providing our customers with their most valuable asset.

Market drivers

I have spent my time since March immersing myself in the business and it is apparent that we are a truly unique recruitment business, working in high growth markets with long-term structural drivers of growth. The scale of opportunity in STEM globally is enormous, with the fourth industrial revolution fuelling an ever-increasing demand for STEM workers across all verticals. In the USA, according to the US Bureau of Labor Statistics, all STEM occupations are projected to grow by 10.8% between 2016 and 2026 (compared to projected growth of 7.2% for non-STEM occupations). A recent survey of 25,000 businesses in Germany by The Association of German Chambers of Commerce and Industry cited the shortage of skilled workers as their greatest risk, while a study by Bertelsmann predicts that the demand for STEM experts in Germany will grow by 1.4 million by 2035.

Alongside this, the way we work is structurally shifting, with the 'gig' economy, flexible ways of working, and the changing role of contractors becoming increasingly important. This is closely tied into highly skilled roles, which underpin the STEM markets.

Within our verticals, the thematic trends we all read about – renewable energies, genetic editing, Artificial Intelligence ("AI"), cyber security, the Internet of Things ("IoT") – are examples of the key societal movements driving growth across our diversified portfolio of sectors. For their implementation, these trends all require people that are hard to find, have specialist skills, or are brand new roles that were not in existence previously. In times like this, there is even more value in our niche market approach and knowledge base.

2019 has seen us continue to focus on the value we provide to our customers in terms of providing specialist support, a key competitive advantage and a significant barrier to entry for the Group. As an example, in the UK we have actively shared our knowledge on IR35 reform as our stakeholders within the private sector gear up for the tax changes in April. Doing nothing is not an option for organisations that rely upon flexible workers and as the leading provider of specialist STEM talent, we have provided support and material to help our contractors and clients understand how to remain both compliant and commercially attractive. Further to this, we have actively fed into the ongoing UK Government Consultation.

Our People

We believe people are the most important asset to any business. SThree is no different and investing in our teams is critical in delivering our growth plans. We increased average Group sales headcount in the period, predominantly in Contract, in line with our strategic focus. Our people are high performing and driven, and I would like to take this opportunity to thank them for their hard work and passion throughout the period.

For the second year in a row, the German SThree team was awarded the 'Top Employer' certification in the overall midsized employers' category by the Top Employers Institute. This marks SThree being named amongst Germany's top midsized employers for the sixth consecutive year in a row, which shows how well our own people rate our unique offering when it comes to excellent working conditions and talent strategy.

Testament to the strength of delivery across the business is our excellent Net Promoter Score ("NPS"), from both clients and candidates, which since the year-end has increased from 42 to 46, and shows our customers' willingness to recommend our services to others. It is clear that both clients and candidates value our teams' ability to understand the specialty of the roles we work to fill and also the specialist expertise our teams have – how to deliver the right result within a given process.

Investing for the future

Building for the future is important to us, and we are investing in the areas that will drive growth.

A key strategic focus is our investment in technology to help drive both growth and efficiencies; we believe our ability to harness actionable data insights and use of technology will continue to be a competitive differentiator going forward. Part of our strategy involves our ongoing investment in data to allow us to further analyse not just current but emerging trends, giving us unique insights into our markets and helping us to identify the best current and future business opportunities. In addition, we are investing in solutions and technologies, which make our offer both more compelling and more efficient – for SThree, for our customers and for candidates. We will continue to review which investments are likely to deliver the right returns within our buy/build/rent structure.

We will also continue to invest in our people and infrastructure, realising benefits for the Group. An example of this is our relocation to Glasgow and the creation of a Centre of Excellence, which is already delivering the benefits that we were expecting; we will continue to invest in this Centre to improve efficiency throughout the business.

Regional performance

Our diversity across geographies and STEM sectors provides growth and resilience for the Group; the Group now derives 86% of its revenue from our international business. Our largest region, Continental Europe, continued to grow well, alongside USA. Both of these regions have benefitted not only from capitalising on the wealth of opportunity available in their markets brought about by growing demand, but also from the strong delivery from our teams and strategic initiatives that have been put in place.

We have identified and focused on those areas of the business that need refinement. For example, in the UK, we are spending time driving and resourcing the specific areas of skills and industry sectors where we have the opportunity to get the best returns. We are in the process of capitalising on the insight we have into the market dynamics and focusing on allocating resources accordingly. Whilst these areas are a work in progress, we are confident in the ability of our teams to deliver growth. Ultimately, our focus is on execution across the business, based on informed and data-driven detail. We have plans in place to drive growth across all areas of the Group.

Outlook

Overall, we are pleased with trading in the first half of the year, driven by our strategy to focus on STEM and Contract, our global market exposure and the entrepreneurial spirit of our dedicated colleagues. We will be building on this strategy, driving execution through detailed operational plans, in the period ahead. Notwithstanding the macro-economic backdrop of certain regions, the Group remains well positioned for the second half, and the Board's expectations for the full year remain unchanged.

HY 2019 GROUP TRADING PERFORMANCE

Overview

We are encouraged by our first half performance with net fees up 9%*, and strong growth achieved in Q2, also up 9%* YoY. The growing breadth and scale of our international operations, which now account for 86% of net fees, underline how far the Group has grown from its UK roots. Whilst broader market conditions are weakening in some parts of Continental Europe, the STEM markets remain buoyant and we are confident we can maximise our opportunities with selective headcount growth. The USA, our second largest market, continues to be robust. We are actively managing our business in the UK, where broader macro pressures remain significant.

Our strategic focus on Contract continues to deliver good growth across our key sectors and regions, as well as providing greater resilience in more uncertain economic conditions. Contract net fees were up 12%* in H1 YoY and up 13%* in Q2, with Continental Europe, USA and Asia Pacific & Middle East ('APAC & ME') delivering double digit growth. Our focus in H2 is to prioritise investment in Contract in our fastest growing markets.

Permanent net fees were down 1%* in H1 YoY and down 2%* in Q2, driven by declines in UK&I and USA, both reflecting previous strategic decisions which we anticipate will drive positive change going forwards. We saw strong growth in DACH and our small, fast-growing business in Japan.

Adjusted Operating Profit was up 18%* YoY and we are well positioned for the second half as our investment in headcount continues to mature and we benefit from a strong Contractor book.

The expected benefits are being realised from the successful restructure and relocation of the majority of our London-based support functions to Glasgow.

Our investment in headcount, the quality of our management and increasing expertise in our niche markets alongside the strategic relocation and restructure of our support functions are all driving us forward on our journey to become the number one STEM talent provider in the best STEM markets. We are making good progress against the five-year growth strategy outlined at the Capital Markets Day in November 2017.

Group

	Net fees Growth* YoY			HY 2019 Mix		Average Sales Headcount Growth YoY		
	Cont	Perm	Total	Cont	Perm	Cont	Perm	Total
Q1 19	+12%	+1%	+9%			+8%	-4%	+4%
Q2 19	+13%	-2%	+9%			+13%	+5%	+10%
HY 19	+12%	-1%	+9%	74%	26%	+11%	-	+7%

** Variances are held in constant currency*

Breakdown of net fees	HY 2019	HY 2018	FY 2018
Geographical Split			
Continental Europe	58%	56%	57%
USA	22%	20%	21%
UK&I	14%	18%	17%
Asia Pac & Middle East	6%	6%	5%
	100%	**100%**	**100%**
Sector Split			
Technology	45%	45%	44%
Life Sciences	19%	20%	20%
Banking & Finance	12%	13%	13%
Energy	11%	9%	10%
Engineering	10%	10%	10%
Other Sectors	3%	3%	3%
	100%	**100%**	**100%**

Operating Review

Business Mix

Contract is well suited to our STEM market focus and geographical mix and it remained the key area of focus and growth throughout the period.

Our Contract business has continued to go from strength to strength with increasing net fees and average headcount up 11% YoY. Q2 was the 22nd consecutive quarter of net fees growth achieved by Contract since it was given greater strategic focus. The period ended with contractor numbers of 10,749, up 4% YoY.

Permanent net fees were marginally lower with UK&I and USA net fees declining, reflecting the previously reported UK restructuring and the leadership and strategic changes that we made in the USA last year. Average sales headcount in our Permanent business remained flat. We have seen strong growth in our largest Permanent region, DACH, up 9%*. Japan, our small but fast growing business continues to perform strongly as we look to invest in this business further.

Average Permanent fees were up 1%* YoY as we focus on specialist recruitment. We expect to strategically invest in Permanent in the remainder of 2019, predominantly in USA, DACH and Japan.

Regional Growth

We have seen strong growth in Contract across most regions. 86% of the Group net fees are now generated from outside the UK&I with our largest regions growing well.

Continental Europe (58% of Group net fees)

	Net fees Growth* YoY			HY 2019 Mix		Average Sales Headcount Growth YoY		
	Cont	Perm	Total	Cont	Perm	Cont	Perm	Total
Q1 19	+14%	+6%	+12%			+12%	-	+8%
Q2 19	+17%	+5%	+14%			+13%	+4%	+10%
HY 19	+16%	+5%	+13%	74%	26%	+13%	+2%	+9%

** Variances are held in constant currency*

Continental Europe is our largest region comprising businesses in Germany, Switzerland, Austria, Netherlands, Belgium, France, Luxembourg and Spain.

The region delivered strong growth in the period with increasing net fees across all main country markets. DACH, our largest territory in the region was up 15%* YoY and we continued to invest with average headcount up 8%. Netherlands also performed strongly, with net fees ahead by 11%* YoY and average sales headcount up 15%. Contract growth in Technology, our largest sector, was very strong, up 19%*. This was supported by Engineering, which grew 40%*.

The region delivered double digit growth in contractors, up 12% YoY, creating growth opportunities for H2, with Net Fees per Day Rate ('NFDR') up by 1%*. Net fees in this region performed particularly well against very strong prior year comparatives.

Growth was also delivered in Permanent, driven by DACH up 9%*. This was in part down to an increase in average fees for Technology, Banking and Finance alongside Energy.

USA (22% of Group net fees)

	Net fees Growth* YoY			HY 2019 Mix		Average Sales Headcount Growth YoY		
	Cont	Perm	Total	Cont	Perm	Cont	Perm	Total
Q1 19	+24%	-1%	+17%			+7%	-3%	+4%
Q2 19	+21%	-15%	+10%			+11%	+14%	+12%
HY 19	+22%	-10%	+13%	78%	22%	+9%	+5%	+8%

** Variances are held in constant currency*

The USA is the world's largest specialist STEM staffing market and is our second largest region. We continue to see further opportunities for growth in all our markets as STEM roles in the region continue to be highly sought after and are projected to grow by 10.8% between 2016 and 2026.

Growth of 13%* YOY in the region was across our major sectors Technology, Life Sciences and Energy. Life Sciences, our largest sector in the region, grew 10%* YoY. Energy continued to improve in the region up 68%* with Technology up 10%*.

Contract net fees in USA were very strong up 22%* YoY with double-digit growth across all sectors except Banking & Finance which declined in line with global trends. Energy performance was very pleasing, with net fees up 73%* YoY as we continue to develop our customer portfolio, build on our strong position in renewable energy, power transmission and upstream alongside broadening our service offering. We have invested in our Contract business with average sales headcount growing 9% YoY. Net Fees per Day Rate ('NFDR') increased by 28%* YoY, as we focused on higher margin and higher salary roles.

Permanent net fees declined 10%* YoY, largely due to the following previously announced leadership and strategic changes made to the division. These changes were implemented to create a platform for more consistent and balanced growth and we are confident we have made the right strategic decisions for the region. We expect the positive impact of these changes to be seen in performance during H2 2019 and beyond. Despite this it is encouraging to note that average fees in the region were up 6%* YoY with all sectors experiencing growth. Year to date average headcount also increased by 5% YoY.

UK&I (14% of Group net fees)

	Net fees Growth* YoY			HY 2019 Mix		Average Sales Headcount Growth YoY		
	Cont	Perm	Total	Cont	Perm	Cont	Perm	Total
Q1 19	-5%	-16%	-7%			-	-29%	-8%
Q2 19	-7%	-32%	-12%			+12%	-12%	+5%
HY 19	-6%	-25%	-9%	84%	16%	+6%	-22%	-2%

** Variances are held in constant currency*

The UK&I is one of our smaller regions, however it remains an important part of our business. Following the previously reported restructuring, net fees in the region were down 9%* YoY, with a 2% YoY reduction in average headcount. We have put significant work into stabilising the region, the benefits of which are beginning to show.

In line with the broader Group strategy, the region is increasingly Contract focused as we have cautiously invested in specific opportunities within the STEM market. Following a recently increased focus, we saw growth in Life Sciences, however this was offset by decline in all other sectors. Overall our Contract business saw a decline in performance with net fees down 6%* YoY. Demonstrating our continued commitment to UK&I over the first half we made the decision to strategically invest in our Contract business with average sales headcount up 6% YoY. We anticipate this headcount will become productive in the second half of the year. Contractors for the region were down 4% YoY, however we saw our NFDR up 1%*, reflecting the increasingly targeted approach of the UK&I business.

Reflecting continued macro-economic and political uncertainty, Permanent net fees declined 25%* YoY. As part of the region's recent restructuring, we significantly reduced our headcount in our Permanent division towards the end of H1 2018 and as a result our average sales headcount was down 22% YoY. Our move to a specialist hub and onshore delivery model is now in place and we will continue to cautiously build our presence in key sectors to maximise opportunity.

APAC & ME (6% of Group net fees)

	Net fees Growth* YoY			HY 2019 Mix		Average Sales Headcount Growth YoY		
	Cont	Perm	Total	Cont	Perm	Cont	Perm	Total
Q1 19	+16%	-3%	+5%			+11%	+21%	+17%
Q2 19	+14%	+26%	+20%			+20%	+20%	+20%
HY 19	+15%	+11%	+13%	43%	57%	+15%	+21%	+18%

** Variances are held in constant currency*

Our APAC & ME business principally includes Japan, Australia, Singapore and Dubai. APAC & ME represented 6% of Group net fees, a slight increase from 5% at the end of 2018.

Contract performance was strong in the period, led by our Dubai business, up 42%*, with growth in Banking & Finance and Energy sectors. Contractors grew 4% YoY in the region, with NFDR down 2%* YoY.

Growth in Permanent net fees in the region was primarily driven by Japan, which was up 49%* YoY, with strong growth in Life Sciences and Technology. We invested in Permanent headcount in Japan where average sales headcount was up 65%.

Average headcount was up 18% YoY with Contract up 15% YoY and Permanent up 21% YoY.

We will focus on our investment in the Japan Permanent and Dubai Contract businesses in the second half with the rest of the region managed to maximise profitability.

Sector Highlights

The Group saw good growth across four of our five sectors in the period. Technology, our largest sector, Engineering and Energy experienced strong growth in the period. Our second largest sector, Life Sciences, also saw robust growth.

Technology (45% of Group net fees)

	Net fees Growth* YoY			HY 2019 Mix		Average Sales Headcount Growth YoY		
	Cont	Perm	Total	Cont	Perm	Cont	Perm	Total
Q1 19	+9%	+11%	+10%			+9%	+3%	+8%
Q2 19	+13%	+7%	+12%			+15%	+11%	+14%
HY 19	+11%	+9%	+11%	75%	25%	+12%	+7%	+11%

** Variances are held in constant currency*

Technology is our largest and most established sector representing, 45% of the Group net fees and 48% of the Group average sales headcount, with the majority of its business in the more mature UK&I and European markets. Net fees for the period were up with growth across both Contract and Permanent divisions. The sector has delivered 21 consecutive quarters of growth. The rate of growth was impacted by the relatively soft performance of Technology in the UK&I, however all other regions were in double digit growth. Contractors for the sector have increased by 10% YoY, with particularly strong growth noted across Continental Europe. Average headcount in Technology was up 11% YoY, with Contract growing 12% YoY and Permanent up 7% YoY. The mix in headcount is weighted towards Contract which accounts for 71% of total Technology headcount.

Life Sciences (19% of Group net fees)

	Net fees Growth* YoY			HY 2019 Mix		Average Sales Headcount Growth YoY		
	Cont	Perm	Total	Cont	Perm	Cont	Perm	Total
Q1 19	+6%	-3%	+3%			-1%	-11%	-5%
Q2 19	+11%	+3%	+8%			+3%	+2%	+3%
HY 19	+8%	-	+6%	69%	31%	+1%	-5%	-1%

** Variances are held in constant currency*

Our Life Sciences sector is a market leader across several of our regions and Life Sciences represented 19% of Group net fees in the period. Total net fees grew by 6%* YoY with Contract growing 8%* YoY and Permanent remaining flat*. Contract performance was pleasing and was up across all regions. Contractors increased 7% YoY with NFDR up 1%* YoY. Average sales headcount was down 1% YoY, with Contract up 1% and Permanent declining 5%. The emergence of new technology and data analytics in this sector is enhancing the ability of our highly skilled people to find the best candidates to support the business and capitalise on the market opportunity.

Banking & Finance (12% of Group net fees)

	Net fees Growth* YoY			HY 2019 Mix		Average Sales Headcount Growth YoY		
	Cont	Perm	Total	Cont	Perm	Cont	Perm	Total
Q1 19	-6%	+1%	-3%			+7%	-1%	+3%
Q2 19	-12%	-16%	-13%			+1%	-	-
HY 19	-9%	-8%	-9%	58%	42%	+4%	-	+2%

** Variances are held in constant currency*

Banking & Finance net fees were down 9%* YoY with Contract down 9%* and Permanent down 8%*. In line with broader trends, Banking & Finance was our only sector in decline and we saw mixed results across our regions. We saw good growth coming out of our DACH business, which was up 24%*. There was growth in our new Japan business, up 30%* along with Dubai, up 29%*. The UK&I business performance continues to be impacted by broader political uncertainty. Average headcount for the sector was up 2% YoY.

Energy (11% of Group net fees)

	Net fees Growth* YoY			HY 2019 Mix		Average Sales Headcount Growth YoY		
	Cont	Perm	Total	Cont	Perm	Cont	Perm	Total
Q1 19	+26%	-4%	+25%			+1%	+28%	+2%
Q2 19	+30%	+20%	+29%			+10%	+67%	+13%
HY 19	+28%	+10%	+27%	95%	5%	+6%	+47%	+8%

** Variances are held in constant currency*

Energy represented 11% of our overall Group net fees and the sector has shown good growth. Net fees in the sector were up 27%* YoY. Contract which represents 95% of our Energy net fees grew 28%* YoY. We continue to support our Contract business with headcount up 6% YoY. Contractors in the sector declined 9% YoY, however NFDR showed strong growth, up 18%* YoY driven by the USA which successfully repositioned to placing more niche roles within power transmission and renewables. Continental Europe and USA account for 85% of our total net fees in the sector - USA saw growth of 68%* YoY with Continental Europe remaining flat*. Our Dubai business grew by 9%* YoY. Average sales headcount was up 8% YoY and we will continue to review the Energy business and selectively invest where we can maximise market opportunities.

Engineering (10% of Group net fees)

	Net fees Growth* YoY			HY 2019 Mix		Average Sales Headcount Growth YoY		
	Cont	Perm	Total	Cont	Perm	Cont	Perm	Total
Q1 19	+39%	-17%	+19%			+28%	+1%	+19%
Q2 19	+18%	-17%	+9%			+40%	+6%	+28%
HY 19	+27%	-17%	+14%	78%	22%	+34%	+3%	+23%

** Variances are held in constant currency*

Engineering represented 10% of Group net fees and grew strongly, with net fees up by 14%* YoY. The sector is heavily weighted towards Contract, which accounted for 78% of net fees. Growth in Contract net fees was very pleasing up 27%* YoY. Continental Europe is our largest region in the Engineering sector and we saw good overall growth of 25%* YoY. Contractors are up 16% YoY with NFDR up 6%*. Average sales headcount was up 23% YoY with Contract up 34% YoY and Permanent up 3% YoY.

CHIEF FINANCIAL OFFICER'S REVIEW

Operating profit

Revenue for the year was up 10% on a constant currency basis to £653.3 million (HY 2018: reported £585.9 million) and up 12% on a reported basis. On a constant currency basis, net fees increased by 9%, and on a reported basis by 10% to £163.0 million (HY 2018 £148.4 million). Growth in revenue exceeded the growth in net fees as the business continued to shift towards Contract. Contract represented 74% of the Group net fees in the period (HY 2018: 72%). This change in mix resulted in a modest decrease in the overall net fees margin to 24.9% (HY 2018: 25.3%), as Permanent revenue has no cost of sale, whereas the cost of paying the contractor is deducted to derive Contract net fees. The Contract margin increased slightly to 19.8% (HY 2018: 19.6%).

The reported profit before tax was £22.7 million, up 27%. The adjusted profit before tax ('PBT') was £24.0 million up 18% YoY (HY 2018: reported £17.8 million and adjusted £20.3 million). The 'adjusted' PBT excludes restructuring costs of £1.3 million that were incurred in the current period in respect of the Senior Management changes and relocation of support functions to Glasgow (HY 2018: £2.4 million). The benefits of operational efficiencies delivered by the restructuring of our support functions contributed to the increase in the operating profit conversion ratio of 1.4 percentage points to 15.1% on an adjusted basis and 2.2 percentage points to 14.3% on a reported basis (HY 2018: adjusted 13.7% and reported 12.1%).

Restructuring costs ('Adjusting items')

The expected benefits are being realised from the successful restructure and relocation of the majority of our London-based support functions to Glasgow. This restructuring is anticipated to realise cost savings in excess of £5 million per annum.

Only immaterial net exceptional costs of £0.1 million have been recognised during the period in relation to the transition to the Centre of Excellence. The exceptional charge in the period included mainly personnel double-running costs of £0.2 million and property costs of £0.3 million. These costs were subsequently offset by the government grant income of £0.4 million recognised as an offset to the exceptional costs of an agreed percentage of gross wages for each full time role created in the Centre of Excellence, bringing the total net costs recognised to date to £13.2 million (HY 2018: £9.2 million).

We do not expect to incur any further exceptional costs in the remainder of the year in respect of the move to Glasgow whilst the additional government grant is anticipated to be received and recognised as exceptional income in the period through to the end of 2021.

On 14 December 2018, the Group communicated to the market that the Chief Executive Officer, Gary Elden, would step down from his role and the Board on 18 March 2019. The new Chief Executive Officer ('CEO'), Mark Dorman, joined the Group on 18 March 2019. The new CEO was appointed following Gary Elden stepping down from the role after leading the Company for six years. Mark was appointed after a rigorous process determined he was the best candidate to take the business forward to its next stage of growth and development. These Senior Management changes resulted in the exceptional charge of £1.2 million in HY 2019. The total charge comprised contractual payments, recruitment and other professional fees, double running costs and relocation costs.

The non-recurring nature of these strategic projects continues to be of sufficient magnitude to warrant separate disclosure as an exceptional item on the face of the Consolidated Income Statement, in line with our accounting policies. Disclosure of items as exceptional highlights them and provides a clearer, comparable view of underlying earnings.

A reconciliation of profit before tax on an adjusted basis to reported basis

	HY 2019	HY 2018	Variance
	£m	£m	£m
Reported profit before tax after exceptional items	22.7	17.9	4.8
Net exceptional costs – charged to operating profit	1.3	2.4	(1.1)
(i) Senior Management changes	*1.2*	*-*	*1.2*
(ii) Support functions relocation	*0.1*	*2.4*	*(2.3)*
Reported profit before tax and exceptional items ('Adjusted')	24.0	20.3	3.7

Accounting changes

On 1 December 2018 IFRS 9 *Financial Instruments* ('IFRS 9') and IFRS 15 *Revenue from Contracts with Customers* ('IFRS 15') became effective for the Group. We changed our accounting policies and made retrospective adjustments accordingly.

IFRS 9 introduced new requirements for classification, recognition and impairment of financial assets.

Overall, IFRS 9 had an immaterial impact on the Group. On the date of initial application of the standard, no adjustments were made to the opening balance of retained earnings or other reserves. In line with the transitional provisions in IFRS 9, comparative figures have not been restated. From 1 December 2018, the Group presents changes in the fair value of all its equity investments in other comprehensive income, as these instruments are held for long-term strategic purposes. Certain investments in convertible bonds with the embedded conversion rights were reclassified from 'available-for-sale' to 'financial assets held at fair value through profit or loss'. There were no changes to the Group's existing impairment methodology for trade receivables.

IFRS 15, a new revenue recognition standard effective for the Group from 1 December 2018, was adopted on the modified retrospective basis without restatement of comparatives. IFRS 15 permits the recognition of contingent consideration provided that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the contingent consideration is subsequently resolved. Historically, the Group's policy of estimating Contract accrued income resulted in certain amount of revenue being reversed. Accordingly, on 1 December 2018 the Group revised the way the Contract accrual income is estimated. This change resulted in a net (post-tax) adjustment of £2.4 million that reduced the opening balance of retained earnings on the date of initial application of IFRS 15.

Further details are provided in note 1 to the Consolidated Interim Financial Report.

Investments

During the period, we continued to invest in in-house innovation initiatives, expensing a total of £1.0 million on our 'build' programme. We have reprioritised our innovation effort towards our most promising initiatives, one of which is Hirefirst, which was launched in October 2018 and is at the early market testing stage and, generating its first revenues in the half.

We continued to hold non-controlling shareholdings in three innovation start-ups which, since the date of initial application of IFRS 9 are fair valued through other comprehensive income. In the six months to 31 May 2019, our investments in The Sandpit Limited and separately in Ryalto have been written down by £0.8 million and £0.2 million respectively. The equity rights in The Sandpit Limited, which discontinued its operations earlier this year, were converted into a minority shareholding in The Sandpit Ventures Limited at an immaterial nominal book value. The downward valuation of Ryalto equity rights was caused by the dilution in the existing shareholders' ownership of Ryalto as a result of the company issuing new equity.

Taxation

The tax charge on pre-exceptional statutory profit before tax for the period was £6.5 million (HY 2018: £5.3 million), representing an effective tax rate ('ETR') of 27% (HY 2018: 26%). The ETR on post-exceptional statutory profit before tax was 27% (HY 2018: 27%).

The ETR primarily reflects our geographical mix of profits. Other material items affecting the tax charge include the European Union's Anti-Tax Avoidance Directive, and US Tax Reform. The Group is also affected by the European Commission's state aid investigation into the UK's controlled foreign company legislation. We continue to note this as a contingent liability.

Earnings per share ('EPS')

On an adjusted basis, EPS was up by 1.9 pence at 13.5 pence (HY 2018: adjusted 11.6 pence and reported 10.1 pence), due to an increase in the adjusted profit before tax offset by an increase of 1.2 million in weighted average number of shares. On a reported basis, EPS increased to 12.7 pence, up 2.6 pence, attributable mainly to an improved trading performance and decline in restructuring costs as explained above. The weighted average number of shares used for basic EPS grew to 129.9 million (HY 2018: 128.7 million). Reported diluted EPS was 12.2 pence (HY 2018: 9.6 pence), up 2.6 pence. Share dilution mainly results from various share options in place and expected future settlement of certain tracker shares. The dilutive effect on EPS from tracker shares will vary in future periods depending on the profitability of the underlying tracker businesses, the volume of new tracker arrangements created and the settlement of vested arrangements.

Dividends

The Board proposes to pay an interim dividend of 5.1 pence (HY 2018: 4.7 pence), amounting to approximately £6.7 million in total. This will be paid on 6 December 2019 to shareholders on record at 1 November 2019. The Board monitors the appropriate level of the dividend, taking into account, inter alia, achieved and expected trading of the Group, together with its balance sheet position. As previously stated, the Board is targeting a dividend cover of between 2.0x and 2.5x, based on underlying EPS, over the short to medium term.

Cash Flow

On an adjusted basis we generated higher cash from operations at £12.0 million (HY 2018: £7.5 million on an adjusted basis). It reflects a combination of the improved underlying trading performance in a number of markets and sectors, and the benefits of operational efficiencies including cash collection.

Capital expenditure decreased to £1.2 million (HY 2018: £3.1 million) with lower spend on office moves and IT infrastructure. Within the six months ended 31 May 2019, the bulk of the capital expenditure was in relation to new IT hardware, £0.5 million.

Overall, the cash conversion ratio increased to 44% on an adjusted basis and 39% on a reported basis (HY 2018: 22% on an adjusted basis or 13% on a reported basis). The net cash outflow from exceptional restructuring items was £1.6 million (HY 2018: £2.1 million).

Income tax paid decreased to £6.3 million (HY 2018: £7.4 million) and dividends remained largely unchanged at £6.1 million (HY 2018: £6.0 million). During the period, the Group also paid £0.9 million (HY 2018: £1.0 million) for the purchase of its own shares to satisfy employee share schemes in future periods. Foreign exchange had a moderate positive impact of £0.5 million (HY 2018:

positive impact of £0.2 million).

We started the period with net debt of £4.1 million and closed the period with net debt of £8.0 million (HY 2018: net debt £6.2 million).

A reconciliation of cash conversion ratio on an adjusted basis to reported basis

	HY 2019		HY 2018	
	Adjusted	*Reported*	*Adjusted*	*Reported*
Cash flows from operating activities	£m	£m	£m	£m
Operating profit	24.6[1]	23.3	20.4[1]	18.0
Non-cash items	4.4[2]	4.7	5.1	5.1
Changes in working capital	(17.0)[3]	(17.6)	(18.0)[4]	(17.7)
Cash generated from operations	**12.0**	**10.4**	**7.5**	**5.4**
Capex	(1.2)	(1.2)	(3.1)	(3.1)
Cash conversion ratio (%)	**44%**	**39%**	**22%**	**13%**

(1) Excludes £1.3 million in exceptional costs (HY 2018: £2.4 million)
(2) Excludes £0.3 million in IFRS 2 charge classified as exceptional (HY 2018: £nil)
(3) Added back £0.6 million in a net decrease in exceptional provision
(4) Excludes £0.3 million in a net increase in exceptional provision

Treasury management

We finance the Group's operations through equity and bank borrowings. The Group's cash management policy is to minimise interest payments by closely managing Group cash balances and external borrowings. We intend to continue this strategy while maintaining a strong balance sheet position.

We maintain a committed Revolving Credit Facility ('RCF') of £50.0 million, along with an uncommitted £20.0 million accordion facility, with HSBC and Citibank, giving the Group an option to increase its total borrowings under the facility to £70.0 million. At the half year, the Group had drawn down £15.0 million (HY 2018: £22.5 million) on these facilities.

The RCF is subject to financial covenants and the funds borrowed under this facility bear interest at a minimum annual rate of 1.3% above a three-month Sterling LIBOR, giving an average interest rate of 2.0% during the period (HY 2018: 1.8%). The finance costs for the half-year amounted to £0.6 million (HY 2018: £0.3 million).

The Group also has an uncommitted £5.0 million overdraft facility with HSBC.

Foreign exchange

Foreign exchange volatility continues to be a significant factor in the reporting of the overall performance of the business with the main functional currencies of the Group entities being Sterling, the Euro and the US Dollar.

For HY 2019, the YoY movements in exchange rates between Sterling and the Euro and the US Dollar provided a moderate net tailwind to the reported performance of the Group with the highest impact coming from the Euro and US Dollar. The exchange rate movements increased our reported HY 2019 net fees by approximately £1.6 million and operating profit by £0.4 million.

Exchange rate movements remain a material sensitivity. By way of illustration, each one per cent movement in exchange rates of the Euro and the US Dollar against Sterling impacted our HY 2019 net fees by £0.9 million and £0.4 million, respectively, and operating profit by £0.3 million and £0.1 million, respectively.

The Board considers it appropriate in certain cases to use derivative financial instruments as part of its day-to-day cash management to provide the Group with protection against adverse movements in the Euro and US dollar during the settlement period. The Group does not use derivatives to hedge translational foreign exchange exposure in its balance sheet and income statement.

Principal Risks and Uncertainties

Principal risks and uncertainties affecting the business activities of the Group are detailed within the Strategic Report section of the Group's 2018 Annual Report, a copy of which is available on the Group's website www.sthree.com.

In terms of macroeconomic environment risks, our strategy is to continue to grow the size of our international business and newer sectors, in both financial terms and geographical coverage. This will help reduce our exposure or reliance on any one specific economy, although a downturn in a particular market could adversely affect the Group's key risk factors.

In the view of the Board, there is no material change expected to the Group's key risk factors in the foreseeable future.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that to the best of their knowledge:

(a) the Condensed Consolidated Interim Financial Report (unaudited) has been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union; and

(b) the Interim Management Report includes a fair review of the information required by the Disclosure and Transparency Rules ('DTR') paragraph 4.2.7R (an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed financial information, and description of principal risks and uncertainties for the remaining six months of the financial year); and

(c) the Interim Management Report includes a fair review of the information required by DTR paragraph 4.2.8R (disclosure of material related parties' transactions and changes therein during the first six months of the financial year).

The Directors of SThree Plc are listed in the SThree Plc Annual Report for 30 November 2018. A list of the current Directors is maintained on the Group's website www.sthree.com.

Approved by the Board 19 July 2019 and signed on its behalf by:

Mark Dorman Chief Executive Officer	Alex Smith Chief Financial Officer

www.sthree.com/investors

CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

CONDENSED CONSOLIDATED INCOME STATEMENT - UNAUDITED

for the half year ended 31 May 2019

		31 May 2019			31 May 2018		
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	2	653,268	-	653,268	585,940	-	585,940
Cost of sales		(490,279)	-	(490,279)	(437,545)	-	(437,545)
Net fees	2	**162,989**	**-**	**162,989**	**148,395**	**-**	**148,395**
Administrative expenses	3	(138,383)	(1,333)	(139,716)	(127,998)	(2,434)	(130,432)
Operating profit		**24,606**	**(1,333)**	**23,273**	**20,397**	**(2,434)**	**17,963**
Finance income		29	-	29	46	-	46
Finance costs		(628)	-	(628)	(313)	-	(313)
Gain on disposal of associate		-	-	-	146	-	146
Profit before taxation		**24,007**	**(1,333)**	**22,674**	**20,276**	**(2,434)**	**17,842**
Taxation	4	(6,481)	253	(6,228)	(5,320)	462	(4,858)
Profit for the period attributable to owners of the Company		**17,526**	**(1,080)**	**16,446**	**14,956**	**(1,972)**	**12,984**
Earnings per share	6	**pence**	**pence**	**pence**	**pence**	**pence**	**pence**
Basic		13.5	(0.8)	12.7	11.6	(1.5)	10.1
Diluted		13.0	(0.8)	12.2	11.1	(1.5)	9.6

The accompanying notes on pages 16-25 form an integral part of this Interim Financial Report.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - UNAUDITED

For the half year ended 31 May 2019

	Note	31 May 2019 £'000	31 May 2018 £'000
Profit for the period		**16,446**	**12,984**
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on retranslation of foreign operations		220	680
Items that will not be subsequently reclassified to profit or loss:			
Net loss on equity instruments at fair value through other comprehensive income	1	(983)	-
Other comprehensive income for the period (net of tax)		(763)	680
Total comprehensive income for the period attributable to owners of the Company		**15,683**	**13,664**

The accompanying notes on pages 16-25 form an integral part of this Interim Financial Report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - UNAUDITED
as at 31 May 2019

	Note	31 May 2019 £'000	Audited 30 November 2018 £'000
ASSETS			
Non-current assets			
Property, plant and equipment		6,136	6,915
Intangible assets		8,614	9,609
Investments	1	1,017	1,977
Deferred tax assets		2,633	2,750
		18,400	21,251
Current assets			
Trade and other receivables		270,383	285,618
Current tax assets		2,099	2,751
Cash and cash equivalents	7	22,591	50,844
		295,073	339,213
Total assets		**313,473**	**360,464**
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	9	1,321	1,319
Share premium		30,795	30,511
Other reserves		(5,408)	(5,275)
Retained earnings		70,544	75,116
Total equity		**97,252**	**101,671**
Non-current liabilities			
Provisions for liabilities and charges		1,465	1,569
Current liabilities			
Borrowings	8	15,000	37,428
Bank overdraft	7	15,620	17,521
Provisions for liabilities and charges		8,854	9,614
Trade and other payables		175,282	191,742
Current tax liabilities		-	919
		214,756	257,224
Total liabilities		**216,221**	**258,793**
Total equity and liabilities		**313,473**	**360,464**

The accompanying notes on pages 16-25 form an integral part of this Interim Financial Report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - UNAUDITED

for the half year ended 31 May 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Treasury reserve £'000	Currency translation reserve £'000	Fair value reserve of equity investments £'000	Retained earnings £'000	Total equity attributable to owners of the Company £'000
Audited balance at 30 November 2017	**1,317**	**28,806**	**168**	**878**	**(8,535)**	**(1,067)**	**-**	**59,138**	**80,705**
Profit for the half year ended 31 May 2018	-	-	-	-	-	-	-	12,984	12,984
Other comprehensive income for the period	-	-	-	-	-	680	-	-	680
Total comprehensive income for the period	-	-	-	-	-	680	-	12,984	13,664
Dividends paid to equity holders (note 5)	-	-	-	-	-	-	-	(6,041)	(6,041)
Dividends payable to equity holders (note 5)	-	-	-	-	-	-	-	(11,976)	(11,976)
Settlement of vested tracker shares	-	-	-	-	121	-	-	(212)	(91)
Settlement of share-based payments	2	349	-	-	-	-	-	-	351
Purchase of own shares by Employee Benefit Trust (note 9)	-	-	-	-	(989)	-	-	-	(989)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	-		1,577	1,577
Total movements in equity	**2**	**349**	**-**	**-**	**(868)**	**680**	**-**	**(3,668)**	**(3,505)**
Unaudited balance at 31 May 2018	**1,319**	**29,155**	**168**	**878**	**(9,403)**	**387**	**-**	**55,470**	**77,200**
Audited balance at 30 November 2018	**1,319**	**30,511**	**172**	**878**	**(7,830)**	**1,505**	**-**	**75,116**	**101,671**
Effect of a change in accounting policy (note 1)	-	-	-	-	-	-	-	(2,392)	(2,392)
Restated total equity at 1 December 2018	**1,319**	**30,511**	**172**	**878**	**(7,830)**	**1,505**	**-**	**72,724**	**99,279**
Profit for the half year ended 31 May 2019	-	-	-	-	-	-	-	16,446	16,446
Other comprehensive income for the period (note 1)	-	-	-	-	-	220	(983)	-	(763)
Total comprehensive income for the period	-	-	-	-	-	220	(983)	16,446	15,683
Dividends paid to equity holders (note 5)	-	-	-	-	-	-	-	(6,069)	(6,069)
Dividends payable to equity holders (note 5)	-	-	-	-	-	-	-	(12,722)	(12,722)
Settlement of share-based payments	2	284	-	-	1,507	-	-	(1,507)	286
Purchase of own shares by Employee Benefit Trust (note 9)	-	-	-	-	(877)	-	-	-	(877)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	-	-	1,672	1,672
Total movements in equity	**2**	**284**	**-**	**-**	**630**	**220**	**(983)**	**(2,180)**	**(2,027)**
Unaudited balance at 31 May 2019	**1,321**	**30,795**	**172**	**878**	**(7,200)**	**1,725**	**(983)**	**70,544**	**97,252**

The accompanying notes on pages 16-25 form an integral part of this Interim Financial Report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS - UNAUDITED

for the half year ended 31 May 2019

	Note	31 May 2019 £'000	31 May 2018 £'000
Cash flows from operating activities			
Profit before taxation after exceptional items		22,674	17,842
Adjustments for:			
Depreciation and amortisation charge		3,001	2,787
Accelerated amortisation and impairment of intangible assets		-	724
Finance income		(29)	(46)
Finance cost		628	313
Loss on disposal of property, plant and equipment		8	8
Loss on disposal of subsidiaries		-	70
Gain on disposal of associate		-	(146)
FX revaluation gain on investments		(5)	(29)
Non-cash charge for share-based payments		1,672	1,577
Operating cash flows before changes in working capital and provisions		**27,949**	**23,100**
Decrease/(increase) in receivables		3,187	(7,960)
Decrease in payables		(19,905)	(8,916)
Decrease in provisions		(916)	(777)
Cash generated from operations		10,315	5,447
Finance income		10	25
Income tax paid - net		(6,345)	(7,445)
Net cash generated from/(used in) operating activities		3,980	(1,973)
Cash generated from operating activities before exceptional items		5,606	127
Cash outflow from exceptional items		(1,626)	(2,100)
Net cash generated from/(used in) from operating activities		3,980	(1,973)
Cash flows from investing activities			
Purchase of property, plant and equipment		(721)	(1,718)
Purchase of intangible assets		(520)	(1,380)
Net cash used in investing activities		(1,241)	(3,098)
Cash flows from financing activities			
(Net repayments of)/proceeds from borrowings	8	(22,428)	10,453
Interest paid		(570)	(313)
Employee subscription for tracker shares		70	-
Proceeds from exercise of share options		286	342
Purchase of own shares		(877)	(989)
Dividends paid to equity holders	5	(6,069)	(6,041)
Net cash (used in)/generated from financing activities		(29,588)	3,452
Net decrease in cash and cash equivalents		**(26,849)**	**(1,619)**
Cash and cash equivalents at beginning of the year		33,323	17,621
Exchange gains relating to cash and cash equivalent		497	225
Net cash and cash equivalents at end of the year	**7**	**6,971**	**16,227**

The accompanying notes on pages 16-25 form an integral part of this Interim Financial Report.

1. ACCOUNTING POLICIES

Corporate Information

SThree plc ('the Company') and its subsidiaries (collectively 'the Group') operate predominantly in the United Kingdom & Ireland, Continental Europe, USA and Asia Pacific & Middle East. The Group consists of different brands and provides both Permanent and Contract specialist recruitment services, primarily in the Technology, Banking & Finance, Energy, Engineering and Life Sciences sectors.

The Company is a public limited company listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom and registered in England and Wales. Its registered office is 1st Floor, 75 King William Street, London, EC4N 7BE.

This Condensed Consolidated Interim Financial Report ('Interim Financial Report') of the Group as at and for the half year ended 31 May 2019 comprises that of the Company and all its subsidiaries. The Interim Financial Report is unaudited and has not been reviewed by external auditors. It does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 November 2018 were approved by the Board of Directors on 25 January 2019 and a copy was delivered to the Registrar of Companies. The auditors reported on those accounts, their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Interim Financial Report of the Group was approved by the Board for issue on 19 July 2019.

Basis of preparation

This Interim Financial Report for the half-year reporting period ended 31 May 2019 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 *Interim Financial Reporting* as adopted by the European Union. The Interim Financial Report is presented on a condensed basis as permitted by IAS 34 and therefore does not include all disclosures that would otherwise be included in an annual financial report and should be read in conjunction with the Group's 2018 annual financial statements, which were prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted and endorsed by the European Union.

The Directors have elected to change all references to "gross profit" in the financial statements to "net fees" with effect from the half-year reporting period ended 31 May 2019.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the accompanying Interim Management Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are shown in other sections of this Interim Financial Information.

Having considered the Group's resources and available banking facilities, the Directors are satisfied that the Group has sufficient resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing this Interim Financial Information.

Significant Accounting Policies

The accounting policies adopted are consistent with those applied in the preparation of the Group's 2018 annual financial statements and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

New Standards and Interpretations

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

IFRS 9 *Financial instruments*
IFRS 15 *Revenue from Contracts with Customers*

As at the date of authorisation of this Interim Financial Information, the following key standards and amendments to standards were in issue but not yet effective. The amendments listed below do not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

IFRS 2 *(amendments) Share Based Payments*
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
IFRIC 23 *Uncertainty over Income Tax Treatments*

The impact and timing of the adoption of IFRS 16 *Leases* is disclosed below. The Directors are currently evaluating the impact of the adoption of all other standards, amendments and interpretations, but do not expect them to have a material impact on Group operations or results

IFRS 16 *Leases*

IFRS 16 *Leases* ('IFRS 16') requires lessees to account for all leases under a single on-balance sheet model similar to accounting for finance leases under IAS 17 *Leases*. For every lease brought onto the balance sheet, lessees will recognise a right-of-use asset and a lease liability. The only exceptions are short-term and low-value leases.

Within the income statement, operating lease rental payment will be replaced by depreciation and interest expense. This will result in an increase in operating profit and an increase in finance costs.

The standard will affect primarily the accounting for the Group's operating leases. Based on the results of a preliminary impact assessment, on the date of initial application of IFRS 16, the Group's net assets are expected to decrease by a range of £3 million to £4 million (a net result of the recognition of lease assets at approximately £35 million to £40 million offset by lease liabilities of £38 million to £44 million).

The new leasing standard is mandatory for first interim period within the annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date. The Group will transition to IFRS 16 on a modified retrospective basis in the financial reporting period commencing on 1 December 2019.

Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 *Financial Instruments* ('IFRS 9') and IFRS 15 *Revenue from Contracts with Customers* ('IFRS 15') on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 December 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

As a result of the changes in the Group's accounting policies, normally prior year financial statements have to be restated. As explained in point (b) below, IFRS 9 was adopted without restating comparative information. The reclassifications and the adjustments arising from the new fair valuation requirements and impairment are therefore not reflected in the statement of financial position as at 30 November 2018. As explained in point (d) below, IFRS 15 was adopted on the modified retrospective basis, whereby the adjustment arising from the revised Contract accrued income policy was recognised in the opening balance of retained earnings on 1 December 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Impact on the statement of financial position (increase/(decrease)) (extract)	30 November 2018 £'000	IFRS 9 £'000	IFRS 15 £'000	1 December 2018 £'000
Current assets				
Trade and other receivables	285,618	-	(13,017)	272,601
Current tax assets	2,751	-	766	3,517
	288,369	**-**	**(12,251)**	**276,118**
Current liabilities				
Trade and other payables	191,742	-	(9,859)	181,883
Equity				
Retained earnings	75,116	-	(2,392)	72,724

(b) IFRS 9 - Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 December 2018 resulted in changes in accounting policies; however there were no adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9 paragraphs 7.2.15 and 7.2.26, comparative figures have not been restated. Due to the immaterial impact of IFRS 9 adoption, the adjustment to the opening balance of retained earnings or other reserves at 1 December 2018 was not recognised.

(i) Classification and measurement

On the date of initial application of IFRS 9, the Directors assessed which business models were applicable to the financial assets held by the Group, and classified its financial instruments into the appropriate IFRS 9 categories: financial assets held at fair value through profit or loss ('FVTPL'), financial assets held at fair value through other comprehensive income ('FVOCI'), and financial assets held at amortised cost (the latter comprise primarily 'Trade and other receivables'). The main effects resulting from this reclassification were as follows:

Financial assets - 1 December 2018	FVTPL £'000	FVOCI (Available-for-sale) £'000	Trade and other receivables £'000
Closing balance 30 November 2018 - IAS39*	**-**	**1,977**	**285,618**
Reclassify debt investments from available-for-sale to FVTPL *(note (i.a))*	435	(435)	-
Reclassify equity investments from available-for-sale to FVOCI* *(note (i.b))*	-	-	-
Adjustments arising from the adoption of IFRS 15 *(note (d))*	-	-	(13,017)
Opening balance 1 December 2018 - IFRS 9	**435**	**1,542**	**272,601**

*The closing balances as at 30 November 2018 show available-for-sale financial assets under FVOCI.

(i.a) Reclassification from available-for-sale to FVTPL
Certain investments in convertible bonds with the embedded conversion rights were reclassified from available-for-sale to financial assets at FVTPL (£0.4 million at 1 December 2018). Due to the embedded call option, they did not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows did not represent solely payments of principal and interest.
There were no related fair value gains or losses to transfer from the available-for-sale financial assets reserve to retained earnings on 1 December 2018. Under IAS 39, the bonds were held at cost less impairment.

On the date of the initial application of IFRS 9, the fair value of the bonds was equivalent to the cost for these assets. There was no impact on retained earnings at 1 December 2018. In the six months ended to 31 May 2019, an immaterial uplift was determined in the fair value of one bond including the embedded option. Hence, no upward fair valuation was performed in the income statement.

(i.b) Equity investments previously classified as available-for-sale
The Group elected to present changes in the fair value of all its equity investments in OCI, as they are held for long-term strategic purposes. As a result, assets with the carrying value of £1.5 million under IAS 39 were reclassified from available-for-sale financial assets to financial assets at FVOCI under IFRS 9. There were no fair value gains or losses recognised for these investments in other reserves in prior years. On the date of initial application of IFRS 9, the Directors estimated fair value of the entire equity portfolio at £1.7 million. This represented an immaterial uplift from the carrying value of £1.5 million under IAS 39, resulting in £nil impact on retained earnings at 1 December 2018.

However, in the six months to 31 May 2019, the Directors wrote off £0.8 million in relation to the investment in The Sandpit Limited and £0.2 million in relation to Ryalto. The write-off amounts were recognised in OCI. The equity rights in The Sandpit Limited, which discontinued its operations, were converted into a minority shareholding in The Sandpit Ventures Limited at an immaterial nominal book value. The downward valuation of Ryalto equity rights was caused by the dilution in the existing shareholders' ownership of Ryalto as a result of the company issuing new equity. The amount of the write-off was recognised in OCI.

(ii) Impairment of financial assets
The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model: trade receivables and cash and cash equivalents.

The Directors determined that the Group's existing impairment methodology for trade receivables is overall compliant with IFRS 9.

Under the existing policy, trade receivables are grouped based on the days past due. For each category, the Group applies fixed provision rates based on historical collection experience and current economic trends. In addition, the Group performs an individual assessment for a selection of exposures, using qualitative factors such as forward-looking expectations about debtor's credit standing or macroeconomic conditions.

As such, no adjustment to the loss allowance or opening balance of retained earnings was recognised on transition to IFRS 9.

The loss allowances increased by a further £0.9 million to £3.6 million for trade receivables during the six months to 31 May 2019. The increase would have been same under the incurred loss model of IAS 39.

The expected credit losses on cash and cash equivalents were immaterial owing to the short-term nature of the Group's bank deposits and strict treasury policy which stipulates a list of approved counterparties, with reference to their high credit standing, resulting in £nil impact on retained earnings at 1 December 2018.

(c) IFRS 9 - Accounting policies applied from 1 December 2018

(i) Classification of investments and other financial assets
From 1 December 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

(ii) Measurement of investments and other financial assets
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Equity instruments
The Group subsequently measures all equity investments at fair value. Where the Directors have elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in the income statement as other income when the Group's right to receive payments is established.

Changes in the fair value of equity investments at FVTPL are recognised in other gains/(losses) in the income statement. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Debt instruments
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. At present, the Group classifies its debt instruments into two measurement categories:

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Any interest income from these financial assets is included in finance income using the effective interest rate method. Impairment losses are recognised in the income statement.
- FVTPL: assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in the income statement and presented below operating profit in the period in which it arises.

(iii) Impairment

Under IFRS 9, the Group will continue to assess trade receivables for any expected credit losses associated with the instrument based on historical collection experience, current and forward looking economic trends.

(d) IFRS 15 - Impact of adoption

The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements on 1 December 2018. In line with the transition provisions in IFRS 15, the Group adopted the new rules on the modified retrospective basis without restatement of comparatives. Under the modified transition method, on 1 December 2018, a net (post-tax) adjustment of £2.4 million was made to the opening balance of retained earnings, to recognise a new policy of estimating accrued income.

The following adjustments were made to the amounts recognised in the statement of financial position at the date of initial application:

	IAS 18		IFRS 15
	30 November 2018	Re-measurements	1 December 2018
	£'000	£'000	£'000
Trade and other receivables (Accrued income only)	78,741	(13,017)	65,724
Trade and other payables (Accruals only)	(107,105)	9,859	(97,246)
Current tax assets	2,751	766	3,517
Post-tax adjustment at the date of initial application of IFRS 15		**(2,392)**	

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

	2018
	£'000
Retained earnings prior to adjustment	**75,116**
Restatement of accrued income	(13,017)
Restatement of accrued cost of sales	9,859
Tax adjustment to retained earnings from adoption of IFRS 15	766
Opening retained earnings 1 December from adoption of IFRS 15	**72,724**

(e) IFRS 15 - Accounting policies applied from 1 December 2018

Contract revenue ('accrued income') is recognised when the supply of professional services has been rendered. This includes an assessment of professional services received by the client for services provided by contractors between the date of the last received timesheet and the reporting end date. Accrued income is recognised as revenue for contractors where no timesheet has been received, but the individual is 'live' on the Group's systems, or where a client has not yet approved a submitted timesheet.

Previously, such accruals were systematically removed after a three-month cut-off date if no timesheet was received or no customer approval was obtained. That policy of estimating accrued income/cost historically resulted in a portion of revenue/cost being reversed (this is referred to as 'shrinkage').

Under IFRS 15, an amount of estimated Contract accrual can only be recognised if it is highly probable that a significant reversal in the amount of recognised revenue will not occur in subsequent periods.

In line with this new requirement, to prevent the over-recognition of revenue, from 1 December 2018 the Group has applied the historical shrinkage rate to the amount of accrued income/cost determined for unsubmitted or unapproved timesheets. As a consequence, on 1 December 2018 the accrued income and cost would have been £13.0 million and £9.9 million lower respectively. This resulted in a net adjustment to the opening balance of retained earnings of £3.1 million pre-tax.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Interim Financial Report requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the end of the reporting period, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amounts, the actual results may ultimately differ from these estimates.

In preparing the Interim Financial Report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied in the Group's 2018 annual financial statements, with the exception of changes in estimates that are required in determining the provision for income taxes.

Seasonality of Operations

Due to the seasonal nature of the recruitment business, higher revenues and operating profits are usually expected in the second half of the year compared to the first half. In the financial year ended 30 November 2018, 46% of net fees were earned in the first half of the year, with 54% earned in the second half.

2. SEGMENTAL ANALYSIS

IFRS 8 'Segmental Reporting' requires operating segments to be identified on the basis of internal results about components of the Group that are regularly reviewed by the entity's chief operating decision maker to make strategic decisions and assess segment performance.

The Directors have determined the chief operating decision maker to be the Executive Committee made up of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief People Officer and the Chief Sales Officer, with other senior management attending via invitation. Operating segments have been identified based on reports reviewed by the Executive Committee, which consider the business primarily from a geographical perspective. The Group segments the business into four reportable regions: the United Kingdom & Ireland ('UK&I'), USA, Asia Pacific & Middle East ('APAC & ME') and Continental Europe. The latter comprises DACH (Germany, Switzerland and Austria) and 'Benelux, France & Spain'; both of these sub-regions were aggregated into one reportable segment based on the possession of similar economic characteristics.

The Group's management reporting and controlling systems use accounting policies that are the same as those described in note 1 in the summary of significant accounting policies in the Group's 2018 annual financial statements.

Revenue and net fees by reportable segment

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'net fees' in the management reporting and controlling systems. Net fees are the measure of segment profit comprising revenue less cost of sales.

Intersegment revenue is recorded at values which approximate third party selling prices and is not significant.

	Revenue		Net fees	
	31 May 2019	31 May 2018	31 May 2019	31 May 2018
	£'000	£'000	£'000	£'000
Continental Europe	383,328	328,804	93,910	83,934
UK&I	124,662	131,721	23,779	26,501
USA	114,554	98,443	35,468	29,465
APAC & ME	30,724	26,972	9,832	8,495
	653,268	**585,940**	**162,989**	**148,395**

Continental Europe primarily includes Austria, Belgium, France, Germany, Luxembourg, the Netherlands, Spain and Switzerland. APAC & ME mainly includes Australia, Dubai, Hong Kong, Japan, Malaysia and Singapore.

Other information

The Group's revenue from external customers, its net fees and information about its segment assets (non-current assets excluding deferred tax assets) by key location are detailed below:

	Revenue		Net fees	
	31 May 2019	31 May 2018	31 May 2019	31 May 2018
	£'000	£'000	£'000	£'000
Germany	163,296	142,005	47,673	42,811
Netherlands	126,512	109,015	24,738	22,371
UK	117,754	126,025	21,617	24,414
USA	114,554	98,443	35,468	29,465
Other	131,152	110,452	33,493	29,334
	653,268	**585,940**	**162,989**	**148,395**

	Non-current assets	
	31 May 2019	Audited 30 November 2018
	£'000	£'000
UK	12,054	14,354
Germany	966	1,060
USA	810	1,136
Netherlands	721	803
Other	1,216	1,148
	15,767	**18,501**

The following segmental analysis by brands, recruitment classification and sectors (being the profession of candidates placed) have been included as additional disclosure to the requirements of IFRS 8.

	Revenue		Net fees	
	31 May 2019	31 May 2018	31 May 2019	31 May 2018
	£'000	£'000	£'000	£'000
Brands				
Progressive	216,883	182,092	49,244	40,580
Computer Futures	193,957	168,141	49,511	44,991
Huxley Associates	121,849	122,942	28,762	29,306
Real Staffing Group	120,579	112,765	35,472	33,518
	653,268	**585,940**	**162,989**	**148,395**

Other brands including Global Enterprise Partners, JP Gray, Madison Black, Newington International and Orgtel are rolled into the above brands.

	Revenue		Net fees	
	31 May 2019	31 May 2018	31 May 2019	31 May 2018
	£'000	£'000	£'000	£'000
Recruitment classification				
Contract	610,563	544,062	121,098	106,705
Permanent	42,705	41,878	41,891	41,690
	653,268	**585,940**	**162,989**	**148,395**

	Revenue		Net fees	
	31 May 2019	31 May 2018	31 May 2019	31 May 2018
	£'000	£'000	£'000	£'000
Sectors				
Technology	310,501	270,691	73,111	66,488
Life Sciences	97,536	90,748	31,532	30,594
Energy	88,362	75,976	18,379	14,013
Banking & Finance	79,082	87,597	18,777	20,066
Engineering	62,475	51,516	16,343	14,292
Other	15,312	9,412	4,847	2,942
	653,268	**585,940**	**162,989**	**148,395**

Other includes Procurement & Supply Chain and Sales & Marketing.

3. ADMINISTRATIVE EXPENSES - EXCEPTIONAL ITEMS

The expected benefits are being realised from the successful restructure and relocation of the majority of our London-based support functions to Glasgow. This restructuring is anticipated to realise cost savings in excess of £5 million per annum.

Only immaterial net exceptional costs of £0.1 million have been recognised during the period in relation to the transition to the Centre of Excellence. The exceptional charge in the period included mainly personnel double-running costs of £0.2 million and property costs of £0.3 million. These costs were subsequently offset by the government grant income of £0.4 million recognised as an offset to the exceptional costs of an agreed percentage of gross wages for each full time role created in the Centre of Excellence, bringing the total net costs recognised to date to £13.2 million (HY 2018: £9.1 million).

We do not expect to incur any further exceptional costs in the remainder of the year in respect of the move to Glasgow whilst the additional government grant is anticipated to be received and recognised as exceptional income in the period through to the end of 2021.

On 14 December 2018, the Group communicated to the market that the Chief Executive Officer, Gary Elden, would step down from his role and the Board on 18 March 2019. The new Chief Executive Officer ('CEO'), Mark Dorman, joined the Group on 18 March 2019. The new CEO was appointed following Gary Elden stepping down from the role after leading the Company for six years. Mark was appointed after a rigorous process determined he was the best candidate to take the business forward to its next stage of growth and development. These Senior Management changes resulted in the exceptional charge of £1.2 million in HY 2019. The total charge comprised contractual payments, recruitment and other professional fees, double running costs and relocation costs.

Due to the material size and non-recurring nature of these strategic projects, the associated costs have been separately disclosed as exceptional items in the Consolidated Income Statement in line with the treatment in HY 2018. Disclosure of items as exceptional, highlights them and provides a clearer, comparable view of underlying earnings.

Items classified as exceptional were as follows:

Exceptional items - charged to operating profit	31 May 2019 £'000	31 May 2018 £'000
Senior Management changes		
Contractual payments for CEO departure	731	-
Recruitment and other professional fees	342	-
Double running costs	56	-
Relocation costs	60	-
Total - Senior Management changes	1,189	-
Support functions relocation		
Staff costs and redundancy	249	1,494
Property costs	305	147
Other	29	793
Grant income	(439)	-
Total - Support functions relocation	144	2,434
Total net exceptional costs for the period	**1,333**	**2,434**

4. TAXATION

Income tax for the half year is accrued based on management's best estimate of the average annual effective tax rate for the financial year. The tax charge for the half year amounted to £6.2 million (HY 2018: £4.9 million) at an effective rate of 27% (HY 2018: 27%). The effective tax rate on the pre-exceptional trading profits arising in the period is 27% (HY 2018: 26%).

5. DIVIDENDS

Amounts recognised as distributions to equity holders in the period	31 May 2019 £'000	31 May 2018 £'000
Interim dividend of 4.7p (2017: 4.7p) per share	6,069	6,041
Final dividend of 9.8p (2017: 9.3p) per share	12,722	11,976
	18,791	**18,017**

2018 interim dividend of 4.7 pence (2017: 4.7 pence) per share was paid on 7 December 2018.

2018 final dividend of 9.8 pence (2017: 9.3 pence) per share was approved by shareholders at the AGM on 24 April 2019 and has been included as a liability in this Interim Financial Report. The dividend was paid on 7 June 2019 to shareholders on record at 26 April 2019.

2019 interim dividend of 5.1 pence per share was proposed and approved by the Board on 19 July 2019 and has not been included as a liability as at 31 May 2019. It will be paid on 6 December 2019 to shareholders on record at 1 November 2019.

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share ('EPS') is set out below:

Basic EPS is calculated by dividing the earnings attributable to owners of the Company by the weighted average number of shares in issue during the period excluding shares held as treasury shares and those held in the Employee Benefit Trust which are treated as cancelled.

For diluted EPS, the weighted average number of shares in issue is adjusted to assume conversion of dilutive potential shares. Potential dilution resulting from tracker shares takes into account profitability of the underlying tracker businesses and SThree plc's earnings per share. Therefore, the dilutive effect on EPS will vary in future periods depending on any changes in these factors.

	31 May 2019 £'000	31 May 2018 £'000
Earnings		
Profit for the period after tax before exceptional items	17,526	14,956
Exceptional items net of tax	(1,080)	(1,972)
Profit for the period attributable to owners of the Company	**16,446**	**12,984**

	Million	million
Number of shares		
Weighted average number of shares used for basic EPS	129.9	128.7
Dilutive effect of share plans	5.3	5.9
Diluted weighted average number of shares used for diluted EPS	**135.2**	**134.6**

	31 May 2019 pence	31 May 2018 pence
Basic		
Basic EPS before exceptional items	13.5	11.6
Impact of exceptional items	(0.8)	(1.5)
Basic EPS after exceptional items	**12.7**	**10.1**
Diluted		
Diluted EPS before exceptional items	13.0	11.1
Impact of exceptional items	(0.8)	(1.5)
Diluted EPS after exceptional items	**12.2**	**9.6**

7. CASH AND CASH EQUIVALENTS

	31 May 2019 £'000	Audited 30 November 2018 £'000
Cash at bank	22,591	50,844
Bank overdraft	(15,620)	(17,521)
Net cash and cash equivalents per the statement of cash flow	**6,791**	**33,323**

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair values.

The Group has cash pooling arrangements in place which allow any one account to be overdrawn up to £50.0 million, so long as the overall pool of accounts do not exceed a net overdrawn position of £5.0 million.

8. BORROWINGS

The Group has access to a committed RCF of £50.0 million along with an uncommitted £20.0 million accordion facility in place with HSBC and Citibank, giving the Group an option to increase its total borrowings under the facility to £70.0 million. The funds borrowed under the facility bear interest at a minimum annual rate of 1.3% (HY 2018: 1.3%) above the appropriate Sterling LIBOR. The average interest rate paid on the RCF during the year was 2.0% (HY 2018: 1.8%). The Group also has an uncommitted £5 million overdraft facility with HSBC.

At the half year end, £15.0 million (H1 2018: £22.5 million) was drawn down on these facilities.

The RCF is subject to certain covenants requiring the Group to maintain financial ratios over interest cover, leverage and guarantor cover. The covenants ratios are disclosed in the Group's 2018 annual financial statements. The Group has been in compliance with these covenants throughout the current period. The RCF facility is available under these terms and conditions until 2023.

The Group's exposure to interest rate, liquidity, foreign currency and capital management risks is disclosed in the Group's 2018 annual financial statements.

Movements in borrowings are analysed as follows:

	£'000
Opening amount as at 1 December 2017	12,000
Net drawings during the period	11,089
Changes to carrying amount due to RCF refinancing (1)	(636)
Unaudited closing amount as at 31 May 2018	**22,453**
Audited closing amount as at 30 November 2018	**37,428**
Net repayments during the period	(22,336)
Changes to carrying amount due to RCF refinancing (1)	(92)
Closing amount as at 31 May 2019	**15,000**

(1) £0.1 million (HY 2018: 0.6 million) million represents the unamortised amount of transaction costs including those incurred on renegotiating the facility.

9. SHARE CAPITAL

During the period 139,665 (H1 2018: 123,633) new ordinary shares were issued, resulting in a share premium of £0.3 million (H1 2018: £0.3 million). These shares were issued pursuant to the exercise of share awards under the Save As You Earn scheme.

Treasury Reserve

Treasury shares represent SThree plc shares repurchased and available for specific and limited purposes.

In the six months ended 31 May 2019, none of its own shares were purchased by SThree plc treasury and no shares were utilised from treasury on settlement of Long Term Incentive Plan ('LTIP'), Save As You Earn ('SAYE') or Share Incentive Plan ('SIP') awards. At the period end, 1,045,334 (HY 2018: 1,724,673) shares were held in treasury.

Employee Benefit Trust

The Group holds shares in the Employee Benefit Trust ('EBT'). The EBT is funded entirely by the Company and acquires shares in SThree Plc to satisfy future requirements of the employee share-based payment schemes. For accounting purposes shares held in the EBT are treated in the same manner as shares held in the treasury reserve by the Company and are, therefore, included in the financial statements as part of the treasury reserve for the Group.

In the six months ended 31 May 2019, the EBT purchased 290,000 (HY 2018: 923,000) of SThree plc shares. The average price paid per share was 302 pence (HY 2018: 314). The total acquisition cost of these shares was £0.9 million (HY 2018: £1.0 million), for which the treasury reserve was reduced. During the period, the EBT utilised 466,554 (HY 2018: nil) shares on settlement of LTIP awards. At the period end, the EBT held 1,146,783 (HY 2018: 1,419,407) shares.

10. CONTINGENT LIABILITIES

State Aid

In June 2019, the UK government filed an annulment application with the European Union General Court, against the European Commission's decision of April 2019, that certain parts of the UK's Controlled Foreign Company regime gave rise to State Aid. The Group has historically relied on this regime in certain jurisdictions. Our maximum potential liability is estimated at £3.2 million. Given the UK government's annulment application, our assessment is that no provision is required in respect of this issue. Despite the annulment application, under EU law the UK government is still required to recover aid in line with the Commission's findings. In this event, we expect any agreed amount to be held in escrow, pending resolution of the legal process.

Legal

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. Legal advice obtained indicates that it is unlikely that any significant liability will arise. The Directors are of the view that no material losses will arise in respect of legal claims that have not been provided against at the date of these interim financial statements.

11. RELATED PARTY DISCLOSURES

The Group's significant related parties are as disclosed in the Group's 2018 annual financial statements. There were no other material differences in related parties or related party transactions in the period compared to the prior period.

12. SHAREHOLDER COMMUNICATIONS

SThree plc has taken advantage of regulations which provide an exemption from sending copies of its interim report to shareholders. Accordingly, the 2019 interim report will not be sent to shareholders but will be available on the Company's website www.sthree.com or can be inspected at the registered office of the Company.

FINANCIAL CALENDAR

2019	
13 September	Q3 Trading update
1 November	Ex-dividend date for 2019 interim dividend
21 November	Capital Markets Day
30 November	2019 Financial Year end
6 December	2019 Interim dividend paid
13 December	Trading update for the year ended 30 November 2019
2020	
27 January	Annual results for the year ended 30 November 2019

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