

Supporting clients worldwide

Management Consulting Group PLC
Annual report and accounts 2012



About us

Management Consulting Group PLC provides professional services across a wide range of industries and sectors.

MCG operates through two independently managed practices, Alexander Proudfoot and Kurt Salmon, which are leaders in their fields and operate globally.

ALEXANDER PROUDFOOT

people • productivity • profitability

Alexander Proudfoot helps clients to better execute their plans and strategies by improving management effectiveness and embedding sustainable change, delivering substantial improvements in operational performance and increased profitability.

Read more on page 12

Kurt Salmon

Kurt Salmon is a management consultancy business that partners with its clients to drive strategies and solutions that make a lasting and meaningful impact, working from its deep knowledge in industry verticals and its functional expertise.

Read more on page 14

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Learn more at www.mcgplc.com

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Our year in brief

- Revenues 6% lower at £285.8m (2011: £302.6m), approximately 2% lower on a constant currency basis
- Underlying* operating profit of £25.7m (2011: £28.3m). Underlying operating profit margin broadly flat at 9% (2011: 9%)
- Operating profit of £18.2m, down 29% (2011: £25.5m)
- Good performance from Alexander Proudfoot, delivering improved profitability
- Mixed performance from Kurt Salmon, with further progress in the US and Asia offset by weaker activity in European markets
- Strong financial position maintained with net debt broadly unchanged at £30.3m (2011: £28.2m), below 1x adjusted EBITDA**
- Underlying* EPS of 3.5p (2011: 3.8p). Basic EPS 2.4p (2011: 3.7p)
- Total dividend increased 10% to 0.825p per share (2011: 0.75p per share)

* Throughout this annual report the term “underlying” is defined as “before non-recurring items and amortisation of acquired intangibles.”

** “Adjusted EBITDA” is defined as “underlying operating profit, after adding back depreciation (£1.1m), amortisation (£1.3m) and the cost of share awards (£3.1m)”.

“The Group delivered a resilient performance for 2012 in difficult market conditions. Alexander Proudfoot reported a good result, with revenue growth in markets outside Europe and an improvement in margin. Kurt Salmon increased revenues in North America and Asia, but the business was affected by weakness in Europe, and the weaker Euro in 2012 reduced reported revenues in Sterling.”

Nick Stagg, Chief Executive

Governance

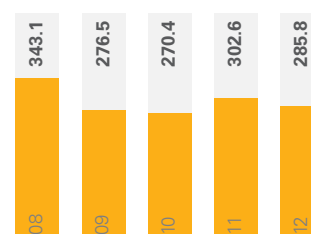
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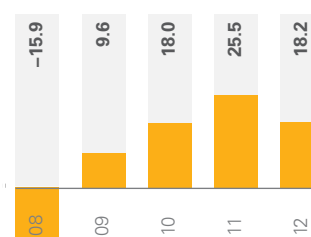
Revenue (£m)

285.8



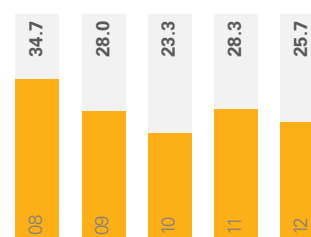
Profit from operations (£m)

18.2



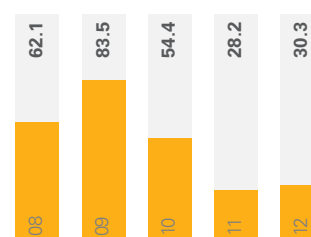
Underlying operating profit (£m)*

25.7



Net debt (£m)

30.3



Chairman's statement

"We saw an improved performance in North America and good progress in emerging markets, offset by lower business activity in some core European markets driven by macro economic concerns. We have broadly maintained our overall profit margins despite lower reported revenues."

Alan Barber
Chairman



Highlights

Reported revenue in Sterling reduced largely as a result of a weaker Euro

The Group is in a strong financial position, is profitable and cash generative

The Board is proposing to increase the dividend by 10% to 0.825p per share

The performance of the Group's businesses in 2012 was mixed. We saw an improved performance in North America and good progress in emerging markets, offset by lower business activity in some other core markets driven by Eurozone weakness, compounded by the negative impact on our reported revenues in Sterling as a result of a weaker Euro. We have broadly maintained our underlying operating profit margin at 9% despite lower reported revenues.

Alexander Proudfoot continued to perform well in 2012, sustaining previous levels of activity in the natural resources sector and in emerging markets, and improving its margin. It remains well placed to find further success in those markets and sectors where economic growth remains robust. Kurt Salmon's operations in North America and Asia, mainly focused on the retail and consumer goods sector, also performed well. Kurt Salmon's European business delivered a weaker performance than the previous year as existing clients lowered spending on consulting services in response to continuing macro economic weakness and uncertainty in the Eurozone.

Signs of a sustained global recovery in 2013 remain elusive and we expect the economic backdrop in Europe to remain challenging. We have already taken steps to adjust our strategy and operational footprint to these conditions, but we will continue to work to develop our businesses through investment and recruitment in sectors and geographies where there are good prospects for profitable growth.

The Group is in a strong financial position and our net indebtedness at the end of 2012 was less than one times adjusted EBITDA at £30.3m. MCG's operations are profitable and cash generative and we will continue to focus on promoting profitable growth in the business and improving returns to shareholders. Recognising this, the Board is proposing to increase the dividend for the full year by 10% to 0.825p per share, and will continue to maintain a progressive dividend policy.

MCG is built on our people, our relationships with our clients, and our ability to produce results for the clients who engage us. We have maintained and grown our client base in challenging times by sustaining and improving the quality of our offering, and continuing to nurture strong relationships. This is a direct consequence of the quality of the people who work in our own businesses, and I would like to take this opportunity to thank everyone who worked for MCG during 2012 for their support and commitment to the Group during the year.

Alan Barber
Chairman
6 March 2013

"We have maintained and grown our client base in challenging times by sustaining and improving the quality of our offering, and continuing to nurture strong relationships."

Our strategy and market context

MCG is a global professional services firm with a balanced geographic and sector focus. Alexander Proudfoot and Kurt Salmon are leaders in their fields, with a strong presence in their key industry verticals. Our strategy is to develop and grow these businesses in their core markets.

Core drivers

Market demand

Demand for our services is broadly related to global economic conditions, and the pace of change in the particular markets and industries in which we operate. We are well positioned to benefit from growth in emerging markets, notwithstanding weakness in many developed economies. We compete with other professional services firms in all our markets.

Industry and functional expertise

We continue to develop our businesses to focus on key industry sectors and business functions where we have a competitive advantage, and we manage these areas of our business across geographies. 60% of our revenues in 2012 were delivered in these sectors, comprising natural resources, retail and consumer products, financial services and CIO advisory services.

Client relationships

MCG's clients are many of the world's leading companies. The quality of the work we do, and our strong relationships with our clients provide a solid foundation for continuing success. It is in the nature of the work we do that clients contract with us over relatively short periods for specific projects, but we are successful because our clients return to us year after year.

How we are capitalising on these: Our strategic priorities

1

We will exploit the platform provided by our existing businesses to drive organic revenue and margin growth

2

We are committed to continuing to deliver efficiencies in the Group's operations and to enhancing financial discipline across the Group

3

We seek to align the performance of employees with objectives that are consistent with value creation for our shareholders

4

We will communicate clearly, regularly and fairly with our shareholders and with all stakeholders in our business

What we do

Global delivery capability

More than 95% of MCG's 2012 revenues were derived from work for clients delivered outside the UK.

2012 revenues by delivery location



48%

Strength in Western Europe

Our largest market in Western Europe is France, where Kurt Salmon is a leading consulting firm; it also operates in Germany, the UK, Belgium, Luxembourg and Switzerland. In Europe, Alexander Proudfoot focuses on clients based in the UK, France and Germany, but also sells projects to European clients which are delivered in Africa and Asia. MCG has no operations in Southern Europe.



34%

Scope for expansion in North America

The Alexander Proudfoot and Kurt Salmon businesses were both created more than half a century ago in the United States. They remain well established and successful professional services brands today, and this strong profile provides an opportunity to increase the scale of our US business. Canada was also a good market for both businesses in 2012.



18%

Growing presence in other markets and emerging economies

Kurt Salmon delivers retail consulting projects in the Far East from office locations in Shanghai and Tokyo. Alexander Proudfoot serves clients in a number of emerging market economies in Africa, Asia and Latin America, and has establishments in Johannesburg in South Africa, São Paulo in Brazil and Santiago in Chile. Our ability to deliver to natural resources clients in emerging markets is a key strength, but work in these markets covers other sectors too, including financial services and manufacturing.

Our two businesses

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Implementing tangible and sustainable operational improvements

Luiz Carvalho
Chief Executive,
Alexander Proudfoot



Kurt Salmon ✦

Combining industry expertise and analytical rigour

Chiheb Mahjoub
Chief Executive,
Kurt Salmon



News reports

Alexander Proudfoot does not just identify opportunities to improve operating results; it actually implements the required changes, working with management and front-line personnel, side-by-side, until the client achieves the projected financial benefits.

It works for clients in many industries, with a particular focus on the natural resources, manufacturing and financial services sectors.

Alexander Proudfoot operates a flexible business model and can deliver across the globe. It has built a substantial presence in fast-growing emerging markets.

Alexander Proudfoot quickly delivers results for a client in the mining sector

"The Company has engaged the services of leading mining consultants, Alexander Proudfoot (part of Management Consulting Group PLC) to assist Avocet in realising material, measurable and sustainable business improvements."

Avocet Mining PLC – Operational and Expansion Update.
Announcement dated 29 June 2012.

"Daily mining volumes improved by some 11% compared with Q2 2012, as a result of a programme of operating improvement initiatives implemented in conjunction with Alexander Proudfoot."

Avocet Mining PLC – Unaudited results for the quarter ended 30 September 2012. Announcement dated 1 November 2012.

Kurt Salmon provides advisory services to companies and public sector organisations, using its in-depth knowledge of issues relevant to specific industries, expertise in business processes, analytical rigour and a focus on implementation to deliver meaningful results for its clients.

It operates internationally in three practice areas, retail and consumer products, financial services and CIO advisory services, alongside strong practices in other industry sectors in certain specific geographies.

Kurt Salmon operates in Western Europe, North America and Asia, in both mature and developing markets.

Kurt Salmon named a leader in Gartner's Magic Quadrant report

Gartner recognised Kurt Salmon as a leader in its "Magic Quadrant for Business Operations Consulting Services, Worldwide" published in September 2012.

The report evaluated the capabilities of ten firms that provide business operations consulting services on a global basis, including Deloitte, PwC, KPMG and Bearing Point, based principally on feedback from their clients.

Gartner positioned Kurt Salmon in the "leaders" section in the Magic Quadrant, which measures firms in terms of their "ability to execute" and "completeness of vision".

Kurt Salmon received the highest score of all the firms covered for client centricity, reflecting close attention to client needs and strong senior leadership relationships.

Kurt Salmon was praised by clients for its deep industry expertise and its ability to move seamlessly from strategy to execution in multiple engagement scenarios.

"Magic Quadrant for Business Operations Consulting Services, Worldwide" published by Gartner on 27 September 2012.

How we operate

Management Consulting Group PLC comprises two leading advisory businesses. Both practices deliver benefits to their clients, but each operates to a distinctive business model, focusing their respective expertise to **deliver complementary market offerings**.

Strong client relationships

Building and sustaining strong relationships with our clients is at the heart of how we operate

Intellectual property

We have well established and proven methodologies that underpin our approach to client projects

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Specialists in driving rapid change

Kurt Salmon 

Applying deep industry knowledge

Understanding our clients' needs

A client engagement begins with discussions to understand the organisation's direction and objectives and to identify opportunities for operational and financial improvement. The second phase is an in-depth analysis of these opportunities to quantify the potential benefits of change. The final phase is the installation of process improvements, management systems and people solutions.

Long-term client relationships


Kurt Salmon develops long-term relationships with clients and will typically undertake a series of engagements for larger clients in any one year and in successive years. Kurt Salmon is a trusted adviser to its clients, independent from technology, audit and outsourcing providers.

Tried and tested methodology

Alexander Proudfoot uses a tried and tested methodology. The essential and universal principles can be applied in any business environment, wherever there are large scale complex processes. Over 65 years Alexander Proudfoot has completed more than 16,000 projects across the globe.

Transferring knowledge

We use a variety of tools and techniques to deliver results to our clients. Kurt Salmon people are subject matter experts and transfer knowledge to their clients to help them manage change in their businesses, whether it is driven by industry change, competition, technology or regulation.

 Learn more in our case studies on **pages 8 to 9**

Go to www.mcgplc.com/investors for the latest news and updates

Superior expertise

We apply deep industry knowledge and understanding of business processes and management

Specialised people

Our people are committed to results for their clients, for our business and for themselves

Long-term value

Our clients use us year after year because we deliver results

Disciplined execution

The Alexander Proudfoot offering is based on aligning the mindset and actions of people at all levels of an organisation to the objectives of senior executives. Alexander Proudfoot's methodology is sector neutral and will achieve results in any environment. It is a proven model for delivering rapid improvement in performance.

Specialist teams at each stage

Our organisation structure delivers a specialist team at each stage of the client project cycle, from business origination, through analysis, to process implementation and people solutions. Variable pay for Alexander Proudfoot employees is aligned with performance improvement for clients and value creation for our business.

Sustainable improvements

Clients begin to realise the real cash benefits of the changes implemented during the early stages of the engagement process. Alexander Proudfoot delivers measurable and sustainable operational improvements.

Relevant expertise

Kurt Salmon's strategic advice is grounded in the experience of many of its partners and in the in-depth consulting experience of their many industry specialists, all of whom know intimately their clients' businesses. Relevant industry expertise across a range of sectors is at the heart of the Kurt Salmon offering.

A partner-led model

Kurt Salmon's organisation structure is built on a partner-led model. Partners develop and maintain relationships with clients over a long period and are responsible for leading the team in the delivery of each client engagement. Variable pay is aligned with the performance of the Kurt Salmon business overall and its component business units.

Driving strategies and solutions

Kurt Salmon partners with its clients to drive strategies and solutions that make a lasting and meaningful impact on their businesses. Kurt Salmon produces measurable top and bottom line results as it helps clients identify and mitigate the risks associated with the execution of their strategies.

Learn more in our case study on **page 14**

Learn more in our case study on **page 12**

Long-term client relationships

MCG's clients are many of the world's leading companies. Our businesses have deep and long-standing relationships with their clients, nurtured and developed by our people and supported by a track record of delivering results over many decades.

Kurt Salmon

75% of Kurt Salmon's top 20 clients in 2012 were clients of the business in each of the last five years.



US

Financial services



Minimising risk in a dynamic and changing environment

A leading US mortgage broker underwent a significant operational transformation to implement a series of strategic and cost-saving projects. Kurt Salmon (working with a partner) designed an integrated risk model to manage the planning, scheduling and reporting for numerous initiatives executed across multiple organisations with different service providers. A total of 500 servers and 400 applications were moved successfully over a five-month period.

As a result senior management were able to deliver efficient, on-time completion of strategic, cost-saving projects in a dynamic and changing environment.



Europe

General retail



Implementing inventory effectiveness

A leading European luxury department store suffered from sales and margin erosion as a result of an outdated approach to merchandising and planning, which led to items and sizes being consistently over or underbought. Kurt Salmon developed and implemented a leading end-to-end merchandising and planning process, organisation and toolset that incorporated local insights and analytics in order to improve inventory effectiveness.

Sales increased and markdowns fell as a result of having exactly the right products in the right stores. EBIT has more than tripled since implementation began.



Europe

Food retail



Improving productivity and labour management

High store labour costs and lack of visibility of real labour requirements had eroded store profitability and customer service in a multi-billion pound European supermarket chain. Kurt Salmon worked with the client over three years to develop and implement a complete in-store labour management programme to dramatically improve productivity and overall store profitability.

The project resulted in baseline annual wage cost reductions of 5% and a measurable improvement in customer service. The implementation laid the foundation for further reductions and ongoing efficiencies.

Read more about the clients we've worked with in our **Business Review** on pages 12 to 15

Alexander Proudfoot

60% of Alexander Proudfoot's revenues in 2012 related to work for clients with whom the business had an existing relationship.



Brazil

Mining



Improving efficiency to increase shareholder value

Despite significant investment in its processing plants in Brazil, a Peru-based mining group had not achieved throughput levels that delivered positive results to shareholders. Alexander Proudfoot worked on improving efficiencies in production and maintenance operations to increase throughput and ore recoveries, delivering annualised benefits to the business of BRL72m.

"The concept of active supervision is now so ingrained it is a habit and supervisors are truly supervising and employing the principles of variance management."

Client – Company President



Europe

Aircraft manufacturing



Skilled worker shortage

Alexander Proudfoot worked with a leading aircraft manufacturer, constrained by a shortage of aerospace engineers. We helped to implement changes to management systems and working practices, improving productivity by 15% and generating time savings for a critical R&D project that equated to having available an additional 90 engineers.

"The Alexander Proudfoot team gained the respect of our engineers by helping them achieve significant productivity improvements through the application of common sense initiatives."

Client – Senior Vice President



US

Health insurance



Reducing cycle time to improve productivity

A leading healthplan administrator for more than one million members in eleven US states wanted to create a lower cost structure and more customer centric operation. Alexander Proudfoot helped to improve end-to-end processes across the entire enterprise. One key result, amongst a range of productivity improvements, was a 59% reduction in cycle time, leading to better service levels and results.

"The reduction in cycle time is a big benefit to providers. Providers are vital to our business and improving their experience will pay dividends."

Client – Operations Manager

Business review

Chief Executive's review

"MCG has delivered a resilient performance for 2012, broadly maintaining our underlying operating profit margin despite lower levels of activity in some core markets. The performance of both Alexander Proudfoot and Kurt Salmon demonstrates the strengths of the two businesses in this uncertain economic environment."

Nick Stagg
Chief Executive



Highlights

Reported revenues only 2% lower than 2011 on a constant currency basis

Underlying operating profit margin broadly maintained at 9%

Proudfoot performed well and with an improved margin

Strong Kurt Salmon performance in North America and Asia, but weakness in Europe reflecting macro economic concerns

Action taken to adjust resources in Kurt Salmon to reflect lower levels of activity in Europe

Overview

MCG has delivered a resilient performance for 2012, broadly maintaining our underlying operating profit margin despite lower levels of activity in some core markets. The continued difficult conditions in our European markets weakened demand for our services in some markets and sectors, although we have not only retained all our key existing client relationships but have gained new clients in a difficult market. The performance of both Alexander Proudfoot and Kurt Salmon demonstrates the strengths of the two businesses in this uncertain economic environment.

MCG is organised as two operating divisions: Alexander Proudfoot and Kurt Salmon. Through its two operating divisions MCG has a broad balance of businesses in terms of industries and geographies. MCG's strategy is to exploit the platform provided by our existing businesses, which are leaders in their fields, in order to drive organic revenue and margin growth.

We have no current intention to make large scale acquisitions, but will look to add capabilities where appropriate through smaller bolt-on acquisitions and team hires. We will focus on opportunities for growth in markets and industry sectors where we can readily exploit our strengths. The geographical spread of our businesses and our existing global office infrastructure will support an increase in operational activity.

We are committed to continuing to deliver efficiencies in the Group's operations and to enhancing financial discipline across the Group. We responded in 2012 to lower activity levels in our European markets by reducing headcount and rationalising some non-core activities which have not consistently delivered acceptable margins, which has had some negative impact on reported revenue compared with 2011.

Results for the year

Total revenue for the year ended 31 December 2012 was £285.8m, 6% lower than the previous year (2011: £302.6m). Most of this reduction relates to changes in average exchange rates and on a constant currency basis 2012 revenue was down only 2%. MCG is a global business and approximately 97% of revenue in 2012 came from projects delivered outside the UK.

Underlying operating profit in 2012 was £2.6m lower, at £25.7m (2011: £28.3m). This reflects the impact of lower reported revenues and a weaker margin in Kurt Salmon, adverse movements on the Euro exchange rate, and an increase in the cost of employee share awards. The overall underlying operating profit margin was broadly flat at 9.0% (2011: 9.4%).

We continue to seek to align the performance of employees in each of our businesses with objectives that are consistent with value creation for our shareholders.

Underlying operating profit for 2012 reflects a charge of £3.1m relating to share awards made to employees (2011: £1.7m). During the year 98 senior employees received awards over approximately 25 million shares in total, generally vesting over three years and conditional upon continued employment, and in some cases subject to financial or share price performance. At the year end there were total awards in place over 43.4 million shares relating to 112 employees. 19.8 million of these share awards, should they vest, are required to be satisfied from existing MCG shares, and the other awards may be satisfied from existing or new shares. The employee benefit trust held 11.3 million shares at the year end for this purpose, and a further 1.3 million Treasury shares were held which may be used to satisfy share awards. Some 160 of our employees now either hold shares in MCG or have received conditional awards over MCG shares.

For 2012 the Group is reporting net non-recurring expenses of £5.3m (2011: £0.2m), comprising the cost of restructuring certain practices and eliminating some non-core lower margin activities including making adjustments to headcount (£2.9m), provisions for surplus property (£2.4m), the write-down of certain assets which are earmarked for disposal (£0.4m), offset by the impact of income from the disposal of non-core assets (£0.4m).

Read this report online at
ar12.mcgreports.com

The charge for amortisation of acquired intangibles was £2.3m (2011: £2.6m). The overall profit from operations decreased by 29% to £18.2m (2011: £25.5m). The net interest expense decreased to £2.2m (2011: £2.3m). The profit before tax was down 31% to £16.0m (2011: £23.2m).

With an underlying effective tax rate of 28% (2011: 36%) reflecting lower profits in some higher tax geographies underlying earnings per share were 3.5p (2011: 3.8p), lower as a result of the full year dilutive effect of shares issued in late 2011 in relation to the conversion of warrants. Basic earnings per share were 2.4p (2011: 3.7p).

Dividend and balance sheet

The interim dividend for 2012 of 0.23p per share was paid in January 2013. The Board is recommending, subject to shareholder approval, a total dividend for the year of 0.825p per share, up 10% from 0.75p per share in 2011. The Directors therefore recommend, subject to shareholder approval, a final dividend for 2012 of 0.595p per share to be paid on 2 July 2013 to shareholders on the register on 17 May 2013. Subject to the Group's financial position, the Board intends to pursue a progressive dividend policy.

On 30 October 2012 MCG announced that it intended to commence a share buyback programme to make market purchases of its ordinary shares of up to £5m over the succeeding twelve months. Up to 31 December 2012 the Company had purchased 1,261,772 of its ordinary shares of 1p each at an average price of 22.49p per share.

Net debt at the end of 2012 was broadly unchanged at £30.3m (2011: £28.2m), which is less than adjusted EBITDA for 2012 as measured for the purpose of the Group's borrowing facility. Cash generated by operations was £14.9m, lower than in the previous year (2011: £32.5m) partly as a result of lower operating profits and the cash impact of non-recurring costs in 2012.

Summary

The Group made satisfactory progress in 2012 with a mixed performance across different geographies and sectors. We did not see the sustained global economic recovery many had hoped for and expected in the year, and in the second quarter of 2012 it became clear that the Eurozone uncertainty and weak growth were affecting the appetite of some clients for our services. The lower activity levels in Europe that we saw at that time persisted during the rest of the year and, whilst conditions have not deteriorated further since then, they have not yet improved significantly. In other markets, in particular in North America and emerging economies in Asia, Latin America and Africa, we have made good progress. Much of the reduction in the Group's revenue and profit in 2012 relates to the negative impact on our reported results in Sterling as a result of a weaker Euro, rather than an underlying decrease in activity or profitability.

We have adapted to these conditions, and have taken action to underpin the performance of the Kurt Salmon business, including restructuring certain practices and making adjustments to headcount. We continue to work to develop our businesses with selective investment and recruitment in sectors and

geographies where there are good prospects for profitable growth.

Outlook

MCG retains a strong position in its key European markets and we have an established position and brands in North America where economic growth has been a little more robust. Emerging markets continue to provide opportunities for growth which may not be so readily available elsewhere and approximately 18% of MCG's 2012 revenues were derived from projects delivered outside the developed economies of North America and Western Europe.

We entered 2013 with a solid order book in Kurt Salmon and, despite a slow start to the year, an encouraging pipeline of prospects in Alexander Proudfoot. MCG is in a strong financial position and has long-term client relationships that have delivered revenues over many years. We have a stable platform to allow the Group's businesses to benefit in due course as economic conditions improve and we will continue to drive our strategy, investing for growth in our businesses to deliver value to our shareholders.



Nick Stagg
Chief Executive
6 March 2013

"We entered 2013 with a solid order book in Kurt Salmon and, despite a slow start to the year, an encouraging pipeline of prospects in Alexander Proudfoot. MCG is in a strong financial position and has long-term client relationships that have delivered revenues over many years. We have a stable platform to allow the Group's businesses to benefit in due course as economic conditions improve."

Business review continued

Divisional performance: Alexander Proudfoot

“Alexander Proudfoot made good progress in 2012, maintaining revenues and improving profit margins on the previous year, continuing to exploit its strengths in the natural resources sector and in emerging markets.”

Tackling energy costs



Delivering 6–11% reductions in energy consumption.

Uncertainty over rising energy prices has pushed energy efficiency to the front of oil and gas executives' agendas. Total set itself a target to reduce energy consumption by 4% across its refining operations with no additional capital expenditure.



The approach

Starting with a pilot project at one refinery, Alexander Proudfoot identified significant energy savings potential, by improving management's decision-making processes and changing workforce behaviours. The joint team developed an energy management operating system with an emphasis on short interval control, which monitored energy usage and provided accurate, timely data that the management team could use to better plan, measure and control consumption.

“Proudfoot's methodology included the training, coaching and communications necessary to ensure a new sustainable approach to energy management.”

André Tricoire, Former Head of Refining

The benefits

At the pilot refinery a 7% reduction in energy consumption was achieved without the need for additional capital expenditure. The pilot blueprint has since been rolled out to other refineries, with similar or better improvement rates. The project delivered financial results as well as a corresponding culture shift to one of energy consciousness and active management.

Overview

Alexander Proudfoot delivers measurable financial benefits to its clients by developing and installing processes and programmes to improve operations, helping companies rapidly to improve their operating performance by increasing revenues and productivity, reducing costs and generating incremental cash flow. Alexander Proudfoot differentiates itself from its competitors by working side-by-side with client management and front-line workers to implement sustainable changes which deliver improved performance. Alexander Proudfoot works with clients across a broad range of sectors and has developed a particularly strong expertise in the natural resources, financial services and manufacturing industries. Clients begin to realise the real cash benefits of the changes implemented during the early stages of the engagement process. The annualised return on investment that clients obtain from working with Alexander Proudfoot is typically several times the cost of the project.

Results for the year

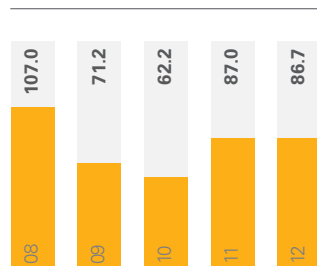
Alexander Proudfoot made good progress in 2012, maintaining revenues and improving profit margins on the previous year and continuing to exploit its strengths in the natural resources sector and in emerging markets. Revenues for 2012 were broadly in line with those for the previous year at £86.7m (2011: £87.0m). In 2011 reported revenues benefited from one large client project that represented approximately 18% of the divisional total for the year. In 2012, Alexander Proudfoot revenues did not benefit from such a large single project, with the largest client representing approximately 10% of total reported revenue.

Alexander Proudfoot reported underlying operating profit for the year as a whole of £12.2m (2011: £11.6m). The profit margin of 14.1% for the year was ahead of the 2011 margin of 13.3%.

The number of staff employed by Alexander Proudfoot increased from 302 at the end of 2011 to 323 at the end of 2012. The business operates a flexible global staffing model and employee numbers were significantly higher at times during 2012 to meet the requirements of client projects.

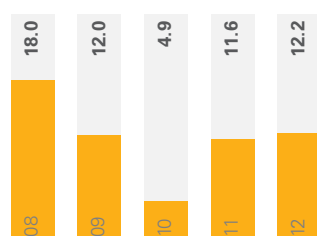
KPIs

Revenue (£m)



Underlying operating profit (£m)

+5%



Review of operations

During 2012 Alexander Proudfoot was organised on the basis of five business units, based in Europe, the United States, South Africa, Brazil and Chile. The business is headquartered in Atlanta in the United States and during 2012 operated from further office locations in London, Paris, Frankfurt, Johannesburg, New York, Toronto, São Paulo and Santiago. In January 2013 a new office was established in Hong Kong, to serve as a base for promoting the business in Asia. Alexander Proudfoot serves clients globally from these locations.

Most of the Alexander Proudfoot business units reported increased revenues in 2012. The North American business unit reported revenue growth and an improved margin, benefiting in 2012 from some large projects delivered in Canada alongside a satisfactory performance in the US market. In Europe overall revenues were weaker than in 2011, reflecting more difficult market conditions, and this reduced margins somewhat. The African business unit reported revenues broadly in line with the previous year and continued to benefit from work for natural resources clients delivered in a number of locations in sub-Saharan Africa, alongside work outside the natural resources sector in South Africa. The Brazilian business unit reported increased revenues and an improved margin, most of its workload comprising projects for domestic industrial businesses in the Brazilian market. In the first half of 2012 Alexander Proudfoot established a new business unit based in Santiago in Chile mainly in order to serve natural resources clients in Spanish-speaking Latin America. In its first year of operation this business reported revenues of nearly £3m and it is well positioned to progress in 2013.

In 2012 Alexander Proudfoot continued to see good ongoing demand from clients in the natural resources sector and for projects delivered in emerging markets, in particular in Africa and Latin America. Work in the natural resources sector represented just under half the total Alexander Proudfoot revenues in 2012, slightly lower than the previous year. Alexander Proudfoot's experience and capabilities in the natural resources sector have continued to prove

attractive to clients looking to improve productivity and efficiency in their extraction and processing operations, and softer commodity markets in 2012 did not adversely impact revenues from the sector. Other industry sectors where Alexander Proudfoot reported strong revenues in 2012 were financial services and manufacturing.

Alexander Proudfoot has demonstrated over many years that it has an offering that produces attractive returns for its clients. Its clients are generally large international organisations and, whilst the business does not necessarily produce a regular cycle of recurring work with the same client, many clients do commission further work at some stage and most act as references for sales to other customers. Management continues to focus on building long-term relationships with existing and prospective clients as well as driving individual project sales. Approximately 60% of 2012 revenues related to work for clients with whom the business had an existing relationship.

Outlook

Alexander Proudfoot's global reach and flexible capability means it is well placed to take advantage of opportunities in markets and industry sectors where economic growth remains strong. As a result of the typical scale of individual client projects, there is some inherent lumpiness in the Alexander Proudfoot revenues from quarter to quarter and from half year to half year. The order intake in the latter part of the 2012 financial year slowed somewhat compared with the first half and the order book at the end of the year was lower than that at the end of 2011. Whilst this is likely to have some impact on first half revenues for the year relative to the same period in 2012, the current order book and the pipeline of prospects in the business provides an encouraging foundation for the year as a whole.

Business review continued

Divisional performance: Kurt Salmon

"Kurt Salmon delivered a mixed result for the year as a whole, with an improved performance in the United States and Asia and a weaker result in its European operations."

Healthcare

The University of New Mexico Hospitals (UNM) was challenged to provide both emergency care for the area's uninsured population as well as cutting-edge research.

Kurt Salmon was tasked with developing a long-range strategic plan for the entire UNM system, which includes three hospitals and a physician group.



Our approach

In this project Kurt Salmon was able to leverage its experience at some of the leading US academic medical centres – including the Cleveland Clinic, the Mayo Clinic and Yale University – in order for the UNM to redefine its strategic direction in a changing health care environment. Kurt Salmon worked with the client on a nine-month engagement and developed a unique process to incorporate feedback from hundreds of stakeholders across the organisation.

The benefits

UNM approved the strategic plan and began to implement it. Kurt Salmon recommendations will help UNM be better equipped for success in a dynamic industry, continuing to serve its community while preserving its financial stability for years to come.

Overview

Kurt Salmon is a global management consultancy business which partners with its clients to drive strategies and solutions that make a lasting and meaningful impact on their businesses. Kurt Salmon operates internationally in certain key industry verticals and has a particular focus in retail and consumer products and in financial services. In addition it has a number of strong regional practices, for example in healthcare in the United States and in the public sector in France. Kurt Salmon also provides functional expertise to its clients, for example, through offerings focused on Chief Financial Officers and Chief Information Officers. Kurt Salmon now operates in 15 countries around the world, the largest operations being in North America and Continental Europe.

Kurt Salmon is an established global consulting brand with a long heritage and deep, longstanding client relationships. 75% of the top twenty clients in 2012 were clients of the business in each of the last five years.

Results for the year

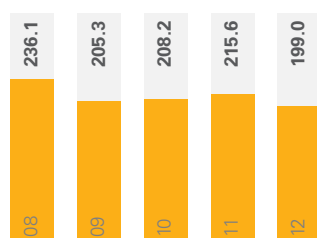
Kurt Salmon delivered a mixed result for the year as a whole, with an improved performance in the United States and Asia and a weaker result in its European operations. It reported an overall decrease in revenues, reflecting weaker activity in France and other European markets and the translation impact of the weaker Euro on revenues reported in Sterling. Overall revenues for the year were £199.0m, 8% lower than the previous year (2011: £215.6m), but only 4% lower at constant exchange rates. Kurt Salmon reported underlying operating profit for the year of £13.5m (2011: £16.8m) and an underlying operating margin of 6.8% (2011: 7.8%).

The number of staff employed by Kurt Salmon decreased during the year from 1,420 at the end of 2011 to 1,349 at the end of 2012. The overall headcount reduction reflects the decisions taken by management to adapt to lower levels of activity in some European operations, both in terms of natural attrition and restructuring initiatives implemented

KPIs

Revenue (£m)

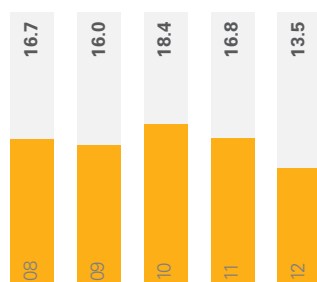
-8%



2012 revenues were 4% lower than 2011 on a constant currency basis.

Underlying operating profit (£m)

-20%



during 2012. Kurt Salmon continues to recruit in higher growth sectors and geographies within the business.

Review of operations

Kurt Salmon is organised on the basis of geographic locations and global industry verticals. Kurt Salmon has its headquarters operations in Paris and New York. In Continental Europe Kurt Salmon operates from offices in France, Germany, Belgium, Luxembourg and Switzerland. It operates in the UK from MCG's head office location in London, and in the United States from New York, Atlanta and San Francisco. In Asia, Kurt Salmon has offices in Tokyo, Shanghai and Hong Kong.

Kurt Salmon's largest single business in terms of geography is in France, comprising about half of total divisional revenue. The Kurt Salmon business is a market leader in the French management consulting industry and has been resilient through the economic cycle in recent years. In 2012 Kurt Salmon's French operations had a slow start for the year and it became clear during the first half that economic uncertainty, in part related to the Eurozone crisis and exacerbated by the impact of the French elections, was adversely affecting spending by our existing clients on consulting services. The unresolved Eurozone issues and the underlying weakness in the French economy that emerged more clearly in the second half of the year continued to affect the level of revenues in France for the year as a whole, which were some 14% lower than the previous year on a constant currency basis. The Kurt Salmon business in France is broadly based in terms of industry coverage but the most significant are financial services, the public sector and the industrial sector. Consulting spend by some financial sector clients was particularly subdued in 2012 and revenue from public sector work was also impacted. Revenue from French industrial clients was less affected. Overall, client activity levels appear to have now stabilised at this lower level, but in the absence of a stronger economic growth outlook, subdued business confidence may limit the prospects for revenue growth in France in 2013. Action was taken in 2012 to adjust staff resources to lower activity levels. Kurt Salmon's

longstanding relationships with its existing French clients provided a robust platform for the business and it was also successful in expanding its client base during the year.

Elsewhere in Continental Europe, Kurt Salmon has operations in Germany, Luxembourg, Belgium and Switzerland. These have been less affected by Eurozone uncertainty than the business in France and mostly reported broadly stable or improving revenues in 2012. Kurt Salmon has no exposure to the weaker peripheral Eurozone countries in Southern Europe. Kurt Salmon's relatively small UK operation, focused largely on the retail sector, performed well in 2012. Some other lower-margin non-core operations in the UK have been closed down.

Kurt Salmon's operations in North America, focused on the retail and consumer goods sector, continued to perform well, reporting an increase in revenues in the year. The US financial services practice, based in New York, made good progress in difficult conditions, as did the CIO-Advisory practice providing services to chief information officers. The US healthcare practice reported increased revenues and is looking to invest for further growth. In March 2012 Kurt Salmon acquired New Albany Healthcare, a small US healthcare practice focusing on operational consulting in surgical functions within medical facilities.

In Asia, Kurt Salmon's businesses in Japan and China are focused on the retail sector. The Japanese business continued the good progress seen in the second half of 2011 after suffering badly in the aftermath of the natural disasters earlier in that year. The China business, acquired in the fourth quarter of 2011, produced a good performance in 2012 and is well placed for further growth in 2013.

Outlook

The order intake in Kurt Salmon during the latter part of 2012 provided a good start to 2013 and the current order book and pipeline of prospects is encouraging. We expect that the outlook in Europe will continue to be affected by weak economic growth and uncertainty but elsewhere there are better prospects in 2013.

Business review continued

Financial review

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Chris Povey
Finance Director



Highlights

Alexander Proudfoot accounted for 30% of Group revenues and Kurt Salmon for 70%

18% of Group revenues related to work delivered outside North America and Western Europe

Underlying operating profit was £2.6m lower at £25.7m

Underlying operating profit margin broadly flat at 9%

Exchange rates

MCG derives the vast majority of its revenue and profit from outside the United Kingdom and in currencies other than Sterling. As the Group's results are presented in Sterling, changes in average exchange rates, particularly those of the US Dollar and the Euro in relation to Sterling, can have a significant effect on the translation of those results. About one third of the Group's 2012 revenues were generated in US Dollars. On average, in 2012 compared with 2011, Sterling weakened slightly against the US Dollar, by approximately 1%. Against the Euro, the currency in which nearly half the Group's revenues were denominated, Sterling strengthened by nearly 7% in 2012. Sterling also strengthened significantly against the Brazilian Real and South African Rand during 2012, which had some adverse impact on the reported results of the Proudfoot operations in South Africa and Brazil. In overall terms, changes in average exchange rates had a negative effect on reported revenue and profits in 2012. The average exchange rates used to translate the 2012 results were £1=\$1.5859 (2011: £1=\$1.6064) for the US Dollar and £1=€1.2329 (2011: £1=€1.1511) for the Euro.

Employees

There were 1,697 people employed in the Group at the end of 2012 compared to 1,741 at the end of 2011. The average number of people employed by the Group during the year was 1,694 (2011: 1,746).

Revenue

Total revenue for the year ended 31 December 2012 was 6% lower than the previous year at £285.8m (2011: £302.6m). The decrease in revenue reflects lower revenues in the Kurt Salmon business, but most of the reduction in reported revenues results from the translation impact of the weaker Euro in 2012. At 2011 average exchange rates total reported revenue in 2012 would have been £295.2m, only 2% lower than the previous year.

Alexander Proudfoot reported 2012 revenues broadly in line with the previous year at £86.7m (2011: £87.0m), maintaining broadly similar activity levels in the first and second halves of the year. Kurt Salmon revenues for the year as a whole were £199.0m (2011: £215.6m). Kurt Salmon revenues in the second half of 2012, as in previous years, were slightly lower than those in the first half, principally as a result of the impact of the slower summer period in Continental Europe. Alexander Proudfoot accounted for 30% of Group revenue (2011: 29%) and Kurt Salmon for 70% (2011: 71%).

In terms of geography, the business units in the Americas reported an overall increase in revenue to £106.1m (2011: £97.5m). Revenue from the Americas accounted for 37% of Group revenue (2011: 32%). Revenues from Europe decreased by 13% to £156.0m (2011: £179.2m), reducing its share of the Group total to 55% (2011: 59%). The Rest of the World, with revenues

predominantly from Africa, Japan and China, accounted for 8% of Group revenue (2011: 9%) with £23.6m (2011: £25.9m). Segmental revenues are reported on the basis of the location of the business unit where the client project is sold and the revenue accounted for, which is the basis on which the Group's operations are managed. This often differs from the geography in which the project is delivered, particularly in the Alexander Proudfoot business. As in the previous year, a proportion of the revenues generated in the European and North American business units in 2012 related to services which were delivered elsewhere, in Latin America, Africa and Asia. As a result, in 2012 approximately 18% (2011: 18%) of overall Group revenues related to work delivered outside North America and Western Europe. Revenue from projects delivered in the UK accounted for less than 5% of total Group revenue in 2012.

Operating profit

Underlying operating profit in 2012 was £2.6m or 9.2% lower at £25.7m (2011: £28.3m). This chiefly reflects the weaker revenue and margin performance in Kurt Salmon, offset somewhat by the improved margin in Alexander Proudfoot. Underlying operating profit in 2012 reflects a charge of £3.1m relating to share awards granted in during the year, an increase of £1.4m on the previous year (2011: £1.7m). The underlying operating profit margin for the Group was broadly flat at 9.0%

(2011: 9.4%). Excluding the cost of share awards, underlying operating profit was £28.8m which would represent a margin of 10.1% (2011: £30.0m and 9.9%).

Alexander Proudfoot saw its underlying operating profit improve to £12.2m (2011: £11.6m), a margin of 14.1% (2011: 13.3%), on revenues broadly unchanged from the previous year. Kurt Salmon reported a lower operating profit, largely driven by lower revenues, of £13.5m (2011: £16.8m), and a weaker margin of 6.8% (2011: 7.8%). Both businesses reported an improved margin in the second compared with the first half of the 2012.

The charge for the amortisation of acquired intangible assets was £2.3m (2011: £2.6m).

Non-recurring costs

The reported net non-recurring expense for 2012 is £5.3m (2011: £0.2m). This largely relates to the initiatives undertaken in the year to restructure certain underperforming practices and eliminate some non-core lower margin activities, including some headcount reductions. The cost of these was (£2.9m) most of which spent in cash terms in 2012. In addition there are the related costs of the write-down of certain non-core assets which are earmarked for disposal (£0.4m), offset by the impact of income from the disposal of non-core assets (£0.4m), and some further provisions for surplus property (£2.4m). Approximately £1.6m of net cash outflows is expected to arise in 2013 as a result of these items. Taking into account the non-recurring items, there was an overall profit from operations of £18.2m (2011: £25.5m).

Interest

The total interest payable on borrowings was £2.7m (2011: £2.2m). Taking into account interest received on bank deposits and finance income related to retirement benefit plans, the total net finance charge was £2.2m (2011: £2.3m). The interest margin paid on the outstanding balance of the debt drawn under the borrowing facility in place during 2012 was 2.5% above Euribor and US Dollar Libor. During 2011 MCG paid an interest margin of 1.5% up to 1 August and 1.15% for the remainder of the year, under the terms of the Group's previous borrowing facility.

Taxation

The total taxation charge for the year was £4.3m (2011: £6.7m). After adjusting for non-recurring items and the amortisation of acquired intangibles, the underlying effective tax rate was 28% (2011: 36%). The lower underlying tax rate reflects changes in the mix of taxable profit in the year, with a lower proportion of Group profits arising from some higher tax jurisdictions. The Group has tax losses in various jurisdictions and the underlying tax rate has benefited from the utilisation of these in 2012. The ability to utilise those tax losses remaining is uncertain and dependent on trading profitability.

Earnings per share

Basic earnings per share were 2.4p (2011: 3.7p). Basic diluted earnings per share were 2.3p (2011: 3.7p). Underlying earnings per share, after adjusting for non-recurring items and the amortisation of acquired intangibles, was down 8% to 3.5p (2011: 3.8p) as a result of the full-year dilutive effect of the new shares issued in relation to the conversion of warrants in 2011.

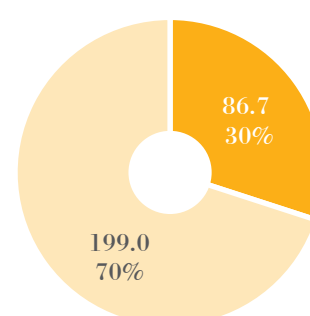
Net assets

The Group holds the vast majority of its assets and liabilities in currencies other than Sterling, particularly the US Dollar and the Euro, and translates the value of these into Sterling at the year-end exchange rate. Comparing exchange rates at the beginning and the end of 2012, Sterling strengthened by 4.3% against the US Dollar and by 2.2% against the Euro. This had the net effect of decreasing the Sterling value of assets and liabilities held in US Dollars and Euros at the end of 2012. The year-end exchange rates used to translate the 2012 balance sheet were £1=\$1.6125 (2011: £1=\$1.5456) for the US Dollar and £1=€1.2193 (2011: £1=€1.1935) for the Euro. During 2012 net assets remained flat at £194.6m (2011: £194.7m). This is principally due to the retained profit for the year being offset by the net impact of currency movements.

The largest item on the balance sheet is the intangible asset recognised on the acquisitions of the businesses which now form Kurt Salmon. This is held in US Dollars and Euros. Net trade receivables decreased by £0.9m to £44.5m (2011: £45.4m). Debtor days at the end of 2012 were 45 days (2011: 41 days).

Revenue (£m)

285.8

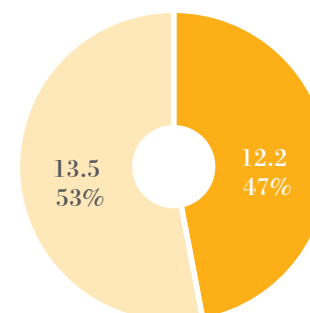


■ Alexander Proudfoot

■ Kurt Salmon

Underlying operating profit (£m)

25.7



■ Alexander Proudfoot

■ Kurt Salmon

Business review continued

Financial review continued

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Pension obligations

The Group's retirement benefits liability relates to a closed US defined benefit pension scheme; a closed US post-retirement medical benefits plan; French statutory retirement provisions; and an unfunded German retirement obligation. There are no defined benefit pension schemes in the Group which are open to new employees and in the case of the closed US defined benefit pension scheme the existing members are not accruing further benefits. The Group actively manages the potential liabilities arising from these schemes, regularly reviewing performance in conjunction with qualified independent actuaries and making changes where appropriate. The net post-retirement obligation from these schemes increased slightly from £23.2m at 31 December 2011 to £24.8m at 31 December 2012 principally as a result of applying a lower discount rate to the measurement of liabilities in the closed German retirement plan. Cash contributions to these schemes amounted to £1.8m in 2012 (2011: £4.4m).

Liquidity and capital resources

The Group's capital structure is reviewed regularly to ensure that it remains relevant to the business and its planned development. In October 2012 the Group announced that it intended to undertake a share buyback programme of up to £5m over a twelve month period. Up to 31 December 2012, 1,261,772 shares had been purchased as part of this programme for a total consideration of £0.3m. These shares are held as treasury shares and are therefore excluded from the reported share capital in the Group balance sheet.

Net debt

The Group ended the year with net debt of £30.3m compared with £28.2m at the end of 2011 and £35.7m at 30 June 2012. The small year on year increase in net debt reflects a number of factors, including higher year on year capital expenditure related to the implementation of a new ERP system in the Kurt Salmon business, an increase in dividend payments, higher

taxation payments and working capital movements. During 2012 the Group was financed by a multi-currency borrowing facility negotiated in December 2011, which runs until July 2016. The facility is a revolving credit facility for up to £85m.

There are two financial covenants under the facility, which are calculated at 30 June and 31 December. The first of these is that interest cover must be greater than four times at the calculation dates.

At 31 December 2012 the interest cover covenant ratio was 11.5 (31 December 2011: 15.3). The second covenant is a leverage covenant, which is that net debt divided by adjusted EBITDA must remain below 2.75 times at the calculation dates. Under the borrowing facility net debt for covenant testing purposes is measured on the basis of average exchange rates over the relevant period, consistent with the measurement of adjusted EBITDA. Adjusted EBITDA is defined as underlying operating profit plus depreciation, amortisation and the cost of share awards. At 31 December 2012 the leverage covenant ratio was 0.96 times (31 December 2011: 0.88). The gross amount drawn down at that date was £45.2m (2011: £47.9m).

Foreign exchange exposure

The Group's foreign exchange exposure is primarily a translation risk as the vast majority of the Group's business is transacted in Euros and US Dollars. The goodwill arising on acquisitions is also denominated in these currencies. Draw downs under the Group's borrowing facility are made in US Dollars and Euros to provide a partial hedge against these. Treasury activities are managed on a day-to-day basis by a treasurer and finance staff, reporting to the Group Finance Director. There are established treasury policies that are reviewed regularly to ensure that they remain relevant to the business. The objective of these policies is to provide liquidity across the Group at minimum risk and cost and to hedge known financial exposures. The Group's net debt position is closely monitored and there are effective forecasting procedures in place.

Cash flow

The Group's cash flows in 2011 had benefited from strong operational cash generation and the receipt of the £10.6m proceeds of the conversion of warrants issued in the capital raising in June 2010. Cash generated by operations in 2012 was lower than the previous year at £14.9m (2011: £32.5m), reflecting lower underlying operating profits and the cash impact of non-recurring costs in 2012 and unfavourable working capital movements. Cash outflows as a result of dividend payments were £3.6m (2011: £2.0m). Cash outflows related to capital expenditure were £3.8m (2011: £2.6m).

Dividend

An interim dividend for the 2012 financial year of 0.23p per share was paid to shareholders on 8 January 2013. The directors recommend, subject to shareholder approval, a final dividend of 0.595p per share to be paid on 2 July 2013 to shareholders on the register at 17 May 2013. The recommended total dividend for the 2012 financial year is therefore 0.825p per share (2011: 0.75p per share).

Business resources and investment in the future

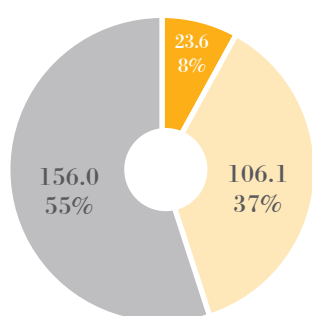
The Group's key assets are its client relationships, its people and its intellectual property. Client relationships are strengthened by the regular review of every engagement in conjunction with the client throughout its duration. This enables timely resolution of any issues so that the client remains highly satisfied with our performance. It is our objective that every client becomes a reference for future clients. The remuneration policies of the Group are designed to retain key individuals by rewarding performance and deferring the payment of a portion of incentive pay contingent on continued employment. The performance of each employee is regularly reviewed and plans are established to deal with any performance issues. Evaluation systems are in place throughout the Group. The training requirements of employees are also reviewed and tailored training programmes

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ar12.mcgreports.com

Segmental results by geography 2012

Revenue (£m)

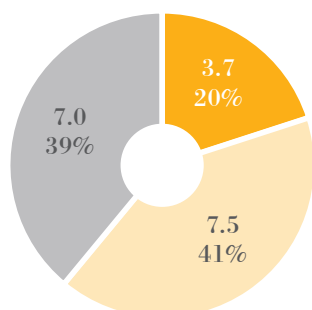
285.8



Rest of World
Americas
Europe

Profit from operations (£m)

18.2



Rest of World
Americas
Europe

have been established for each of the core functions. The headcount needs of the business are reviewed in view of the projected requirements of the business as indicated by the order book and prospects. The Group has developed knowledge management systems that capture the intellectual property that has been developed through many years of assisting clients. Client needs are regularly reviewed and new services developed in accordance with these. Appropriate steps are taken to safeguard the security of the Group's intellectual property and legal or other action is taken as necessary to protect this. The Group continues to invest in its client relationships, its people and its intellectual property to ensure that the Group is prepared to face its challenges and to focus client awareness on the Group's brands and the services offered.

Principal risks and uncertainties

The Group has operating and financial policies and procedures designed to maximise shareholder value within a defined risk management framework. The key risks to which the business is exposed are reviewed regularly by senior management and the Board. The major risks facing the business and the means by which they are mitigated and managed are set out on page 21 of this annual report. The directors are aware of no material outstanding litigation against the Group not covered by an appropriate level of insurance or provision in the financial statements.

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 Business Review. The financial position of the Group is described in this Financial Review. In addition, note 23 of the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital and its exposures to risk. The Group's committed borrowing facilities are detailed under the "Liquidity and capital resources" section of this Financial Review. The Group prepares regular business forecasts and monitors its projected compliance with

the borrowing facility covenants which are reviewed by the Board. Forecasts are adjusted for sensitivities, which address the principal risks and uncertainties to which the Group is exposed, and consideration is given to actions open to management to mitigate the impact of these sensitivities. In particular this includes the discretionary nature of a significant amount of the costs incurred by the Group. The Board has concluded that the Group has adequate resources to be able to operate within the level of its current facility and remain compliant with the terms of the borrowing facility for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements. For further details please refer to note 2 to the consolidated financial statements.

Key performance indicators

The key performance indicators used by the Board to monitor progress are: revenue growth; underlying operating profit; underlying operating profit margin; operating profit; operating margin; net debt; earnings per share growth; staff retention; and client satisfaction. These key performance indicators are used to monitor performance as they indicate achievement against the Group's objectives of delivering shareholder value and profit and margin growth.

Critical accounting policies

The discussion and analysis of the Group's financial position and results are based on the consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). This preparation requires estimates and judgements that affect the reported level of assets and liabilities, revenues and costs, and the related disclosure of contingent assets and liabilities at the date of the financial statements. Critical accounting policies are those that are reflective of significant judgements and uncertainties and potentially result in materially different results under different assumptions and conditions. It is believed that the Group's critical accounting policies are limited to those described overleaf.

Business review continued

Financial review continued

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Revenue

Revenue is measured at the fair value of the consideration received or receivable for services provided to third parties in the normal course of business. Revenue from services is recognised when the service has been provided and the right to consideration earned. When a service has been provided to third parties but no billing made, the amount receivable is estimated. This estimate is based on the nature of the service supplied and the terms of the contract. Any significant under-estimation or over-estimation of amounts receivable could have a material effect on the Group's financial position and results of operations.

Goodwill and other intangible fixed assets

Under IFRS goodwill is capitalised and tested for impairment annually or when events or changes in circumstance indicate that the carrying value may not be recoverable. Intangible assets with finite lives are capitalised and amortised over their remaining useful economic lives.

Employee benefits

Accounting for pensions and other post-retirement benefits involves judgement about uncertain events including discount rates, life expectancy, future pay inflation and the expected rate of return on plan assets. Determination of the projected benefit obligations for the Group's defined benefit pension scheme and post-retirement plans are relevant to the recorded amounts in the statement of recognised income and expense and the liability recorded in the balance sheet.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. There are transactions and calculations for which the ultimate tax determination is uncertain until agreed with the tax authorities. Where the final outcome is different from the initial estimate, these adjustments will impact the income tax and deferred tax assets and liabilities in the period in which such determination is made.

Provisions

The Group has onerous property leases which require judgement in terms of the provision being carried on the balance sheet.

Summary of critical accounting policies

The Group's management has discussed the development of the estimates and disclosures related to each of these matters with the Audit and Risk Committee. Additional discussion of the application of these estimates and other accounting policies is provided in note 2 to the consolidated financial statements.



Chris Povey
Finance Director
6 March 2013

Principal risks and uncertainties

The key risks to which the business is exposed are reviewed regularly by senior management and the Board. The Group has operating and financial policies and procedures designed to maximise shareholder value within a defined risk management framework.

Nature of risk

Risk mitigation

Demand for services provided by the Group in the markets and sectors in which it operates

Changes in demand for MCG's services can significantly impact revenues and profits. The Group's businesses operate in a number of geographies and industry sectors and demand for their services can be affected by global, regional or national macro economic conditions and conditions within individual industry sectors. The Group's businesses operate in a competitive environment, where other consulting firms seek to provide similar services to MCG's clients.

The Group seeks to monitor demand for its services, to anticipate changes in demand and competitive pressures where possible, and to develop a strategy and offering to exploit opportunities for growth in geographies and sectors where demand is increasing. The diversity of MCG's businesses provides some protection against adverse trends in individual sectors or geographies and the Group retains some flexibility (in Alexander Proudfoot in particular) in its ability to deploy staff to areas of higher demand to optimise utilisation. A significant proportion of the total remuneration paid to senior employees is in the form of variable pay related to financial performance, which provides some profit mitigation in the event of a decline in revenues.

Retention and development of key client relationships

Any failure by the Group to retain its existing client relationships could result in a significant reduction in the Group's revenues. MCG's businesses typically contract with clients for the delivery of project related consulting services over relatively short periods. Individual clients of the Group may change their preferred suppliers of the services that the Group's businesses provide or may change the quantity of such services or the price at which they buy such services. Potential unforeseen contractual liabilities may arise from client engagements that are not completed satisfactorily.

MCG's businesses have longstanding relationships with key clients. The Group's business processes are designed to promote and enhance such relationships to generate revenues over much longer periods than those of a typical single project. This includes a focus on the delivery of high quality work that meets clients' expectations and human resources management policies that emphasise the importance of maintaining and developing client relationships. Potential contractual liabilities arising from client engagements are managed through the control of contractual conditions and insurance arrangements.

Recruitment and retention of talented employees

The Group is dependent on the recruitment and retention of key personnel to develop and maintain relationships with clients and to deliver high quality services. Any failure to attract and retain such personnel which results in their unforeseen departure from the business may have detrimental consequences on the Group's financial performance.

The Group seeks to develop remuneration policies and structures that reward good performance and promote continued employment with the Group, consistent with prevailing market levels of remuneration. For senior employees a significant element of total remuneration is variable and linked to financial and other performance measures, which provides opportunities for enhanced rewards. Conditional share awards to staff are structured to include retention criteria and may also be linked to financial targets or share price performance over a period longer than one year.

Optimisation of the Group's intellectual capital

The intellectual capital of the Group's businesses, including its methodologies and its track record of successful sale and delivery of assignments to clients, is a key asset which must be maintained, continually developed and protected, so that its offerings remain distinctive and attractive to clients. It is possible that employees who exit the business may appropriate this intellectual capital for use by themselves or by the Group's competitors.

The Group maintains a comprehensive knowledge management system to record its methodologies and track record of client assignments. It develops and refreshes these continually in response to, and in anticipation of, market demand. The Group protects its intellectual property through appropriate contractual arrangements with employees and others, and through legal action where necessary.

Fluctuations in foreign currency exchange rates

The Group reports its results and financial position in Pounds Sterling, but operates in and provides services to clients in many countries around the world, conducting most of its business in other currencies. In particular, a significant proportion of the Group's business is conducted in US Dollars and Euros. Fluctuations in prevailing exchange rates may have a significant impact on reported revenues and profits.

Where appropriate, the Group will undertake hedging to mitigate currency risk. This is rarely undertaken since the Group's cost base is, in broad terms, located in those countries in which the Group generates revenues. The currencies in which costs and revenues are denominated are therefore, to a great extent, matched and this tends to reduce the impact of exchange rate fluctuations on reported profits.

Corporate social responsibility

The Group is committed to making a positive social and economic contribution in all the places it operates. This is driven by the Board. Emphasis is placed on ensuring that we continue to create and maintain trust in and loyalty to our Group by all our stakeholders.

The Board is responsible for the social, environmental and ethical ("SEE") impact of the Group's business and ensures that any risks arising are being managed appropriately. On an annual basis the Board assesses the Group's exposure to SEE matters based on feedback from management. Overall, for the current year the Board has concluded that the Group's exposure to SEE risks is limited, primarily due to the nature of its operations. Further information on the environmental and ethical policies adopted is provided below.

The Group has an active corporate social responsibility agenda which covers work with various non-profit organisations and government ministries.

Environmental policy

The Group's environmental policy aims to minimise, where practical, the Group's impact on the environment.

As a group of professional services companies, the Group's business has a relatively small impact on the environment. Nevertheless, the Board recognises the quality of the environment in which it operates is a concern for its stakeholders and others in the community and consequently is essential to the long-term financial performance of the Group.

As a member of the FTSE4Good index, the Group ensures that all laws, regulations and official guidelines in the countries in which it operates are complied with. The Group is also a member of the United Nations Global Compact.

The Group's Environmental Officer is responsible for the ongoing monitoring of areas where the Group could have an impact on the environment and takes steps to reduce this impact. These are detailed below. Reviews of the quantitative impact on the environment in these and other areas will continue to be undertaken to enable the Group's environmental performance to be assessed and further improved.

Energy use and climate change

Carbon dioxide is one of the most significant air pollutants as a by product of energy consumption and is the major contributor to the "enhanced greenhouse gas effect". We continue with the programme to measure the amount of electricity being used in our largest offices, to identify where reductions can be made in the future.

Due to the nature of the business and the need for employees with appropriate experience to work on projects, employees regularly need to travel to clients' sites. The Group's employees are encouraged, wherever possible, to share private road transport or use public transport.

Whilst further improvements are being targeted, the Group continues to progress in reducing energy consumption. The principal methods adopted by the Group to reduce energy consumption are as follows:

- installing automatic power off systems on lights and certain equipment;
- using energy efficient lighting;
- using time switches on air conditioning systems; and
- reducing travel by making use of video conferencing and web-based facilities.

Waste and recycling

The increase in waste generated is a serious problem in many of the countries in which the Group operates. The shortage of new landfill sites in these countries is well documented, as are the potential health impacts and carbon dioxide emissions caused by landfill sites.

Health and safety

The Group is committed to achieving and maintaining the highest standards of health, safety and welfare for its employees throughout the world. Employees are the Group's most important asset and their health and safety is critical to business performance by reducing the costs associated with workplace injuries and ill health.

The Group aims to comply with all laws, regulations and official guidelines relating to health and safety in all its offices throughout the world. Due to the many different locations of the Group's offices, the Group does not have a single detailed worldwide policy. Instead, it is the responsibility of a senior employee in each office to ensure that his or her office meets the high standards for which the Group aims.

Group ethics

The Group subscribes to the Association of Management Consulting Firms' Code of Ethics (available at www.amcf.org) and, in the UK, the Code of Practice of the UK Management Consultancies Association (available at www.mca.org.uk).

The codes of ethics conform to regulatory and legislative initiatives and assure the users of consulting services that members are publicly committed to providing the highest quality work.

Whistleblowing

The Board considers the financial management team as holding an important role in corporate governance, having both the responsibility and authority to protect, balance and preserve the interests of all stakeholders.

All employees can voice their concerns about any unethical behaviour through a confidential internal whistleblowing process.

Employees

The Group operates in an increasing number of countries and its employment practices vary to meet local requirements and best practices within a framework established by the Group.

It is Group policy that all people be treated with dignity and respect. The Group is committed to providing and fostering a working environment that is free from harassment, discrimination, victimisation or bullying.

Our ability to operate as a high performing organisation depends on our inclusion of people who come from diverse backgrounds. This is particularly the case given the wide geographical spread of the Group's operations. It is Group policy to ensure equal opportunities exist without discrimination for all employees, irrespective of their race, colour, creed, religion, gender, ancestry, citizenship, sexual preference, marital status, national origin, age, pregnancy, disability or any other reason prohibited by the laws of the individual countries in which it operates. This applies with respect to recruitment, promotion, compensation, transfer, retention, training and other employment actions. In South Africa the Group operates positive discrimination in respect of previously disadvantaged individuals. Wherever possible the employment of members of staff who become disabled will be continued and appropriate training and career development will be offered.

One of the Group's key objectives is to achieve a shared commitment by all employees to the success of the business. We recognise the importance of employees understanding the Group strategy, the businesses' priorities and the expectations of individuals. Presentations on strategy and priorities are made at meetings of employees and are supplemented by communications from the Group and divisional Chief Executives. The Group Chief Executive regularly visits the Group's offices and has face to face meetings with the staff. In 2012, the Group Chief Executive visited offices in all but one of the countries in which the Group has offices.

Employees have a written job description and are appraised by their manager, at least annually using a formal process. The Group is committed to providing support to help realise the full potential of all its employees, whilst recognising that the ultimate responsibility for personal development must rest with the individual. There is regular communication via internal meetings, email, intranets and in house magazines.

Charitable donations of £49,000 (2011: £185,000) were made during the year.

In addition pro bono work is carried out by a number of the Group's consultancies with good causes worldwide. During 2012 the market value of work carried out for these charities totalled £160,000 (2011: £17,000).

The Group encourages its employees to contribute to their local communities and many employees are actively involved with various non-profit organisations across the world.

Board of Directors



A J Barber

Chairman

Term of office

Alan Barber, aged 65, joined the Board in April 2005 as a non-executive director and was appointed Executive Chairman on 19 February 2008. He relinquished his executive duties on 31 December 2010 and is now non-executive Chairman.

Background and experience

Alan qualified as a Chartered Accountant and was a partner in KPMG's London office until 2004. He has several non-executive directorships and is a former non-executive director of lastminute.com PLC and Teather & Greenwood Holdings PLC.

External appointments

He is a non-executive director of JP Morgan Japanese Investment Trust PLC, Witan Pacific Investment Trust PLC and Impax Asian Environmental Markets PLC.

Committee membership

Nominations Committee.



N S Stagg

Chief Executive

Term of office

Nicholas Stagg, aged 53, was appointed Executive Director on 21 October 2009 and Chief Executive with effect from 1 July 2010.

Background and experience

Nick graduated in Physics at University College, London and joined Thomson McLintock in 1981, where he qualified as a Chartered Accountant. He worked in property investment companies before becoming group managing director of Lambert Smith Hampton PLC. Subsequently he was managing director of W S Atkins International PLC and then first COO and then CEO of Teather & Greenwood Holdings PLC, where he was responsible for the development of the business and its eventual sale to Landsbanki in 2005 and then Straumur in 2008.

External appointments

Mr Stagg is a director of Shinetrip Ltd and a non-executive board member of Wedlake Bell LLP.

Committee membership

None



C J Povey

Finance Director

Term of office

Chris Povey, aged 52, was appointed Finance Director on 31 October 2010.

Background and experience

Chris graduated in History from Brasenose College, University of Oxford, in 1982 and joined KPMG where he had a career of over 20 years, first qualifying as a Chartered Accountant and subsequently in the unit providing transaction support services to clients. He joined Management Consulting Group PLC in 2005 and was the Group's Head of Corporate Finance prior to being appointed Finance Director.

External appointments

None

Committee membership

None



S A Ferriss

Non-executive Director

Term of office

Stephen Ferriss, aged 67, joined the Board on 3 March 2006.

Background and experience

Steve spent 17 years at Bank of America working in the US and latterly in London and Madrid. In 1987 he joined Bankers Trust and served in various roles including managing director and partner of the Bankers Trust's Global Investment Bank in London and New York. He spent three years from 1999 to 2002 as president and chief executive of Santander Central Hispano Investment Securities Inc. He is a US citizen and resides in the US.

External appointments

He is a non-executive director of several privately owned companies.

Committee membership

Senior Independent Director; Nominations Committee (Chairman); Audit and Risk Committee; Remuneration Committee.



E Di Spiezio Sardo

Non-executive Director

Term of office

Emilio Di Spiezio Sardo, aged 36, joined the Board on 18 June 2010.

Background and experience

Emilio is a partner of BlueGem Capital Partners LLP. Before joining BlueGem as a partner in 2007, he worked in London as a hedge fund manager at York Capital Management, a global multi strategy hedge fund with approximately US\$10bn under management. Before that he worked in investment banking at Merrill Lynch in London and Rome. Mr Di Spiezio Sardo graduated summa cum laude in Economics and Finance from Bocconi University in Milan.

External appointments

He is a board member of Olcar S.p.A., The Private Clinic Limited, Fintyre S.p.A., Neomobile S.p.A. and Liberty Ltd.

Committee membership

None



A H Simon OBE

Non-executive Director

Term of office

Andrew Simon, aged 67, joined the Board on 3 March 2006.

Background and experience

Andrew spent 23 years as the managing director, chief executive and chairman of the Evode Group PLC. He holds an MBA from Wharton School of Finance in Philadelphia and has a diversified range of non-executive director and chairman positions.

External appointments

He is a non-executive director of Exova Group plc and Travis Perkins PLC in the UK and of Finning International Inc. in Canada. He sits on the supervisory board of SGL Carbon SE in Germany.

Committee membership

Remuneration Committee (Chairman); Audit and Risk Committee; Nominations Committee.

**L H Carvalho**

Executive Director

Term of office

Luiz Carvalho, aged 55, was appointed an Executive Director on 19 March 2008.

Background and experience

Luiz has dual US and Brazilian citizenship and resides in the US. After attending Pontifícia Universidade Católica de São Paulo, he joined Alexander Proudfoot in 1982 and, following a series of promotions and international assignments, was appointed President of the Proudfoot American operations in 1999 and Chief Executive of Alexander Proudfoot worldwide in 2002. He is a member of the World Presidents organisation.

External appointments

None

Committee membership

None

**C Mahjoub**

Executive Director

Term of office

Chiheb Mahjoub, aged 49, was appointed an Executive Director on 10 November 2009.

Background and experience

Chiheb has dual French and Tunisian nationality and holds an MBA and MS from the École Nationale des Ponts et Chaussées and Ensimag in Paris. After working in the derivatives market he helped to establish Summit Systems, a leading trading software company. He joined Deloitte Consulting in 1995 and was a founding partner when it became Ineum Consulting in 2003. He was responsible for the development of the global financial services practice while being instrumental in the international development of Ineum Consulting as a whole. He is Chief Executive of Kurt Salmon having previously been Chief Executive of Ineum Consulting.

External appointments

None

Committee membership

None

**M Capello**

Non-executive Director

Term of office

Marco Capello, aged 52, joined the Board on 18 June 2010.

Background and experience

Marco is the founder and managing partner of BlueGem Capital Partners LLP. From 2002 to 2006 he was a managing director of Merrill Lynch Global Private Equity. Previously he worked for over 18 years at First Boston, Wasserstein Perella and, since 1994, at Merrill Lynch. During his career in investment banking he worked primarily in mergers and acquisitions both in New York and London. Mr Capello holds an MBA from Columbia University in New York. He graduated in Civil Engineering from the Politecnico di Torino.

External appointments

He is a board member of Olicar S.p.A., The Private Clinic Limited, Fintyre S.p.A., Neomobile S.p.A and Liberty Ltd.

Committee membership

Nominations Committee;
Remuneration Committee.

**J D Waldron**

Non-executive Director

Term of office

Julian Waldron, aged 48, joined the Board on 8 October 2008.

Background and experience

Julian is currently chief financial officer of Technip, a French listed group providing project management, engineering and construction services for the oil and gas industry, which he joined in October 2008. Prior to this he was a managing director in corporate finance at UBS Warburg and the chief financial officer of Thomson SA. He is a UK citizen residing in France.

External appointments

Chief Financial Officer of Technip.

Committee membership

Audit and Risk Committee (Chairman);
Nominations Committee,
Remuneration Committee.

**C W Ansley**

Company Secretary

Term of office

Charles Ansley, aged 62, was appointed Company Secretary in April 2007, having joined the Group in 2001.

Background and experience

Charles graduated in Law at the University of Sheffield and subsequently worked in the London office of KPMG. He is a qualified Chartered Accountant.

External appointments

None

Committee membership

None

- Remuneration Committee
- Audit and Risk Committee
- Nominations Committee

Corporate governance

Chairman's introduction



The Board is committed to high standards of corporate governance and we are pleased to apply the principles set out in the UK Corporate Governance Code ("the Code").

We recognise the importance of diversity on the Board and have representatives from a number of nationalities and a variety of business backgrounds.

There have been no changes to the Board in 2012 and the Board members continue to bring a wide range of experience and knowledge to bear in developing strategy, challenging management and bringing fresh perspectives. We also recognise the importance of the Board meeting senior management and each year the Board holds certain of its meetings at its main business locations abroad, giving the Board the opportunity to meet local management. As I noted last year, in the medium term we will look to recruit new non-executive directors who can further broaden the Board's diversity, both in terms of their business background – industry and geographical markets – and gender.

The Board has considered carefully the requirements of Section 1 of the Code and the Board considers the Company has complied with the Code throughout the year.

Alan Barber
Chairman
6 March 2013

Board of Directors

Throughout 2012 the Board comprised the non-executive Chairman, four executive directors and five non-executive directors. The Code requires that smaller companies should have at least two independent non-executive directors and the Company complied with this aspect. The Company also complied with the requirement to separate the roles of Chairman and Chief Executive.

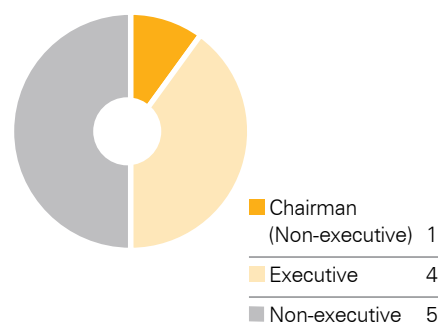
Mr Ferriss, Mr Simon and Mr Waldron are considered to be independent non-executive directors.

The roles of the Board and the management are clearly defined. Throughout the year, the roles of Chairman, Chief Executive and Senior Independent Director were separated and clearly defined in writing. The terms and conditions of appointment of the non executive directors are available for inspection at the Company's registered office and will also be available at the Annual General Meeting.

The Board is satisfied that each of the non-executive directors committed sufficient time during 2012 for the fulfilment of their duties as directors of the Company. None of the non-executive directors has any conflict of interest which has not been disclosed to the Board.

During and at the end of the financial year no director had a material interest in any contract of significance to which the Company or any subsidiary was a party. Information on the directors' interests in the shares of the Company are set out in the Directors' Remuneration Report. Related party transactions are disclosed in note 25.

Balance of executive and non-executive directors



Election and re-election of directors

The Company's Articles of Association contain detailed rules for the appointment and retirement of directors. There is a formal procedure in place to select and appoint new directors to the Board. These directors are required to retire at the next Annual General Meeting, but can offer themselves for re-election by shareholders. Under the Articles, all directors are required to submit themselves for re-election at intervals not exceeding three years. However, the Board agreed that, with effect from the 2011 Annual General Meeting, directors should stand for re-election every year.

On appointment, directors are provided with formal details of their responsibilities under legislation applicable to a company listed in the UK. Changes to such legislation and other relevant factors affecting the Group are communicated to all directors. Newly appointed directors are also required to participate in an induction programme in order to familiarise themselves with the Group's businesses. Regular presentations are made to the Board by senior management in order to refresh and expand this knowledge.

The Board annually evaluates the performance of individual directors, the Board as a whole and its Committees. This review comprises the completion of structured questionnaires by each director and follow up interviews carried out by the Company Secretary. The results of this process are presented to the Board and via individual discussions with the Chairman. The results of the evaluation were approved by the Chairman and an agreed plan of action produced. The results are specifically taken into account when considering the re-appointment of directors.

All directors are authorised to obtain, at the Company's expense and subject to the Chairman's approval, independent legal or other professional advice where they consider it necessary. All directors have access to the Company Secretary who oversees their ongoing training and development needs.

Operation of the Board

The Board meets regularly. Seven meetings were held during 2012. All members of the Board are supplied, in advance of meetings, with appropriate information covering matters which are to be considered. During the year the Chairman met the non-executive directors in the absence of the executive directors.

There is a formal schedule of decisions reserved for the Board. This includes approval of the following: the Group's strategy; the annual operating plan and budget; the annual and interim financial statements; significant transactions; major capital expenditures; risk management policies; the authority levels vested in management; Board appointments; and remuneration policies. The review of certain matters is delegated to Board Committees, which make recommendations to the Board in relation to those matters.

The number of Board and Committee meetings eligible for attendance and attended by each of the directors during the year was as follows:

	Board meetings	Audit and Risk Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
Board and Committee attendance 2012				
A J Barber	7	—	—	1
M Capello	7	—	7	1
L H Carvalho	7	—	—	—
S A Ferriss	7	5	7	1
C Mahjoub	7	—	—	—
C J Povey	7	—	—	—
E Di Spiezio Sardo	6	—	—	—
A H Simon OBE	7	4	7	1
N S Stagg	7	—	—	—
J D Waldron	7	5	7	1
Total meetings held	7	5	7	1

Financial matters

The Group has adopted a code of ethical conduct applicable to the Board and all members of the finance function. In addition, it has a whistleblowing policy whereby procedures exist that allow employees to report any financial wrongdoing that they believe may have occurred.

The Board has also defined which services can be purchased from the Group's auditor and has adopted procedures in respect of the purchase of these services to minimise the risk of an actual or perceived conflict of interest. For similar reasons, the Board has adopted a policy in respect of hiring staff from the auditor who have been involved in the Group's audit.

Corporate governance continued

Relations with investors and the Annual General Meeting

Registered shareholders are sent copies of both the annual report and accounts and the half year report. The Group's website www.mcgplc.com also contains information relevant to investors.

The Chairman, Chief Executive and the Finance Director met with key shareholders throughout the year and in particular around the time of the full year results and the half year results.

The notice convening the Annual General Meeting to be held on 18 April 2013 is contained in the circular to shareholders. To ensure our shareholders have time to consider our Annual Report and Accounts and Notice of the AGM and lodge their proxy votes, the documents are made available more than 20 working days prior to the meeting. We offer all shareholders the choice of submitting proxy votes either electronically or in paper format.

The Annual General Meeting gives all shareholders the opportunity to communicate directly with the Board.

- During the year, the directors are available to respond to enquiries from investors on the Group's operations.
- Effective communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy.

During the year, the executive directors hold discussions with major shareholders.

- The Chairman is available to shareholders if there are matters that they wish to discuss with him directly.
- Announcements are made to the London Stock Exchange and the business media concerning trading and business developments to provide wider dissemination of information.

Internal controls

The Company, as required by the Listing Rules, has complied with the Code provisions on internal control having established the procedures necessary to implement the revised Turnbull Guidance on Internal Control issued in October 2005 (The Turnbull Committee Report) and by reporting in accordance with that guidance.

The Board has overall responsibility for the Company's system of internal control and reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss. There is a continuous process for identifying, evaluating and managing the significant risks faced by the Company which is in accordance with the guidance set out in The Turnbull Committee Report and has been in place for the year under review and up to the date of approval of the annual report and accounts.

This process, which is regularly reviewed by the Board, is as follows:

- the Group's management operates a risk management process which identifies the key risks facing the business and reports to the Audit and Risk Committee and the Board on how those risks are being managed. This is based on a risk register produced by executive management which identifies those key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level. This risk register is discussed at the Audit and Risk Committee and Board meetings on a regular basis and regular monitoring reports are presented to the Board. The management of these risks is monitored by the internal audit function;

- large acquisitions and capital projects require Board approval; and
- there is regular communication between management and the Board on matters relating to risk and control.

The Board has established a strong control framework within which the Group operates. This contains the following key elements:

- organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements;
- defined expenditure and contract authorisation levels;
- on site, video and teleconferencing reviews of operations, covering all aspects of each business, are conducted by Group executive management on a regular basis throughout the year;
- the financial reporting and information systems which comprise: a comprehensive annual budget which is approved by the Board; weekly reports of key operating information; cash flow and capital expenditure reporting; monthly results and forward performance indicators which are measured against the annual budget and the prior year's results. Significant variances are reviewed by the Board and executive management and action is taken as appropriate. The forecast for the year is revised when necessary;
- Group tax and treasury functions are coordinated centrally. There is weekly cash and treasury reporting to Group management and periodic reporting to the Board on the Group's tax and treasury positions; and
- internal audits are performed by Group's internal audit function.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it deemed to be significant. Therefore a confirmation in respect of necessary actions has not been deemed appropriate.

 Learn more at www.mcgplc.com

Other disclosures

The directors present their annual report, incorporating their reports on corporate governance, audit and risk, and remuneration, together with the audited financial statements for the year ended 31 December 2012. These will be laid before the shareholders at the Annual General Meeting on 18 April 2013.

Activity

The principal activity of the Group is the provision of professional services. Details of the Group's principal subsidiary undertakings, through which it carries out its activities, are set out in note 26 to the financial statements.

Business Review

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2012, the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a "Business Review"). The information that fulfils the requirements of the Business Review can be found in the Principal Risks and Uncertainties and Financial Review sections of the annual report.

Group results

The Group's profit before taxation for the year ended 31 December 2012 amounted to £15,965,000 (2011: £23,151,000).

Dividends

An interim dividend of 0.23p per share was paid on 8 January 2013. The directors recommend the payment of a final dividend of 0.595p (2011: interim dividend of 0.20p; final dividend of 0.55p) per share to be paid on 2 July 2013 to shareholders on the register on 17 May 2013.

Creditor payment policy

The Group's policy, in relation to all of its suppliers, is to agree the terms of payment when first contracting with the supplier and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow any code on payment practice but operates a prompt payment policy on settling invoices. The amount of trade creditors shown in the balance sheet at 31 December 2012 represents 30 days

of average purchases during the year (2011: 31 days) for the Group and 71 days (2011: 29 days) for the Company.

Capital structure

Information on the Group's capital structure and its share schemes is set out in note 19.

Political contributions

No political donations were made in 2012 or 2011.

Auditor

Each director who held office at the date of approval of this Directors' Report confirms that, so far as the director is aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006. Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at 11.30am on 18 April 2013 at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA. Details of the meeting are included in the circular to shareholders enclosed with this report, at the back of which is the Notice of Meeting.

Substantial share interests

As at 4 March 2013 (the latest practicable date prior to the issue of this report), the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules issued by the Financial Services Authority, of the following interests in the ordinary share capital of the Company.

	Number of ordinary shares	% of issued share capital
BlueGem LP	124,629,895	25.50
Henderson Global Investors	119,026,787	24.01
Schroders plc	22,118,725	4.95
Richard Griffiths	15,365,387	3.09

By order of the Board



Charles Ansley
Company Secretary
6 March 2013

Registered office
10 Fleet Place
London EC4M 7RB

The Nominations Committee

Overview

The Nominations Committee's purpose is to consider future-appointments to the Board and the succession policy for key management positions.

Structure

The membership of the Committee during 2012 was:

- **Mr Stephen Ferriss** (Chairman, member since 2008)
- **Mr Alan Barber** (Member since 2005)
- **Mr Andrew Simon** (Member since 2006)
- **Mr Julian Waldron** (Member since 2009)
- **Mr Marco Capello** (Member since 2010)

The Code recommends that a majority of the members of the Nominations Committee should be independent non-executive directors. The majority of the Committee was independent throughout 2012.

The Nominations Committee adopted formal terms of reference dated 14 March 2003. These were updated on 2 March 2007 and are available from the Group's website (www.mcgplc.com) or the Company Secretary upon request.

Report of the Audit and Risk Committee

The Audit and Risk Committee



Mr Julian Waldron
Chairman
Member since 2008

This report describes the membership and operation of the Audit and Risk Committee.

Overview

The Audit and Risk Committee oversees the Group's financial reporting and internal controls and provides the link between the Board and the external and internal auditors.

Membership

During 2012 the membership of the Committee was:

- **Mr Julian Waldron** (Chairman, member since 2008)
- **Mr Stephen Ferriss** (Member since 2006)
- **Mr Andrew Simon** (Member since 2008)

Structure

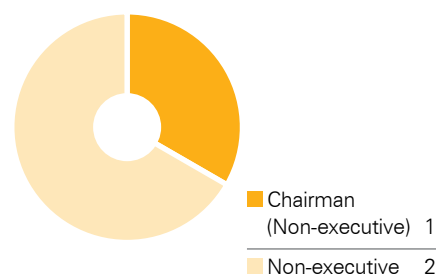
The Code recommends that the Committee should comprise at least two members and that all members should be independent non-executive directors. The Committee comprised three independent non-executive directors throughout the year.

The Code provides that at least one member of the Committee should have recent and relevant financial experience. Mr Ferriss is a banker and Mr Waldron is the chief financial officer of a French listed company and both are considered to have such experience. The profiles and qualifications of the Committee members are shown on pages 24 and 25. The Committee met five times during the year. The external auditor attended four of the meetings and the Committee met privately with them on one occasion.

The performance of the Committee was considered as part of the Board performance evaluation process and it was considered to operate effectively.

Learn more at www.mcgplc.com

Composition of the Committee



Attendance of the Committee

Committee attendance 2012		Audit and Risk Committee meetings
J D Waldron (Chairman)		5
S A Ferriss		5
A H Simon		4
Total meetings held		5

Role of the Committee

The role of the Committee is, in summary:

- 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 Group's internal financial controls and to review the Group's internal control and risk management systems;
- to monitor and review the effectiveness of the Group's internal audit function;
- to make recommendations to the Board 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; and
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and recommending the steps to be taken.

Role of the Committee continued

The Committee's terms of reference were reviewed and updated with effect from 19 April 2011 to conform with current best practice and the revised guidance from the Financial Reporting for Audit Committees issued in December 2010. They have since been reviewed again and no changes were deemed necessary. They are available on the Group's website (www.mcgplc.com) as well as in hard copy format from the Company Secretary.

Operation of the Committee

The Committee works with a structured annual agenda of matters tied in to the key events in the Company's financial reporting cycle, together with various standing items the Committee is required to consider.

The Committee has discharged its responsibilities during the year as follows:

Financial statements

The Committee reviewed the interim and full year financial statements. Presentations were made by management and the auditor about the key technical and judgemental matters relevant to the financial statements. The Committee was satisfied that it was appropriate for the Board to approve the financial statements.

Internal financial control and risk management systems

The Committee reviewed the register of Group risks prepared by management, recommendations made by the external auditor and internal audit reports. A review of the register of Group risks was carried out by internal audit. The Committee was satisfied that it was appropriate for the Board to make the statements regarding internal controls included in the Corporate Governance Statement.

External auditor

The Committee is responsible for overseeing the relationship with the external auditor to ensure that the external auditor continues to be independent, objective and effective in their work, as well as considering the re-appointment of the auditor each year in light of this. The Committee believes that audit partner rotation is a key control in ensuring continued independence and objectivity by reducing the risk of familiarity. As part of this year's decision to recommend the re-appointment of the auditor, the Committee has taken into account the tenure of the auditor who was appointed in 2001 and that during the year Anthony Morris was appointed as the audit partner following the rotation of Nicola Mitchell away from the audit. In accordance with the Code, the Committee has established policies that the auditor shall not provide any services that would potentially result in them auditing the result of their own work or which are prohibited under the US Sarbanes Oxley Act. The Committee pre-approves any permitted non-audit engagements with fees of more than £25,000 or which would cause the cumulative fees of such engagements for the year to exceed £100,000. Regular reports were presented of fees paid to the external auditor in order to ensure that the relationship between non-audit fees and audit fees was not inappropriate. The Committee has considered the independence of the external auditor and is satisfied that independence has been maintained and Deloitte LLP has formally confirmed its continuing independence to the Committee. The Committee reviewed the external audit plan proposed by the auditor and participated in the review of the quality of the service that they provided.

There are no contractual obligations that act to restrict the Committee's choice of external auditor. As a consequence of its satisfaction with the results of the activities outlined above, the Committee has recommended to the Board that the external auditor be re-appointed.

Internal audit function

The Head of Internal Audit reports to the Committee, which reviewed and approved the annual internal audit work programme and reviewed all internal audit reports prepared in the year. The internal audit function also assists executive management on special projects.

The Chairman of the Committee reported to the Board on the Committee's activities after each meeting, identifying relevant matters requiring communication to the Board and recommendations on the steps to be taken.

Report of the Remuneration Committee

Introduction



I am pleased to present the Remuneration Committee's report on directors' remuneration.

Set out in this report is a summary of the Group's executive remuneration policy and details of the remuneration paid to both the executives and non-executives during the year under report. My intention in this letter to shareholders is to give you an overview of the principal activity of the Committee during 2012 (in addition to usual business) which was to carry out a full review of the Group's executive remuneration structure.

In the 2011 Remuneration Report, we stated that the Committee would review the Chief Executive's and Finance Director's base salaries on the anniversaries of their appointments, being 1 July and 31 October respectively. While reviewing the salaries of these executives, the Committee concluded that it should take the opportunity to review the structure of their remuneration packages as a whole to ensure that their remuneration continues to be appropriately structured to drive the business forward.

The Committee's wider review of the overall structure of the Executives' packages raised concerns that the Executives were not being paid adequate fixed levels of pay for their day-to-day duties and responsibilities whereas the current level of short-term variable pay at 200% of salary gave too much focus on the short-term performance of the Company and potentially insufficient focus on long-term performance. In summary, the Committee concluded that the structure of the Executives' packages did not provide sufficient balance and focus between fixed and variable pay or between short and long-term performance.

As a result, the Committee determined that the Chief Executive's and Finance Director's remuneration packages should be rebalanced to provide a greater emphasis on base salary and a reduced amount of variable pay. Accordingly, with effect from 1 January 2013, salaries for the Chief Executive and Finance Director have been increased and annual bonus potential reduced. Long-term incentive and other elements remain the same. Further details are included in the following pages. The Committee has consulted with its major shareholders and representative bodies regarding these changes and they have in the main been supportive of the changes.

The two other Executive Directors are the heads of the two consulting businesses and the structure of their remuneration is necessarily different to that of the Chief Executive and Finance Director who are responsible for the overall Group. A review of their packages is in process and certain changes to their remuneration are also noted in the following pages.

Looking forward, the Remuneration Committee is mindful of the debate on executive pay and the new BIS regulations. The Committee is following this closely, so it is in a position to report in accordance with the new regulations in 2013.

The Board will submit this report for approval by shareholders at our Annual General Meeting on 18 April 2013. If in the meantime you would like to discuss any of the matters set out in this report I will be pleased to engage with you.

Andrew Simon
Chairman of the Remuneration Committee
6 March 2013

The Remuneration Committee

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and it describes how the Board has applied the principles relating to directors' remuneration set out in the Code. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the annual report and accounts will be approved.

The Act requires the auditor to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Accounting Regulations. The report has therefore been divided into separate sections for unaudited and audited information.

Overview

The Committee reviews and determines, on behalf of the Board, the salary, benefits and pension packages of the Chairman and the executive directors. The Committee also reviews, on behalf of the Board, the remuneration packages of the highest paid executives and the Company Secretary.

Membership

During 2012 the membership of the Committee was:

- **Mr Andrew Simon** (Chairman, member since 2006)
- **Mr Marco Capello** (Member since 2010)
- **Mr Stephen Ferriss** (Member since 2008)
- **Mr Julian Waldron** (Member since 2008)

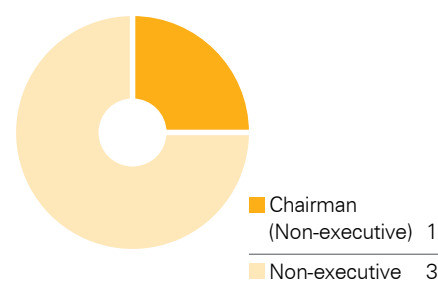
Structure

The Code recommends that the Committee should comprise at least two independent non-executive directors. The Committee comprised three independent and one non-independent non-executive directors throughout the year.

The terms of reference for the Committee were last updated in December 2010. They were last reviewed in 2012 and no changes were deemed necessary. They are available on the Group's website.

Learn more at www.mcgplc.com

Composition of the Committee



Attendance of the Committee

	Remuneration Committee meetings
Committee attendance 2012	
A H Simon (Chairman)	7
M Capello	7
S A Ferriss	7
J D Waldron	7
Total meetings held	7

Unaudited information

Operation of the Committee

In determining the directors' remuneration for the year, the Committee consulted the Chairman save in relation to his own remuneration. No director is involved in deciding their own remuneration. The Committee makes use of published reports on directors' remuneration packages and advice from independent external advisers is obtained when required. New Bridge Street (a trading name of Aon Hewitt, an Aon plc company) is the independent adviser to the Remuneration Committee. Aon plc also provided insurance broking services to the Company during the year but the Committee consider this does not prejudice New Bridge Street's independence. New Bridge Street provides advice to the Remuneration Committee on the operation of the Company's incentive schemes and the remuneration of executive and non-executive directors as well as employee remuneration and may also advise the Committee on other matters within the Committee's terms of reference.

The Board carried out a review of its operations, including the functioning of its Committees, and deemed the operation of the Remuneration Committee to be satisfactory.

Report of the Remuneration Committee continued

Unaudited information continued

Remuneration policy

Compensation packages for executive directors are set by reference to individual and corporate performance, individual competencies, external market comparisons and remuneration levels below Board level in the Group. The package for each executive director currently comprises a basic salary, an annual bonus, share incentives, pension contributions and benefits.

The Remuneration Committee has regard to associated risks arising throughout the Company when setting remuneration. In particular, the Committee ensures that the targets attached to variable pay schemes are set so that they do not encourage any undue risk taking by executives.

In order to align the interests of executive directors with the interests of shareholders, a significant proportion of executive directors' remuneration is performance related through the use of annual bonus and share incentive schemes.

Fees for the non-executive directors are determined annually by the Board based on market information obtained from external surveys.

Base salaries

The Committee's policy is to set the base salaries of each executive director at levels that reflect their roles, experience and practices in the employment market whilst ensuring that they take account of the pay and employment conditions of other employees within their business units. Pension and associated costs are also taken into account.

There have been no increases in base salary in the year. Mr Stagg's base salary of £300,000 per annum did not increase on his becoming Chief Executive in 2010 and has not increased since his appointment to the Board on 21 October 2009. Mr Povey's base salary of £200,000 per annum was last increased on 16 December 2010 following his promotion to Finance Director. Mr Carvalho's base salary of US\$1,000,000 was last increased on 1 July 2008. Mr Mahjoub's base salary of €500,000 was last increased on 1 January 2010.

Following the Committee's review, from 1 January 2013 Mr Stagg's salary has been increased to £400,000 per annum and Mr Povey's salary has been increased to £250,000 per annum following the reduction of the bonus opportunity from two times to one times base salary. No other changes have been made to the executive directors' base salaries.

Going forward, in the normal case, the Committee will review executive directors' base salaries at the end of each calendar year.

Annual bonus scheme

For 2012, Mr Stagg, Mr Povey and Mr Carvalho are entitled to an annual bonus that comprises current and deferred elements. The Group's and individual businesses' budgeted profits from operations (adjusted for subsequent acquisitions or disposals) are used as the benchmarks for the financial performance in relation to both elements of the scheme.

Under the current element, each director is entitled to an amount equal to up to 125% of basic salary. The amount payable is primarily determined by reference to the financial performance of the Group (and business, where relevant) with a smaller element of 20% of base salary being dependent on the achievement of detailed individual short and medium-term performance criteria.

Under the deferred element, an amount of up to 75% of base salary may be earned, subject to the achievement of a sliding scale of profit from operations targets which are above budget. Two-thirds of this second element will be payable in cash three years after the end of the relevant financial year. The remaining third will be used to acquire shares in the Company which will also be transferred to the executive director three years after the end of the relevant financial year. However, both the deferred cash and share elements of the annual bonus will normally be forfeited if the executive director ceases employment with the Group during that three year period.

The financial performance parts of Mr Stagg's and Mr Povey's bonuses are related to the financial performance of the Group. The financial performance parts of Mr Carvalho's bonus are related one quarter to the financial performance of the Group and three quarters to the financial performance of the business for which he is responsible, Alexander Proudfoot.

The budget for 2012 was set at 10% above the actual result for 2011. The actual underlying profit from operations of the Group for 2012 amounted to £25.7m before non-recurring items and the amortisation of acquired intangible assets, a decrease of £2.6m (9%) compared with the prior year. For the Group, the financial performance criteria were partially met in relation to the current element of the scheme but not met in relation to the deferred element. For Alexander Proudfoot, the financial performance criteria were fully met in relation to the current element of the scheme and partially met in relation to the deferred element. As a result, 29.9%, 29.9% and 86.2% of salary entitlement arises as a current bonus in respect of financial performance for Mr Stagg, Mr Povey and Mr Carvalho, respectively. The balance of the current bonus amounts to 20.0% of salary in the case of Mr Stagg, 20.0% of salary in the case of Mr Povey and 17.0% of salary in the case of Mr Carvalho and reflects the Committee's assessment of the achievement of personal performance objectives. The current bonuses payable are £149,600 for Mr Stagg, £99,700 for Mr Povey, and US\$1,032,100 (£650,800) for Mr Carvalho.

Unaudited information continued**Annual bonus scheme** continued

The bonuses due within the second element, which are deferred for three years, are a cash bonus of US\$47,200 (£29,762) and a share bonus of US\$23,600 (£14,881) for Mr Carvalho. No deferred bonuses are due to Mr Stagg or Mr Povey.

Mr Mahjoub, who was an employee of Kurt Salmon throughout the year, has been assessed for a bonus solely in respect of his work for that business based on the principles used in that business. Mr Mahjoub has been awarded a current bonus of €225,000 (£182,490). This bonus has been reviewed by the Committee and agreed.

An annual bonus cap of twice salary applied to all executive directors' annual bonuses during 2012.

For 2013, the bonus arrangements for Mr Stagg, Mr Povey and Mr Carvalho have been revised. Mr Stagg and Mr Povey have an annual bonus opportunity of one times salary, the major part of which will be assessed on financial targets set around the Group's budgeted profits from operations with the remainder based on the achievement of personal strategic objectives. Mr Carvalho has an annual bonus opportunity of one times salary the major part of which will be assessed on financial targets set around Alexander Proudfoot's budgeted revenue and profits from operations with the remainder based on the achievement of personal strategic objectives. The bonus arrangements for Mr Mahjoub are being reviewed, with the intention of putting them on a similar basis to the other executive directors.

Share incentives

The Group has one share incentive scheme in which directors are currently eligible to participate, the Management Consulting Group 2008 Performance Share Plan (the "2008 Performance Share Plan").

The 2008 Performance Share Plan

The 2008 Performance Share Plan was approved at the Annual General Meeting held on 23 April 2008 and will expire on 22 April 2018. It is designed to motivate directors and senior employees, whilst retaining them in the Group's employment, by granting awards to acquire ordinary shares in the Company.

Under the rules of the 2008 Performance Share Plan, an employee may not receive awards in any financial year over shares having a market value in excess of 100% of his annual base salary in that financial year. In exceptional circumstances, such as recruitment or retention, this limit may be increased to 200% of an employee's annual base salary.

The initial awards granted in 2008 were structured as conditional awards of free shares which would vest after three years provided the individual remained employed by the Group and the performance condition had been met. The performance condition was based on the compound annualised growth in adjusted earnings per share ("EPS") over a three year performance period. For these purposes, adjusted EPS will be calculated by excluding non-recurring items, amortisation of intangibles and other items that the Committee considers appropriate. The adjusted EPS figure is based upon information in the annual report and accounts of the relevant year and is verified by the Audit and Risk Committee.

The performance conditions for these initial awards were as follows:

Compound annualised growth in adjusted EPS	Percentage of the award that vests
Less than 6%	0%
At 6%	20%
At or more than 13%	100%
Between 6%–13%	Straight-line vesting between 20% and 100%

The adjusted EPS will be based on the results for the year preceding the year in which the award is made and the results for three years later.

Certain awards were made to participants below board level under the French schedule and are required to comply with the requirements of French tax and social security contributions legislation. This required the participants to hold their shares for a further two years after the vesting date, with certain exceptions.

Report of the Remuneration Committee continued

Unaudited information continued

Share incentives continued

The 2008 Performance Share Plan continued

During 2010, awards were made to Mr Stagg and Mr Povey. Mr Stagg's award was made in part under the 2008 Plan and in part under a separate award agreement with the same terms as the 2008 Plan except that the award under the separate agreement can only be satisfied by the transfer of existing shares (other than treasury shares). These awards will vest in three years, subject to Mr Stagg's and Mr Povey's continued employment with the Group and the achievement of a Total Shareholder Return ("TSR") performance condition set out in the table below:

	N S Stagg	C J Povey
Date of grant	20 May 2010	22 December 2010
Share price at grant	24.5p	31.0p
20% vesting at TSR creation of	5.5p	6.0p
100% vesting at TSR creation of	35.5p	29.0p

Straight-line vesting between 20% and 100%.

In addition to the TSR performance condition, the Committee must be satisfied that the vesting level is warranted by the Company's underlying financial performance over the three year performance period.

Awards made to executive directors in respect of the financial year 2011 on 6 January 2012 will vest in three years, subject to the individual director's continued employment with the Company's group and the achievement of a Total Shareholder Return ("TSR") performance condition set out in the table below:

Date of grant	6 January 2012
Share price at grant	31.0p
20% vesting at TSR creation of	6.0p
100% vesting at TSR creation of	30.0p

Straight-line vesting between 20% and 100%.

Awards made to executive directors in respect of the financial year 2012 on 31 August 2012 vest in three years, subject to the individual director's continued employment with the Company's group and the achievement of a Total Shareholder Return ("TSR") performance condition set out in the table below:

Date of grant	31 August 2012
Share price at grant	24.63p
20% vesting at TSR creation of	5.0p
100% vesting at TSR creation of	25.0p

Straight-line vesting between 20% and 100%.

In addition to the TSR performance condition, the Committee must be satisfied that the vesting level is warranted by the Company's underlying financial performance over the three year performance period.

The Committee believes these performance criteria are appropriate for the directors as it aligns their interests with those of shareholders. The TSR calculation will be undertaken by a third party to ensure independent verification of the extent to which the performance conditions are met.

The Committee may set different performance conditions from those described above for future awards provided that, in the reasonable opinion of the Committee, the new targets are not materially less challenging in the circumstances than those for the initial awards described above.

At 31 December 2012, there were awards outstanding over new shares under the 2008 Performance Share Plan of 23.4 million, comprising 4.7% of the issued share capital.

Shareholders have approved that the aggregate options and awards over new issue shares outstanding are limited to 12.8% of the fully diluted share capital.

Unaudited information continued**Pension arrangements**

The Group contributes 17.5% of salary to defined contribution pension schemes of Mr Stagg's and Mr Povey's choice. Bonuses and other payments to directors are not pensionable. The Group contributes to the US 401(k) retirement provisions for Mr Carvalho. Mr Mahjoub does not participate in a defined contribution scheme.

Other benefits

Benefits vary according to the employing country of the executive director but may comprise some or all of the following: a car (or car allowance), insurances for life, personal accident, disability, permanent health and family medical cover.

Service contracts

No director has a service contract containing more than a one year notice period or with pre-determined compensation provisions upon termination exceeding one year's salary and benefits. It is the Company's policy that, except where prescribed by law, there should be no automatic entitlement to bonuses or share-based payments in the event of an early termination.

Mr Stagg and Mr Povey have contracts with the Company which either party is able to terminate by giving twelve months' notice. Mr Carvalho and Mr Mahjoub each have an appointment letter in respect of their role as a director of the Company which may be terminated with no notice. They also have employment contracts with Group companies. Mr Carvalho has a contract with a Group company which either party is able to terminate with twelve months' notice. Mr Mahjoub has a contract with a Group company which either party is able to terminate by giving three months' notice. Mr Stagg's and Mr Povey's contracts continue until age 65. Mr Mahjoub's contract continues until the mandatory retirement age as specified under French employment legislation.

In the event of the early termination of an executive director's contract, it is the Committee's policy that the amount of compensation (if any) paid to the executive director will be determined by reference to the relevant circumstances that prevail at the time.

The dates of the appointment letters of the executive directors who served during the year are as follows:

Director	Date of contract
N S Stagg	13 January 2010
C J Povey	1 March 2011
L H Carvalho	18 March 2008
C Mahjoub	17 December 2009

External appointments

Mr Stagg is a director of Shinetrip Ltd and a non-executive board member of Wedlake Bell LLP. The Company recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience to the benefit of the Group and they are entitled to retain any fees earned. None of the other current executive directors held non-executive directorships for which they were remunerated.

Non-executive directors – summary of entitlements

The Chairman receives a fee of £100,000 per annum. Each of the other non-executive directors in office throughout 2012 received a fee of £35,000 per annum and an additional fee of £5,000 was paid for fulfilling the roles of Chairman of the Audit and Risk Committee, Chairman of the Remuneration Committee, Chairman of the Nominations Committee and Senior Independent Director. Mr Simon was appointed to the Supervisory Board of the Company's French subsidiary, Kurt Salmon Associés France SA, from 1 January 2009 and the Board has awarded him a fee of €5,000 for carrying out this role in 2012. The Board has concluded that this appointment does not affect Mr Simon's independence as the role is considered an extension of his role as a non-executive director. Mr Capello and Mr Di Spiezo Sardo, who were appointed to the Board as non-executive directors on 18 June 2010, have voluntarily agreed not to take fees.

Apart from as noted above, the fees payable to the non-executive directors were last revised with effect from 1 January 2007. Having reviewed market survey information, the Board concluded that there should be no general increase in the fees payable to the non-executive directors. The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any share scheme.

Report of the Remuneration Committee continued

Unaudited information continued

Non-executive directors – summary of entitlements continued

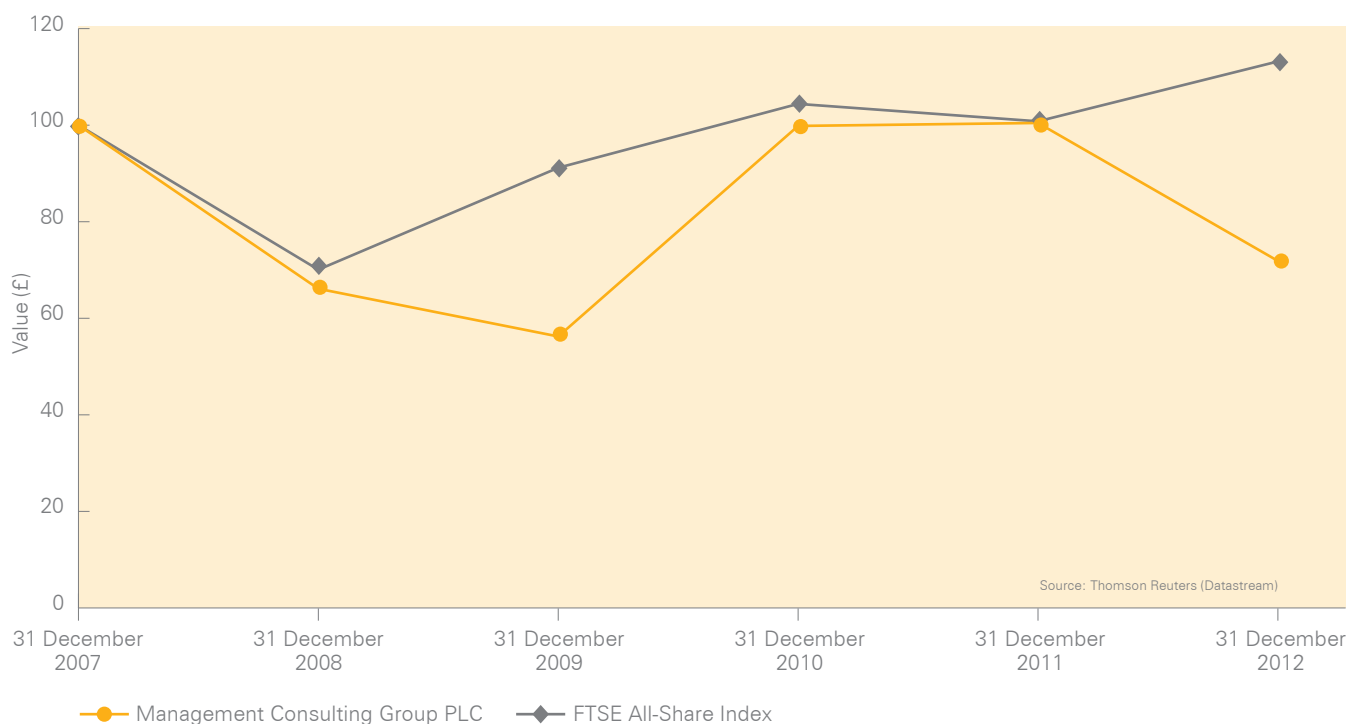
None of the non-executive directors has a service contract and all are appointed for limited terms. None of the non-executive directors is subject to notice periods and none has any rights to compensation on termination. The Company considers this approach appropriate in the current circumstances. The dates of the most recent letters of appointment of non-executive directors are set out below:

Director	Date of letter of appointment
A J Barber	25 May 2010
M Capello	27 May 2010
S A Ferriss	1 March 2013
E Di Spiezio Sardo	27 May 2010
A H Simon	1 March 2013
J D Waldron	1 March 2013

Performance graph

The regulations require this report to contain a graph illustrating the Company's performance compared with an appropriate "broad equity market index" over the past five years. Management Consulting Group PLC is a constituent of the FTSE All-Share Index and, accordingly, that index is considered the most appropriate form of "broad equity market index" against which the Group's performance should be plotted. Performance, as required by the legislation, is measured by TSR (share price growth plus dividends paid).

Total Shareholder Return



This graph shows the value, by 31 December 2012, of £100 invested in Management Consulting Group PLC on 31 December 2007 compared with the value of £100 invested in the FTSE All-Share Index. The other points plotted are the values at intervening financial year ends.

Audited information

Directors' remuneration

The remuneration of the directors who served in the year ended 31 December 2012 and year ended 31 December 2011 was as follows:

	Salaries and fees as directors £	Bonus ¹ £	Benefits £	Pension contributions £	Total emoluments 2012 (or date of appointment if later) £	Total emoluments 2011 £
Executive						
L H Carvalho	630,559	650,800	16,260	7,639	1,305,258	1,362,963
C Mahjoub	405,533	182,490	—	—	588,023	608,115
C J Povey	200,000	99,700	—	35,000	334,700	453,600
N S Stagg	300,000	149,600	32,183	52,500	534,283	717,329
M E Lopinto ²	—	—	—	—	—	81,936
M Wietecha ³	—	—	—	—	—	368,109
Non-executive						
A J Barber	100,000	—	—	—	100,000	100,000
M Capello	—	—	—	—	—	—
S A Ferriss	45,000	—	—	—	45,000	45,000
E Di Spiezio Sardo	—	—	—	—	—	—
A H Simon OBE	44,055	—	—	—	44,055	44,344
J D Waldron	40,000	—	—	—	40,000	38,486
Baroness Cohen ⁴	—	—	—	—	—	13,333
	1,765,147	1,082,590	48,443	95,139	2,991,319	3,833,215

1 Comprises the current bonuses payable. In addition there is a deferred bonus due to Mr Carvalho of US\$70,800 (£44,644, of which two thirds is payable in cash and one third in shares the vesting of which is dependent on continual service for a three year period).

2 Stood down 19 April 2011.

3 Stood down 30 September 2011.

4 Stood down 19 April 2011.

Interest in shares

The beneficial interests of the directors in office at 31 December 2012 in the ordinary share capital of the Company were as follows:

	6 March 2013	31 December 2012	31 December 2011
Executive			
L H Carvalho	1,657,006	1,657,006	1,293,694
C Mahjoub	3,266,362	3,266,362	3,266,362
C J Povey	32,000	32,000	32,000
N S Stagg	774,154	774,154	674,154
Non-executive			
A J Barber	2,200,000	2,200,000	2,024,677
M Capello	—	—	—
S A Ferriss	367,451	367,451	367,451
A H Simon OBE	62,937	62,937	62,937
E Di Spiezio Sardo	—	—	—
J D Waldron	256,725	256,725	256,725

Mr Capello and Mr Di Spiezio Sardo are partners of BlueGem Capital Partners LLP, the manager of BlueGem LP, whose interest in the Company is disclosed in the Directors' Report.

Report of the Remuneration Committee continued

Audited information continued

Directors' remuneration continued

Interest in the 2008 Performance Share Plan and Deferred Share Bonus Plan

The interests of the directors in performance share awards in the Company and the Deferred Share Bonus Plan in the year are set out in the table below:

Director	Nature of Award ¹	Date of grant	At 1 January 2012	Granted in year	Vested in year	Lapsed in year	At 31 December 2012 (or date of cessation if earlier)	Exercise price p	Date from which shares vest
N S Stagg	LTI FY 2010	20 May 2010	3,000,000	—	—	—	3,000,000	—	19 May 2013
N S Stagg	LTI FY 2011	6 January 2012	—	971,000	—	—	971,000	—	5 January 2015
N S Stagg	LTI FY 2012	31 August 2012	—	1,200,000	—	—	1,200,000	—	30 August 2015
C J Povey	LTI FY 2010	22 December 2010	1,290,000	—	—	—	1,290,000	—	21 December 2013
C J Povey	LTI FY 2011	6 January 2012	—	647,000	—	—	647,000	—	5 January 2015
C J Povey	LTI FY 2012	31 August 2012	—	800,000	—	—	800,000	—	30 August 2015
L H Carvalho	DB FY 2008	9 March 2009	363,312	—	(363,312)	—	—	—	1 January 2012
L H Carvalho	LTI FY 2011	6 January 2012	—	2,072,000	—	—	2,072,000	—	5 January 2015
L H Carvalho	DB FY 2011	7 March 2012	—	140,347	—	—	140,347	—	1 January 2015
L H Carvalho	LTI FY 2012	31 August 2012	—	1,200,000	—	—	1,200,000	—	30 August 2015
C Mahjoub	LTI FY 2011	6 January 2012	—	1,341,000	—	—	1,341,000	—	5 January 2015
C Mahjoub	DB FY 2011	7 March 2012	—	352,936	—	—	352,936	—	31 May 2014
C Mahjoub	LTI FY 2012	31 August 2012	—	1,200,000	—	—	1,200,000	—	30 August 2015

1 Award types: LTI FY – Long-term Incentive award under the 2008 Performance Share Plan for the financial year stated.
DB FY – Deferred bonus payable in shares for the financial year stated.

Each executive director received two PSP awards in 2012. The first award made on 6 January 2012 was in respect of financial year 2011 and the second was in respect of the financial year 2012. No awards were made in the financial year 2011. Thus the underlying intention of not awarding more than 100% of base salary per year has been maintained.

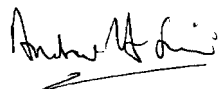
The share prices on the dates of grant were 31.00p on 9 March 2009, 24.50p on 20 May 2010, 31.00p on 22 December 2010, 31.00p on 6 January 2012, 35.25p on 7 March 2012 and 24.63p on 31 August 2012.

Except for the directors shown in the above tables no other director held share awards at 31 December 2012. There have been no variations to the terms and conditions or performance criteria for share awards during the financial year.

The market price at 31 December 2012 was 21.25p and the range during 2012 was 21.25p to 39.50p.

Approval

This report was approved by the Board of Directors and signed on its behalf by:



Andrew Simon

Chairman of the Remuneration Committee

6 March 2013

Independent auditor's report

to the members of Management Consulting Group PLC

We have audited the financial statements (the "financial statements") of Management Consulting Group PLC for the year ended 31 December 2012 which comprise the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, the Group balance sheet, the Group cash flow statement, the Company balance sheet, the Company statement of changes in equity, the Company cash flow statement and the related notes 1 to 27. 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.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibility statement, 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 and express an opinion on 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.

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 31 December 2012 and of the Group's profit 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.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board ("IASB").

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

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; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared 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 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.

Under the Listing Rules we are required to review:

- the directors' statement, contained within the Financial Review, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Anthony Morris, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
6 March 2013

Group income statement

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Continuing operations			
Revenue	3	285,759	302,559
Cost of sales		(185,308)	(198,128)
Gross profit		100,451	104,431
Administrative expenses – underlying		(74,705)	(76,084)
Profit from operations – underlying		25,746	28,347
Administrative expenses – non-recurring (net)	4	(5,304)	(247)
Profit from operations before amortisation of acquired intangibles		20,442	28,100
Administrative expenses – amortisation of acquired intangibles	10	(2,255)	(2,642)
Total administrative expenses		(82,264)	(78,973)
Profit from operations	3	18,187	25,458
Investment revenues	6a	524	99
Finance costs	6b	(2,746)	(2,406)
Profit before tax	4	15,965	23,151
Tax	7	(4,304)	(6,720)
Profit for the year attributable to owners of the Company		11,661	16,431
Earnings per share – pence			
From profit for the year attributable to owners of the Company:			
Basic	9	2.4	3.7
Diluted	9	2.3	3.7
Basic – underlying	9	3.5	3.8
Diluted – underlying	9	3.4	3.7

Group statement of comprehensive income

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Exchange differences on translation of foreign operations	20	(5,826)	(3,789)
Actuarial losses on defined benefit post-retirement obligations	17	(4,705)	(1,881)
Gain/(loss) on available-for-sale investments	20	154	(183)
Tax items taken directly to equity	15	(127)	(144)
Other comprehensive expense for the year		(10,504)	(5,997)
Profit for the year		11,661	16,431
Total comprehensive income for the year attributable to owners of the Company		1,157	10,434

Group statement of changes in equity for the year ended 31 December 2012

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share compensation reserve £'000	Shares held by employee benefits trust £'000	Translation reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2012	84,504	82,040	32,513	3,388	(3,739)	29,040	6,229	(39,237)	194,738
Profit for the year	—	—	—	—	—	—	—	11,661	11,661
Exchange differences	—	—	—	—	—	(5,826)	—	—	(5,826)
Actuarial movements	—	—	—	—	—	—	—	(4,705)	(4,705)
Profit on AFS investments	—	—	—	—	—	—	154	—	154
Tax on equity items	—	—	—	—	—	—	—	(127)	(127)
Share-based payments	—	—	—	2,344	—	—	—	—	2,344
Shares acquired by employee benefits trust	—	—	—	—	(284)	—	—	—	(284)
Shares transferred from employee benefits trust	—	—	—	—	396	—	—	—	396
Dividends	—	—	—	—	—	—	—	(3,785)	(3,785)
Balance at 31 December 2012	84,504	82,040	32,513	5,732	(3,627)	23,214	6,383	(36,193)	194,566
Balance at 1 January 2011	83,997	71,390	32,513	2,386	(2,354)	32,829	6,412	(51,398)	175,775
Profit for the year	—	—	—	—	—	—	—	16,431	16,431
Exchange differences	—	—	—	—	—	(3,789)	—	—	(3,789)
Actuarial movements	—	—	—	—	—	—	—	(1,881)	(1,881)
Loss on AFS investments	—	—	—	—	—	—	(183)	—	(183)
Tax on equity items	—	—	—	—	—	—	—	34	34
Tax on items recognised in Group statement of comprehensive income	—	—	—	—	—	—	—	(144)	(144)
Share-based payments	—	—	—	1,002	—	—	—	—	1,002
Shares issued	507	10,650	—	—	—	—	—	—	11,157
Shares acquired by employee benefits trust	—	—	—	—	(1,647)	—	—	—	(1,647)
Shares transferred from employee benefits trust	—	—	—	—	262	—	—	—	262
Dividends	—	—	—	—	—	—	—	(2,279)	(2,279)
Balance at 31 December 2011	84,504	82,040	32,513	3,388	(3,739)	29,040	6,229	(39,237)	194,738

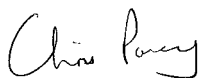
Group balance sheet

as at 31 December 2012

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	Note	2012 £'000	2011 £'000
Non-current assets			
Intangible assets	10	266,397	274,275
Property, plant and equipment	11	2,646	3,061
Investments	12	2,025	2,856
Deferred tax assets	15	19,985	18,636
Total non-current assets		291,053	298,828
Current assets			
Trade and other receivables	13	66,364	72,875
Cash and cash equivalents	22	14,863	19,762
Total current assets		81,227	92,637
Total assets		372,280	391,465
Current liabilities			
Trade and other payables	14	(82,374)	(97,695)
Current tax liabilities	15	(12,147)	(15,066)
Total current liabilities		(94,521)	(112,761)
Net current liabilities		(13,294)	(20,124)
Non-current liabilities			
Financial liabilities	16	(45,150)	(47,921)
Retirement benefit obligations	17	(24,761)	(23,174)
Non-current tax liabilities	15	(4,516)	(5,256)
Long-term provisions	18	(8,766)	(7,615)
Total non-current liabilities		(83,193)	(83,966)
Total liabilities		(177,714)	(196,727)
Net assets		194,566	194,738
Equity			
Share capital	19	84,504	84,504
Share premium account	20	82,040	82,040
Merger reserve	20	32,513	32,513
Share compensation reserve	20	5,732	3,388
Shares held by employee benefits trust	20	(3,627)	(3,739)
Translation reserve	20	23,214	29,040
Other reserves	20	6,383	6,229
Retained earnings	21	(36,193)	(39,237)
Equity attributable to owners of the Company		194,566	194,738

The financial statements were approved by the Board of Directors and authorised for issue on 6 March 2013. They were signed on its behalf by:



Chris Povey
Director

Group cash flow statement

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Net cash inflow from operating activities	22	4,609	26,278
Investing activities			
Interest received		29	99
Purchases of property, plant and equipment		(778)	(1,084)
Purchases of intangible assets		(2,713)	(1,523)
Proceeds on disposal of fixed assets		908	—
Purchase of financial assets		(90)	(70)
Proceeds on disposal of investments		1,426	89
Acquisition of subsidiaries		(295)	(1,455)
Net cash used in investing activities		(1,513)	(3,944)
Financing activities			
Interest paid		(2,295)	(2,632)
Dividends paid		(3,632)	(1,999)
Proceeds from borrowings		70,612	19,045
Repayment of borrowings		(70,659)	(50,589)
Proceeds from issue of shares		600	10,572
Share buyback		(284)	(1,634)
Net cash used in financing activities		(5,658)	(27,237)
Net decrease in cash and cash equivalents		(2,562)	(4,903)
Cash and cash equivalents at beginning of year		19,762	25,710
Effect of foreign exchange rate changes		(2,337)	(1,045)
Cash and cash equivalents at end of year	22	14,863	19,762

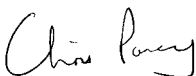
Company balance sheet

as at 31 December 2012

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	Note	2012 £'000	2011 £'000
Non-current assets			
Intangible assets	10	396	548
Property, plant and equipment	11	503	734
Investments	12	235,750	241,759
Deferred tax assets	15	195	300
Total non-current assets		236,844	243,341
Current assets			
Trade and other receivables	13	40,492	42,198
Cash and cash equivalents	22	71	2,771
Total current assets		40,563	44,969
Total assets		277,407	288,310
Current liabilities			
Trade and other payables	14	(55,623)	(60,434)
Total current liabilities		(55,623)	(60,434)
Net current liabilities		(15,059)	(15,465)
Non-current liabilities			
Long-term provisions	18	(2,293)	(2,140)
Total non-current liabilities		(2,293)	(2,140)
Total liabilities		(57,916)	(62,574)
Net assets		219,491	225,736
Equity			
Share capital	19	84,504	84,504
Share premium account	20	82,040	82,040
Merger reserve	20	26,830	26,830
Share compensation reserve	20	5,732	3,388
Shares held by employee benefits trust	20	(3,627)	(3,739)
Capital redemption reserve	20	1,186	1,186
Retained earnings	21	22,826	31,527
Equity attributable to owners of the Company		219,491	225,736

The financial statements were approved by the Board of Directors and authorised for issue on 6 March 2013. They were signed on its behalf by:



Chris Povey
Director

Company number
1000608

Company statement of changes in equity

for the year ended 31 December 2012

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share compensation reserve £'000	Shares held by employee benefits trust £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2012	84,504	82,040	26,830	3,388	(3,739)	1,186	31,527	225,736
Loss for the year	—	—	—	—	—	—	(4,811)	(4,811)
Share-based payments	—	—	—	2,344	—	—	—	2,344
Tax on equity items	—	—	—	—	—	—	(105)	(105)
Shares acquired by employee benefits trust	—	—	—	—	(284)	—	—	(284)
Shares acquired by employee benefits trust	—	—	—	—	396	—	—	396
Dividends	—	—	—	—	—	—	(3,785)	(3,785)
Balance at 31 December 2012	84,504	82,040	26,830	5,732	(3,627)	1,186	22,826	219,491
Balance at 1 January 2011	83,997	71,390	26,830	2,386	(2,354)	1,186	36,262	219,697
Loss for the year	—	—	—	—	—	—	(2,456)	(2,456)
Shares issued	507	10,650	—	—	—	—	—	11,157
Share-based payments	—	—	—	1,002	—	—	—	1,002
Shares acquired by employee benefits trust	—	—	—	—	(1,647)	—	—	(1,647)
Shares transferred from employee benefits trust	—	—	—	—	262	—	—	262
Dividends	—	—	—	—	—	—	(2,279)	(2,279)
Balance at 31 December 2011	84,504	82,040	26,830	3,388	(3,739)	1,186	31,527	225,736

Company cash flow statement

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Net cash inflow/(outflow) from operating activities	22	740	(1,622)
Investing activities			
Purchases of property, plant and equipment		(12)	(5)
Purchases of intangible assets		—	(25)
Cash advances from subsidiaries		22,626	32,804
Repayment of advances to subsidiaries		(20,509)	(37,234)
Dividends received		—	677
Net cash raised in/(used in) investing activities		2,105	(3,783)
Financing activities			
Interest paid		(832)	(534)
Dividends paid		(3,632)	(1,999)
Proceeds from issue of shares		600	10,572
Share buyback		(284)	(1,634)
Net cash (used in)/raised in financing activities		(4,148)	6,405
Net (decrease)/increase in cash and cash equivalents		(1,303)	1,000
Cash and cash equivalents at beginning of year		2,771	916
Effect of foreign exchange rate changes		(1,397)	855
Cash and cash equivalents at end of year	22	71	2,771

Notes to the financial statements

for the year ended 31 December 2012

1. General information

Management Consulting Group PLC (the "Company") is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 88. The nature of the Group's operations and its principal activity are set out in note 3 and in the Financial Review.

2. Significant accounting policies

The following accounting policies have been applied consistently in the current and preceding year in dealing with items which are considered material in relation to the financial statements.

(a) Basis of preparation

The financial statements of Management Consulting Group PLC and its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have also been prepared in accordance with IFRS as adopted by the European Union ("EU") and therefore comply with Article 4 of the EU International Accounting Standards ("IAS") regulation.

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the Company has elected not to present its own income statement. Its separate financial statements have been prepared in accordance with IFRS.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below. The principal accounting policies adopted in the preparation of the parent company's financial statements are the same as those adopted in the consolidated financial statements except that the parent company's investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

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 Business Review. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and principal risks and uncertainties are described in the Financial Review. In addition, note 23 to the Group financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to liquidity risk and credit risk.

As detailed under "Liquidity and capital resources" in the Financial Review, the Group has a borrowing facility, which runs until July 2016. The facility is a fully revolving credit facility under which the Group can draw up to £85m. The facility is subject to financial covenants (referred to in note 23). At 31 December 2012, £45.2m was drawn on the facility. The Group prepares regular business forecasts and monitors its projected compliance with its banking covenants, which are reviewed by the Board. Forecasts are adjusted for reasonable sensitivities that address the principal risks and uncertainties to which the Group is exposed. Consideration is given to the potential actions available to management to mitigate the impact of one or more of these sensitivities, in particular the discretionary nature of a significant amount of cost incurred by the Group.

The Board has concluded that the Group should be able to operate within the level of its current facility and remain covenant compliant for the foreseeable future, being a period of at least twelve months from the date of approval of the financial statements and accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Standards, amendments and interpretations effective in 2012

Amendments to IAS 32 (October 2009) Classification of Rights Issues clarify the classification of right issues. This does not have a significant impact on the Group.

Amendments to IFRIC 14 applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. This is not expected to have a significant impact on the Group.

IAS 24 (revised November 2009) Related Parties Disclosures simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government. This is not expected to have a significant impact on the Group.

Amendments to IFRS 1 (January 2010) Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters add paragraph E3. This is not expected to have a significant impact on the Group.

Amendments to IAS 1 (June 2011) Presentation of Items of Other Comprehensive Income improve the consistency and clarity of the presentation of items of other comprehensive income ("OCI"). The amendments also highlight the importance that the Board places on presenting profit or loss and OCI together and with equal prominence. This is not expected to have a significant impact on the Group.

Amendments to IAS 12 (December 2010) Deferred Tax: Recovery of Underlying Assets provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment Property. This is not expected to have a significant impact on the Group.

Amendments to IFRS 7 (October 2010) Disclosures – Transfers of Financial Assets help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and promote transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets. This is not expected to have a significant impact on the Group.

Amendments to IFRS 1 First-time Adopters apply the requirements in IFRS 9 Financial Instruments and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans existing at the date of transition to IFRSs. This is not expected to have a significant impact on the Group.

Notes to the financial statements continued

for the year ended 31 December 2012

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2. Significant accounting policies continued

(a) Basis of preparation continued

Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and, unless otherwise stated, are mandatory for the Group's future accounting periods. The Group has not early adopted these interpretations.

Amendments to IFRS 1 (December 2010) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. The amendments also provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs. This is not expected to have a significant impact on the Group.

IAS 27 (revised May 2011) Separate Financial Statements contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This is not expected to have a significant impact on the Group.

IAS 28 (revised May 2011) Investments in Associates and Joint Ventures prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This is not expected to have a significant impact on the Group.

IFRS 9 eliminates the held-to-maturity and available-for-sale classification categories and the concept of embedded derivatives in host contracts that are financial assets in the scope of the standard. This is not expected to have a significant impact on the Group.

IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This is not expected to have a significant impact on the Group.

IFRS 11 Joint Arrangements establishes principles for financial reporting by parties to a joint arrangement. This is not expected to have a significant impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. This is not expected to have a significant impact on the Group.

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. This is not expected to have an impact on the Group.

IAS 19 (revised June 2011) Employee Benefits prescribes the accounting and disclosure by employers for employee benefits. This is not expected to have a significant impact on the Group.

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets. This is not expected to have a significant impact on the Group.

Amendments to IFRS 7 (December 2011) Disclosures – Offsetting Financial Assets and Financial Liabilities amend the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. This is not expected to have a significant impact on the Group.

Amendments to IAS 32 (December 2011) Offsetting Financial Assets and Financial Liabilities delete paragraph AG38 and add paragraphs AG38A–AG38F. This is not expected to have a significant impact on the Group.

Critical accounting judgements and key sources of estimation uncertainty

The discussion and analysis of the Group's financial position and results are based on the consolidated financial statements which have been prepared in accordance with IFRS. The preparation of the financial statements requires the development of estimates and judgements that affect the reported amount of assets and liabilities, revenues and costs and related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties and potentially result in materially different results under different assumptions and conditions. It is believed that the Group's critical accounting policies are limited to those described below. The Group's management has discussed the development of the estimates and disclosures related to each of these matters with the Audit and Risk Committee.

Goodwill and other intangible fixed assets

Under IFRS goodwill is capitalised and tested for impairment annually and when events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with finite lives are capitalised and amortised over their useful economic lives. Changes in assumptions used in the Group's impairment reviews or estimated useful economic lives could have a material effect on the presentation of the Group's financial position and results of operations. Details of the impairment test calculations are set out in note 10.

Employee benefits

Accounting for pensions and other post-retirement benefits involves judgements about uncertain events, including, but not limited to, discount rates, life expectancy, future pay inflation, expected rate of return on plan assets and expected healthcare trend rates. Determination of the projected benefit obligations for the Group's defined benefit pension scheme and post-retirement plans are important to the recorded amount of the benefit expense in the income statement and the net liability recorded in the balance sheet. Actuarial valuations are carried out annually. These determine the expense recorded in the income statement, the net liability recognised in the balance sheet, and items to be recorded in the consolidated statement of recognised income and expense. Details of the assumptions used are included in note 17 to the financial statements.

2. Significant accounting policies continued

(a) Basis of preparation continued

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax liabilities and assets in the period in which such determination is made.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for services provided to third parties in the normal course of business. Revenue from services is recognised when the service has been provided and the right to consideration earned. When a service has been provided to third parties but no billing made, the amount receivable is estimated. This estimate is based on the nature of the service supplied and the terms of the contract. Any significant underestimation or over-estimation of amounts receivable could have a material effect on the Group's financial position and results of operations.

Provisions

The Group has onerous property leases which require judgement in terms of the provision being carried on the balance sheet.

(b) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its "subsidiaries") made up to 31 December each year. For subsidiaries with non-coterminous year ends true-up adjustments to 31 December are made to net assets and net profit where material. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. This generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The results of subsidiaries acquired or disposed of during the period are included in the Group income statement from or to the effective date of acquisition or disposal, respectively. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. In the income statement the results of subsidiaries acquired during the period are classified as part of continuing operations from the date control is achieved. The results of subsidiaries until the date control is relinquished disposed of during the period are classified within discontinued operations in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

(c) Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale which are recognised and measured at fair value less costs to sell. Acquisition-related costs are recognised in profit or loss as incurred. Where applicable the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant IFRS. The measurement period is the period from acquisition to the date the Group obtains complete information about facts and circumstances that existed as at the acquisition date and is subject to a maximum of one year.

(d) Goodwill

Goodwill arising in a business combination represents the excess of the cost of acquisition over the Group's interest in the net fair value of the recognised identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement. Goodwill is not amortised but is tested annually for impairment or more frequently when there is indication of impairment and carried at cost less accumulated impairment loss. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before 1 January 2004, the date of transition to IFRS, has been retained at the previous UK GAAP amount subject to being tested for impairment at that date. Goodwill written off to equity prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss and disposal.

(e) Intangible assets

Acquired intangible assets (e.g. customer relationships, trademarks, licences) are capitalised and amortised on a straight-line basis over their useful economic lives. Purchased computer software licences are capitalised as intangible assets on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives, which do not exceed three years. Costs associated with developing software are capitalised as intangible assets when they are separable or arise from contractual or other legal rights. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. All other intangible assets are amortised from three years to a maximum of ten years depending on useful economic life.

Notes to the financial statements continued

for the year ended 31 December 2012

2. Significant accounting policies continued

(f) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost or valuation of assets, less estimated residual value, by equal annual instalments over their estimated useful lives of between three and seven years.

(g) Leasehold improvements

Leasehold improvements are depreciated using the straight-line method over the shorter of their estimated useful lives or the term of the related lease.

(h) Impairment of tangible and intangible assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped by cash-generating units.

For goodwill Alexander Proudfoot and Kurt Salmon are treated as separate cash-generating units.

(i) Dividend distribution

Dividends to holders of common shares are recognised as a liability in the Group and parent company's financial statements in the period in which the shareholders' right to receive payment has been established.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, which are held for short-term cash investment purposes.

(k) Financial liabilities

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

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

(l) Taxation

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which such differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Deferred tax is calculated at the tax rates which are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to reserves, in which case the deferred tax is also dealt with in reserves.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle that obligation and the amount can be reliably estimated. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

(n) Own shares

The Company shares held by the employee benefits trust established in respect of certain share-based awards are presented as a reduction of equity.

2. Significant accounting policies continued

(o) Investments

The Group's financial assets are classified as either at "fair value through profit and loss" ("FVTPL") or "available-for-sale" ("AFS") financial assets, depending on the nature and purpose of the financial assets, which is determined at the time of original recognition. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on AFS monetary items, are recognised directly in equity. When an AFS investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

The investments in the parent company balance sheet represent equity holdings in subsidiary companies. These are carried at cost less impaired amounts.

(p) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount.

(q) Dividend income

Dividend income is recognised when the right to receive payment is established.

(r) Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(s) Retirement benefit costs

For defined contribution pension schemes, the amount charged to the income statement represents the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

For the defined benefit schemes, the amounts charged to the income statement are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the income statement if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on assets are shown as a net cost in finance costs or net income within investment income.

Actuarial gains and losses are recognised immediately in the Group statement of comprehensive income. The US defined benefit pension scheme is funded, with the assets of the scheme held separately from those of the Group in separate trustee administered funds. Pension scheme assets are measured at fair value. Liabilities in relation to the defined benefit schemes are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Actuarial valuations are obtained at each balance sheet date. The resulting defined benefit asset or liability is presented on the face of the balance sheet.

(t) Share-based payments

Share awards are made to selected employees on a discretionary basis. Awards are measured at their fair value (which is measured using the stochastic pricing model at the date of grant) and are recognised as an employee benefits expense on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions, with a corresponding increase in the share compensation reserve. The expected life used in the valuation model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The proceeds received net of any directly attributable transaction costs are credited to share capital (in respect of the nominal value) and share premium (in respect of the balance) when the options are exercised. Where options do not vest, a transfer is made from the share compensation reserve to retained earnings.

(u) Foreign currencies

The individual financial statements of each Group entity are drawn up in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Sterling, which is the Company's functional and presentation currency. In preparing the financial statements, transactions in currencies other than Sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign company are not retranslated.

Exchange differences arising on the settlement and retranslation of monetary items are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Notes to the financial statements continued

for the year ended 31 December 2012

2. Significant accounting policies continued

(u) Foreign currencies continued

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Sterling using exchange rates prevailing at the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rate for the period unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Exchange differences arising are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(v) Non-recurring items

Non-recurring items are those significant credits or charges which, in the opinion of the directors, should be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Transactions that may give rise to non-recurring items include charges for impairment, restructuring costs, acquisition costs and discontinued operations.

(w) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided to third parties in the normal course of business net of discounts, VAT and other sales related taxes. Revenue from services is recognised when services have been provided and the right to consideration has been earned. If services have been provided to third parties but no billing has been made, estimates are made of the amounts receivable. These estimates are based on the nature of the services supplied and contract terms.

3. Operating segments

The Group's operating segments are defined as the two professional services practices, Alexander Proudfoot and Kurt Salmon. This is the basis on which information is provided to the Board of Directors for the purposes of allocating certain resources within the Group and assessing the performance of the business. All revenues are derived from the provision of professional services.

Inter-segmental sales are not significant.

(a) Geographical analysis

The Group operates in three geographical areas: the Americas, Europe and the Rest of the World. The following is an analysis of financial information by geographic segment:

(i) Revenue and underlying operating profit by geography

Year ended 31 December 2012	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Revenue – continuing operations	106,136	156,016	23,607	285,759
Profit from operations before non-recurring expenses and amortisation of acquired intangibles	9,510	12,559	3,677	25,746
Non-recurring expenses and amortisation of acquired intangibles	(2,031)	(5,518)	(10)	(7,559)
Profit from operations	7,479	7,041	3,667	18,187
Investment income				524
Finance costs				(2,746)
Profit before tax				15,965
Year ended 31 December 2011	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Revenue – continuing operations	97,462	179,167	25,930	302,559
Profit from operations before non-recurring expenses and amortisation of acquired intangibles	7,174	17,779	3,394	28,347
Non-recurring expenses and amortisation of acquired intangibles	(2,116)	(639)	(134)	(2,889)
Profit from operations	5,058	17,140	3,260	25,458
Investment income				99
Finance costs				(2,406)
Profit before tax				23,151

3. Operating segments continued**(a) Geographical analysis** continued**(ii) Net assets by geography**

At 31 December 2012	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Assets				
Intangibles, including goodwill	113,525	149,582	3,290	266,397
Other segment assets	42,182	55,218	4,871	102,271
	155,707	204,800	8,161	368,668
Unallocated corporate assets				3,612
Consolidated total assets				372,280
Liabilities				
Segment liabilities	(71,025)	(90,886)	(7,161)	(169,072)
Unallocated corporate liabilities				(8,642)
Consolidated total liabilities				(177,714)
Net assets				194,566

At 31 December 2011	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Assets				
Intangibles, including goodwill	116,435	153,729	4,111	274,275
Other segment assets	45,376	58,774	4,972	109,122
	161,811	212,503	9,083	383,397
Unallocated corporate assets				8,068
Consolidated total assets				391,465
Liabilities				
Segment liabilities	(92,092)	(88,575)	(9,061)	(189,728)
Unallocated corporate liabilities				(6,999)
Consolidated total liabilities				(196,727)
Net assets				194,738

(iii) Capital additions, depreciation and amortisation by geography

At 31 December 2012	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Capital additions	2,970	464	45	3,479
Unallocated corporate additions				12
Total capital additions				3,491
Depreciation and amortisation	1,937	2,698	63	4,698

At 31 December 2011	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Capital additions	1,526	981	97	2,604
Unallocated corporate additions				28
Total capital additions				2,632
Depreciation and amortisation	2,218	2,290	63	4,571

Notes to the financial statements continued

for the year ended 31 December 2012

3. Operating segments continued

(b) Revenue and underlying operating profit by operating segment

The two operating segments are combined into one reportable segment owing to similar underlying economic characteristics across the practices.

Not all significant non-recurring items and financial items can be allocated to the practices and are therefore disclosed for the reportable segment as a whole. Assets and liabilities by practice are not reviewed by the Board and are therefore not disclosed.

Year ended 31 December 2012	Alexander Proudfoot £'000	Kurt Salmon £'000	Total £'000
Revenue – continuing operations	86,749	199,010	285,759
Underlying operating profit	12,205	13,541	25,746
Non-recurring expenses and amortisation of acquired intangibles			(7,559)
Operating profit			18,187
Investment income			524
Finance costs			(2,746)
Profit before tax			15,965

Year ended 31 December 2011	Alexander Proudfoot £'000	Kurt Salmon £'000	Total £'000
Revenue – continuing operations	86,968	215,591	302,559
Underlying operating profit	11,589	16,758	28,347
Non-recurring expenses and amortisation of acquired intangibles			(2,889)
Operating profit			25,458
Investment income			99
Finance costs			(2,406)
Profit before tax			23,151

4. Profit before tax

Profit before tax has been arrived at after charging/(crediting) the following:

	Note	2012 £'000	2011 £'000
Net foreign exchange losses/(gains)		210	(48)
Amortisation of intangible assets		3,607	3,754
Depreciation of property, plant and equipment		1,091	817
Gain on disposal of fixed assets		(130)	(56)
Non-recurring items (net)		5,304	247
Staff costs	5	173,421	182,748

Non-recurring items in 2012 comprise £2.9m in relation to restructuring within Kurt Salmon, which includes £2.9m for redundancy and related expenses and a write-down of £0.4m in respect of assets held for disposal offset by £0.4m income from asset disposals, and £2.4m in respect of property costs.

Non-recurring items in 2011 comprised of £4.4m in relation to Kurt Salmon merger expenses, £1.1m in relation to property costs, £0.2m of acquisition-related costs (see note 27) and a £5.5m release of a legal claim.

4. Profit before tax continued

A detailed analysis of the auditor's remuneration on a worldwide basis is provided below:

Auditor's remuneration	2012 £'000	2012 %	2011 £'000	2011 %
Fees payable to the Company's auditor for the audit of the Company's annual accounts	44	7	45	6
Fees payable to the Company's auditor and their associates for other services to the Group – The audit of the Company's subsidiaries	383	59	415	50
Total audit fees	427	66	460	56
Taxation compliance services	206	32	328	40
Other assurance services	12	2	35	4
Total non-audit fees	218	34	363	44
Total auditor's remuneration	645	100	823	100

A description of the work of the Audit and Risk Committee is set out in the Report of the Audit and Risk Committee and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

5. Staff numbers and costs

The average number of persons employed by the Group (including executive directors) during the year, analysed by category, was as follows:

	2012 Number	2011 Number
Sales and marketing	98	102
Consultants	1,356	1,400
Support staff	240	244
	1,694	1,746

The number of Group employees at the year end was 1,697 (2011: 1,741).

The aggregate payroll costs of these persons were as follows:

	2012 £'000	2011 £'000
Wages and salaries	139,677	147,589
Social security costs	29,191	30,950
Other pension costs	4,553	4,209
	173,421	182,748

A charge of £169,000 (2011: £109,000) is included in the operating results in respect of the current service cost of the retirement benefit obligations (see note 17).

The average number of Company employees for the year was 24 (2011: 22) The payroll costs of the Company were £2,755,871 (2011: £3,769,702) for wages and salaries, £234,324 (2011: £229,150) for social security costs and £116,403 (2011: £126,862) for pension costs.

6a. Investment revenues

	Note	2012 £'000	2011 £'000
Interest receivable on bank deposits and similar income		29	99
Finance income from retirement benefit plans	17	285	—
Gain in relation to financial instruments		210	—
		524	99

Notes to the financial statements continued

for the year ended 31 December 2012

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6b. Finance costs

	Note	2012 £'000	2011 £'000
Interest payable on bank overdrafts and loans and similar charges		(2,746)	(2,193)
Finance costs on retirement benefit plans	17	—	(213)
		(2,746)	(2,406)

7. Tax

	2012 £'000	2011 £'000
Tax in respect of current year		
Foreign tax	8,883	12,016
Deferred tax – acquired intangible assets	(702)	(767)
Deferred tax – temporary differences and other	(928)	328
Deferred tax – tax losses	(1,306)	(362)
Deferred tax – US goodwill	263	264
Total deferred tax	(2,673)	(537)
Total current year tax	6,210	11,479
Prior year current taxation	473	(2,057)
Total tax charge on underlying profit	6,683	9,422
Tax in respect of items excluded from underlying profit:		
Foreign tax	(774)	(1,742)
Deferred tax – temporary differences and other	(1,605)	(960)
Total tax charge	4,304	6,720

UK corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the pre-tax profit from continuing operations per the income statement as follows:

	On underlying profit 2012 £'000	On non-recurring items and amortisation 2012 £'000	Total 2012 £'000	Total 2011 £'000
Profit before tax	23,524	(7,559)	15,965	23,341
Tax at the average rate applicable across the Group of 33% (2011: 32%)	7,787	(2,502)	5,285	7,516
Net tax effect of unrelieved losses	(3,820)	—	(3,820)	2,195
Overseas tax rate differences and irrecoverable withholding tax	1,959	(59)	1,900	2,944
Tax effect of non-taxable income	—	—	—	(1,355)
Short-term temporary differences	(858)	—	(858)	(1,932)
Net tax effect of permanent differences and other non-recognised temporary differences	1,143	182	1,325	(591)
Relating to prior years	473	—	473	(2,057)
Tax charge/(credit)	6,683	(2,379)	4,304	6,720
Effective tax rate for the year	28%		27%	29%

The average tax rate applicable across the Group has increased in the year to 33% (2011: 32%). This rate has been calculated at the rates prevailing in the jurisdictions where the Group operates.

8. Dividends

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the year		
Final dividend for the year ended 31 December 2011 of 0.55p per share (2010: 0.30p)	2,670	1,317
Interim dividend for the year ended 31 December 2012 of 0.23p per share (2011: 0.20p)	1,115	962
	3,785	2,279

Dividends are not payable on shares held in the employee share trust, which has waived its entitlement to dividends. The amount of the dividend waived in 2012 (in respect of the interim dividend for the year ended 31 December 2012) was £27,943 (2011: £25,046).

The 2011 final dividend of 0.55p per share was paid on 7 July 2012.

The 2012 interim dividend of 0.23p per share was paid on 8 January 2013.

The directors propose a final dividend of 0.595p per share for the year ended 31 December 2012.

9. Earnings per share

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

Earnings	2012 £'000	2011 £'000
Earnings for the purposes of basic earnings per share and diluted earnings per share, being net profit attributable to owners of the Company	11,661	16,431
Non-recurring items (net)	5,304	247
Amortisation of acquired intangibles	2,255	2,642
Taxation on non-recurring items and amortisation of acquired intangibles	(2,379)	(2,702)
Earnings for the purpose of basic earnings per share excluding non-recurring items and amortisation of acquired intangibles	16,841	16,618
Number of shares	Number million	Number million
Weighted average number of ordinary shares for the purposes of basic earnings per share, and basic excluding non-recurring items and amortisation of acquired intangibles	485.5	441.5
Effect of dilutive potential ordinary shares:		
Restricted share plan	12.5	8.3
Weighted average number of ordinary shares for the purposes of diluted earnings per share	498.0	449.8
	p	p
Basic earnings per share for the year attributable to owners of the Company	2.4	3.7
Diluted earnings per share for the year attributable to owners of the Company	2.3	3.7
Basic earnings per share – excluding non-recurring items and amortisation of acquired intangibles	3.5	3.8
Diluted earnings per share – excluding non-recurring items and amortisation of acquired intangibles	3.4	3.7

The average share price for the year ended 31 December 2012 was 28.5p (2011: 35.5p).

The weighted average number of the Company's ordinary shares used in the calculation of diluted profit per share in 2012 includes rights over 12,524,653 ordinary shares (2011: 8,270,339).

Notes to the financial statements continued

for the year ended 31 December 2012

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10. Intangible assets

Group	Goodwill £'000	Customer relationships £'000	Software costs £'000	Total intangibles £'000
Cost				
At 1 January 2012	263,201	18,848	8,834	290,883
Acquisitions	922	—	—	922
Final fair value adjustments (note 27)	(184)	—	—	(184)
Additions	—	—	2,692	2,692
Disposals	—	—	(754)	(754)
Exchange differences	(7,327)	(673)	(336)	(8,336)
At 31 December 2012	256,612	18,175	10,436	285,223
Amortisation				
At 1 January 2012	—	11,667	4,941	16,608
Charge for the year	—	2,255	1,352	3,607
Disposals	—	—	(754)	(754)
Exchange differences	—	(373)	(262)	(635)
At 31 December 2012	—	13,549	5,277	18,826
Carrying amount				
At 31 December 2012	256,612	4,626	5,159	266,397
At 31 December 2011	263,201	7,181	3,893	274,275
Company			Software costs £'000	
Cost				
At 1 January 2012				858
Additions				—
At 31 December 2012				858
Amortisation				
At 1 January 2012				310
Charge for the year				152
At 31 December 2012				462
Carrying amount				
At 31 December 2012				396
At 31 December 2011				548

Additions to goodwill in 2012 relate to the acquisitions of two healthcare businesses in the US, New Albany Healthcare in March 2012 and Sonoma Consulting in July 2012.

10. Intangible assets continued

Group	Goodwill £'000	Customer relationships £'000	Software costs £'000	Total intangibles £'000
Cost				
At 1 January 2011	263,664	18,598	7,421	289,683
Acquisitions (note 27)	3,475	—	—	3,475
Additions	—	—	1,524	1,524
Exchange differences	(3,938)	250	(111)	(3,799)
At 31 December 2011	263,201	18,848	8,834	290,883
Amortisation				
At 1 January 2011	—	8,851	3,909	12,760
Charge for the year	—	2,642	1,112	3,754
Exchange differences	—	174	(80)	94
At 31 December 2011	—	11,667	4,941	16,608
Carrying amount				
At 31 December 2011	263,201	7,181	3,893	274,275
At 31 December 2010	263,664	9,747	3,512	276,923
Company			Software costs £'000	
Cost				
At 1 January 2011				833
Additions				25
At 31 December 2011				858
Amortisation				
At 1 January 2011				162
Charge for the year				148
At 31 December 2011				310
Carrying amount				
At 31 December 2011				548
At 31 December 2010				671

Analysis of goodwill

Goodwill acquired in a business combination is allocated to the cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

Group	2012 £'000	2011 £'000
Cost		
Kurt Salmon	212,012	217,638
Alexander Proudfoot	44,600	45,563
	256,612	263,201

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to contribution during the period.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. Goodwill is tested against the value in use of operating segments on the basis that, given the integrated nature of the segments, it cannot be reasonably allocated to a lower level of CGU.

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for the year ended 31 December 2012

10. Intangible assets continued

Analysis of goodwill continued

The Group prepares cash flow forecasts based on the most recent financial budgets and the strategic plan approved by the Board for the next three years which assumes growth in each of those years. The cash flows are extrapolated based on a steady long-term EBITDA growth assumption of 2% and contribution rates that are consistent with past experience and industry norms. The rates used to discount the forecast cash flows for each CGU are 9.7% for Kurt Salmon and 9.6% for Alexander Proudfoot and are based on the relevant regional weighted average cost of capital.

For both CGUs the carrying amount of goodwill at 31 December 2012 was significantly below the assessed recoverable amount. This remained satisfactory having taken into account reasonably possible changes in key assumptions.

11. Property, plant and equipment

Fixtures, fittings and equipment	Group £'000	Company £'000
Cost		
At 1 January 2012	7,237	1,707
Additions	799	11
Exchange differences	(269)	—
Disposals	(295)	—
At 31 December 2012	7,472	1,718
Accumulated depreciation		
At 1 January 2012	4,176	973
Charge for the year	1,091	243
Exchange differences	(146)	(1)
Disposals	(295)	—
At 31 December 2012	4,826	1,215
Carrying amount		
At 31 December 2012	2,646	503
At 31 December 2011	3,061	734
Fixtures, fittings and equipment	Group £'000	Company £'000
Cost		
At 1 January 2011	8,883	1,703
Additions	1,108	5
Exchange differences	(152)	—
Category transfer	—	(1)
Disposals	(2,602)	—
At 31 December 2011	7,237	1,707
Accumulated depreciation		
At 1 January 2011	6,037	729
Charge for the year	817	243
Exchange differences	(95)	—
Category transfer	—	1
Disposals	(2,583)	—
At 31 December 2011	4,176	973
Carrying amount		
At 31 December 2011	3,061	734
At 31 December 2010	2,846	974

12. Investments

Group	2012 £'000	2011 £'000
Cost		
At beginning of year	2,856	3,183
Additions	252	65
Disposals	(1,144)	(357)
Exchange differences	(82)	(114)
Revaluation	143	79
At end of year	2,025	2,856

The fair values above are based on the reports received at the balance sheet date from independent investment advisers. Dividends are recorded when the right to receive payment is established.

The fair values represent the principal amounts on which dividends are received. The timing of dividend receipts varies but generally they are received every six months or annually. Dividend income is recorded in the income statement.

Financial assets primarily comprise investments in corporate securities. The main risk associated with these investments is the risk of changes in market value. Investment performance is regularly monitored and, where appropriate, professional advice is obtained.

Company	Shares £'000	Loans £'000	Total £'000
Investment in Group companies			
At 1 January 2012	235,423	6,336	241,759
Addition	—	371	371
Repayment of loans	—	(6,337)	(6,337)
Foreign exchange movement	—	(43)	(43)
Provision	—	—	—
At 31 December 2012	235,423	327	235,750
At 1 January 2011	235,423	6,585	242,008
Addition	—	23,298	23,298
Repayment of loans	—	(22,687)	(22,687)
Foreign exchange movement	—	(83)	(83)
Provision	—	(777)	(777)
At 31 December 2011	235,423	6,336	241,759

Shares are stated net of provisions of £11,972,560 (2011: £11,972,560) against impairment in value. Additions in the year reflect increased investments in intermediate holding companies.

Details of the Company's principal subsidiary undertakings are set out in note 26.

13. Trade and other receivables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade receivables – gross	47,145	49,068	—	—
Allowance for doubtful debts	(2,444)	(3,690)	—	—
Trade receivables – net	44,701	45,378	—	—
Amounts owed by Group undertakings	—	—	38,215	39,481
Other receivables	3,132	2,724	184	621
Taxation receivable	2,376	2,357	—	—
Prepayments and accrued income	16,155	22,416	2,093	2,096
	66,364	72,875	40,492	42,198

Debtor days at the year end were 45 days (2011: 41 days). No interest was charged on receivables. The directors consider that the carrying value of trade and other receivables approximates to their fair value (see note 23).

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14. Trade and other payables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade payables	3,822	5,909	750	1,407
Amounts owed to Group undertakings	—	—	50,065	54,373
Other taxes and social security	19,315	19,726	1,094	396
Other payables	2,119	3,070	(529)	(602)
Deferred income	8,699	11,766	—	—
Accruals	48,419	57,224	4,243	4,860
	82,374	97,695	55,623	60,434

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days (2011: 31 days). The directors consider that the carrying amount of trade payables approximates to their fair value (see note 23).

15. Tax assets and liabilities

		Group		Company	
	Note	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Current tax					
Current tax receivable	13	2,376	2,357	—	—
Current tax liabilities		(12,147)	(15,066)	—	—
Non-current tax					
Deferred tax asset		19,985	18,636	195	300
Tax liabilities		—	—	—	—
Deferred tax liabilities		(4,516)	(5,256)	—	—

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current year:

Group	Share awards £'000	Pension £'000	Tax losses £'000	Other £'000	Total £'000
Deferred tax assets					
At 1 January 2011	300	3,932	8,936	5,910	19,078
Foreign exchange	—	(6)	24	(179)	(161)
Recognised in Group statement of comprehensive income	—	(144)	—	—	(144)
Recognised direct to equity	—	—	—	—	—
(Charge)/credit to Group income statement	—	(28)	362	(505)	(171)
At 1 January 2012	300	3,754	9,322	5,226	18,602
Foreign exchange	—	(149)	(386)	(126)	(661)
Recognised in Group statement of comprehensive income	—	11	—	—	11
Recognised direct to equity	(105)	—	—	—	(105)
Credit to Group income statement	—	95	1,554	489	2,138
At 31 December 2012	195	3,711	10,490	5,589	19,985

15. Tax assets and liabilities continued

Group	Arising on acquisitions – intangibles £'000	Other £'000	Total £'000
Deferred tax liabilities			
At 1 January 2011	4,063	1,912	5,975
Foreign exchange	(26)	15	(11)
(Charge)/credit to Group income statement	(935)	227	(708)
At 1 January 2012	3,102	2,154	5,256
Foreign exchange	(116)	(89)	(205)
(Charge)/credit to Group income statement	(798)	263	(535)
At 31 December 2012	2,188	2,328	4,516

Of the total deferred tax assets recognised at 31 December 2012 totalling £20.0m (2011: £18.6m), amounts of £10.5m (2011: £9.3m) are in respect of US tax losses and £7.8m (2011: £8.2m) are in respect of other timing differences relating to the US. Based on forecast data, the Group believes there will be sufficient future taxable profits in the US to utilise the tax losses and the deductions arising from the reversal of the other US related deferred tax assets. The US tax losses expire after 20 years. A further potential deferred tax asset for US tax losses totalling £9.5m (2011: £10.1m) has not been recognised at 31 December 2012.

A deferred tax asset of £nil (2011: £nil) has been recognised at 31 December 2012 in respect of tax losses arising in non-US jurisdictions. A deferred tax asset of £21.2m (2011: £22.2m) has not been recognised at 31 December 2012 in respect of non-US tax losses totalling £80.1m (2011: £82.2m). Based on the current tax rules in the respective jurisdictions, non-US losses are expected to expire as follows: £11.7m by the end of 2017, £2.6m by the end of 2022, £1.6m by the end of 2032, with the remaining £64.2m being carried forward indefinitely. The losses may be subject to adjustment on tax audit and it is uncertain if there will be sufficient future profits in the relevant jurisdictions against which the losses can be offset.

Additionally, the Group has not recognised potential deferred tax assets totalling £3.4m (2011: £4.1m) in respect of temporary differences other than losses as it is uncertain if there will be sufficient future profits against which these items can be offset.

No deferred tax liability is recognised in relation to the unremitted earnings of overseas subsidiaries as the Group is able to control the timing of the reversal of the temporary differences which would give rise to the liability and it is probable that they will not reverse in the foreseeable future. The unrecognised deferred tax liability at 31 December 2012 of £1.5m (2011: £1.1m) is in respect of the unremitted earnings of those overseas subsidiaries where remittance to the UK of those earnings would still result in a tax liability, principally as a result of tax due in overseas intermediate holding companies and dividend withholding taxes levied by the overseas tax jurisdictions in which these subsidiaries operate.

Company	Other £'000
Deferred tax asset	
At 1 January 2012	300
Recognised direct to equity	(105)
At 31 December 2012	195

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16. Bank borrowings

Group

	2012 £'000	2011 £'000
Non-current: bank borrowings	45,150	47,921
Total borrowings	45,150	47,921

In December 2011 the Group put in place a fully revolving borrowing facility for up to £85m which runs until July 2016. Under the new facility borrowings bear interest at a margin of 2.25% to 3.25% over US Dollar Libor, Euribor and Sterling Libor annually.

	2012 £'000	2011 £'000
In the third to fifth year	45,150	47,921
Total	45,150	47,921

The exposure of the Group's borrowings to interest rate changes at the balance sheet dates is as follows:

	2012 £'000	2011 £'000
Six months or less	45,150	47,921

The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amount 2012 £'000	Carrying amount 2011 £'000	Fair value 2012 £'000	Fair value 2011 £'000
Bank borrowings	45,150	47,921	40,286	39,236

The fair values for non-current borrowings are based on cash flows discounted using a rate based on the borrowing rate of 2.70% for Euro and 3.10% for US Dollar (2011: Euro 4.07% and US Dollar 4.09%).

The carrying amounts of the Group's borrowings are denominated in the following currencies:

Currency	2012 £'000	2011 £'000
Euro	30,150	23,083
US Dollar	15,000	24,838
	45,150	47,921

The Group has the following undrawn borrowing facilities:

	2012 £'000	2011 £'000
Floating rate	38,330	35,785

Company

The Company does not have any borrowing facilities.

17. Retirement benefit obligations

Defined contribution schemes

The Group operates a number of defined contribution pension schemes throughout the world. The total cost charged to income in respect of defined contribution schemes was £4,553,000 (2011: £4,209,000), representing contributions payable to these schemes by the Group at rates specified in the rules of the plans.

Defined benefit schemes

In the US the Group operates a closed defined benefit pension scheme and a closed unfunded plan which provides benefits in respect of post-retirement medical costs. In France, the Group has a statutory unfunded post-retirement benefit obligation. In Germany, the Group has an unfunded post-retirement benefit obligation and, in the UK, a funded pension scheme, which is defined contribution with defined benefit underpin; both plans are closed to new employees. Actuarial valuations are obtained annually from independent qualified actuaries for each of the defined benefit arrangements.

The retirement benefit obligations are summarised below:

	2012 £'000	2011 £'000
US defined benefit pension scheme	12,436	12,780
US post-retirement medical plan	2,190	3,346
French statutory obligation	1,598	1,185
German obligation	8,537	5,863
UK defined benefit pension scheme	—	—
	24,761	23,174

A 1% change in the discount rates used in calculating the above obligations is estimated to affect the total retirement benefit obligation by £8,200,000 (2011: £7,400,000). The cumulative amount of other gains and losses recognised in the other comprehensive income since the date of transition to IFRS is £25,000,000 (2011: £20,300,000).

US schemes

The funded US defined benefits pension scheme was closed to new entrants with effect from 1 February 2001 and further benefit accruals ceased for all members with effect from 31 December 2001. The US medical benefits plan applies only to certain former employees who retired prior to 30 September 1995 and to the post-retirement medical costs of a small number of current and former employees who were employed at that date.

The principal assumptions used for the recent actuarial valuations were:

	2012 %	2011 %
Expected long-term return on scheme assets	7.06	7.39
Discount rate	3.91	4.83
General inflation assumption	N/A	N/A

There are neither guaranteed nor discretionary increases to benefits after retirement. The mortality table used was the RP2005 White Collar Table. The discount rate assumption was changed to reflect changes in long-term corporate bond yields. Expected contributions for 2013 are £1,367,000.

(a) Amounts recognised in finance costs in respect of these benefit schemes are as follows:

	2012 £'000	2011 £'000
US defined benefit pension scheme		
Expected return on pension scheme assets	3,047	2,728
Interest on pension scheme liabilities	(2,371)	(2,477)
	676	251
US medical benefits plan		
Interest on plan liabilities	(101)	(102)
Net finance income	575	49

Actuarial gains and losses have been reported in the Group statement of comprehensive income. The actual return on scheme assets was £5,202,000 (2011: £1,745,000).

Notes to the financial statements continued

for the year ended 31 December 2012

17. Retirement benefit obligations continued

Defined benefit schemes continued

US schemes continued

(b) The amount included in the balance sheet arising from the Group's obligations in respect of the US defined benefit pension scheme and medical benefits plan is as follows:

	Note	2012 £'000	2011 £'000
Present value of defined benefit obligations		(56,578)	(55,448)
Fair value of scheme assets		41,952	39,322
Liability recognised in the balance sheet		(14,626)	(16,126)
Defined benefit pension scheme	(17)(e)(i)	(12,436)	(12,780)
Medical benefit plan	(17)(e)(ii)	(2,190)	(3,346)
		(14,626)	(16,126)

(c) Movements in balance sheet amounts

Changes in the present value of the defined benefit obligations are as follows:

	2012 £'000	2011 £'000
Opening defined benefit obligation	(55,448)	(54,540)
Interest cost	(2,472)	(2,679)
Actuarial loss	(4,012)	(823)
Contributions by participants	(86)	(80)
Exchange differences	2,656	(198)
Benefits paid	2,782	2,872
Closing defined benefit obligation	(56,578)	(55,448)

Changes in the fair values of the plan assets are as follows:

	2012 £'000	2011 £'000
Opening fair value of plan assets	39,322	35,684
Expected return	3,047	2,728
Actuarial gain/(loss)	2,155	(984)
Contributions by employer/participants	1,913	4,521
Exchange differences	(1,703)	245
Benefits paid	(2,782)	(2,872)
Closing fair value of plan assets	41,952	39,322
Net retirement benefit obligations	(14,626)	(16,126)

(d) The fair value of plan assets at the balance sheet date and the expected rate of return are analysed as follows:

	Expected return %	2012 £'000	Expected return %	2011 £'000
Equities	7.82	28,527	8.20	26,345
Bonds	3.70	13,005	3.90	12,743
Cash	2.60	420	2.50	234
	7.06	41,952	7.39	39,322

The expected rates of return are based on actuarial advice received.

17. Retirement benefit obligations continued**Defined benefit schemes** continued**US schemes** continued**(e) History of experience gains and losses****(i) US defined benefit pension scheme**

The five year history of experience adjustments in relation to the US defined benefit pension scheme is as follows:

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of defined benefit obligations	(54,388)	(52,102)	(50,398)	(45,104)	(44,996)
Fair value of scheme assets	41,952	39,322	35,685	32,621	31,242
Deficit in the scheme	(12,436)	(12,780)	(14,713)	(12,483)	(13,754)
Experience adjustments on scheme liabilities					
Amount	(4,933)	(1,568)	(4,657)	(2,431)	(85)
Percentage of scheme liabilities	(9)%	(3)%	(9)%	(5)%	0.2%
Experience adjustments on scheme assets					
Amount	2,155	(983)	(1,609)	2,464	(12,950)
Percentage of scheme assets	(5)%	(2)%	(4)%	(8)%	41.5%

(ii) Unfunded US medical benefit plan

The five year history of experience adjustments in relation to the US medical plan is as follows:

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of plan liabilities	(2,190)	(3,346)	(4,143)	(3,882)	(933)
Experience adjustments of plan liabilities	(923)	(745)	(217)	1	1
Percentage of plan liabilities	(42)%	(22)%	(5)%	0.1%	0.1%

French schemes**(f) Unfunded French retirement obligation**

The principal assumptions used for the recent actuarial valuation of the French retirement scheme were:

	2012	2011
Rate of increase in salaries	3–6%	3–6%
Discount rate	3.2%	4.7%

There are neither guaranteed nor discretionary increases to benefits after retirement.

In both years, the mortality table used was INSEE 00/02.

(i) Amounts recognised in finance costs in respect of the French post-retirement scheme are as follows:

	2012 £'000	2011 £'000
Interest on liabilities	—	—

(ii) The amount included in the balance sheet arising from the Group's obligations in respect of the French post-retirement benefit scheme is as follows:

	2012 £'000	2011 £'000
Present value of defined benefit obligations	(1,598)	(1,185)
Fair value of scheme assets	—	—
Liability recognised in the balance sheet	(1,598)	(1,185)

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17. Retirement benefit obligations continued

Defined benefit schemes continued

French schemes continued

(f) Unfunded French retirement obligation continued

(iii) Movements in balance sheet amounts

Changes in the present value of the French defined benefit obligation are as follows:

	2012 £'000	2011 £'000
At start of year	(1,185)	(960)
Service cost	(134)	(217)
Actuarial loss	(299)	(81)
Employer contribution	—	39
Foreign exchange difference	20	34
Closing defined benefit obligation	(1,598)	(1,185)

The French obligation is unfunded and holds no plan assets.

(iv) History of experience gains and losses

There are no experience adjustments in relation to the French post-retirement scheme in the period since acquisition.

German schemes

(g) Unfunded German retirement obligation

The principal assumptions used for the recent actuarial valuation of the German retirement scheme were:

	2012	2011
Rate of increase in salaries	4%	4%
Mortality table	Heubeck 2005 G	Heubeck 2005 G
Discount rate	3.2%	5.2%

There are neither guaranteed nor discretionary increases to benefits after retirement.

(i) Amounts recognised in finance costs in respect of the German post-retirement scheme are as follows:

	2012 £'000	2011 £'000
Interest on liabilities	(290)	(261)

(ii) The amounts included in the balance sheet arising from the Group's obligations in respect of the German post-retirement benefit scheme are as follows:

	2012 £'000	2011 £'000
Present value of defined benefit obligations	(8,537)	(5,863)
Fair value of scheme assets	—	—
Liability recognised in the balance sheet	(8,537)	(5,863)

(iii) Movements in balance sheet amounts

Changes in the present value of the German defined benefit obligation are as follows:

	2012 £'000	2011 £'000
At 1 January	(5,863)	(5,889)
Service cost	(190)	(171)
Interest cost	(290)	(262)
Actuarial (loss)/gain	(2,549)	4
Benefit paid	261	294
Foreign exchange	94	161
Closing defined benefit obligation	(8,537)	(5,863)

The German obligation is unfunded and therefore holds no plan assets and no contributions are made.

17. Retirement benefit obligations continued**Defined benefit schemes** continued**German schemes** continued**(g) Unfunded German retirement obligation** continued

(iv) History of experience gains and losses

The history of experience adjustments in relation to the German post-retirement scheme that arose in the period since acquisition is as follows:

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of plan liabilities	(8,537)	(5,863)	(5,889)	(5,935)	(5,557)
Experience adjustments of plan liabilities	3	(264)	(485)	(288)	(216)
Percentage of the plan liabilities	0%	(4.5)%	(8.2)%	(4.9)%	(3.9)%

UK schemes**(h) UK retirement obligation**

The principal assumptions used for the recent actuarial valuation of the UK retirement scheme were:

	2012 %	2011 %
Expected long-term return on scheme assets	4.1	4.7
Discount rate	4.1	4.7

There are neither guaranteed nor discretionary increases to benefits after retirement.

At 31 December 2012 and 31 December 2011 there are no amounts recognised in finance costs in respect of the UK post-retirement scheme.

At 31 December 2012 and 31 December 2011 there are no actuarial gains and losses reported in the Group statement of comprehensive income relating to the UK scheme.

(i) The amounts included in the balance sheet arising from the Group's obligations in respect of the UK post-retirement benefit scheme are as follows:

	2012 £'000	2011 £'000
Present value of defined benefit obligations	(3,800)	(3,700)
Fair value of scheme assets	3,900	3,800
Provision	(100)	(100)
Asset recognised in the balance sheet	—	—

Changes in the present value of the defined benefit obligations are as follows:

	2012 £'000	2011 £'000
Opening defined benefit obligation	(3,700)	(4,200)
Interest cost	(200)	(200)
Benefits paid	—	500
Settlements	200	—
Actuarial (loss)/gain	(100)	200
Closing defined benefit obligation	(3,800)	(3,700)

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17. Retirement benefit obligations continued

Defined benefit schemes continued

UK schemes continued

(h) UK retirement obligation continued

(i) The amounts included in the balance sheet arising from the Group's obligations in respect of the UK post-retirement benefit scheme are as follows continued:

Changes in the fair values of the plan assets are as follows:

	2012 £'000	2011 £'000
Opening fair value of plan assets	3,800	4,300
Expected return	200	200
Benefits paid	—	(500)
Interest costs	(200)	—
Actuarial gain/(loss)	100	(200)
Closing fair value of plan assets	3,900	3,800

The actual return on scheme assets was £300,000 (2011: £nil).

The fair value of plan assets at the balance sheet date and the expected rate of return are analysed as follows:

	Expected return %	2012 £'000	Expected return %	2011 £'000
Equities	4.1	3,900	4.7	3,800

The expected rates of return are based on actuarial advice received.

(ii) History of experience gains and losses

The history of experience adjustments in relation to the UK post-retirement scheme that arose in the period since acquisition is as follows:

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of plan liabilities	(3,800)	(3,700)	(4,200)	(4,300)	(3,700)
Fair value of scheme assets	3,900	3,800	4,300	4,400	3,800
Experience adjustments on scheme assets	100	(200)	300	(500)	900
Percentage of scheme assets	3%	(5)%	7%	(12)%	24%
Experience adjustments of plan liabilities	(100)	200	(300)	(500)	900
Percentage of the plan liabilities	3%	5%	(7)%	12%	(24)%

18. Long-term provisions

	Group £'000	Company £'000
At 1 January 2012	7,615	2,140
Utilised	(3,108)	(486)
Charge	4,578	639
Foreign exchange movement	(319)	—
At 31 December 2012	8,766	2,293

The provisions primarily relate to property and obligations to former employees of the Group. The most significant element relates to the property provisions. These are expected to be utilised over the period to 2020. Provisions are discounted if material.

19. Share capital**(a) Called up share capital**

£'000

Issued and fully paid:

2012 and 2011: 497,050,995 shares of 1p each	4,970
2012 and 2011: 331,390,961 deferred shares of 24p each	79,534
	84,504

Shares in issue in the year were:

	24p shares Number	1p shares Number	Nominal value £'000
At 1 January and 31 December 2012	331,390,961	497,050,995	84,504

The Company has two classes of shares: 1p ordinary shares that carry no right to fixed income; and 24p deferred shares that (i) have no entitlement to any dividend, (ii) whose voting rights are restricted to matters in connection with a winding up of the Company or abrogation of rights attaching to deferred shares and (iii) whose entitlement to a return of capital on a winding up of the Company is limited to the amount paid up on the deferred shares up to a maximum of 24p per share (but only after any and all ordinary shares then in issue shall have received payment in respect of such amount as is paid up or credited as paid up on those ordinary shares plus the payment in cash or specie of £10m for every 1p paid up or credited as paid up on those ordinary shares.

No options were exercised during the year (2011: 200,374 options were exercised).

No warrants were exercised in the year ended 31 December 2012 (2011: 50,487,983).

An expense of £3,146,000 (2011: £1,718,000) has been recognised in the year in respect of share awards. The cumulative share compensation reserve at 31 December 2012 is £5,732,000 (2011: £3,388,000). The weighted average fair value of awards granted in the year was 11.72p (2011: 25.78p).

(b) Share options**Replacement options on KSA acquisition**

The number of options outstanding at the previous year end over new ordinary shares was 288,995 with a weighted average price of 31.00p. They lapsed after April 2012 not having been exercised during the prescribed period.

(c) Share awards**Conditional awards**

The Performance Share Plan was introduced during 2008. Any employee (including an executive director) of the Company and its subsidiaries is eligible to participate in the Plan at the discretion of the Remuneration Committee (the "Committee").

The Committee may grant awards as conditional shares, a nil (or nominal) cost option with a short exercise period or as forfeitable shares. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash.

The vesting of awards is subject to performance conditions set by the Committee. Further details in respect of share awards made to directors can be found in the Directors' Remuneration Report on page 32.

	Number of shares granted/ brought forward	Lapses/leavers	Number of shares under award at 31 December 2012	Exercisable not earlier than
Outstanding at 1 January 2012	12,912,000	(5,950,000)	6,962,000	May 2013–December 2014
January 2012	6,531,000	—	6,531,000	January 2015
June 2012	284,000	—	284,000	June 2015
August 2012	10,200,000	—	10,200,000	August 2015
Outstanding at 31 December 2012			23,977,000	

The performance conditions for conditional awards granted during the year are either purely TSR based or a combination of share price performance and the achievement of other non-market based financial targets.

The fair value of conditional awards was determined using the stochastic valuation model. Expected volatility was assessed by considering the historic volatility of the Company's share price.

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19. Share capital continued

(c) Share awards continued

Conditional awards continued

The inputs into the stochastic valuation model for the conditional share awards are as follows:

	January 2012	June 2012	August 2012
Fair value of award	14.65p	22.34p	9.50p
Share price on date of grant	31.13p	24.50p	25.00p
Expected life	3 years	3 years	3 years
Expected volatility	47.41%	—	40.39%
Risk free rate	0.45%	—	0.19%
Expected dividend yield	1.61%	3.00%	3.00%

Restricted awards

Share awards to employees other than directors may be made on a restricted basis. These awards are normally only subject to an employment condition and must be satisfied with market purchase shares. Executive directors are not eligible to participate in restricted share plans.

	Number of shares granted/ brought forward	Lapses/leavers	Number of shares under award at 31 December 2012	Share price on award	Exercisable not earlier than
Outstanding at 1 January 2012	14,688,803	(2,512,103)	12,176,700	—	January–December 2014
January 2012	500,000	—	500,000	31.12p	January 2015
March 2012	493,283	—	493,283	35.50p	May 2014–March 2015
March 2012	990,477	(64,362)	926,115	39.00p	January 2015
May 2012	5,815,174	(803,390)	5,011,784	29.00p	May 2015
June 2012	169,484	(31,031)	138,453	24.25p	September 2015
Outstanding at 31 December 2012			19,246,335		

The fair value of restricted awards made in the year takes into account an expected dividend of 0.78p per annum.

20. Equity

Group	Share premium account £'000	Merger reserve £'000	Share compensation reserve £'000	Shares held by employee benefits trusts £'000	Currency translation reserve £'000
At 1 January 2011	71,390	32,513	2,386	(2,354)	32,829
Currency translation differences	—	—	—	—	(3,789)
Share-based payments	—	—	1,002	—	—
Shares issued	10,650	—	—	—	—
Shares acquired by employee benefits trust	—	—	—	(1,647)	—
Shares transferred from employee benefits trust	—	—	—	262	—
At 31 December 2011	82,040	32,513	3,388	(3,739)	29,040
Currency translation differences	—	—	—	—	(5,826)
Share-based payments	—	—	2,344	—	—
Shares acquired by employee benefits trust	—	—	—	(284)	—
Shares transferred from employee benefits trust	—	—	—	396	—
At 31 December 2012	82,040	32,513	5,732	(3,627)	23,214

20. Equity continued

Group	Statutory reserves of subsidiary undertakings £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Total other reserves £'000
At 1 January 2011	5,878	1,186	(652)	6,412
Gain on available-for-sale investments	—	—	(183)	(183)
At 31 December 2011	5,878	1,186	(835)	6,229
Profit on available-for-sale investments	—	—	154	154
At 31 December 2012	5,878	1,186	(681)	6,383

Company	Share premium account £'000	Merger reserve £'000	Share compensation reserve £'000	Shares held by employee benefits trusts £'000	Capital redemption reserve £'000
At 1 January 2011	71,390	26,830	2,386	(2,354)	1,186
Shares issued	10,650	—	—	—	—
Share-based payment	—	—	1,002	—	—
Shares acquired by employee benefits	—	—	—	(1,647)	—
Shares transferred from employee benefits trust	—	—	—	262	—
At 31 December 2011	82,040	26,830	3,388	(3,739)	1,186
Share-based payment	—	—	2,344	—	—
Shares acquired by employee benefits trust	—	—	—	(284)	—
Shares transferred from employee benefits trust	—	—	—	396	—
At 31 December 2012	82,040	26,830	5,732	(3,627)	1,186

Merger reserves comprise the premium arising on shares issued as consideration for the acquisition of Ineum Consulting where merger relief, under the relevant section of the Companies Act, is applied.

Shares to be issued comprise the estimated value of shares that may be issued under the Management Incentive Plan. The share compensation reserve represents the net credit arising from the charge for share options less amounts transferred to retained earnings following the lapse of share options. Shares held by the employee benefits trusts represent 12,542,653 shares (2011: 12,418,192). The value of these shares held in reserves is £3,627,461 (2011: £3,738,821).

During 2012 the Company purchased 0.2% of called up share capital.

21. Retained earnings

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
At 1 January	(39,237)	(51,398)	31,527	36,262
Net profit/(loss) for the year	11,661	16,431	(4,916)	(2,456)
Dividends	(3,785)	(2,279)	(3,785)	(2,279)
Actuarial loss related to retirement benefit schemes	(4,705)	(1,881)	—	—
Tax on items taken directly to equity	(127)	(110)	—	—
At 31 December	(36,193)	(39,237)	22,826	31,527

In accordance with Section 408 of the Companies Act 2006, the Company has not presented its own income statement. The movement in the Group income statement for the financial year includes a loss of £4,916,000 (2011: £2,456,000) dealt with in the financial statements of the Company.

Notes to the financial statements continued

for the year ended 31 December 2012

22. Notes to the cash flow statement

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Profit/(loss) from operations	18,187	25,458	(3,183)	(3,151)
Adjustments for:				
Depreciation of property, plant and equipment	1,091	817	244	243
Amortisation of intangible assets	3,607	3,754	151	148
Provisions against subsidiary investments	—	—	—	1,152
Profit on disposal of fixed assets	(571)	(56)	—	—
Additional pension funding	—	(2,789)	—	—
Adjustment for the cost of share awards	3,146	1,719	2,739	1,719
Increase/(decrease) in provisions	1,151	(629)	153	(754)
Other non-cash items	(197)	(1,221)	27	—
Operating cash flows before movements in working capital	26,414	27,053	132	(643)
Decrease/(increase) in receivables	3,168	(430)	441	(2,932)
(Decrease)/increase in payables	(14,730)	5,879	167	1,953
Cash generated by/(used in) operations	14,852	32,502	740	(1,622)
Income taxes paid	(10,243)	(6,224)	—	—
Net cash inflow/(outflow) from operating activities	4,609	26,278	740	(1,622)

The adjustment for pension funding represents additional cash contributions made to the Group's closed US defined benefits pension scheme to maintain the funding position at the required level.

Cash and cash equivalents

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash at bank and in hand	12,437	15,250	71	2,771
Cash equivalents	2,426	4,512	—	—
Cash and cash equivalents	14,863	19,762	71	2,771

23. Financial instruments

Capital structure and treasury policies

Review of treasury policies

The Group and Company are financed by shareholders' equity and debt. The Group and Company's capital structures are reviewed regularly to ensure that each remains relevant to the business and its planned development. There are established treasury policies that are reviewed regularly to ensure that they remain relevant to the business.

Risk management

The objective of the Group and Company's treasury policies is to provide liquidity for the Group and Company at minimum risk and minimum cost and to hedge known financial exposures, when economically efficient. The main treasury risks faced by the Group and Company are country specific liquidity risks. The Group and Company's objectives regarding interest rate risk, exchange rate risk, credit risk and liquidity risk are, respectively, to minimise interest charges; minimise realised exchange losses on foreign currency transactions; ensure that the Group and Company only deal with creditworthy customers; and ensure that the Group and Company have sufficient resources available to meet their liabilities as they fall due. Investment of the Group and Company's cash is made within policies that cover counterparty risk and liquidity. Surplus cash is invested generally in overnight deposits or commensurate with the maturity of loan draw downs. Draw downs under the multi-currency revolving credit facility arrangement allow for interest maturities of up to six months in US Dollars and Euros and other major currencies. The Group's revolving credit facilities were drawn down in Euros, US Dollars and Sterling, the three major currencies in which the Group operates.

23. Financial instruments continued**Capital structure and treasury policies** continued**Covenant compliance**

As detailed under "Liquidity and capital resources" in the Financial Review, in December 2011 the Group put in place a new borrowing facility, which runs until July 2016. The facility is a fully revolving multi-currency credit facility for up to £85m which is subject to two financial covenants: Group net debt and Group interest cover. The Group's net debt position is closely monitored and there are effective cash forecasting procedures in place. These procedures involve careful review of future billing levels and new business prospects with operational management. Information on borrowings is shown in note 16.

The most important foreign currencies for the Group and the Company are the US Dollar and the Euro. The relevant exchange rates to Sterling were:

	2012		2011	
	Average	Closing	Average	Closing
£1 = US Dollar	1.59	1.61	1.61	1.54
£1 = Euro	1.23	1.22	1.15	1.19

Interest rate and currency profile of financial assets and financial liabilities at the year end

Currency	2012 Floating rate £'000	2011 Floating rate £'000
Financial assets		
Sterling	5,317	3,619
US Dollar	975	3,691
Euro	6,121	9,747
Other	2,450	2,705
Cash and cash equivalents	14,863	19,762
Euro	1,817	1,135
US Dollar	208	1,721
Investments	2,025	2,856
Sterling	2,395	8,484
US Dollar	17,899	16,691
Euro	41,520	41,780
Other	4,550	5,920
Trade and other receivables	66,364	72,875
Financial liabilities		
Sterling	(14,095)	(31,837)
US Dollar	(17,569)	(14,445)
Euro	(43,966)	(25,860)
Other	(6,744)	(25,553)
Trade and other payables	(82,374)	(97,695)

The cash and cash equivalents, including short-term deposits, attract interest rates based on Libor, US Dollar Libor and Euribor for periods of up to three months. The carrying value of these assets approximates their fair value.

Notes to the financial statements continued

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23. Financial instruments continued

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2012 £'000	2011 £'000
Investments	2,025	2,856
Cash and cash equivalents	14,863	19,762
	16,888	22,618

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	2012 £'000	2011 £'000
Europe	28,450	29,869
United States	12,048	8,463
Rest of the World	3,811	4,434
United Kingdom	479	2,612
	44,788	45,378

The Group's most significant customer accounts for 4% of the trade receivables carrying amount at 31 December 2012 (2011: 4%).

	2012 £'000	2011 £'000
Not past due	29,770	25,784
Past due 0–30 days	9,360	10,810
Past due 31–120 days	5,658	8,784
	44,788	45,378

The credit quality of trade receivables not past due is believed to be A-.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2012	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 years £'000
Non-derivative financial liabilities						
Bank loans	(45,150)	—	—	—	—	(45,150)
Trade and other payables	(82,374)	(82,374)	(82,374)	—	—	—
	(127,524)	(82,374)	(82,374)	—	—	(45,150)
31 December 2011	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 years £'000
Non-derivative financial liabilities						
Bank loans	(47,921)	—	—	—	—	(47,921)
Trade and other payables	(97,695)	(97,695)	(97,695)	—	—	—
	(145,616)	(97,695)	(97,695)	—	—	(47,921)

23. Financial instruments continued**Currency risk**

The Group's exposure to foreign currency risk was as follows, based on notional amounts:

	31 December 2012		31 December 2011	
	€'000	\$'000	€'000	\$'000
Trade receivables	28,450	12,048	31,394	9,891
Bank loans	(30,150)	(15,000)	(23,083)	(24,838)
Trade payables	(2,342)	(467)	(2,345)	(880)
Gross balance sheet exposure	(4,042)	(3,419)	5,966	(15,827)
Notional current year sales	132,058	84,302	149,715	79,705
Notional current year purchases	(93,210)	(53,418)	(95,980)	(48,792)
Gross and net exposure	38,848	30,884	53,735	30,913

Sensitivity analysis

A 10% strengthening of Sterling against the following currencies at 31 December 2012 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	Equity £'000	Profit or loss £'000
2012		
US Dollar	4,405	(917)
Euro	(881)	(84)
2011		
US Dollar	4,547	(417)
Euro	(638)	(954)

A 10% weakening of Sterling against the above currencies at 31 December 2012 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2012 %	2011 %
Fixed rate instruments		
Financial liabilities of less than six months	—	—
Financial liabilities of 1–2 years	—	—
Financial liabilities of 2–5 years	3.1	3.7

The Group has no variable or fixed rate financial assets. The Group has variable rate financial liabilities which are fixed at intervals of up to six months.

Fair values versus carrying amounts – Group

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 December 2012		31 December 2011	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Available-for-sale financial assets	2,025	2,025	2,856	2,856
Cash and cash equivalents	14,863	14,863	19,762	19,762
Bank loans	(45,150)	(40,045)	(47,921)	(46,043)
Trade and other payables	(82,374)	(82,374)	(97,695)	(97,695)

The basis for determining fair values for bank loans is disclosed in note 16.

Notes to the financial statements continued

for the year ended 31 December 2012

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23. Financial instruments continued**Interest rate and currency profile of financial assets and financial liabilities at the year end – Company**

Currency	2012 Floating rate £'000	2011 Floating rate £'000
Financial assets		
Sterling	64	1,309
US Dollar	1	6
Euro	6	1,456
Cash and cash equivalents	71	2,771
Sterling	4,974	21,282
US Dollar	32,911	20,277
Euro	2,564	639
Other	43	—
Trade and other receivables	40,492	42,198
Financial liabilities		
Sterling	(13,905)	(13,604)
US Dollar	(10,937)	(12,367)
Euro	(26,251)	(32,881)
Other	(4,530)	(1,582)
Trade and other payables	(55,623)	(60,434)

The cash and cash equivalents, including short-term deposits, attract interest rates based on Libor, US Dollar Libor and Euribor for periods of up to three months. The carrying value of these assets approximates their fair value.

Exposure to credit risk – Company

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2012 £'000	2011 £'000
Cash and cash equivalents	71	2,771

The Company has no exposure to credit risk for trade receivables.

Liquidity risk – Company

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000
31 December 2012			
Non-derivative financial liabilities			
Trade and other payables	(55,623)	(55,623)	(55,623)
	(55,623)	(55,623)	(55,623)
31 December 2011			
Non-derivative financial liabilities			
Trade and other payables	(60,434)	(60,434)	(60,434)
	(60,434)	(60,434)	(60,434)

23. Financial instruments continued**Currency risk – Company**

The Company's exposure to foreign currency risk was as follows, based on notional amounts:

	31 December 2012		31 December 2011	
	£'000	\$'000	£'000	\$'000
Intercompany receivables	2,564	32,911	4,738	22,347
Intercompany payables	(26,251)	(10,937)	(32,881)	(12,373)
Gross balance sheet exposure	(23,687)	21,974	(28,143)	9,974

The Company's exposure to foreign currency risk relates to intercompany balances with other companies within the Group.

Sensitivity analysis – Company

A 10% strengthening of Sterling against the following currencies at 31 December 2012 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

The analysis is performed on the same basis for 2011.

	Equity £'000	Profit or loss £'000
2012		
US Dollar	(1,241)	1,241
Euro	1,765	(1,765)
2011		
US Dollar	(587)	587
Euro	2,144	(2,144)

A 10% weakening of Sterling against the above currencies at 31 December 2012 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Carrying amount	
	2012 %	2011 %
Fixed rate instruments		
Financial liabilities less than six months	—	—

The Company has no variable or fixed rate financial assets or financial liabilities.

Fair values versus carrying amounts – Company

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 December 2012		31 December 2011	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Cash and cash equivalents	71	71	2,771	2,771
Trade and other payables	(55,623)	(55,623)	(60,434)	(60,434)

Notes to the financial statements continued

for the year ended 31 December 2012

24. Operating lease arrangements

Group	2012 £'000	2011 £'000
Minimum lease payments under operating leases recognised in the income statement for the year	8,137	8,129

At the balance sheet date, the Group has aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

Group	2012		2011	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	7,754	117	7,529	125
In the second to fifth years inclusive	32,266	67	31,108	177
After five years	4,711	—	4,155	16
	44,731	184	42,792	318

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of four years.

25. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Except as disclosed below, no Group company entered into a transaction with a related party that is not a member of the Group. Goods and services purchased from related parties are on normal commercial terms and conditions.

During the year, the Group entered into the following transactions with related parties:

Julian Waldron, a director of the Company, is the Chief Financial Officer of Technip SA. During 2012 Kurt Salmon Consulting SAS provided consultancy services at fair market rates to Technip SA valued at £1,265,566 (2011: £1,819,190) and at year end there was a receivable from Technip SA of £294,966 (2011: £374,821).

A loan of £132,500 to a former director of the Group which was outstanding at 31 December 2011 was repaid in full during the year.

All transactions with pension trustees have been disclosed in note 17.

Remuneration of key management personnel

The aggregate remuneration of the key management personnel of the Group is set out below. Key management personnel are the heads of the consultancies. Information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report.

	2012 £'000	2011 £'000
Short-term employee benefits	1,893	1,944
Post-employment benefits	—	—
	1,893	1,944

26. Principal subsidiary undertakings

At 31 December 2012, the Company had the following principal subsidiary undertakings engaged in the provision of management consultancy services. The shareholdings were 100% of the subsidiary undertakings' ordinary shares and were held indirectly except where indicated. Each of the subsidiaries is included in the consolidation.

	Countries of incorporation/operation
Kurt Salmon Associés France SA	France
Kurt Salmon US Inc.	United States
Alexander Proudfoot Company	United States
Alexander Proudfoot (Europe) Limited*	United Kingdom
Alexander Proudfoot (Botswana) Pty Ltd	Botswana
Kurt Salmon UKI Limited*	United Kingdom
Alexander Proudfoot Inc.	Canada
Kurt Salmon Luxembourg SA	Luxembourg
Alexander Proudfoot South Africa (Pty) Limited	South Africa/Africa
Alexander Proudfoot Services Empresariais LTDA	Brazil
Kurt Salmon Germany GmbH	Germany
Kurt Salmon Belgium SA/NV	Belgium
Alexander Proudfoot GmbH	Austria
Kurt Salmon Switzerland Sarl	Switzerland
Kurt Salmon Capital Advisors, Inc.	United States
Kurt Salmon France SAS	France
Kurt Salmon Canada Ltd/Ltée	Canada

* Held directly.

A full list of subsidiary and other related companies will be appended to the next annual return of Management Consulting Group PLC to be filed with the Registrar of Companies.

Notes to the financial statements continued

for the year ended 31 December 2012

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26. Principal subsidiary undertakings continued**Company**

Amounts (owed to)/owed by subsidiary undertakings

	2012 £'000	2011 £'000
Alexander Proudfoot (Europe) Limited	(882)	10,231
Alexander Proudfoot Company of Europe Ltd	(7,452)	(7,452)
MCG Company No. 1 Limited	(10,348)	(7,882)
MCG Holdings Netherlands BV	87	45
Proudfoot Netherlands B.V.	(4)	—
Alexander Proudfoot SpA Chile	14	—
Alexander Proudfoot Japan KK	15	—
Proudfoot Canada	3	—
Proudfoot de Mexico	2	—
Alexander Proudfoot GmbH	43	—
Alexander Proudfoot Australia	(1,544)	(1,580)
Alexander Proudfoot Inc.	662	2
MCG US Holdings Inc.	13,967	(15,230)
Alexander Proudfoot – Serviços Empresariais LTDA	(735)	—
MCG Overseas Holdings Limited (UK)	30	30
Alexander Proudfoot Company	—	591
Alexander Proudfoot Kft	(17)	(17)
Management Consulting Group Overseas Limited	1,045	1,462
MCG Overseas Holdings BV	3	2
MCG Company No. 4 Limited	(18,211)	(7,541)
Proudfoot Company AG	—	(2,908)
Kurt Salmon US Inc.	(39)	1,823
Kurt Salmon UKI Limited	2,655	4,908
KSA Head Office	16,691	17,274
Management Consulting Group SAS	—	4,621
Kurt Salmon Associés France SA	(273)	(131)
Cleversys SASU	(655)	(901)
Kurt Salmon France SAS	2,377	1,265
Kurt Salmon Belgium SA/BV	13	30
Kurt Salmon Luxembourg SA	67	200
Kurt Salmon Switzerland Sarl	(8)	(4)
Kurt Salmon GmbH	(7,140)	(5,475)
Kurt Salmon US Inc. (Japan Branch)	—	(52)
Kurt Salmon SARL	11	—
Kurt Salmon Associates AG	(1,896)	(1,866)
Alexander Proudfoot South Africa (Pty) Ltd	1	—
Ending balance	(11,518)	(8,555)

26. Principal subsidiary undertakings continued**Company** continued**Transactions with subsidiary undertakings**

	2012 £'000	2011 £'000
Alexander Proudfoot (Europe) Limited	44	44
Alexander Proudfoot Company	(1,599)	(1,073)
Kurt Salmon UKI Limited	(610)	(483)
Kurt Salmon US Inc.	(514)	(873)
Kurt Salmon US Inc (New York branch)	(132)	—
Kurt Salmon France SAS	(3,493)	(1,440)
Kurt Salmon Belgium SA/BV	(62)	(58)
Kurt Salmon Luxembourg SA	(143)	(101)
Kurt Salmon Switzerland Sarl	(7)	48
Kurt Salmon Germany GmbH	133	140
Cleversys SASU	(47)	(74)
Kurt Salmon US Inc. (Japan branch)	(17)	(82)
(Income)/expense from transactions with subsidiary undertakings	(6,447)	(3,952)

27. Acquisitions

On 1 November 2011 the Group acquired 100% of the issued share capital of Vertical Retail Consulting Limited and Vertical Retail Consulting Hong Kong Limited, a retail consulting business operating in China ("VRC"). The following table sets out the values of the identifiable assets and liabilities acquired and their fair value to the Group:

	Acquisition IFRS £'000	Provisional fair value adjustments £'000	Final fair value adjustments £'000	Final fair value to Group £'000
Property, plant and equipment	24	—	—	24
Current assets	557	(55) ⁱ	—	502
Total assets	581	(55)	—	526
Current liabilities	(230)	(990) ⁱⁱ	184 ⁱⁱⁱ	(1,036)
Net assets/(liabilities)	351	(1,045)	184	(510)
Consideration given				2,781
Goodwill arising				3,291
The fair value of the consideration given was:				
Cash				1,397
Deferred consideration				1,384
				2,781

Provisional fair value adjustments comprise:

- (i) additional bad debt provision for trade receivables;
- (ii) recognition of potential tax exposures, contractual exposures and employee matters; and
- (iii) final adjustments to potential tax exposures, contractual exposures and employee matters.

Deferred consideration of up to US\$1.5m in cash and 1,350,000 MCG ordinary shares may be payable to the vendors in the event that the acquired business achieves certain performance targets in the period up to 2014. Management estimates that the deferred consideration will be payable in full and its fair value is therefore the fair value on at the date of acquisition (33.5p per share).

Goodwill arises because the value of the business resides in its assembled workforce, which is not required to be separately valued under IFRS. The fair value adjustments are provisional at the year end.

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We encourage shareholders to register for copies of corporate communications on our investor relations website at www.mcgplc.com.

The Company's Corporate Governance Statement, corporate governance guidelines and terms of reference of the Board's Committees can also be found at www.mcgplc.com.

Investor relations

The Group welcomes contact with its shareholders.

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Enquiries and notification concerning dividends, share certificates or transfers and address changes should be sent to the Registrar at the address shown.

Financial calendar

Annual General Meeting: 18 April 2013

Operational contacts

We welcome clients introduced by shareholders. Shareholders wishing to provide introductions to potential clients should contact Chris Povey (see contact details above).

Share price information

The Company's share price information can be found at www.mcgplc.com or through your broker. The share symbol is MMC.L.

Shareholder services

Online services are available to private shareholders. To use these facilities visit www.capitaregistrars.com.

"Account Enquiry" allows shareholders to access their shareholding on the register including transaction history, dividend payment history and up to date share valuation. "Amendment of Standing Data" allows shareholders to change their registered postal address and add, change or delete dividend mandate instructions. Certain forms can be downloaded, such as dividend mandate forms and stock transfer forms.

Should you have any queries please contact Capita Registrars' helpline on 0871 664 0300, from overseas on +44 20 8639 3399 or email ssd@capitaregistrars.com.

Share dealings

A quick and easy share dealing service is provided by Capita Share Dealing Services for UK registered certificated holders to either buy or sell shares. For further information on this service, or to buy and sell shares, please contact www.capitadeal.com (online dealing) or 0871 664 0384 (telephone dealing).

Directors' responsibility statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the parent company 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 corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Chairman's Statement, Business Review and the Financial Review contain certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Group. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements are based on the directors' current views and information known to them at 6 March 2013. The directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Nothing in this report should be construed as a profit forecast.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Management Report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



Nick Stagg
Chief Executive
6 March 2013



Chris Povey
Finance Director

Company advisers

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