DIVERSE GLOBAL EXPERTISE

Management Consulting Group PLC
Annual report and accounts 2011

Management Consulting Group PLC

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.

MCG will pursue a strategy of organic revenue and margin growth through its two existing businesses, focusing on operational efficiencies and financial discipline.

Learn more at **www.mcgplc.com**

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 global 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

Report highlights

Our year in brief

"The Group delivered a strong performance for 2011 with double digit revenue growth, an increased margin and strong cash generation. Alexander Proudfoot benefited from an increased workload for clients in the natural resources sector and Kurt Salmon has grown revenues in its key markets. We have seen a resilient performance in our established geographic markets and a robust result from emerging markets."

Nick Stagg, Chief Executive

— Revenue up 12% to £302.6m (2010: £270.4m)

— Operating profit up 42% to £25.5m (2010: £18.0m)

— Underlying* operating profit up 22% to £28.3m (2010: £23.3m)

— Underlying* operating margin higher at 9.4% (2010: 8.6%)

— Profit for the year increased by 78% to £16.4m (2010: £9.2m)

— Cash generated by operations increased by 90% to £32.5m (2010: £17.1m)

— Net debt reduced by 48% to £28.2m (2010: £54.4m)

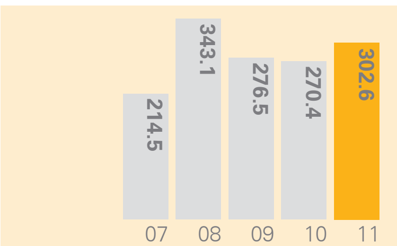
— Underlying* EPS up 14% to 3.8p (2010: 3.5p). Basic EPS up 54% to 3.7p (2010: 2.4p)

— Total dividend increased 67% to 0.75p per share (2010: 0.45p per share)

*Throughout this annual report the term "underlying" is defined as 'before non-recurring items and amortisation of acquired intangibles for continuing business'

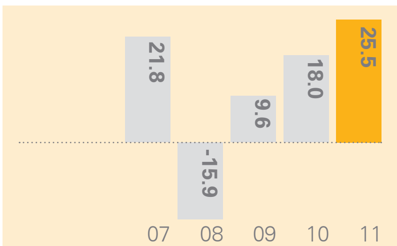
Revenue (£m)

+12%



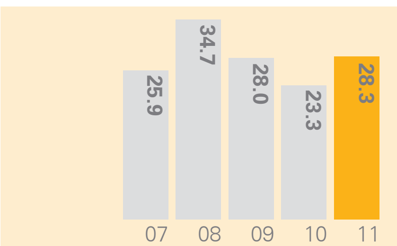
Profit from operations (£m)

+42%



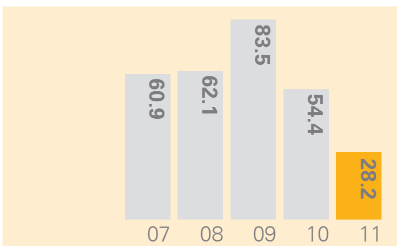
Underlying operating profit (£m)*

+22%



Net debt (£m)

-48%



Contents

Chairman's statement

"MCG is in a strong financial position and we will continue to focus attention on promoting profitable growth in our business and delivering value to our shareholders. Recognising this, the Board is proposing to increase the dividend for the year to 0.75p per share and will continue to maintain a progressive dividend policy."

Alan Barber

For 2011 we reported a 12% increase in revenue and a 22% increase in underlying operating profit

Strong operating cash flows have helped to nearly halve our net debt

Growth in revenues from projects delivered in emerging markets

Employees are significant shareholders in MCG and aligned to shareholder value creation

2011 was a successful year for Management Consulting Group PLC ("MCG" or "the Group") despite the economic uncertainty in many of the markets in which we operate. During 2011 we realised some of the benefits of the changes that were made in 2010. Both Alexander Proudfoot and Kurt Salmon performed well, resulting in a 12% increase in revenue and a 22% increase in underlying operating profit.

Our businesses also generated strong operating cash flows during 2011, which have helped to nearly halve our net debt to £28.2m at the end of the year. The Group also benefited during 2011 from £10.6m of cash proceeds from the exercise of the warrants issued as part of the capital raising in 2010. We have put in place a new £85m banking facility which runs to July 2016. MCG is in a strong financial position and we will continue to focus attention on promoting profitable growth in our business and delivering value to our shareholders. Recognising this, the Board is proposing to increase the dividend for the full year by 67% to 0.75p per share and will continue to maintain a progressive dividend policy.

MCG operates globally in diverse markets, both in terms of geographies and industry sectors. A growing proportion of the Group's revenues are derived from emerging markets, and we are well placed to take advantage of further opportunities in those markets that continue to perform strongly, despite uncertainty over the growth prospects of some developed economies in 2012.

Janet Cohen stepped down from the Board on 19 April 2011, having served as a director since 2003. Marco Lopinto also stepped down from the Board on 19 April 2011. Mark Wietecha stood down from the Board on 30 September 2011 and left the Group to become CEO of the National Association of Children's Hospitals in the United States. I would like to thank them for their important contributions to the Group.

Approximately 14% of the Company's shares in issue are held by directors or employees and about 150 employees now either hold shares or are in receipt of conditional share awards. We will continue to seek to align the interests of our senior employees with those of our shareholders and we are likely to make further share awards to key employees during 2012.

The success of MCG is built upon our people and the quality of their efforts to deliver results to our clients. I would like to take this opportunity to thank everyone who worked for MCG during 2011 for their support and commitment to the Group during the year.

Alan Barber
Chairman
7 March 2012

Read this report online
at **ar11.mcgreports.com**

"We are well placed to take advantage of opportunities in those markets that continue to perform strongly, despite uncertainty over the growth prospects of some developed economies in 2012."

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

A global business

MCG provides professional services throughout the world. More than 95% of our 2011 revenues were derived from outside the UK. We report segmental revenue on the basis of the geography where it is sold, but we deliver to our clients globally. We have an expanding presence in fast growing emerging markets in Latin America, Asia and Africa.

Performance by geography

Europe

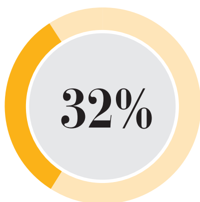
2011: £179.2m

2010: £158.9m

More projects delivered in emerging markets

Kurt Salmon has a strong presence in the largest Continental European markets for consulting services, France and Germany, together with operations in Belgium, Luxemburg, Switzerland and the UK. Alexander Proudfoot's European operations are headquartered in London, but more than half of its 2011 European revenues related to projects in emerging markets, in Africa and Asia in particular.

Americas



2011: £97.5m

2010: £96.5m

Success in South America

The United States remains the largest global market for consulting services, but Latin America is an increasingly important arena for MCG. Alexander Proudfoot's operations, based in Sao Paolo, Brazil benefited from increased client demand in 2011. Natural resources clients in Latin America are important to us, but we are seeing good opportunities in other industry sectors. Kurt Salmon also worked for some global retail clients on projects in Brazil and elsewhere in South America during 2011.

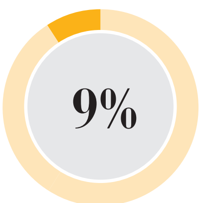
18% of our 2011 revenues came from projects delivered outside Western Europe and North America

emerging markets

Read on to see how we apply our market-leading expertise

Rest of the World

Growth in natural resources work in Africa



2011: £25.9m

2010: £15.1m

Alexander Proudfoot serves Southern Africa from its base in Johannesburg, with a focus on natural resources clients. In 2011 our teams worked across the continent, in gold and diamond, in oil and gas, and in metals processing. Our largest single project in 2011 was at the Debswana mine in Botswana, the largest diamond mine in the world. Alexander Proudfoot has a long track record of helping its mining clients to deliver sustainable improvements in operating efficiency.

Expansion in Asia

The acquisition of a fast growing retail consulting business operating in mainland China and Hong Kong promises new opportunities for MCG in Asia

MCG acquired Vertical Retail Consulting in October 2011. The business operates in mainland China from a base in Shanghai, in Hong Kong and elsewhere in Asia. It provides management consulting services to clients operating in the retail and consumer goods sector.

The acquired business serves both well known international brands already active in or in the process of entering the Chinese market and local retailers which are expanding rapidly in terms of store and brand development. It has been operating for three years and has undertaken more than seventy client projects during that time. The business generated revenues in 2011 of £3.2m and has a strong order book and sales pipeline which extends into the second half of 2012.

The market for management consulting services in China is expected to continue to grow strongly, in the retail sector in particular. The global retail and consumer goods consulting practice of Kurt Salmon has an established operation in Japan and, with this acquisition in China, it is well placed to expand in Asian markets in response to client demand.

"China is an important and fast growing market for management consulting services. We have strengthened Kurt Salmon's global position in the retail consulting sector with this acquisition."

Nick Stagg
Chief Executive

What we do

Management Consulting Group PLC operates through two distinct independently managed practices, Alexander Proudfoot and Kurt Salmon, which are leaders in their fields. This structure has created highly focused businesses and provides a firm foundation for delivering profitable growth and enhanced shareholder value.

ALEXANDER PROUDFOOT
people • productivity • profitability

"Alexander Proudfoot helps clients rapidly improve their operations so they can achieve their growth targets, revenue objectives and profit goals."

Luiz Carvalho Chief Executive, Alexander Proudfoot

Alexander Proudfoot provides tangible and sustainable operational improvements for its clients, delivering improved performance at a scale and speed that they would not achieve on their own. It does not just identify opportunities; it actually implements the required changes, working with management and front-line personnel, side-by-side, until the client achieves the projected financial benefits.

Read Alexander Proudfoot's performance review on page 12

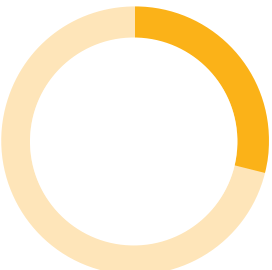
The Alexander Proudfoot approach combines three core disciplines:

— **Process improvements**: The thorough review and re-design of existing business processes to deliver measurable improvements in effectiveness and efficiency

— **Management systems**: The development of specific, focused, easily understood, high-impact indicators to monitor performance and to identify areas that require managerial attention

— **People solutions**: The education, training and communication with client employees at all levels to provide solutions that align thinking and behaviour to support the new processes and systems

Revenue share

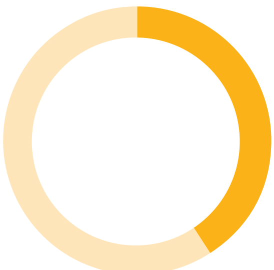


29%

£87.0m

2010: £62.2m

Underlying operating profit share



41%

£11.6m

2010: £4.9m

Kurt Salmon

"Kurt Salmon combines industry expertise, analytical rigour and an implementation focus to help its clients create tangible and meaningful results."

Chiheb Mahjoub Chief Executive, Kurt Salmon

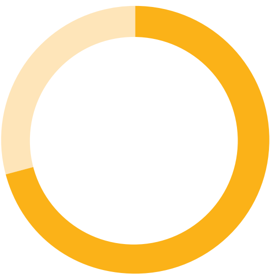
Kurt Salmon is a global management consultancy business which partners with its clients to drive strategies and solutions that make a lasting and meaningful impact on their businesses. Kurt Salmon operates leading global practices in retail and consumer products and in financial services, and strong regional or national practices in a range of other industry sectors.

Read Kurt Salmon's performance review on page 14

Kurt Salmon provides advisory services to both the private and public sectors utilising its in-depth knowledge of issues relevant to specific industries and covering:

- **Strategy**: Corporate and business strategy, organisation and corporate governance, IT strategy, risk management
- **Operational performance**: Lean Six-Sigma, process piloting, skills management, support functions performance, advice on shared service centres, outsourcing and off-shoring, business and financial master plans
- **Transformation management**: Management and leadership alignment, transformation programmes, management systems and internal communication, IT systems alignment, change management, lean management
- **Transaction support**: Transactions assistance, post-merger integration and carve-outs, due diligence support

Revenue share

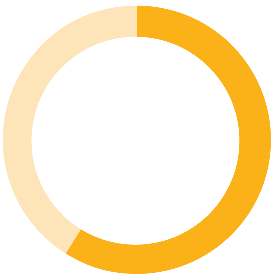


71%

£215.6m

2010: £208.2m

Underlying operating profit share



59%

£16.8m

2010: £18.4m

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.

	Who we serve	How we engage	Intellectual property
Alexander Proudfoot people • productivity • profitability **Specialists in driving rapid change**	Alexander Proudfoot's clients are large complex business organisations, typically operating on a global scale, with revenues in excess of US$100m. Past clients include many of the best large and mid-size organisations across the globe. These include market leaders such as American Express, BHP Billiton, DeBeers and Bridgestone.	A client engagement begins with discussions with senior management 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, normally over several months, is the installation of process improvements, management systems and people solutions. The typical project size is £2m.	Alexander Proudfoot uses a tried and tested methodology, long-established but evolving continually in practice. The essential and universal principles can be applied in any business environment, from a call centre, a mine, an oil rig, a manufacturing plant, to a hospital or airport, wherever there are large scale complex processes. Over 65 years Alexander Proudfoot has completed more than 16,000 projects across the globe.
Kurt Salmon **Advising the world's business leaders**	Kurt Salmon's clients are leading national and international businesses, facing continual challenges in a fast moving global economy. In the retail and consumer goods and the financial services sectors, many of its clients operate and require our services on a global scale. In other industry sectors Kurt Salmon operates on a regional or national scale and serve clients in these markets.	Kurt Salmon is a trusted adviser to its clients, independent from technology, audit and outsourcing providers. Kurt Salmon consultants work alongside their clients' teams in a flexible and collaborative way. 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. The size of projects undertaken can vary, but the average size is £300,000.	Kurt Salmon uses a variety of tools and techniques to deliver results to its clients and these are continually refreshed and developed to ensure that the firm remains at the forefront of thought leadership. 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.

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

Market-leading expertise

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. This is why the offering is applicable across diverse industries. Alexander Proudfoot's methodology is sector neutral and will achieve results in any environment, but the business has deep knowledge and experience in a number of sectors, notably natural resources, manufacturing and financial services.

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 and up to date industry expertise across a range of sectors is at the heart of the Kurt Salmon offering, but it also delivers expertise in business processes, transformation management, analytics, information technology and risk management.

People

Alexander Proudfoot's 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. Alexander Proudfoot installation specialists are hands-on, practical people working closely with client staff in any working environment. Variable pay for Alexander Proudfoot employees is aligned with project performance for clients, and value creation for the business.

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. Kurt Salmon consultants are industry and functional experts, operating in specialist teams within business units. They are developed through structured training and practical experience. Variable pay is aligned with the performance of the Kurt Salmon business overall and its component business units.

How we generate value

Alexander Proudfoot delivers measurable financial benefits to its clients by developing and installing processes and programmes to improve their operations. 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 two to three times the cost of the project.

Kurt Salmon partners with its clients to drive strategies and solutions that make a lasting and meaningful impact on their businesses. It supports effective alignment between strategy and operations, by understanding what can be implemented and working alongside their clients in the change management process. Kurt Salmon brings about measurable top and bottom line results as it helps clients identify and mitigate the risks associated with the execution of their strategies.

Complementary market offerings

Business review

Chief Executive's review

"MCG has delivered significant growth in both revenue and profit in 2011, as well as strong operational cash generation. The results for the year as a whole are encouraging and demonstrate the resilience of our two businesses in an uncertain economic environment."

Nick Stagg

MCG is a global business and more than 95% of 2011 revenue came from projects delivered outside the UK

The 22% increase in underlying operating profit reflects an impressive performance by Alexander Proudfoot

The first half saw signs of recovery but weaker economic indicators in the second half affected business confidence

Strong cash generation has delivered a substantial reduction in net debt

Share awards made to employees during 2011 are conditional on retention and financial performance

Overview

MCG has delivered significant growth in both revenue and profit in 2011, as well as strong operational cash generation. Hopes for sustained global economic recovery in 2011 receded sharply in the second half of the year, as it became clear that growth had stalled in most developed economies. In these testing circumstances both Alexander Proudfoot and Kurt Salmon made good progress and the results for the year as a whole are encouraging and demonstrate the resilience of the two businesses in an uncertain economic environment.

MCG is now organised as two operating divisions: Alexander Proudfoot and Kurt Salmon and from 2011 MCG reports its segmental results on these two divisional lines. Kurt Salmon comprises the former businesses of Ineum Consulting and Kurt Salmon Associates, which merged with effect from 1 January 2011. References below to 2010 comparatives for Kurt Salmon represent the aggregation of the two predecessor businesses.

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 further large scale acquisitions, but will look to add capabilities where appropriate through smaller 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 global office infrastructure will support an increase in operational activity.

In addition we are committed to continuing to deliver efficiencies in the Group's operations and to enhancing financial discipline across the Group. We seek to align the performance of employees in each of our businesses with objectives that are consistent with value creation for our shareholders.

Total revenue for the year ended 31 December 2011 was £302.6m, 12% up on the previous year (2010: £270.4m). MCG is a global business and more than 95% of revenue in 2011 came from projects delivered outside the UK.

Underlying operating profit in 2011 was up 22%, or £5.0m, to £28.3m (2010: £23.3m). This reflects the impact of an impressive overall performance by Alexander Proudfoot after its strong recovery in the second half of 2010, and a solid performance throughout the year by Kurt Salmon.

Underlying operating profit for 2011 reflects a charge of £1.7m relating to share awards made to employees (2010: £1.3m credit). During the year 86 senior employees received awards over approximately 26.7 million shares in total, generally vesting over three years and conditional upon continued employment. A number of these awards are also conditional upon share price performance and the achievement of financial targets. 16.3 million of the share awards made during the year, should they vest, are required to be satisfied from existing MCG shares. The Employee Benefit Trust purchased 4.6 million shares during the year, and held 12.1 million shares at the year end, for this purpose. 10.4 million of the share awards made during the year may be satisfied by issuing new MCG shares.

For 2011 the Group is reporting net non-recurring expenses of £0.2m (2010: £2.6m), chiefly comprising income of £5.5m relating to the release of a provision for a potential legal claim, offset by costs of £5.7m principally associated with the implementation of the Kurt Salmon merger.

The charge for amortisation of acquired intangibles was £2.6m (2010: £2.7m). Consequently the overall profit from operations increased by 42% to £25.5m (2010: £18.0m). The net interest expense decreased to £2.3m (2010: £3.7m). The profit before tax was up 62% to £23.2m (2010: £14.3m).

Read this report online
at **ar11.mcgreports.com**

"MCG has a strong position in its key European markets, and an established position and brand in North America where economic growth is continuing. European markets may see little growth in 2012 but we are well placed to exploit opportunities for growth in geographies and sectors where economic prospects are more favourable."

With an underlying effective tax rate of 36% (2010: 36%) underlying earnings per share were 3.8p (2010: 3.5p), reflecting higher underlying earnings for the year offset by the full year dilutive effect of shares issued in the June 2010 capital raising and the impact of the conversion of warrants. Basic earnings per share were 3.7p (2010: 2.4p).

The interim dividend for 2011 of 0.2p per share was paid in January 2012. The Board is recommending, subject to shareholder approval, a total dividend for the year of 0.75p per share, up from 0.45p per share in 2010. The directors therefore recommend, subject to shareholder approval, a final dividend for 2011 of 0.55p per share to be paid on 2 July 2012 to shareholders on the register on 18 May 2012. Subject to the Group's financial position, the Board intends to pursue a progressive dividend policy.

The Group received £10.6m during 2011 from the conversion of warrants issued in the equity raising of June 2010. Cash generated by operations was £32.5m, substantially higher than in the previous year (2010: £17.1m). As a result net debt at the end of 2011 reduced significantly to £28.2m (2010: £54.4m).

Summary and outlook

2011 was a year of good overall progress for the Group, building on the significant changes made during the previous financial year. The first half saw some signs of recovery in many markets but concern over weaker economic growth indicators in many developed economies affected business confidence in the second half. MCG has delivered healthy revenue growth, a significant improvement in profit before tax, and strong cash generation delivering a further substantial reduction in net debt.

Whilst the current macro-economic uncertainty in the Eurozone provides an unhelpful backdrop for some parts of our business, our European operations are focused on France and Germany, which remain robust economies where demand for consulting services remains healthy and we have no exposure to weaker markets in Southern Europe. Changes in exchange rates had little impact overall on our reported results in 2011 but exchange rate movements can affect MCG's reported results in Sterling, since most of the Group's revenues and costs are denominated in other currencies, principally in Euros and US Dollars.

MCG has a strong position in its key European markets, and an established position and brand in North America where economic growth is continuing. European markets may see weak growth in 2012 but we are well placed to exploit opportunities for growth in geographies and sectors where economic prospects are more favourable, particularly in emerging markets. The reported segmental results reflect the locations from which work is sold, but MCG is a global business and we deliver our services where our clients require. Approximately 18% of our 2011 revenues were derived from projects delivered outside the developed economies of North America and Western Europe. The acquisition by Kurt Salmon of a retail consulting practice in China in October 2011 is evidence of the Group's continuing focus on opportunities in fast growing emerging markets.

We entered 2012 with a solid order book position in both our businesses and an encouraging pipeline of prospects. We have a strong balance sheet, a focused team and a clear strategy to deliver value to our shareholders.

Nick Stagg
Chief Executive
7 March 2012

Business review continued

Divisional performance: Alexander Proudfoot

"During 2011 Alexander Proudfoot saw good ongoing demand from clients in the natural resources sector and growth in revenues from projects delivered in emerging markets, in particular in Africa and Latin America."

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 two to three times the cost of the project.

Alexander Proudfoot delivered very strong revenue growth in the second half of 2010 and these increased revenue levels were sustained throughout 2011. The business has recovered well from the weakness experienced from mid-2009 into the first half of 2010.

Overall revenues for the year were £87.0m, 40% higher than the previous year (2010: £62.2m). Alexander Proudfoot reported underlying operating profit for the year as a whole of £11.6m (2010: £4.9m). The profit margin of 13.3% for the year is substantially ahead of the 2010 margin of 7.9%, but remains below the level which has been achieved in the past.

The number of staff employed by Alexander Proudfoot has increased marginally during the year from 293 at the end of 2010 to 302 at the end of 2011. Alexander Proudfoot operates a flexible global staffing model and employee numbers were significantly higher at times during 2011 to meet the requirements of client projects.

During 2011 Alexander Proudfoot was organised on the basis of four business units, based in Europe, the United States, South Africa and Brazil. The business is headquartered in Atlanta in the United States and during 2011 had further office locations in London, Paris, Frankfurt, Johannesburg, Toronto and São Paulo. Alexander Proudfoot serves clients globally from these locations.

Most of the Alexander Proudfoot business units reported increased revenues in 2011. The strongest year-on-year revenue growth was delivered in the European and African business units. The Brazilian business unit showed strong growth in the first half and delivered a satisfactory performance for the year as a whole. The recovery in the North American business developed more slowly during 2011 and this unit reported revenue broadly in line with the previous year. The management team in the North American business unit was strengthened in the second half of the year and recent indicators suggest that the changes made are now delivering results.

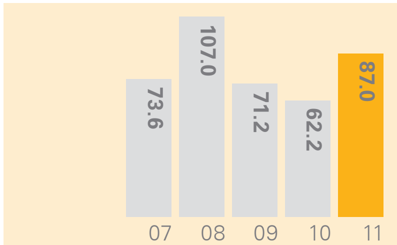
During 2011 Alexander Proudfoot saw good ongoing demand from clients in the natural resources sector and growth in revenues from projects delivered in emerging markets, in particular in Africa and Latin America. In 2011 there was a trend for work sold in Europe and North America to be delivered elsewhere, for example, in Nigeria, Russia and Peru. Projects won during 2011 in the natural resources sector and in emerging markets were typically larger than those in previous years, although the sometimes remote and challenging project locations generally had higher delivery costs and this had an impact on profit margins in some cases. The incidence of these larger projects, and therefore revenues, was slightly skewed towards the first half of the year, but this was not a function of any inherent seasonality.

Alexander Proudfoot has demonstrated over many years that it has an offering that produces very attractive returns for its clients. It performed well during 2011, taking advantage of the opportunities provided by the pressure on producers in the natural resources sector to improve productivity and efficiency in extraction and processing. This success reflects Alexander Proudfoot's strong capabilities in natural resources and management's

Key performance indicators

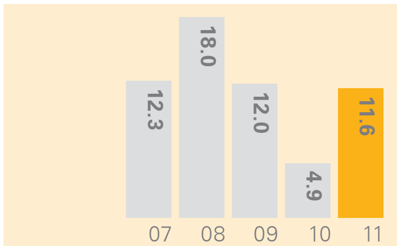
Revenue (£m)

+40%



Underlying operating profit (£m)

+137%



strategy to focus effort and resources on this sector. As global demand for commodities remains strong there are opportunities for further growth.

Alexander Proudfoot's 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 is continuing to work to enhance sales processes across the business, increasing the focus on building long term relationships with existing and prospective clients as well as driving individual project sales. The business has a global reach and a flexible capability, and is well placed to take advantage of opportunities in markets and industry sectors where economic growth remains strong.

The order intake in the latter part of the 2011 financial year provided an encouraging starting point for 2012. The current order book for Alexander Proudfoot is at a higher level than the average during 2009 and 2010, providing some visibility on the revenues into the second quarter of 2012. The pipeline of prospects is also encouraging at this stage of the year.

Mining and metals practice

Alexander Proudfoot's mining and metals practice delivers measurable and sustainable improvements in the productivity, predictability and reliability of mining and metals operations.

Alexander Proudfoot has undertaken mining related projects on five continents, across a wide range of surface and subsurface mines, smelting and refining operations, helping mining company executives run their operations more effectively. During 2011 projects were undertaken in the United States, Canada, South Africa, Botswana, Tanzania, Nigeria, Sierra Leone, the United Kingdom, France, Russia, Indonesia, Chile and Peru.

Clients include many of the industry's major companies including De Beers, Inmet, BP, Total, Shell, Xstrata, Rio Tinto, BHP Billiton, Anglo American, Vale and Chevron as well as a host of smaller companies such as Newmont, International Nickel, Rossing, Kennecott, Iron Ore of Canada, Freeport McMoRan, Lonmin, Impala and Yamana Gold.

Alexander Proudfoot understands the complex and extreme operational challenges that mining operations face. Its services cover a wide operational spectrum including mining safety, contractor management, capital expenditure avoidance, project ramp up, cost reduction, operational improvement, community engagement, supply chain management and throughput improvement.

Business review continued

Divisional performance: Kurt Salmon

"Kurt Salmon delivered a good result for the year as a whole and reported an overall increase in revenues, building on its strong position in core markets, while exploring new opportunities such as the acquisition in China."

Kurt Salmon was established on 1 January 2011 from the merger of Ineum Consulting and Kurt Salmon Associates. Prior to that date both were managed and reported as separate business segments. References below to 2010 comparatives represent a pro forma aggregation of Ineum Consulting and Kurt Salmon Associates. 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.

In October 2011 MCG acquired Vertical Retail Consulting, a successful retail consulting business operating in mainland China, Hong Kong and elsewhere in Asia for an initial consideration of US$2.25m. The acquisition brings an established team of partners and consultants serving both well known international brands already active in or in the process of entering the Chinese market and local retailers which are expanding rapidly in terms of store and brand development. The acquired business generated revenues of approximately £3.2m in the twelve months to 31 December 2011, of which £0.8m is reflected in MCG's reported results for the year. It is performing well and has a strong order book and sales pipeline which extends into the second half of 2012. Kurt Salmon has a successful existing business operating in Japan and as a result of the acquisition it has significantly enhanced its capabilities in fast growing retail markets in Asia.

Kurt Salmon delivered a good result for the year as a whole. It reported an overall increase in revenues, building on its strong position in its core markets, while exploring new opportunities such as the acquisition in China. The business reported some reduction in profit margins as a result of the impact of the charge to the profit and loss account of share awards made to senior Kurt Salmon staff during 2011 and a slightly weaker profit performance in the second half of the year reflecting the impact of continuing investment. Overall revenues for the year were £215.6m, 4% higher than the previous year (2010: £208.2m). Kurt Salmon reported underlying operating profit for the year of £16.8m (2010: £18.4m) and an underlying operating margin of 7.8% (2010: 8.8%).

The number of staff employed by Kurt Salmon has increased during the year from 1,362 at the end of 2010 to 1,420 at the end of 2011. During 2011 focused recruitment in higher growth sectors and geographies within the business was offset by some restructuring and reduction in staff levels in other areas.

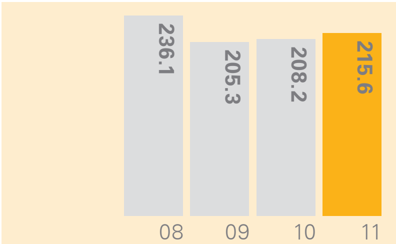
Kurt Salmon is organised on the basis of geographic locations and global industry verticals. Kurt Salmon has its headquarters operations in Paris and New York, with offices across Continental Europe, in London and in the United States. In Asia, Kurt Salmon has offices in Tokyo, Shanghai and Hong Kong.

Kurt Salmon's continental European operations, centred on France, together with Germany and the Benelux countries, had a successful year and all reported revenue growth. The Kurt Salmon retail consulting business in the UK performed well, but the results of some of the other smaller elements of the UK operations were unsatisfactory, in a consulting market which remains difficult and competitive. In North America the core retail and consumer goods practice delivered revenue and profit growth. The US financial services practice continued to show good progress. The US healthcare practice had a more difficult year than had been anticipated, although management

Key performance indicators

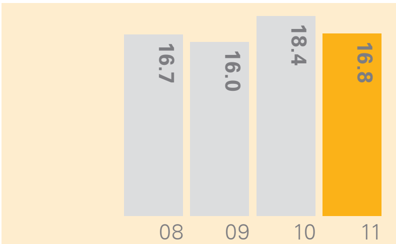
Revenue (£m)

+4%



Underlying operating profit (£m)

-9%



have now taken steps to improve growth prospects and profitability in 2012. The Kurt Salmon operation in Japan suffered badly in the aftermath of the natural disasters of March 2011, but recovered very strongly in the second half of the year.

The order intake in Kurt Salmon slowed a little in the second half of 2011 but recovered towards the end of the year. The North American business has made a good start to 2012 and the prospects are encouraging. The European businesses have started the 2012 year against the backdrop of continuing uncertainty on the future of and economic prospects for the Eurozone, which has had some impact on client buying decisions. The current order book for Kurt Salmon is at a higher level than the average during 2009 or 2010 and the pipeline of prospects is promising. The outlook in Europe remains uncertain, but Kurt Salmon has no exposure to the weaker peripheral Eurozone countries and is in a strong position in its largest market in France.

The decision taken in 2010 to bring together Ineum Consulting and Kurt Salmon Associates, as Kurt Salmon, has proved a success. The complementary industry and geographic focus has provided an opportunity to develop a unified practice that is a stronger competitor in the market and is better able to attract new talent. The merger resulted in some non-recurring expenses in 2011, related to branding, office restructuring and some systems and personnel changes. Kurt Salmon is an established global consulting brand with a long heritage and it is well placed to develop as a significant player in the consulting market in the industry and functional areas where its expertise is focused. The business has scope for organic growth in markets where it is already established and will look to build its presence in markets where it currently lacks scale. Alongside investment for growth, the management of Kurt Salmon will continue to work to improve operational efficiencies and processes in the business to enhance the underlying profit margin.

Retail and consumer products practice

Kurt Salmon's retail and consumer goods practice combines qualitative expertise and analytical rigour to help the world's leading retail and consumer products companies improve their performance.

In Kurt Salmon's 75-year history it has worked with 30 of the world's top 50 and all of the top five global retailers, as well as scores of other global, national and specialty brands. The practice centres on unparalleled industry specialisation, from business strategy to operations and technology optimisation, helping clients to drive significant and lasting results. The practice has long established operations North America, Western Europe and Japan and in 2011 acquired a fast growing retail consulting practice in China.

Clients of the Kurt Salmon retail and consumer goods practice include many of the world's leading retailers. Kurt Salmon also provides advice to private equity and investment banking clients who are engaged in the retail and consumer goods sector.

Kurt Salmon works across all retail segments, including grocery, apparel and accessories, department stores and specialty stores, and in a wide range of consumer brand segments, including food and beverage, household, health and beauty, pharmaceutical, apparel and accessories, and electronics.

Kurt Salmon provides strategy advice to its retail and consumer products clients and a range of services in operations management, including merchandising and planning, product development and sourcing, supply chain, store operations and information technology. It also provides industry expertise in scenarios involving acquisitions and disposals and in turnaround and restructuring situations.

Business review continued

Financial review

Chris Povey

Alexander Proudfoot accounted for 29% of Group revenues and Kurt Salmon for 71%

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

Underlying operating profit was £5.0m higher at £28.3m, chiefly reflecting a strong performance by Alexander Proudfoot

Underlying operating profit margin increased from 8.6% to 9.4%

The number of employees increased from 1,678 to 1,741

The Group has a new £85m borrowing facility which runs to July 2016

Exchange rates

MCG derives the vast majority of its revenue and profit from outside the United Kingdom. As results are presented in Sterling, average exchange rates, particularly those of the US Dollar and the Euro in relation to Sterling, can have a significant effect in the translation of those results. On average, in 2011 compared with 2010, Sterling was 3.9% stronger than the US Dollar but 1% weaker than the Euro and this had a slightly adverse effect overall on reported revenue. The average exchange rates used to translate the 2011 results were £1=$1.6064 (2010: £1=$1.5456) for the US Dollar and £1=€1.1511 (2010: £1=€1.1625) for the Euro.

Employees

There were 1,741 people employed in the Group at the end of 2011 compared to 1,678 at the end of 2010. The average number of people employed by the Group during the year was 1,746 (2010: 1,684).

Revenue

Total revenue for the year ended 31 December 2011 was 12.0% higher than the previous year at £302.6m (2009: £270.4m). The increase in revenue reflects the much improved performance in Alexander Proudfoot during the year, continuing the recovery which started in the second half of 2010, and modest revenue growth in Kurt Salmon, offset slightly by the net adverse effect of changes in the average exchange rate between 2010 and 2011. At 2010 average exchange rates total revenue would have been £304.1m.

Alexander Proudfoot reported first half 2011 revenues significantly ahead of those of the same period in 2010 and this level of activity was broadly maintained in the second half, ending the year with revenue of £87.0m (2010: £62.2m). Kurt Salmon revenues in the second half of 2011, 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. For the year as a whole Kurt Salmon reported revenues of £215.6m (2010: £208.2m). Alexander Proudfoot accounted for 29% of Group revenue (2010: 23%) and Kurt Salmon for 71% (2010: 77%).

In terms of geography, the American business units reported a small overall increase in revenue to £97.5m (2010: £96.5m). Revenue from the Americas accounted for 32% of Group revenue (2010: 36%). Revenues from Europe increased by 13% to £179.2m (2010: £158.8m), maintaining its share of the Group total at 59% (2010: 59%). The Rest of the World, with revenues predominantly from Africa, Japan and China, accounted for 9% of Group revenue (2010: 5%) with £25.9m (2010: £15.1m). Segmental revenues are reported on the basis of the location of the business unit where the revenue is sold and 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 and to which it is invoiced, particularly in the Alexander Proudfoot business. During 2011 a significant proportion of the revenues generated in the European and North American business units related to services which were delivered elsewhere, in Latin America, Africa and Asia. As a result in 2011 approximately 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 2011.

Operating profit

Underlying operating profit in 2011 was £5.0m or 22% higher at £28.3m (2010: £23.3m). This chiefly reflects the impact of a strong performance by Alexander Proudfoot for the year as a whole, offset by a small decrease in profit in Kurt Salmon. As a result the underlying operating profit margin for the Group as a whole increased from 8.6% in 2010 to 9.4% in 2011.

The underlying operating profit performance of the two divisions broadly reflected revenue performance. Alexander Proudfoot continued to perform strongly, in line with the recovery seen in the second half of 2010, and saw its underlying operating profit increase to £11.6m (2010: £4.9m), a margin of 13.6% (2010: 7.0%). Kurt Salmon maintained margins at 2010 levels in the first half of 2011 but experienced a slightly more difficult second half which impacted its profit performance for the year as a whole. Kurt Salmon reported operating profit of £16.8m (2010: £18.4m), a margin of 7.8% (2010: 8.8%).

Underlying operating profit in 2011 reflects a charge of £1.7m relating to share awards granted in during the year (2010: £1.3m credit). The charge for the amortisation of acquired intangible assets was £2.6m (2010: £2.7m).

Non-recurring costs

The reported net non-recurring income reflects a credit of £5.5m related to the release of part of a legal provision created on the acquisition of Kurt Salmon Associates that is no longer required (2010: £3.0m). The merger of Ineum Consulting and Kurt Salmon Associates gave rise to non-recurring costs of £4.4m (2010: £2.3m), principally related to branding, property reorganisation, and systems and personnel changes. A net total of £0.2m (2010: £2.6m) is reported as a non-recurring expense for 2011. Approximately £1.9m of net cash outflows is expected to arise in 2012 as a result of these items.

Taking into account the non-recurring items, there was an overall profit from operations of £25.5m (2010: £18.0m).

Interest

The total interest payable on borrowings was £2.2m (2010: £3.5m). Adjusting for interest received on bank deposits and the finance cost on retirement benefit plans, the total net finance charge was £2.3m (2010: £3.7m). The interest margin paid on the outstanding balance of the debt drawn under the borrowing facility in place during 2011 was 1.5% above Euribor and US Dollar Libor up to 1 August and 1.15% for the remainder of the year. During 2010 MCG paid an interest margin of 1.5%.

Taxation

The total taxation charge for the year was £6.7m (2010: £5.1m). After adjusting for non-recurring items and the amortisation of acquired intangibles, the underlying effective tax rate was 36% (2010: 36%). The 2011 taxation charge benefited from a credit of £2.1m relating to the release of accruals for prior year tax items. The Group has tax losses in various jurisdictions and the underlying tax rate has benefited from the utilisation of these in 2011. The ability to utilise those tax losses remaining is uncertain and dependent on trading profitability.

Earnings per share

Basic and diluted earnings per share were 3.7p (2010: 2.4p). Underlying earnings per share, after adjusting for non-recurring items and the amortisation of acquired intangibles, was up 9% to 3.8p (2010: 3.5p) as a result of the increase in underlying operating profit, offset by the full year dilutive effect of the new shares issued in the capital raising in mid 2010 and 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 2011, Sterling weakened marginally, by 0.3%, against the US Dollar and strengthened by 2.7% against the Euro. This had the net effect of marginally reducing the Sterling value of assets held in US Dollars at the end of 2011, and increasing the value of assets held in Euros. The year-end exchange rates used to translate the 2011 balance sheet were £1=$1.5456 (2010: £1=$1.5504) for the US Dollar and £1=€1.1935 (2010: £1=€1.1620) for the Euro. During 2011 net assets increased by 11% to £194.7m (2010: £175.8m). This increase is principally due to the retained profit for the year and the impact of the conversion of warrants issued in the capital raising in June 2010.

+9%

Underlying earnings per share up to 3.8p (2010: 3.5p)

+67%

Total proposed dividend up to 0.75p per share (2010: 0.45p per share)

Business review continued
Financial review continued

Net assets continued

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 £3.2m to £45.4m (2010: £48.6m). Debtor days at the end of 2011 were 41 days (2010: 44 days).

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 decreased from £25.7m at 31 December 2010 to £23.2m at 31 December 2011. Cash contributions to these schemes amounted to £4.4m in 2011 (2010: £1.4m).

Liquidity and capital resources

Conversion of warrants

The Group's capital structure is reviewed regularly to ensure that it remains relevant to the business and its planned development. In June 2010 the Group completed an equity issue, raising £23.6m net proceeds which were applied to reduce the net indebtedness of the Group. As part of that capital raising the Group also issued 53.1 million warrants to the subscribers for the new ordinary shares issued, each warrant being convertible into one ordinary share at a price of 22p at any time up to 31 December 2011. During 2011 50.5 million warrants were converted (2010: 1.2 million warrants). The conversion of these warrants generated £10.6m in cash proceeds to MCG in 2011 (2010: £0.3m). At 31 December 2011, 1.4 million warrants had not been converted and therefore lapsed.

Net debt

The Group ended the year with net debt of £28.2m (2010: £54.4m). The reduction in net debt in part reflects the impact of the conversion of warrants issued in the equity issue in June 2010, but the largest contribution to the reduction in indebtedness was a result of cash generation from operations, particularly in the second half of 2011.

During 2011 the Group was financed by a multi-currency borrowing facility negotiated in 2007 and expiring in September 2012. In December 2011 the Group put in place a new borrowing facility, which runs until July 2016. The new facility is a revolving credit facility for up to £85m. The financial covenants for the new facility are materially unchanged from the previous facility. There are two covenants, 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 2011 the interest cover covenant ratio was 15.3 (31 December 2010: 7.9). 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 new 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 certain non-cash items such as depreciation. At 31 December 2011 the leverage covenant ratio was 0.88 times (31 December 2010: 2.06). The gross amount drawn down at that date was £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 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 was substantially higher than in 2010 at £32.5m (2010: £17.1m).

During 2011 the trustees of the Management Consulting Group PLC Employee Benefit Trust purchased 4.6 million ordinary shares at a price of 33p per ordinary share for use in satisfying future awards under the Company's share plans, resulting in a cash outflow of £1.5m. Cash outflows as a result of dividend payments were £2.0m (2010: £nil).

Dividend

An interim dividend for the 2011 financial year of 0.20p per share was paid to shareholders on 6 January 2012. The directors recommend, subject to shareholder approval, a final dividend of 0.55p per share to be paid on 2 July 2012 to shareholders on the register at 18 May 2012. The recommended total dividend for the 2011 financial year is therefore 0.75p per share (2010: 0.45p 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

Read this report online
at **ar11.mcgreports.com**

-48%

Net debt down to £28.2m (2010: £54.4m)

+90%

Net cash generated by operations up to £32.5m (2010: £17.1m)

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 thepayment 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 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 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; 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.

Business review continued
Financial review continued

+12%

Revenue increased to £302.6m (2010: £270.4m)

+78%

Profit for the year increased to £16.4m (2010: £9.2m)

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 below.

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
7 March 2012

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

Nature of risk	Risk mitigation
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

Nature of risk	Risk mitigation
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

Nature of risk	Risk mitigation
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

Nature of risk	Risk mitigation
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

Nature of risk	Risk mitigation
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.

Board of Directors

Chairman **
A J Barber

Alan Barber, aged 64, 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. He is a non-executive director of JP Morgan Japanese Investment Trust PLC, Witan Pacific Investment Trust PLC and Impax Asian Environmental Markets PLC. He is a former non-executive director of lastminute.com PLC and Teather & Greenwood Holdings PLC and was a partner in KPMG's London office until 2004. He is a member of the Nominations Committee.

Chief Executive Officer
N S Stagg

Nicholas Stagg, aged 52, was appointed Executive Director on 21 October 2009 and Chief Executive with effect from 1 July 2010. He 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.

Finance Director
C J Povey

Chris Povey, aged 51, was appointed Finance Director on 31 October 2010 having previously been the Group's Head of Corporate Finance. He 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.

Non-Executive Director * # **
S A Ferriss

Stephen Ferriss, aged 66, joined the Board on 3 March 2006. He is a US citizen and resides in the US. He spent 17 years at Bank of America working in the United States of America 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 non-executive director of several privately owned companies. He is the Senior Independent Director and Chairman of the Nominations Committee and a member of the Audit and Risk Committee and Remuneration Committee.

Non-Executive Director
E Di Spiezio Sardo

Emilio Di Spiezio Sardo, aged 35, joined the Board on 18 June 2010. He 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$10 billion under management. Before that he worked for six years 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. 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.

Non-Executive Director * # **
A H Simon OBE

Andrew Simon, aged 66, joined the Board on 3 March 2006. He 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. 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. He is Chairman of the Remuneration Committee and a member of the Audit and Risk Committee and the Nominations Committee.

Executive Director
L H Carvalho

Luiz Carvalho, aged 54, was appointed an Executive Director on 19 March 2008. He 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.

Executive Director
C Mahjoub

Chiheb Mahjoub, aged 48, was appointed an Executive Director on 10 November 2009 and is Chief Executive of Kurt Salmon having previously been Chief Executive of Ineum Consulting. He 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.

Non-Executive Director * **
M Capello

Marco Capello, aged 51, joined the Board on 18 June 2010. He 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. 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. He is a member of the Remuneration Committee and the Nominations Committee.

Non-Executive Director * # **
J D Waldron

Julian Waldron, aged 47, joined the Board on 8 October 2008. He is a UK citizen residing in France. He 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 Chairman of the Audit and Risk Committee and a member of the Remuneration Committee and the Nominations Committee.

Company Secretary
C W Ansley

Charles Ansley, aged 61, was appointed Company Secretary in April 2007, having joined the Group in 2001. He graduated in Law at the University of Sheffield and subsequently worked in the London office of KPMG. He is a qualified Chartered Accountant.

*
Member of the Remuneration Committee

#
Member of the Audit and Risk Committee

**
Member of the Nominations Committee

Directors' report

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 2011. These will be laid before the shareholders at the Annual General Meeting on 19 April 2012.

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 2011, 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 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 2011 amounted to £23,151,000 (2010: £14,328,000).

Dividends

An interim dividend of 0.20p per share was paid on 6 January 2012. The directors recommend the payment of a final dividend of 0.55p (2010: interim dividend of 0.15p; final dividend of 0.30p) per share to be paid on 2 July 2012 to shareholders on the register on 18 May 2012.

Directors

The names and brief biographical details of the current directors are shown on pages 22 and 23. During 2011 Mr Barber, Mr Stagg, Mr Povey, Mr Carvalho, Mr Mahjoub, Mr Capello, Mr Ferriss, Mr Di Spiezio Sardo, Mr Simon and Mr Waldron held office throughout the year. Mr Lopinto and Baroness Cohen stood down as directors on 19 April 2011 and Mr Wietecha stood down on 30 September 2011.

The Articles require that only one third of the directors shall retire by rotation at the Annual General Meeting together with any directors appointed since the last Annual General Meeting. However, the Board has agreed that directors should stand for re-election every year and, accordingly, all the directors will retire from the Board at the forthcoming Annual General Meeting and will offer themselves for re-election.

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.

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 2011 represents 29 days of average purchases during the year (2010: 31 days) for the Company and 31 days (2010: 29 days) for the Group.

Substantial share interests

As at 5 March 2012 (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	95,531,880	19.74
Schroders plc	22,118,725	4.95
Legal & General Group Plc	15,272,993	3.07

Overview

Business review

Governance

Financials

Capital structure

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

Corporate governance

Information on the Company's corporate governance is set out on pages 28 to 30.

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 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.

Directors' report continued

Corporate social responsibility continued

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 one of the Group's most important assets 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 Ethics 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 a 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 and where all employees are treated with dignity and respect.

Our ability to operate as a high-performing organisation depends on our inclusion of people who come from diverse backgrounds. 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 all of the Group's offices and has face to face meetings with the staff.

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 and political contributions

No political donations were made in 2011 or 2010. Charitable donations of £185,000 (2010: £30,000) 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 2011 the market value of work carried out for these charities totalled £17,000 (2010: £168,000).

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.

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 1.30pm on 19 April 2012 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.

By order of the Board

Charles Ansley
Company Secretary
7 March 2012

Registered office
10 Fleet Place
London EC4M 7RB

Corporate governance

Chairman's overview

The maintenance of effective corporate governance is a key priority for the Board. We have welcomed the recent changes in the UK Corporate Governance code and we were an early adopter of the annual re-election of all directors.

We have a diverse Board with representatives from a number of nationalities and a variety of business backgrounds. They bring a wide range of experience and knowledge to bear in developing strategy, challenging management and bringing fresh perspectives. Each year the Board holds certain of its meetings at its main business locations abroad, giving the Board the opportunity to meet local management. During the course of the year we reduced the size of the Board and improved the balance between executive and non-executive directors. 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 UK Corporate Governance Code ("the Code") and has taken various actions in light of its guidance. The Company has complied with the Code throughout the year.

Board of Directors

From 1 January 2011 until 19 April 2011 the Board comprised the non-executive Chairman, six executive directors and six non-executive directors. On 19 April 2011, Mr Lopinto stood down as an executive director and Baroness Cohen stood down as a non-executive director. On 30 September 2011, Mr Wietecha stood down as an executive director. Thus, from 20 April 2011 until 30 September 2011 there were five executive and six non-executive directors, and from 1 October 2011 until the year end, there were four executive directors and six 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 2011 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.

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

Board and Committee attendance 2011	Board meetings	Audit and Risk Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
A J Barber	6	—	—	2
M Capello	6	—	5	2
L H Carvalho	6	—	—	—
Baroness Cohen (stood down 19 April 2011)	2	1	2	1
S A Ferriss	6	5	5	2
M E Lopinto (stood down 19 April 2011)	1	—	—	—
C Mahjoub	6	—	—	—
C J Povey	6	—	—	—
E Di Spiezio Sardo	6	—	—	—
A H Simon	6	4	5	2
N S Stagg	6	—	—	—
J D Waldron	6	5	5	2
M Wietecha (stood down 30 September 2011)	4	—	—	—
Total meetings held	**6**	**5**	**5**	**2**

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.

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.

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.

The Board annually evaluates the performance of individual directors, the Board as a whole and its Committees. This review comprises structured interviews with each director carried out by the Company Secretary followed by the presentation of the results of this process to the Board and 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.

Operation of the Board

The Board meets regularly. Six meetings were held during 2011. All members of the Board are supplied, in advance of meetings, with appropriate information covering matters which are to be considered. The Chairman met throughout the course of the year with 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. As described below, the review of certain matters is delegated to Board Committees, which make recommendations to the Board in relation to those matters reserved for the Board as a whole.

Audit and Risk Committee

Details of the membership, role and operation of the Audit and Risk Committee are provided in the Report of the Audit and Risk Committee.

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 four independent non-executive directors until 19 April 2011 and three independent non-executive directors thereafter.

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.

Nominations Committee

The membership of the Committee during 2011 was:

— **Mr Stephen Ferriss** (Chairman, member since 2008)

— **Mr Alan Barber** (Member since 2005)

— **Baroness Cohen** (Member until 19 April 2011, member since 2003)

— **Mr Andrew Simon** (Member since 2006)

— **Mr Julian Waldron** (Member since 2009)

— **Mr Marco Capello** (Member since 18 June 2010)

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

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 2011.

Corporate governance continued

Remuneration Committee

Details of the membership, role and operation of the Remuneration Committee are provided in the Directors' Remuneration Report.

The Code recommends that the Committee should comprise at least two independent non-executive directors. The Committee comprised four independent and one non-independent non-executive directors from the beginning of the year until 19 April 2011 and three independent and one non-independent non-executive directors thereafter.

Relations with investors and the Annual General Meeting

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.

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 19 April 2012 is contained in the circular to shareholders.

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.

Report of the Audit and Risk Committee

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

Membership

During 2011 the membership of the Committee was:

— **Mr Stephen Ferriss** (Chairman until 19 April 2011, member since 2006)

— **Mr Julian Waldron** (Chairman from 20 April 2011, member since 2008)

— **Baroness Cohen** (Member until 19 April 2011, member since 2003)

— **Mr Andrew Simon** (Member since 2008)

Mr Ferriss is a banker and Mr Waldron is the chief financial officer of a French listed company. Both are considered to have recent and relevant financial experience. The profiles and qualifications of the Committee members are shown on pages 22 and 23. The Committee met five times during the year. The external auditor attended three of the meetings and the Committee met privately with them on one occasion.

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.

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 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 has considered the independence of the external auditor and is satisfied that independence has been maintained. 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. 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. It is policy 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 material permitted non-audit engagements. 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 reviewed the external audit plan proposed by the auditor and participated in the review of the quality of the service that they provided.

— **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.

Directors' remuneration report

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.

Unaudited information

The Remuneration Committee

During 2011 the membership of the Committee was:

- **Mr Andrew Simon** (Chairman, member since 2006)
- **Mr Marco Capello** (Member since 18 June 2010)
- **Baroness Cohen** (Member until 19 April 2011, member since 2003)
- **Mr Stephen Ferriss** (Member since 2008)
- **Mr Julian Waldron** (Member since 2008)

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. Fees for the non-executive directors are determined annually by the Board based on market information obtained from external surveys. The terms of reference for the Committee were last reviewed and updated in December 2010 and are available on the Group's website (www.mcgplc.com).

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 Corporation) is the independent adviser to the Remuneration Committee. Aon Corporation 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 which included the Remuneration Committee which deemed the operation of the Committee to be satisfactory.

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 scheme, 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.

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. 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 2012 salary review, the Committee has decided not to make any increases to executive directors' base salaries, but will review the Chief Executive's and Finance Director's base salaries on the anniversaries of their appointment.

Unaudited information continued

Annual bonus scheme

For 2011, 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 2011 was set at 26% above the actual result for 2010. The actual underlying profit from operations of the Group for 2011 amounted to £28.3m before non-recurring items and the amortisation of acquired intangible assets, an increase of £5.0m (22%) 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, 89.3%, 89.3% and 101.1% 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 14.4% 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 £327,900 for Mr Stagg, £218,600 for Mr Povey, and US$1,154,700 (£718,828) for Mr Carvalho.

The bonuses due within the second element, which are deferred for three years, are a cash bonus of US$156,733 (£97,570) and a share bonus of US$78,367 (£48,785) 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 €200,000 (£173,747) and a deferred bonus of €150,000 (£130,310) payable in shares, with vesting to occur on or around 31 May 2014, subject to his continued employment. Mr Wietecha, who was an employee of Kurt Salmon until October 2011, received a bonus of US$80,000 (£49,623) based on the principles used in that business. These bonuses have been reviewed by the Committee and agreed.

The Committee has agreed that the annual bonus cap of twice salary already applying to Mr Stagg, Mr Povey and Mr Carvalho should apply to all executive directors' annual bonuses.

For 2012, bonus arrangements will be broadly similar to those for 2011.

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").

There was a further scheme under which directors could participate, the Management Consulting Group PLC 1998 Executive Share Option Scheme (the "1998 Scheme"), which expired in the year. The 1998 Scheme (under which market value options are granted) was extended by the Extraordinary General Meeting held on 30 August 2006 to 18 June 2011 and it expired on that date. No awards were made to directors or staff under the 1998 Scheme during the year and no further awards will be made under the Scheme. All options issued under the scheme had lapsed by the end of the year.

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.

Directors' remuneration report continued

Unaudited information continued

Share incentives continued

The 2008 Performance Share Plan continued

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 vesting terms 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 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.

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 other than 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 Company's 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 were made to executive directors in respect of the financial year 2011 on 6 January 2012, within the plan's individual grant limit of 100% of salary, as follows:

	Number of shares
L H Carvalho	2,072,000
C Mahjoub	1,341,000
C J Povey	647,000
N S Stagg	971,000

These awards 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%.

Unaudited information continued

Share incentives continued

The 2008 Performance Share Plan continued

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 2011, there were awards outstanding over new shares under the 2008 Performance Share Plan of 12.4 million, comprising 2.5% 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. In addition, there are 0.3 million options that are not dilutive which were put in place as part of the Kurt Salmon Associates acquisition.

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. Mr Wietecha and Mr Lopinto had appointment letters in respect of their roles as directors of the Company which could be terminated with no notice. Mr Wietecha had, and Mr Lopinto has, employment contracts with Group companies which either party is able to terminate by giving four months' and three months' notice, respectively. Mr Lopinto'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
M E Lopinto	12 January 2010
C Mahjoub	17 December 2009
M Wietecha	18 March 2008

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.

Directors' remuneration report continued

Unaudited information continued

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 2011 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 2011. 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 Spiezio 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.

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:

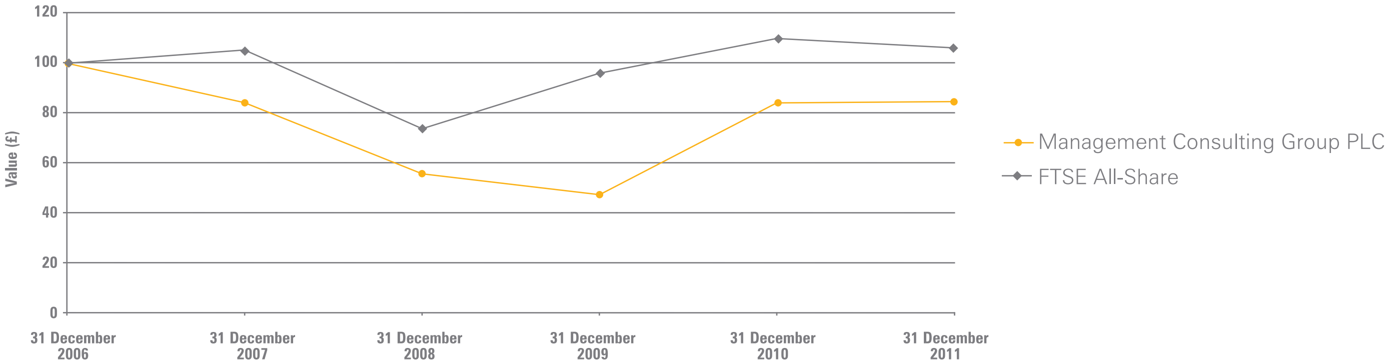
Director	Date of letter of appointment
A J Barber	25 May 2010
M Capello	27 May 2010
S A Ferriss	9 March 2009
E Di Spiezio Sardo	27 May 2010
A H Simon	7 August 2009
J D Waldron	9 October 2008

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).

TSR

Source: Datastream



This graph looks at the value, by the end of 2011, of £100 invested in Management Consulting Group PLC on 31 December 2006 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 2011 and year ended 31 December 2010 was as follows:

	Salaries and fees as directors £	Bonus[1] £	Benefits £	Pension contributions £	Total emoluments 2011 (or date of appointment if later) £	Total emoluments 2010 £
Executive						
L H Carvalho	622,524	718,828	14,763	6,848	**1,362,963**	764,508
C Mahjoub	434,368	173,747	—	—	**608,115**	430,093
C Povey	200,000	218,600	—	35,000	**453,600**	34,629
N S Stagg	300,000	327,900	36,929	52,500	**717,329**	452,062
M E Lopinto[2]	81,936	—	—	—	**81,936**	259,223
M Wietecha[3]	310,145	49,623	8,341	—	**368,109**	564,885
C H Smith[4]	—	—	—	—	**—**	652,985
Non-executive						
A J Barber	100,000	—	—	—	**100,000**	590,000
M Capello	—	—	—	—	**—**	—
S A Ferriss	45,000	—	—	—	**45,000**	45,000
E Di Spiezio Sardo	—	—	—	—	**—**	—
A H Simon	44,344	—	—	—	**44,344**	44,301
J Waldron	38,486	—	—	—	**38,486**	35,000
Baroness Cohen[5]	13,333	—	—	—	**13,333**	40,000
	2,190,136	1,488,698	60,033	94,348	**3,833,215**	3,912,686

1 Comprises the current bonuses payable. In addition there are deferred bonuses due to Mr Carvalho and Mr Mahjoub of US$235,100 (£146,355) and €150,000 (£130,310), respectively.

2 Stood down 19 April 2011

3 Stood down 30 September 2011

4 Stood down 31 October 2010

5 Stood down 19 April 2011

Interest in shares

The beneficial interests of the directors in office at 31 December 2011 in the ordinary share capital of the Company were as follows:

	7 March 2012	31 December 2011	31 December 2010
Executive			
L H Carvalho	**1,657,006**	1,293,694	1,032,669
C Mahjoub	**3,266,362**	3,266,362	3,860,322
C Povey	**32,000**	32,000	32,000
N Stagg	**674,154**	674,154	450,000
Non-executive			
A J Barber	**2,024,677**	2,024,677	1,675,829
M Capello	**—**	—	—
S A Ferriss	**367,451**	367,451	320,751
A H Simon	**62,937**	62,937	46,754
E Di Spiezio Sardo	**—**	—	—
J Waldron	**256,725**	256,725	175,000

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.

Directors' remuneration report continued

Audited information continued

Directors' remuneration continued

Interest in the 2008 Performance Share Plan

The interest of the directors in performance share awards in the Company in the year are set out in the table below:

Director	Date of grant	At 1 January 2011	Granted in year	Lapsed in year	At 31 December 2011 (or date of cessation if earlier)	Exercise price p	Date from which shares vest
L H Carvalho	3 June 2008	400,000	—	(400,000)	—	—	2 June 2011
M E Lopinto	3 June 2008	60,000	—	(60,000)	—	—	2 June 2011
C Mahjoub	3 June 2008	100,000	—	(100,000)	—	—	2 June 2011
M Wietecha	3 June 2008	250,000	—	(250,000)	—	—	2 June 2011
N S Stagg	20 May 2010	3,000,000	—	—	3,000,000	—	19 May 2013
C J Povey	3 June 2008	50,000	—	(50,000)	—	—	2 June 2011
C J Povey	22 December 2010	1,290,000	—	—	1,290,000	—	21 December 2013

The share prices on the dates of grant were 33.25p on 3 June 2008, 24.50p on 20 May 2010 and 31.00p on 22 December 2010. No performance share awards vested during the year.

As at both 1 January 2011 and 31 December 2011, Mr Carvalho held a deferred share bonus award over 363,312 shares which was awarded as part of the 2008 annual bonus. The award vested on 1 January 2012. There were no other deferred share bonus awards in existence as at 31 December 2011.

Except for the directors shown in the above tables no other director held share awards at 31 December 2011. 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 2011 was 30.5p and the range during 2011 was 27.8p to 45.5p.

Approval

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

Andrew Simon
Chairman of the Remuneration Committee
7 March 2012

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 7 March 2012. 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
7 March 2012

Chris Povey
Finance Director

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 2011 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' Responsibilities 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 2011 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.

Nicola Mitchell, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
7 March 2012

Group income statement
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Continuing operations			
Revenue	3	**302,559**	270,426
Cost of sales		**(198,128)**	(178,354)
Gross profit		**104,431**	92,072
Administrative expenses – underlying		**(76,084)**	(68,804)
Profit from operations – underlying		**28,347**	23,268
Administrative expenses – non-recurring other (net)	4	**(247)**	(2,569)
Profit from operations before amortisation of acquired intangibles		**28,100**	20,699
Administrative expenses – amortisation of acquired intangibles	10	**(2,642)**	(2,701)
Total administrative expenses		**(78,973)**	(74,074)
Profit from operations	3	**25,458**	17,998
Investment revenues	6a	**99**	132
Finance costs	6b	**(2,406)**	(3,802)
Profit before tax	4	**23,151**	14,328
Tax	7	**(6,720)**	(5,097)
Profit for the year attributable to owners of the Company		**16,431**	9,231
Earnings per share – pence			
From profit for the year attributable to owners of the Company			
Basic and diluted	9	**3.7**	2.4
Basic – underlying	9	**3.8**	3.5
Diluted – underlying	9	**3.7**	3.4

Group statement of comprehensive income
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Exchange differences on translation of foreign operations	20	**(3,789)**	(4,096)
Actuarial losses on defined benefit post-retirement obligations	17	**(1,881)**	(3,362)
(Loss)/gain on available-for-sale investments	20	**(183)**	309
Deferred tax	15	**(144)**	1,627
Other comprehensive expense for the period		**(5,997)**	(5,522)
Profit for the period		**16,431**	9,231
Total comprehensive income for the period attributable to owners of the Company		**10,434**	3,709

Group statement of changes in equity
for the year ended 31 December 2011

	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 2011	**83,997**	**71,390**	**32,513**	**2,386**	**(2,354)**	**32,829**	**6,412**	**(51,398)**	**175,775**
Profit for the period	—	—	—	—	—	—	—	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**
Balance at 1 January 2010	82,848	48,981	32,513	2,216	(1,153)	36,925	6,103	(56,921)	151,512
Profit for the period	—	—	—	—	—	—	—	9,231	9,231
Exchange differences	—	—	—	—	—	(4,096)	—	—	(4,096)
Actuarial movements	—	—	—	—	—	—	—	(3,362)	(3,362)
Profit on AFS investments	—	—	—	—	—	—	309	—	309
Tax on equity items	—	—	—	—	—	—	—	114	114
Tax on items recognised in Group statement of comprehensive income	—	—	—	—	—	—	—	1,627	1,627
Share-based payments	—	—	—	(1,260)	—	—	—	—	(1,260)
Transfer on nil vesting	—	—	—	1,430	—	—	—	(1,430)	—
Shares issued	1,149	24,144	—	—	—	—	—	—	25,293
Share issue expenses	—	(1,735)	—	—	—	—	—	—	(1,735)
Shares acquired by employee benefits trust	—	—	—	—	(1,475)	—	—	—	(1,475)
Shares transferred from employee benefits trust	—	—	—	—	274	—	—	—	274
Dividends	—	—	—	—	—	—	—	(657)	(657)
Balance at 31 December 2010	83,997	71,390	32,513	2,386	(2,354)	32,829	6,412	(51,398)	175,775

Group balance sheet
as at 31 December 2011

	Note	2011 £'000	2010 £'000
Non-current assets			
Intangible assets	10	274,275	276,923
Property, plant and equipment	11	3,061	2,846
Investments	12	2,856	3,183
Deferred tax assets	15	18,636	19,078
Total non-current assets		298,828	302,030
Current assets			
Trade and other receivables	13	72,875	76,589
Cash and cash equivalents	22	19,762	25,710
Total current assets		92,637	102,299
Total assets		391,465	404,329
Current liabilities			
Financial liabilities	16	—	(39,059)
Trade and other payables	14	(97,695)	(94,772)
Current tax liabilities	15	(15,066)	(12,630)
Total current liabilities		(112,761)	(146,461)
Net current liabilities		(20,124)	(44,162)
Non-current liabilities			
Financial liabilities	16	(47,921)	(41,050)
Retirement benefit obligations	17	(23,174)	(25,705)
Non-current tax liabilities	15	(5,256)	(7,040)
Long-term provisions	18	(7,615)	(8,298)
Total non-current liabilities		(83,966)	(82,093)
Total liabilities		(196,727)	(228,554)
Net assets		194,738	175,775
Equity			
Share capital	19	84,504	83,997
Share premium account	20	82,040	71,390
Merger reserve	20	32,513	32,513
Share compensation reserve	20	3,388	2,386
Shares held by employee benefits trust	20	(3,739)	(2,354)
Translation reserve	20	29,040	32,829
Other reserves	20	6,229	6,412
Retained earnings	21	(39,237)	(51,398)
Equity attributable to owners of the Company		194,738	175,775

The financial statements were approved by the Board of Directors and authorised for issue on 7 March 2012. They were signed on its behalf by:

Chris Povey

Chris Povey
Director

Group cash flow statement
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Net cash inflow from operating activities	22	**26,278**	10,426
Investing activities			
Interest received		**99**	132
Purchases of property, plant and equipment		**(1,084)**	(471)
Purchases of intangible assets		**(1,523)**	(1,592)
Proceeds on disposal of fixed assets		**—**	68
Purchase of financial assets		**(70)**	(21)
Proceeds on disposal of investments		**89**	214
Acquisition of subsidiaries		**(1,455)**	—
Net cash used in investing activities		**(3,944)**	(1,670)
Financing activities			
Interest paid		**(2,632)**	(2,554)
Dividends paid		**(1,999)**	—
Proceeds from borrowings		**19,045**	18,966
Repayment of borrowings		**(50,589)**	(48,545)
Proceeds from issue of shares		**10,572**	23,559
Share buy back		**(1,634)**	—
Net cash used in financing activities		**(27,237)**	(8,574)
Net (decrease)/increase in cash and cash equivalents		**(4,903)**	182
Cash and cash equivalents at beginning of year		**25,710**	23,965
Effect of foreign exchange rate changes		**(1,045)**	1,563
Cash and cash equivalents at end of year	22	**19,762**	25,710

Company balance sheet
as at 31 December 2011

	Note	2011 £'000	2010 £'000
Non-current assets			
Intangible assets	10	**548**	671
Property, plant and equipment	11	**734**	974
Investments	12	**241,759**	242,008
Deferred tax assets	15	**300**	300
Total non-current assets		**243,341**	243,953
Current assets			
Trade and other receivables	13	**42,198**	42,605
Cash and cash equivalents	22	**2,771**	916
Total current assets		**44,969**	43,521
Total assets		**288,310**	287,474
Current liabilities			
Trade and other payables	14	**(60,434)**	(64,883)
Total current liabilities		**(60,434)**	(64,883)
Net current liabilities		**(15,465)**	(21,362)
Non-current liabilities			
Long-term provisions	18	**(2,140)**	(2,894)
Total non-current liabilities		**(2,140)**	(2,894)
Total liabilities		**(62,574)**	(67,777)
Net assets		**225,736**	219,697
Equity			
Share capital	19	**84,504**	83,997
Share premium account	20	**82,040**	71,390
Merger reserve	20	**26,830**	26,830
Share compensation reserve	20	**3,388**	2,386
Shares held by employee benefits trust	20	**(3,739)**	(2,354)
Capital redemption reserve	20	**1,186**	1,186
Retained earnings	21	**31,527**	36,262
Equity attributable to owners of the Company		**225,736**	219,697

The financial statements were approved by the Board of Directors and authorised for issue on 7 March 2012. They were signed on its behalf by:

Chris Povey

Chris Povey
Director

Company number
1000608

Company statement of changes in equity
for the year ended 31 December 2011

	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 2011	**83,997**	**71,390**	**26,830**	**2,386**	**(2,354)**	**1,186**	**36,262**	**219,697**
Loss for the period	—	—	—	—	—	—	(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**
Balance at 1 January 2010	82,848	48,981	26,830	2,216	(1,153)	1,186	49,747	210,655
Loss for the period	—	—	—	—	—	—	(11,512)	(11,512)
Tax on equity items	—	—	—	—	—	—	114	114
Shares issued	1,149	24,144	—	—	—	—	—	25,293
Shares issue cost	—	(1,735)	—	—	—	—	—	(1,735)
Share-based payments	—	—	—	(1,260)	—	—	—	(1,260)
Transfer on nil vesting	—	—	—	1,430	—	—	(1,430)	—
Shares acquired by employee benefits trust	—	—	—	—	(1,475)	—	—	(1,475)
Shares transferred from employee benefits trust	—	—	—	—	274	—	—	274
Dividends	—	—	—	—	—	—	(657)	(657)
Balance at 31 December 2010	83,997	71,390	26,830	2,386	(2,354)	1,186	36,262	219,697

Company cash flow statement
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Net cash outflow from operating activities	22	**(1,622)**	(6,860)
Investing activities			
Interest received		—	131
Purchases of property, plant and equipment		(5)	(3)
Purchases of intangible assets		(25)	(61)
Cash advances from subsidiaries		32,804	19,453
Repayment of advances to subsidiaries		(37,234)	(20,041)
Dividends received		677	—
Net cash used in investing activities		**(3,783)**	(521)
Financing activities			
Interest paid		(534)	(595)
Dividends paid		(1,999)	—
Repayment of borrowings		—	(19,000)
Proceeds from issue of shares		10,572	23,559
Share buy back		(1,634)	—
Net cash raised in financing activities		**6,405**	3,964
Net increase/(decrease) in cash and cash equivalents		**1,000**	(3,417)
Cash and cash equivalents at beginning of year		**916**	3,632
Effect of foreign exchange rate changes		855	701
Cash and cash equivalents at end of year	22	**2,771**	916

Notes to the financial statements
for the year ended 31 December 2011

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 92. 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, in December 2011 the Group put in place a new borrowing facility, which runs until July 2016. The new facility is a fully revolving credit facility under which the Group can draw up to £85m. The financial covenants for the new facility are materially unchanged from the previous facility (referred to in note 23). At 31 December 2011, £47.9m was drawn on its 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 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 2011

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

IAS 24 (Revised November 2009) Related Parties Disclosures simplify 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.

Notes to the financial statements continued
for the year ended 31 December 2011

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 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 (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.

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.

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 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.

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.

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 policies 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.

2. Significant accounting policies continued

(a) Basis of preparation continued

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.

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 under-estimation 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.

Notes to the financial statements continued
for the year ended 31 December 2011

2. Significant accounting policies continued

(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 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.

(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.

2. Significant accounting policies continued

(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.

(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.

Notes to the financial statements continued
for the year ended 31 December 2011

2. Significant accounting policies continued

(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.

2010 cost of sales has been restated to include the impact of the cost of divisional share awards, consistent with 2011. For 2010 this has decreased cost of sales from £179.8m to £178.4m, increased gross profit from £90.6m to £92.1m and increased underlying administrative expenses from £67.4m to £68.8m.

(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.

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. Kurt Salmon was formed from the merger of Ineum Consulting and Kurt Salmon Associates with effect from 1 January 2011. The 2010 comparatives represent the aggregation of Ineum Consulting and Kurt Salmon Associates. 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 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**

Year ended 31 December 2010	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Revenue – continuing operations	96,480	158,819	15,127	270,426
Profit from operations before non-recurring expenses and amortisation of acquired intangibles	8,596	12,820	1,852	23,268
Non-recurring expenses and amortisation of acquired intangibles	(1,619)	(3,553)	(98)	(5,270)
Profit from operations	6,977	9,267	1,754	17,998
Investment income				132
Finance costs				(3,802)
Profit before tax				14,328

Notes to the financial statements continued
for the year ended 31 December 2011

3. Operating segments continued

(a) Geographical analysis continued
(ii) Net assets by geography

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

At 31 December 2010	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Assets				
Intangibles, including goodwill	117,016	159,906	—	276,922
Other segment assets	41,290	72,760	9,463	123,513
	158,306	232,666	9,463	400,435
Unallocated corporate assets				3,894
Consolidated total assets				404,329
Liabilities				
Segment liabilities	(99,139)	(108,489)	(6,636)	(214,264)
Unallocated corporate liabilities				(14,290)
Consolidated total liabilities				(228,554)
Net assets				175,775

(iii) Capital additions, depreciation and amortisation by geography

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

At 31 December 2010	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Capital additions	808	1,208	8	2,024
Unallocated corporate additions				23
Total capital additions				2,047
Depreciation and amortisation	2,314	3,346	60	5,720

3. Operating segments continued

(b) Revenue and underlying operating profit by operating segment

The two (2010: three) 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 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**

Year ended 31 December 2010	Alexander Proudfoot £'000	Ineum Consulting £'000	Kurt Salmon Associates £'000	Kurt Salmon £'000	Total £'000
Revenue – continuing operations	62,252	128,884	79,290	208,174	270,426
Underlying operating profit	4,898	9,188	9,182	18,370	23,268
Non-recurring expenses and amortisation of acquired intangibles					(5,270)
Operating profit					17,998
Investment income					132
Finance costs					(3,802)
Profit before tax					14,328

4. Profit before tax

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

	Note	2011 £'000	2010 £'000
Net foreign exchange (gains)/losses		**(48)**	112
Amortisation of intangible assets		**3,754**	4,198
Depreciation of property, plant and equipment		**817**	1,521
(Gain)/loss on disposal of fixed assets		**(56)**	19
Non-recurring items		**247**	2,569
Staff costs	5	**182,748**	166,552

Non-recurring items in 2011 comprise £4.4m in relation to Kurt Salmon merger expenses (2010: £2.3m), £1.1m in relation to property costs (2010: £2.2m), £0.2m of acquisition-related costs (see note 27) (2010: nil) and a £5.5m release in respect of a legal claim (2010: £3.0m). 2010 also included £1.1m in relation to redundancy and related expenses.

Notes to the financial statements continued
for the year ended 31 December 2011

4. Profit before tax continued

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

Auditor's remuneration	2011 £'000	2011 %	2010 £'000	2010 %
Fees payable to the Company's auditor for the audit of the Company's annual accounts	45	6	45	5
Fees payable to the Company's auditor and their associates for other services to the Group – The audit of the Company's subsidiaries	415	50	394	50
Total audit fees	460	56	439	55
Taxation compliance services	328	40	140	18
Corporate finance services	—	—	211	27
Other assurance services	35	4	—	—
Total non-audit fees	363	44	351	45
Total auditor's remuneration	823	100	790	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:

	2011 Number	2010 Number
Sales and marketing	102	96
Consultants	1,400	1,335
Support staff	244	253
	1,746	1,684

The number of Group employees at the year end was 1,741 (2010: 1,678).

The aggregate payroll costs of these persons were as follows:

	2011 £'000	2010 £'000
Wages and salaries	147,589	132,348
Social security costs	30,950	30,746
Other pension costs	4,209	3,458
	182,748	166,552

A charge of £109,000 (2010: £182,000) 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 22 (2010: 25) The payroll costs of the Company are £1,711,150 (2010: £3,046,219) for wages and salaries, £229,150 (2010: £349,670) for social security costs and £126,862 (2010: £159,379) for pension costs.

6a. Investment revenues

	2011 £'000	2010 £'000
Interest receivable on bank deposits and similar income	99	132
	99	132

6b. Finance costs

	Note	2011 £'000	2010 £'000
Interest payable on bank overdrafts and loans and similar charges		(2,193)	(3,468)
Finance costs on retirement benefit plans	17	(213)	(334)
		(2,406)	(3,802)

7. Tax

	2011 £'000	2010 £'000
Tax in respect of current year		
Foreign tax	12,016	7,323
Deferred tax – acquired intangible assets	(767)	122
Deferred tax – temporary differences and other	328	(1,800)
Deferred tax – tax losses	(362)	1,593
Deferred tax – US goodwill	264	270
Total deferred tax	(537)	185
Total current year tax	11,479	7,508
Prior year current taxation	(2,057)	(1,308)
Total tax expense on underlying profit	9,422	6,200
Tax in respect of items excluded from underlying profit:		
Foreign tax	(1,742)	(763)
Deferred tax – temporary differences and other	(960)	(340)
Total tax expense	6,720	5,097

UK corporation tax is calculated at 26.5% (2010: 28.0%) 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 2011 £'000	On non-recurring items and amortisation 2011 £'000	Total 2011 £'000	Total 2010 £'000
Profit before tax	26,260	(2,919)	23,341	14,328
Tax at the average rate applicable across the Group of 32% (2010: 34%)	8,456	(940)	7,516	4,827
Net tax effect of unrelieved losses	2,195	—	2,195	1,458
Overseas tax rate differences and irrecoverable withholding tax	3,351	(407)	2,944	320
Tax benefit of non-taxable income	—	(1,355)	(1,355)	(275)
Short term timing differences	(1,932)	—	(1,932)	(340)
Net tax effect of permanent differences and other non-recognised temporary differences	(591)	—	(591)	415
Relating to prior years	(2,057)	—	(2,057)	(1,308)
Tax expense/(credit)	9,422	(2,702)	6,720	5,097
Effective tax rate for the year	36%		29%	36%

The average tax rate applicable across the Group has decreased in the year to 32% (2010: 34%). This rate has been calculated at the rates prevailing in the jurisdictions where the Group operates.

Notes to the financial statements continued
for the year ended 31 December 2011

8. Dividends

	2011 £'000	2010 £'000
Amounts recognised as distributions to equity holders in the year		
Final dividend for the year ended 31 December 2010 of 0.30p per share (2009: nil)	1,317	—
Interim dividend for the year ended 31 December 2011 of 0.20p (2010: 0.15p) per share	962	657
	2,279	657

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 2011 (in respect of the interim dividend for the year ended 31 December 2011) was £25,046 (2010: £12,491).

The 2010 final dividend of 0.30p per share was paid on 6 July 2011.

The 2011 interim dividend of 0.20p per share was paid on 6 January 2012.

The directors propose a final dividend of 0.55p per share for the year ended 31 December 2011.

9. Earnings per share

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

Earnings	2011 £'000	2010 £'000
Earnings for the purposes of basic earnings per share and diluted earnings per share, being net profit attributable to owners of the Company	16,431	9,231
Non-recurring items	247	2,569
Amortisation of acquired intangibles	2,642	2,701
Taxation on non-recurring items and amortisation of acquired intangibles	(2,702)	(1,103)
Earnings for the purpose of basic earnings per share excluding non-recurring items and amortisation of acquired intangibles	16,618	13,398

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	441.5	384.4
Effect of dilutive potential ordinary shares:		
Performance share plan	8.3	5.0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	449.8	389.4

	p	p
Basic and diluted earnings per share for the year attributable to owners of the Company	3.7	2.4
Basic earnings per share – excluding non-recurring items and amortisation of acquired intangibles	3.8	3.5
Diluted earnings per share – excluding non-recurring items and amortisation of acquired intangibles	3.7	3.4

The average share price for the year ended 31 December 2011 was 35.5p (2010: 23.4p).

The weighted average number of the Company's ordinary shares used in the calculation of diluted profit per share in 2011 includes rights over 8,270,339 ordinary shares (2010: 1,881,123) and nil warrants (2010: 3,164,290).

10. Intangible assets

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

Notes to the financial statements continued
for the year ended 31 December 2011

10. Intangible assets continued

Group	Goodwill £'000	Customer relationships £'000	Software costs £'000	Total intangibles £'000
Cost				
At 1 January 2010	268,418	21,794	7,386	297,598
Additions	—	—	1,593	1,593
Disposals	—	—	(5,023)	(5,023)
Reclassifications	—	(3,008)	3,008	—
Exchange differences	(4,754)	(188)	457	(4,485)
At 31 December 2010	**263,664**	**18,598**	**7,421**	**289,683**
Amortisation				
At 1 January 2010	—	8,439	5,411	13,850
Charge for the year	—	2,701	1,497	4,198
Disposals	—	—	(4,467)	(4,467)
Reclassification	—	(2,123)	2,123	—
Exchange differences	—	(166)	(655)	(821)
At 31 December 2010	**—**	**8,851**	**3,909**	**12,760**
Carrying amount				
At 31 December 2010	**263,664**	**9,747**	**3,512**	**276,923**
At 31 December 2009	268,418	13,355	1,975	283,748

Company	Software costs £'000
Cost	
At 1 January 2010	200
Additions	61
Reclassification	572
At 31 December 2010	**833**
Amortisation	
At 1 January 2010	19
Charge for the year	143
At 31 December 2010	**162**
Carrying amount	
At 31 December 2010	**671**
At 31 December 2009	181

10. Intangible assets continued

Analysis of goodwill

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

Group	2011 £'000	2010 £'000
Cost		
Ineum Consulting		121,645
Kurt Salmon Associates		95,222
Kurt Salmon	217,638	216,867
Alexander Proudfoot	45,563	46,797
	263,201	263,664

Kurt Salmon was formed following the merger of Ineum Consulting and Kurt Salmon Associates with effect from 1 January 2011 and consequently now forms one CGU. The two merged businesses have been combined in the 2010 comparatives to be shown on the same basis as 2011. The goodwill associated with the acquisition of Vertical Retail Consulting Limited (note 27) has been added to the Kurt Salmon CGU on the basis that this business is managed as part of the Kurt Salmon division and trades under that name.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGU 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.

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. 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 7.65% for Kurt Salmon and 7.99% 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 2011 was significantly below the assessed recoverable amount. This was unchanged having taken into account reasonably possible changes in key assumptions.

Notes to the financial statements continued
for the year ended 31 December 2011

11. Property, plant and equipment

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

Fixtures, fittings and equipment	Group £'000	Company £'000
Cost		
At 1 January 2010	9,365	2,271
Additions	454	4
Exchange differences	31	—
Category transfer	(570)	(572)
Disposals	(397)	—
At 31 December 2010	**8,883**	**1,703**
Accumulated depreciation		
At 1 January 2010	4,860	484
Charge for the year	1,521	245
Exchange differences	14	—
Category transfer	(7)	—
Disposals	(351)	—
At 31 December 2010	**6,037**	**729**
Carrying amount		
At 31 December 2010	**2,846**	**974**
At 31 December 2009	4,505	1,787

12. Investments

Group	2011 £'000	2010 £'000
Cost		
At beginning of year	**3,183**	2,977
Additions	**65**	21
Disposals	**(357)**	(219)
Exchange differences	**(114)**	(163)
Revaluation	**79**	567
At end of year	**2,856**	3,183

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 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**
At 1 January 2010	235,530	649	236,179
Addition	—	7,835	7,835
Repayment of loans	—	(1,721)	(1,721)
Foreign exchange movement	—	(50)	(50)
Intercompany transfer	(107)	—	(107)
Provision	—	(128)	(128)
At 31 December 2010	235,423	6,585	242,008

Shares are stated net of provisions of £11,972,560 (2010: £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.

Notes to the financial statements continued
for the year ended 31 December 2011

13. Trade and other receivables

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Trade receivables – gross	49,068	50,867	—	—
Allowance for doubtful debts	(3,690)	(2,234)	—	—
Trade receivables – net	45,378	48,633	—	—
Amounts owed by Group undertakings	—	—	39,481	41,668
Other receivables	2,724	4,387	621	127
Taxation receivable	2,357	1,885	—	—
Prepayments and accrued income	22,416	21,684	2,096	810
	72,875	76,589	42,198	42,605

Debtor days at the year end were 41 days (2010: 44 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).

14. Trade and other payables

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Trade payables	5,909	6,011	1,407	496
Amounts owed to Group undertakings	—	—	54,373	61,240
Other taxes and social security	19,726	22,344	396	116
Other payables	3,070	1,324	(602)	736
Deferred income	11,766	9,860	—	—
Accruals	57,224	55,233	4,860	2,295
	97,695	94,772	60,434	64,883

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 31 days (2010: 29 days). The directors consider that the carrying amount of trade payables approximates to their fair value (see note 23).

15. Tax assets and liabilities

	Note	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Current tax					
Current tax receivable	13	2,357	1,885	—	—
Current tax liabilities		(15,066)	(12,630)	—	—
Non-current tax					
Deferred tax asset		18,636	19,078	300	300
Tax liabilities		—	(1,065)	—	—
Deferred tax liabilities		(5,256)	(5,975)	—	—

15. Tax assets and liabilities continued

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 2010	187	1,938	10,365	5,366	17,856
Reclassification	—	—	—	—	—
Foreign exchange	—	58	261	147	466
Recognised in Group statement of comprehensive income	—	1,627	—	—	1,627
Recognised direct to equity	113	—	—	—	113
Credit/(charge) to Group income statement	—	309	(1,690)	397	(984)
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	34	—	—	—	34
(Charge)/credit to Group income statement	—	(28)	362	(505)	(171)
At 31 December 2011	**334**	**3,754**	**9,322**	**5,226**	**18,636**

Group	Arising on acquisitions – intangibles £'000	Arising on acquisitions – other £'000	Profits taxable in future years £'000	Other £'000	Total £'000
Deferred tax liabilities					
At 1 January 2010	5,018	—	103	1,584	6,705
Foreign exchange	15	—	2	51	68
(Charge)/credit to Group income statement	(970)	—	(105)	277	(798)
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 31 December 2011	**3,102**	**—**	**—**	**2,154**	**5,256**

Notes to the financial statements continued
for the year ended 31 December 2011

15. Tax assets and liabilities continued

Of the total deferred tax assets recognised at 31 December 2011 totalling £18.6m, amounts of £9.3m (2010: £8.9m) are in respect of US tax losses and £8.2m (2010: £9.0m) 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 £10.1m (2010: £19.0m) has not been recognised at 31 December 2011.

A deferred tax asset of £nil (2010: £nil) has been recognised at 31 December 2011 in respect of tax losses arising in non-US jurisdictions. A deferred tax asset of £22.2m has not been recognised at 31 December 2011 in respect of non-US tax losses totalling £82.2m (2010: £77.2m). Based on the current tax rules in the respective jurisdictions, non-US losses are expected to expire as follows: £10.6m by the end of 2016, £5.1m by the end of 2021, £1.3m by the end of 2031, with the remaining £65.2m 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 against which the losses can be offset.

Additionally, the Group has not recognised potential deferred tax assets totalling £4.1m (2010: £6.6m) 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 2011 of £1.1m (2010: £0.9m) 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 2011	300
Recognised direct to equity	—
At 31 December 2011	**300**

16. Bank borrowings

Group

	2011 £'000	2010 £'000
Current: bank borrowings	—	39,059
Non-current: bank borrowings	**47,921**	41,050
Total borrowings	**47,921**	80,109

During 2011 borrowings denominated in US Dollars bore interest of US Dollar Libor plus 1.15% to 1.5% annually and borrowings denominated in Euros bore interest of Euribor plus 1.15% to 1.5% annually. In December 2011 the Group put in place a new 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.

	2011 £'000	2010 £'000
On demand or within one year	—	39,059
In the second year	—	41,050
In the third to fifth year	**47,921**	—
Total	**47,921**	80,109

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

	2011 £'000	2010 £'000
Six months or less	**47,921**	80,109

16. Bank borrowings continued

Group continued

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

	Carrying amount 2011 £'000	Carrying amount 2010 £'000	Fair value 2011 £'000	Fair value 2010 £'000
Bank borrowings	47,921	41,050	39,236	40,626

In 2010 the fair value of current borrowings was equal to their carrying amount, as the impact of discounting is not significant. There were no current borrowings in 2011. The fair values for non-current borrowings are based on cash flows discounted using a rate based on the borrowing rate of 4.07% for Euro and 4.09% for US Dollar (2010: 2.7% – both).

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

Currency	2011 £'000	2010 £'000
Euro	23,083	46,427
US Dollar	24,838	33,682
	47,921	80,109

The Group has the following undrawn borrowing facilities:

	2011 £'000	2010 £'000
Floating rate	35,785	50,295

Company

Current	2011 £'000	2010 £'000
Bank borrowings	—	—

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

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

Currency	2011 £'000	2010 £'000
Six months or less	—	—

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

Currency	2011 £'000	2010 £'000
Sterling	—	—

The Company has the following undrawn borrowing facilities:

	2011 £'000	2010 £'000
Floating rate	35,785	50,295

Amounts borrowed under the facility are guaranteed by the Company and other members of the Group (subject to local law guarantee limitations).

Notes to the financial statements continued
for the year ended 31 December 2011

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 £4,209,000 (2010: £3,458,000), representing contributions payable to these schemes by the Group at rates specified in the rules of the plans.

Defined benefit schemes
In the United States 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:

	2011 £'000	2010 £'000
US defined benefit pension scheme	12,780	14,713
US post-retirement medical plan	3,346	4,143
French statutory obligation	1,185	960
German obligation	5,863	5,889
	23,174	25,705

A 1% change in the discount rates used in calculating the above obligations is estimated to affect the total retirement benefit obligation by £7,400,000 (2010: £7,300,000). The cumulative amount of other gains and losses recognised in the other comprehensive income since the date of transition to IFRS is £20,300,000 (2010: £19,200,000).

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:

	2011 %	2010 %
Expected long term return on scheme assets	7.39	8.00
Discount rate	4.83	5.25
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 2012 are £2,635,000.

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

	2011 £'000	2010 £'000
US defined benefit pension scheme		
Expected return on pension scheme assets	2,728	2,567
Interest on pension scheme liabilities	(2,477)	(2,679)
	251	(112)
US medical benefits plan		
Interest on plan liabilities	(202)	(222)
Net finance charge	(49)	(334)

Actuarial gains and losses have been reported in the Group statement of comprehensive income. The actual return on scheme assets was £1,744,714 (2010: £4,176,687).

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	2011 £'000	2010 £'000
Present value of defined benefit obligations		(55,448)	(54,540)
Fair value of scheme assets		39,322	35,684
Liability recognised in the balance sheet		(16,126)	(18,856)
Defined benefit pension scheme	(17)(e)(i)	(12,780)	(14,713)
Medical benefit plan	(17)(e)(ii)	(3,346)	(4,143)
		(16,126)	(18,856)

(c) Movements in balance sheet amounts

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

	2011 £'000	2010 £'000
Opening defined benefit obligation	(54,540)	(48,986)
Interest cost	(2,679)	(2,901)
Actuarial loss	(823)	(4,875)
Contributions by participants	(80)	(71)
Exchange differences	(198)	(46)
Benefits paid	2,872	2,339
Closing defined benefit obligation	(55,448)	(54,540)

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

	2011 £'000	2010 £'000
Opening fair value of plan assets	35,684	32,621
Expected return	2,728	2,567
Actuarial (loss)/gain	(984)	1,609
Contributions by employer/participants	4,521	1,348
Exchange differences	245	341
Benefits paid	(2,872)	(2,802)
Closing fair value of plan assets	39,322	35,684
Net retirement benefit obligations	(16,126)	(18,856)

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

	Expected return %	2011 £'000	Expected return %	2010 £'000
Equities	8.20	26,345	9.00	24,680
Bonds	3.90	12,743	5.50	10,783
Cash	2.50	234	3.00	221
	7.39	39,322	8.00	35,684

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

Notes to the financial statements continued
for the year ended 31 December 2011

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:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Present value of defined benefit obligations	**(52, 102)**	(50,398)	(45,104)	(44,996)	(33,091)
Fair value of scheme assets	**39,322**	35,685	32,621	31,242	30,848
Deficit in the scheme	**(12,780)**	(14,713)	(12,483)	(13,754)	(2,243)
Experience adjustments on scheme liabilities					
Amount	**(1,568)**	(4,657)	(2,431)	(85)	(470)
Percentage of scheme liabilities	**(3)%**	(9)%	(5)%	0.2%	1.4%
Experience adjustments on scheme assets					
Amount	**(983)**	(1,609)	2,464	(12,950)	102
Percentage of scheme assets	**(2)%**	(4)%	(8)%	41.5%	0.3%

The estimated amount of contributions expected to be paid to the scheme during the current financial year is £3.9m.

(ii) Unfunded US medical benefit plan

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

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Present value of plan liabilities	**(3,346)**	(4,143)	(3,882)	(933)	(756)
Experience adjustments of plan liabilities	**(745)**	(217)	1	1	—
Percentage of plan liabilities	**(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:

	2011	2010
Rate of increase in salaries	**3–6%**	3–6%
Discount rate	**4.7%**	4.6%

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

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

17. Retirement benefit obligations continued

Defined benefit schemes continued

French schemes continued

(f) Unfunded French retirement obligation continued

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

	2011 £'000	2010 £'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:

	2011 £'000	2010 £'000
Present value of defined benefit obligations	(1,185)	(960)
Fair value of scheme assets	—	—
Liability recognised in the balance sheet	(1,185)	(960)

(iii) Movements in balance sheet amounts

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

	2011 £'000	2010 £'000
At start of year	(960)	(948)
Service cost	(217)	(28)
Interest cost	—	—
Actuarial loss	(81)	(110)
Employer contribution	39	83
Foreign exchange difference	34	43
Closing defined benefit obligation	(1,185)	(960)

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:

	2011	2010
Rate of increase in salaries	4%	3.5%
Mortality table	Heubeck 2005 G	Heubeck 2005 G
Discount rate	5.2%	4.5%

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:

	2011 £'000	2010 £'000
Interest on liabilities	(261)	(321)

Notes to the financial statements continued
for the year ended 31 December 2011

17. Retirement benefit obligations continued

Defined benefit schemes continued
German schemes continued
(g) **Unfunded German retirement obligation** continued
(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:**

	2011 £'000	2010 £'000
Present value of defined benefit obligations	(5,863)	(5,889)
Fair value of scheme assets	—	—
Liability recognised in the balance sheet	(5,863)	(5,889)

(iii) Movements in balance sheet amounts
Changes in the present value of the German defined benefit obligation are as follows:

	2011 £'000	2010 £'000
At 1 January	(5,889)	(5,935)
Service cost	(171)	(171)
Interest cost	(262)	(321)
Actuarial gain	4	15
Benefit paid	294	260
Foreign exchange	161	263
Closing defined benefit obligation	(5,863)	(5,889)

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

(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:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Present value of plan liabilities	(5,863)	(5,889)	(5,935)	(5,557)	—
Experience adjustments of plan liabilities	(264)	(485)	(288)	(216)	—
Percentage of the plan liabilities	(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:

	2011 %	2010 %
Expected long term return on scheme assets	4.7	5.4
Discount rate	4.7	5.4

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

17. Retirement benefit obligations continued

Defined benefit schemes continued

UK schemes continued

(h) UK retirement obligation continued

At 31 December 2011 and 31 December 2010 there are no amounts recognised in finance costs in respect of the UK post-retirement scheme.

At 31 December 2011 and 31 December 2010 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:

	2011 £'000	2010 £'000
Present value of defined benefit obligations	(3,700)	(4,200)
Fair value of scheme assets	3,800	4,300
Provision	(100)	(100)
Asset recognised in the balance sheet	—	—

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

	2011 £'000	2010 £'000
Opening defined benefit obligation	(4,200)	(4,300)
Interest cost	(200)	(200)
Benefits paid	500	600
Actuarial gain/(loss)	200	(300)
Closing defined benefit obligation	(3,700)	(4,200)

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

	2011 £'000	2010 £'000
Opening fair value of plan assets	4,300	4,400
Expected return	200	200
Benefits paid	(500)	(600)
Actuarial (loss)/gain	(200)	300
Closing fair value of plan assets	3,800	4,300

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

	Expected return %	2011 £'000	Expected return %	2010 £'000
Equities	4.7	3,800	5.4	4,300

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

Notes to the financial statements continued
for the year ended 31 December 2011

17. Retirement benefit obligations continued

Defined benefit schemes continued
UK schemes continued
(h) UK retirement obligation continued
(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:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Present value of plan liabilities	**(3,700)**	(4,200)	(4,300)	(3,700)	—
Fair value of scheme assets	**3,800**	4,300	4,400	3,800	—
Experience adjustments on scheme assets	**(200)**	300	(500)	900	—
Percentage of scheme assets	**(5)%**	7%	(12)%	24%	—
Experience adjustments of plan liabilities	**200**	(300)	(500)	900	—
Percentage of the plan liabilities	**5%**	(7)%	12%	(24)%	—

18. Long term provisions

	Group £'000	Company £'000
At 1 January 2011	8,298	2,894
Utilised	(1,745)	(754)
Charge	1,078	—
Released	(55)	—
Foreign exchange movement	39	—
At 31 December 2011	**7,615**	**2,140**

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

	2011 £'000	2010 £'000
Issued and fully paid:		
497,050,995 (2010: 446,362,638) shares of 1p each	**4,970**	4,463
331,390,961 (2010: 331,390,961) deferred shares of 24p each	**79,534**	79,534
	84,504	83,997

Shares issued in the year were:

	24p shares Number	1p shares Number	Nominal value £'000
At 1 January 2011	331,390,961	446,362,638	83,997
Issue of new shares	—	200,374	2
Warrants exercised	—	50,487,983	505
At 31 December 2011	**331,390,961**	**497,050,995**	**84,504**

The allotment of 2,657,652 shares in respect of warrants exercised by 31 December 2011 was not completed until after the year end.

19. Share capital continued

(a) Called up share capital continued

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).

200,374 options were exercised during the year (2010: no options were exercised).

50,487,983 warrants were exercised in the period ended 31 December 2011 (2010: 1,245,945) at an exercise price of 22p.

An expense of £1,718,000 (2010: £170,000) has been recognised in the period in respect of share awards. The cumulative share compensation reserve at 31 December 2011 is £3,388,000 (2010: £2,386,000). The weighted average fair value of awards granted in the year was 25.78p (2010: 12.52p).

(b) Share options

Option grant date	Number of shares under option	Exercise price p	Weighted average price p	Exercisable not earlier than
Replacement options on KSA acquisition				
October 2007	288,995	30.97 – 31.09	31.0	April 2012

The number of options outstanding at the previous year end over new ordinary shares was 2,465,043 with a weighted average price of 28.05p.

During the year, options, with a weighted average price of 29.73p, over 1,769,095 new ordinary shares lapsed. Share options under the 1998 Scheme expire ten years after the date of grant.

The following options lapsed during the year, due to performance conditions not being met:

Date of lapse	Number of options lapsed over unissued shares	Number of options lapsed over issued shares
11 August 2011	742,400	255,000
1 September 2011	885,000	—

The following options lapsed during the year, having not been exercised during the prescribed period:

Date of lapse	Number of options lapsed over unissued shares	Number of options lapsed over issued shares
27 July 2011	141,695	—

The above amounts exclude options over nil shares (2010: 245,000 shares) which are already in issue and are owned by an employee trust.

The 1998 Scheme (under which market value options are granted) was extended by the Extraordinary General Meeting held on 30 August 2006 and expired on 18 June 2011.

Notes to the financial statements continued
for the year ended 31 December 2011

19. Share capital continued

(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 38.

	Number of shares granted/ brought forward	Lapses/leavers	Number of shares under award at 31 December 2011	Exercisable not earlier than
Outstanding at 1 January 2011	4,290,000	—	**4,290,000**	May–December 2013
May 2011	7,250,000	(1,750,000)	**5,500,000**	May 2014
June 2011	822,000	—	**822,000**	June 2014
August 2011	550,000	—	**550,000**	August 2014
December 2011	1,750,000	—	**1,750,000**	December 2014
Outstanding at 31 December 2011			**12,912,000**	

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.

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

	May 2011	June 2011	August 2011	December 2011
Fair value of award	15.71p	23.47p	14.00p	13.75p
Share price on date of grant	42.13p	42.25p	40.00p	30.50p
Expected life	3 years	3 years	3 years	3 years
Expected volatility	51.13%	51.29%	51.07%	47.45%
Risk free rate	1.03%	1.18%	1.15%	0.38%
Expected dividend yield	1.07%	1.07%	1.13%	1.64%

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 2011	Share price on award	Exercisable not earlier than
January 2011	2,875,000	(575,000)	**2,300,000**	30.00p	January 2014
January 2011	396,603	—	**396,603**	29.75p	January 2012
May 2011	6,915,000	(1,060,300)	**5,854,700**	36.25p	May 2014
September 2011	737,500	—	**737,500**	40.25p	September 2014
December 2011	5,400,000	—	**5,400,000**	30.50p	December 2014
Outstanding at 31 December 2011			**14,688,803**		

The fair value of restricted awards made in the year takes into account an expected dividend of 0.45p 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 2010	48,981	32,513	2,216	(1,153)	36,925
Currency translation differences	—	—	—	—	(4,096)
Share-based payments	—	—	(1,260)	—	—
Transfer on nil vesting	—	—	1,430	—	—
Shares issued	24,144	—	—	—	—
Share issue expenses	(1,735)	—	—	—	—
Shares acquired by employee benefits trust	—	—	—	(1,475)	—
Shares transferred from employee benefits trust	—	—	—	274	—
At 31 December 2010	71,390	32,513	2,386	(2,354)	32,829
Currency translation differences	—	—	—	—	(3,789)
Share-based payments	—	—	1,002	—	—
Shares issued	10,650	—	—	—	—
Share issue expenses	—	—	—	—	—
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**

Group	Statutory reserves of subsidiary undertakings £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Total other reserves £'000
At 1 January 2010	5,878	1,186	(961)	6,103
Gain on available-for-sale investments	—	—	309	309
At 31 December 2010	5,878	1,186	(652)	6,412
Loss on available-for-sale investments	—	—	(183)	(183)
At 31 December 2011	**5,878**	**1,186**	**(835)**	**6,229**

Notes to the financial statements continued
for the year ended 31 December 2011

20. Equity continued

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
Currency translation differences	—	—	—	—	—
Share option charge	—	—	—	—	—
Transfer on nil vesting	—	—	—	—	—
Shares issued	10,650	—	1,002	—	—
Share-based payment	—	—	—	—	—
Share issue costs	—	—	—	—	—
Shares acquired by employee benefits trust	—	—	—	(1,647)	—
Shares transferred from employee benefits trust	—	—	—	262	—
At 31 December 2011	**82,040**	**26,830**	**3,388**	**(3,739)**	**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 12,418,192 shares (2010: 8,327,938). The value of these shares held in reserves is £3,738,821 (2010: £2,353,098).

21. Retained earnings

	Note	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
At 1 January		**(51,398)**	(56,921)	**36,262**	49,747
Net profit/(loss) for the year		**16,431**	9,231	**(2,456)**	(11,512)
Dividends		**(2,279)**	(657)	**(2,279)**	(657)
Actuarial loss related to retirement benefit schemes		**(1,881)**	(3,362)	**—**	—
Tax on items taken directly to equity		**(110)**	1,741	**—**	114
Reclassification from share compensation reserve	20	**—**	(1,430)	**—**	(1,430)
At 31 December		**(39,237)**	(51,398)	**31,527**	36,262

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 £2,456,000 (2010: £11,512,000) dealt with in the financial statements of the Company.

22. Notes to the cash flow statement

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Profit/(loss) from operations	**25,458**	17,998	**(3,151)**	(11,487)
Adjustments for:				
Depreciation of property, plant and equipment	**817**	1,521	**243**	245
Amortisation of intangible assets	**3,754**	4,198	**148**	142
Provisions against subsidiary investments	**—**	—	**1,152**	7,523
(Loss)/profit on disposal of plant and equipment	**(56)**	19	**—**	—
Additional pension funding	**(2,789)**	—	**—**	—
Share awards	**1,719**	(1,260)	**1,719**	(1,260)
(Decrease)/increase in provisions	**(629)**	2,250	**(754)**	2,894
Other non-cash items	**(1,221)**	(1,389)	**—**	(1,389)
Operating cash flows before movements in working capital	**27,053**	23,337	**(643)**	(3,332)
(Increase)/decrease in receivables	**(430)**	1,530	**(2,932)**	229
Increase/(decrease) in payables	**5,879**	(7,761)	**1,953**	(3,757)
Cash generated/(absorbed) by operations	**32,502**	17,106	**(1,622)**	(6,860)
Income taxes paid	**(6,224)**	(6,680)	**—**	—
Net cash inflow/(outflow) from operating activities	**26,278**	10,426	**(1,622)**	(6,860)

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	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Cash at bank and in hand	**15,250**	22,121	**2,771**	916
Cash equivalents	**4,512**	3,589	**—**	—
Cash and cash equivalents	**19,762**	25,710	**2,771**	916

23. Financial instruments

Capital structure and 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. 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 drawdowns. Drawdowns under the old multi-currency facilities allowed for interest maturities of up to six months in US Dollars and Euros and other major currencies. The Group's term loan was drawn down in US Dollars and Euros to provide a natural hedge against the Group's US Dollar and Euro earnings. The Group's working capital facilities were drawn down in Euros, US Dollars and Sterling, the three major currencies in which the Group operates. The old bank facilities had two financial covenants, Group net debt and Group interest cover, with which the Group has complied throughout the year. 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 new facility is a fully revolving multi-currency credit facility for up to £85m which is subject to the same two financial covenants. 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.

Notes to the financial statements continued
for the year ended 31 December 2011

23. Financial instruments continued

Capital structure and treasury policies continued
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:

	2011		2010	
	Average	Closing	Average	Closing
£1 = US Dollar	1.61	1.54	1.55	1.55
£1 = Euro	1.15	1.19	1.16	1.16

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

Currency	2011 Floating rate £'000	2010 Floating rate £'000
Financial assets		
Sterling	3,619	614
US Dollar	3,691	2,053
Euro	9,747	15,090
Other	2,705	7,953
Cash and cash equivalents	19,762	25,710
Euro	1,135	1,322
US Dollar	1,721	1,861
Investments	2,856	3,183
Sterling	8,484	4,026
US Dollar	16,691	20,635
Euro	41,780	48,418
Other	5,920	3,510
Trade and other receivables	72,875	76,589
Financial liabilities		
Sterling	(31,837)	(19,811)
US Dollar	(14,445)	(24,661)
Euro	(25,860)	(42,303)
Other	(25,553)	(7,997)
Trade and other payables	(97,695)	(94,772)

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.

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 2011 £'000	Carrying amount 2010 £'000
Available-for-sale financial assets	**2,856**	3,183
Cash and cash equivalents	**19,762**	25,710
	22,618	28,893

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

	Carrying amount 2011 £'000	Carrying amount 2010 £'000
Europe	**29,869**	34,277
United States	**8,463**	13,677
Rest of the World	**4,434**	679
United Kingdom	**2,612**	—
	45,378	48,633

The Group's most significant customer accounts for 4% of the trade receivables carrying amount at 31 December 2011 (2010: 7%).

	2011 £'000	2010 £'000
Not past due	**25,784**	28,894
Past due 0–30 days	**10,810**	10,531
Past due 31–120 days	**8,784**	9,208
	45,378	48,633

The credit quality of trade receivable 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 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)**	**—**	**—**	**—**	**—**	**(60,208)**
Trade and other payables	**(97,695)**	**(97,695)**	**(97,695)**	**—**	**—**	**—**
	(145,616)	**(97,695)**	**(97,695)**	**—**	**—**	**(60,208)**

31 December 2010	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	(80,109)	(82,772)	(26,368)	(14,551)	(41,853)	—
Trade and other payables	(94,772)	(94,772)	(94,772)	—	—	—
	(174,881)	(177,544)	(121,140)	(14,551)	(41,853)	—

Notes to the financial statements continued
for the year ended 31 December 2011

23. Financial instruments continued

Currency risk

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

	31 December 2011		31 December 2010	
	€'000	$'000	€'000	$'000
Trade receivables	31,394	9,891	32,674	12,932
Bank loans	(23,083)	(24,838)	(46,427)	(33,682)
Trade payables	(2,345)	(880)	(3,123)	(1,382)
Gross balance sheet exposure	5,966	(15,827)	(16,876)	(22,132)
Notional current year sales	149,715	79,705	88,172	136,457
Notional current year purchases	(95,980)	(48,792)	(96,565)	(56,038)
Gross and net exposure	53,735	30,913	(8,393)	80,419

Sensitivity analysis

A 10% strengthening of Sterling against the following currencies at 31 December 2011 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 2010.

	Equity £'000	Profit or loss £'000
2011		
US Dollar	4,547	(417)
Euro	(638)	(954)
2010		
US Dollar	12,520	(633)
Euro	(969)	(692)

A 10% weakening of Sterling against the above currencies at 31 December 2011 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	
Fixed rate instruments	2011 %	2010 %
Financial liabilities of less than six months	—	2.5
Financial liabilities of 1–2 years	—	2.5
Financial liabilities of 2–5 years	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.

23. Financial instruments continued

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 2011		31 December 2010	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Available-for-sale financial assets	2,856	2,856	3,183	3,183
Cash and cash equivalents	19,762	19,762	25,710	25,710
Bank loans	(47,921)	(46,043)	(80,109)	(79,685)
Trade and other payables	(97,695)	(97,695)	(94,772)	(94,772)

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

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

Currency	2011 Floating rate £'000	2010 Floating rate £'000
Financial assets		
Sterling	1,309	203
US Dollar	6	1
Euro	1,456	712
Cash and cash equivalents	2,771	916
Sterling	21,282	17,877
US Dollar	20,277	20,704
Euro	639	2,766
Other	—	1,258
Trade and other receivables	42,198	42,605
Financial liabilities		
Sterling	(13,604)	(11,362)
US Dollar	(12,367)	(11,987)
Euro	(32,881)	(39,766)
Other	(1,582)	(1,768)
Trade and other payables	(60,434)	(64,883)

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
for the year ended 31 December 2011

23. Financial instruments continued

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	
	2011 £'000	2010 £'000
Cash and cash equivalents	**2,771**	916

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:

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

31 December 2010	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000
Non-derivative financial liabilities			
Trade and other payables	(64,883)	(64,883)	(64,883)
	(64,883)	(64,883)	(64,883)

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

	31 December 2011		31 December 2010	
	€'000	**$'000**	€'000	$'000
Intercompany receivables	**4,738**	**22,347**	2,766	20,704
Intercompany payables	**(32,881)**	**(12,373)**	(39,766)	(11,987)
Gross balance sheet exposure	**(28,143)**	**9,974**	(37,000)	8,717

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 2011 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 2010.

	Equity £'000	Profit or loss £'000
2011		
US Dollar	(587)	587
Euro	2,144	(2,144)
2010		
US Dollar	(792)	792
Euro	3,364	(3,364)

23. Financial instruments continued

Sensitivity analysis – Company continued

A 10% weakening of Sterling against the above currencies at 31 December 2011 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	
Fixed rate instruments	**2011 %**	2010 %
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 2011		31 December 2010	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Cash and cash equivalents	**2,771**	2,771	916	916
Trade and other payables	**(60,434)**	(60,434)	(64,883)	(64,883)

The basis for determining the bank loan fair value is disclosed in note 16.

24. Operating lease arrangements

Group	**2011 £'000**	2010 £'000
Minimum lease payments under operating leases recognised in the income statement for the year	**8,129**	8,840

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:

	2011		2010	
Group	**Land and buildings £'000**	**Other £'000**	Land and buildings £'000	Other £'000
Within one year	**7,529**	**125**	7,019	190
In the second to fifth years inclusive	**31,108**	**177**	23,302	377
After five years	**4,155**	**16**	8,438	—
	42,793	**318**	38,759	567

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.

Notes to the financial statements continued
for the year ended 31 December 2011

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:

Mr Julian Waldron, a director of the Company, is the Chief Financial Officer of Technip SA. During 2011 Kurt Salmon Consulting SAS provided consultancy services at fair market rates to Technip SA valued at £1,819,190 (2010: £609,036) and at year end there was a receivable from Technip SA of £374,821 (2010: £178,024).

During the year a loan of £132,500 was granted to a former director of the Group. The full balance was outstanding at 31 December 2011. The loan is interest free and repayable in full within three years.

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.

	2011 £'000	2010 £'000
Short term employee benefits	1,944	1,759
Post-employment benefits	—	—
	1,944	1,759

26. Principal subsidiary undertakings

At 31 December 2011, 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.

26. Principal subsidiary undertakings continued

Company
Amounts owed by/(owed to) subsidiary undertakings

	2011 £'000	2010 £'000
Alexander Proudfoot (Europe) Limited	10,231	20,727
Alexander Proudfoot Company of Europe Ltd	(7,452)	(7,452)
MCG Company No. 1 Limited	(7,882)	(7,719)
MCG Holdings Netherlands BV	45	24
Alexander Proudfoot Australia	(1,580)	(1,687)
Alexander Proudfoot Inc.	2	—
MCG US Holdings Inc.	(15,230)	(3,501)
Alexander Proudfoot – Serviços Empresariais LTDA	—	638
MCG Overseas Holdings Limited (UK)	30	30
Alexander Proudfoot Company	591	(718)
Alexander Proudfoot Kft	(17)	(17)
Management Consulting Group Overseas Limited	1,462	(922)
MCG Overseas Holdings BV	2	—
MCG Company No. 4 Limited	(7,541)	(23,386)
Proudfoot Company AG	(2,908)	(2,460)
Kurt Salmon US Inc.	1,823	216
Kurt Salmon UKI Limited	4,908	1,942
Ineum Consulting Pty Limited	—	270
KSA Head Office	17,274	16,942
Management Consulting Group SAS	4,621	(3,198)
Kurt Salmon Associés France SA	(131)	(2,987)
Cleversys SASU	(901)	—
Kurt Salmon France SAS	1,265	73
Kurt Salmon Belgium SA/BV	30	10
Kurt Salmon Luxembourg SA	200	100
Kurt Salmon Switzerland Sarl	(4)	—
Kurt Salmon GmbH	(5,475)	(2,638)
Kurt Salmon US Inc. (Japan Branch)	(52)	—
Kurt Salmon Associates AG	(1,866)	(3,769)
Alexander Proudfoot South Africa (Pty) Ltd	—	(91)
Ending balance	**(8,555)**	(19,573)

Notes to the financial statements continued
for the year ended 31 December 2011

26. Principal subsidiary undertakings continued

Company continued
Transactions with subsidiary undertakings

	2011 £'000	2010 £'000
Alexander Proudfoot (Europe) Limited	44	44
Alexander Proudfoot Company	(1,073)	(1,077)
Kurt Salmon UKI Limited	(483)	(570)
Ineum Consulting Pty Australia	—	(27)
Kurt Salmon US Inc.	(873)	(891)
Kurt Salmon France SAS	(1,440)	(1,340)
Kurt Salmon Belgium SA/BV	(58)	(58)
Kurt Salmon Luxembourg SA	(101)	(101)
Kurt Salmon Switzerland Sarl	48	(20)
Kurt Salmon Associates AG	—	59
Kurt Salmon Germany GmbH	140	60
Kurt Salmon Associates BV	—	(41)
Ineum Conseil et Associes SA	—	5
Cleversys SASU	(74)	—
Kurt Salmon US Inc. (Japan Branch)	(82)	—
(Income)/expense from transactions with subsidiary undertakings	(3,952)	(3,957)

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 provisional fair value to the Group:

	Acquisition IFRS £'000	Fair value adjustments £'000	Provisional 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)	(1,220)
Net assets/(liabilities)	**351**	**(1,045)**	**(694)**
Consideration given			2,781
Goodwill arising			3,475
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; and

(ii) recognition of potential tax exposures, contractual exposures and employee matters.

27 Acquisitions continued

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.

Net cash outflows in respect of the acquisition comprised cash paid on acquisition of £1.4m. The post-acquisition contribution of VRC to the Group was £0.8m to revenue, £0.1m to profit from operations and £0.1m to earnings before interest and tax. Had the acquisition been made on 1 January 2011 the Group's revenue for the period would have been £305.8m, profit from operations would have increased to £26.1m, and earnings before interest and tax would have been £26.0m.

Acquisition related costs amount to £0.2m and are included in non-recurring items (note 4).

Contacts for investors and clients

www.mcgplc.com

Registered office

10 Fleet Place
London EC4M 7RB
United Kingdom
Tel: +44 20 7710 5000
Fax: +44 20 7710 5001

Company number

1000608

Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Company Secretary

Charles Ansley
Charles.Ansley@mcgplc.com
London office: +44 20 7710 5000

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.

Enquiries should be directed to:

Nick Stagg, Chief Executive
Nick.Stagg@mcgplc.com or

Chris Povey, Finance Director
Chris.Povey@mcgplc.com
London office: +44 20 7710 5000

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	19 April 2012

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. The Financial Times Cityline service also provides this information on 0906 843 4677 (calls charged at 60p per minute).

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 +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).

Company advisers

Stockbrokers

Collins Stewart Europe Limited
88 Wood Street
London EC2V 7QR
United Kingdom

Oriel Securities Limited
150 Cheapside
London EC2V 6ET
United Kingdom

Financial advisers

N M Rothschild & Sons
New Court
St Swithins Lane
London EC4P 4DU
United Kingdom

Auditors

Deloitte LLP
2 New Street Square
London EC4A 3BZ
United Kingdom

Financial PR advisers

FTI Consulting
(formerly Financial Dynamics)
Holborn Gate
26 Southampton Buildings
London WC2A 1PB
United Kingdom

Commercial bankers

HSBC Bank Plc
8 Canada Square
London E14 5HQ
United Kingdom

Lloyds TSB Bank Plc
25 Gresham Street
London EC2V 7HN
United Kingdom

Barclays Bank PLC
1 Churchill Place
London E14 5HP
United Kingdom

Legal advisers

Baker & McKenzie LLP
100 New Bridge Street
London EC4V 6JA
United Kingdom

designed and produced by
the design portfolio marketing services.
www.design-portfolio.co.uk

MCG's commitment to environmental issues is reflected in this annual report which has been printed on Splendorgel Extra White, an FSC® Mix Certified paper, which ensures that all virgin pulp is derived from well-managed forests and other responsible sources.

This document was printed by Sterling using their environmental print technology, which minimises the impact of printing on the environment. Mineral-based inks have been used.

Management Consulting Group PLC

10 Fleet Place
London EC4M 7RB
United Kingdom

Tel: +44 20 7710 5000
Fax: +44 20 7710 5001

www.mcgplc.com