Management Consulting Group PLC

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Management Consulting Group PLC Interim Results

Lower half-year results set to be followed by stronger second half

Management Consulting Group PLC ("MCG" or "the Group"), the global professional services group, today announces its results for the half-year ended 30 June 2013. As indicated in March and July trading in the first half of 2013 has been softer than the prior year, but the second half revenue and profit performance is expected to be materially stronger.

Key points

- Revenue 16% lower at £123.4m (H1 2012: £146.8m)
- Underlying* operating profit 41% lower at £7.0m (H1 2012: £11.8m)
- Underlying* operating profit margin lower at 5.7% (H1 2012: 8.0%)
- Profit for the half-year of £1.9m (H1 2012: £4.1m restated)
- Alexander Proudfoot underlying operating profit margin lower at 3.1% (H1 2012: 11.8%) reflecting revenues which are 35% lower than the same period in 2012
- Kurt Salmon underlying operating profit margin maintained at 6.4% in spite of 7.5% reduction in revenue versus the same period in 2012
- Net debt increased to £51.7m, as previously guided (30 June 2012: £35.7m)
- Underlying basic earnings per share decreased to 0.7p (H1 2012: 1.1p restated)
- Interim dividend unchanged at 0.23p per share (2012: 0.23p)
- Current Alexander Proudfoot order book is at twice the level at the 2012 year end, and in both businesses is higher than at the same time last year

* Throughout this statement the term 'underlying' is defined as 'before non-recurring items and amortisation of acquired intangible assets'.

Nick Stagg, Chief Executive commented:

"As previously guided, our first half results reflect a reduced level of activity in Alexander Proudfoot, which started the year with a weak order book. Proudfoot's order input has however improved significantly in the last few months and the business is well placed to deliver a much better second half. Whilst Kurt Salmon's revenue performance in the first half was affected by continuing weakness

in the French market, elsewhere the performance of the business has been encouraging and it is well positioned for the second half. The Group remains in a strong financial position and we have a healthy order book and a good pipeline going into the second half of the year."

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Management Consulting Group PLC

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An analyst briefing will be held at the offices of FTI Consulting at Holborn Gate, 26 Southampton Buildings, London WC2A 1PB on 1 August at 9.30 am.

Notes to Editors

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

It comprises two independently managed practices: Alexander Proudfoot and Kurt Salmon. Alexander Proudfoot develops and implements operational improvements to its clients to increase productivity and reduce costs. Kurt Salmon provides consultancy services to a wide range of industries in both the private and public sectors. The Group operates worldwide. For further information, visit www.mcgplc.com.

Chairman's Statement

The performance of the Group in the first six months of 2013 has been affected by a reduced level of activity in the first half of the year in Alexander Proudfoot, which largely accounts for the 16% fall in Group revenues compared with the same period last year. The results also reflect the continuing impact of macroeconomic weakness on demand for Kurt Salmon’s services in the French market, although in other markets, in North America and Asia in particular, Kurt Salmon has made good progress. The second half has started well and is expected to be materially stronger than the first six months.

Alexander Proudfoot’s individual client engagements are usually on a substantial scale, and as a result there can be an inherent lumpiness in the revenues of the business from half-year to half-year. This year we have suffered from the low level of order input that was seen in the latter part of 2012 and in the early part of 2013, which has reduced first half revenues. I am pleased to report that the rate of order intake has increased significantly in the last few months and that the current order book level is more than twice that at the start of the 2013, providing a promising start to the second half of the year.

Kurt Salmon continues to face difficult conditions in France, and we will continue to manage our resource levels in the French business to match expected market demand. Elsewhere in Europe Kurt Salmon has made good progress so far this year, and in North America and Asia, where the business is mainly focused on the retail and consumer goods sector, it has performed well.

Much of the increase in net indebtedness at the half-year is attributable to the first half weakness in Alexander Proudfoot revenues, and we expect to reduce net debt significantly by the end of the year. The Group remains in a strong financial position and we have started the second half of the year with a healthy order book and pipeline of prospects.

Alan Barber
Chairman

Operating and financial review

Alexander Proudfoot

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. The annualised return on investment that clients obtain from working with Alexander Proudfoot is typically several times the cost of the project. It helps clients across a broad range of sectors and has a particularly strong expertise in the natural resources, financial services and manufacturing industries.

As anticipated, Alexander Proudfoot delivered a weak revenue performance in the first half of 2013, mainly reflecting the impact of a depressed order book position at the start of the year. Given the typically large scale of most of its individual client projects, with an average size of around £2m, there can be an inherent lumpiness in the revenues of the business over a shorter reporting cycle (from half-year to half-year), which may not be driven primarily by underlying market or business trends. So far in 2013 the rate of order intake has been significantly higher than in the second half of 2012 and as a result the current order book level is more than twice that at the start of the 2013, and higher than the same time in 2012. The weakness in the opening order book position and the subsequent improvement in order input have not been focused on a particular geography or sector. The order book position and the pipeline of prospects at this stage of the year across all key geographies provide a promising start to the second half of 2013, and point to a significantly stronger revenue performance over the rest of the year.

Projects in the natural resources sector have continued to represent a significant component of the total workload, although the proportion of revenues from this sector in the first half of 2013 was lower than in 2012 at approximately 30% of the total. The nature of the work in this sector has shifted somewhat as commodity prices have softened, from throughput/revenue related work to production efficiency/cost reduction. The business continues to find success across a range of other industries, with the financial services and manufacturing sectors being the most significant sources of revenue alongside natural resources clients. Alexander Proudfoot continues to operate very effectively in emerging markets, with business units now established in South Africa, Brazil, Chile and Hong Kong. In the first half of 2013, nearly 50% of total revenues related to work delivered outside North America and Western Europe, including projects in Peru, Brazil, South Africa, Gabon, Uganda, and Russia.

Alexander Proudfoot's revenue for the first half of 2013 was 35% lower than the same period in 2012 at £28.6m (H1 2012: £44.3m), and 33% lower than the preceding six month period (H2 2012: £42.5m). Underlying operating profit for the first half of 2013 was £0.9m compared with underlying operating profit in the first half of 2012 of £5.2m. The underlying operating profit margin was 3.1% compared with 11.8% in the first half of 2012.

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 internationally in certain key industry verticals and has a particular focus on 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's operations in North America, mainly focused on the retail and consumer goods sector, represent approximately one-third of the division as a whole, and have performed well in the first half of 2013. The US retail sector is showing more confidence this year and we have seen improved demand for our services, in particular in relation to the interaction of bricks and mortar and digital retail platforms. Our North American healthcare consulting practice continues to make good progress and has recently won a significant new project outside its core market, to advise on a hospital development in the Middle East. The US financial sector practice has also performed well in the first half.

In Asia the Kurt Salmon retail consulting operation in China, acquired in 2011, continues to make excellent progress, and our retail practice in Japan has seen improved demand as confidence has improved in the wake of a more expansionary fiscal policy adopted by the Japanese authorities.

Approximately 60% of Kurt Salmon's revenues are generated in Europe, with the largest operation being in France, which delivers around three quarters of the total European revenues for the division. Kurt Salmon in France is a leading player in the consulting market with a stable blue chip client base. A high proportion of its annual revenues are derived from clients who have been commissioning work from Kurt Salmon for many years. Growth in the French economy has stalled and business confidence has been damaged by the failure so far to implement long term restructuring initiatives. Clients are cautious and we have seen a trend towards commissioning smaller, multiple consulting projects over time, rather than single larger projects. This trading environment may persist for some time, and we will continue to adjust our resources to match expected demand, in what will remain an important and profitable market for Kurt Salmon, albeit one where growth remains very challenging.

Elsewhere in Europe the first half results have been encouraging, with a good performance in the retail consulting practices in Germany and the UK, and progress in the business units in Belgium, Luxemburg and Switzerland, which are more focused on the financial sector. Kurt Salmon is not exposed to weaker markets in Southern Europe.

Kurt Salmon's revenue for the first half of 2013 was £94.8m. This was £7.7m or 7.5% lower than the corresponding first half revenue in 2012 of £102.5m, and £1.7m or 1.8% lower than the second half revenue in 2012 of £96.5m. This reduction reflects the impact of the geographic and sector trends discussed above, but also the actions taken in the second half of 2012 to rationalise certain non-core underperforming practices. Underlying operating profit for the first half of 2013 was £6.1m representing a margin of 6.4%, in line with the margin reported in the first half of 2012.

Summary and outlook

Trading in the first six months of 2013 has been affected by the expected impact of a slow start to the year in Alexander Proudfoot and some continuing weakness in the Kurt Salmon business in France, which have contributed to a softer first half revenue and profit performance.

The momentum of order input in Proudfoot however has improved significantly in the last four months and the business appears well placed at this stage for a much better performance in the second half, with a current order book that is more than twice the level seen at the start of the year, and an encouraging pipeline of prospects.

The level of the Kurt Salmon order book and its pipeline of prospects are also encouraging at this stage of the year. We are taking further action to address the impact of the continuing weak economy in France, and elsewhere the Kurt Salmon business continues to perform well, both in the European operations outside France, and particularly in North America and Asia.

Our business continues to prosper in emerging markets and 15% of first half revenues came from work delivered outside North America and Western Europe. This is slightly lower than last year (2012: 18%) as a whole as a result of the lower proportion of Alexander Proudfoot revenues in the Group total.

As expected, the Group's net debt has increased at the half-year as a result of weaker revenue and cash generation, to £51.7m, but it remains at a comfortable level in relation to our overall bank facility and covenant requirements. The normal phasing of cash flows means that historically the second half of the year tends to see stronger cash generation and the Board continues to expect this to be the case in 2013.

Clients remain cautious, and we have yet to see signs of sustained growth in significant parts of the global economy. Some markets, France in particular, continue to be difficult. However, the Group has a well balanced and diverse business which is now showing positive signs for the second half trading performance in most of its markets. We will continue to focus on growth opportunities where they arise, including smaller bolt-on acquisitions where appropriate.

Exchange rates

The Group derives the majority of its revenue and operating profit and holds the majority of its assets and liabilities in Euros and US Dollars. Approximately half of the Group's revenues are typically denominated in Euros. The average exchange rates to Sterling used in the first half of 2013 were £1 = €1.18 (H1 2012: £1 = €1.21) and £1 = $1.55 (H1 2012: £1 = $1.58). The closing exchange rates to Sterling used in balance sheet translation at 30 June 2013 were £1 = €1.17 (H1 2012: £1 = €1.23) and £1 = $1.52 (H1 2012: £1 = $1.56*).*

Revenue

Revenue for the first half of 2013 was £123.4m, 16% below the corresponding figure for the previous year (H1 2012: £146.8m) and 11% below the revenue reported for the preceding 6 month period (H2 2012: £139.0m). Alexander Proudfoot recorded revenue of £28.6m, 35% lower than the same period in the previous year (H1 2012: £44.3m). Revenue from Kurt Salmon was £94.8m (H1 2012: £102.5m), a decrease of 7.5%.

Changes in exchange rates compared with 2012 have had a small net positive impact on reported revenues, principally as a result of a stronger Euro and US dollar increasing the Sterling value of revenue in these currencies, offset by some weakening in the South African Rand, Brazilian Real and Japanese Yen.

Revenue from Europe in the first half of 2013 was lower than the corresponding period in 2012 at £66.7m (H1 2012: £81.7m). Revenue from the Americas decreased to £47.8m (H1 2012: £53.9m) and in the Rest of World revenue decreased to £8.9m (H1 2012: £11.3m). This analysis reflects the geographies in which the business units generating the revenues are located, and, particularly in the case of Alexander Proudfoot, this does not wholly reflect either the locations in which work is delivered or the currency in which revenue is billed. Approximately 15% of revenues in the first half of 2013 were derived from projects delivered outside the developed economies of North America and Western Europe.

Underlying operating profit

Operating profit for the first half of 2013 was £4.4m (H1 2012: £9.5m). Underlying operating profit for the period decreased compared with the corresponding period in 2012 by 41% to £7.0m (H1 2012: £11.8m), principally as a result of a significantly weaker performance in Alexander Proudfoot.

Non-recurring items for the first half of 2013 were an expense of £1.4m (H1 2012: £1.0m). These predominantly comprise redundancy and related costs from headcount reductions made in Kurt Salmon in France. Amortisation of acquired intangibles was £1.3m (H1 2012: £1.2m).

Interest

The total net finance costs for the period were £1.9m (H1 2012: £2.0m restated). The Group has paid margins of 2.5% over LIBOR rates on its bank borrowings during the period, consistent with the same period during 2012. Revisions to IAS 19 that apply in 2013 mean that the reported net finance charge now includes an imputed charge in relation to the defined benefit pension deficit of £0.5m (H1 2012: £0.5m restated).

Taxation

Profit before tax for the first half of 2013 was £2.5m (H1 2012: £7.6m restated). Underlying profit before tax for the period was £5.1m (H1 2012: £9.9m restated). The tax rate on the underlying profit before tax was 30% (H1 2012: 44% restated). The Group has tax losses in various jurisdictions and the underlying tax rate has benefited in recent years from the utilisation of these. However these have diminished and the future ability to utilise those remaining is dependent on trading profitability and other factors.

Earnings per share

Basic earnings per share were 0.4 pence (H1 2012: 0.8 pence per share restated). Underlying basic earnings per share decreased to 0.7 pence (H1 2012: 1.1 pence per share restated).

Dividend

The final dividend for 2012 of 0.595 pence per ordinary share was paid on 2 July 2013 to shareholders on the register at 17 May 2012. The Board is declaring an interim dividend for 2013 of 0.23 pence per ordinary share (2012: 0.23 pence per share). The interim dividend will be paid on 7 January 2014 to shareholders on the register on 6 December 2013.

Balance Sheet

The Group's net debt at 30 June 2013 was £51.7m which is £16m higher than the £35.7m reported at 30 June 2012, and £21.7m higher than the £30.3m reported at the end of 2012. The Group’s operations are not typically cash generative in the first half of the year, primarily as a result of the timing of the payment of annual cash bonuses. As a result the Group has historically generated the majority of its cash in the second half of the calendar year and this trend is expected to continue in

2013. The level of cash receipts in the first half of 2013 has also been affected by the relative weakness of Alexander Proudfoot revenues in this period, and by the impact of exchange rates. At 2012 year end exchange rates the reported net debt position at 30 June would have been £49.2m.

The Group is financed by an £85m debt facility negotiated during 2011 and expiring in July 2016. At 30 June 2013 the gross debt drawn under this facility reflected in the Group balance sheet was £62.6m (30 June 2012: £48.1m). The leverage covenant measure used in the debt facility agreement is a measure of the ratio of net debt to adjusted EBITDA, and was 1.9 at 30 June 2013 compared with the maximum leverage permitted under the facility of 2.75. As a result the interest rate margin paid on the Group's debt in the remainder of 2013 will increase to 2.75% above Libor and Euribor (from 2.5%).

The net post-retirement obligations liability principally relates to a closed US defined benefit scheme in Alexander Proudfoot and to an unfunded Kurt Salmon pension obligation in Germany, and has decreased from £24.6m at 31 December 2012 to £21.5m at 30 June 2013. The decrease is principally due to an increase in the discount rates used to measure the pension obligations.

On 30 October 2012 MCG announced that it intended to commence a share buy-back programme to make market purchases of its ordinary shares of up to £5m over the succeeding twelve months. Up to 31 July 2013 the Company had purchased 2.2m of its ordinary shares for a total consideration of £0.6m.

The Board's assessment in relation to going concern is included in Note 2 of the financial information. Principal risks and uncertainties are set out in Note 2 of the financial information.

There have been no transactions with or material changes to related parties that have materially affected the financial position or performance of the Group during the period.

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Condensed Group statement of profit and loss

for the six months ended 30 June 2013

	Note	**Unaudited six months ended 30 June 2013 £'000**	Unaudited six months ended 30 June 2012 (restated) £'000
Continuing operations			
Revenue	3	**123,421**	146,831
Cost of sales		**(81,511)**	(93,706)
Gross profit		**41,910**	53,125
Administrative expenses – underlying		**(34,905)**	(41,290)
Profit from operations – underlying		**7,005**	11,835
Administrative expenses – non-recurring		**(1,356)**	(1,044)
Profit from operations before amortisation of acquired intangibles		**5,649**	10,791
Administrative expenses – amortisation of acquired intangibles		**(1,278)**	(1,244)
Total administrative expenses		**(37,539)**	(43,578)
Profit from operations	3	**4,371**	9,547
Investment income		**8**	9
Finance costs		**(1,894)**	(1,977)
Profit before tax		**2,485**	7,579
Tax	5	**(607)**	(3,527)
Profit for the period attributable to owners of the Company		**1,878**	4,052
Earnings per share – pence			
From profit for the period attributable to owners of the Company			
Basic	6	**0.4**	0.8
Diluted	6	**0.4**	0.8
Basic – underlying	6	**0.7**	1.1
Diluted – underlying	6	**0.7**	1.1

Condensed Group statement of comprehensive income
for the six months ended 30 June 2013

	Unaudited six months ended 30 June 2013 £'000	Unaudited six months ended 30 June 2012 (restated) £'000
Exchange gains/(losses) on translation of foreign operations	**10,757**	(4,512)
Remeasurement of defined benefit pension schemes	**4,367**	(2,433)
(Loss)/gain on available-for-sale investments	**(364)**	186
Other comprehensive income/(expense) for the period	**14,760**	(6,759)
Profit for the period	**1,878**	4,052
Total comprehensive income for the period attributable to owners of the Company	**16,638**	(2,707)

Condensed Group statement of changes in equity
for the six months ended 30 June 2013

	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
Unaudited six months ended 30 June 2013									
Shareholders' equity 1 January 2013	**84,504**	**82,040**	**32,513**	**5,732**	**(3,627)**	**23,214**	**6,383**	**(36,193)**	**194,566**
Total comprehensive income for the period						**10,757**	**(364)**	**6,245**	**16,638**
Dividends								**(2,878)**	**(2,878)**
Share-based payments				**1,097**	**140**			**75**	**1,312**
Shares acquired by ESOP					**(282)**				**(282)**
Shares transferred from ESOP					**92**				**92**
Shareholders' equity 30 June 2013	**84,504**	**82,040**	**32,513**	**6,829**	**(3,677)**	**33,971**	**6,019**	**(32,751)**	**209,448**
Unaudited six months ended 30 June 2012									
Shareholders' equity 1 January 2012	84,504	82,040	32,513	3,388	(3,739)	29,040	6,229	(39,237)	194,738
Total comprehensive income for the period						(4,512)	186	1,619	(2,707)
Dividends								(2,670)	(2,670)
Share-based payments				980					980
Shares transferred from ESOP					388				388
Shareholders' equity 30 June 2012	84,504	82,040	32,513	4,368	(3,351)	24,528	6,415	(40,288)	190,729

Condensed Group statement of financial position
as at 30 June 2013

	Unaudited 30 June 2013 £'000	Audited 31 Dec 2012 £'000
Non-current assets		
Intangible assets	**277,728**	266,397
Property, plant and equipment	**3,063**	2,646
Investments	**2,223**	2,025
Deferred income tax assets	**20,979**	19,985
Total non-current assets	**303,993**	291,053
Current assets		
Trade and other receivables	**73,061**	66,634
Cash and cash equivalents	**10,943**	14,863
Total current assets	**84,004**	81,227
Total assets	**387,997**	372,280
Current liabilities		
Trade and other payables	**(72,346)**	(82,374)
Current tax liabilities	**(10,635)**	(12,147)
Total current liabilities	**(82,981)**	(94,521)
Net current assets/ (liabilities)	**1,023**	(13,294)
Non-current liabilities		
Financial liabilities	**(62,597)**	(45,150)
Retirement benefit obligations	**(21,472)**	(24,761)
Deferred tax liabilities	**(3,989)**	(4,516)
Long-term provisions	**(7,510)**	(8,766)
Total non-current liabilities	**(95,568)**	(83,193)
Total liabilities	**(178,549)**	(177,714)
Net assets	**209,448**	194,566
Equity		
Share capital	**84,504**	84,504
Share premium account	**82,040**	82,040
Merger reserve	**32,513**	32,513
Share compensation reserve	**6,829**	5,732
Shares held by employee benefit trust	**(3,677)**	(3,627)
Translation reserve	**33,971**	23,214
Other reserves	**6,019**	6,383
Retained earnings	**(32,751)**	(36,193)
Equity attributable to owners of the Company	**209,448**	194,566

Condensed Group statement of cash flows
for the six months ended 30 June 2013

	Note	**Unaudited six months ended 30 June 2013 £'000**	Unaudited six months ended 30 June 2012 £'000
Net cash outflow from operating activities	7	**(12,412)**	(5,887)
Investing activities			
Interest received		**8**	9
Purchases of property, plant and equipment		**(845)**	(327)
Purchases of intangible assets		**(931)**	(1,848)
Purchase of financial assets		**(664)**	(25)
Proceeds on disposal of investments		**—**	240
Acquisition of subsidiaries		**(319)**	(248)
Net cash used in investing activities		**(2,751)**	(2,199)
Financing activities			
Dividends paid		**(1,099)**	(916)
Interest paid		**(1,177)**	(1,011)
Proceeds from borrowings		**22,496**	63,042
Repayment of borrowings		**(7,689)**	(60,331)
Proceeds from issue of shares		**—**	585
Purchase of shares		**(282)**	—
Net cash raised by financing activities		**12,249**	1,369
Net decrease in cash and cash equivalents		**(2,914)**	(6,717)
Cash and cash equivalents at beginning of period		**14,862**	19,762
Effect of foreign exchange rate changes		**(1,005)**	(668)
Cash and cash equivalents at end of period		**10,943**	12,377

Notes

1. General information

The results for the six months ended 30 June 2013 and 30 June 2012 are unaudited but have been reviewed by the Group's auditor, whose report on the current period forms part of this document. The information for the year ended 31 December 2012 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified or modified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006.

2. Significant accounting policies

(a) Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and are available on our website: www.mcgplc.com. The set of condensed financial statements included in this half-yearly report has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

(b) Accounting policies

In the current financial year, the Group has adopted the amendments to IAS 19 (revised 2011) "Employee Benefits" in the half-yearly report. Otherwise, the same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

IAS 19 (revised 2011) and the related consequential amendments have impacted the accounting for the Group's defined benefit scheme, by replacing the interest cost and expected return on plan assets with a net interest charge on the net defined benefit liability. For the current period, the profit is £0.5 million lower than it would have been prior to the adoption of IAS 19 (revised 2011). For the comparative period, the restated profit is £0.7 million lower than previously reported. As the Group has always recognised actuarial gains and losses immediately there has been no effect on the prior year defined benefit obligation.

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 as a whole.

The major risks the business faces are consistent with those set out in the Company's Annual Report for the year ended 31 December 2012. They are related to the demand for consultancy services in each of the markets and sectors in which the Group operates; retention and development of key client relationships, recruitment and retention of talented employees; optimisation of the Group's intellectual capital; and fluctuations in foreign exchange currency rates.

These risks are managed by anticipating consultancy trends; identifying new markets and sectors in which the Group might operate; maximising staff utilisation; having remuneration policies which reward performance and promote continued employment with the Group; maintaining a comprehensive knowledge management system; and undertake hedging to mitigate currency risk where appropriate.

Potential contractual liabilities arising from client engagements are managed through careful control of contractual conditions and appropriate insurance arrangements. There is no material outstanding litigation against the Group, of which the Directors are aware, which is not covered by insurance, or provided for in the financial statements.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, and the financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Chairman's statement. Principal risks and uncertainties are described above.

The Group prepares regular business forecasts and monitors its projected compliance with its banking covenants, which are reviewed by the Board. Forecasts are then adjusted for sensitivities which address the principal risks to which the Group is exposed. Consideration is then given to the potential actions available to management to mitigate the impact of one or more of these sensitivities if required.

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 this half-yearly report.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

3. Segmental information

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

Inter-segmental sales are not significant.

Income statement

(a) Revenue and underlying operating profit by geography

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

	Unaudited six months ended 30 June 2013			
	Americas £'000	**Europe £'000**	**Rest of World £'000**	**Consolidated £'000**
Revenue – continuing operations	**47,802**	**66,686**	**8,933**	**123,421**
Profit from operations – underlying	**2,820**	**3,395**	**790**	**7,005**
Non-recurring expenses and amortisation of acquired intangibles	**(475)**	**(2,154)**	**(5)**	**(2,634)**
Profit from operations	**2,345**	**1,241**	**785**	**4,371**
Investment income				**8**
Finance costs				**(1,894)**
Profit before tax				**2,485**

	Unaudited six months ended 30 June 2012 (restated)			
	Americas £'000	Europe £'000	Rest of World £'000	Consolidated £'000
Revenue – continuing operations	53,878	81,685	11,268	146,831
Profit from operations – underlying	3,645	6,370	1,820	11,835
Non-recurring expenses and amortisation of acquired intangibles	(508)	(1,780)	—	(2,288)
Profit from operations	3,137	4,590	1,820	9,547
Investment income				9
Finance costs				(1,977)
Profit before tax				7,579

(b) Revenue and underlying operating profit by operating segment

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

	Unaudited six months ended 30 June 2013		
	Alexander Proudfoot £'000	**Kurt Salmon £'000**	**Consolidated £'000**
Revenue – continuing operation	**28,620**	**94,801**	**123,421**
Profit from operations – underlying	**866**	**6,139**	**7,005**
Non-recurring expenses and amortisation of acquired intangibles			**(2,634)**
Profit from operations			**4,371**
Investment income			**8**
Finance costs			**(1,894)**
Profit before tax			**2,485**

	Unaudited six months ended 30 June 2012 (restated)		
	Alexander Proudfoot £'000	Kurt Salmon £'000	Consolidated £'000
Revenue – continuing operations	44,267	102,564	146,831
Profit from operations – underlying	5,211	6,624	11,835
Non-recurring expenses and amortisation of acquired intangibles			(2,288)
Profit from operations			9,547
Investment income			9
Finance costs			(1,977)
Profit before tax			7,579

4. Dividends

	Unaudited six months ended 30 June 2013 £'000	Unaudited six months ended 30 June 2012 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend in respect of the year ended 31 December 2012 of 0.595p (2011: 0.55p) per share	**2,878**	2,670

Dividends are not payable on treasury shares or shares held in the employee share trusts which have waived their entitlement to dividends.

The amount of the dividend waived in 2013 (in respect of the year ended 31 December 2012) was £79,135 (2012: £64,053).

An interim dividend of 0.23p per share (2012: 0.23p per share) will be paid on 7 January 2014 to shareholders on the register on 6 December 2013.

5. Taxation

The effective tax rate on the reported profit before tax for the half year is 24% (H1 2012: 47% restated). The effective tax rate on the reported profit before tax as adjusted for the impact of non-recurring items and the accounting for amortisation of acquisition intangibles charge for the half year is 30% (H1 2012: 44% restated). Of the total tax charge, £nil (H1 2012: £nil) arises in respect of the UK with the remainder of the charge arising outside the UK.

6. Earnings per share

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

	Unaudited six months ended 30 June 2013 £'000	Unaudited six months ended 30 June 2012 (restated) £'000
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share being net profit for the period attributable to owners of the Company	**1,878**	4,052
Amortisation of acquired intangibles	**1,278**	1,244
Non-recurring items	**1,356**	1,044
Tax on exceptional items	**(936)**	(813)
Earnings for purpose of basic earnings per share excluding amortisation of acquired intangibles and non-recurring items	**3,576**	5,527

	Number (m)	Number (m)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share and basic excluding amortisation of acquired intangibles and non-recurring items	**484.2**	485.8
Effect of dilutive potential ordinary shares:		
– share options, performance share plan and warrants	**11.1**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**495.3**	485.8

	Pence	Pence
Basic earnings per share – continuing operations	**0.4**	0.8
Diluted earnings per share – continuing operations	**0.4**	0.8
Basic earnings per share – excluding amortisation of acquired intangibles and non-recurring items	**0.7**	1.1
Diluted earnings per share – excluding amortisation of acquired intangibles and non-recurring items	**0.7**	1.1

The average share price for the six months ended 30 June 2013 was 28.6p (30 June 2012: 33.4p).

7. Notes to the cash flow statement

	Unaudited six months ended 30 June 2013 £'000	Unaudited six months ended 30 June 2012 £'000
Profit from continuing operations	**4,371**	9,547
Adjustments for:		
Depreciation of property, plant and equipment	**483**	518
Amortisation of intangible assets	**2,298**	1,929
Profit on disposal of plant and equipment	**(98)**	—
Adjustment for cost of share-based payments	**1,839**	1,429
(Decrease)/Increase in provisions	**(1,477)**	451
Operating cash flows before movements in working capital	**7,416**	13,874
Increase in receivables	**(5,269)**	(11,145)
Decrease in payables	**(12,989)**	(4,108)
Cash absorbed by operations	**(10,842)**	(1,379)
Income taxes paid	**(1,570)**	(4,508)
Net cash outflow from operating activities	**(12,412)**	(5,887)

8. Financial instruments fair value disclosure

The directors consider that the carrying value amounts of financial assets and financial liabilities recorded at amortised cost in the condensed financial statements included in this half-yearly report are approximately equal to their fair values.