Management Consulting Group PLC

1 August 2011

Management Consulting Group PLC Interim Results

24% increase in underlying operating profit

Management Consulting Group PLC ("MCG" or "the Group"), the global professional services group, today announces its results for the half year ended 30 June 2011.

Key points

- Revenue up 19% at £155.6m (2010: £131.3m)
- Operating profit up 22% to £13.7m (2010: £11.2m)
- Underlying* operating profit up 24% to £15.3m (2010: £12.4m)
- Underlying* operating profit margin higher at 9.9% (2010: 9.4%)
- Profit for the half year increased to £9.1m (2010: £6.5m)
- Net debt reduced by 31% to £51.7m (June 2010: £74.8m)
- Basic earnings per share increased to 2.1p (2010: 2.0p)
- Underlying basic earnings per share increased to 2.4p (2010: 2.2p)
- Interim dividend increased to 0.2p per share (2010: 0.15p)

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

Nick Stagg, Chief Executive commented:

"The Group has continued to build successfully on the changes made in 2010 and has delivered a robust top and bottom line performance in the period. Alexander Proudfoot has delivered a good first half result, benefiting in particular from a growing workload for clients in the natural resources sector. Kurt Salmon has also grown revenues in its key markets and we are investing in the business to drive future revenue and profit growth.

"MCG enters the second half of 2011 with a strong order book and a healthy project pipeline and the Group is trading in line with management expectations. We continue to focus on improving operational efficiency and profitability, whilst investing for growth. Although the global economic outlook remains uncertain, the indicators are promising at this stage and the Board looks forward to continuing progress over the remainder of the year."

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

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

We delivered a 24% increase in underlying operating profit on a 19% increase in revenue compared with the same period in 2010. The stronger trading that we saw in the second half of last year has been sustained into the first half of 2011. I am hopeful that we can maintain momentum in our businesses over the remainder of the year.

From 1 January 2011 the Group has been trading as two divisions: Alexander Proudfoot and Kurt Salmon. Alexander Proudfoot's performance has continued to improve, after the strong recovery in the second half of last year. The merger of Ineum Consulting and Kurt Salmon Associates to form Kurt Salmon was implemented successfully, and we have already seen benefits in terms of recruitment and client opportunities as a result of the improved scale and capabilities of the merged business. We will continue to work to develop both businesses, with selective investment and recruitment in sectors and geographies where there are good prospects for profitable growth.

Last year we made significant changes to the operations, management and funding of the Group, in order to implement a strategy that will create value for all our stakeholders. About one hundred and fifty of our employees are now shareholders in MCG and in aggregate employees and directors now hold about 18% of our equity. We have continued to work to better align the interests of our employees with the creation of value for our shareholders, both in setting the performance criteria for variable remuneration and by ensuring that share awards to our staff incorporate retention and performance conditions that are designed to promote long term value creation.

When I stepped down as Executive Chairman at the end of last year I believe we had put in place the building blocks for the next phase in the development of MCG. I am pleased with the progress we have made in the first half of 2011, under the strong leadership of Nick Stagg as Chief Executive. The Board will continue to promote an organic growth strategy and focus on financial and operational discipline across the Group. We are investing to drive growth and we are managing our costs and operating margins to generate value for our shareholders.

Alan Barber
Chairman

Operating and financial review

We are satisfied with the performance of both divisions in the first half of the year. The changes made last year have helped contribute to a much improved performance compared with the first half of last year.

Alexander Proudfoot

Alexander Proudfoot develops and implements operational improvements to increase productivity or reduce costs for its clients. Working with its clients, Alexander Proudfoot improves their top line performance through increased throughput and revenue, and their bottom line through reduced operational costs and improved efficiency. A critical element of its focus is improving the effectiveness of management and implementing sustainable change. Alexander Proudfoot's projects deliver significantly increased profitability with benefits to clients often running into millions of pounds and a typical return on investment within twelve months.

Alexander Proudfoot's revenue for the first half of 2011 was 85% higher at £44.4m (H1 2010: £23.9m). Alexander Proudfoot had not performed well in the first half of 2010, but first half revenue for 2011 was also 16% or £6.1m higher than the second half of 2010. Operating profit for the first half of 2011 was £5.8m compared with an operating loss in the first half of 2010 of £0.2m. The operating profit margin was 13.2% compared with -0.9% in the first half of 2010.

Alexander Proudfoot delivered very strong revenue growth in the second half of 2010 and revenues have continued to grow strongly into the first half of 2011. Alexander Proudfoot's business units are based in Europe, the United States, South Africa and Brazil, from which it serves clients globally. All its business units have reported increased revenues in the first half of 2011 although the rate of growth in the North American operations has been lower than in other geographies. The business has seen good ongoing demand from clients in the natural resources sector and growth in revenues from projects delivered in emerging markets, in particular in Southern Africa and Latin America. In the first half of 2011 there has been an increasing trend for work sold in Europe and North America to be delivered elsewhere, for example, in Botswana, Russia and Peru. Projects won during 2011 in the natural resources sector and in emerging markets have typically been larger than average, although the sometimes remote and challenging project locations have had higher delivery costs and this has had some impact on profit margins.

Alexander Proudfoot has demonstrated over many years that it has an offering that produces very attractive returns for its clients. It is performing well in the current market, 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. As global demand for commodities remains strong there are opportunities for further growth in this sector. 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 current order book for Alexander Proudfoot is at a higher level than at any time during 2009 and 2010, providing some visibility on the revenues into the beginning of the fourth quarter of 2011. The pipeline of prospects is also encouraging at this stage of the year, although as is usual in our business the conversion of these into revenue remains a key factor in the performance of the business over the remainder of the year.

Kurt Salmon

Kurt Salmon was established on 1 January 2011 from the merger of Ineum Consulting and Kurt Salmon Associates. Prior to that date both divisions reported and were managed as separate business segments and references to 2010 numbers below 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. The business operates internationally in certain key industry verticals and has a particular focus in retail and consumer products and in financial services. It also provides functional expertise around, for example, offerings to CIOs and CFOs. Kurt Salmon now operates in fifteen countries around the world, the largest operations being in North America and Continental Europe, together with a presence in some markets in Asia.

Kurt Salmon's revenue for the first half of 2011 was £111.2m. This was £3.8m or 4% higher than the corresponding first half revenue in 2010 of £107.4m, and £10.4m or 10% higher than the second half revenue in 2010 of £100.8m. Underlying operating profit for the first half of 2011 was £9.5m representing a margin on revenue of 8.5%. In 2010 the underlying operating profit for the first half was £12.6m and the margin was 11.7%. In the second half of 2010 margins weakened, and the first half operating profit margin for 2011 reflects a significant improvement on the previous six months.

Kurt Salmon has made good progress in the first half of 2011 in all of its key markets. The retail and consumer products consulting practice recovered strongly in 2010 and delivered further revenue growth in the first half of 2011, despite consumer spending in Western markets remaining fragile in the face of continued economic uncertainty. Kurt Salmon's financial services consulting practice has performed strongly in Continental Europe and is developing well in North America, following the appointment in April this year of Allen K Merrill as global head of the practice, based in New York. The creation of Kurt Salmon is allowing the business to combine its capabilities in key industry sectors and its functional expertise to exploit opportunities to broaden the offering provided to clients. For example, it has recently won a significant project with a major retail European bank to develop a programme to transform its customer relationship experience with its retail customers. This project is an example of Kurt Salmon applying its expertise in the retail experience for consumers to operations in the financial services sector.

The Continental European operations of Kurt Salmon have performed well in the first half of 2011. In France, which is the largest of the European operations, the business has increased revenues and profitability compared with the second half of 2010. This reflects some improvement in confidence in the market, and management focus on improving operational efficiency. In the UK, where Kurt Salmon has a relatively small operation and where the overall supply of consulting services is high relative to current demand, results overall have been somewhat disappointing in the first half.

In North America, the largest element of Kurt Salmon's activities relates to the retail and consumer goods practice, which had a good start to the year. Some recent indicators have suggested that growth in the retail offering may be slowing somewhat, reflecting client concerns about the pace of economic recovery in the United States. Revenue and profit in the US healthcare consulting practice has increased, and this practice is well placed to benefit from longer term trends in healthcare spending.

In Asia, the Japanese business unit suffered in the aftermath of the natural disasters earlier this year but has continued to work with its retail clients in difficult circumstances, and business confidence in Japan now appears to be improving. Kurt Salmon has a developing relationship with a small retail consulting business in China, which trades under the Kurt Salmon name under a license agreement, and is seeing an increase in its activity in the region as Asian consumer markets expand.

Kurt Salmon is an established global consulting brand with a long heritage. 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 in the business to enhance the underlying profit margin.

The current order book for Kurt Salmon is at a higher level than at any time during 2009 and 2010. The pipeline of prospects is also promising, although visibility into the fourth quarter is limited at this stage of the year.

Outlook

Trading in the first six months of 2011 has been encouraging. The recovery in Alexander Proudfoot has continued, and Kurt Salmon has made good progress in key areas. Conditions in most of the markets in which the Group operates have been improving slowly during the first half of 2011, although many clients remain cautious, and the lead time to convert sales opportunities into revenue continues to be more extended than has been experienced in prior years.

Healthy underlying cash generation has helped to further reduce the Group's net debt to £51.7m at 30 June 2011. 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 2011.

MCG enters the second half of 2011 with a strong order book and healthy project pipeline and the Group is trading in line with management expectations. We continue to focus on improving operational efficiency and profitability whilst investing for growth. Although the global economic outlook remains uncertain, the indicators are promising at this stage, and the Board looks forward to continuing progress over the remainder of the year.

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. The average exchange rates to Sterling used in the first half of 2011 were £1 = €1.15 (2010: £1 = €1.15) and £1 = $1.61 (2010: £1 = $1.53). The closing exchange rates to Sterling used in balance sheet translation were £1 = €1.11 (2010: £1 = €1.22) and £1 = $1.60 (2010: £1 = $1.50).

Revenue

Revenue for the first half of 2011 was £155.6m, 19% ahead of the corresponding figure for the previous year (2010: £131.3m). The major contributor to this increase was Alexander Proudfoot, which recorded revenue of £44.4m (2010: £23.9m), an increase of £20.5m. Revenue from Kurt Salmon was £111.2m (2010: £107.4m), an increase of £3.8m. Changes in exchange rates compared with the first half of 2010 have had a small negative impact on reported revenues, principally as a result of a somewhat weaker US Dollar depressing the Sterling value of revenues in that currency.

Geographically all areas recorded revenue growth compared with the corresponding period of 2010. The revenue from Europe was £93.9m (2010: £82.2m), the Americas £47.2m (2010: £44.9m) and the Rest of World £14.5m (2010: £4.2m). This analysis reflects the geographies in which the business units generating the revenues are located, and, particularly in the case of Alexander Proudfoot, does not correspond exactly either to the locations in which work is delivered or the currency in which revenue is billed.

Underlying operating profit

Operating profit for the first half of 2011 was £13.7m (2010: £11.2m). Underlying operating profit for the period increased by 24% to £15.3m (2010: £12.4m), principally relating to the profit improvement made by Alexander Proudfoot. Kurt Salmon's underlying operating profit for the first half of 2011 showed an improvement on the second half of 2010.

Non-recurring items for the first half of 2011 netted to an expense of £0.3m (2010: £0.2m income). These comprise costs of £1.8m predominantly arising from the integration of Ineum Consulting and Kurt Salmon Associates, and income of £1.5m which is the release of part of a legal provision created on the acquisition of Kurt Salmon Associates that is no longer required by the Group. Amortisation of acquired intangibles was £1.3m (2010: £1.4m).

Interest

The total net finance costs for the period were £1.2m (2010: £1.9m). The decrease reflects the effects of lower net debt for the period following the refinancing in June 2010 and the strong cash generation from the second half of 2010. The Group has paid margins of 1.5% over LIBOR rates on its bank borrowings during the period.

Taxation

Profit before tax for the first half of 2011 was £12.5m (2010: £9.3m). Underlying profit before tax for the period was £14.1m (2010: £10.5m). The tax rate on the underlying profit before tax was 26% (2010: 35%) and includes the benefit of certain prior year items. The Group has tax losses in various jurisdictions and the underlying tax rate has benefited in recent years from the utilisation of these, particularly in France. However these have diminished and the ability to utilise those remaining is dependent on trading profitability.

Earnings per share

Basic earnings per share were 2.1 pence (2010: 2.0 pence per share). Underlying basic earnings per share increased to 2.4 pence (2010: 2.2 pence per share). Earnings per share for the first half of 2011 reflect the full year dilutive impact of new shares issued in the capital raising in June 2010.

Dividend

The final dividend for 2010 of 0.3 pence per ordinary share was paid on 6 July 2011 to shareholders on the register at 10 June 2011. The Board is declaring an interim dividend for 2011 of 0.2 pence per ordinary share (2010: 0.15 pence per share). The increase in the interim dividend in part reflects a rebalancing between the interim and final dividends. The interim dividend will be paid on 6 January 2012 to shareholders on the register on 2 December 2011.

Share Capital

On 17 June 2010 a General Meeting of MCG approved the firm placing, placing and open offer of 113.7m new ordinary shares at 22 pence per share and up to 53.1 million warrants at the same price. As at 30 June 2011 6.5 million warrants had been exercised and 46.6 million warrants remained outstanding. In the event that all these outstanding warrants are converted before they lapse on 31 December 2011, the further cash proceeds payable to MCG will be £10.2 million.

Balance Sheet

The Group's net debt at 30 June 2011 was £51.7m (30 June 2010: £74.8m), which is £2.7 million lower than the £54.4m reported at the end of 2010. In previous years the Group's operations have not typically been 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 generated the majority of its cash in the second half of the calendar year and this trend is expected to continue in 2011.

Since 31 December 2010 £1.2 million has been received as a result of the exercise of warrants issued in the capital raising in June 2010. In March 2011 the trustees of the MCG employee benefit trust purchased 4.2 million of the Company's shares for consideration of £1.5 million for use in satisfying future awards under the Company's employee share incentive plans.

The Group is financed by a multi-currency debt facility negotiated during 2007 and expiring in September 2012. At 30 June 2011 the gross debt drawn under this facility reflected in the Group balance sheet was £72.4m. The leverage covenant measure used in the debt facility agreement is a measure of the ratio of net debt to adjusted EBITDA, and was 1.7 at 30 June 2011. As a result the interest rate margin paid on the Group's debt in the remainder of 2011 will be 1.15% above US Dollar Libor and Euribor, lower than the 1.5% margin paid in the first half.

The net post-retirement obligations liability principally relates to a closed US defined benefit scheme in Alexander Proudfoot and to a Kurt Salmon pension obligation in Germany and has decreased from £25.7m at 31 December 2010 to £24.9m at 30 June 2011. The reduction reflects improved asset performance and an increase in the discount rates used to calculate the liabilities of the US scheme.

The Board's assessment in relation to going concern is included 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.

Condensed group income statement
for the six months ended 30 June 2011

	Note	**Unaudited six months ended 30 June 2011 £'000**	Unaudited six months ended 30 June 2010 £'000
Continuing operations			
Revenue	3	**155,595**	131,278
Cost of sales		**(100,470)**	(87,286)
Gross profit		**55,125**	43,992
Administrative expenses – underlying		**(39,784)**	(31,604)
Operating profit – underlying		**15,341**	12,388
Administrative (expenses)/income – non-recurring		**(269)**	217
Operating profit before amortisation of acquired intangibles		**15,072**	12,605
Administrative expenses – amortisation of acquired intangibles		**(1,332)**	(1,372)
Total administrative expenses		**(41,385)**	(32,759)
Operating profit	3	**13,740**	11,233
Investment income		**77**	62
Finance costs		**(1,313)**	(2,005)
Profit before tax		**12,504**	9,290
Tax	5	**(3,381)**	(2,807)
Profit for the period from continuing operations		**9,123**	6,483
Profit for the period attributable to owners of the company		**9,123**	6,483
Earnings per share – pence			
From continuing operations			
Basic	6	**2.1**	2.0
Diluted	6	**2.0**	1.9
Basic – underlying	6	**2.4**	2.2
Diluted – underlying	6	**2.3**	2.1

Condensed group statement of comprehensive income

for the six months ended 30 June 2011

	Unaudited six months ended 30 June 2011 £'000	Unaudited six months ended 30 June 2010 £'000
Exchange gains/(losses) on translation of foreign operations	**6,181**	(8,350)
Actuarial gains / (losses) on defined benefit obligations	**263**	(5,626)
Profit on available-for-sale investments	**118**	81
Tax on items taken directly to equity	**24**	651
Net income/(expense) recognised directly in equity	**6,586**	(13,244)
Profit for the period	**9,123**	6,483
Total comprehensive income/(expense) for the period attributable to owners of the company	**15,709**	(6,761)

Condensed group statement of changes in equity

for the six months ended 30 June 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
Unaudited six months ended 30 June 2011									
Shareholders' equity 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								9,123	9,123
Dividends								(1,317)	(1,317)
Exchange differences						6,181			6,181
Actuarial movements								263	263
Profit on AFS investments							118		118
Tax on equity items								24	24
Share based payments				366					366
Shares issued	53	1,101							1,154
Shares acquired by ESOP					(1,485)				(1,485)
Shares transferred from ESOP					116				116
Shareholders' equity 30 June 2011	**84,050**	**72,491**	**32,513**	**2,752**	**(3,723)**	**39,010**	**6,530**	**(43,305)**	**190,318**
Unaudited six months ended 30 June 2010									
Shareholders' equity 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								6,483	6,483
Exchange differences						(8,350)			(8,350)
Actuarial movements								(5,626)	(5,626)
Profit on AFS investments							81		81
Tax on equity items								651	651
Share based payments				(1,282)					(1,282)
Shares issued	1,137	23,882							25,019
Share issue costs		(1,605)							(1,605)
Shareholders' equity 30 June 2010	83,985	71,258	32,513	934	(1,153)	28,575	6,184	(55,413)	166,883

Condensed group balance sheet

As at 30 June 2011

	Unaudited 30 June 2011 £'000	Audited 31 Dec 2010 £'000
Non-current assets		
Intangible assets	**280,401**	276,923
Property, plant and equipment	**3,191**	2,846
Financial assets	**3,318**	3,183
Deferred income tax assets	**18,712**	19,078
Total non-current assets	**305,622**	302,030
Current assets		
Trade and other receivables	**95,460**	76,589
Cash and cash equivalents	**20,710**	25,710
Total current assets	**116,170**	102,299
Total assets	**421,792**	404,329
Current liabilities		
Financial liabilities	**(31,069)**	(39,059)
Trade and other payables	**(104,102)**	(94,772)
Current tax liabilities	**(12,984)**	(12,630)
Total current liabilities	**(148,155)**	(146,461)
Net current liabilities	**(31,985)**	(44,162)
Non-current liabilities		
Financial liabilities	**(41,328)**	(41,050)
Retirement benefit obligations	**(24,872)**	(25,705)
Deferred tax liabilities	**(7,254)**	(7,040)
Long-term provisions	**(9,865)**	(8,298)
Total non-current liabilities	**(83,319)**	(82,093)
Total liabilities	**(231,474)**	(228,554)
Net assets	**190,318**	175,775
Equity		
Share capital	**84,050**	83,997
Share premium account	**72,491**	71,390
Merger reserve	**32,513**	32,513
Share compensation reserve	**2,752**	2,386
Own shares held by employee benefit trust	**(3,723)**	(2,354)
Translation reserve	**39,010**	32,829
Other reserves	**6,530**	6,412
Retained earnings	**(43,305)**	(51,398)
Total equity attributable to owners of the company	**190,318**	175,775

Condensed group cash flow statement

For the six months ended 30 June 2011

	Note	**Unaudited six months ended 30 June 2011 £'000**	Unaudited six months ended 30 June 2010 £'000
Net cash inflow / (outflow) from operating activities	7	**6,735**	(13,717)
Investing activities			
Interest received		**78**	62
Purchases of property, plant and equipment		**(844)**	(190)
Purchases of intangible assets		**(199)**	(371)
Proceeds on disposal of tangible fixed assets		**-**	45
Proceeds on disposal of investments		**147**	213
Net cash used in investing activities		**(818)**	(241)
Financing activities			
Dividends paid		**(733)**	(26)
Interest paid		**(1,423)**	(2,005)
Proceeds from borrowings		**8,990**	13,388
Repayment of borrowings		**(17,893)**	(26,045)
Proceeds from issue of shares		**1,153**	25,019
Purchase of shares		**(1,485)**	-
Net cash (used) / raised by financing activities		**(11,391)**	10,331
Net decrease in cash and cash equivalents		**(5,474)**	(3,627)
Cash and cash equivalents at beginning of period		**25,710**	23,965
Effect of foreign exchange rate changes		**474**	(1,295)
Cash and cash equivalents at end of period		**20,710**	19,043

Notes

1. General information

The information for the year ended 31 December 2010 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, did not include a reference to any matters to which the auditors 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 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 in the EU.

(b) Accounting policies

The accounting policies and methods of computation applied by the Group in the half-year report are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union. The Group's annual financial statements for the year ended 31 December 2010 were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and are available on our website: www.mcgplc.com.

The Group has implemented IFRS 3 Business Combinations (revised 2008) and IAS 27 Consolidated and Separate Financial Statements (revised 2008). These revisions have not impacted the Group.

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 related to the demand for consultancy services in each of the markets and sectors in which the Group operates; maintaining and extending our client base: attracting and retaining talented employees; and not using our intellectual capital to full advantage.

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; and maintaining a comprehensive knowledge management system.

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. Kurt Salmon was formed following the merger of Ineum Consulting and Kurt Salmon Associates with effect from 1 January 2011. The two merged consultancies have been combined in the 2010 comparatives to be stated on the same basis as the 2011 segmental presentation. 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:

	Six months ended 30 June 2011 (unaudited)			
	Americas	**Europe**	**Rest of World**	**Consolidated**
	£'000	**£'000**	**£'000**	**£'000**
Revenue – continuing operations	**47,208**	**93,931**	**14,456**	**155,595**
Operating profit - underlying	**4,776**	**8,261**	**2,304**	**15,341**
Non-recurring expenses and amortisation of acquired intangibles	**(777)**	**(824)**	**-**	**(1,601)**
Operating profit	**3,999**	**7,437**	**2,304**	**13,740**
Investment income				**77**
Finance costs				**(1,313)**
Profit before tax				**12,504**

	Six months ended 30 June 2010 (unaudited)			
	Americas	Europe	Rest of World	Consolidated
	£'000	£'000	£'000	£'000
Revenue – continuing operations	44,856	82,253	4,169	131,278
Operating profit/(loss) - underlying	2,604	9,988	(204)	12,388
Non-recurring expenses and amortisation of acquired intangibles	(589)	(376)	(190)	(1,155)
Operating profit/(loss)	2,015	9,205	(204)	11,233
Investment income				62
Finance costs				(2,005)
Profit before tax				9,290

(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 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.

	Six months ended 30 June 2011 (unaudited)		
	Alexander Proudfoot £'000	Kurt Salmon £'000	Consolidated £'000
Revenue – continuing operations	**44,351**	**111,244**	**155,595**
Operating profit - underlying	**5,855**	**9,486**	**15,341**
Non-recurring expenses and amortisation of acquired intangibles			**(1,601)**
Operating profit			**13,740**
Investment income			**77**
Finance costs			**(1,313)**
Profit before tax			**12,504**

	Six months ended 30 June 2010 (unaudited)				
	Alexander Proudfoot £'000	*Ineum Consulting £'000*	*Kurt Salmon Associates £'000*	**Kurt Salmon £'000**	Consolidated £'000
Revenue – continuing operations	**23,912**	*68,312*	*39,054*	**107,366**	131,278
Operating (loss)/profit - underlying	**(218)**	*7,718*	*4,888*	**12,606**	12,388
Non-recurring expenses and amortisation of acquired intangibles					(1,155)
Operating profit					11,233
Investment income					62
Finance costs					(2,005)
Profit before tax					9,290

4. Dividends

	Unaudited six months ended 30 June 2011 £'000	Unaudited six months ended 30 June 2010 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend in respect of the year ended 31 December 2010 of 0.15p (2009: nil) per share	**1,317**	—

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

The amount of the dividend waived in 2011 (in respect of the year ended 31 December 2010) was £17,952 (2010: nil).

An interim dividend of 0.2p per share (2010: 0.15p per share) will be paid on 6 January 2012 to shareholders on the register on 2 December 2011.

5. Taxation

The effective tax rate on the reported profit before tax for the half year is 27% (30 June 2010: 30%, due predominately to the impact of non-recurring items in the prior year). 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 26% (2010: 35%). Of the total tax charge, none (2010: £0.2m credit) arises in respect of the UK with the remainder of the charge arising outside the UK. In the prior year the total tax charge arises 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 2011 £'000	Unaudited six months ended 30 June 2010 £'000
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share being net profit attributable to owners of the company	**9,123**	6,483
Amortisation of acquired intangibles	**1,332**	1,372
Non-recurring items	**269**	(217)
Tax on exceptional items	**(335)**	(376)
Earnings for purpose of basic earnings per share excluding amortisation of acquired intangibles and non-recurring items	**10,389**	7,262

	Number (million)	Number (million)
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	**436.3**	332.9
Effect of dilutive potential ordinary shares:		
– share options, performance share plan and warrants	**23.3**	8.5
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**459.6**	341.4

	Pence	Pence
Basic earnings per share – continuing operations	**2.1**	2.0
Diluted earnings per share – continuing operations	**2.0**	1.9
Basic earnings per share – excluding amortisation of acquired intangibles and non-recurring items	**2.4**	2.2
Diluted earnings per share – excluding amortisation of acquired intangibles and non-recurring items	**2.3**	2.1

The average share price for the six months ended 30 June 2011 was 34.1p (30 June 2010: 22.1p).

7. Notes to the cash flow statement

	Unaudited six months ended 30 June 2011 £'000	Unaudited six months ended 30 June 2010 £'000
Profit from continuing operations	**13,740**	11,233
Adjustments for:		
Depreciation of property, plant and equipment	**440**	788
Amortisation of intangible assets	**1,990**	2,078
Profit on disposal of plant and equipment	**(35)**	(45)
Adjustment for pension funding	**-**	(140)
Adjustment for cost of share based payments	**801**	(1,283)
Increase in provisions	**1,826**	407
Operating cash flows before movements in working capital	**18,762**	13,038
Increase in receivables	**(17,118)**	(18,084)
Increase / (decrease) in payables	**7,273**	(4,204)
Cash generated / (used) by operations	**8,917**	(9,250)
Income taxes paid	**(2,182)**	(4,467)
Net cash inflow / (outflow) from operating activities	**6,735**	(13,717)