Management Consulting Group PLC

14 March 2019

This announcement contains inside information

Management Consulting Group PLC

Preliminary Results

Management Consulting Group PLC ("MCG" or the "Group), the global professional services group, today announces its preliminary results for the year ended 31 December 2018. These results reflect the continuing operations of the Group, comprising Proudfoot.

Key highlights

- Substantial investment in sales capability and marketing at Proudfoot. The transformation of the US leadership team and the full implementation of our new offering and strategy in that market continues to show early signs of success.
- Reported revenues of £28.3m (2017 restated: £32.7m), with H2 revenues up 14% compared to H2 2017 (restated).
- Operating costs reduced by around 19% during the year.
- Adjusted operating loss* of £4.2m (2017 restated: £7.5m loss).
- After non-underlying items retained net loss of £13.7m (2017 restated: retained net loss £31.0m) including loss on discontinued operations of £6.7m. (2017 restated: loss of £1.4m).
- Cash balances at 31 December 2018 were £17.3m (2017: £21.0m) including £4.2m (2017: £8.5m) restricted cash reserved for contingent creditors.
- Equity fundraising successfully completed in July increasing cash resources by £8.6m (net of expenses).
- Pam Hackett, CEO of Proudfoot, appointed to the Board.

* Being operating loss before non-underlying costs and credits.

Nick Stagg, Chairman and Chief Executive, commented:

"We continue to invest in the sales capability of Proudfoot. Whilst revenues for 2018 were lower, the second-half showed an increase of 14% compared to the same period in 2017 and there are early indications for a continuation of this trend. With Proudfoot now working with a number of Fortune 500 companies the Board remains confident Proudfoot will continue to deliver sustainable change to our clients and that this will create value for our shareholders"

For further information please contact:

Management Consulting Group PLC

Nick Stagg Chairman and Chief Executive 020 7710 5000

Notes to Editors

Management consulting Group PLC (MMC.L) provides professional services across a wide range of industries and sectors. For further information, visit www.mcgplc.com

Market Abuse Regulation

The information contained within this announcement is deemed by the Group to constitute inside information as stipulated under the Market Abuse Regulation. Upon the publication of this announcement via a regulatory information service, this inside information is now considered to be in the public domain.

The person responsible for arranging for the release of this announcement on behalf of the Group is Nick Stagg, Chairman and Chief Executive.

Forward Looking Statements

Certain information contained in this announcement constitutes forward looking information. This information relates to future events or occurrences or the Company's future performance. All information other than information of historical fact is forward looking information. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "predict" and "potential" and similar expressions are intended to identify forward looking information. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking information. No assurance can be given that this information will prove to be correct and such forward looking information included in this announcement should not be relied upon. Forward-looking information speaks only as of the date of this announcement.

The forward looking information included in this announcement is expressly qualified by this cautionary statement and is made as of the date of this announcement. The Group does not undertake any obligation to publicly update or revise any forward looking information except as required by applicable securities laws.

Chairman and Chief Executive's statement

After returning value to shareholders through the successful building and selling of multiple consultancy brands over the past decade, MCG is now focused on the execution of rebuilding and transformation of Proudfoot into a profitable global player in the operations consulting marketplace. With the second half of 2018 delivering a 14% increase in sales on the same period in 2017 and with a significant reduction in operating costs, this now provides the Board with confidence that it is within reach.

The priority in 2018 was to put in place a new American leadership team to develop a strong marketing and sales capability, in order to tap into the world's largest consulting market and position Proudfoot for success in 2019. Additionally, we started to reinvigorate the Proudfoot brand and reputation in that market. The US leadership team was formed late in the first half of the year and by the year-end had re-established Proudfoot as a brand capable of winning and retaining Fortune 500 clients and top talent. This investment will yield benefits into 2019 and beyond. Concurrently, it was critical to maintain growth in Europe which was also achieved.

While Proudfoot continues to focus on operational transformation as its core offering, we have made significant progress in positioning Proudfoot as a transformation leader achieving measurable results through people. This is evident through the expansion of its client base into businesses and industry leaders. Proudfoot continued the rollout of its sector-based go-to-market strategy in the Americas and Europe, focused on the established Natural Resources and Industrials sectors, as well as Maintenance & Repair Operations (MRO) (with a focus on Transportation and Aviation), and Digital & Operational Transformation (with a focus on Financial Services and Healthcare). This approach was taken to reduce the risk of dependence on any one vertical.

Group revenues were £28.3m in 2018. While 13% lower than in 2017 (restated: £32.7m), second half revenues rose by 14% compared to the same period last year. This was achieved by maintaining growth in Europe, demonstrating the success of our new US talent, continuing a flexible approach to meet client needs and alignment with our specialist verticals. We also continued to invest in sales capability and marketing in order to scale the Proudfoot business to generate the growth required to deliver an increase in value to shareholders.

The Group has continued to reduce its cost base: adjusted operating costs were £32.5m in 2018 compared to £40.2m (2017 restated), a reduction of approximately 19%. Furthermore we restructured the business to reduce the global administrative footprint by combining the MCG and Proudfoot back-offices across two hubs to service Proudfoot's global business; we sold the Proudfoot Brazilian operations to cost-effectively maintain the Proudfoot brand presence in Brazil through local ownership; and we continue to manage the residual activities and liabilities linked to our discontinued businesses, which has significantly reduced over the course of the last year. The Group reported a narrower adjusted operating loss of £4.2m for the year compared to £7.5m loss in 2017 (restated). The reported loss for the year was £13.7m (2017 restated: £31.0m) after charging non-underlying costs of £2.2m (2017 restated: £1.3m) and the loss on the discontinued business in Brazil of £6.7m (2017 restated: £1.4m).

As previously reported, the Group successfully raised new equity of £8.6m (net of expenses) in July. The issue was well supported by our existing major shareholders and was over-subscribed resulting in applications being scaled back.

The Group's cash and cash equivalents fell to £17.3m as at 31 December 2018 (31 December 2017: £21.0m). This reflects operating losses as well as restructuring costs and the new equity funds raised and included £4.2m (2017: £8.5m) held in escrow accounts connected with the sale of parts of the Kurt Salmon business.

In July Pamela Hackett, CEO of Proudfoot, was appointed to the Board, joining Fiona Czerniawska, and together they raise female representation on the Board to one third.

In 2018, we were able, with the support of our shareholders, to progress substantially the investment and reinvigoration of the Proudfoot business, serving our clients successfully and recruiting experienced sales and delivery talent. It is evident that the Proudfoot model has the potential to grow into a global player with the ability to provide lasting value to the world's business community. As we look ahead to 2019, we will seek to maintain and increase the momentum of the transformation we have started in order to deliver a profitable and growing business.

Financial and Operating Review

The Group results have been restated to exclude the results of the Brazilian business which was sold during the year, and therefore the Group financial statements (and the restated 2017 results) reflect the Brazilian results as discontinued operations. Reported discontinued operations in 2018 also reflect the financial effect of this disposal. Following the sale of its Kurt Salmon businesses in 2015 and 2016, the Group's performance now solely reflects its Proudfoot business.

Alternative Performance Measures

We have adopted the use of certain alternative performance measures and therefore have adjusted profit/loss to reflect the exclusion of material non-underlying costs. The non-underlying costs relate to items which are not related to the normal operating costs of the business and therefore have been removed from operating profit/loss to ensure more clarity around the trading operations of the business. Each of the non-underlying costs have been assessed to determine its nature and that the class of cost would not be expected to recur.

Continuing operations

During 2018 we continued to focus on the transformation of Proudfoot, particularly in the US, with further investment in sales capability and marketing.

Group reported revenue for 2018 was 13% lower at £28.3m (2017 restated: £32.7m), however second half revenues of £14.5m showed growth of 14% compared to the second half of 2017 (restated: £12.7m). Given the lower revenues, and with substantial cost reduction measures of around 19%, the Group reported a reduced adjusted operating loss of £4.2m (2017 restated: loss of £7.5m) for the year as a whole. The lower adjusted loss shows the impact of the significant cost reductions implemented and the improvement in second half revenues compared to 2017. The reported operating loss was also lower at £6.4m (2017 restated: loss of £24.8m)

The Group has reported a net non-underlying charge of £2.2m (2017 restated: £0.7m) comprising a charge of £1.6m relating to restructuring of the Proudfoot business and £0.6m provision relating to additional costs from prior years disposals.

The net interest expense from continuing operations was marginally higher at £0.7m (2017 restated: £0.5m). In accordance with IAS 19 the reported net interest charge for 2018 includes an imputed charge in relation to defined benefit pensions of £0.6m (2017 restated: £0.6m).

The loss before tax on continuing operations was £6.9m (2017 restated: loss of £25.3m). The tax charge on continuing operations was £0.1m (2017 restated: £4.4m credit) which reflects corporate taxes arising in profit-making jurisdictions without the availability of brought forward losses and the impact of project specific withholding taxes, offset by a tax credit relating to prior year adjustments with regard to submitted 2017 tax returns.

As at the date of this report, it is not yet clear whether or when the UK will leave the European Union ('Brexit'). Despite the continued uncertainly, the Board has reviewed the impact of the various potential outcomes of Brexit on the Group, and although the final outcome is not yet clear, we have considered the impact of labour mobility, our client base, regulatory issues, taxation, the potential for more complex administration matters and foreign exchange implications. In particular the Board have considered the impact on our future cash flow forecasts for the purposes of assessing the Group's viability and its status as a going concern. Due to the nature of Proudfoot's business and our group structure and operating model, based on the information available at the date of approval of these financial statements, the Board believes that the Group will not be materially impacted by Brexit, irrespective of the final form this takes.

Discontinued operations

In May 2018, as previously reported, the Group made the decision to sell its Brazilian business, Alexander Proudfoot Servicos Empresarias Ltda. to the local management team. This provided Proudfoot with the ability to maintain a global brand presence in that market but realise the benefits of locally run operations in a non-core market. The loss attributable to discontinued operations was £6.7m which comprises a £1.4m loss after tax for the period and £5.3m being the loss on disposal. The discontinued tax charge of £0.8m relates to a reversal of a tax debtor no longer recoverable.

Loss for the year

Taking into account the loss from discontinued operations, the reported Group loss for the year attributable to shareholders was £13.7m (2017 restated: £31.0m loss).

The adjusted loss per share attributable to continuing operations was 0.5p (restated 2017: loss of 2.4p) and the basic loss per share attributable to continuing operations was 0.7p (restated 2017: loss of 5.8p).

Balance sheet

Intangible assets

Intangible assets of £0.04m (2017: £0.2m) relate solely to computer software assets following the impairment of goodwill in 2017.

Deferred tax assets

The balance sheet includes £0.1m of deferred tax assets (2017: £0.1m). In 2018 and 2017, this principally relates to the deferred tax asset on the French pension scheme offset by a small deferred tax liability in Botswana.

Net cash

At 31 December 2018, the Group reported cash and cash equivalents of £17.3m (2017: £21.0m).

Reported cash balances at 31 December 2018 include £4.2m (2017: £8.5m) of cash required to be retained to support certain contingent creditors of the Group. In particular, €1.6m was held in an escrow account and in addition a further €1.6m was held at HSBC to secure further indemnity obligations to Wavestone, the acquirer of the French and related operations of Kurt Salmon. The HSBC security has been extended to 17th September 2019. The total held in respect of potential Wavestone claims amounts to €3.2m. Although a substantial proportion of this cash is expected to become available to the Group for general corporate purposes as the contingent obligations fall away over time, the exact amount and timing is still subject to uncertainty.

Pensions

The retirement benefits obligation reflected in the Group balance sheet at 31 December 2018 relates to the net liability under a part-funded US defined benefit pension scheme of £9.1m, an unfunded French retirement obligation of £0.3m, and a legacy Kurt Salmon UK defined benefit pension scheme which shows a closing asset position of £0.2m. The US defined benefit pension scheme is not open to new employees and existing members are not accruing further benefits. The net post-retirement obligation for defined benefit schemes increased from £7.3m at 31 December 2017 to £9.1m at 31 December 2018, principally as a result of the actuarial changes in respect of the US scheme liabilities together with a fall in market value of the investments held to support this liability, most of this decline in market value has been reversed in early 2019. During 2017 the fund was managed on a basis to reduce (as far as possible) the deficit between liabilities and assets whilst maintaining an appropriate risk profile. This was achieved by having 60% of the fund in equities and 40% in bonds. This risk profile was adjusted, in early 2018, to a more conservative 60% in bonds and 40% in equities.

Provisions

Provisions principally relate to the cost of leases for surplus property, other onerous contracts, restructuring costs and other liabilities linked to the 2016 disposals. These have decreased from £4.7m at 31 December 2017 to £3.7m at 31 December 2018. The reduction principally relates to the utilisation of the provisions set up to cover the transitional service agreements and onerous leases in Atlanta and San Francisco.

Net assets

The net assets of the Group decreased from £2.1m at 31 December 2017 to £0.8m at 31 December 2018, primarily due to the retained loss for the year offset by the capital increase as a result of raising new equity.

Dividends

The Board does not intend to declare a dividend for 2018 (2017: nil).

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 principal risks and uncertainties section in this announcement. The financial position of the Group is described in this Chairman and Chief Executive's review. In addition, note 2 of the consolidated financial statements include the Group's objectives, policies and processes for managing its capital and its exposures to risk. The Group prepares regular business forecasts 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. The Board used assumptions for 2019 and in particular, the Board noted that Proudfoot revenues in H2 2018 were 14% higher than in the corresponding period of 2017 and early indications are for a continuation of this trend into 2019. For 2020, the Board's base case assumed that Proudfoot's revenues would continue to rise.

In assessing sensitivities, the Board took into account the previous slower than expected pace of change at Proudfoot and the disappointing results in past periods. The Board has, in particular, considered risks related to revenue and looked at assumptions both consistent with the recent past and the long-term changes in revenue. In addition, we have considered the risks related to the Kurt Salmon escrow funds (being an amount of £4.2m as of the date of this report) and have made assumptions on a worst case that these are not resolved during the period of review. The Board has considered mitigating actions that could be taken if these scenarios become likely and these have been reflected in our sensitised forecasts.

These assumptions are predicated on Proudfoot continuing to win and deliver on contracts throughout 2019 and 2020 in line with board expectations.

The Group continues to manage the liabilities related to the disposals made in 2015 and 2016 and, in particular, to negotiate the release of funds held under the escrow arrangements which guarantee certain contingent liabilities relating to the disposal of parts of the Kurt Salmon business in 2016.

The Board has concluded that its forecasts, even on a worst case basis, indicate that the Group has adequate resources to be able to operate for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements.

Outlook

The Board notes Proudfoot revenues in H2 2018 were 14% higher than in the corresponding period of 2017 and early indications are for a continuation of this trend going forwards. The necessary infrastructure has now been put in place for Proudfoot to grow its client base and revenues, and we continue to see evidence that clients value the work we do for them. With this, and the distinctly new positioning of Proudfoot as a firm that delivers not only results but visible behaviour and cultural change for our clients, the Board remains confident in the power of the Proudfoot model to deliver sustainable improvement and change for our clients.

The Board is confident of a return to increasing revenues and profitability within the underlying Proudfoot business together with a successful resolution of historic liabilities on disposals.

Principal risks and uncertainties

Identifying key areas

The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

Risk management process

The risk management process can be summarised as follows:

Identify risk, then assess, develop mitigation plans, reassess and report to the Board

1. Demand for services provided by Proudfoot in the markets and sectors in which it operates

Description

Proudfoot operates in several geographies and industry sectors and demand for its services can be affected by global, regional or national macro-economic conditions and conditions within individual industry sectors. Proudfoot operates in a competitive environment, where other consulting firms seek to provide similar services to its clients. Changes in demand for Proudfoot's services can significantly impact revenues and profits.

Mitigation

In response to anticipated changes in demand and competitive pressures, the Group made changes in 2018 to Proudfoot's offering to exploit opportunities for business in geographies and sectors where demand is increasing. Proudfoot operates a flexible model and can deploy staff to areas of higher demand to optimise utilisation. Part 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.

Level

Market conditions in 2018 varied between the key sectors and geographies in which Proudfoot operates, in some cases showing positive trends, in others negative ones. Demand from Natural Resources clients, a key sector for Proudfoot's services, improved in 2018.

2 Development and retention of key client relationships

Description

Proudfoot typically contracts with clients for the delivery of project-related consulting services over relatively short periods. These individual projects can lead to repeat business or form part of a longer-term series of related projects. However, individual clients may change their preferred suppliers or may change the quantity of such services or the price at which they buy such services. Failure by Proudfoot to develop and retain client relationships could result in a significant reduction in the Group's revenues. Potential unforeseen contractual liabilities may arise from client engagements that are not completed satisfactorily.

Mitigation

The changes made to Proudfoot's business processes in 2018 were designed to promote and enhance client relationships, and to generate revenues over longer periods than those of a typical single project. This includes different contracting models as well as a continued focus on the delivery of high quality work that meets clients' expectations. Our human resources management policies 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.

Increasing

Proudfoot has retained key client relationships and continued to work to develop new long-term relationships. Repeat work for clients in 2018 rose to 63%

3 Recruitment and retention of talented employees

Description

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, or which results in their unforeseen departure from the business, may have detrimental consequences on the Group's financial performance. The Group has made a number of important hires in 2018 notably in its US business.

Mitigation

The Group has remuneration policies and structures that reward good performance 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. The Group is actively looking to hire from as broad a pool of talent as possible.

Increasing

Staff retention has been managed effectively and we have recruited in areas of the business which are being developed as the business returns to growth. Further skilled consultants will need to be recruited.

4 Optimisation of the Group's intellectual capital

Description

The intellectual capital of the Proudfoot business, 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.

Mitigation

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.

Level

We have continued to invest to develop new offerings and to build our intellectual capital.

5 Fluctuations in foreign currency exchange rates

Description

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.

Mitigation

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.

Level

Currency volatility has not had a significant impact on reported revenues and operating results in 2018.

6. Management of residual liabilities

Description

In 2016, the Group completed three major disposals. As part of these disposals, the Group agreed to provide certain transitional services and also retained responsibility for certain contingent liabilities relating to the businesses sold. It placed certain of its cash balances in escrow as guarantees for these potential liabilities. The amount of actual costs and the timing and amount of the release of cash from escrow could vary from our initial assumptions, thereby reducing the amount of liquidity available for the Group's Continuing operations.

Mitigation

The initial contractual arrangements were structured to limit in amount and time the overall potential liabilities of the Group and management monitors the actual costs and potential liabilities.

Level

Whilst transition services agreements have been effectively managed and have now been completed, there remains risk to the effective timing of release from liabilities (including of cash reserved to cover them) arising from existing warranty claims from the acquirers.

7. Pension liabilities

Description

The Group has a number of retirement plans covering both current and former employees, including defined benefit plans notably in the US and the UK. The US defined benefit pension scheme is not open to new employees and existing members are not accruing further benefits. The net post-retirement obligation for defined benefit schemes increased from £7.3m at 31 December 2017 to £9.3m at 31 December 2018, principally as a result of the actuarial changes in respect of the US scheme liabilities together with a fall in market value of the investments held to support this liability. There is a risk that the amount of the liability changes depending on the actuarial value and investment return in the schemes. In addition, there is a risk that if the funding ratio in the US drops significantly there would be a risk for additional contributions into the fund thereby decreasing the Group’s cash resources.

Mitigation

The Group maintains an active dialogue with the trustees of the plans. In addition, the Group continues to explore exit plans for the remaining plan members of the Kurt Salmon UK pension scheme.

Level

The increased liability for the US defined benefit pension scheme due to falls in the stock market in December 2018. These market losses were materially reversed in January 2019 and the deficit has subsequently reduced.

Viability statement

As referred to above, the Board having considered the impact of Brexit, do not see this resulting in any significant additional challenges to the Group and therefore does not change in our view the Group’s viability.

The Directors have assessed the Group’s prospects, taking into account its current position and the principal risks to the business, over a two-year time period. The Directors consider this to be the appropriate time horizon given the Group’s continuing operations, retained obligations after the 2015 and 2016 disposals, its financial position and the industry segments to which it provides services. Furthermore, the use of a two year review period is considered appropriate due to the nature of short term nature of the order book. This is consistent with the period which has been used for planning purposes and with the approach taken in 2017.

Having completed the fund raising in 2018 and reduced the Group’s cost base, the stress testing of the Group’s cash flows show that the business can withstand further delays to recovery, which are not expected, without the need for further cash resources.

Following the disposals, the Group’s continuing business comprises Proudfoot, and is materially smaller, less diverse and has reduced global reach and scale. The Board remains committed to improving the performance of Proudfoot and restoring that business to profitable growth. Proudfoot has a long-established brand and a historically successful business model. The Board has in place a plan to restore revenue growth and profitability in the Proudfoot business. The Board has prepared an operating budget and financial projections for the Group covering 2019 and 2020 as part of its strategic planning process. The Directors have assessed the financial impact of potential downside financial scenarios, taking into account the principal risks to the business, and the potential uncertainties arising from Brexit and the actions that the Board can take to mitigate those risks and reduce costs. The Board has, in particular, considered risks related to revenue and looked at assumptions consistent with both the recent and long-term changes in revenue, including no growth in revenue and decreasing revenue in line with historic long-term trends. In addition, the Board has considered the risks related to the Kurt Salmon escrow funds (being an amount of £4.2m as of the date of this report) and have made assumptions on a worst case that these are not resolved during the period of review. The Board has considered mitigating actions that could be taken if these scenarios become likely and these have been reflected in the Group’s sensitised forecasts. The Board has concluded that, even in the reasonable worse case, the Group has sufficient cash resources.

On the basis of the assessment summarised above, the Directors have a reasonable expectation that the Group can continue to operate and meet its liabilities as they fall due for the foreseeable future, being the two years considered.

Group income statement
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000 Restated
Continuing operations			
Revenue	5	**28,285**	32,714
Cost of sales		**(13,975)**	(17,122)
Gross profit		**14,310**	15,592
Administrative expenses – adjusted	6	**(18,521)**	(23,068)
Loss from operations – adjusted		**(4,211)**	(7,476)
Administrative expenses – non-underlying impairment	6a	**—**	(16,665)
Administrative expenses – non-underlying other	6a	**(2,156)**	(1,336)
Administrative expenses – non-underlying credit	6a	**—**	664
Total administrative expenses		**(20,677)**	(40,405)
Operating loss		**(6,367)**	(24,813)
Investment revenues	8a	**89**	224
Finance costs	8b	**(670)**	(719)
Loss before tax	6	**6,948**	(25,308)
Tax	9	**(112)**	(4,350)
Loss for the period from continuing operations		**(7,060)**	(29,658)
Loss for the period from discontinued operations	12	**(6,670)**	(1,361)
Loss for the period		**(13,730)**	(31,019)
Loss per share – pence			
From loss from continuing operations for the year attributable to owners of the Company:			
Basic	10	**(0.6)**	(5.8)
Diluted	10	**(0.6)**	(5.8)
Basic – adjusted	10	**(0.5)**	(2.4)
Diluted – adjusted	10	**(0.5)**	(2.4)
From the loss for the period:			
Basic	10	**(1.4)**	(6.1)
Diluted	10	**(1.4)**	(6.1)
Basic – adjusted	10	**(0.6)**	(2.6)
Diluted – adjusted	10	**(0.6)**	(2.6)

Group statement of comprehensive income

for the year ended 31 December 2018

	2018 **£'000**	2017 £'000
Loss for the year	**(13,730)**	(31,019)
Items that will not be reclassified subsequently to profit and loss		
Actuarial (losses)/gains on defined benefit post-retirement obligations	**(789)**	3,838
Tax items taken directly to comprehensive income	**6**	(3,867)
Exchange differences recycled through loss for the year as part of the Brazil disposal	**4,931**	-
	4,148	(29)
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	**(342)**	643
	(342)	643
Total comprehensive expense for the year attributable to owners of the Company	**(9,924)**	(30,405)

Group statement of changes in equity

for the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Share compensation reserve £'000	Shares held by employee benefit trusts £'000	Translation reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	**5,111**	**8,023**	**226**	**(108)**	**(3,376)**	**7,064**	**15,672**	**32,612**
Loss for the period	—	—	—	—	—	—	(31,019)	(31,019)
Other comprehensive income/(expense)	—	—	—	—	643	—	(29)	614
Total comprehensive income/(expense)	**—**	**—**	**—**	—	**643**	**—**	**(31,048)**	**(30,405)**
Share based payments	—	—	(63)	—	—	—	—	(63)
Lapsed/Vested shares	—	—	(5)	—	—	—	—	(5)
Shares transferred from ESOP	—	—	—	5	—	—	—	5
Balance at 31 December 2017	**5,111**	**8,023**	**158**	**(103)**	**(2,733)**	**7,064**	**(15,376)**	**2,144**
Loss for the period	—	—	—	—	—	—	(13,730)	(13,730)
Other comprehensive income/(expense)	—	—	—	—	4,589	—	(783)	3,806
Total comprehensive income/(expense)	**—**	**—**	**—**	—	**4,589**	**—**	(14,513)	(9,924)
Transition to IFRS 9	—	—	—	—	—	—	(153)	(153)
Issue of new shares	10,054	(1,409)	—	—	—	—	—	8,645
Share based payments	—	—	74	—	—	—	—	74
Balance at 31 December 2018	**15,165**	**6,614**	**232**	**(103)**	**1,856**	**7,064**	**(30,042)**	**786**

Group balance sheet

as at 31 December 2018

	2018 £'000	2017 £'000
Non-current assets		
Intangible assets and goodwill	**40**	151
Property, plant and equipment	**108**	358
Other receivables	**420**	394
Deferred tax assets	**86**	79
Total non-current assets	**654**	982
Current assets		
Trade and other receivables	**6,400**	4,075
Current tax receivables	**164**	965
Cash and cash equivalents	**17,263**	20,979
Total current assets	**23,827**	26,019
Total assets	**24,481**	27,001
Current liabilities		
Trade and other payables	**(9,548)**	(11,390)
Current tax liabilities	**(1,153)**	(1,391)
Total current liabilities	**(10,701)**	(12,781)
Net current assets	**13,126**	13,238
Non-current liabilities		
Retirement benefit obligations	**(9,286)**	(7,320)
Deferred tax liabilities	**(4)**	(24)
Long-term provisions	**(3,704)**	(4,732)
Total non-current liabilities	**(12,994)**	(12,076)
Total liabilities	**(23,695)**	(24,857)
Net assets	**786**	2,144
Equity		
Share capital	**15,165**	5,111
Share premium account	**6,614**	8,023
Share compensation reserve	**232**	158
Shares held by employee benefit trusts	**(103)**	(103)
Translation reserve	**1,856**	(2,733)
Other reserves	**7,064**	7,064
Retained earnings	**(30,042)**	(15,376)
Equity attributable to owners of the Company	**786**	2,144

Group cash flow statement

for the year ended 31 December 2018

	Note	**2018 £'000**	2017 £'000
Net cash outflow from operating activities	11	**(11,867)**	(15,014)
Investing activities			
Interest received		**89**	224
Purchases of property, plant and equipment		**(4)**	(108)
Purchases of intangible assets		**—**	(15)
Net cost of disposal		**(804)**	—
Net cash (used in)/generated from investing activities		**(719)**	101
Financing activities			
Net proceeds of issue of new shares		**8,645**	—
Net cash generated from financing activities		**8,645**	—
Net decrease in cash and cash equivalents		**(3,941)**	(14,913)
Cash and cash equivalents at beginning of year		**20,979**	38,067
Effect of foreign exchange rate changes on cash		**225**	(2,175)
Cash and cash equivalents at end of year	11	**17,263**	20,979

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated balance sheet position as shown above.

Notes

1. Basis of preparation

The financial information included in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's annual general meeting. An unqualified report including an emphasis of matter in respect of going concern was issued on the 2017 financial statements, and did not contain statements under section 498 Companies Act 2006. A condensed version is attached to this preliminary announcement.

While the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS.

The Group's Annual Report and Accounts and notice of Annual General Meeting will be sent to shareholders and will be available at the Company's registered office at St Paul's House, 4th Floor, 10 Warwick Lane, London, EC4M 7BP, United Kingdom and on our website: www.mcgplc.com.

2. Significant accounting policies

The financial information has been prepared in accordance with IFRS. These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (as at 31 December 2018). The policies have been consistently applied to all the periods presented.

Full details of the Group's accounting policies can be found in note 2 to the 2017 Annual Report which is available on our website: www.mcgplc.com.

3. 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 Strategic Report. The Group prepares regular business forecasts 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. The Board used assumptions for 2019 and in particular, the Board noted that Proudfoot revenues in H2 2018 were 14% higher than in the corresponding period of 2017 and early indications are for a continuation of this trend into 2019. For 2020, the Board's base case assumed that Proudfoot's revenues would continue to rise.

In assessing sensitivities, the Board took into account the previous slower than expected pace of change at Proudfoot and the disappointing results in past periods. The Board has, in particular, considered risks related to revenue and looked at assumptions both consistent with the recent past and the long-term changes in revenue, including no growth in revenue and decreasing revenue in line with historic long-term trends. In addition, we have considered the risks related to the Kurt Salmon escrow funds (being an amount of £4.2m as of the date of this report) and have made assumptions on a worst case that these are not resolved during the period of review. The board has considered mitigating actions, including reductions in discretionary compensation and reversal of the investments made in marketing and business development expenditure that could be taken if any of these scenarios become likely and these have been reflected in our sensitised forecasts.

In addition, the Board has taken into consideration, as at the date of this report, that it is not yet clear whether or when the UK will leave the European Union ('Brexit'). Despite the continued uncertainly, the Board has reviewed the impact of the various potential outcomes of Brexit on the Group, and although the final outcome is not yet clear, we have considered the impact of labour mobility, our client base, regulatory issues, taxation, the potential for more complex administration matters and foreign exchange implications. In particular the Board have considered the impact on our future cash flow forecasts for the purposes of assessing the Group's status as a going concern. Due to the nature of Proudfoot's business and our group structure and operating model, based on the information available at the date of approving these financial statements, the Board believes that the Group will not be materially impacted by Brexit, irrespective of the form this takes.

The Group continues to manage the liabilities related to the disposals made in 2015 and 2016 and, in particular to negotiate the release of funds held under the escrow arrangements which guarantee certain contingent liabilities relating to the disposal of parts of the Kurt Salmon business in 2016.

These assumptions are predicated on Proudfoot continuing to win and deliver on contracts throughout 2019 and 2020 in line with board expectations

The Board has concluded that its forecasts, even on a worst case basis, indicate that the Group has adequate resources to be able to operate for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements.

4. Alternative performance measures

The Group has adopted a number of alternative performance measures to provide additional information to understand underlying trends and the performance of the Group. These alternative performance measures are not defined by IFRS and therefore may not be directly comparable to other companies' alternative performance measures.

Adjusted profit/loss from operations

The Group's operating results are split between adjusted and non-underlying to better understand the performance of the group without distortion by items of income and expense that are of non-underlying in nature. The definition of non-underlying is referred to below. Adjusted profit/loss is used by management internally to evaluate performance and to establish and measure strategic goals. Adjusted profit/loss is arrived at by removing non-underlying items from operating profit/loss as seen on the face of the income statement reconciled to gross and operating profit. Adjusted loss per share is reconciled to loss per share by removing non-underlying items from operating profit/loss.

Non-underlying

Non-underlying items are those significant charges or credits which, in the opinion of the directors, should be disclosed separately 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-underlying items include charges for impairment, restructuring costs, employee severance, acquisition costs and profits/losses on disposals of subsidiaries. The Group exercises judgement in assessing whether items should be classified as non-underlying. This assessment covers the nature of the item and the material impact of that item on reported performance. Reversals of previous items are assessed based on the same criteria. Items charged to non- underlying are one off in nature and typically comprise restructuring, impairments, disposals and acquisitions. None of these items form part of the ongoing operational costs of the business.

5. Operating segments

The Group's continuing operating segment is one professional services practice, Proudfoot. 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.

(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 area:

(i) Revenue and adjusted operating loss by geography

Year ended 31 December 2018	**Americas £'000**	**Europe £'000**	**Rest of the World £'000**	**Group £'000**
Revenue – continuing operations	**7,101**	**18,751**	**2,433**	**28,285**
Adjusted (Loss)/profit from operations	**(4,249)**	**696**	**(658)**	**(4,211)**
Non-underlying expenses	**(608)**	**(1,409)**	**(139)**	**(2,156)**
Loss from operations	**(4,857)**	**(713)**	**(797)**	**(6,367)**
Investment revenue				**89**
Finance costs				**(670)**
Loss before tax				**(6,948)**

Included in revenues arising from Europe are revenues of approximately £3.7m which arose from sales in 2018 to the Group's largest customer. In 2017, revenues in Americas reflected £3.6m of revenue which arose from sales to Groups largest customer. In either year no other single customer contributed to 10% or more to the Group's revenue in 2018 or 2017.

Year ended 31 December 2017	Americas £'000 restated	Europe £'000 restated	Rest of the World £'000 restated	Group £'000 restated
Revenue – continuing operations	12,988	14,762	4,964	32,714
Adjusted loss from operations	(5,321)	(1,580)	(575)	(7,476)
Non-underlying expenses	(1,037)	(148)	(151)	(1,336)
Non-underlying income	664	—	—	664
Loss from operations before impairment	(5,694)	(1,728)	(726)	(8,148)
Goodwill impairment				(16,665)
Loss from operations				(24,813)
Investment revenue				224
Finance costs				(719)
Loss before tax				(25,308)

(ii) Net assets by geography

At 31 December 2018	**Americas £'000**	**Europe £'000**	**Rest of the World £'000**	**Group £'000**
Assets				
Intangibles	**40**	**—**	**—**	**40**
Other segment assets	**3,353**	**5,510**	**105**	**8,968**
Total assets allocated to segments	**3,393**	**5,510**	**105**	**9,008**
Unallocated corporate assets				**15,473**
Consolidated total assets				**24,481**
Liabilities				
Segment liabilities	**(11,194)**	**(6,522)**	**(1,038)**	**(18,754)**
Unallocated corporate liabilities				**(4,941)**
Consolidated total liabilities				**(23,695)**
Net assets				**786**

At 31 December 2017	Americas £'000 restated	Europe £'000 restated	Rest of the World £'000 restated	Group £'000 restated
Assets				
Intangibles	151	—	—	151
Other segment assets	2,401	3,417	901	6,719
Total assets allocated to segments	2,552	3,417	901	6,870
Unallocated corporate assets				20,131
Consolidated total assets				27,001
Liabilities				
Segment liabilities	(10,909)	(5,692)	(2,269)	(18,870)
Unallocated corporate liabilities				(5,987)
Consolidated total liabilities				(24,857)
Net assets				2,144

6. Loss before tax

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

	Note	**2018 £'000**	2017 £'000 restated
Net foreign exchange losses		**58**	1,175
Amortisation of intangible assets		**114**	1,503
Depreciation of property, plant and equipment		**126**	784
Loss on disposal of fixed assets		**117**	—
Non-underlying items - impairment	6a	—	16,665
Non -underlying expense - other	6a	**2,156**	1,336
Non-underlying income	6a	—	(664)
Staff costs	7	**20,456**	23,557
Auditors remuneration		**602**	414

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

Auditor's remuneration	**2018 £'000**	2017 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**50**	47
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries	**182**	173
Total audit fees	**232**	220
Taxation compliance services	**71**	51
Audit related assurance services	**38**	30
Taxation advisory services	**11**	—
Other non-audit services[*]	**250**	113
Total non-audit fees	**370**	194
Total auditor's remuneration	**602**	414

* Other non-audit services in 2018 include a fee of £250,000 for reporting accounts work performed in respect of the placing and open offer. (2017: £112,500 for reviewing the projections and assumptions within the Group's financial models).

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 are safeguarded when non-audit services are provided by the auditor.

6a. Non underlying items

	2018 £'000	2017 £'000 restated
Restructuring	**1,630**	984
Employee provision	**—**	352
Goodwill impairment	**—**	16,665
Defined medical benefit scheme closure	**(74)**	(664)
Additional costs relating to prior year disposals	**600**	—
	2,156	17,337

Items charged to non- underlying are one off in nature and typically comprise restructuring, impairments, disposals and acquisitions. None of these items form part of the ongoing operational costs of the business. The £2.2m (2017 restated: £17.3m) of non-underlying expenses comprises £0.9m of restructuring related redundancy costs and employee severance, £0.7m in relation to advisory fees incurred for restructuring, and £0.6m provision relating to additional costs from prior years disposals. The £0.1m credit is in relation to the release of a provision in relation to the closure of the Proudfoot Defined Benefit medical Scheme in December 2016

£17.3m of non-underlying expenses in 2017 comprise £16.7m of goodwill impairment, £0.9m of restructuring-related redundancy costs and employee severance, £0.3m in connection to a provision charge for a former Proudfoot employee's ongoing contractual pension payments and £0.1m in relation to advisory fees incurred for restructuring. The £0.7m credit is in relation to the release of a provision in relation to the closure of the Proudfoot Defined Benefit Medical Scheme in December 2016.

7. 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:

	2018 Number	2017 re-presented
Sales and marketing	**42**	38
Consultants	**79**	107
Support staff	**33**	46
Continuing activities	**154**	191
Discontinued operations	**19**	23
Total	**173**	214

The number of Group employees at the year-end was 147 being employed by continuing operations (2017 restated: 191).

The aggregate payroll costs were as follows:

	2018 £'000	2017 £'000 restated
Wages and salaries	**18,063**	20,573
Social security costs	**1,693**	2,163
Other including pension costs	**700**	821
	20,456	23,557

The average number of Company employees for the year was 9 (2017: 11). The payroll costs of the Company were £1,605,000 (2017: £1,565,000) for wages and salaries, £140,000 (2017: £189,000) for social security costs and £77,000 (2017: £68,000) for pension costs. Disclosures in respect of directors' emoluments are included in the Directors' Remuneration Report.

8a. Investment revenues

	2018 £'000	2017 £'000
Interest receivable on bank deposits and similar income	**89**	224

8b. Finance costs

	2018 £'000	2017 £'000
Interest payable on bank overdrafts and loans and similar charges	**(37)**	(77)
Finance costs on retirement benefit plans	**(633)**	(642)
	(670)	(719)

9. Tax

Recognised in the income statement: Income tax expense on continuing operations	2018 Before non-underlying items £'000	2018 Non-underlying items £'000	2018 Total £'000	2017 Before non-underlying items £'000 restated	2017 Non-underlying items £'000 restated	2017 Total £'000 restated
Current tax						
Current year	**380**	**—**	**380**	856	—	856
Adjustment in respect of prior years	**(249)**	**—**	**(249)**	95	—	95
Current tax expense	**131**	**—**	**131**	951	—	951
Deferred tax						
Current year	**(19)**	**—**	**(19)**	3,204	6	3,210
Adjustment in respect of prior years	**—**	**—**	**—**	189	—	189
Deferred tax (credit)/expense	**(19)**	**—**	**(19)**	3,393	6	3,399
Total income tax						
Income tax expense on continuing activities	**112**	**—**	**112**	4,344	6	4,350

The income tax expense for the year is based on the effective United Kingdom statutory rate of corporation tax for the period of 19% (2017: 19.25%). Overseas tax is calculated at the rates prevailing in the respective jurisdictions.

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

	2018 Before non-underlying items £'000	2018 Non-underlying items £'000	2018 Total £'000	2017 Before non-underlying items £'000 restated	2017 Non-underlying items £'000 restated	2017 Total £'000 restated
Loss before tax from continuing operations	**(4,792)**	**(2,156)**	**(6,948)**	(7,971)	(17,337)	(25,308)
Notional income tax credit at the effective UK tax rate of 19.00% (2017: 20.0%)	**(910)**	**(424)**	**(1,334)**	(1,534)	(3,337)	(4,871)
Unrelieved current year tax losses	**1,925**	**266**	**2,191**	2,688	262	2,950
Irrecoverable withholding tax	**153**	**—**	**153**	231	—	231
Effects of different tax rates of subsidiaries operating in other jurisdictions	**(293)**	**—**	**(293)**	(71)	1	(70)
Reassessment of deferred tax recognition policy	**—**	**—**	**—**	3,291	—	3,291
Profits offset by losses not previously recognised	**(452)**	**—**	**(452)**	(746)	—	(746)
Other temporary differences not previously recognised	**(573)**	**—**	**(573)**	(1,713)	—	(1,713)
Permanent differences	**511**	**158**	**669**	1,915	3,080	4,995
Relating to prior years	**(249)**	**—**	**(249)**	283	—	283
Income tax expense on continuing operations	**112**	**—**	**112**	4,344	6	4,350
Effective tax rate for the year	**(2%)**		**(2%)**	(54%)		(17%)

Permanent differences reflect tax adjustments for intercompany transactions where taxable income in one territory is not mirrored by a taxable deduction in the other territory, and other non-tax deductible items such as client entertaining, fines and penalties, and costs of a capital nature.

	2018 £'000	2017 £'000
Tax credited to other comprehensive income		
Deferred tax credits on actuarial and other movements on post-employment benefits	**(6)**	(3,867)
Tax charged on items recognised in other comprehensive income	**(6)**	(3,867)

10. Earnings per share

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

Earnings	2018 All £'000	2018 Continuing £'000	2018 Discontinued £'000	2017 re-presented All £'000 restated	2017 re-presented Continuing £'000 restated	2017 re-presented Discontinued £'000 restated
Loss for the period	**(13,730)**	**(7,060)**	**(6,670)**	(31,019)	(29,658)	(1,361)
Add back: non-underlying items	**2,156**	**2,156**	—	1,070	672	398
Add back: non-underlying items - impairment	—	—	—	16,665	16,665	—
Adjustment for profit on disposals	**5,287**	—	**5,287**	—	—	—
Reduction in tax charge due to add backs	—	—	—	(192)	(192)	—
Adjusted (loss)/profit for the period	**(6,287)**	**(4,904)**	(1,383)	(13,476)	(12,513)	(963)

Number of shares	2018 Number million	2017 Number million
Weighted average number of ordinary shares for the purposes of basic earnings per share, and basic excluding non-underlying items and amortisation of acquired intangibles	**930**	511
Effect of dilutive potential ordinary shares:		
Restricted share plan	**0**	0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**930**	511

(Loss)/earnings per share	2018 All Pence	2018 Continuing Pence	2018 Discontinued Pence	2017 re-presented All Pence	2017 re-presented Continuing Pence	2017 re-presented Discontinued Pence
Basic (loss)/profit per share for the year attributable to the owners of the Company	**(1.4)**	**(0.7)**	**(0.7)**	(6.1)	(5.8)	(0.3)
Diluted (loss)/profit per share for the year attributable to the owners of the Company	**(1.4)**	**(0.7)**	**(0.7)**	(6.1)	(5.8)	(0.3)
Basic (loss)/profit per share – excluding non-underlying items and amortisation of acquired intangibles	**(0.6)**	**(0.5)**	**(0.1)**	(2.6)	(2.4)	(0.2)
Diluted (loss)/profit per share – excluding non-underlying items and amortisation of acquired intangibles	**(0.6)**	**(0.5)**	**(0.1)**	(2.6)	(2.4)	(0.2)

The average share price for the year ended 31 December 2018 was 3.4p (2017: 7.2p).

The weighted average number of the Company's ordinary shares used in the calculation of diluted loss per share in 2018 includes rights over 364,890 ordinary shares (2017: 364,890).

11. Notes to the cash flow statement

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Operating loss from continuing operations	**(6,367)**	(25,788)	**(11,364)**	(13,228)
Operating loss from discontinued operations	**(612)**	(251)	**—**	—
Operating loss	**(6,979)**	(26,039)	**(11,364)**	(13,228)
Adjustments for:				
Depreciation of property, plant and equipment	**126**	273	**30**	105
Amortisation of intangible assets	**114**	223	**-**	6
Loss on disposal of fixed assets	**117**	—	**55**	—
Adjustment for the cost of share awards	**78**	(87)	**78**	(87)
(Increase)/decrease in provisions	**(1,078)**	(2,598)	**311**	2,561
Goodwill impairment	**—**	16,665	**—**	—
Non-cash Intercompany debt forgiveness	**—**	—	**8,048**	(83,568)
Non-cash dividend	**—**	**—**	**—**	(14,669)
Impairment of investments	**—**	—	**—**	110,020
Other non-cash items	**58**	1,045	**74**	1,148
Operating cash flows before movements in working capital	**(7,564)**	(10,518)	**(2,768)**	2,288
(Increase)/decrease in receivables	**(2,141)**	3,160	**28**	903
Decrease in payables	**(1,838)**	(6,739)	**(395)**	(1,832)
Cash used in by operations	**(11,543)**	(14,097)	**(3,135)**	1,359
Income taxes paid	**(287)**	(840)	**—**	—
Interest paid	**(37)**	(77)	**—**	**—**
Net cash outflow from operating activities	**(11,867)**	(15,014)	**(3,135)**	1,359

The Group had no financing liabilities arising from cash flow activities in the year ended 31 December 2018.

Included within the 2018 Group cash balance of £17.3m and Company cash balance of £13.1 is £4.2m (2017: £8.5m) of cash which is not available for use by the Group. This represents cash held in restricted bank accounts which is required to be retained to support indemnity obligations to Wavestone, the acquirer of the French and related operations of Kurt Salmon and in support of the Kurt Salmon UK pension scheme, which became the PLC Company's obligation following the sale of the Kurt Salmon retail and consumer goods operations.

12. Discontinued operations and disposals

Discontinued operations comprise Brazilian operations and for 2017 discontinued operations also comprised residual transitional service agreements and obligations including contingent liabilities of the business that were sold in 2016. Costs relating to prior year disposals incurred during 2018 have not been reclassed to discontinued and are recognised in non-underlying expenses within the Group income statement for continuing operations.

The sale of the Brazilian entity was completed on 23 May 2018 for cash consideration of $80,000. The results of its operations and the loss on disposal are reported as discontinued operations. The comparatives for 2017 have been restated on the same basis in relation to discontinued operations. The disposed entity was presented in the geographical region of the Americas.

The loss after tax for Brazil for the year up to disposal date was £1.4m (2017 £1.1m). The loss on disposal before the effect of foreign exchange was £0.3m. The loss on disposal includes £4.9m of cumulative historic foreign exchange losses which crystallise on disposal and are therefore transferred from the translation reserve. The results of the discontinued operations, which have been included in the consolidated income statement within the loss from discontinued operations line, were as follows:

	2018				2017			
	Brazil £'000	**Kurt Salmon France £'000**	**Kurt Salmon Consumer Group £'000**	**Total £'000**	Brazil £'000	Kurt Salmon France £'000	Kurt Salmon Consumer Group £'000	Total £'000
Revenue	**446**	—	—	**446**	2,389	—	—	2,389
Cost of sales	**(334)**	—	—	**(334)**	(1,524)	—	—	(1,524)
Gross profit	**112**	—	—	**112**	865	—	—	865
Administrative expenses – underlying	**(724)**	—	—	**(724)**	(1,693)	—	—	(1,693)
Loss from operations – adjusted	**(612)**	—	—	**(612)**	(828)	—	—	(828)
Administrative expenses – non-underlying other	**—**	—	—	**—**	(147)	(1,396)	(1,143)	(2,686)
Administrative expenses – non underlying credit	**—**	—	—	**—**	—	—	2,288	2,288
Total administrative expenses	**(724)**	—	—	**(724)**	(1,840)	(1,396)	1,145	(2,091)
(Loss)/profit from operations	**(612)**	—	—	**(612)**	(975)	(1,396)	1,145	(1,226)
Net finance cost	**—**	—	—		—	—	—	—
(Loss)/Profit) before tax	**(612)**	—	—	**(612)**	(975)	(1,396)	1,145	(1,226)
Attributable tax expense	**(771)**	—	—	**(771)**	(135)	—	—	(135)
(Loss)/profit after tax	**(1,383)**	—	—	**(1,383)**	(1,110)	(1,396)	1,145	(1,361)
Loss on disposal of discontinued operations	**(5,287)**	—	—	**(5,287)**	—	—	—	—
Net (loss)/profit attributable to discontinued operations	**(6,670)**	—	—	**(6,670)**	(1,110)	(1,396)	1,145	(1,361)

In 2017, the French and related operations of Kurt Salmon non-underlying expenses relate to a provision for future employee related litigation claims arising post sale of this business to Wavestone. The Kurt Salmon Consumer Group net non-underlying credit relates to a release of surplus TSA onerous space and contract provisions following the sublet of the legacy San Francisco office (£2.3m) and charges relating to provision for tax claims arising from the sale of the business to Accenture of net £0.3m and £0.8m of provision relating to the continued administration of the legacy Kurt Salmon UK defined benefit pension scheme.

Disposal of Subsidiary

The net assets of Proudfoot Brazil at the date of disposal were as follows:

	2018 £'000
Property plant and equipment	7
Trade and other receivables	76
Cash	573
Total assets disposed	656
Trade and other payables	(889)
Current tax liabilities	(146)
Total liabilities disposed	(1,035)
Net liabilities disposed	(379)
Disposal expenses – net	735
FX on disposal	4,931
Loss on disposal	5,287

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MANAGEMENT CONSULTING GROUP PLC ON THE PRELIMINARY ANNOUNCEMENT OF MANAGEMENT CONSULTING GROUP PLC

As the independent auditor of Management Consulting Group Plc, we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Management Consulting Group Plc's preliminary announcement statement of annual results for the period ended 31 December 2018.

The preliminary statement of annual results for the period ended 31 December 2018 includes summary financial statements, related disclosures required by the Listing Rules, Chairman's Statement, and financial and operational overview. We are not required to agree to the publication of the trading statement and overview from management.

The directors of Management Consulting Group Plc are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of Management Consulting Group Plc is complete and we signed our auditor's report on 14 March 2019. Our auditor's report is not modified and contains no emphasis of matter paragraph.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

Going Concern

Key Audit Matter Description

Management is required to assess the ability of the Group to continue as a going concern for the foreseeable future. Management is also required to provide information to stakeholders about the economic and financial viability of the Group and to help demonstrate the directors' stewardship and governance of the company in that respect. At the time that the 2017 Financial Statements were issued, management's forecasts for the business contained a number of assumptions upon which there were material uncertainties which cast significant doubt about the entity's ability to continue as a going concern.

At 31 December 2018, the Group had shown improved results with an increase in activity and revenue at the end of 2018 and evidence of continued growth in the early part of 2019. During the course of 2018 the Group also raised £8.6 million (net of issue costs) from the issue of new shares in July 2018. At 31 December 2018 the Group had £17.3m of cash, including £4.2m of restricted cash. Net cash outflows from operating activities in 2018 was £12.0m.

Under management's 'base case' forecast, refer to Note 2 in the annual report (Note 3 in the Preliminary Announcement), and under management's sensitised forecast, revenue was forecast to grow. Under both scenarios, the Group has sufficient headroom up to December 2020.

How the scope of our audit responded to the key audit matter

We have reviewed and challenged the key assumptions made by management in the cash flow forecasts, particularly in respect of revenue growth, which we considered to be optimistic and necessitating further downward sensitivity.

The procedures performed included:

- Challenging the Board's approved forecasts and obtained sensitised versions of that forecast which include a number of reasonably possible down-side scenarios. Those down-side scenarios do not cover every conceivable eventuality and assume a level of stabilisation of the business compared with historic performance;

- Review of the documentation in connection with the release of the escrow funds and the letter of intent in connection with the fund raising;

- Assessing the design and implementation of controls around management's forecasting processes;

- Considering the arithmetic accuracy of and key principles underlying the forecasts presented to the Board;

- Considering and evaluating the key assumptions within management's forecasts, with particular focus on assessment of forecasts against historical forecasting accuracy as well as the potential impact of the uncertainty created by Brexit on the forecasted revenue.

While we noted the evidence of improved performances in Quarter 4 2018 and Quarter 1, to date, 2019, we also considered that the reversal in revenue decline was only recent and therefore may not necessarily be indicative of a longer term trend. The longer term average revenue decline over the previous four years (excluding disposed operation) averaged 13.5%. Given this historical trend we performed additional sensitivities, modelling scenarios in which:

- revenue remains flat in 2019 and 2020; and

- revenue continues to decline at the long term average of 13.5% per annum.

In both cases, we considered reasonable mitigating actions management could undertake, including:

- reduction in sales related headcount; and

- reduction in discretionary marketing spend, bonuses and other costs.

Key Observations

Under both the additional sensitivity scenarios, the Group's forecast unrestricted cash remains positive throughout the period.

We are therefore satisfied that directors' use of the going concern assumption is appropriate.

Revenue recognition and the adoption of IFRS 15

Key audit matter description

We consider the risk specifically relates to the cut-off and valuation of revenue manifesting as the valuation of contract assets (previously accrued income) and contract liabilities (previously deferred income) on ongoing projects at year end. Please refer to the Audit and Risk committee's assessment on this matter in the annual report and Note 2 of the Annual Report for the accounting policies relating to revenue recognition. Due to the high level of judgement involved, we consider this to be the presumed fraud risk relating to revenue as required by International Standards on Auditing.

Revenue recognised relating to ongoing projects as at 31 December 2018 amounted to £3.4 million (2017: £8.3 million) out of the total contract value of those ongoing projects of £4.9 million (2017: £12.3 million). Contract assets at 31 December are £0.4 million (2017: £0.0 million) and contract liabilities are £0.2 million (2017: £0.8 million), whilst total revenue for the year amounted to £28.3 million (£32.7 million). Recognition of revenue based on stage of completion of ongoing projects requires management judgement and is susceptible to error or manipulation.

We also note the introduction of IFRS 15 for 2018, which in management's view does not have a material impact on the Group.

This was identified as an area of audit focus as opposed to a significant risk.

How the scope of our audit responded to the key audit matter
We performed procedures to evaluate the design and implementation of the internal controls operating over the revenue business cycles. We noted that there were limited segregation of duties in the finance over postings to revenue. We therefore did not take a controls reliance approach and performed a fully substantive audit over revenue.

We performed specific substantive procedures on a sample of open and closed contracts at year-end to evaluate whether that revenue had been correctly recognised according to the stage of completion, and that the calculated stage of completion was accurate.

We have also reviewed management's conclusions on IFRS 15, including the consideration of the 'Five step model' in respect of contracts under the group's normal terms of business together with identified 'non-standard' contracts, and assess whether with management's conclusion that this does not have a material impact on the Group.

Key observations

We conclude that the cut off and valuation of revenue recognised in the current year is appropriate and not materially misstated. We also concur with management that IFRS 15 does not have a material impact on the recognition of revenue.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on these matters.

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Management Consulting Group Plc we carried out the following procedures:

(a) checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited or draft financial statements and reflect the presentation to be adopted in the audited financial statements;

(b) considered whether the information (including the management commentary) is consistent with other expected contents of the annual report;

(c) considered whether the financial information in the preliminary announcement is misstated;

(d) considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;

(e) where the preliminary announcement includes alternative performance measures ("APMs"), considered whether appropriate prominence is given to statutory financial information and whether:

- the use, relevance and reliability of APMs has been explained;
- the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
- the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and
- comparatives have been included, and where the basis of calculation has changed over time this is explained.

(f) read the management commentary, any other narrative disclosures and any final interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

Our liability for this report, and for our full audit report on the financial statements is 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 our audit report or this report, or for the opinions we have formed.

Peter Saunders (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

14 March 2019