Management Consulting Group PLC

Annual report and accounts 2017

Contents

Key points

- Investment in and progress made at Proudfoot implementing our new offering and strategy in Europe, Asia and key sectors such as natural resources. Slower pace of change across some areas of the business, notably in the Americas. Operating costs reduced by around 20% during the year.
- Reported revenues of £35.1m (2016: £45.2m). Underlying operating loss* of £8.3m (2016 loss: £8.8m) including foreign exchange losses of £1.4m.
- After non-underlying items, including impairments against goodwill, retained net loss of £31.0m for FY2017 (2016 retained net loss: £0.1m).
- Cash balances at 31 December 2017 were £21.0m (30 June 2017: £28.4m) including £8.6m of cash reserved for contingent creditors of the Group.
- As previously announced, MCG is exploring a fundraising backed by a letter of intent from its major shareholder, BlueGem Capital Partners LLP, to offset risks to its short-term funding position as previously announced.

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

Chairman and Chief Executive's statement

Nick Stagg

"Proudfoot continues to deliver value to clients and remains a distinctive and recognised brand and is an established global operator in key sectors. It needs additional change and investment in order to further the transformation we started in 2017 and start to create value for shareholders. Due to the uncertainty regarding the timing of potential claims under the various disposals carried out in 2015/6 and the longer time frame to execute the turn round in Proudfoot, we will look to raise additional finance to ensure that we can complete the changes in Proudfoot and deliver value to shareholders."

After the transformational transactions of 2016, we focused in 2017 on the recovery of Proudfoot, the Group's only continuing business. Our strategic focus has been in 2017 and remains in 2018 on the transformation of the Proudfoot business.

The year started with a creative rebrand of Proudfoot which, whilst rooted in our 75 years of client success, was designed to showcase our ability to work with senior executives and their frontline teams to transform their business and deliver lasting change. Proudfoot continues to focus on operations transformation as its core offering adding new offerings such as Proudfoot Digital Ready and mixing a global presence across a wide range of industries with particular focus on sectors such as natural resources. Throughout the year, the Proudfoot teams continued to demonstrate tangible success to our clients in a wide variety of projects and assignments, delivering significant and sustainable financial benefits. We have made large scale changes to the nature of the solutions we now deliver, whilst being true to our purpose for clients; achieving "tomorrow's results, today". Clients and peers recognised our impact, with an award for our work in natural resources for Rio Tinto in the Best International Project category at the 2018 MCA Awards and our work for Santa Monica Seafood winning us their *Service Supplier of the Year award*. Proudfoot was put on Forbes annual list of Best Consulting Firms in America. We invested in new hires, to retain our key talent and in our intellectual property. In the markets where change has been rolled out earliest – Europe and Asia notably – we saw growth.

Group revenues were £35.1m in 2017, 22% lower than in 2016 (£45.2m). Whilst we were able to grow in Europe and Asia, our activity in North America, where the new model was starting its roll-out, was low. The second half of the year was particularly weak with revenues of £13.5m compared to £19.5m in the second half of 2016. Whilst maintaining selective investment, the Group has continued to reduce its cost base successfully: underlying operating costs were £43.4m in 2017 compared to £54m in 2016, a reduction of nearly 20%. However, the Group still reported an underlying operating loss of £8.3m for the year as a whole. Excluding foreign exchange losses, the underlying operating loss would have been £6.9m, showing good progress compared to 2016. The reported loss for the period was £31.0m (2016: £0.1m)

Reflecting the operating losses as well as restructuring costs, the Group's cash and cash equivalents fell to £21.0m as at 31 December 2017 (from £38.1m as at 31 December 2016). Of this £21.0m, €8.0m (approximately £7m) was held in escrow accounts connected with the sale of parts of the Kurt Salmon business. We continued to manage the residual activities and liabilities linked to our discontinued businesses and overall the impact of discontinued activities on our 2017 financial statements is substantially less than in 2016, in line with our expectations. Agreement was reached with Wavestone as announced on 27 April 2018 with respect to some claims, nonetheless, there remains risk and uncertainty linked to the discontinued activities, notably in respect of warranty claims and therefore the timing and release of the escrow funds.

As we look ahead to 2018, we remain confident in the potential of the Proudfoot model to deliver sustainable improvement and change for our customers and we will seek to maintain the momentum of the transformation we have started, even if the pace of change has been slower than expected. We also expect to continue to work to reduce our cost base further across the Group as a whole.

The Board highlights the risks to the Group's short-term funding position created by contingent liabilities relating to the disposal of parts of the Kurt Salmon business in 2016 in the 2017 report to shareholders and this is also commented on by our external auditors in their 2017 Audit report. As previously announced, and having received a letter of intent from its major shareholder, BlueGem, the Board is now working to finalise its plans for a fundraising which would offset these risks on an expedited basis.

Nick Stagg
30 April 2018

Chairman and Chief Executive's review

Nick Stagg

After the transformational transactions of 2016, we focused in 2017 on the recovery of Proudfoot whose operations and service offering were substantially reorganised during the year.

The Group's continuing operations

The continuing operations of the Group comprise Proudfoot and the commentary below on the 2017 results and the 2016 comparatives chiefly relate to that business. Discontinued activities are largely related to the residual transitional service agreements and other contractual obligations and contingent liabilities related to the business disposals undertaken by the Group in 2016 and 2017.

Proudfoot's reported revenue for 2017 was 22% lower at £35.1m (2016: £45.2m). Although first half 2017 revenues of £21.6m showed growth compared to the second half of 2016, this was not sustained in the second half of 2017. Second half revenues were £13.5m and the latter part of the year was particularly weak, notably in North America. Given the lower revenues, and despite substantial cost reduction measures, the Group reported an underlying operating loss of £8.3m (2016: loss of £8.8m) for the year as a whole, as defined on page 57. Excluding foreign exchange losses, the underlying operating loss would have been £6.9m, showing good progress compared to 2016. The reported operating loss was £31.0m (2016: £0.1m)

The Group has reported a net non-underlying charge of £0.8m (2016 £0.5m). This comprises a charge of £1.1m relating to restructuring of the Proudfoot business, a £0.4m provision for future pension payments and a credit of £0.7m relating to the partial release of a provision in respect of the closure of the Proudfoot post-retirement medical benefit scheme.

Operating loss from continuing operations reflects the impact of foreign exchange movements on cash and cash equivalents balances held in currencies other than sterling. These impacts increased the operating loss by £1.4m in 2017.

The operating loss from continuing operations also reflects a charge of £16.7m for the impairment of goodwill relating to Proudfoot. Goodwill is tested annually for impairment, based on determining recoverable amounts from value-in-use calculations. The Board reviewed the carrying value of Proudfoot goodwill at 31 December 2017 and concluded that the recoverable amount was lower than the value of goodwill then recorded at cost in the Group balance sheet. Consequently, the Group has reported an impairment charge and Proudfoot goodwill is reflected in the Group balance sheet at zero. Notwithstanding the value-in-use assessment in relation to the Proudfoot goodwill, the Board's expectation and belief is that the recent weak trading performance of the business will not persist in the medium-term and the business will achieve profitability but at a slower pace than previously expected and recognises the uncertainty of the current trading conditions.

After the above non-underlying expenses and intangible asset impairments, there was an operating loss from continuing operations of £25.8m (2016: loss of £39.6m).

The net interest expense from continuing operations was lower at £0.5m (2016: £1.2m). In accordance with IAS 19 the reported net interest charge for 2017 includes an imputed charge in relation to defined benefit pensions of £0.6m (2016 £0.8m).

The loss before tax on continuing operations was £26.3m (2016 loss of £40.8m). The tax charge on continuing operations was £4.5m (2016: £2.2m credit). The movement in the deferred tax asset from £8.1m to £0.1m is reflected primarily by a balance sheet reclassification of £0.6m and an impairment of the deferred tax assets in the US of £7.2m, split between the P&L (£3.3m) and reserves (£3.9m). The charge in the income statement represents the impairment of US tax losses and other temporary differences and the charge through reserves represents the impairment of the temporary difference on the US pension scheme. The continuing high tax charge on continuing operations in 2017 reflects the impact of unrelieved losses in certain jurisdictions driven largely by loss-making operations and the impact of project specific withholding taxes in Proudfoot.

Discontinued operations

Discontinued operations comprise residual transitional service agreements and obligations including contingent liabilities of the businesses that were sold in 2016. The disposals during 2016 comprised:

- The sale of the French and related operations of Kurt Salmon (namely the businesses in Belgium, Luxembourg, Switzerland and Morocco together with two New York-based practices in the United States) to Wavestone which completed on 7 January 2016 for net proceeds of £58.6m. The Group agreed as part of this disposal to place €8 million in escrow to cover certain agreed continent liabilities;
- The sale of the US healthcare consulting business of Kurt Salmon to ECG Management Consultants, which completed on 29 July 2016 for net proceeds of £6.2m;
- The sale of the global retail and consumer goods consulting operations of Kurt Salmon to Accenture, which completed on 1 November 2016 for net proceeds of £125.1m.

Certain existing back-office operations of Kurt Salmon in the United States did not form part of the disposals. As a result, certain office leases, supplier and other contracts and back office personnel supporting Kurt Salmon were retained by MCG following completion and were used to support transitional service agreements with the acquirers of the Kurt Salmon businesses. The results of these transitional services activities are included in reported discontinued operations in 2017 and 2016 including a provision for the estimated net cost of providing these services up to the expected termination dates, on the basis that these obligations relate to onerous contracts.

The total loss from discontinued operations for 2017 was £0.3m (2016: profit of £38.5m).

Loss for the period

Taking into account the loss from discontinued operations, the reported loss for the Group for the year attributable to shareholders was £31.0m (2016: £0.1m loss).

The underlying loss per share attributable to continuing operations was 2.6p (2016: loss of 1.6p) as defined on page 57 and the basic loss per share attributable to continuing operations was 6.1p (2016: loss of 7.6p).

Balance sheet

Intangible assets
Intangible assets of £0.2m (2016: £17.7m) relate solely to computer software assets following the impairment of goodwill.

Deferred tax assets
The balance sheet includes £0.1m of deferred tax assets (2016: £8.3m). In 2017 and 2016, these principally relate to the US operations. The year on year decrease represents a reduction in the value of losses carried-forward given the reduction in the US tax rate and a further write down of US tax losses to reflect the low probability of using the remaining losses against taxable income in the US.

Net cash
At 31 December 2017, the Group reported cash and cash equivalents in the Group balance sheet of £21.0m (2016: £38.1m).

Reported cash balances at 31 December 2017 include approximately £8.6m of cash which is required to be retained to support certain contingent creditors of the Group, in particular €8m was held in escrow in relation to the indemnity obligations to Wavestone, the acquirer of the French and related operations of Kurt Salmon. 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 subject to uncertainty. Agreement was reached with Wavestone as announced on 27 April 2018 with respect to some claims.

Pensions
The retirement benefits obligation reflected in the Group balance sheet at 31 December 2017 relates to the net liability under a part-funded US defined benefit pension scheme of £7.2m, an unfunded French retirement obligation of £0.3m, and a legacy Kurt Salmon UK defined 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 decreased from £11.6m at 31 December 2016 to £7.3m at 31 December 2017, principally as a result of the actuarial gains experienced in the US scheme but also as a result of members leaving the UK scheme. During 2017 the US 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 has been moved to a more conservative 60% in bonds and 40% in equities at the start of 2018.

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 and have decreased from £7.7m at 31 December 2016 to £4.7m at 31 December 2017. The reduction in provision 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 have decreased from £32.6m at 31 December 2016 to £2.1m at 31 December 2017, primarily due to retained loss for the year from the business.

Dividends
The Board does not intend to declare a dividend for 2017.

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 financial position of the Group is described in this Financial 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 2018 in line with previous guidance. In particular, the Board noted that Proudfoot grew revenues in Q1 2018 compared with a particularly low Q4 in 2017 and early indications are for a continuation of this trend into Q2. Nonetheless, the Board concluded that revenues for the year ending 31 December 2018 are likely to be lower than revenue reported in 2017. The Board assumed that management would be successful in continuing its work to reduce costs across the Group as a whole. For 2019, the Board assumed that Proudfoot's revenues would rise but not to the levels seen in 2016. In assessing sensitivities, the Board took into account the slower than expected pace of change at Proudfoot and the disappointing result in past periods.

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.

While the Board remains confident as to the Group's overall position in terms of the release of the outstanding Kurt Salmon escrow funds, it considers that uncertainties around the ongoing negotiations create undue risk to the Group's short-term funding position and therefore it is actively considering options to manage this including raising new funds for the Company.

BlueGem Capital Partners LLP, which currently holds 24.38% of the Group's issued share capital and has two representatives on the Board, has confirmed in writing its support for a fundraising and its intention, in principle and subject to certain conditions, to commit new funds of up to €4 million (approximately £3.5 million) to the Company as part of such a fundraising in a form and amount to be agreed. The Board is now working to finalise its plans for the fundraising on an expedited basis.

Chairman and Chief Executive's review Continued
Nick Stagg

The Board has concluded that its forecasts 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. However, the Board has also noted the risks and uncertainties related to those forecasts referred to above as well as to the fundraising intention referred to above and has concluded that these material uncertainties cast significant doubt on the Company's ability to continue as a going concern. For further details please refer to note 2 to the consolidated financial statements.

Outlook

Proudfoot grew revenues in Q1 2018 compared with a particularly low Q4 in 2017 and early indications are for a continuation of this trend into Q2. The customer reaction to our offering continues to be strong where we win work. We are building up the necessary sales and marketing teams and infrastructure to promote our offering more effectively and the Board remains confident in the power of the Proudfoot model to deliver sustainable improvement and change for our customers. Nonetheless, revenues for the year ending 31 December 2018 are likely to be lower than revenue reported in 2017. In addition, Management is continuing its work to reduce costs across the Group as a whole.

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. As previously announced, the Board considers that the uncertainties around these negotiations create undue risk to the Group's short-term funding position and therefore it is actively considering options to manage this including raising new funds for the Company.

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Nick Stagg
Chairman and Chief Executive
30 April 2018

Proudfoot

What if you could?

... free up more than 200 hangar days per year using the same resources, to generate revenue growth through adding additional clients? Results achieved. Aerospace MRO Provider Asia

... achieve record production, reduce waste, create capacity to sell more, increase revenues and increase your gross profit? Results achieved. Santa Monica Seafood, US

... achieve a €4 improvement in cash per ton for all cement sold, globally? Results achieved. Largest global cement producer, Europe

... have absolute confidence you've created the one plan that aligns a team of contracting firms with your own team, on your high-profile, multi-billion dollar development site? Results achieved. Rio Tinto Oyu Tolgoi Mongolia

... deliver full production safely, on budget and shorten the ramp up transition while delivering target ounces ahead of schedule? Results achieved. International Gold Producer, US

... maximize availability of your assets and ensure maximum return on capital? Results achieved. Barrick Gold, Latin America

... absorb a 19% reduction in business volume while maintaining your overall profit margins. Results achieved. Food & Beverage client, US

Transformation starts with aspiration.
The journey to make it happen is execution.

Operational Report
Proudfoot

Summary
2017 was a year of large-scale change and selective investment at Proudfoot. We invested to maintain our key talent and in new hires as well as in our know-how and intellectual property. We undertook a creative rebrand of Proudfoot which, whilst rooted in our 75 years of client success, was designed to showcase our ability to work with senior executives and their frontline teams to transform their business and deliver lasting change. We have made changes to the nature of the solutions we now deliver, whilst being true to our purpose for clients; achieving "tomorrow's results, today".

Throughout the year, the Proudfoot teams continued to demonstrate tangible benefits to our clients in a wide variety of projects and assignments, delivering significant and sustainable financial benefits. In the markets where change has been rolled out earliest – Europe and Asia notably – we saw growth in our revenues. Our main challenge looking forward is to deliver a similar impact in North America where the new model was starting to be rolled out during the year.

The Proudfoot Transformation
At the start of 2017, we recognised the need to focus on continued change in Proudfoot, and the business fundamentally changed its structure and sales model and introduced new additional services during the course of the year. To our core capabilities of Proudfoot Analytics and Proudfoot People Solutions, we have added new offerings such as Proudfoot Digital Ready which enables management to lead digital change through their people processes and decision-making. This has driven our recent success with European and Asian clients where the model has been rolled out first. We have also continued to merge our selling activities with our delivery capabilities, driving greater customer satisfaction with the added benefit of streamlining our cost base. Structurally, we have removed several layers of management across the business, therefore focusing on bringing our most senior expertise directly into our client teams.

Proudfoot appointed a new Chief Executive, Pam Hackett, who has a 30 year history with the business and led the Asian and European businesses previously. Organized globally, Proudfoot has two sector verticals (Natural Resources and Industrials). Our capability verticals (Digital Ready and MRO) cross multiple sectors. These four verticals are complimented by local market specific sector and capability strengths. Proudfoot's principal hubs are in the Americas, EMEA and Asia. Proudfoot practices global staffing of engagements matching expertise to client needs. Our natural resources business frequently requires us to operate in remote locations such as Rio Tintos vast Oyu Tolgoi development in the Gobi Desert, Mongolia. Approximately 98% of 2017 revenues were generated outside the UK. The same proportion of revenues were billed in currencies other than Sterling, with the US Dollar representing approximately 45% of the total.

Business overview
Work for clients in the natural resources sector continued to represent a significant proportion of Proudfoot's activities, at around 30% of total revenues in 2017 (2016: 42%). Clients in this sector continued to be holding back investments given the uncertain outlook in some commodity markets and this had a significant adverse impact on Proudfoot's revenues in 2017, as in previous years. However, we continued to expand our work with larger global mining groups. We have also been successful in expanding our client base in related sectors such as building materials and with general industrial and manufacturing companies. Clients and peers recognised our impact, with our assignment in natural resources for Rio Tinto receiving an award in the Best International Project category at the 2018 MCA awards and our work for Santa Monica Seafood winning us their Service Supplier of the Year award. Proudfoot was put on Forbes annual list of Best Consulting Firms in America.

Our business remains geographically diverse. Revenues from clients based in Europe, Africa and Asia region represented approximately 42% of total revenues in 2017 (2016: 29%) and revenues from clients based in the Americas represented approximately 44% of total revenues in 2017 (2016: 62%).

In Europe, our business was focused principally on clients based in the UK, France and Germany, deriving much of our revenues from projects outside these clients' home countries. Further progress was made during the year in enhancing the sales and delivery functions through selective recruitment and management changes. Revenues from European-based clients in 2017 were 11% ahead of the previous year with significant repeat business.

Although small, our business with clients in Asia based out of our Hong Kong office showed improvement compared to a poor 2016, benefitting from the management and personnel changes made last year.

Revenues from clients in North America was disappointing, falling from £15.3m in 2016 to £12.2m in 2017. This performance reflected that the introduction of Proudfoot's new business offerings and models and the substantial associated changes in front-line staff were only getting started during this period. Management remains committed to the key US market and is continuing to implement a series of initiatives to promote an improved performance in a market which remains broadly favourable.

Although Proudfoot continues to have a strong reputation and presence in South America, the Group expects to change its delivery model for these markets further in 2018.

Our activity with clients in Africa suffered from the relatively low level of investment amongst natural resources clients, which has been the mainstay of our local office in South Africa.

Looking forward
Management is now focusing on further enhancing the business development capabilities of the business and building long-term client relationships, building on those parts of the offering which are distinctive and drive value for clients. Action continues to be taken to mitigate the profit impact of lower revenues by reducing headcount and discretionary expenditure, although a significant element of the operating costs of the Proudfoot business relate to the sales function and the infrastructure of the business across a range of geographies and these are less easily flexed downwards without reducing the potential for revenue recovery and growth in the future.

The Board is conscious that the turnaround of the business is taking longer than expected but intends to continue to promote the changes needed to restore the Group's growth and profitability.

Principal risks and uncertainties
Proudfoot

Identifying key areas
The directors have 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 summarized as follows:

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

Read more about the Group's governance and approach to risk management on pages 21 to 23.

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 2017 to Proudfoot's offering to exploit opportunities for growth 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.

Change in level of risk from 2016
Level/increasing
Market conditions in 2017 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, remained weak in 2017.

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. 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 2017 are 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.

Change in level of risk from 2016
Increasing
Proudfoot has retained key client relationships and continued to work to develop new long-term relationships but the latter is taking longer than expected.

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.

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.

Change in level of risk from 2016
Increasing
Staff retention has been managed effectively and we have recruited in areas of the business which are being developed but the need to reduce costs presents an additional risk to retention.

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.

Change in level of risk from 2016
Increasing
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. Fluctuations in prevailing exchange rates may have a significant impact on reported revenues and profits.

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.

Change in level of risk from 2016
Level
Currency volatility has had an impact on reported revenues and operating results in 2017.

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, and placed certain of its cash balances in escrow as guarantees. The amount of actual costs and the timing and amount of the release of cash from escrow could vary from our initial assumptions reducing the amount of liquidity available for the Group's continuing operations. Agreement was reached with Wavestone as announced on 27 April 2018 with respect to some claims.

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.

Change in level of risk from 2016
Increasing
Whilst transition services agreements have been effectively managed, there remains risk to the effective timing of release from these liabilities (including of cash reserved to cover them) given arising warranty claims from the acquirors.

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 decreased from £11.6m at 31 December 2016 to £7.2m at 31 December 2017, principally as a result of the actuarial gains experienced in the US scheme but also as a result of members leaving the UK scheme. There is a risk that the amount of the liability changes depending on the changes in the actuarial value of the liability in the schemes. In addition there is a risk that trustees of the various plans request the Group to take a different approach to funding deficits which could involve calls on the Group's cash resources.

Mitigation
The Group maintains an active dialog with the trustees of the plans. In addition the Group has actively been promoting to plan members the possibility to exit plans and part of the reason for the decline in the net obligation in 2017 was members leaving the UK plan.

Change in level of risk from 2016
Level

Proudfoot

The Proudfoot Results Scorecard

For over 70 years Proudfoot has delivered and tracked significant real benefits for our clients. We thought all consultants did the same. We were wrong, and now we know why. A Financial Times article highlights that fewer than 38% of management consulting projects deliver results in excess of fees. By contrast, over 91% of Proudfoot's clients reach at least break even within one year of project completion. Not "projected" or "potential" benefits. Real, measured financial results. Benefits acknowledged and agreed to by our clients.

When Proudfoot executes a results-based engagement, together with our client, we positively impact the operations, the culture and ultimately, when you get both of those right, the bottom line. Across our history, we have focused on transformative change. And now, as disruption affects most every industry and technology is pervasive, we continue to help our clients address the people challenge in both digital and operational transformation. Elon Musks famous phrase "Humans are under rated" responding to issues with his highly automated manufacturing plant, reinforces what Proudfoot has always believed; people drive great performance.

Prompted by the Financial Times findings, we analyzed our last 1,000 projects to provide a snapshot of our results. These performance-based projects delivered over $5.6 billion in first-year P&L improvements. The project ROI based solely on first-year results is 4-to-1. These results were 110% of initial project estimates, leading over two-thirds of our clients to engage Proudfoot for additional new projects.

Viability statement
Proudfoot

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, shorter than previously to reflect the importance of driving a recovery in Proudfoot profitability. 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. This is consistent with the period which has been used for planning purposes.

During 2016 the Group completed the disposal of the Kurt Salmon businesses and distributed cash to shareholders in a Return of Capital. The continuing operations of the Group comprise Proudfoot, which was loss-making in 2016 and 2017. In addition, the Group has retained certain obligations relating to the Kurt Salmon businesses which have been sold, including transitional services agreements with the acquirers of those businesses. The Group is free of indebtedness with cash balances of £21.0m at 31 December 2017 but approximately £8.6m of this was reserved against contingent liabilities.

Following the disposals, the Group's retained business is however materially smaller, less diversified 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 2018 and 2019 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. The Board has in particular considered the risks related to the Kurt Salmon escrow funds (an amount of £5.2m as of the date of this report) and has concluded that the uncertainties around their release creates undue risk to the Group's short-term funding position and therefore it is actively considering options to manage this including raising new funds for the Company.

BlueGem Capital Partners LLP, which currently holds 24.38% of the Group's issued share capital and has two representatives on the Board, has confirmed in writing its support for a fundraising and its intention, in principle and subject to certain conditions, to commit new funds of up to €4 million (approximately £3.5 million) to the Company as part of such a fundraising in a form and amount to be agreed. The Board is now working to finalise its plans for the fundraising on an expedited basis.

More generally, should the Group underperform in the longer term, the Board will continue to consider all options in the best interests of all including restructuring or selling all or part of the business or seeking additional funding.

On the basis of the assessment summarized above, and on the assumption that the two uncertainties noted concerning the Kurt Salmon escrow funds and the fundraising are completed as expected, 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.

Strategic Report Approval

The Strategic Report as set out in the previous pages is approved by the Board

Nick Stagg
Chairman and Chief Executive Officer
30 April 2018

Corporate social responsibility
Our people

The Group is committed to carry out its business activities to the highest ethical standards and to make a positive impact with its stakeholders.

The Group is committed to making a positive social and economic contribution in all places it operates.

This is driven by the Board. Emphasis is placed on ensuring that we continue to create and maintain trust in and loyalty to our Group by all our stakeholders.

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

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

Number of MCG employees	**2017**	**2016**
MCG Group	197	281
of which Proudfoot	187	263
Gender diversity – Total workforce	**2017**	**2016**
Male	77%	74%
Female	23%	26%
Gender diversity – Senior management	**2017**	**2016**
Male	80%	87%
Female	20%	13%

The Group is committed to improving the gender balance in its workforce. Given that the large majority of the workforce is within Proudfoot, day to day follow-up lies with the Proudfoot CEO. There is one woman amongst the Board's six members.

Corporate social responsibility
Our impact

Human rights and health and safety requirements

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

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

Our employees frequently work in client premises, some of which are industrial or production sites, and we expect our employees to adhere to the health, safety and environmental requirements and policies of our clients in those situations.

Group ethics

The Group subscribes to the Association of Management Consulting Firms' Code of Ethics (available at www.amcf.org).

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

Whistleblowing

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

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

Employees

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

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

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

Wherever possible the employment of members of staff who become disabled will be continued and appropriate training and career development will be offered.

Employee consultation

The Group places considerable value on the involvement of its employees and endeavours to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. The Group Chief Executive and the Proudfoot Chief Executive have travel schedules which include all the business locations and they hold informal discussions with a wide range of employees. The Group operates various bonus schemes for employees, which are linked to the profitability of the business unit and the Group.

Corporate social responsibility Continued

Our impact

The Group ensures that all laws, regulations and official guidelines in the countries in which it operates are complied with

Environmental Policy

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

The Group ensures that all laws, regulations and official guidelines in the countries in which it operates are complied with. The Group is a member of the United Nations Global Compact. The Group monitors areas where the Group could have an impact on the environment and takes steps to reduce this impact. These are detailed on this page. Reviews of the quantitative impact on the environment in these and other areas will continue to be undertaken to enable the Group's environmental performance to be assessed and further improved.

Waste and recycling, energy use and climate change

The Group operates recycling policies in its offices that conform to regulation in place in each location. Concerning energy use, we continue with a programme to measure the amount of electricity being used in our largest offices, to identify where reductions can be made in the future.

Due to the nature of the business and the need for employees with appropriate experience to work on projects, employees regularly need to travel to clients' sites. The Group's employees are encouraged, wherever possible, to share private road transport or use public transport. Whilst further improvements are being targeted, the Group continues to progress in reducing energy consumption. The principal methods adopted by the Group to reduce energy consumption are as follows:

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

Our emissions

In line with regulatory requirements, this report includes emissions data for scope 1 and scope 2 only. Emission data has been reported for our principal permanent offices in the UK US, South Africa, and Brazil.

Scope 1 emissions: Natural gas refrigerants	**Scope 2 emissions:** Purchased electricity	**Total greenhouse gas emissions:**	**Greenhouse gas emissions per FTE:**
6.9 tco^2e	127.3 tco^2e	134.2 tco^2e	0.21 tco^2e

Chairman and Chief Executive's introduction
Nick Stagg

Greenhouse gas emissions

We have used the main requirements of the greenhouse gas GHG protocol corporate accounting and reporting standard (revised edition) and the international standard ISO14064–1 (2006) to issue our report of greenhouse gas (GHG) emissions.

The greenhouse gas emissions statement below provides a summary of the Company's greenhouse gas emissions from 1 October 2016 to 30 September 2017. It gives a summary of emissions from fuel combustion and the operation of our office buildings (scope 1), and from our purchased electricity during the year (scope 2). We have reported on all of the relevant emission sources required under the Companies Act 2006(Strategic Report and Directors' Reports) Regulations 2013 using the operational control approach. Following the disposal of the French and related businesses in January 2016, we have recalculated the baseline year on the earliest available data and reflected this in the table below.

Greenhouse gas emissions statement

Assessment parameters

Reporting year	01 October 2016 – 30 September 2017
Consolidation approach	Operational control
Boundary summary	All facilities under operational control were included in our assessment
Consistency with the financial statements	The use of the operational control approach causes a variation to those assets listed in our financial statements as all of the greenhouse gas emissions relate to our leased offices
Emission factor data source	Defra (2017)
Assessment methodology	The Greenhouse Gas Protocol (revised, edition 2004) and ISO 14064-1 (2006)
Materiality threshold	The materiality threshold was set at group level at 3% with all facilities estimated to contribute >1% of total emissions included
Intensity ratio	Emissions per full time employee equivalent (FTE)

Greenhouse Gas Emission Source	**2016/17**		**2013/14 - Restated**	
	(tCO2e)	**(tCO2e/FTE)**	**(tCO2e)**	**(tCO2e/FTE)**
Scope 1				
Fuel combustion (natural gas)	6.9	0.01	40.1	0.02
Operation of facilities (refrigerants)	0.0	0.00	17.7	0.02
Scope 2				
Purchased electricity	127.3	0.20	643.6	0.87
Statutory total (Scope 1 & 2)*	127.3	0.20	643.6	0.87

*Statutory carbon reporting disclosures required by Companies Act (Strategic Report and Directors' Report Regulations 2013)

Group Metrics	**2017**	**2014**
FTE	197	743

Intensity Ratio (Gross Emissions)	**2017**	**2013**
Tonnes of carbon dioxide equivalent per FTE (CO^2e/FTE)	0.68	0.89

Chairman and Chief Executive's introduction

The Board remains committed to high standards of corporate governance. This governance section of this annual report has been prepared in accordance with the UK Corporate Governance Code (the "Code") released in September 2016 together with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations"), and other legislation.

The Board composition during 2017 brought a wide range of experience and knowledge to bear in developing strategy, and challenging management. We recognise the importance of the Board meeting with operational management, and senior managers (notably the Chief Executive of Proudfoot) invited to a number of the Board meetings held in the year.

The Board has considered carefully the requirements of the Code and the Board considers that the Company has complied with the Code throughout the year, save as set out below:

- following the departure of Stephen Ferriss at the AGM in June 2016 the composition of the Nominations Committee consisted of two independent and two non-independent non-executive directors, rather than the majority of the Committee being independent non-executive directors, as required by provision B.2.1 of the Code. The departure of Nigel Halkes at the end of the year also meant that, for a short period in early 2017, the Company did not comply with the Code requirement to have two independent non-executive directors on the Board and its principal committees, Remuneration, Nomination and Audit and Risk, as required by provisions B.1.2 and C.3.1 of the Code, respectively. However, the appointment of Fiona Czerniawska as an independent non-executive director to the Board and the Remuneration, Nominations and Audit and Risk Committees on 10 March 2017 means that the Company was then compliant with these Code provisions. Fiona's appointment also assists with satisfying the requirements of the Code in relation to the Audit and Risk Committee having relevant industry and financial experience.
- In October 2017 Julian Waldron completed nine years of service, and under provision B.1.1 can no longer be considered as independent solely by virtue of having served more than 9 years as a director. As a consequence, at present, the Company does not comply with: A.4.1, appointment of a senior independent director; B.1.2 a smaller company should have at least 2 independent non-executive directors; B.2.1 nomination committee consisting of a majority of independent directors; C.3.1 audit committee consisting of at least two independent directors; and D.2.1 remuneration committee consisting of at least two independent directors. It is intended that an additional independent director will be appointed during 2018.
- following Alan Barber's departure in December 2016, the Board appointed me to the joint role of Chairman and Chief Executive with effect from 1 January 2017. The Board recognises that this is not compliant with provision A.2.1 of the Code but considers that it is acceptable given the reduced scale of the Group's operations following the Kurt Salmon disposals and the level of scrutiny that the Board exercises over management's activities and also because the Proudfoot business, which forms the majority of the Group's activities, has its own Chief Executive responsible for delivery of the Group's strategy.

Nick Stagg
Chairman and Chief Executive
30 April 2018

Board of Directors

	N S Stagg **Chairman and Chief Executive**	**M Capello** **Non-executive Director**	**M Comras** **Executive Director**
Board Committees	None	Remuneration (Chairman) and Nominations.	None
Term of office	Nicholas Stagg, was appointed Executive Director on 21 October 2009, Chief Executive with effect from 1 July 2010 and Chairman and Chief Executive with effect from 1 January 2017.	Marco Capello, joined the Board on 18 June 2010.	Michael Comras joined the board on 31 May 2017, following his appointment as Chief Financial Officer in March 2017.
Background and experience	Nick graduated in Physics at University College London and joined Thomson McLintock in 1981, where he qualified as a Chartered Accountant. He worked in property investment companies before becoming group managing director of Lambert Smith Hampton PLC. Subsequently he was managing director of W S Atkins International PLC and then first COO and then CEO of Teather & Greenwood Holdings PLC, where he was responsible for the development of the business and its eventual sale to Landsbanki in 2005 and then Straumur in 2008.	Marco is the founder and managing partner of BlueGem Capital Partners LLP. From 2002 to 2006 he was a managing director of Merrill Lynch Global Private Equity. Previously he worked for over 18 years at First Boston, Wasserstein Perella and, since 1994, Merrill Lynch. During his career in investment banking he worked primarily in mergers and acquisitions both in New York and London. Mr Capello holds an MBA from Columbia University in New York. He graduated in civil engineering from the Politecnico di Torino.	Michael, qualified as a chartered accountant in 1978 and has subsequently worked for a wide range of businesses, both public and private, including financial services, shipping, business services, property and wealth management.
External appointments	Nick is a director of Shinetrip Ltd and a non-executive board member of Wedlake Bell LLP.	He is a board member of Olicar S.p.A., The Private Clinic Limited, Fintyre S.p.A., Neomobile S.p.A, Liberty Ltd, Enotria Ltd and Mamas & Papas Ltd.	

F Czerniawska **Independent Non-executive Director**	E Di Spiezio Sardo **Non-executive Director**	J D Waldron **Non-executive Director**
Remuneration, Nominations and Audit and Risk.	None	Remuneration, Nominations (Chairman) and Audit and Risk (Chairman).
Fiona Czerniawska, joined the Board on 10 March 2017.	Emilio Di Spiezio Sardo, joined the Board on 18 June 2010.	Julian Waldron, joined the Board on 8 October 2008.
Fiona is the founder and director of Source Global Research. Prior to this, she was director of strategy and planning for EY in the UK, and head of research for the Management Consultancies Association, and has more than 25 years' experience in the management consulting industry. Fiona has a PhD from the University of London and is a graduate of Oxford University.	Emilio is a partner of BlueGem Capital Partners LLP. Before joining BlueGem as a partner in 2007, he worked in London as a hedge fund manager at York Capital Management, a global multi-strategy hedge fund with approximately US$10bn under management at the time. Before that he worked in investment banking at Merrill Lynch in London and Rome. Mr Di Spiezio Sardo graduated summa cum laude in economics and finance from Bocconi University in Milan.	Julian was formerly executive vice president and chief operating officer of TechnipFMC, a US and French listed group providing equipment, project management, engineering and construction services and products for the oil and gas industry, which he joined in October 2008. Prior to this he was chief financial officer and then chief executive of Thomson SA, which he joined in June 2001. Prior to this he was a managing director of UBS Warburg, an investment bank. He is a UK and French citizen residing in France.
She is a director of Source Information Services Limited.	He is a board member of The Private Clinic Limited, Fintyre S.p.A., Neomobile S.p.A., Liberty Ltd, Enotria & Coe, Mamas & Papas Ltd, the DMC Group Ltd, Jack Willis Ltd, Lateral ltd, Big Fernand, Dr Vranjes and QMS Medicosmetics .	None

Corporate governance report

The Group operates in a number of countries and accordingly has a strong governance framework within which the component parts of the business operate.

Responsibilities across the governance framework

The Board
is responsible for the overall management of our organisation and our business
The Board is collectively responsible for the success of the Company

The Board provides entrepreneurial leadership of the Group within a framework of prudent and effective controls which enable risk to be assessed and managed. It sets the Group's strategic aims, ensures that necessary financial and human resources are in place for the Group to meet its objectives, sets the Group's values and standards and ensures that its obligations to its shareholders and others are understood and met.

Board Committees
Specific review and oversight Committees
The Board has three Committees, each dealing with a specific aspect of governance

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

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

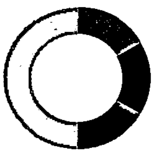
Remuneration Committee
The Remuneration Committee has responsibility for setting the framework for the remuneration of the Chairman, executive directors and other senior executives in the Group and the remuneration packages of those individuals

Executive management
is responsible for the everyday management of our business and operations, and for monitoring detailed performance of all aspects of our business
The executive management operates under authority matrices agreed by the MCG Board

Group executive management is responsible for the overall day-to-day management of the business. The division has its own leadership and management structures functioning within clearly established procedures and authority limits set by the Board.

Although the roles of Chairman and Chief Executive are combined at Board level, the Group's main business, Proudfoot, has its own Chief Executive responsible for day to day implementation of the Group's strategy.

Balance of executive and non-executive directors at year end



Chairman (non-executive)	1
Executive directors	1
Independent Non-executive directors	1
Non-executive directors	3

Board and Committee attendance 2017

	Board meetings	Audit and Risk Committee meetings*	Remuneration Committee meetings*	Nominations Committee meetings*
M Capello	5	-	1	1
M Comras (appointed 31 May 2017)	5	-	-	-
F Czerniawska (appointed 10 March 2017)	6	4	1	-
E Di Spiezio Sardo	6	-	-	-
N S Stagg	6	-	-	-
J D Waldron	6	5	1	1
Total meetings held	**6**	**5**	**1**	**1**

* For the Committee meetings, attendance shown is that of the respective Committee members.

An additional unscheduled Board meeting was held during the year to finalise office lease and banking arrangements previously agreed by the Board in principle and was attended by 2 directors.

Board of Directors

The Board is collectively responsible to our shareholders for the success of the Company. Following the various board changes during 2017 the Board currently comprises two executive directors and four non-executive directors, only one of whom was independent. The Code requires that smaller companies should have at least two *independent non-executive directors and the Company no longer* complies with this requirement given that Julian Waldron has served more than 9 years as a director since 2018.

The Company complied with the requirement to separate the roles of Chairman and Chief Executive until 31 December 2016. Following the successful disposal of the remaining Kurt Salmon business in November 2016 and the return of capital to shareholders in December 2016, it was considered that the size of the business no longer warranted a separate Chairman and Nick Stagg was appointed to the role as well as retaining his position as Chief Executive. The main operating business, Proudfoot, has its own Chief Executive, who is responsible for delivering the Group strategy for that business. The roles of the Board and management are clearly defined. Throughout the year, the roles of Chairman and Chief Executive were combined, but the role of Senior Independent Director, when appointed, were separated and clearly defined in writing. The terms and conditions of appointment of the non-executive directors are available for inspection at the Company's registered office and will also be available at the *Annual General Meeting.*

The Nominations Committee have undertaken a review of Directors independence and the Board has concluded that Ms Czerniawska, who was appointed during the year, is considered to be independent. Ms Czerniawska is a director of Source Information Services Limited which provided certain advisory services to the Company in connection with the disposal of the Kurt Salmon businesses. The Board has concluded that Ms Czerniawska is independent, having taken into account the scope of the engagement and that it terminated during 2016 prior to Ms Czerniawska's appointment to the MCG Board. Mr Waldron is no longer considered to be independent solely by virtue of having served more than 9 years as a director.

The Board is satisfied that each of the non-executive directors committed sufficient time during 2017 for the fulfilment of their duties as directors of the Company. None of the non-executive directors has any conflict of interest which has not been disclosed to the Board.

During and at the end of the financial year no director had a material interest in any contract of significance to which the Company or any subsidiary was a party. Information on the directors' interests in the shares of the Company is set out in the Directors' Remuneration Report. Related party transactions are disclosed in note 23.

Corporate governance report continued

Election and re-election of directors

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

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

The Board regularly evaluates the performance of individual directors, the Board as a whole and its Committees. This review comprises the completion of structured questionnaires by each director and follow-up interviews carried out by the Company Secretary. The results of this process are presented to the Board and via individual discussions with the Chairman. The results of the evaluation were approved by the Chairman and an agreed plan of action was produced. The results are specifically taken into account when considering the reappointment of directors. Given the changes to the board in 2017, the next review is planned to take place during 2018.

All directors are authorised to obtain, at the Company's expense and subject to the Chairman's approval, independent legal or other professional advice where they consider it necessary. An appropriate induction programme was put in place for Fiona Czerniawska and Michael Comras following their appointments as a non-executive director and executive director, respectively.

Operation of the Board

The Board meets regularly. There is a core of scheduled meetings each year with further ad hoc meetings scheduled when necessary. Six meetings were held during 2017. All members of the Board are supplied, in advance of meetings, with appropriate information covering matters which are to be considered. There is a formal schedule of decisions reserved for the Board. This includes approval of the following: the Group's strategy; the annual operating plan and budget; the annual and interim financial statements; significant transactions; major capital expenditures; risk management policies; the authority levels vested in management; Board appointments; and remuneration policies. The review of certain matters is delegated to Board Committees, which make recommendations to the Board in relation to those matters.

The Chairman ensures that the Board reviews a wide range of topics, related to both short term performance and more strategic matters related to the long term development of the Company. The Board receives formal reports from the Committee chairs.

The number of Board and Committee meetings eligible for attendance and attended by each of the directors during the year are in the table on the previous page.

Financial matters

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

The Board has also defined which services can be purchased from the Group's auditor and has adopted procedures in respect of the purchase of these services to minimise the risk of an actual or perceived conflict of interest.

Relations with investors and the Annual General Meeting

Registered shareholders are sent copies of both the annual report and accounts and the half-year report. The Group's website, www.mcgplc.com, also contains information relevant to investors. The Chairman and Chief Executive met key shareholders during the year and in particular around the time of the full-year results and the half-year results.

To ensure our shareholders have time to consider our annual report and accounts and Notice of the AGM and lodge their proxy votes, the documents are made available more than 20 working days prior to the meeting. We offer all shareholders the choice of submitting proxy votes either electronically or in paper format.

Visit the investor relations website for more information: www.mcgplc.com/investors.

Internal controls

The Company, as required by the Listing Rules, has complied with the Code provisions on internal control having established the procedures necessary to comply and report in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

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

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

- the Group's management operates a risk management process which identifies the key risks facing the business and reports to the Audit and Risk Committee and the Board on how those risks are being managed. This is based on a risk register produced by executive management which identifies those key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level. This risk register is discussed at the Audit and Risk Committee and Board meetings on a regular basis and regular monitoring reports are presented to the Board;
- large acquisitions and capital projects require Board approval; and
- there is regular communication between management and the Board on matters relating to risk and control.

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

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

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

Engagement

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

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

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

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

Other disclosures

The directors present their annual report, incorporating their reports on corporate governance, audit and risk, and remuneration, together with the audited financial statements for the year ended 31 December 2017. The Directors' Report incorporates the Strategic Report and Governance sections of this annual report, excluding the Independent Auditor's Report. These will be laid before the shareholders at the 2017 Annual General Meeting.

Activity

The principal activity of the Group is the provision of professional services. Details of the Group's principal subsidiary undertakings, through which it carries out its activities, are set out in note 24 to the financial statements.

Group results

The Group's loss before taxation from continuing operations for the year ended 31 December 2017 amounted to £26,283,000 (2016: loss of £40,769,000).

Financial risk management objectives and policies

Refer to Note 21 of the financial statements.

Dividends

The directors do not recommend the payment of a dividend for 2017.

Repurchase of shares

The Company obtained shareholder authority at the 2017 Annual General Meeting to buy back its own shares. In the year under review, the Company made no share repurchases. The authority will be renewed at the 2018 AGM.

Capital structure

Information on the Group's capital structure and its share schemes is set out in note 17.

The Company is not party to any significant contracts that are subject to change of control provisions in the event of a change of control but other agreements may alter or terminate upon such an event.

Charitable donations

Charitable donations of £1,162 were made during the year (2016: £12,581).

Directors' indemnities and director and officer liability insurance

As at the date of this report, the Company has granted qualifying third-party indemnities to each of its directors against any liability that attaches to them in defending proceedings brought against them, to the extent permitted by the Companies Act. In addition, directors and officers of the Company and its subsidiaries have been and continue to be covered by director and officer liability insurance.

Substantial share interests

As at 30 March 2018 (the latest practicable date prior to the issue of this report), the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules issued by the Financial Conduct Authority, of the following interests in the voting rights in the Company's issued share capital.

	Number of voting rights	% of issued share capital
BlueGem Delta Sarl	124,629,895	24.38
Mr Richard Griffiths	73,695,721	14.42
Lombard Odier Asset Management Europe Ltd	67,154,972	13.14
Aberforth Partners LLP	63,635,313	12.45
Fidelity Worldwide Investment	31,786,832	6.22

By order of the Board

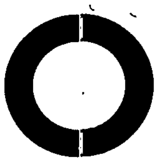
Nick Stagg
Director
30 April 2018

Registered office
St Pauls House
10 Warwick Lane
London EC4M 7BP

Report of the Audit and Risk Committee

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

Composition



■ Chairman (non-executive) 1

■ Independent Non-executive 1

Membership and attendance

Committee attendance 2017	Audit and Risk Committee meetings
J D Waldron (Chairman)	■■■■■
F Czerniawska (appointed 10 March 2017)	■■■■■
Total meetings held	■■■■■

■ Attended ■ Did not attend

Membership

The membership of the Committee from 1 January 2017 was:

Mr Julian Waldron
(Chairman, member since 2008)

Ms Fiona Czerniawska
(Member from 10 March 2017)

Dear shareholder

I am pleased to be writing to you as the Chairman of the Audit and Risk Committee.

During 2017 the Committee reviewed the Company's financial statements before publication and the underlying judgements that were used to prepare the statements. Appropriate impairments were considered. A review of the groups internal control was also undertaken and management's analysis of the risk that the business faced were considered.

I will be happy to answer any questions on the work of the committee at the forthcoming AGM.

Julian Waldron

Role of the Committee

The role of the Committee is, in summary:

1. to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
2. to assist the Board in ensuring the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
3. to review the Group's internal financial controls and to review the Group's internal control and risk management systems;
4. to monitor and review the need for an internal audit function;
5. to make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
6. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process;
7. to develop and implement the policy on the engagement of the external auditor to supply non-audit services, and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and recommending the steps to be taken; and
8. to oversee whistleblowing arrangements.

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

Report of the Audit and Risk Committee Continued

Structure

The Code recommends that the Committee should comprise at least two members and that all members should be independent non-executive directors. From 31 December 2016, when Mr Halkes left the Committee, the Committee was not compliant with this requirement until 10 March 2017 when Ms Czerniawska was appointed.

The Code provides that at least one member of the Committee should have recent and relevant financial experience. Mr Waldron was the chief financial officer of a French listed company, and the chief operating officer of a US and French listed group, and is considered to have such experience. Ms Czerniawska has experience relevant to the industry in which the Group operates. The profiles and qualifications of the Committee members are shown on pages 14 to 15. The Chairman and Chief Executive, the Chief Financial Officer, the Group Head of Finance, other financial managers and external auditor were invited to attend Audit Committee meetings. The Committee met five times during the year. The external auditor attended three of the meetings and the Committee met privately with it on one of those occasions.

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

The Committee's terms of reference were reviewed and updated with effect from 13 March 2017 to conform with current best practice and the revised Code and guidance from the Financial Reporting Council on audit committees. They are available on the Group's website (www.mcgplc.com) as well as in hard copy format from the Company Secretary.

Operation of the Committee

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

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

Financial statements

The Committee reviewed the interim financial statements and the annual report and accounts. Following discussion with both management and the external auditor, the Committee's determination of the key risks of misstatement for 2017 and the steps it took to address these are shown in the table below.

The Audit Committee assessed the Group's going concern risks at the audit committees reviewing the full year 2016 accounts and at the meeting reviewing the half year 2017 accounts. The audit committee highlighted to the Board the need to prepare full and sensitised projections in advance of the 2017 accounts finalisation and these were reviewed by the full Board.

Key risks	How the Committee addressed the risk
The assessment of the carrying value of goodwill due to the significance of the goodwill asset on the balance sheet.	The Committee reviewed the carrying value of goodwill at the year end, considering a goodwill impairment review report from management which set out the key assumptions and judgements underlying the review, including those on financial projections and discount rates, and also included a sensitivity analysis
Revenue recognition, including the valuation of revenue, and debtor and accrued income exposure due to the risk on the timing of revenue recognition on contracts which span the year end.	The Committee considered the accounting policy for revenue recognition and the adequacy of the controls in place to ensure contractual terms are appropriate in the divisions' accounting systems, and controls ensure the appropriate recognition of revenue arising therefrom.
The recognition and recoverability of deferred tax assets, in particular those in overseas jurisdictions.	The Committee reviewed a report setting out details of the deferred tax assets at the year end, including the underlying geographical analysis of tax losses, and considered the recoverability of the assets concerned alongside the other tax attributes and risks within the Group.

The Committee also discussed matters with the external auditor regarding the nature and extent of its audit procedures in these areas.

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

Operation of the Committee continued

Internal financial control and risk management systems

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

Internal audit function

The Committee has determined that, given the size and nature of the Group's operations, a separate internal audit function was not required in 2017. This decision will be reviewed during 2018.

External auditor

The Committee oversees the relationship with the external auditor and ensures that the external auditor continues to be independent, objective and effective in its work, as well as considering the reappointment of the auditor each year in light of this.

Independence

The Committee undertakes a structured annual review of the independence and objectivity of the external auditor and, with the external auditor, has in place procedures to ensure this is not compromised. The procedures include:

- *Audit partner rotation* – The Committee considers this is a key control in ensuring continued independence and objectivity by reducing the risk of familiarity. The current audit partner was appointed in 2017 following the conclusion of the 2016 Audit.
- *Restrictions on the nature and amount of non-audit work* – In accordance with the Code, the Committee has established policies that the auditor shall not provide any services that would potentially result in it auditing the result of its own work and procedures to ensure compliance with the policies. The Committee reviews annually its policy and procedures on this area to ensure they remain appropriate in the context of regulatory changes and changes in the nature of the Group's activities. Under the procedures in force in the year, the Committee pre-approves any permitted non-audit engagements with fees of more than £25,000 or which would cause the cumulative fees of such engagements for the year to exceed £100,000. At each Committee meeting a report is presented on non-audit activities and fees payable to the external auditor in order to ensure that the non-audit work is appropriate and the relationship between non-audit fees and audit fees is not inappropriate. The policies have been revised to reflect the updated FRC Guidance on Audit Committees and to take into account the FRC's revised Ethical Standard 2016 applicable to auditors. The Committee recognised that in 2015 and 2016 the external Auditor carried out a high level of non-audit work linked to the disposal of certain of the Group's businesses. In 2017, the Auditor also carried out a review of the projections and assumptions within the Group's financial models.
- *The relationship of the auditor with senior management* – The Committee reviews the relationship to ensure it has not become compromised due to familiarity or other factors.

The Committee has considered the independence of the external auditor and is satisfied that independence has been maintained and Deloitte LLP has formally confirmed its continuing independence to the Committee.

Audit effectiveness

The Committee reviews the external audit plan proposed by the auditor and participated in the review of the quality of the service that they provided. The Committee's consideration includes:

- a review of the external audit plan;
- the auditor's assessment of Group accounting and business risks;
- the auditor's own quality control procedure;
- the auditor's assessment of the key risks of misstatement;
- consideration of the audit strategy and its communication;
- whether the staffing of the external audit has continuity whilst maintaining independence; and
- communication of the findings to the Committee and the quality and key features of its work.

Audit tendering

Deloitte LLP has been the Group's auditor since 2001 when it was appointed under a tender process. Under the transitional arrangements for mandatory audit rotation, the Company will be required to rotate the audit by the financial year ended 2024 and plans to complete a competitive tender process by this time. Notwithstanding these requirements and current plans, the Committee will continue to consider the tender of the audit annually depending on the current auditor's performance and its assessment of the current auditor's independence.

Reappointment

There are no contractual obligations that act to restrict the Committee's choice of external auditor. As a consequence of its satisfaction with the results of the procedures outlined above, the Committee has recommended to the Board that the external auditor be reappointed. Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

Auditor and disclosure of information to auditor

Each director who held office at the date of approval of this annual report and accounts confirms that, so far as the director is aware:

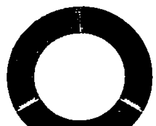
- there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Julian Waldron
Chairman of the Audit and Risk Committee
30 April 2018

Report of the Nominations Committee

Composition



- ■ Chairman (non-executive) 1
- ■ Non-executive 1
- ■ Independent non-executive 1

Membership and attendance

Committee attendance 2017	Nomination Committee meetings
M Capello	■
F Czerniawska (appointed 10 March 2017)	■
J D Waldron	■
Total meetings held	■

■ Attended ■ Did not attend

Membership

The membership of the Committee from 1 January 2017 was:

Mr Julian Waldron
(Chairman and member since 2009)

Mr Marco Capello
(Member since 2010)

Ms Fiona Czerniawska
(Member from 10 March 2017)

Dear shareholder

I am pleased to be writing to you as the Chairman of the nominations Committee.

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

The key task for the committee during 2017 was the search for and subsequent appointment of a finance director for the Group. During 2018 further work will be undertaken to strengthen the team of independent non-executive directors for the Group.

Julian Waldron
Chairman of the Nomination Committee
30 April 2018

Structure

The Code recommends that a majority of the members of the Nominations Committee should be independent non-executive directors. From 31 December 2016, until 9 March 2017 it was composed of one independent and one non-independent director. On 10 March 2017, Fiona Czerniawska – an independent non-executive director – was appointed to the Committee and thus the majority of the Committee were independent non-executive directors until October 2017 when Julian Waldron ceased to be independent by virtue of having served as a director for more than 9 years.

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

Activities

The Committee meets on an ad hoc basis as required. The Committee has ongoing succession plans particularly in respect of non-executive directors approaching retirement due to their length of service.

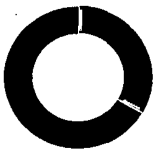
When searching for candidates the Committee has regard for the benefits of diversity and considers the diversity balance of the Board. The Board and the Committee have noted the recommendation of the Hampton-Alexander review in November 2016 to increase female board representation and the Parker review on board ethnic diversity.

The Committee identified internally the skill sets needed for a new independent non-executive director, and following consideration and interviews with Board members, Fiona Czerniawska was appointed to the Board on 10 March 2017. Fiona brings a long experience of the management consulting industry to the Board.

During the year the Committee undertook a search to identify a suitable new Chief Financial Officer for the company and the Committee considered the range of experience necessary for the role. Following a review of an initial list, the Committee proposed that the Chairman and Chief Executive interview in detail two candidates, and following that process the Committee recommended that Michael Comras be appointed to the role.

Report of the Remuneration Committee

Composition



■ Chairman (non-executive) 1

■ Non-executive 2

Membership and attendance

Committee attendance 2017	Remuneration Committee meetings
M Capello	■
F Czerniawska (appointed 10 March 2017)	■
J D Waldron	■
Total meetings held	■

■ Attended ■ Did not attend

Dear shareholder

I am pleased to be writing to you as the Chairman of the Remuneration Committee.

During 2017 the Remuneration Committee reviewed directors' remuneration but did not propose any changes. No bonus payments were made as targets were not achieved.

At our 2017 AGM the Company obtained shareholders' approval for the Directors' Remuneration Policy and a summary is included in this report. The current policy continues to remain appropriate and that no changes of substance are required.

The Annual Report on Remuneration, which describes the implementation of the current policy during the year, will again be subject to an advisory vote at the forthcoming AGM.

I will be happy to engage with you if there are any matters set out in the report which you would like to discuss.

Marco Capello
Chairman of the Remuneration Committee
30 April 2018

Structure and operation of the Remuneration Committee

Structure

The Code recommends that the Committee should comprise at least two independent non-executive directors. From 31 December 2016, until 9 March 2017 it was composed of one independent and one non-independent director. On 10 March 2017, Fiona Czerniawska – an independent non-executive director – was appointed to the Committee and thus the majority of the Committee were independent non-executive directors until October 2017 when Julian Waldron ceased to be independent by virtue of having served as a director for more than 9 years.

The terms of reference for the Committee were last updated in December 2010. They were last reviewed in 2017 and no changes were deemed necessary. Copies are available on the Group's website.

Operation of the Committee

The Chairman of the Committee ensures that the views of the Group's major shareholders are taken into account when determining the remuneration of the Chief Executive through regular dialogue. The Chairman and Chief Executive of the Group is also tasked with discussing remuneration as part of his investor relations function. In determining the directors' remuneration for the year, the Committee consulted the Chairman and Chief Executive save in relation to his own remuneration. No director is involved in deciding their own remuneration. The Committee makes use of published reports on directors' remuneration packages and advice from independent external advisers is obtained when required. New Bridge Street (a trading name of Aon Hewitt, an Aon plc company) is the independent adviser to the Remuneration Committee. Aon plc also provided insurance broking services to the Company during the year. The Committee has been advised that New Bridge Street operates as a distinct business within the Aon Group and that there is a robust separation between the business activities and management of New Bridge Street and the wider Aon Group. As advised on page 36 the Committee did not require any services from New Bridge Street during 2017.

Report of the Remuneration Committee continued

The Committee considers that this provision of other services by Aon plc does not prejudice New Bridge Street's independence. New Bridge Street provides advice to the Remuneration Committee on the remuneration of executive and non-executive directors as well as employee remuneration and may also advise the Committee on other matters within the Committee's terms of reference.

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

Service contracts and payments for loss of office

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

Mr Stagg has a contract with the Company which either party is able to terminate by giving twelve months' notice and which continues until age 65.

A director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. If the employing company terminates the employment of an executive director in other circumstances, compensation is limited to salary due for any unexpired notice period and any amount assessed by the Remuneration Committee as representing the value of other contractual benefits (including pension) which would have been received during the period. In addition, in these circumstances Mr Stagg may be entitled to retain his car. The Committee also has the discretion to pay statutory entitlements or sums to settle or compromise claims in connection with a termination if necessary and to pay outplacement and legal fees if appropriate. In the event of a change of control of the Company there is no enhancement to contractual terms. Service contracts are available for inspection at the Company's registered office.

Any share-based entitlements granted to an executive director under the Company's share plans will be determined based on the relevant plan rules. The default treatment is that any outstanding unvested awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, injury, disability, retirement, the sale of the executive's employing company or business in which he was employed out of the Group, or in other circumstances at the discretion of the Committee (taking into account the individual's performance and the reasons for their departure), awards may vest at the normal vesting date. In these circumstances the awards remain subject to performance conditions measured over the original time period and are reduced pro-rata to reflect the proportion of the performance period actually served. The Remuneration Committee has the discretion to disapply time pro-rating if it considers it appropriate to do so although it is envisaged that this would only be applied in exceptional circumstances.

The Remuneration Committee may decide to allow the awards to vest on cessation of employment, in which case vesting will be subject to the satisfaction of the relevant performance conditions at that time and reduced on a time pro-rated basis (although the Remuneration Committee can disapply time pro-rating if it considers it appropriate to do so).

In determining whether an executive's awards should be allowed to vest (subject to performance conditions being met), the Committee will take into account the performance of the individual and the reasons for their departure.

In the event of change of control, awards would be eligible to vest based on: (i) the extent to which performance targets had been met, as assessed by the Committee, over the shortened performance period; and (ii) subject to a pro rate reduction for time (which the Committee retains discretion to disapply if it considers it appropriate to do so).

Chairman and non-executive directors

Mr Stagg holds the combined role of executive Chairman and CEO and his service contract provides for the notice periods and rights to compensation as detailed above.

The non-executive directors do not have service contracts, do not have rights to compensation on termination and are appointed for limited terms and subject to annual reappointment at the AGM, although this Policy reserves the right to introduce notice periods if they are considered appropriate.

Remuneration policy

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

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

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

Fees for the non-executive directors are reviewed annually by the Board based on market information obtained from external surveys, time commitment and relevant experience.

The Group's Remuneration Policy was approved by shareholders at the 2017 Annual General meeting.

The following table on the next page summarises the key aspects of the Company's remuneration policy for its directors:

Element	Purpose and link to strategy	Operation	Maximum opportunity
Base salary	To recruit and reward executives of a suitable calibre for the role and duties required	The Committee's policy is to set the base salaries of each executive director at levels that reflect their roles, experience and practices in the employment market whilst ensuring that they take account, where applicable, of the pay and employment conditions of other employees within their business units and countries of employment as well as market practice in the countries in which they are operating. The Committee will usually review executive directors' base salaries at the end of each calendar year with any increases effective from 1 January. The directors' salaries (and other elements of the remuneration package) are paid in the currency appropriate to their geographic location.	There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population of the Group and the country and business unit in which the director is employed, but on occasions may need to recognise that higher increases may be appropriate, for example, development in role, change in responsibility, where the size, composition and/or complexity of the Group changes or where an individual is materially below market comparators. Details of the outcome of the most recent salary review are provided in the Annual Remuneration Report.
Benefits	To provide market competitive benefits to ensure the wellbeing of employees	Benefits vary according to the employing country of the executive director but may comprise some or all of the following: a car (or car allowance), insurances for life, personal accident, disability and permanent health and family medical cover.	Value of benefits is based on the cost to the Company, is not pre-determined and does not represent a significant part of the executives' overall remuneration. Additional benefits may be provided and the range of those benefits may vary taking into account market practice, the relevant circumstances and the requirements of the executive.
Pension	To provide market competitive benefits	A Company contribution to a pension scheme or provision of cash allowance in lieu of pension at the request of the individual. For directors based outside the UK, contributions to relevant retirement arrangements in those other countries, e.g. US 401(k) retirement provisions. Only base salary is pensionable.	UK resident: 17.5% of salary. Non-UK resident: retirement provision will be consistent with market practice in the relevant country.

Report of the Remuneration Committee continued

Element	Purpose and link to strategy	Operation	Maximum opportunity
Annual bonus	To incentivise and reward delivery of the Company's operational objectives	Not less than 70% of the annual bonus is assessed on financial targets set around the Group's and individual businesses' budgeted profits and revenue ("financial objectives") with not more than 30% based on the achievement of non-financial strategic objectives ("personal objectives"). The Committee retains the discretion to set alternative metrics from year to year if it deems this appropriate, provided always that at least 70% will be based on financial measures. Performance is measured over one year. Details of the performance targets set for the year under review and performance against them is provided in the Annual Remuneration Report. A clawback mechanism applies to all participants in the event of a material misstatement of the Group's accounts and also for other defined reasons.	The maximum bonus opportunity for all executive directors is 100% of salary. 0% of salary vests for threshold performance. For performance below threshold, no bonus is payable. A graduated scale of targets operates between entry level and maximum performance.
Long-term incentives ("LTIP")[1]	To incentivise and reward delivery of the Company's strategic objectives and provide alignment with shareholders through the use of shares Designed to motivate directors and senior employees, whilst retaining them in the Group's employment	Executive directors are eligible to participate in the Management Consulting Group 2008 Performance Share Plan ("PSP"). Awards vest subject to continued employment and satisfaction of challenging performance conditions measured over three years. The Committee will select the most appropriate measures to support the Company's medium to long-term strategy. In addition to the specified performance condition, the Committee must be satisfied that the vesting level is warranted by the Company's underlying financial performance over the three-year performance period. A clawback mechanism applies in the event of a material misstatement of the Group's accounts and also for other defined reasons.	Maximum award in any financial year over shares with a market value (at date of award) of 100% of annual base salary in that financial year. In exceptional circumstances, this limit may be increased to 200% of an employee's annual base salary. 20% of the award vests for threshold performance. No vesting for below threshold performance.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Non-executive director fees	To attract and retain high-calibre non-executive directors by offering a market competitive fee level	Non-executive directors are not normally entitled to bonuses or pension contributions or to participate in any share scheme. However, the Company may provide benefits if deemed appropriate including reimbursement of reasonable business related expenses and any tax (grossed up) payable thereon. The non-executives are paid a basic fee. Board Committees and the Senior Independent Director are paid an additional fee to reflect their extra responsibilities. Non-executives may be paid additional fees for other responsibilities such as being appointed to the Supervisory Board of subsidiaries of the Company. The level of these fees is normally reviewed annually by the Committee and Chief Executive for non-executive directors, with reference to market levels in comparably sized FTSE companies and taking into account the role, responsibilities and time commitment, and a recommendation is then made to the Board. Fees are paid in cash. If there is a change in responsibility and/or time commitments during the year then the Board can change the level of fees from the date of the change.	As for the executive directors, there is no prescribed maximum annual increase. Fees will be set taking account of market data and time commitment, experience and responsibility. Increases will normally be in line with inflation but on occasions the Board will need to take account of increased responsibilities and time commitment.
Shareholding guidelines	To align interests of executive directors with those of shareholders	Executive directors are required to retain 50% of the post-tax shares received under LTIPs until their shareholding represents 100% of their base salary.	n/a

Report of the Remuneration Committee continued

Annual report on remuneration

This part of the report has been prepared in accordance with Part 3 of the revised Schedule 8 set out in The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and 9.8.6R and 9.8.8 of the Listing Rules. The Annual Remuneration Report will be put to an advisory shareholder vote at the 2018 AGM. The information on pages 30 to 32 has been audited.

How the policy will be applied in 2018

2018 salary and benefits

Mr Stagg and Mr Comras's salaries have been reviewed with effect from 1 January 2018 and there is no increase.

	Salary as at 1 January 2017	Salary as at 1 January 2018	% increase
N S Stagg	£400,000	£400,000	-
M Comras (salary on date of appointment)	£250,000	£250,000	-

The benefits and pension provision paid in 2017 will continue for 2018 including the disruption allowance of £50,000 p.a. paid as compensation for the significant disruption to Mr Stagg's personal life as a result of the Group's business operations now being largely in the US and the considerable amount of time he is required to spend in the US.

Fees for the non-executive directors

A summary of fees as at 1 January 2018 is as follows:

	Salary as at 1 January 2017	Salary as at 1 January 2018	% increase
Base fee for non-executive directors	£35,000	£35,000	-
Senior Independent Director and Committee Chair additional fees	£5,000	£5,000	-

Mr Capello and Mr Di Spiezio Sardo, who were appointed to the Board as non-executive directors on 18 June 2010, have voluntarily agreed not to take fees. Mr Waldron has voluntarily agreed not to take an additional fee for chairing the Nominations Committee.

Performance targets for the annual bonus 2018

For 2018, at least 70% of the annual bonus will be assessed on financial targets based on the Group's budgeted results with the remainder based on the achievement of personal strategic objectives.

The Committee has chosen not to disclose, in advance, the performance targets for the forthcoming year for the annual bonus as these include items which the Committee considers commercially sensitive. Disclosure of the targets and performance against them will be set out in next year's Annual Remuneration Report provided they are not commercially sensitive at that time.

The annual bonus maximum opportunity and maximum PSP award grant level is 100% of base salary.

Remuneration for the year ended 31 December 2017

The table below sets out the remuneration received by the directors in relation to performance in FY 2017 (or for performance periods ending in FY 2017 in respect of long-term incentives).

£'000		Salary and fees	Benefits[1]	Pension[2,4]	Annual bonus	Long-term incentives	Other	Total
Executive directors								
N S Stagg	2017	400,000	90,655	70,000	-	-	-	560,655
	2016	400,000	90,607	70,000	555,000	-	-	1,110,607
M Comras [3]	2017	145,833	2,454	7,292	-	-	-	155,579
Non-executive directors								
M Capello	2017	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-
F Czernwiaska[5]	2017	28,404						28,404
E Di Spiezio Sardo	2017	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-
J D Waldron	2017	45,000	-	-	-	-	-	45,000
	2016	42,654	-	-	-	-	-	42,654
Total	**2017**	**619,237**	**93,109**	**77,292**	**-**	**-**	**-**	**789,638**
	2016	442,654	90,607	70,000	550,000	-	-	1,153,261

1. Benefits include, where appropriate, a car, disruption allowance (Mr Stagg 2017: £50,000), insurances for life, personal accident, disability, permanent health and family medical cover.
2. Pensions represent 17.5% of base salary.
3. Mr Comras joined as an Executive Director on 31 May 2017.
4. Remuneration includes 5% of pension in addition to base salary for Mr Comras
5. Ms Czerniawska appointed on 10 March 2017 as a Non-executive Director

Report of the Remuneration Committee continued

Annual bonus for the year ended 31 December 2017

The annual bonus for the year under review was to be determined by reference to Group underlying operating profit and strategic objectives.

Taking into account the disappointing underlying operating result of the Group, the Committee has decided that no bonus will be payable in relation to the 2017 performance targets.

PSP awards

No PSP awards were granted to executive directors in 2017.

At 31 December 2017, there were no awards outstanding over new shares under the 2008 Performance Share Plan.

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

Directors' shareholding and share interests

To align the interests of the executive directors and senior management with shareholders, participating executives are required to build up shareholdings through the retention of shares vesting under the Company's share plans. The executive directors are required to build up a shareholding equivalent to 100% of salary, to be achieved through retaining at least 50% of their net of taxes gain arising from any shares vesting or acquired under the long-term incentive share plans, until such time as the upper limit of their share ownership target has been met. Details of the directors' interests in shares are shown in the table below.

	Beneficially owned at 31 December 2017	**Beneficially owned at 15 March 2018**	% shareholding guideline achieved at 31 December 2017
Executive directors			
N S Stagg	1,364,972	1,364,972	13.2%
M Comras	-	-	n/a
Non-executive directors			
M Capello[1]	-	-	-
F Czernwiaska	-	-	-
E Di Spiezio Sardo[1]	-	-	n/a
J D Waldron	256,725	256,725	n/a

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

Unaudited information

Percentage increase in the remuneration of the Chairman and Chief Executive Officer

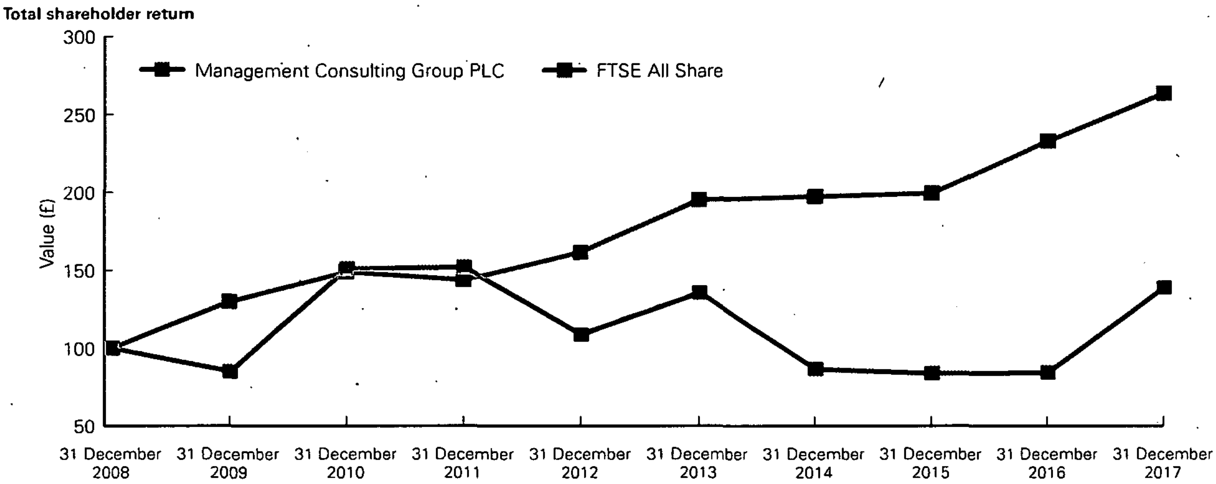
	% change 2016 to 2017
Chief Executive	
Salary	-
Benefits*	5%
Bonus	-100%
Average per employee	
Salary	-
Benefits	2%
Bonus	-54%

* Benefits in 2017 and 2016 include the disruption allowance outlined on page 32.

The table above shows the percentage movement in the salary, benefits and bonus for the Chairman and Chief Executive between the year under report and the previous financial year compared to that for the average employee.

Performance graph

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



This graph shows the value, by 31 December 2017, of £100 invested in Management Consulting Group PLC on 31 December 2008 compared with the value of £100 invested in the FTSE All-Share Index.

The other points plotted are the values at intervening financial year ends.

Chief Executive's Remuneration

	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
Total remuneration (£'000)	500	521	717	534	956	597	713	1,111	**561**
Annual bonus (% of maximum)	0%	22.3%	54.7%	24.9%	45.9%	21.3%	0%	0%	**0%**
LTIP vesting (% of maximum)	0%	0%	0%	0%	28.9%	0%	0%	0%	**0%**

The table above shows the total remuneration figure for the Chairman and Chief Executive during each of the financial years shown. The total remuneration figure includes the annual bonus and long-term incentive awards which vested based on performance in those years (and ending in that year for the long-term incentive). The annual bonus excludes the transaction bonuses in 2015 and 2016.

Relative importance of the spend on pay

	2016	**2017**	% increase/ (decrease)
Staff costs £'000	34,535	**25,681**	(25.6)%
Dividends £'000	-	-	-
Return of capital £'000	75,000	-	n/a

The table above shows the movement in spend on staff costs compared to dividends and return of capital.

Report of the Remuneration Committee continued

External advisers

New Bridge Street ("NBS") was appointed by the Remuneration Committee in 2011. When deemed appropriate, NBS meets and/or speaks one-to-one with the Remuneration Committee Chairman to discuss matters such as topical issues in remuneration which are of particular relevance to the Company, and how best it can work with the Company to meet the Committee's needs. During 2017, the Company did not need to make significant changes to its remuneration packages, and no advice was sought. NBS is a signatory to the Remuneration Consultants' Code of Conduct and has confirmed to the Committee its compliance with the Code. The Committee is satisfied that the advice that it receives is objective and independent.

The total fees paid to NBS in respect of its services to the Committee during the year were £Nil. Any fees charged are on a "time spent" basis.

External directorships

The table below sets out details of the external directorships held by the executive directors and any fees that they received in respect of their services during the year.

Position	FY 2017	FY 2016
N S Stagg		
Shinetrip Ltd	-	-
Wedlake Bell – adviser to board	-	-

Statement of shareholder voting

At last year's AGM, the Directors' Remuneration Report received the following votes from shareholders:

Vote on the Company's Remuneration Report

	2017 AGM	%
Votes cast in favour	293,608,427	95.1%
Votes cast against	14,989,385	4.9%
Total votes cast	308,597,812	100.0%
Votes withheld	25,845	

Vote on the Directors' Remuneration Policy

	2017 AGM	%
Votes cast in favour	307,646,351	99.7%
Votes cast against	937,981	0.3%
Total votes cast	308,584,332	100.0%
Votes withheld	39,325	

At the 2016 AGM, the Directors' Remuneration Report received the following votes from shareholders:

Vote on the Company's Remuneration Report

	2016 AGM	%
Votes cast in favour	326,347,148	94.1%
Votes cast against	20,632,574	5.9%
Total votes cast	346,979,722	100.0%
Votes withheld	994,974	

Approval

This Directors' Remuneration Report, has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Yours sincerely

Marco Capello
Chairman of the Remuneration Committee
30 April 2018

Directors' responsibility statement
Nick Stagg

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Chairman's Statement, the Business Review and the Financial Review contain certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Group. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements are based on the directors' current views and information known to them at 30 April 2018. The directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Nothing in this report should be construed as a profit forecast.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

By order of the Board

Nick Stagg
Chief Executive
30 April 2018

Independent auditor's report

to the members of Management Consulting Group PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Management Consulting Group plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the group income statement;
- the group statement of comprehensive income;
- the group and company statement of changes in equity;
- the group and company balance sheets;
- the group and company cash flow statements; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 1 in the financial statements, which indicates that the board approved forecasts for the business contain a number of assumptions upon which there is significant uncertainty. The principal uncertainties are:

- The timing and quantum of the release of cash from escrow in connection with the disposal of Kurt Salmon is uncertain.
- The source and quantum of the current immediate fund-raising plans is the subject of a letter of intent, but that intention is neither binding nor guaranteed. The ability to achieve the forecast revenues and reduce the cost base of the business appropriately is inherently uncertain and therefore the quantum of the Group's financing requirements is uncertain and its sufficiency is dependent on achieving at least the sensitised forecast outturn.

As of the date of this report, those uncertainties mean there is a significant doubt about the entity's ability to continue as a going concern.

In response to this, we:

- Challenged the Board 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;

- Reviewed documentation in connection with the release of the escrow funds and the letter of intent in connection with the fund raising;
- Assessed the design and implementation of controls around management's forecasting processes;
- Considered the arithmetic accuracy of and key principals underlying the forecasts presented to the Board;
- Considered and evaluated the key assumptions within management's forecasts, with particular focus on assessment of forecasts against historical forecasting accuracy.

As stated in note 1, these events or conditions, along with the other matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the group's and the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: ▪ going concern (see material uncertainty relating to going concern section); ▪ carrying value of goodwill; ▪ revenue recognition; and ▪ recoverability of deferred tax assets. Last year our report included an additional matter in relation to accounting for disposals. This is no longer significant to our audit approach as there have been no significant disposals in the year. Going concern is a new key audit matter in respect of the 2017 financial statements.
Materiality	The materiality that we used for the group financial statements was £225,000 which was determined on a blended measure using a combination of revenue and net assets benchmarks. This represents less than 1% of revenue and approximately 1.2% of net assets before the impairment of goodwill recorded in the year.
Scoping	Our full scope audit procedures provided coverage at the Group's key locations representing 80% of revenue and 92% of the loss before tax.
Significant changes in our approach	As set out above, we have revised our key audit matters in the year. There have been no other significant changes in our approach.

Conclusions relating to principal risks and viability statement

Principal risks and viability statement
Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 6-7 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 21-23 that they have 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; or
- the directors' explanation on page 2 of the strategic report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Aside from the impact of the matters disclosed in the material uncertainty relating to going concern referred to in this report, we confirm that we have nothing material to add or draw attention to in respect of these requirements.

Independent auditor's report continued
to the members of Management Consulting Group PLC

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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 do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty relating to going concern referred to in this report, we have determined the matters described below to be the key audit matters to be communicated in our report.

Carrying value of goodwill

Key audit matter description	The goodwill in relation to Proudfoot represented a significant asset on the balance sheet of £16.0 million at the previous year end. The Group recorded an impairment against the goodwill in the current year to reduce the carrying value to nil in line with the directors' assessment of the recoverable amount. This is the result of judgements and uncertainties in relation to forecasting future cash flows, associated discount rates and growth rates. Further information in this area is discussed in notes 2 and 9 of the accounts and the Report of the Audit and Risk Committee.
How the scope of our audit responded to the key audit matter	We tested management's assumptions used in the impairment model for goodwill, described in note 9 to the financial statements. We considered and evaluated the key assumptions which we judged to be the quantum and certainty of future cash flows, growth rates and the discount rates applied, through consideration of the assessment of CGUs in accordance with IAS 36, our understanding of the future prospects of the business (with particular focus on assessment of forecasts against historical forecast accuracy), benchmarking against comparator businesses, and comparison against the market rate and the prevailing Group cost of capital. We have tested the mechanics of the impairment model prepared by management by validating the relevant calculations.
Key observations	We concur with the impairment charge recognised in relation to goodwill and the carrying value of £nil.

Revenue recognition

Key audit matter description	We consider that the risk specifically relates to the valuation and cut-off of revenue. 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. The majority of consultancy revenue is recognised based on time worked by staff with regard to the expected recovery rate applicable to the projects being delivered. When considered with amounts invoiced to clients, revenue is deferred or accrued based upon the estimate of the fair value of work delivered where the consultancy has the right to consideration at the balance sheet date. There is judgement involved in the estimate of this fair value, in relation to proportion of work delivered and recoverable rate thereof. There is also judgement involved in assessing the recoverability of aged or overdue debts. The Group had £1.8 million trade receivables at 31 December 2017 (31 December 2016: £3.1 million). We also consider the recognition of non-traditional fees ("NTF") to be a risk. The timing of recognition of the fees is determined based on contractual conditions and management's judgement as to whether the conditions have been met at year end. The Group's accounting policy for revenue recognition is set out in note 2d and this risk is discussed in the Report of the Audit and Risk Committee.

How the scope of our audit responded to the key audit matter	We assessed the revenue recognition policies applied in the Group, including the valuation and timing of revenue recognition. We performed substantive tests on a sample of projects, agreeing fees and project dates to contracts. Independent recalculation was performed on a sample of the accrued and deferred income balances by reference to the revenue recognised and pre year end billing, accrued balances were assessed against post year end billings. Time reports were assessed and used to recalculate revenue recognised for the year under review. We assessed the recognition criteria for NTFs with reference to relevant contracts. We considered whether the revenue recognition policies adopted complied with IFRS. We tested in detail the provision for bad debts through consideration of overdue debts and aged accrued income and assessing the level of provision against any risk, to determine whether projects had been adequately reviewed for debtor recoverability.
Key observations	We concur with the treatment adopted in relation to revenue recognition and provisioning for bad debts.

Recoverability of deferred tax assets

Key audit matter description	The Group had £7.6 million of deferred tax assets at the previous year end. There is judgement in relation to the recognition of deferred tax assets, in particular those in overseas jurisdictions due to the judgement in assessing the probability that sufficient future taxable profits will be generated against which the deferred tax asset can be offset. In 2017, the deferred tax asset has been written down to £0.1 million, due to tax rate changes in the US and the write off of the remaining balance due to uncertainty over the existence of sufficient taxable profits in future against which to recover the deferred tax assets. Further information is provided in the critical accounting judgements in Note 2 of the accounts and the Report of the Audit and Risk Committee.
How the scope of our audit responded to the key audit matter	We tested and evaluated the appropriateness of management's assumptions and estimates in relation to the likelihood of generating future taxable profits to support the recognition of deferred tax assets as described in note 15 to the financial statements, considering those assumptions and supporting forecasts and estimates with reference to recent performance, as well as the appropriateness of tax disclosures. We used our internal tax specialists to assess tax rates against local tax legislation and review supporting documentation as well as assessing management's assumptions and estimates in accordance with accepted tax accounting practice.
Key observations	We concur with the treatment adopted in relation to deferred tax assets.

Independent auditor's report continued
to the members of Management Consulting Group PLC

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£225,000 (2016: £225,000)	£112,500 (2016: £112,500)
Basis for determining materiality	We have determined materiality based on a blended measure using a combination of revenue and net assets benchmarks. This is consistent with the prior year. The materiality equates to less than 1% (2016: less than 1%) of revenue from continuing operations and approximately 1.2% (2016: less than 1%) of net assets prior to the recognition of impairment charges.	We selected materiality for the parent company financial statements of 3% of net assets prior to the recognition of impairment charges, but capped this at 50% of the Group materiality.
Rationale for the benchmark applied	We considered a combination of revenue and net assets benchmarks in determining materiality to reflect the underlying continuing business. In setting an appropriate % to apply, we considered a number of factors, including prior year materiality and the materiality level as a percentage of revenue and net assets. We applied a materiality level that was appropriate in the context of determining the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced.	We consider that total assets reflects the underlying position of the entity, and is an accepted auditing benchmark.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £11,250 (2016: £11,250) for the group and parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The following components have been identified as significant to our audit: Proudfoot US, Proudfoot Brazil, Proudfoot UK, Proudfoot France, and Proudfoot South Africa. This is consistent with the previous year, except that in 2016 we also performed an audit of the 10 month income statement of Kurt Salmon US, prior to the disposal of that entity.

Full scope audit procedures were performed at each of these components based on the applicable component materiality level, which range from £90,000 to £129,000 (2016: £112,500 to £200,000).

The Group audit team performed the audit of all of these components with the exception of Proudfoot France where we include the component audit team in our team briefing, discuss their risk assessment, and review documentation of the findings from their work. The parent company is located in the UK and audited directly by the Group audit team.

The locations where we have undertaken full scope audits represent the principal business units within the Group and represent 80% (2016: 82%) of the Group's revenue and 92% (2016: 78%) of the loss before tax from continuing operations. Central analytical review procedures were performed at Group level for all other components.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Independent auditor's report continued
to the members of Management Consulting Group PLC

Report on other legal and regulatory requirements
Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure
Following the recommendation of the audit committee, we were appointed by the Board on 7 January 2002 to audit the financial statements for the year ending 31 December 2001 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 2001 to 2017.

Consistency of the audit report with the additional report to the audit committee
Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Peter Saunders (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
30 April 2018

Group income statement
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Continuing operations			
Revenue	3	**35,103**	45,193
Cost of sales		**(18,646)**	(23,711)
Gross profit		**16,457**	21,482
Administrative expenses – underlying		**(24,761)**	(30,327)
Loss from operations – underlying		**(8,304)**	(8,845)
Administrative expenses – non-underlying impairment	4	**(16,665)**	(30,358)
Administrative expenses – non-underlying other	4	**(1,483)**	(2,304)
Administrative expenses – non-underlying credit	4	**664**	1,894
Total administrative expenses		**(42,245)**	(61,095)
Operating loss	3	**(25,788)**	(39,613)
Investment revenues	6a	**224**	64
Finance costs	6b	**(719)**	(1,220)
Loss before tax	4	**(26,283)**	(40,769)
Tax	7	**(4,485)**	2,209
Loss for the period from continuing operations		**(30,768)**	(38,560)
(Loss)/profit for the period from discontinued operations	25	**(251)**	38,505
Loss for the period		**(31,019)**	(55)
(Loss)/earnings per share – pence			
From loss from continuing operations for the year attributable to owners of the Company:			
Basic	8	**(6.1)**	(7.6)
Diluted	8	**(6.1)**	(7.6)
Basic – underlying	8	**(2.6)**	(1.6)
Diluted – underlying	8	**(2.6)**	(1.6)
From the loss for the period:			
Basic	8	**(6.1)**	0.0
Diluted	8	**(6.1)**	0.0
Basic – underlying	8	**(2.6)**	(0.9)
Diluted – underlying	8	**(2.6)**	(0.9)

Group statement of comprehensive income
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Loss for the year		**(31,019)**	(55)
Items that will not be reclassified subsequently to profit and loss			
Actuarial gains/(losses) on defined benefit post-retirement obligations	15	**3,838**	(574)
Tax items taken directly to comprehensive income	14	**(3,867)**	(186)
		(29)	(760)
Items that may be reclassified subsequently to profit and loss			
Gain on available-for-sale investments		**-**	7
Exchange differences on translation of foreign operations		**643**	(20,667)
		643	(20,660)
Total comprehensive expense for the year attributable to owners of the Company		**(30,405)**	(21,475)

Group statement of changes in equity
for the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Merger reserve £'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 2016	**84,538**	**82,664**	**5,683**	**4,179**	**(1,855)**	**17,291**	**6,082**	**(69,276)**	**129,306**
Loss for the year	-	-	-	-	-	-	-	(55)	(55)
Other comprehensive expense	-	-	-	-	-	(20,667)	7	(760)	(21,420)
Total comprehensive expense	-	-	-	-	-	(20,667)	7	(815)	(21,475)
Shares issued	107	359	-	-	-	-	-	-	466
Cancellation of deferred shares	(79,534)	-	-	-	-	-	-	79,534	-
Cancellation of share premium	-	(75,000)	-	-	-	-	-	-	(75,000)
Share-based payments	-	-	-	1,521	-	-	-	-	1,521
Lapsed/vested shares	-	-	-	(5,474)	-	-	-	1,521	(3,953)
Shares transferred from employee benefit trusts	-	-	-	-	1,747	-	-	-	1,747
Recycling of merger reserve	-	-	(5,683)	-	-	-	-	5,683	-
Recycling of investment reserve	-	-	-	-	-	-	975	(975)	-
Balance at 31 December 2016	**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
Balance at 31 December 2017	**5,111**	**8,023**	**-**	**158**	**(103)**	**(2,733)**	**7,064**	**(15,376)**	**2,144**

Group balance sheet
as at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Intangible assets and goodwill	9	**151**	17,724
Property, plant and equipment	10	**358**	1,108
Other receivables	12	**395**	-
Deferred tax assets	14	**79**	8,324
Total non-current assets		**983**	27,156
Current assets			
Trade and other receivables	12	**4,075**	7,212
Current tax receivables	14	**965**	1,404
Cash and cash equivalents	20	**20,979**	38,067
Total current assets		**26,019**	46,683
Total assets		**27,001**	73,839
Current liabilities			
Trade and other payables	13	**(11,390)**	(20,162)
Current tax liabilities	14	**(1,391)**	(1,070)
Total current liabilities		**(12,781)**	(21,232)
Net current assets		**13,238**	25,451
Non-current liabilities			
Retirement benefit obligations	15	**(7,320)**	(11,577)
Deferred tax liabilities	14	**(24)**	(707)
Long-term provisions	16	**(4,732)**	(7,711)
Total non-current liabilities		**(12,076)**	(19,995)
Total liabilities		**(24,857)**	(41,227)
Net assets		**2,144**	32,612
Equity			
Share capital	17	**5,111**	5,111
Share premium account		**8,023**	8,023
Share compensation reserve		**158**	226
Shares held by employee benefit trusts		**(103)**	(108)
Translation reserve	18	**(2,733)**	(3,376)
Other reserves	18	**7,064**	7,064
Retained earnings		**(15,376)**	15,672
Equity attributable to owners of the Company		**2,144**	32,612

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2018. They were signed on its behalf by:

Nick Stagg
Director

Group cash flow statement
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Net cash outflow from operating activities	20	**(15,014)**	(15,214)
Investing activities			
Interest received		**224**	65
Purchases of property, plant and equipment		**(108)**	(414)
Purchases of intangible assets		**(15)**	(239)
Net proceeds from disposal		**-**	188,950
Net cash generated from investing activities		**101**	188,362
Financing activities			
Dividends paid		**-**	(7)
Proceeds from borrowings		**-**	9,663
Repayment of borrowings		**-**	(78,697)
Return of capital		**-**	(75,000)
Net cash used in financing activities		**-**	(144,041)
Net (decrease)/increase in cash and cash equivalents		**(14,913)**	29,107
Cash and cash equivalents at beginning of year		**38,067**	20,737
Effect of foreign exchange rate changes		**(2,175)**	(11,777)
Cash and cash equivalents at end of year	20	**20,979**	38,067

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.

Company balance sheet
as at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Intangible assets	9	-	6
Retirement benefit asset	15	**200**	
Property, plant and equipment	10	**144**	168
Investments	11	**2,000**	112,020
Total non-current assets		**2,344**	112,194
Current assets			
Trade and other receivables	12	**510**	24,176
Current tax receivable		**1**	-
Cash and cash equivalents	20	**16,429**	25,361
Total current assets		**16,940**	49,537
Total assets		**19,284**	161,731
Current liabilities			
Trade and other payables	13	**(1,648)**	(133,946)
Total current liabilities		**(1,649)**	(133,946)
Net current assets/(liabilities)		**15,291**	(84,409)
Non-current liabilities			
Long-term provisions	16	**(2,753)**	(192)
Retirement benefit obligations	15	**-**	(400)
Total non-current liabilities		**(2,753)**	(592)
Total liabilities		**(4,401)**	(134,538)
Net assets		**14,883**	27,193
Equity			
Share capital	17	**5,111**	5,111
Share premium account		**8,023**	8,023
Share compensation reserve		**158**	226
Shares held by employee benefit trusts		**(103)**	(108)
Capital redemption reserve		**1,186**	1,186
Retained earnings	19	**508**	12,755
Equity attributable to owners of the Company		**14,883**	27,193

The Company made a loss of £12.5m in 2017.

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2018. They were signed on its behalf by:

Nick Stagg
Director

Company number
1000608

Company statement of changes in equity
for the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share compensation reserve £'000	Shares held by employee benefit trusts £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016	**84,538**	**82,664**	**-**	**4,179**	**(1,855)**	**1,186**	**(10,220)**	**160,492**
Loss for the period	-	-	-	-	-	-	(58,080)	(58,080)
Shares issued	107	359	-	-	-	-	-	466
Share-based payments	-	-	-	1,521	-	-	-	1,521
Lapsed/vested shares	-	-	-	(5,474)	-	-	1,521	(3,953)
Shares transferred from employee benefit trusts	-	-	-	-	1,747	-	-	1,747
Cancellation of deferred shares	(79,534)	-	-	-	-	-	79,534	-
Cancellation of share premium	-	(75,000)	-	-	-	-	-	(75,000)
Balance at 31 December 2016	**5,111**	**8,023**	**-**	**226**	**(108)**	**1,186**	**12,755**	**27,193**
Loss for the period	-	-	-	-	-	-	(12,547)	(12,547)
Other comprehensive income	-	-	-	-	-	-	300	300
Total comprehensive expense	-	-	-	-	-	-	(12,247)	(12,247)
Share-based payments	-	-	-	(63)	-	-	-	(63)
Lapsed/vested shares	-	-	-	(5)	-	-	-	(5)
Shares transferred from employee benefit trusts	-	-	-	-	5	-	-	5
Balance at 31 December 2017	**5,111**	**8,023**	**-**	**158**	**(103)**	**1,186**	**508**	**14,883**

Company cash flow statement

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Net cash outflow from operating activities	20	**1,359**	(8,849)
Investing activities			
Interest received		**53**	-
Purchases of property, plant and equipment		**(80)**	(115)
Proceeds from disposal of subsidiary		**679**	-
Cash advances (to)/from subsidiaries		**(9,319)**	137,695
Net cash (used in) /from investing activities		**(8,667)**	137,580
Financing activities			
Dividends paid		-	(7)
Repayment of borrowings		-	(26,551)
Return of equity		-	(75,000)
Net cash used in financing activities		-	(101,558)
Net (decrease)/increase in cash and cash equivalents		**(7,308)**	27,173
Cash and cash equivalents at beginning of year		**25,361**	169
Effect of foreign exchange rate changes		**(1,624)**	(1,981)
Cash and cash equivalents at end of year	20	**16,429**	25,361

Notes to the financial statements
for the year ended 31 December 2017

1. General information
Management Consulting Group PLC (the "Company") is a public company and the Group's ultimate parent company and is incorporated and domiciled in England under the Companies Act 2006. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activity are set out in note 3 and in the Financial Review.

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

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

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

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

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the 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 2018 in line with previously announced guidance. In particular, the Board noted that Proudfoot grew revenues in Q1 2018 compared with a particularly low Q4 in 2017 and early indications are for a continuation of this trend into Q2. Nonetheless, the Board concluded that revenues for the year ending 31 December 2018 are likely to be lower than revenue reported in FY2017. The Board assumed that management would be successful in continuing its work to reduce costs across the Group as a whole. For 2019, the Board assumed that Proudfoot's revenues would rise but not to the levels seen in 2016. In assessing sensitivities, the Board took into account the slower than expected pace of change at Proudfoot and the disappointing result revenues in past periods.

The Group continues to manage the liabilities related to the disposals made in 2015 and 2016 and in particular 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.

While the Board remains confident as to the Group's overall position in terms of the release of the outstanding Kurt Salmon escrow funds, it considers that the ongoing negotiations create undue risk to the Group's short-term funding position and therefore it is actively considering options to manage this including raising new funds for the Company.

BlueGem Capital Partners LLP, which currently holds 24.38% of the Group's issued share capital and has two representatives on the Board, has confirmed in writing its support for a fundraising and its intention, in principle and subject to certain conditions, to commit new funds of up to €4 million (approximately £3.5 million) to the Company as part of such a fundraising in a form and amount to be agreed. The Board is now working to finalise its plans for the fundraising on an expedited basis.

The Board has concluded that its forecasts 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. However, the Board has also noted the risks and uncertainties related to those forecasts referred to above as well as to the fundraising intention referred to above and concluded that these material uncertainties cast significant doubt on the Group and Company's ability to continue as a going concern.

The principal uncertainties can therefore be summarised as follows:

- The timing and quantum of the release of cash from escrow in connection with the disposal of Kurt Salmon is uncertain.
- The source and quantum of the current immediate fund-raising plans is the subject of a letter of intent, but that intention is neither binding nor guaranteed. The ability to achieve the forecast revenues and reduce the cost base of the business appropriately is inherently uncertain and therefore the quantum of the Group's financing requirements is uncertain and its sufficiency is dependent on achieving at least the sensitised forecast outturn.

Notes to the financial statements continued
for the year ended 31 December 2017

Accordingly, there is a material uncertainty related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, the Group and Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Adoption of new and revised standards
The following new and revised standards and interpretations have been adopted in the current year. Their adoption has not had any material impact on the disclosures or amounts reported in these financial statements.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to ISA 7: Disclosure initiative

New and revised standards in issue but not yet effective
At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases have not yet been adopted by the EU:

IFRS 9 "Financial Instruments" published in July 2014 replaces the existing guidance in ISA39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. This indicates that the impact of this new standard on the Group's results is unlikely to be material.

IFRS15 "Revenue from Contracts with Customers" provides guidance on the recognition and measurement of revenue. This standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of services is transferred. This applies to all contracts with customer except those in the scope of other standards. This new standard will replace ISA18 "Revenue" and is effective from annual periods beginning on or after 1 January 2018. The Group does not expect there to be a material impact from IFRS 15, however the Group will continue to monitor the impact of IFRS 15 on new service contracts as they arise.

IFRS 16 "Leases"

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

Annual Improvements 2014–2016 Cycle

Amendments to IAS 40: Transfers of Investment Property

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

IFRS 17: Insurance Contracts

IFRS 4 (amendments): Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRIS 23: Uncertainty over Income Tax Treatments

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

IFRS 16: Leases
A single model will be applied by lessees to all leases with the option not to recognise leases of small value or with terms less than twelve months. It is expected that most operating leases will be included on the balance sheet as an asset, together with the corresponding liability, namely the present value of the future lease payments. Note 22, Operating Lease Arrangements, reflects the aggregate outstanding commitments at the balance sheet date.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed, which we are aiming to carry out in 2018.

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

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

Critical accounting judgements

Non-underlying items
The group applies judgement in identifying the significant non-underlying items of income and expense that are recognised as non- underlying to help provide an indication of the Groups underlying business performance. 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.

Key sources of estimation uncertainty

Goodwill
Under IFRS goodwill is capitalised and tested for impairment annually and when events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with finite lives are capitalised and amortised over their useful economic lives. Changes in assumptions used in the Group's impairment reviews or estimated useful economic lives could have a material effect on the presentation of the Group's financial position and results of operations. Details of the impairment test calculations are set out in note 9.

Income taxes
The Group has operations in around 20 countries that are subject to direct and indirect taxes. The tax position is often not agreed with tax authorities until sometime after the relevant period end and, if subject to a tax audit, may be open for an extended period. In these circumstances, the recognition of tax liabilities and assets requires management estimates and judgement to reflect a variety of factors; these include the status of any ongoing tax audits, historical experience, interpretations of tax law and the likelihood of settlement. The changing regulatory environment affecting all multinationals increases the estimation uncertainty associated with calculating the Group's tax position. This is as a result of amendments to tax law at the national level, increased co-operation between tax authorities and greater cross border transparency. The Group estimates and recognises liabilities of whether additional taxes will be due based on management's interpretation of country specific tax law, external advice and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the results in the year in which such determination is made. In addition, calculation and recognition of temporary differences giving rise to deferred tax assets requires estimates and judgements to be made on the extent to which future taxable profits are available against which these temporary differences can be utilised. Sensitivities applied to such estimates provide a range of current year current tax charge of between £0.7m and £1.2m. The amount recorded is £1.0m.

Deferred tax
Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Recognition, therefore involves estimates regarding the forecasting of taxable profits of the business. Refer note 7.

Employee benefits
Accounting for pensions and other post-retirement benefits involves estimates about uncertain events, including, but not limited to, discount rates and life expectancy. Determination of the projected benefit obligations for the Group's defined benefit pension scheme and post-retirement plans are important to the recorded amount of the benefit expense in the income statement and the net liability recorded in the balance sheet. Actuarial valuations are carried out annually. These determine the expense recorded in the income statement, the net liability recognised in the balance sheet, and items to be recorded in the consolidated statement of recognised income and expense. Details of the assumptions used are included in note 15 to the financial statements.

Provisions
Provisions are estimates and mainly relate to onerous lease and contract commitments arising from the disposal of Kurt Salmon businesses in 2016. The San Francisco lease has been sublet in 2018, and any changes to the expected outturn out of this sublet could lead to changes in the level of provision required. Outcomes range from £1.5m up to £4.7m. The amount provided is £1.7m as at 31 December 2017.

Notes to the financial statements continued
for the year ended 31 December 2017

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

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

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

(d) Revenue
The Group follows the principles of IAS18 "revenue" in determining appropriate revenue recognition policies. Revenue represents amounts chargeable for services provided to third parties in the normal course of business. Revenue from services is recognised when the service is provided and the right to consideration earned. Each contract is considered on a case by case basis. Revenue is generally recognised in line with the services performed on a time spent basis. The Group monitors revenue weekly reconciling time spent on the contract with what has been invoiced, with revenue being deferred in instances where revenue invoiced exceeds the services performed.

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

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

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

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

(h) Leasehold improvements

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

(i) Impairment of tangible and intangible assets

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

(j) Dividend distribution

Dividends to holders of common shares are recognised as a liability in the Group and parent company's financial statements in the period in which the shareholders' right to receive payment has been established. For interim dividends the shareholders' right to receive payment is the same as the date of payment. For final dividends the shareholders have a right to receive payment once the proposed dividend has been approved by the Board.

(k) Cash and cash equivalents

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

(l) Financial assets

Financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial assets are initially measured at transaction price and, where applicable, are subsequently measured at amortised cost. Financial assets are only offset in the balance sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial assets, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

(m) Financial liabilities

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

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

(n) Taxation

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

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

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

Notes to the financial statements continued
for the year ended 31 December 2017

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

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

(p) Own shares
The Company shares held by the employee benefit trusts established in respect of certain share-based awards are presented as a reduction of equity.

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

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

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

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

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

For defined benefit schemes, the amounts charged to the income statement are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the income statement if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost is calculated by applying a discount rate to the net defined liability or asset.

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

(v) Share-based payments
Share awards are made to selected employees on a discretionary basis. Awards are measured at their fair value and are recognised as an expense on a straight-line basis over the vesting period. Where awards do not vest, a transfer is made from the share compensation reserve to retained earnings.

(w) Foreign currencies

The average monthly exchange rates used to translate the 2017 results were £1=$1.29 (2016: £1=$1.35) and £1=€1.14 (2016: £1=€1.22). The year end exchange rates used to translate the 2017 balance sheet were £1=$1.35 (2016: £1=$1.24) and £1=€1.13 (2016:£1=€1.17)

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

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

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

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

(x) Discontinued operations

A discontinued operation is a component of the Group which represents a significant separate line of business, either through its activity or geographical area of operation, which has been sold, is held for sale or has been closed.

Non-GAAP 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.

Underlying profit/loss from operations

The Group's operating results are split between underlying 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. Underlying profit/loss is used by management internally to evaluate performance and to establish strategic goals. Underlying 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. Underlying 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.

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for the year ended 31 December 2017

3. 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 underlying operating loss by geography

Year ended 31 December 2017	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Revenue – continuing operations	**15,377**	**14,762**	**4,964**	**35,103**
Loss from operations before non-underlying expenses	**(6,224)**	**(1,527)**	**(553)**	**(8,304)**
Non-underlying expenses	**(1,192)**	**(142)**	**(149)**	**(1,483)**
Non-underlying income	**664**	**-**	**-**	**664**
Loss from operations before impairment	**(6,752)**	**(1,669)**	**(702)**	**(9,123)**
Goodwill impairment				**(16,665)**
Loss from operations				**(25,788)**
Investment revenue				**224**
Finance costs				**(719)**
Loss before tax				**(26,283)**

Included in revenues arising from Americas are revenues of approximately £3.6m which arose from sales in 2017 to the Group's largest customer. No other single customer contributed to 10% or more to the Group's revenue in either 2016 or 2017.

Year ended 31 December 2016	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Revenue – continuing operations	27,822	13,190	4,181	45,193
Loss from operations before non-underlying expenses and amortisation of acquired intangibles	(4,418)	(1,867)	(2,560)	(8,845)
Non-underlying expenses and amortisation of acquired intangibles	(2,278)	(953)	(213)	(3,444)
Non-underlying income	1,808	737	489	3,034
Loss from operations before impairment	(4,888)	(2,083)	(2,284)	(9,255)
Goodwill impairment				(30,358)
Loss from operations				(39,613)
Investment revenue				64
Finance costs				(1,220)
Loss before tax				(40,769)

(ii) Net assets by geography

Year ended 31 December 2017	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
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**

Year ended 31 December 2016	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Assets				
Intangibles, including goodwill	11,254	6,470		17,724
Other segment assets	12,152	3,869	466	16,487
Total assets allocated to segments	23,406	10,339	466	34,211
Unallocated corporate assets				39,628
Consolidated total assets				73,839
Liabilities				
Segment liabilities	(20,260)	(6,688)	(1,478)	(28,426)
Unallocated corporate liabilities				(12,801)
Consolidated total liabilities				(41,227)
Net assets				32,612

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

	Note	2017 £'000	2016 £'000
Net foreign exchange losses/(gains)		**1,366**	(153)
Amortisation of intangible assets		**1,503**	1,333
Depreciation of property, plant and equipment		**815**	328
Profit on disposal of fixed assets		**-**	(54)
Non-underlying items - impairment	4a	**16,665**	30,358
Non -underlying expense - other	4a	**1,483**	2,301
Non-underlying income	4a	**(664)**	(1,894)
Staff costs	5	**25,681**	34,535

4a. Non underlying items

	2017 £'000	2016 £'000
Restructuring	**1,131**	1,664
Employee provision	**352**	-
Goodwill impairment	**16,665**	30,358
Software write off	**-**	640
Defined medical benefit scheme closure	**(664)**	(1,624)
Other	**-**	(270)
	17,484	30,768

The £18.1m (2016: £32.7m) of non-underlying expense comprises £16.7m of goodwill impairment, £1.0m 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 (2016: £1.9m) arises due to a release of the provision in relation to the closure of the Proudfoot Defined Benefit Medical Scheme in December 2016. £32.7m of non-underlying expense in 2016 comprises £30.3m of goodwill impairment, £1.7m of restructuring related redundancy costs and employee severance offset by a £0.3m provision release and £0.6m relating to a write off of capitalised software costs. The £1.6m credit is in relation to the closure of the Proudfoot Defined Benefit Medical Scheme, and £0.3m is in respect of a provision release.

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

Auditor's remuneration	2017 £'000	2016 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**47**	47
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries	**173**	263
Total audit fees	**220**	310
Taxation compliance services	**51**	517
Audit related assurance services	**30**	30
Taxation advisory services	**-**	221
Other non-audit services*	**113**	200
Total non-audit fees	**194**	969
Total auditor's remuneration	**414**	1,279

* Other non-audit services in 2017 include a fee of £112,500 relating to review of the projections and assumptions within the Group's financial models. (2016: £200,000 for reporting accountants work performed in respect of the disposals)

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.

5. Staff numbers and costs

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

	2017 Number	2016 Number
Sales and marketing	**44**	53
Consultants	**122**	161
Support staff	**48**	60
Total	**214**	274

The number of Group employees at the year end was 197 (2016: 281).

The aggregate payroll costs were as follows:

	2017 £'000	2016 £'000
Wages and salaries	**22,179**	28,593
Social security costs	**2,679**	4,316
Other including pension costs	**823**	1,626
	25,681	34,535

The average number of Company employees for the year was 11 (2016: 18). The payroll costs of the Company were £1,565,000 (2016: £2,546,000) for wages and salaries, £188,600 (2016: £247,500) for social security costs and £68,400 (2016: £126,000) for pension costs. Disclosures in respect of directors' emoluments are included in the Directors' Remuneration Report.

6a. Investment revenues

	2017 £'000	2016 £'000
Interest receivable on bank deposits and similar income	**224**	64

6b. Finance costs

	Note	2017 £'000	2016 £'000
Interest payable on bank overdrafts and loans and similar charges		**(77)**	(468)
Finance costs on retirement benefit plans	15	**(642)**	(752)
		(719)	(1,220)

Notes to the financial statements continued

for the year ended 31 December 2017

7. Tax

Recognised in the income statement: Income tax expense on continuing operations	2017 Before non-underlying items £'000	2017 Non-underlying items £'000	2017 Total £'000	2016 Before non-underlying items £'000	2016 Non-underlying items £'000	2016 Total £'000
Current tax						
Current year	**991**	**-**	**991**	1,860	(3)	1,857
Adjustment in respect of prior years	**95**	**-**	**95**	(2,353)	-	(2,353)
Current tax (credit)/expense	**1,086**	**-**	**1,086**	(493)	(3)	(496)
Deferred tax						
Current year	**3,204**	**6**	**3,210**	(3,171)	190	(2,981)
Adjustment in respect of prior years	**189**	**-**	**189**	1,268	-	1,268
Deferred tax (credit)/expense	**3,393**	**6**	**3,399**	(1,903)	190	(1,713)
Total income tax						
Income tax (credit)/expense on continuing activities	**4,479**	**6**	**4,485**	(2,396)	187	(2,209)

The income tax expense for the year is based on the effective United Kingdom statutory rate of corporation tax for the period of 19.25% (2016: 20%). 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:

	2017 Before non-underlying items £'000	2017 Non-underlying items £'000	2017 Total £'000	2016 Before non-underlying items £'000	2016 Non-underlying items £'000	2016 Total £'000
Loss before tax from continuing operations	**(8,799)**	**(17,484)**	**(26,283)**	(40,359)	(410)	(40,769)
Notional income tax credit at the effective UK tax rate of 19.25% (2016: 20.0%)	**(1,743)**	**(3,364)**	**(5,107)**	(8,073)	(82)	(8,155)
Unrelieved current year tax losses	**3,379**	**289**	**3,668**	2,526	287	2,813
Irrecoverable withholding tax	**365**	**-**	**365**	830	-	830
Effects of different tax rates of subsidiaries operating in other jurisdictions	**(602)**	**1**	**(601)**	(4,773)	(18)	(4,791)
Reassessment of deferred tax recognition policy	**3,291**	**-**	**3,291**	-	-	-
Profits offset by losses not previously recognised	**(746)**	**-**	**(746)**	–		-
Other temporary differences not previously recognised	**(1,656)**	**-**	**(1,656)**	(555)	-	(555)
Permanent differences	**1,910**	**3,080**	**4,990**	8,734	-	8,734
Relating to prior years	**281**	**-**	**280**	(1,085)	-	(1,085)
Income tax expense/(credit) on continuing operations	**4,479**	**6**	**4,485**	(2,396)	187	(2,209)
Effective tax rate for the year	**(51%)**		**(17%)**	(6%)		(5%)

Permanent differences reflect tax adjustments for the goodwill impairment, 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.

	2017 £'000	2016 £'000
Tax credited to other comprehensive income		
Current and deferred tax credits on actuarial and other movements on post-employment benefits	**(3,867)**	(186)
Tax charged on items recognised in other comprehensive income	**(3,867)**	(186)

8. Earnings per share

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

Earnings	2017 All £'000	2017 Continuing £'000	2017 Discontinued £'000	2016 All £'000	2016 Continuing £'000	2016 Discontinued £'000
(Loss)/profit for the period	**(31,019)**	**(30,768)**	**(251)**	(55)	(38,560)	38,505
Add back: non-underlying items	**1,070**	**819**	**251**	39,856	30,768	9,088
Add back: amortisation of acquired intangibles	**-**	**-**	**-**	527	-	527
Add back: non-underlying items - impairment	**16,665**	**16,665**	**-**			
Adjustment for profit on disposals	**-**	**-**	**-**	(42,779)	-	(42,779)
Reduction in tax charge due to add backs	**(192)**	**(192)**	**-**	(2,134)	(359)	(1,775)
Underlying (loss)/profit for the period	**(13,476)**	**(13,476)**	**-**	(4,585)	(8,151)	3,566

Number of shares	2017 Number million	2016 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	**511**	505
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	**511**	505

(Loss)/earnings per share	2017 All Pence	2017 Continuing Pence	2017 Discontinued Pence	2016 All Pence	2016 Continuing Pence	2016 Discontinued Pence
Basic (loss)/profit per share for the year attributable to the owners of the Company	**(6.1)**	**(6.1)**	**0.0**	0.0	(7.6)	7.6
Diluted (loss)/profit per share for the year attributable to the owners of the Company	**(6.1)**	**(6.1)**	**0.0**	0.0	(7.6)	7.6
Basic (loss)/profit per share – excluding non-underlying items and amortisation of acquired intangibles	**(2.6)**	**(2.6)**	**0.0**	(0.9)	(1.6)	0.7
Diluted (loss)/profit per share – excluding non-underlying items and amortisation of acquired intangibles	**(2.6)**	**(2.6)**	**0.0**	(0.9)	(1.6)	0.7

The average share price for the year ended 31 December 2017 was 7.2p (2016: 16.5p).

The weighted average number of the Company's ordinary shares used in the calculation of diluted loss per share in 2017 includes rights over 364,890 ordinary shares (2016: 364,890).

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9. Intangible assets and goodwill

Group	Goodwill £'000	Software costs £'000	Total intangibles £'000
Cost			
At 1 January 2017	46,358	4,398	50,756
Additions	-	15	15
Disposals	-	(300)	(300)
Exchange differences	665	(241)	424
At 31 December 2017	**47,023**	**3,872**	**50,895**
Amortisation and impairment			
At 1 January 2017	30,358	2,674	33,032
Charge for the year	-	1,503	1,503
Impairment charge	16,665	-	16,665
Disposals	-	(300)	(300)
Exchange differences	-	(156)	(156)
At 31 December 2017	**47,023**	**3,721**	**50,744**
Carrying amount			
At 31 December 2017	-	151	151
At 31 December 2016	16,000	1,724	17,724

The £16.7m impairment charge for goodwill relates to the impairment of Proudfoot goodwill. The Directors have reviewed the underlying value in use calculations and given the uncertainty over the outlook have determined that it is appropriate to fully impair the goodwill balance.

£1.3m of amortisation charge relates to the amortisation of Kurt Salmon software retained by the Group and is offset against the utilisation of the TSA provision. See note 16. The remainder of the amortisation charge is recognised within administrative expenses in the income statement.

Company	Software costs £'000
Cost	
At 1 January 2017	873
At 31 December 2017	**873**
Amortisation	
At 1 January 2017	867
Charge for the year	6
At 31 December 2017	**873**
Carrying amount	
At 31 December 2017	-
At 31 December 2016	6

Group	Goodwill £'000	Customer relationships £'000	Software costs £'000	Total intangibles £'000
Cost				
At 1 January 2016	197,701	18,791	6,714	223,206
Additions	-	-	366	366
Disposals	(180,127)	(20,946)	(3,967)	(205,040)
Exchange differences	28,784	2,155	1,285	32,224
At 31 December 2016	**46,358**	**-**	**4,398**	**50,756**
Amortisation and impairment				
At 1 January 2016	53,372	17,711	3,736	74,819
Charge for the year	-	527	1,006	1,533
Impairment charge	30,358		587	30,945
Disposals	(53,372)	(20,946)	(3,518)	(77,836)
Exchange differences	-	2,708	863	3,571
At 31 December 2016	**30,358**	**-**	**2,674**	**33,032**
Carrying amount				
At 31 December 2016	**16,000**	**-**	**1,724**	**17,724**
At 31 December 2015	144,329	1,080	2,978	148,387

Company	Software costs £'000
Cost	
At 1 January 2016	873
At 31 December 2016	**873**
Amortisation	
At 1 January 2016	861
Charge for the year	6
At 31 December 2016	**867**
Carrying amount	
At 31 December 2016	**6**
At 31 December 2015	12

Notes to the financial statements continued

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Analysis of goodwill

Goodwill acquired in a business combination is allocated to the cash-generating units ("CGUs") that are expected to benefit from that business combination. Following the disposal of Kurt Salmon, the remaining goodwill relates to Proudfoot.

The recoverable amount of goodwill is determined based on value-in-use calculations. The key assumptions used for value-in-use calculations as at 31 December 2017 are that the CGU will trade broadly in accordance with projections prepared for the three years 2018 – 2020. The key assumptions underlying the forecasts are revenue and EBITA. EBITA is deemed to be a reasonable proxy for cash and assumed EBITA margins are consistent with past experience and industry norms.

The projections are based on a budget for 2018 and projections for 2019 and 2020 based on the long-term growth rate. The 2018 budget has been prepared on a bottom-up basis, taking into account market and economic factors and have been approved by the Board.

For longer term financial projections, cash flows are extrapolated based on long-term average growth rates of 2%. The rates used to discount the forecast post-tax cash flows are 12.8% which represents the Group's weighted average cost of capital, based on the risk-free rate with an additional premium added to reflect market risk and the size of the Group. Goodwill is tested against the value in use of the business as one CGU, given the integrated nature of the business. It cannot reasonably be allocated to a lower level of CGU.

This review, together with recognition of the inherent uncertainty within the forecast, resulted in a value-in-use of nil, and accordingly the goodwill has been fully written down to this value to reflect the recoverable amount being below the carrying value.

10. Property, plant and equipment

Fixtures, fittings and equipment	Group £'000	Company £'000
Cost		
At 1 January 2017	3,271	927
Additions	108	82
Disposals	(809)	(798)
Exchange differences	(170)	-
At 31 December 2017	**2,400**	**211**
Accumulated depreciation		
At 1 January 2017	2,163	759
Charge for the year	815	106
Disposals	(809)	(798)
Exchange differences	(127)	-
At 31 December 2017	**(2,042)**	**67**
Carrying amount		
At 31 December 2017	**358**	**144**
At 31 December 2016	1,108	168

The assets' residual values and useful lives are reviewed for impairment and adjusted if appropriate.

Fixtures, fittings and equipment	Group £'000	Company £'000
Cost		
At 1 January 2016	6,308	1,904
Additions	259	152
Disposals	(3,677)	(1,129)
Exchange differences	381	-
At 31 December 2016	**3,271**	**927**
Accumulated depreciation		
At 1 January 2016	4,312	1,768
Charge for the year	328	121
Disposals	(2,733)	(1,130)
Exchange differences	256	-
At 31 December 2016	**2,163**	**759**
Carrying amount		
At 31 December 2016	**1,108**	**168**
At 31 December 2015	1,996	136

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11. Investments

Group	2017 £'000	2016 £'000
Cost		
At 1 January 2017	-	711
Additions	-	-
Disposals	-	(711)
Exchange differences	-	-
At 31 December 2017	-	-

The financial assets related to investments held by the sold Kurt Salmon business.

Company	Shares £'000	Total £'000
Investment in Group companies		
At 1 January 2016	164,775	164,775
Impairment	(52,698)	(52,698)
Decrease in shareholding	(57)	(57)
At 31 December 2016	112,020	112,020
Impairment of investments in group subsidiaries	(110,020)	(110,020)
At 31 December 2017	**2,000**	**2,000**

Brought forward shares as at 1 January 2016 are stated net of provisions of £70,970,000 against impairment in value. Impairments are the result of annual impairment reviews of the PLC Company investments to reflect the net asset values of the underlying investments.

12. Trade and other receivables

	Group		Company	
Amounts due <1 year	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade receivables – gross	**1,765**	4,362	-	1
Allowance for doubtful debts	-	(1,307)	-	-
Trade receivables – net	**1,765**	3,055	-	1
Amounts owed by Group undertakings	-	-	**228**	22,989
Other receivables	**1,635**	2,211	**109**	687
Accrued income	**36**	1,496	-	-
Prepayments	**639**	450	**173**	499
	4,075	7,212	**510**	24,176

Amounts due >1 year	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Other receivables	**395**	-	-	-
	395	-	-	-

Debtor days at the year end were 50 (2016: 31 days). No interest was charged on receivables. The directors consider that the carrying value of trade and other receivables approximates to their fair value (see note 21).

Other receivables >1 year relates to a standby letter of credit in respect of legacy San Francisco Kurt Salmon offices which expires at the end of the lease in September 2020.

In respect of the Company net intercompany receivables of £21.8m were written off in the period as they were no longer recoverable.

13. Trade and other payables

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade payables	**619**	1,457	**480**	782
Amounts owed to Group undertakings	**-**	-	**122**	130,584
Other taxes and social security	**1,135**	2,438	**103**	290
Other payables	**998**	931	**141**	142
Deferred income	**781**	892	**-**	-
Accruals	**7,857**	14,444	**802**	2,148
	11,390	20,162	**1,648**	133,946

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 14 days (2016: 16 days). The directors consider that the carrying amount of trade payables approximates to their fair value (see note 23).

14. Tax assets and liabilities

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Current tax				
Current tax receivables	**965**	1,404	**-**	-
Current tax liabilities	**(1,391)**	(1,070)	**-**	-

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

Group	Pension funds and retirement provision £'000	Tax losses £'000	FTCs £'000	Arising on acquisitions – intangibles £'000	Goodwill £'000	Other temporary differences £'000	Total £'000
Net deferred tax							
At 1 January 2016	6,841	1,085	2,538	(755)	(3,409)	2,735	9,035
Disposals	(2,290)	(1,085)	(2,538)	755	3,409	(2,294)	(4,043)
Foreign exchange	767	34	-	-	-	305	1,106
Recognised in Group statement of comprehensive income	(193)	-	-	-	-	-	(193)
(Charged)/credited to Group income statement	(825)	453	-	-	-	2,084	1,712
At 31 December 2016	4,300	487	-	-	-	2,830	7,617
Disposals	-	-	-	-	-	-	-
Foreign exchange	(177)	5	-	-	-	(122)	(294)
Reclassification	(175)	-	-	-	-	175	-
Effect of change in tax rate	-	-	-	-	-	-	-
Recognised in Group statement of comprehensive income	(3,869)	-	-	-	-	-	(3,869)
(Charged)/credited to Group income statement	-	(492)	-	-	-	(2,907)	(3,399)
At 31 December 2017	**79**	**-**	**-**	**-**	**-**	**(24)**	**55**

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for the year ended 31 December 2017

Group	31 December 2017 £'000	31 December 2016 £'000
Deferred tax assets	**79**	8,324
Deferred tax liabilities	**(24)**	(707)
Total	**55**	7,617

At 31 December 2017 the Group recognised a deferred tax asset of £0.1m (2016: £7.7m), of which £nil (2016: £0.5m) are in respect of tax losses, £0.1m (2016: £7.2m) are in respect of other temporary differences.

At 31 December 2017 the Group did not recognise deferred tax assets totalling £30.4m (2016: £22.3m), of which £24.5m (2016: £22.3m) are in respect of tax losses, £5.9m (2016: £2.4m) are in respect of other temporary differences. The Group believes there will not be sufficient future taxable profits to utilise the deductions arising from the reversal of these deferred tax assets.

No deferred tax liability is recognised in relation to the unremitted earnings of overseas subsidiaries as the Group is able to control the timing of the reversal of the temporary differences which would give rise to the liability and it is probable that they will not reverse in the foreseeable future. The unrecognised deferred tax liability at 31 December 2017 of £0.9m (2016: £0.2m) is in respect of the unremitted earnings of those overseas subsidiaries where remittance to the UK of those earnings would still result in a tax liability, principally as a result of tax due in overseas intermediate holding companies and dividend withholding taxes levied by the overseas tax jurisdictions in which these subsidiaries operate.

Company
The Company did not recognise deferred tax assets or liabilities in either 2017 or 2016. The Company has an unrecognised deferred tax asset of £5.6m (2016: £5.5m).

15. Retirement benefit obligations

Defined contribution schemes
The Group operates a number of defined contribution pension schemes throughout the world. The total cost charged to the income statement in respect of defined contribution schemes was £823,000 (2016: £1,626,000), representing contributions payable to these schemes by the continuing Group at rates specified in the rules of the plans.

Defined benefit schemes
The retirement benefits obligation reflected in the Group balance sheet at 31 December 2017 relates to the net liability under a part-funded US defined benefit pension scheme of £7.3m, an unfunded French retirement obligation of £0.3m, and a legacy Kurt Salmon UK defined 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 decreased from £11.6m at 31 December 2016 to £7.2m at 31 December 2017, principally as a result of the actuarial gains experienced in the US scheme but also as a result of members leaving the UK scheme. 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 has been moved to a more conservative 60% in bonds and 40% in equities at the start of 2018.

The retirement benefit obligations are summarised below:

	Note	2017 £'000	2016 £'000
US defined benefit pension scheme	17a	**(7,205)**	(10,856)
Proudfoot French statutory obligation	17b	**(315)**	(321)
UK defined benefit pension scheme	17c	**200**	(400)
All schemes		**(7,320)**	(11,577)

(A) US schemes

The funded US defined benefits pension scheme was closed to new entrants with effect from 1 February 2001 and further benefit accruals ceased for all members with effect from 31 December 2001. The US defined benefit scheme was amended in 2015 to allow certain terminated vested participants a one-time offer to elect a lump sum payment of their full pension benefit. There were no changes in plan provisions since the prior measurement date on 31 December 2014. The US medical benefits plan was terminated on 31 December 2016 and applied only to certain former employees who retired prior to 30 September 1995 and to the post-retirement medical costs of a small number of current and former employees who were employed at that date. The pension deficit has decreased during 2017 by £3.6m (2016: £0.1m decrease). The plan scheme assets are invested in a diversified range of equities, bonds and cash. The Group monitors its exposure to changes in interest rates and equity markets. These measures are considered when deciding whether significant changes in investment strategy is required. The asset investment fund is actively monitored by management together with plan advisors and investment fund managers, to determine the optimal investment mix bearing in mind the Group's tolerance for risk and the views of the trustees who are legally responsible for the scheme. The asset investment fund is actively monitored by management together with plan advisors and investment fund managers with the objective that over time the deficit will reduce accordingly.

The principal assumptions used for the recent actuarial valuations were:

	2017	2016
Discount rate	**3.55%**	3.99%
General inflation assumption	**n/a**	n/a
Mortality table	RP 2014 (scale: MP 2017)	RP 2014 (scale: MP 2016)

	2017		2016	
	Male	Female	Male	Female
Life expectancy at age 75	**12.8**	**14.3**	13.0	14.5

The MP 2017 projection scale published by the Society of Actuaries (SOA) show a lower degree of longevity improvement than projected based on previous SAO assumptions.

There are neither guaranteed nor discretionary increases to benefits after retirement. Expected pension contributions for 2018 are £nil (2017: £nil).

(i) Components of amounts recognised in the income statement

	2017			2016		
	DB Scheme £'000	Medical Scheme £'000	Total £'000	DB Scheme £'000	Medical Scheme £'000	Total £'000
Service costs	**244**	**-**	**244**	197	-	197
Effects of settlement	**-**	**-**	**-**	-	(1,033)	(1,033)
Interest expense on plan obligations	**2,219**	**-**	**2,219**	2,319	101	2,420
Interest income on plan assets	**(1,820)**	**-**	**(1,820)**	(1,873)	-	(1,873)
Total charge to income statement	**643**	**-**	**643**	643	(932)	(289)

All items charged to the income statement have been recognised as finance costs.

(ii) Components of amounts recognised in the other comprehensive income statement

	2017			2016		
	DB Scheme £'000	Medical Scheme £'000	Total £'000	DB Scheme £'000	Medical Scheme £'000	Total £'000
Liability loss/(gain) due to changes in assumptions	**1,638**	**-**	**1,638**	249	(32)	217
Liability experience loss/(gain) arising in the year	**(244)**	**-**	**(244)**	176	(178)	(2)
Asset (gains)/losses arising during the year	**(4,888)**	**-**	**(4,888)**	1,577	-	1,577
Total (gain)/loss recognised in the other comprehensive income statement	**(3,494)**	**-**	**(3,494)**	2,002	(210)	1,792

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

	Note	2017 £'000	2016 £'000
Present value of defined benefit obligations	15(d)	**(52,951)**	(58,541)
Fair value of scheme assets	15(d)	**45,746**	47,685
Liability recognised in the balance sheet		**(7,205)**	(10,856)

(iv) Movements in balance sheet amounts

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

	2017 £'000	2016 £'000
Opening defined benefit obligation	**(58,541)**	(52,552)
Interest cost	**(2,219)**	(2,420)
Service cost	**(244)**	(197)
Actuarial loss	**(1,394)**	(220)
Contributions by participants	**-**	(83)
Exchange differences	**4,953**	(9,819)
Benefits paid	**4,494**	4,387
Settlements	**-**	2,363
Closing defined benefit obligation	**(52,951)**	(58,541)

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

	2017 £'000	2016 £'000
Opening fair value of plan assets	**47,685**	40,577
Expected return	**1,820**	1,873
Actuarial gain	**4,888**	1,577
Exchange differences	**(4,153)**	7,801
Benefits paid	**(4,494)**	(4,143)
Closing fair value of plan assets	**45,746**	47,685
Net retirement benefit obligation	**(7,205)**	(10,856)

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

	2017 £'000	2016 £'000
Equities	**17,741**	27,731
Bonds	**17,867**	18,997
Cash	**9,933**	753
Other	**205**	204
	45,746	47,685

The plan assets held are traded in liquid markets and the expected rates of return are based on actuarial advice received.

(vi) Sensitivities on key assumptions

US DB pension

A 1% decrease in the discount rate would increase the benefit obligation by £5,198,000.

The sensitivities applied are in line with recent experience and sensitivity on discount rate is the sole sensitivity run by the actuaries on the pension valuation

(vii) Estimated future benefit payments

	2017 £'000	2016 £'000
In one year	**3,962**	4,392
In two years	**4,052**	4,427
In three years	**4,024**	4,505
In four years	**3,953**	4,641
In five years	**3,874**	4,349
In six to ten years	**18,075**	20,435

(B) French schemes

Unfunded French retirement obligation

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

	2017	2016
Rate of increase in salaries	**2%**	4%
Discount rate	**1.2%**	1.3%
Mortality tables	TPGFO5/TPGHO5	TPGFO5/TPGHO5

	2017		2016	
	Male	Female	Male	Female
Life expectancy at age 75	**15.4**	**18.3**	15.3	18.1

Scheme members receive a lump sum on retirement. The valuation assumes that members retire at age 65. There are neither guaranteed nor discretionary increases to benefits after retirement.

(i) Components of amounts recognised in the income statement

	2017 £'000	2016 £'000
Service costs	**21**	23
Interest expense on plan obligations	**4**	7
Total charge to income statement	**25**	30

(ii) Amounts recognised in the other comprehensive income statement

	2017 £'000	2016 £'000
Liability (gains)/losses due to changes in assumptions	**(44)**	52
Total (gain)/loss recognised in the other comprehensive income statement	**(44)**	52

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

	2017 £'000	2016 £'000
Present value of defined benefit obligations	**(315)**	(321)
Fair value of scheme assets	**-**	-
Liability recognised in the balance sheet	**(315)**	(321)

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

	2017 £'000	2016 £'000
Opening defined benefit obligation	**(321)**	(319)
Service cost	**(21)**	(23)
Actuarial gain / (loss)	**44**	(52)
Employer contribution	**-**	46
Interest cost	**(4)**	(7)
Foreign exchange difference	**(13)**	34
Closing defined benefit obligation	**(315)**	(321)

The French obligation is unfunded and holds no plan assets.

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

(v) Sensitivities on key assumptions
A 0.5% decrease in the discount rate would increase the benefit obligation by £14,320.

The sensitivities applied are in line with recent experience.

(C) UK schemes
UK retirement obligation

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

	2017	2016
Discount rate	**2.4%**	2.6%
Inflation	**3.5%**	3.5%
Mortality table	**90% of S2PA**	90% of S2PA

Assumption at Valuation date	2017	2017	2016	2016
Mortality projection table	**2016**	**2016**	**2015**	**2015**
Gender	**Male**	**Female**	**Male**	**Female**
Mortality for birth year 1952	23.1	24.6	23.5	24.9
Mortality for birth year 1975	25.1	26.0	25.7	26.4

(i) Amounts recognised in income statement in respect of the UK post-retirement scheme are as follows:
Components of amounts recognised in the income statement:

	2017 £'000	2016 £'000
Interest expense on plan liabilities	**95**	285
Interest income on plan assets	**(95)**	(285)
Total charge to the income statement	**-**	-

(ii) Amounts recognised in other comprehensive income statement
Amounts recognised in the other comprehensive income statement:

	2017 £'000	2016 £'000
Liability losses due to change in assumptions	**(100)**	(1,100)
Asset gains arising during the year	**400**	700
Total gain/(loss) recognised in the other comprehensive income statement	**300**	(400)

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

	2017 £'000	2016 £'000
Present value of defined benefit obligations	**(2,400)**	(5,800)
Fair value of scheme assets	**2,600**	5,400
Asset/(liability) recognised in the balance sheet	**200**	(400)

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

	2017 £'000	2016 £'000
Opening defined benefit obligation	**(5,800)**	(4,700)
Interest cost	**(100)**	(200)
Settlements	**3,600**	200
Actuarial loss	**(100)**	(1,100)
Closing defined benefit obligation	**(2,400)**	(5,800)

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

	2017 £'000	2016 £'000
Opening fair value of plan assets	**5,400**	4,700
Interest income	**100**	200
Settlements	**(3,400)**	(200)
Company contributions	**100**	-
Actuarial gain	**400**	700
Closing fair value of plan assets	**2,600**	5,400

The actual return on scheme assets was £500,000 (2016: £900,000).

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

	2017		2016	
	Expected return %	£'000	Expected return %	£'000
Equities	**2.4%**	**2,600**	2.6	5,400

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

(iv) Sensitivities on key assumptions
A 0.5% decrease in the discount rate would increase the benefit obligation by £100,000.

A 0.5% increase in the rate of inflation would increase the benefit obligation by £100,000.

The sensitivities applied are in line with recent experience.

16. Long-term provisions

	Group				Company
	Property provision £'000	Litigation £'000	Other provision £'000	Total £'000	Property provision £'000
At 1 January 2017	7,708	-	3	7,711	192
Utilised	(4,177)	-	-	(4,177)	(192)
Released	(2,033)	–	-	(2,033)	-
Charge	561	1,610	1,440	3,611	2,753
Foreign exchange movement	(367)	-	(13)	(380)	-
At 31 December 2017	**1,692**	**1,610**	**1,430**	**4,732**	**2,753**

	Group				Company
	Property provision £'000	Litigation £'000	Other provision £'000	Total £'000	Property provision £'000
At 1 January 2016	1,189	-	33	1,222	192
Utilised	(270)	-	(33)	(303)	-
Released	(1,243)	-	-	(1,243)	-
Charge	7,314	-	-	7,314	-
Foreign exchange movement	718	-	3	721	-
At 31 December 2016	**7,708**	**-**	**3**	**7,711**	**192**

Provisions are expected to be utilised over the period to 2020 and are discounted if material.

Property provisions relate to onerous leases arising following the disposal of Kurt Salmon with cash outflows arising when rent falls due under existing lease arrangements. Other provisions relate to additional pension payments to a former Proudfoot employee which do not meet the definition of a pension in accordance with IAS 19. Litigation provisions represent ongoing legal claims in relation to the Kurt Salmon disposal.

17. Share capital

(a) Called up share capital

	2017 £'000	2016 £'000
Issued and fully paid		
511,136,857 (2016: 511,136,857) shares of 1p each	**5,111**	5,111
	5,111	5,111

A net credit of £63,000 (2016: expense £668,000) has been recognised in the year in respect of share awards. The cumulative share compensation reserve at 31 December 2017 is £158,000 (2016: £226,000). No awards were granted in the year.

(b) Share awards

Conditional awards

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

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

The vesting of awards is subject to performance conditions set by the Committee. Further details in respect of share awards made to directors can be found in the Directors' Remuneration Report on page 34.

Restricted awards

Share awards to employees other than directors may be made on a restricted basjs. These awards are normally only subject to an employment condition and can be satisfied with either market purchase shares or from up to nine million of new shares following a shareholder resolution passed on 17 December 2015. Executive directors are not eligible to participate in restricted share plans.

	Number of shares	Weighted average exercise price pence
Outstanding at 1 January 2017	5,040,388	0.0
Granted during the year	-	0.0
Forfeited during the year	(3,300,000)	0.0
Satisfied during the year	(22,524)	0.0
Outstanding at 31 December 2017	1,717,864	0.0
Exercisable at 31 December 2017	**17,864**	0.0

The weighted average share price at the date of exercise for share awards satisfied during the year was 7.9p. The awards outstanding at 31 December 2017 had a weighted average exercise price of 0.0p and a weighted average remaining contractual life of 12 months.

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18. Other reserves

Group	Statutory reserves of subsidiary undertakings £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Total other reserves £'000
At 1 January 2016	5,878	1,186	(982)	6,082
At 31 December 2016	5,878	1,186	-	7,064
At 31 December 2017	5,878	1,186	-	7,064

The share compensation reserve represents the net credit arising from the charge for share awards less amounts transferred to retained earnings following the lapse of share awards. Shares held by the employee benefit trusts represent 344,204 shares (2016: 364,890). The value of these shares held in reserves is £103,000 (2016: £108,000).

The translation reserve of £2,733,000 represents all foreign currency differences arising from the translation of the financial statements of foreign operations plus any foreign currency difference arising from the group's net investments in foreign operations.

During 2017 the Group's employee benefit trust did not purchase any called up share capital (2016: £nil).

19. Retained earnings (Company only)

In accordance with Section 408 of the Companies Act 2006, the Company has not presented its own income statement. The movement in the Group income statement for the financial year includes a loss of £12,547,000 (2016: £58,080,000 loss) dealt with in the financial statements of the Company. As part of rationalisation of the Group's holding companies during the year, the company had intercompany debts forgiven by its subsidiaries which resulted in a net credit to the income statement of £83.5m offset by an impairment in investments of subsidiaries of £110m. The profit also includes the recognition of a non cash dividend of £14.7m from a holding company as part of the rationalisation of the Group.

20. Notes to the cash flow statement

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Operating loss from continuing operations	**(25,788)**	(39,613)	**(13,228)**	(58,080)
Operating loss from discontinued operations	**(251)**	(3,876)	**-**	-
Operating loss	**(26,039)**	(43,489)	**(13,228)**	(58,080)
Adjustments for:				
Depreciation of property, plant and equipment	**273**	759	**105**	121
Amortisation of intangible assets	**223**	1,533	**6**	5
Profit on disposal of fixed assets	**-**	(3)	**-**	(57)
Adjustment for the cost of share awards	**(87)**	668	**(87)**	742
(Decrease)/increase/in provisions	**(2,598)**	1,244	**2,561**	-
Goodwill impairment	**16,665**	30,358	**-**	-
Non-cash Intercompany debt forgiveness	**-**	-	**(83,568)**	
Non-cash dividend			**(14,669)**	
Impairment of investments	**-**	-	**110,020**	52,697
Other non-cash items	**1,045**	2,108	**1,148**	400
Operating cash flows before movements in working capital	**(10,518)**	(6,822)	**2,288**	(4,172)
Increase/(decrease) in receivables	**3,160**	1,725	**903**	(790)
Decrease in payables	**(6,739)**	(5,607)	**(1,832)**	(3,566)
Cash used in by operations	**(14,097)**	(10,704)	**1,359**	(8,528)
Income taxes paid	**(840)**	(3,665)	**-**	-
Interest paid	**(77)**	(845)	**-**	(321)
Net cash outflow from operating activities	**(15,014)**	(15,214)	**1,359**	(8,849)

The Group had no financing liabilities arising from cash flow activities in the year ended 31 December 2017.

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

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Cash at bank and in hand	**20,979**	38,067	**16,429**	25,361
Cash and cash equivalents	**20,979**	38,067	**16,429**	25,361

Included within the 2017 Group cash balance of £21.0m and Company cash balance of £16.4m is £8.5m (2016: £9.6m) 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 PLC Company's obligation following the sale of the Kurt Salmon retail and consumer goods operations.

Cash backed letter of credit in respect of a legacy Kurt Salmon offices in the United States, was included in the 2016 restricted cash figure. This amount of £0.8m (2016: £0.8m) is included in other receivables in 2017.

21. Financial instruments

Capital structure and treasury policies

Review of treasury policies

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

Risk management

The objective of the Group and Company's treasury policies is to provide liquidity for the Group and Company at minimum risk and minimum cost and to hedge known financial exposures, when economically efficient. The main treasury risks faced by the Group and Company are country-specific liquidity risks. The Group and Company's objectives regarding exchange rate risk, and liquidity risk are, respectively, to minimise interest charges; minimise realised exchange losses on foreign currency transactions; ensure that the Group and Company only deal with creditworthy customers; and ensure that the Group and Company have sufficient resources available to meet their liabilities as they fall due. Investment of the Group and Company's cash is made within policies that cover counterparty risk and liquidity. Surplus cash is invested generally in overnight deposits.

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

	2017		2016	
	Average	**Closing**	Average	Closing
£1 = US Dollar	**1.29**	**1.35**	1.35	1.23
£1 = Euro	**1.14**	**1.13**	1.22	1.17

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

Currency	Note	2017 Floating rate £'000	2016 Floating rate £'000
Financial assets			
Sterling		**2,629**	1,968
US Dollar		**15,709**	34,393
Euro		**972**	763
Other		**1,669**	943
Cash and cash equivalents	20	**20,979**	38,067
Sterling		**1,195**	2,164
US Dollar		**788**	2,671
Euro		**1,276**	1,158
Other		**816**	1,219
Trade and other receivables	12	**4,075**	7,212
Financial liabilities			
Sterling		**(5,536)**	(7,630)
US Dollar		**(368)**	(4,326)
Euro		**(3,102)**	(4,013)
Other		**(2,384)**	(4,193)
Trade and other payables	13	**(11,390)**	(20,162)

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

Exposure to credit risk – Group

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

		Carrying amount	
	Note	2017 £'000	2016 £'000
Cash and cash equivalents	20	**20,979**	38,067
		20,979	38,067

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

		Carrying amount	
	Note	2017 £'000	2016 £'000
Europe		**448**	360
United States		**134**	841
Rest of the World		**623**	426
United Kingdom		**559**	1,428
	12	**1,764**	3,055

The Group's most significant customer accounts for 20% of the trade receivables carrying amount at 31 December 2017 (2016: 38%).

	Note	2017 £'000	2016 £'000
Not past due		**715**	473
Past due 0–30 days		**588**	1,468
Past due 31–120 days		**461**	1,114
	12	**1,764**	3,055

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

Liquidity risk – Group
The following are the contractual maturities of financial liabilities:

31 December 2017	Note	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000
Non-derivative financial liabilities						
Trade and other payables	13	**(11,390)**	**(11,390)**	**(11,390)**	**-**	**-**
		(11,390)	**(11,390)**	**(11,390)**	**-**	**-**

31 December 2016	Note	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000
Non-derivative financial liabilities						
Trade and other payables	13	(20,162)	(20,162)	(20,107)	-	(55)
		(20,162)	(20,162)	(20,107)	-	(55)

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

	31 December 2017		31 December 2016	
	Euro £'000	US Dollar £'000	Euro £'000	US Dollar £'000
Trade receivables	**448**	**134**	360	841
Trade payables	**(6)**	**(38)**	(62)	(186)
Gross balance sheet exposure	**442**	**96**	298	655
Notional current year sales	**8,255**	**10,730**	6,980	14,235
Notional current year purchases	**(3,940)**	**(5,422)**	(3,692)	(8,195)
Gross and net exposure	**4,315**	**5,308**	3,288	6,040

Notes to the financial statements continued
for the year ended 31 December 2017

Sensitivity analysis – Group
A 10% strengthening of Sterling against the following currencies at 31 December 2017 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016. 10% is the annual exchange rate movement that is deemed reasonably probable for the two most significant currencies in the Group based on recent experience.

	Equity £'000	Profit or loss £'000
2017		
US Dollar	**(9)**	**(483)**
Euro	**(40)**	**(392)**
2016		
US Dollar	(60)	(549)
Euro	(27)	(299)

A 10% weakening of Sterling against the following currencies at 31 December 2017 would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016. 10% is the annual exchange rate movement that is deemed reasonably probable for the two most significant currencies in the Group based on recent experience.

	Equity £'000	Profit or loss £'000
2017		
US Dollar	**11**	590
Euro	**146**	479
2016		
US Dollar	**73**	671
Euro	**33**	365

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

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

		31 December 2017		31 December 2016	
	Note	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade and other receivables	12	**4,075**	**4,075**	7,212	7,212
Cash and cash equivalents	20	**20,979**	**20,979**	38,067	38,067
Trade and other payables	13	**(11,390)**	**(11,390)**	(20,162)	(20,162)

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

Currency	Note	2017 Floating rate £'000	2016 Floating rate £'000
Financial assets			
Sterling		**2,308**	1,903
US Dollar		**14,062**	23,440
Euro		**59**	18
Cash and cash equivalents	20	**16,429**	25,361
Sterling		**146**	2,338
US Dollar		**364**	21,511
Euro		**-**	327
Other		**-**	-
Trade and other receivables	12	**510**	24,176
Financial liabilities			
Sterling		**(1,529)**	(17,217)
US Dollar		**(119)**	(107,273)
Euro		**-**	(9,428)
Other		**-**	(28)
Trade and other payables	13	**(1,648)**	(133,946)

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

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

	Carrying amount	
	2017 £'000	2016 £'000
Cash and cash equivalents	**16,429**	25,361

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

Liquidity risk – Company
The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2017	**Carrying amount £'000**	**Contractual cash flows £'000**	**6 months or less £'000**
Non-derivative financial liabilities			
Trade and other payables	**(1,649)**	**(1,649)**	**(1,649)**
	(1,649)	**(1,649)**	**(1,649)**

31 December 2016	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000
Non-derivative financial liabilities			
Trade and other payables	(133,946)	(133,946)	(133,946)
	(133,946)	(133,946)	(133,946)

Notes to the financial statements continued
for the year ended 31 December 2017

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

	31 December 2017 Euro £'000	31 December 2017 US Dollar £'000	31 December 2016 Euro £'000	31 December 2016 US Dollar £'000
Intercompany receivables	-	**229**	327	21,511
Intercompany payables	-	**(122)**	(9,428)	(107,273)
Gross balance sheet exposure	-	**107**	(9,101)	(85,762)

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

Sensitivity analysis – Company
A 10% strengthening of Sterling against the following currencies at 31 December 2017 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016. The sensitivity assumes exchange rate effects that are reasonably possible for the USD and Euro currencies based on recent experience

	Equity £'000	Profit or loss £'000
2017		
US Dollar	**(10)**	**(10)**
Euro	**-**	**-**
2016		
US Dollar	6,315	(6,315)
Euro	705	(705)

A 10% weakening of Sterling against the following currencies at 31 December 2017 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016. The sensitivity assumes exchange rate effects that are reasonably possible for the USD and Euro currencies based on recent experience.

	Equity £'000	Profit or loss £'000
2017		
US Dollar	**11**	**11**
Euro	**-**	**-**
2016		
US Dollar	(7,718)	7,718
Euro	(862)	862

The Company has variable or fixed rate financial assets or financial liabilities.

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

	31 December 2017 Carrying amount £'000	31 December 2017 Fair value £'000	31 December 2016 Carrying amount £'000	31 December 2016 Fair value £'000
Cash and cash equivalents	**16,429**	**16,429**	25,361	25,361
Trade and other receivables	**510**	**510**	24,176	24,176
Trade and other payables	**(1,649)**	**(1,649)**	(133,946)	(133,946)

22. Operating lease arrangements

Group	2017 £'000	2016 £'000
Minimum lease payments under operating leases recognised in the income statement for the year	**1,492**	2,227

These payments represent payments for office space.

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

	2017		2016	
Group	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	**2,187**	-	2,581	47
In the second to fifth years inclusive	**1,686**	-	3,707	18
After five years	-	-	10	-
	3,873	-	6,298	65

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of four years. The Group entered into a sublease agreement of its San Francisco office and expected future sublease income of £1.3m is expected until September 2020 when the lease expires.

23. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Except as disclosed below and in Note 24, no Group company entered into a transaction with a related party that is not a member of the Group. Goods and services purchased from related parties are on normal commercial terms and conditions.

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

Nicholas Stagg, a director of the Company, is a non-executive director of Wedlake Bell LLP. During 2017, Wedlake Bell LLP provided services at fair market rates to Management Consulting Group PLC valued at £135,000. IGlobal, a subsidiary of Wedlake Bell LLP provided services at *fair market rates to Alexander Proudfoot (Europe) Limited valued at £16,106.*

Fiona Czerniawska, a non-executive director of the Company is Founder and Director of Source Global Research. During 2017, Source Global Research provided services at fair market rates to Alexander Proudfoot valued at £24,000.

All transactions with pension trustees have been disclosed in note 15.

Remuneration of key management personnel

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

	2017 £'000	2016 £'000
Short-term employee benefits	**639**	1,467
Post-employment benefits	**77**	109
Termination benefits	**-**	263

24. Subsidiary undertakings

At 31 December 2017, the Company had the following subsidiary undertakings, with all trading subsidiaries being engaged in the provision of management consultancy services. The shareholdings were 100% of the subsidiary undertakings' ordinary shares and were held indirectly except where indicated. Each of the subsidiaries is included in the consolidation.

Notes to the financial statements continued
for the year ended 31 December 2017

	Registered address	Countries of incorporation/operation
Management Consulting Group Overseas Ltd*	St Paul's House, 10 Warwick Lane, London, EC4M 7BP	United Kingdom
MCG Company No 4 Ltd*	St Paul's House, 10 Warwick Lane, London, EC4M 7BP	United Kingdom
Proudfoot Trustees Ltd*	St Paul's House, 10 Warwick Lane, London, EC4M 7BP	United Kingdom
MCG Company No 1 Ltd*	St Paul's House, 10 Warwick Lane, London, EC4M 7BP	United Kingdom
MCG Overseas Holdings Ltd (UK)*	St Paul's House, 10 Warwick Lane, London, EC4M 7BP	United Kingdom
Alexander Proudfoot (Europe) Ltd*	St Paul's House, 10 Warwick Lane, London, EC4M 7BP	United Kingdom
Alexander Proudfoot Company of Europe Ltd*	St Paul's House, 10 Warwick Lane, London, EC4M 7BP	United Kingdom
Kurt Salmon Associates Ltd	St Paul's House, 10 Warwick Lane, London, EC4M 7BP	United Kingdom
Management Consulting Group Holdings LLC	1355 Peachtree St NE, Suite 900, Atlanta, GA 30309, USA	United States
MCG TSA Holdco LLC	1355 Peachtree St NE, Suite 900, Atlanta, GA 30309, USA	United States
Alexander Proudfoot Company	1355 Peachtree St NE, Suite 900, Atlanta, GA 30309, USA	United States
Alexander Proudfoot Inc (Canada – Ontario)	161 Bay Street, 27th Floor, Canada Trust Tower, BCE Place, Toronto, Ontario M5J 2S1, Canada	Canada
Alexander Proudfoot Services GmbH	c/o Regus Business Centre, An der Welle 4, 60322 Frankfurt am Main Germany	Germany
Alexander Proudfoot GmbH	c/o Regus Business Centre, An der Welle 4, 60322 Frankfurt am Main Germany	Germany
Alexander Proudfoot GmbH*	LandstraBer HauptstraBe 71/72 1030 Wien, Austria	Austria
Alexander Proudfoot France SAS	168 Avenue Charles de Gaulle, 92200 Neuilly sur Seine, France	France
Alexander Proudfoot Europe SA	523 Avenue Louise, Brussels 1050, Belgium	Belgium
Kurt Salmon Associates AG	c/o KPMG AG, Landis + Gyr-Strasse 1, CH-6300 Zug, Switzerland	Switzerland
Alexander Proudfoot SA	Capitan Haya 60, 2nd Floor, 28020 Madrid, Spain	Spain
Kurt Salmon Associates SA	Homero,31, Barcelona, Spain	Spain
MCG Overseas Holdings BV*	Van der Valk Boumanlaan 13 I, 3446 GE Woerden, The Netherlands.	Netherlands
Proudfoot (Netherlands) BV	Van der Valk Boumanlaan 13 I, 3446 GE Woerden, The Netherlands	Netherlands
Alexander Proudfoot Japan K.K	Ark Mori Building, 1-12-32 Akasaka, Toyko, Japan	Japan
Proudfoot (Malaysia) SDN BHD	1 Sentral, Level 16, Jalan Stesen Sentral 5, KL Sentral, Kuala Lumpur, 50470, Malaysia	Malaysia
Proudfoot (Singapore) Pte	8 Marina Boulevard #05-02, Marina Bay Financial Centre Tower 1, Singapore 018981	Singapore
Alexander Proudfoot Consulting (Shanghai) Limited	Room 808, No.1325 Middle Huai Hai Road, Shanghai, 200031, R.P.C.	China
Ineum Consulting Pty Ltd (Australia)	c/o KD Partners, Suite 3, Level 4, 12-14 Mount Street, North Sydney, NSW, 2060, Australia	Australia
Alexander Proudfoot SPA (Chile)	Avenida Isidora Goyenechea 3000 #, Piso 24, Las Condes, Santiago CP 755-0098, Chile	Chile
Ap Sucursal del Peru	Av. Camino Real 456, Torre Real, Piso 12, San Isidro, Lima 27, Peru	Peru
AP Participações Ltda	12551 Avenida das Nacoes Unidas, Chacara Itaim – 17 Andar, Sao Paulo (CEP 04578-000), Brazil	Brazil
Alexander Proudfoot – Serviços Empresariais LTDA	Rua Iguatemi, 151 – 8o. andar, 01451-011 – São Paulo, SP, Brazil	Brazil
Proudfoot (de Mexico) SC	Río Guadiana No. 11, Col. Cuauahtémoc, 06500 México, D.F.	Mexico
Alexander Proudfoot South Africa (Pty) Ltd	1st Floor, Crawford House, 17 Muswell Road South, Bryanston 2021 Johannesburg, South Africa	South Africa
Alexander Proudfoot Africa (Pty) Ltd**	1st Floor, Crawford House, 17 Muswell Road South, Bryanston 2021 Johannesburg, South Africa	South Africa
Alexander Proudfoot (Botswana) Pty LTD	1st Floor, Time Square, Plot 134 Independence Avenue, Gaborone, Botswana	Botswana

* Held directly.
** 49% held by Alexander Proudfoot South Africa (Pty) Ltd.

Company

Amounts owed by / (owed to) subsidiary undertakings

	2017 receivable/ (payable) £'000	2016 receivable/ (payable) £'000
Alexander Proudfoot (Europe) Limited	-	19,625
MCG Company No. 1 Limited	-	(109,075)
MCG Holdings Netherlands BV	-	(4,266)
Alexander Proudfoot Japan KK	-	21
Alexander Proudfoot South Africa (Pty) Ltd	-	1
Proudfoot (de Mexico) SC	**(59)**	-
Alexander Proudfoot Spa	-	1
Alexander Proudfoot – Serviços Empresariais LTDA	-	388
Alexander Proudfoot Company	-	6
Proudfoot Hong Kong	-	-
MCG Company No. 4 Limited	-	(14,207)
MCG Overseas Limited	**229**	
Alexander Proudfoot Inc	-	(23)
Proudfoot Singapore Ltd	-	-
Alexander Proudfoot SA (Esp)	-	(27)
MCG Holdings LLC	-	(38)
MCG Holdco LLC	**(63)**	-
Amounts owed by / (owed to)	**107**	(107,594)

Transactions with subsidiary undertakings

	2017 expense/ (income) £'000	2016 expense/ (income) £'000
Alexander Proudfoot (Europe) Limited	**44**	44
Alexander Proudfoot Company	**(1,007)**	(1,015)
Income from transactions with subsidiary undertakings	**(963)**	(971)

Notes to the financial statements continued

for the year ended 31 December 2017

25. Discontinued operations and disposals

Discontinued operations comprise residual transitional service agreements and obligations including contingent liabilities of the business that were sold in 2016.

- The sale of the French and related operation of Kurt Salmon, including Belgium, Luxembourg, Switzerland and Morocco to Wavestone.
- The sale of the US healthcare consulting business of Kurt Salmon to ECG Management Consultants.
- The sale of the global retail and consumer goods consulting operations of Kurt Salmon to Accenture.

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:

	2017				2016			
	Kurt Salmon France £'000	**Kurt Salmon Healthcare £'000**	**Kurt Salmon Consumer Group £'000**	**Total £'000**	Kurt Salmon France £'000	Kurt Salmon Healthcare £'000	Kurt Salmon Consumer Group £'000	Total £'000
Revenue	-	-	-	-	-	8,729	72,543	81,272
Cost of sales	-	-	-	-	-	(7,282)	(47,049)	(54,331)
Gross profit	-	-	-	-	-	1,447	25,494	26,941
Administrative expenses – underlying	-	-	-	-	(63)	(2,951)	(18,188)	(21,202)
(Loss)/profit from operations – underlying	-	-	-	-	(63)	(1,504)	7,306	5,739
Administrative expenses – non-underlying other	**(1,396)**	-	**(1,143)**	**(2,539)**	(6)	(419)	(11,649)	(12,074)
Administrative expenses – non underlying credit	-	-	**2,288**	**2,288**	81	-	2,905	2,986
Amortisation of acquired intangibles	-	-	-	-	-	-	(527)	(527)
Total administrative expenses	**(1,396)**	-	**1,145**	**(251)**	12	(3,370)	(27,459)	(30,817)
(Loss)/profit from operations	**(1,396)**	-	**1,145**	**(251)**	12	(1,923)	(1,965)	(3,876)
Net finance cost	-	-	-	-	-	-	(188)	(188)
(Loss)/Profit) before tax	**(1,396)**	-	**1,145**	**(251)**	12	(1,923)	(2,153)	(4,064)
Attributable tax expense	-	-	-	-	-	-	(210)	(210)
(Loss)/profit after tax	**(1,396)**	-	**1,145**	**(251)**	12	(1,923)	(2,363)	(4,274)
Profit/(loss) on disposal of discontinued operations	-	-	-	-	244	(10,661)	53,196	42,779
Net (Loss)/profit attributable to discontinued operations	**(1,396)**	-	**1,145**	**(251)**	256	(12,584)	50,833	38,505

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.

Contacts for investors and clients

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Registrar

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Company Secretary

Prism

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

Investor relations

The Group welcomes contact with its shareholders.

Enquiries should be directed to:

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Nick.Stagg@mcgplc.com

London office: +44 20 7710 5000

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

Operational contacts

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

Share price information

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

Shareholder online Services

Signal Shares is a secure online site where you can manage your shareholding quickly and easily. You can:

- View your holding and get an indicative valuation
- Change your address
- View your dividend payment history
- Register your proxy voting instruction
- Download a stock transfer form.

To register for Signal Shares just visit www.signalshares.com. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher

Should you have any queries please contact Link Asset Services helpline on 0871 664 0300, from overseas on +44 371 664 0300 (calls outside of the UK will be charged at the applicable international rate). Calls cost 12p per minute plus your phone company's access charge. Lines are open between 9.00am–5.30pm Monday to Friday excluding public holidays in England and Wales. Email enquiries@linkgroup.co.uk

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A simple and competitively priced service to buy and sell shares is provided by Link Asset Services. There is no need to pre-register and there are no complicated application forms to fill in and by visiting www.linksharedeal.com you can also access a wealth of stock market news and information free of charge.

For further information on this service, or to buy and sell shares visit www.linksharedeal.com or call 0371 664 0445. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 08:00 - 16:30, Monday to Friday excluding public holidays in England and Wales).

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