



Management Consulting Group PLC

Providing professional
services across a wide range
of industries and sectors

Management Consulting Group PLC Annual report and accounts 2016



Management Consulting Group PLC

provides professional services across a wide range of industries and sectors via the Alexander Proudfoot practice.

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Highlights



The sale of the Kurt Salmon businesses in 2016 allowed the Group to repay debt and return £75m in cash to shareholders.

The Group's ongoing business, Proudfoot, requires management focus and further changes to restore profitable growth, and the Group is now in a strong financial position with cash resources to support these initiatives.

The MCG Board will continue to focus on value creation from the Group's remaining operations.

Nick Stagg Chief Executive

- > The sale of the Kurt Salmon retail and consumer goods business was completed on 1 November 2016 for net proceeds of £124.1m, allowing a return of capital to shareholders of £75m in December 2016
- > Earlier in the year the Group completed the disposals of the Kurt Salmon business in France and related geographies for net proceeds of £58.6m, and the Kurt Salmon healthcare business for net proceeds of £6.2m
- > The Group is now in a strong financial position with net cash balances** at 31 December 2016 of £38.1m (2015: net debt of £52.8m)
- > Reported revenues from continuing operations (comprising Proudfoot) down 10% year on year at £45.2m (2015 restated: £50.2m)
- > Underlying* operating loss from continuing operations of £8.8m (2015 restated: loss of £5.3m)
- > Overall loss from continuing operations of £39.6m (2015 restated: loss of £5.7m) reflects £30.4m impairment charge for Proudfoot goodwill
- > Profit from discontinued operations of £38.5m (2015 restated: loss of £55.2m)
- > Retained loss for the year of £0.1m (2015 restated: retained loss of £65.6m)
- > Net assets lower at £32.6m (2015: £129.3m), largely as a result of the return of capital and impairment of goodwill

Revenue from continuing operations (£m)

£45.2m



Underlying operating loss from continuing operations (£m)

£(8.8)m



Loss from continuing operations (£m)

£(39.6)m



Net cash/(debt) (£m)

£38.1m



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

** Net cash/(debt) is cash and cash equivalents less financial liabilities.

At a glance

Introducing Proudfoot today

The Proudfoot Transformation

With a 75 year journey of client success to call upon, and a creative rebrand, 2017 marks the launch of a new position for Proudfoot in the operations transformation marketplace. Stronger, leaner and ever focused on achieving client results through people, the Proudfoot Journey starts with the question What If You Could? With Proudfoot You Can.

What if you could...? With Proudfoot, you can

What if you could take a product to market in half your typical cycle time?

You can

What if you could reduce your cost of production by 30–50%?

You can

What if you could engage your people in changing the landscape of your business?

You can

Proudfoot

A new look, a new brand, a new mindset

As the pioneer operations consulting firm built upon a client base of world-class, Fortune 500 companies, Proudfoot has long been the quiet achiever working with senior executives and their frontline teams, to transform their businesses. Proudfoot today builds on that strong past to engage our people, to continue to deliver a client's future needs in these more turbulent, changing times. The new brand speaks to this modernisation; removing complexity and injecting the Proudfoot pace in all we do. Speed and magnitude of results.

It is no secret that executives and their management teams at every level are under ever increasing pressure to lead their organisations today while crafting their business of tomorrow, all the while delivering shareholder value. By defining, developing and executing solutions to address the most pressing strategic and operational needs of our clients, Proudfoot designs, implements and accelerates operational transformation – realising tomorrow's results today.

To our very core, we understand the human element of transformation. We introduce new capabilities, and we employ the power of people to create performance multipliers and an engaged culture. Together with our clients, we help executives and their teams, from boardroom to shop floor, deliver on their promises to their customers. We help them achieve results they may not ordinarily achieve alone, ensuring new ways of working are embedded into the DNA of the business.

The new Proudfoot at a glance; more focused, more flexible, more value

What we do: Head, heart and hands. While Proudfoot believes true transformation only comes from engaging an organisation in behaving their way into the new world, at the centre of transformation is a tri-focus lens through which Proudfoot views a business;

1. Methods: how work gets done (Hands).
2. Toolsets: how you manage your work (Head).
3. Action: how people behaviour (Heart).

In today's business world, it is not enough to work with a client to achieve the results alone. Importantly, all our clients are looking to upskill their own people and learn from Proudfoot. Our professionals and collaborative working style, along with the powerful combination of relevant expertise and change capable employees, provides a client with the ability to build internal, longer-term organisational capability. We call this Jumpstarting your improvement program, one of the many, more flexible ways we are working with our clients today.

Who we serve: Industry leaders across the global marketplace. Proudfoot delivers services in Natural Resources including Mining & Metals, Building Materials and Oil and Gas, and Industrials (Fast-Moving Consumer Goods, Transportation, Automotive and Heavy Industry). Proudfoot also provides market specific local customisation in sectors such as Financial Services and Healthcare.

Where we work: Our footprint is your footprint. Proudfoot has the strength and capability to provide global support, as well as local understanding and reach.

What we deliver: Tomorrow's results, today. Known for our hands-on approach, industry expertise and resolve, Proudfoot works with clients to deliver an agile workforce, improve performance, expand profitability, and propel top-line growth.

Chairman and Chief Executive's statement

Nick Stagg

Highlights

- > Sale of Kurt Salmon business allowed the Group to distribute £75m to shareholders as a return of capital
- > Focus now on the recovery of Proudfoot, the Group's continuing business
- > Strong financial position with £38m in cash at 31 December 2016



2016 was a transformational year for the Group. Three separate transactions were executed during the year to complete the disposal of the Kurt Salmon business, the final step being the sale of the retail and consumer goods business to Accenture in November. These disposals realised net proceeds for Kurt Salmon as a whole of approximately £189m, allowing the Group to repay its bank debt in full to distribute £75m in cash to shareholders as a return of capital and to retain cash to support the recovery of Proudfoot.

The disposals provided an opportunity to exit from Kurt Salmon at an attractive price for shareholders. The Board firmly believes that the disposals and return of capital were the best means to deliver value to MCG shareholders, given the limited potential for investment and growth in Kurt Salmon as part of the MCG Group. For an interim period MCG has continued to provide back office support for the Kurt Salmon businesses under transitional services agreements with the acquirors. The Group's financial statements reflect the results and disposals of the Kurt Salmon businesses as discontinued operations.

MCG's continuing business, Proudfoot, had a very disappointing year with revenues falling to £45.2m, driven in particular by a weak performance in North America, delivering an underlying loss for the year of £8.8m. The reported overall loss for the year from continuing operations of £39.6m includes a charge of £30.4m for the impairment of goodwill relating to the Proudfoot business, a recognition both of recent weak trading and the challenge ahead to restore the business to historic revenue and profit levels.

Following the sale of Kurt Salmon, the Board now has the opportunity and resources to focus on the recovery of Proudfoot and is implementing a series of strategic and operational initiatives in 2017 to promote growth. These include a rebrand, from "Alexander Proudfoot" to "Proudfoot", beginning in the second quarter.

A number of changes to the Board were announced towards the end of 2016 following the successful completion of the Kurt Salmon disposals. Chris Povey stepped down in November, and Alan Barber and Nigel Halkes stepped down at the end of December. From 1 January 2017 I have succeeded Alan, as Chairman, and will continue as Chief Executive. I would like to thank Alan and Chris for their valuable contributions to the Group over a long period, as Chairman and Finance Director respectively, and Nigel for his input over a shorter but very active period during 2016. On 10 March 2017 Fiona Czerniawska joined the Board as an independent non-executive director. Fiona has long experience of the management consulting industry and her insight will be a valuable addition to the Board. These changes to the Board are consistent with the reduced scale and change in focus of the Group's operations following the disposals.

Proudfoot is a long-standing business with a history of creating value for its clients. The Board is committed to restoring the business to growth and profitability, and to deliver value to MCG shareholders.

The Group is in a strong financial position with cash balances of £38.1m at 31 December 2016. Following the disposal of Kurt Salmon, MCG's continuing operations are smaller and more focused. The Board is taking action to align the cost base and management structure with the change in scale of the Group's activities.

A stylized, handwritten signature in dark ink, appearing to read 'Nick Stagg'.

Nick Stagg
Chairman and Chief Executive
15 March 2017

Chairman and Chief Executive's review

Nick Stagg

Overview

The continuing operations of the Group comprise Proudfoot and the commentary below on the 2016 results (and 2015 comparatives) chiefly relates to that business.

The Group's reported results in 2016 reflect the impact of the completion of the disposal of the Kurt Salmon business, which was sold by means of three separate transactions which completed during the year (the "Disposals"). The results of the businesses which have been sold are reported in the 2016 Group financial statements (and in the restated 2015 results) as discontinued operations. Reported discontinued operations in 2016 also reflect the financial effects of these disposals and include related non-underlying items.

Continuing operations

Proudfoot's reported revenue for 2016 was 10% lower at £45.2m (2015: £50.2m). Following a poor performance in the second half of 2015, Proudfoot delivered two quarters of solid revenue growth in the first half of 2016, although not achieving the levels recorded in the first half of 2015. Proudfoot reported an underlying operating loss for the first half of 2016 of £1.9m on revenues of £25.7m. In line with the Board's expectations highlighted in the Circular to shareholders dated 22 October 2016, second half revenues were significantly weaker at £19.5m, driving an increased underlying operating loss of £8.8m (2015: £5.3m) for the year as a whole.

The reported results of Proudfoot in 2015 and 2016 include an allocation of MCG head office costs. Up to the relevant disposal dates in 2016, the Kurt Salmon businesses also received an allocation of such costs and these are reflected in the reported results from discontinued operations. Following completion of the Disposals, all MCG head office costs are reflected in the reported results of Proudfoot, that is as part of the results from continuing operations. The impact of these costs contributed to the increased underlying operating loss for 2016.

The Group has reported a charge for net non-underlying items relating to continuing operations of £0.4m in 2016 (2015 restated: £0.5m). This principally comprises a credit of £1.6m being the net impact of the release of a provision for post-retirement medical benefits in Proudfoot as a result of the termination of the related plan, offset by redundancy costs of £1.6m and fixed asset write-offs of £0.6m, all related to restructuring in the Group's continuing operations.

The operating loss from continuing operations also reflects a charge of £30.4m 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 2016 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 the impaired value of £16m. The value-in-use assessment in relation to the Proudfoot goodwill reflects the Board's expectation and belief that the recent weak trading performance of the business will not persist in the medium term and the business will achieve profitability.

After non-underlying expenses and goodwill impairment there was a loss from continuing operations of £39.6m (2015 restated: loss of £5.7m).

The net interest expense from continuing operations was lower at £1.2m (2015 restated: £3.5m). The reported net interest charge for 2016 includes an imputed charge in relation to defined benefit pensions of £0.8m (2015 restated: £1.5m).

The loss before tax on continuing operations was £40.8m (2015 restated: loss of £9.2m).

The tax credit on continuing operations was £2.2m (2015 restated: £1.2m expense). The tax credit on continuing operations in 2016 reflects the true-up of prior year balances, the effects of different tax rates of subsidiaries operating in non-UK jurisdictions, offset by the impact of unrelieved losses in loss making operations in certain jurisdictions, the non-deductible impairment of Proudfoot goodwill and project specific withholding taxes.

Discontinued operations

Discontinued operations comprise the underlying operating results for the year of the Kurt Salmon businesses which were sold, the profit or loss on sale, and non-underlying items related to the operations of the businesses concerned. 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 Solucom (now Wavestone), which completed on 7 January 2016 for net proceeds of £58.6m;
- 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; and
- 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 £124.1m.

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 have been retained by MCG following completion and have been used to support transitional services agreements with the acquirors of the Kurt Salmon businesses. The income and expense relating to these transitional services activities are included in discontinued operations in 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 are onerous contracts.

Revenues from discontinued operations in 2016 were £81.3m (2015 restated: £180.3m). Underlying operating profit from discontinued operations in 2016 was £5.7m (2015 restated: £10.9m). Non-underlying expenses related to discontinued operations were £9.1m (2015 restated: £6.4m), the main elements of which are employee related costs of £2.4m and charges related to surplus property and onerous contracts of £5.4m. Amortisation of acquired intangibles was £0.5m (2015 restated: £0.5m).



Read more on Proudfoot on **pages 8 and 9**

Chairman and Chief Executive's review continued

Nick Stagg

Discontinued operations continued

Net finance costs relating to discontinued operations were £0.2m (2015 restated: £1.7m) and the tax charge relating to discontinued operations was £0.2m (2015 restated: £4.0m). Consequently, the loss after taxation from discontinued operations for the period was £4.3m (2015 restated: loss of £1.8m).

The net profit on disposal from discontinued operations in 2016 was £42.8m, comprising a profit on the sale of the retail and consumer goods consulting operations of Kurt Salmon of £53.2m, a loss on the sale of the US healthcare consulting business of Kurt Salmon of £10.7m, and a profit on the sale of the French and related operations of Kurt Salmon of £0.3m.

The disposal of the French and related operations of Kurt Salmon was completed on 7 January 2016 but the transaction was sufficiently advanced as at 31 December 2015 to warrant treatment as a discontinued operation in 2015. Accordingly the Group financial statements for 2015 included a loss on disposal of £53.4m arising as a result of the impairment of goodwill relating to that business. The profit on the sale of the French and related operations of Kurt Salmon included in discontinued operations of £0.3m for 2016 reflects the impact of the finalisation of the disposal, primarily comprising the recycling of a £1.3m currency translation reserve to the profit and loss account and a tax charge of £0.5m relating to the disposal.

The loss on disposal of £10.7m for the Kurt Salmon healthcare business which completed on 29 July 2016 principally arises as a result of the impairment of goodwill.

The disposal of the retail and consumer goods operations of Kurt Salmon was completed on 1 November 2016. The profit on disposal of £53.2m includes £21.8m relating to the net proceeds of the disposal exceeding the book value of the related net assets including goodwill, and £31.4m relating to the recycling of a currency translation reserve.

The total profit from discontinued operations for 2016 was £38.5m (2015 restated: loss of £55.2m).

Loss for the period

Taking into account the profit from discontinued operations there was a total loss for the Group for the year attributable to shareholders of £0.1m (2015 restated: loss of £65.5m).

The underlying loss per share attributable to continuing operations was (1.6)p (2015 restated: (2.0)p) and the basic loss per share attributable to continuing operations was (7.6)p (2015 restated: (2.1)p).

Balance sheet and reduction of capital

At a general meeting on 21 October 2016 shareholders approved a reduction of MCG's share capital (the "Reduction of Capital") which was subsequently approved by the High Court of Justice of England and Wales. As a result the share premium account of MCG was reduced by £75m and the amount so arising was paid in cash to shareholders on 19 December 2016 as a return of capital (the "Return of Capital") equivalent to approximately 14.67p per share. In addition, as part of the Reduction of Capital, the existing deferred shares were cancelled and the sum arising, being £79.5m, was credited to MCG's profit and loss account to create distributable reserves in the parent company balance sheet.

Goodwill

Intangible assets of £17.7m largely comprise goodwill relating to Proudfoot of £16.0m, taking into account an impairment charge in 2016 of £30.4m referred to above. The impaired value of goodwill in the balance sheet is the recoverable amount determined by the value-in-use calculations prepared for the purposes of the annual impairment review, which reflect assumptions as to discount rates, and projected revenue growth rates and profitability. Sensitivity analysis on key assumptions in the impairment review indicates that a reasonably possible change in key assumptions over the course of the next year could result in the recoverable amount falling to a level below the impaired value reflected in the balance sheet at 31 December 2016. Given that the value-in-use calculations reflect assumptions for the return of Proudfoot to break-even and profitability, relatively small changes in the underlying assumptions will result in material changes in the recoverable amount on a value-in-use basis.

Deferred tax assets

The balance sheet includes £8.3m of deferred tax assets, principally relating to pension liabilities and tax losses carried forward, in both cases in relation to the US operations. The recoverability of these deferred assets is dependent upon the future profitability of the US operations of Proudfoot.

Net debt/cash

The Group's bank borrowings were repaid in full on 7 January 2016 from the net proceeds of the disposal of the French and related operations of Kurt Salmon and the Group's bank borrowing facility was terminated on that date. The Group's working capital facility with HSBC was terminated on completion of the sale of the retail and consumer goods consulting practice of Kurt Salmon on 1 November 2016.

At 31 December 2016, following the Return of Capital, the Group reported cash and cash equivalents in the Group balance sheet of £38.1m (2015: net debt of £52.8m).

Reported cash balances at 31 December 2016 include approximately £9.6m of cash which is required to be retained to support cash-backed letters of credit in favour of certain contingent creditors of the Group, in particular in relation to the indemnity obligations to Wavestone, the acquirer of the French and related operations of Kurt Salmon. This cash is expected to become available to the Group for general corporate purposes as the contingent obligations fall away over time.

Pensions

The retirement benefits obligation reflected in the Group balance sheet at 31 December 2016 relates to the net liability under a part-funded US defined benefit pension scheme of £10.9m, a part-funded UK pension obligation of £0.4m, and an unfunded French retirement obligation of £0.3m. The US defined benefit pension scheme is not open to new employees and existing members are not accruing further benefits. The gross obligations under the US defined benefit pension scheme were £58.5m at 31 December 2016 (2015: £50.2m). The assets of the plan reflected in the reported net obligation in the Group balance sheet at 31 December 2016 were £47.7m (2015: £40.6m), representing a funded level of 82% (2015: 81%). No employer cash contributions were made to the US defined benefit pension scheme during 2015 or 2016.

The total net post-retirement obligation for defined benefit schemes decreased from £21.8m at 31 December 2015 to £11.6m at 31 December 2016, principally as a result of the sale of Kurt Salmon which included the transfer to the acquiror of an unfunded German defined benefit pension obligation, and the write back of a provision for post-retirement medical benefits liabilities in Proudfoot in the US as a result of the discontinuance of the scheme to which the liabilities related.

Provisions

Provisions principally relate to the cost of leases for surplus property and have increased from £1.2m at 31 December 2015 to £7.7m at 31 December 2016. Following the Kurt Salmon Disposals the Group has retained office accommodation which is surplus to the requirements of the continuing operations of the business in Atlanta and San Francisco.

The changes in the Group balance sheet reflect the impact of the Disposals and the Return of Capital in 2016. The net assets of the Group have decreased from £129.3m at 31 December 2015 to £32.6m at 31 December 2016, primarily as a result of the Return of Capital, the net profit on the Disposals reflected in the Group profit and loss account during 2016, and the retained loss for the year from continuing operations.

Dividends

The Board will consider the Company's future dividend policy in the light of the trading performance and financial position of the Group. The Board does not intend to declare a dividend for 2016, and it is likely that future dividends will not be paid until the Board is satisfied that the performance of the continuing operations of the Group has improved significantly.

Summary

During 2016 the Board focused on the continued restructuring of the Group and the realisation of value for shareholders. The Disposals of the Kurt Salmon businesses have allowed the Group to repay bank debt in full and return significant value to shareholders by means of a capital distribution in cash of £75m.

The Disposals have strengthened the financial position of the continuing operations of the Group. At the end of 2016, after the Return of Capital, the Group had cash balances of £38.1m, which will be available to meet the Group's obligations and to support the recovery of Proudfoot.

The performance of the Group's continuing operations in 2016 was driven by weaker revenues in Proudfoot, 10% lower than the prior year at £45.2m. These lower revenues and the negative impact of MCG head office costs previously charged to the disposed Kurt Salmon businesses were the drivers of a significantly increased underlying operating loss from continuing operations of £8.8m. Continuing weakness in demand from clients in the natural resources sector, which has typically provided around half the revenues of the Proudfoot business, was a key factor in the weaker performance in 2016, as was the reversal of the positive trends in performance in the key North American business seen in the first half of 2015.

The goodwill relating to the Proudfoot business in the Group balance sheet has been written down to £16.0m to reflect the impact on the value-in-use assessment of weaker revenues and profitability. The value-in-use assessment reflects the Board's expectation and belief that the recent weak trading performance of the business will not persist in the medium term and the business will achieve profitability.

The Group is taking steps to further restructure the Proudfoot business and the MCG head office functions, in order to significantly reduce costs. The MCG Board has been re-sized and reconfigured following the Disposals to focus on the recovery of Proudfoot.

Outlook

The level of order input in Proudfoot towards the end of 2016 was sufficient to produce a positive trend in revenues in the first two months of 2017 versus the last quarter of 2016. Proudfoot has continued to successfully secure follow-on work from existing clients of the business. The current order book is at a similar level to the same time in 2016. Whilst these indicators are broadly positive at this early stage in the year, current revenues are not yet at levels which restore the business to profitability. The Board retains a cautious outlook at this stage of the year.

The Board will continue to make changes to its operating structure and cost base to reflect the reduced scale of the continuing operations of the Group and as the transitional services arrangements with the acquirers of the Kurt Salmon businesses largely fall away during the course of 2017.

The Group will continue to remain alert to all opportunities to generate value for shareholders. The key focus of the Board and management now is on promoting the return of Proudfoot to profitable growth. The Proudfoot business has a long and successful history of delivering value to its clients and the Board is confident that it can deliver further value to shareholders.



Nick Stagg
Chairman and Chief Executive
15 March 2017

Operational review

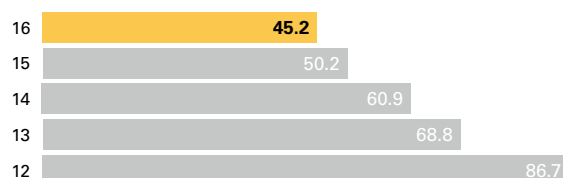
Proudfoot



Proudfoot has a long and successful history. The performance of the business has suffered in the last two years as a result of weakness in the key natural resources sector, but it has a distinctive operating model which delivers real value to clients, together with global reach and a flexible delivery capability.

Revenue (£m)

£45.2m



Proudfoot is organised on the basis of two regional centres focused on the Americas and Europe/Africa/Asia. The principal office locations are in the United States, Brazil and Chile, serving the Americas, and in the UK, France, South Africa and Hong Kong. There is also a dedicated natural resources business unit working across geographies. Proudfoot has a global delivery capability, frequently operating in remote and difficult locations. Approximately 96% of 2016 revenues from continuing operations were generated outside the UK. The same proportion of revenues were billed in currencies other than Sterling, with the US Dollar representing approximately 54% of the total.

Proudfoot's reported revenue for 2016 was 10% lower at £45.2m (2015: £50.2m). Following a poor performance in the second half of 2015, Proudfoot delivered two quarters of solid revenue growth in the first half of 2016, although not achieving the levels recorded in the first half of 2015. Proudfoot reported an underlying operating loss for the first half of 2016 of £1.9m on revenues of £25.7m. Second half revenues were significantly weaker at £19.5m, driving an increased underlying operating loss of £8.8m (2015: £5.3m) for the year as a whole.

The number of staff employed by Proudfoot decreased from 320 at the end of 2015 to 281 at the end of 2016. Average headcount during 2016 was lower than the previous year at 274 (2015: 326).

Work for clients in the natural resources sector continued to represent a significant proportion of Proudfoot's activities, at 42% of total revenues in 2016 (2015: 45%). The continuing overall weakness in this sector has had a significant adverse impact on Proudfoot's revenues in the last two years. The business was successful in 2016 in securing an increased level of work from larger global mining groups, rather than the mid-market players who have been most affected by sector weakness. Other industry sectors in which the business generated significant revenues in 2016 were manufacturing, transportation and financial services.

Revenues from the Americas region represented approximately 62% of total revenues in 2016 (2015: 63%).

The strong performance of the North American business seen in the first half of 2015 was not sustained in 2016, with revenues down by nearly 30% and a loss-making outcome for the year as a whole. This disappointing performance was principally driven by a failure to identify and secure sales opportunities rather than the macro economic environment, which remained broadly favourable during 2016. Management remains committed to the key US market and is developing a series of internal initiatives to promote an improved performance in 2017.

Weakness in North America was countered to some extent by an improved performance in Brazil and elsewhere in South America. The operations in Brazil in particular delivered excellent progress with year on year revenue growth in local currency terms of approximately 91%. Elsewhere in South America the business delivered projects in Chile, Peru and Ecuador, with a focus on work for natural resources clients. The Brazilian and other South American operations made a positive profit contribution in 2016.

What sets Proudfoot apart?

The Proudfoot Difference is its know-how:

- 1 Proudfoot knows-how operational transformation works – what it takes to design, implement, and sustain change for the long-term benefit of a business, the customers they serve, and the industries in which they compete.
- 2 Proudfoot knows-how to engage people in lasting change; Proudfoot's People Solutions™ practice forms an integral part of all engagements – organisations can only achieve the large scale results they wish to attain by engaging their people's head, heart, and hands. Proudfoot helps them do that.
- 3 Proudfoot knows-how integral management change is and how to bring it to life as an embedded core capability within the business; the use of KPIs in change management to improve, and transform – not simply report.
- 4 Proudfoot knows-how clean processes, skilled and engaged people, and performance management tools come together to create new and lasting business results with tangible, measurable outcomes.
- 5 Proudfoot knows-how the tools we bring are as important as our people. Proudfoot assists organisations in developing the skills and capabilities required to retain and sustain, long after we depart.
- 6 Proudfoot knows-how to deploy multi-site transformation management roll-outs and how to jumpstart internal improvement where our clients' people take the lead. Proudfoot enables employees to get in the driver's seat, actively participating, creating and sustaining change.

Revenues from the Europe, Africa and Asia region represented approximately 38% of total revenues in 2016 (2015: 37%).

The European business was focused principally on the UK, France and German markets, but also derived revenues from projects delivered elsewhere in the world for Europe-based clients. Good progress was made during the year in enhancing the sales and delivery functions in the European business through selective recruitment and management changes. Revenues from the European business in 2016 were nearly 10% ahead of the previous year, and the business delivered a reduced loss for 2016 as a whole compared with the prior year.

The smaller operations in Africa and Asia, supported from offices in Johannesburg and Hong Kong, had a difficult year in 2016. The Africa operations have historically benefited from work for clients in the mining sector in South Africa and elsewhere, but demand here was significantly weaker in 2016, with a consequent impact on revenues and profitability. The small Hong Kong-based business was adversely affected by management and personnel changes in 2016, but has the potential for significant growth in the broader Asian market in the years ahead.

In 2014 the Board of MCG announced that it intended to develop the Proudfoot offering in order to help build a more stable and predictable revenue base and drive top-line growth. Whilst progress was made during 2015 and 2016 in implementing these changes, the business has not adapted quickly enough to changes in the market for consulting and business services, in particular in relation to the selling of such services to clients. Management is now focusing on further enhancing the front end capabilities of the business and building long-term client relationships, building on those parts of the offering which are genuinely 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 relates 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 move to a regional structure has enabled costs to be reduced and further action on back office support costs is being taken, both in the Proudfoot operations and at the MCG head office, which should benefit the results for the current year.

Proudfoot has a long and successful history. The performance of the business has suffered in the last two years as a result of weakness in the key natural resources sector, but it has a distinctive operating model which delivers real value to clients, together with global reach and a flexible delivery capability. The Board of MCG will continue to promote the changes needed to restore growth and profitability and remains confident that the performance of the business can be improved in the medium term.

Financial review

Exchange rates

In 2016 MCG derived the majority of its revenue and most of its expenditure from outside the United Kingdom and in currencies other than Sterling. Approximately 4% of the Group's 2016 revenues from continuing operations were generated in Sterling. As the Group's results are presented in Sterling, changes in average exchange rates can have a significant effect on the translation of those results. About 54% of the Group's 2016 revenues from continuing operations were generated in US Dollars and on average in 2016 compared with 2015 Sterling weakened against the US Dollar, by approximately 11%. Against the Euro, the currency in which around 16% of the Group's revenues from continuing operations were denominated, Sterling weakened by approximately 12%. Approximately 15% of the Group's 2016 revenues from continuing operations were generated in Brazilian Reals and on average in 2016 compared with 2015 Sterling weakened against the Real, by approximately 7%. The average exchange rates used to translate the 2016 results were £1=\$1.35 (2015: £1=\$1.53) for the US Dollar, £1=€1.22 (2015: £1=€1.38) for the Euro and £1=4.72 (2015: £1=R5.10) for the Brazilian Real. Other currencies which the Group generated revenues were South African Rand, Canadian Dollars and Hong Kong Dollars.

In overall terms, changes in average exchange rates had a positive effect on reported revenue from continuing operations for the Group as a whole in 2016. The profit impact of exchange rate shifts is mitigated by the large degree of natural hedging in the Group's operations in that its expenses are broadly denominated in a similar mix of currencies to its revenues.

The Group holds the majority of its assets and liabilities in currencies other than Sterling, particularly the US Dollar and the Euro, and translates the value of these into Sterling at the year-end exchange rate. Comparing exchange rates at the beginning and the end of 2016, Sterling weakened against the Euro by 13% and against the US Dollar by 16%. The year-end exchange rates used to translate the 2016 balance sheet were £1=\$1.24 (2015: £1=\$1.47) for the US Dollar and £1=€1.17 (2015: £1=€1.34) for the Euro.

Foreign exchange exposure

The Group's foreign exchange exposure is primarily a translation risk as the majority of the Group's business is transacted in US Dollars, Euros and a range of other currencies rather than Sterling. The Proudfoot goodwill is denominated in Euros as it relates to acquisitions in that currency. The Group's cash balances at 31 December 2016 were largely held in US Dollars. Treasury activities are managed on a day-to-day basis by a treasurer and finance staff. There are established treasury policies that are reviewed regularly to ensure that they remain relevant to the business. The objective of these policies is to provide liquidity across the Group at minimum risk and cost and to hedge known financial exposures. The Group's cash position is closely monitored and there are effective forecasting procedures in place.

Revenue from continuing operations by geography

Total revenue from continuing operations for the year ended 31 December 2016 was £5.0m lower than the previous year at £45.2m (2015 restated: £50.2m). In terms of geography the Americas reported a decrease in revenue to £27.8m (2015 restated: £31.4m). Revenue from the Americas accounted for 62% of Group revenue (2015 restated: 63%). Revenues from continuing operations in Europe decreased to £13.2m (2015 restated: £12.1m), reducing its share of total revenues to 29% (2015 restated: 24%). The Rest of the World, with revenues predominantly from Africa and China, accounted for 9% of Group revenue from continuing operations (2015 restated: 13%) at £4.2m (2015 restated: £6.6m). Segmental revenues are reported on the basis of the location of the business unit where the client project is sold and the revenue accounted for, which is the basis on which the Group's operations are managed. This may differ from the geography in which the project is delivered.

Liquidity and capital resources

The Group's capital structure is reviewed regularly to ensure that it remains relevant to the business and its planned development.

During 2016 the Company issued 1,708,886 new ordinary shares in connection with deferred consideration for the acquisition of Mobispoke, acquired by Kurt Salmon in 2015, and 9,000,000 new ordinary shares to part satisfy share awards which vested to employees of the Kurt Salmon businesses which were sold during the year. The balance of shares required to satisfy share awards which vested to employees during the year comprised shares held by employee benefit trusts and treasury shares.

Cash flow

There was a reported cash outflow from operating activities in 2016 of £14.4m compared with a cash inflow in 2015 of £0.9m. The net proceeds from disposals in 2016 were £189.0m (2015: £nil). Net cash outflows related the repayment of borrowings in 2016 were £69.0m (2015: net inflows of £10.2m). The cash outflow for the Return of Capital to shareholders in December 2016 was £75.0m.

Business resources and investment in the future

The Group's key assets are its client relationships, its people and its intellectual property.

Client relationships are strengthened by the regular review of every engagement in conjunction with the client throughout its duration. This enables timely resolution of any issues so that the client remains highly satisfied with our performance. It is our objective that every client becomes a reference for future clients.

The Group seeks to promote employee retention and employee alignment with shareholder value creation using share awards. During 2016 eleven senior employees in the Proudfoot business received awards over approximately 5 million shares in total, normally vesting over three years and conditional upon continued employment. At the 2016 year end there were outstanding unvested awards in place over 4.9 million shares relating to eleven employees.

The remuneration policies of the Group are designed to motivate and retain key individuals by rewarding performance and deferring the payment of a portion of incentive pay contingent on continued employment. The performance of each employee is regularly reviewed and plans are established to deal with any performance issues. Evaluation systems are in place throughout the Group. The training requirements of employees are also reviewed and tailored training programmes have been established for each of the core functions. The headcount needs of the business are reviewed in view of the projected requirements of the business as indicated by the order book and prospects.

The Group has developed knowledge management systems that capture the intellectual property that has been developed through many years of assisting clients. Client needs are regularly reviewed and new services developed in accordance with these. Appropriate steps are taken to safeguard the security of the Group's intellectual property and legal or other action is taken as necessary to protect this. The Group continues to invest in its client relationships, its people and its intellectual property to ensure that the Group is prepared to face its challenges and to focus client awareness on the brands and the services offered.

Principal risks and uncertainties

The Group has operating and financial policies and procedures designed to maximise shareholder value within a defined risk management framework. The key risks to which the business is exposed are reviewed regularly by senior management and the Board. The major risks facing the business and the means by which they are mitigated and managed are set out on the Principal risks and uncertainties page. The directors are not aware of any material outstanding litigation against the Group.

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 23 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 has concluded 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. For further details please refer to note 2 to the consolidated financial statements.

Key performance indicators

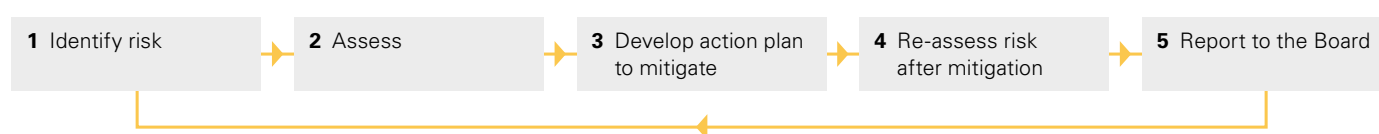
The key performance indicators used by the Board to monitor progress are: revenue growth; underlying operating profit; underlying operating margin; the cash position; and underlying earnings per share. These key performance indicators are used to monitor performance as they indicate achievement against the Group's objectives of delivering shareholder value and profit and margin growth. In addition other measures are used at the level of divisional management, including order input, business unit performance, staff retention and client satisfaction.


Principal risks and uncertainties

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

Risk management process

MCG has a robust risk management process in place to identify and manage our key risks:



 Read more about the Group's governance and approach to risk management on **pages 27 to 29**.

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

The Group seeks to monitor demand for Proudfoot's services, to anticipate changes in demand and competitive pressures where possible, and to develop a strategy and offering to exploit opportunities for growth in geographies and sectors where demand is increasing. 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 2015



Level/increasing

Market conditions in 2016 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, weakened in 2016.

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

Proudfoot's business processes are designed to promote and enhance client relationships, and to generate revenues over longer periods than those of a typical single project. This includes a focus on the delivery of high quality work that meets clients' expectations and human resources management policies that emphasise the importance of maintaining and developing client relationships. Potential contractual liabilities arising from client engagements are managed through the control of contractual conditions and insurance arrangements.

Change in level of risk from 2015



Level

Proudfoot retained key client relationships and continued to work to develop new long-term relationships.

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 seeks to develop remuneration policies and structures that reward good performance and promote continued employment with the Group, consistent with prevailing market levels of remuneration. For senior employees, a significant element of total remuneration is variable and linked to financial and other performance measures, which provides opportunities for enhanced rewards.

Change in level of risk from 2015



Level

Staff retention has been managed effectively and we have recruited in areas of the business which are being developed.

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 2015



Reducing

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

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 2015



Level

Currency volatility has had an impact on reported revenues and operating results in 2016.

Viability statement

The Directors have assessed the Group's prospects, taking into account its current position and the principal risks to the business, over a three year time period. The Directors consider three years to be a reasonable 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. In addition the Group has retained certain obligations relating to the Kurt Salmon businesses which have been sold, including transitional services agreements with the acquirors of those businesses. Following the disposals in 2016 the Group is free of indebtedness and is in a stronger financial position, with cash balances of £38.1m at 31 December 2016, after the Return of Capital, representing a prudent level of cash reserves taking into account the Group's expected requirements and its obligations.

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 managing the Group's other assets and liabilities, including the retained obligations noted above and 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 the three year period 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, noting that should the Group underperform in the longer term, the Board will consider all options in the best interests of all stakeholders, including restructuring or selling all or part of the business or seeking additional funding.

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

Strategic report approval

The Strategic Report as set out on pages 1 to 18 is approved by the Board.



Nick Stagg
Chairman and Chief Executive
15 March 2017

Corporate social responsibility

Our people

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

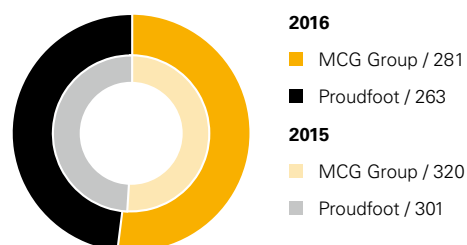
The Group is committed to making a positive social and economic contribution in all places it operates.

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.

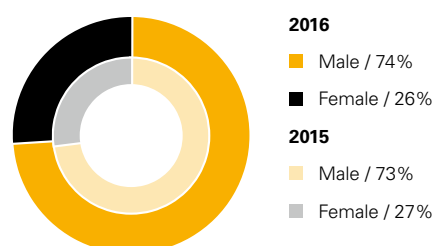
The Board is responsible for the social, environmental and ethical ("SEE") impact of the Group's business and ensures that any risks arising are being managed appropriately. On an annual basis the Board assesses the Group's exposure to SEE matters based on feedback from management. Overall, for the current 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.

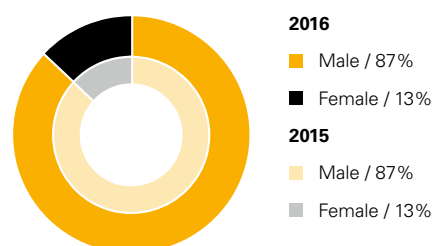
Number of MCG employees



Gender diversity Total workforce



Gender diversity Senior management



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.

Group ethics

The Group subscribes to the Association of Management Consulting Firms' Code of Ethics (available at www.amcf.org) and, in the UK, the Code of Practice of the UK Management Consultancies Association (available at www.mca.org.uk).

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

Whistleblowing

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

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

Employees

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

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

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 has continued 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 Chief Executive has a travel schedule which includes all the business locations and holds 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.



Employees are the Group's most important asset and their health and safety is critical to business performance.

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

The increase in waste generated is a serious problem in many of the countries in which the Group operates. The shortage of new landfill sites in these countries is well documented, as are the potential health impacts and carbon dioxide emissions caused by landfill sites.

Energy use and climate change

Carbon dioxide is one of the most significant air pollutants as a by product of energy consumption and is the major contributor to the "enhanced greenhouse gas effect". We continue with the programme to measure the amount of electricity being used in our largest offices, to identify where reductions can be made in the future.

Due to the nature of the business and the need for employees with appropriate experience to work on projects, employees regularly need to travel to clients' sites. The Group's employees are encouraged, wherever possible, to share private road transport or use public transport.

Whilst further improvements are being targeted, the Group continues to progress in reducing energy consumption. The principal methods adopted by the Group to reduce energy consumption are as follows:

- installing automatic power off systems on lights and certain equipment;
- using energy efficient lighting;
- using time switches on air conditioning systems; and
- reducing travel by making use of video conferencing 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 offices in the UK, US, Germany, South Africa, Brazil, China, Japan and Hong Kong.

Scope 1 emissions:

Natural gas refrigerants

25.2 tco₂e

Scope 2 emissions:

Purchased electricity

410.3 tco₂e

Total greenhouse gas emissions:

435.5 tco₂e

Greenhouse gas emissions per FTE:

0.68 tco₂e

Corporate social responsibility continued

Our impact

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 2015 to 30 September 2016. 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. The 2013–2014 data in the table below is the recalculated baseline year and the 2015–2016 data reflects the structural changes from the disposal of the French and related businesses.

Greenhouse gas emissions statement

ASSESSMENT PARAMETERS

Baseline year – restated	1 October 2013–30 September 2014
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 our greenhouse gas emissions relate to our leased offices
Emission factor data source	Defra (2016)
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	2015/16		2013/14 restated	
	tCO ₂ e	tCO ₂ e/FTE	tCO ₂ e	tCO ₂ e/FTE
Scope 1	25.2	0.03	40.1	0.02
Fuel combustion (natural gas)	0.3	—	17.7	0.01
Operation of facilities (refrigerants)	24.9	0.03	22.3	0.01
Scope 2	410.3	0.65		0.87
Purchased electricity	410.3	0.65		0.87
Statutory total (Scope 1 and 2)*	435.2	0.68		0.89

* Statutory carbon reporting disclosures required by Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Group metrics	2016	2014
FTE	633	743
Intensity ratio (gross emissions)	2016	2014
Tonnes of carbon dioxide equivalent per FTE (tCO ₂ e/FTE)	0.68	0.89

Chairman and Chief Executive's introduction



The Board's composition brings a wide range of experience to bear in the Group's governance.



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 2014 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 2016 brought a wide range of experience and knowledge to bear in developing strategy, in challenging management and, in particular, in the oversight of the disposals of the Kurt Salmon businesses which completed during the year. You can read about those disposals in detail in the Strategic Report.

We recognise the importance of the Board meeting with divisional management and senior managers were invited to a number of the Board meetings held in the year.

As noted last year, one of our independent non-executive directors, Stephen Ferriss, completed ten years of service on the Board in March 2016 and, whilst he was still considered independent, did not seek re-election at the AGM held on 20 June 2016.

Other changes to the Board followed the completion of the disposals and reflected the reduced scale and change in focus of the Group. Chris Povey, an executive director, left the Board in mid-November and at the year end Alan Barber, the long serving Chairman, and Nigel Halkes, an independent non-executive director, stood down.

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 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 the Audit and Risk Committee, 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 Remuneration, Nominations and Audit and Risk Committees on 10 March 2017 means that the Company is now compliant in respect of 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.

Following Alan's departure, 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.

Nick Stagg
Chairman and Chief Executive
15 March 2017

Board of Directors



N S Stagg
Chairman and Chief Executive



M Capello
Non-executive Director



F Czerniawska
Non-executive Director

Board committees

None.

Remuneration (Chairman) and Nominations.

Remuneration, Nominations and Audit and Risk.

Term of office

Nicholas Stagg, aged 57, 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, aged 56, joined the Board on 18 June 2010.

Fiona Czerniawska, aged 56, joined the Board on 10 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.

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.

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.

She is a director of the Source Information Services Limited.



E Di Spiezio Sardo
Non-executive Director

None.

Emilio Di Spiezio Sardo, aged 40, joined the Board on 18 June 2010.

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.

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.



J D Waldron
Non-executive Director

Remuneration, Nominations (Chairman) and Audit and Risk (Chairman) Senior Independent Director.

Julian Waldron, aged 52, joined the Board on 8 October 2008.

Julian is currently executive vice president and chief operating officer of TechnipFMC, a US and French listed group providing 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 a managing director in corporate finance at UBS Warburg and the chief financial officer of Thomson SA. He is a UK citizen residing in France.

Executive vice president and chief operating officer of TechnipFMC and board member of various subsidiary companies.



C W Ansley
Company Secretary

None.

Charles Ansley, aged 66, was appointed Company Secretary in April 2007, having joined the Group in 2001.

Charles graduated in law at the University of Sheffield and subsequently worked in the London office of KPMG. He is a qualified Chartered Accountant.

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.



Read the Audit and Risk Committee Report on **p27**

Nominations Committee

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



Read about the Nominations Committee on **p30**

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.



Read the Remuneration Committee Report on **p31**



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.

Balance of executive and non-executive directors at year end



■ Chairman and Chief Executive 1
■ Non-executive 3

Board and Committee attendance 2016

	Board meetings	Audit and Risk Committee meetings*	Remuneration Committee meetings*	Nominations Committee meetings*
A J Barber (stood down 31 December 2016)	11	—	—	2
M Capello	9	—	5	2
S A Ferriss (stood down 20 June 2016)	4	1	2	1
N L Halkes (stood down 31 December 2016)	11	4	6	2
C J Povey (stood down 17 November 2016)	9	—	—	—
E Di Spiezio Sardo	9	—	—	—
N S Stagg	11	—	—	—
J D Waldron	9	4	6	2
Total meetings held	11	4	6	2

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

Board of Directors

The Board is collectively responsible to our shareholders for the success of the Company. From 1 January 2016 until 20 June 2016 the Board comprised the non-executive Chairman, two executive directors and five non-executive directors. On 20 June 2016 Stephen Ferriss stood down as a non-executive director, and from 20 June 2016 until 17 November 2016 the Board comprised the non-executive Chairman, two executive directors and four non-executive directors. On 17 November 2016 Christopher Povey stood down as an executive director and from then until 31 December the Board comprised the non-executive Chairman, one executive director and four non-executive directors. On 31 December 2016, the Chairman, Alan Barber, and Nigel Halkes stood down as non-executive directors so that the Board comprised one executive director and three non-executive directors. The Code requires that smaller companies should have at least two independent non-executive directors and the Company complied with this aspect until 31 December 2016. On 10 March 2017 Fiona Czerniawska was appointed as an independent non-executive director, so the Board now comprises one executive director and four non-executive directors. 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.

Mr Ferriss, Mr Waldron and Mr Halkes were considered to be independent non-executive directors throughout their period on the Board in 2016. Ms Czerniawska, who has been appointed since the year end, is also 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.

The roles of the Board and management are clearly defined. Throughout the year, the roles of Chairman, Chief Executive and Senior Independent Director were separated and clearly defined in writing. The terms and conditions of appointment of the non-executive directors are available for inspection at the Company's registered office and will also be available at the Annual General Meeting.

The Board is satisfied that each of the non-executive directors committed sufficient time during 2016 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 25.

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 businesses. Regular presentations are made to the Board by senior management in order to refresh and expand this knowledge.

The Board annually 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.

All directors are authorised to obtain, at the Company's expense and subject to the Chairman's approval, independent legal or other professional advice where they consider it necessary. All directors have access to the Company Secretary who oversees their ongoing training and development needs.

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. Eleven meetings were held during 2016. All members of the Board are supplied, in advance of meetings, with appropriate information covering matters which are to be considered. During the year the Chairman met the non-executive directors in the absence of the executive directors.

There is a formal schedule of decisions reserved for the Board. This includes approval of the following: the Group's strategy; the annual operating plan and budget; the annual and interim financial statements; significant transactions; major capital expenditures; risk management policies; the authority levels vested in management; Board appointments; and remuneration policies. The review of certain matters is delegated to Board Committees, which make recommendations to the Board in relation to those matters.

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 and the Finance Director met key shareholders during the year and in particular around the time of the full-year results and the half-year results.

The notice convening the Annual General Meeting to be held on 30 May 2017 is contained in the circular to shareholders. 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 robust 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.

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

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 2016. 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 Annual General Meeting on 30 May 2017.

Activity

The principal activity of the Group is the provision of professional services. Details of the Group's principal subsidiary undertakings, through which it carries out its activities, are set out in note 26 to the financial statements.

Group results

The Group's loss before taxation from continuing operations for the year ended 31 December 2016 amounted to £40,769,000 (2015 restated: loss of £9,192,000).

Dividends

The directors do not recommend the payment of a dividend for 2016 (2015: final dividend of £nil).

Repurchase of shares

The Company obtained shareholder authority at the 2016 Annual General Meeting to buy back its own shares. In the year under review, the Company made no share repurchases.

Capital structure

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

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.

Political contributions

No political donations were made in 2016 or 2015.

Charitable donations

Charitable donations of £12,851 were made during the year (2015 restated: £24,051).

Annual General Meeting

The Annual General Meeting will be held at 10 am on 30 May 2017 at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA. Details of the meeting are included in the circular to shareholders enclosed with this report, at the back of which is the Notice of Meeting.

Substantial share interests

As at 14 March 2017 (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 LP	124,629,895	24.61
Henderson Global Investors	111,574,289	21.82
Richard Griffiths	70,692,285	13.83
Heracles Fund Ltd (SAC) Fund J	39,804,807	7.79
Aberforth Partners LLP	24,844,660	4.91

By order of the Board

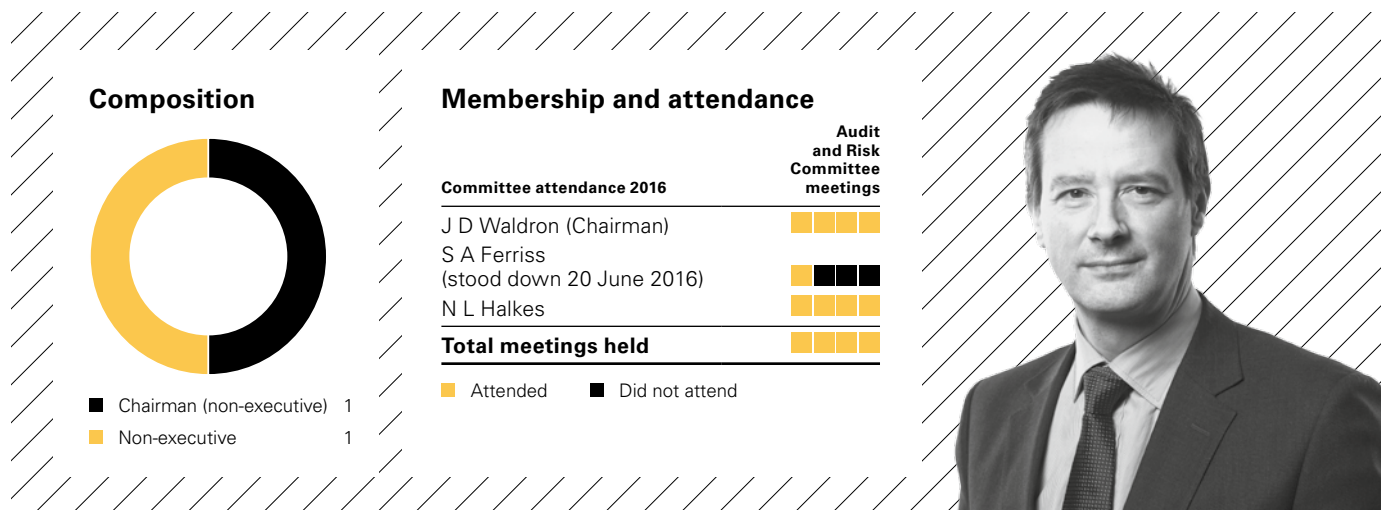


Charles Ansley
Company Secretary
15 March 2017

Registered office
10 Fleet Place
London EC4M 7RB

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 auditors.



Membership

The membership of the Committee from 1 January 2016 was:

Mr Julian Waldron

(Chairman, member since 2008)

Ms Fiona Czerniawska

(Member from 10 March 2017)

Mr Stephen Ferriss

(Member until 20 June 2016, member since 2006)

Mr Nigel Halkes

(Member from 10 February 2016 until 31 December 2016)

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 effectiveness of the Group's 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; and
- 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.

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. The Committee comprised at least two independent non-executive directors throughout the year. 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 is now 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 20 to 21. The Chairman and Chief Executive, the Finance Director, the Group Head of Finance, other financial managers and external auditor were invited to attend Audit Committee meetings. The Committee

met four times during the year. The external auditor attended all of the meetings and the Committee met privately with it on one occasion.

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 performance of the Committee was considered as part of the Board performance evaluation process and it was considered to operate effectively. In addition, the Committee members complete a detailed self-assessment as an aid to maintaining the Committee's effectiveness.

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 2016 and the steps it took to address these are shown in the table below.

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. The Committee also considered the procedural controls surrounding the production of the financial projections. The Committee concluded that the recoverable (value-in-use) amount was lower than the then carrying value and therefore that the value should be impaired.
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 accounting for the disposals of the Kurt Salmon businesses.	The Committee reviewed and considered the accounting treatment for the disposals and the disclosure of the disposals in the annual report and accounts.

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 current size and nature of the Group's operations, a separate internal audit function is no longer required. This decision will be regularly reviewed in the future.

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 with effect from the audit of the 2012 annual report and accounts and will rotate off the audit following the audit of the 2016 annual report and accounts.
- **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 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

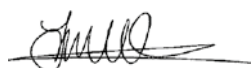
There are no contractual obligations that act to restrict the Committee's choice of external auditor. As a consequence of its satisfaction with the results of the procedures outlined above, the Committee has recommended to the Board that the external auditor be reappointed. Deloitte LLP has expressed 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 he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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



Julian Waldron
Chairman of the Audit and Risk Committee
15 March 2017

Report 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.

Composition



■ Chairman (non-executive) 1
 ■ Non-executive 2

Membership and attendance

Committee attendance 2016

A J Barber
 M Capello
 S A Ferriss
 NL Halkes
 J D Waldron

Nomination Committee meetings

Total meetings held

■ Attended ■ Did not attend



Membership

The membership of the Committee from 1 January 2016 was:

Mr Julian Waldron

(Chairman and member since 2009)

Mr Marco Capello

(Member since 2010)

Ms Fiona Czerniawska

(Member from 10 March 2017)

Mr Stephen Ferriss

(Chairman and member until 20 June 2016, member since 2008)

Mr Alan Barber

(Chairman from 20 June 2016 to 31 December 2016, member since 2005)

Mr Nigel Halkes

(Member from 10 February 2016 until 31 December 2016)

Structure

The Code recommends that a majority of the members of the Nominations Committee should be independent non-executive directors. The majority of the Committee was independent until 20 June 2016 following which it composed two independent and two non-independent non-executive directors until 31 December 2016, from when until 9 March 2017 it composed 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 are now independent non-executive directors.

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

Activities

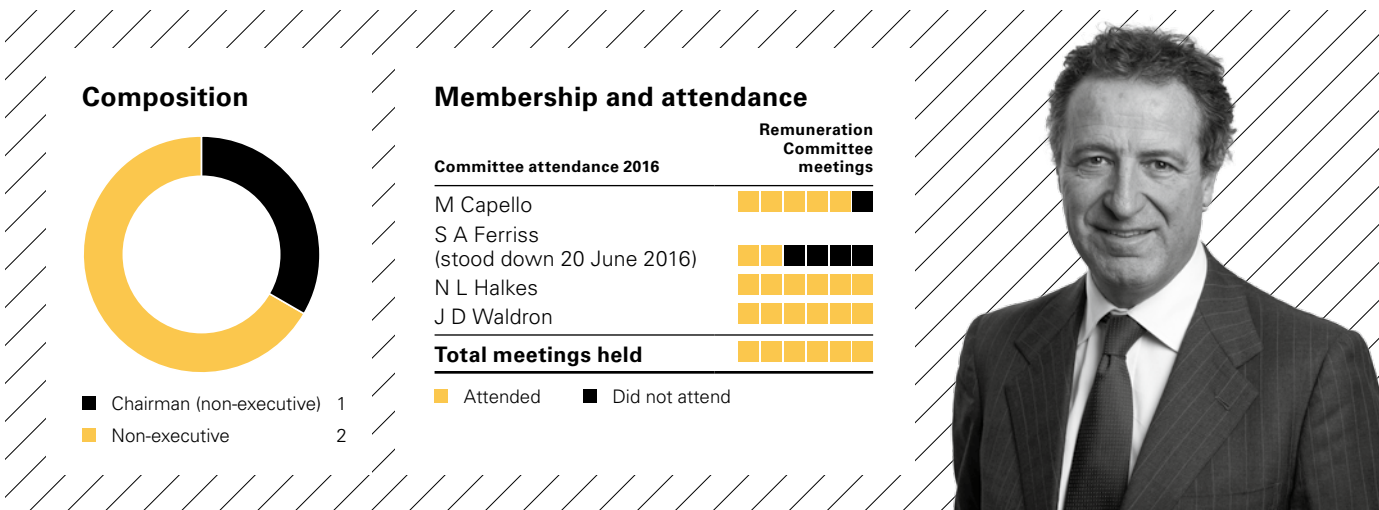
The Committee meets on an ad hoc basis as required. The Committee has ongoing succession plans particularly in respect of non-executive directors approaching retirement due to their length of service.

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 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.

Julian Waldron
 Chairman of the Nominations Committee
 15 March 2017

Report of the Remuneration Committee



Chairman's summary statement

Dear shareholder,

I am pleased to be writing to you as the new Chairman of the Remuneration Committee. First of all I would like to thank Nigel Halkes for his hard work in Chairing the Remuneration Committee over the past year.

Although my tenure as Committee Chair started after the 2016 Financial Year I have set out below the activities of the Committee during the year and provided an overview of our business performance and the linkage to our executives' remuneration outcomes for the year under review.

During 2016 the Remuneration Committee dealt with some specific remuneration matters in addition to its normal annual timetable. As you will have read in the Chairman and Chief Executive's Statement, this was a transformational year for the Group during which three separate transactions were executed to complete the disposal of the Kurt Salmon business which allowed the Group to repay its bank debt and distribute £75 million to shareholders as a return of capital. The Committee agreed that it was important to acknowledge the performance of the management team in implementing these transactions. As noted last year in connection with the sale of the Kurt Salmon French and related operations, bonus payments for such matters are outside our shareholder approved policy. Accordingly, the bonus arrangements on the completion of the transactions were subject to specific shareholder approval via separate resolutions at the General Meetings approving the transactions. I am pleased to report the resolutions received strong shareholder support. Further details of these payments are set out in the report.

During 2016 the Committee also deal with the terms of cessation of employment for Mr Povey. In accordance with our shareholder approved remuneration policy he received a payment in lieu of notice. No annual bonus will be paid to him for 2016 other than the aforementioned transaction bonus and he has no outstanding performance share awards. Further details are set out in the report.

Due to disappointing financial performance during the year the Committee determined that the financial measures for the 2016 annual bonus have not been met. The Committee has decided that, given the quantum of the bonuses payable on the disposal of parts of Kurt Salmon, no bonus will be payable for 2016 in relation to non-financial strategic objectives.

The performance period for the performance share awards granted in 2013 ended in the 2016 financial year end and the Total Shareholder Return targets were not met. These awards therefore lapsed and there are now no outstanding awards.

At our 2017 AGM the Company is required by the regulations to seek shareholders' approval for the Directors' Remuneration Policy and the proposed Remuneration Policy is included in this report. I have worked with the rest of the Committee to review our current policy and to consider whether changes are required to that policy to ensure that it is aligned to and supports our business strategy going forward. Our conclusion is that 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.

[Handwritten signature]

Marco Capello
Chairman of the Remuneration Committee
15 March 2017

Report of the Remuneration Committee continued

Membership

The membership of the Committee from 1 January 2016 was:

Mr Marco Capello

(Chairman, member since 2010)

Mr Julian Waldron

(Member since 2009)

Ms Fiona Czerniawska

(Member from 10 March 2017)

Mr Stephen Ferriss

Member until 20 June 2016, member since 2008)

Mr Nigel Halkes

(Chairman and member from 10 February 2016 until 31 December 2016)

Operation of the Committee

In determining the directors' remuneration for the year, the Committee consulted the Chairman save in relation to his own remuneration.

No director is involved in deciding their own remuneration. The Committee makes use of published reports on directors' remuneration packages and advice from independent external advisers is obtained when required. New Bridge Street (a trading name of Aon 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.

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 operation of the Company's incentive schemes and the remuneration of executive and non-executive directors as well as employee remuneration and may also advise the Committee on other matters within the Committee's terms of reference.

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

Structure and operation of the Remuneration Committee

Structure

The Code recommends that the Committee should comprise at least two independent non-executive directors and during the year the Committee comprised at least two independent and one non-independent non-executive director. The terms of reference for the Committee were last updated in December 2010. They were last reviewed in 2014 and no changes were deemed necessary. A further review will take place in 2017. Copies are available on the Group's website.

Introduction

This 2016 Remuneration Report is divided into two sections:

- Remuneration Policy Report, setting out the proposed remuneration policy within which the Company remunerates its Directors. The Company's current remuneration policy was put to a shareholder vote at the 2014 Annual General Meeting of the Company ("AGM"). Accordingly, there is a requirement to vote on the policy at the 2017 AGM. The revised policy is included in this 2016 Remuneration Report and will be subject to a resolution at the AGM on 30 May 2017. The current Policy as approved by shareholders is available on the Company's website.
- Annual Report on Remuneration, setting out how the Company's present remuneration policy was applied during 2016 and how the new policy will be implemented in 2017. The Annual Report on Remuneration will be subject to an advisory resolution at the AGM on 30 May 2017.

Details of the above resolutions and their status are set out in the Notes to the Notice of Meeting.

Remuneration policy report

This part of the Directors' Remuneration Report sets out the proposed remuneration policy for the Company and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The policy was developed taking into account the principles of the UK Corporate Governance Code 2014 (and is consistent with the principles of the revised code) and the views of our major shareholders and describes the policy which, if accepted by shareholders, will be applicable from 2017 onwards. The Policy report will be put to a binding shareholder vote at the 2017 AGM and, assuming that the resolution is passed, the policy will take formal effect from that date.

Policy overview

Overview

The Committee reviews and determines, on behalf of the Board, the salary, fees, benefits, pension packages and bonus and share incentives of the executive directors. The Committee also reviews, on behalf of the Board, the remuneration packages of the highest paid senior executives and the Company Secretary.

How the views of shareholders and employees are taken into account

The Remuneration Committee engages proactively with shareholders. When any material changes are proposed to the remuneration policy and its implementation, the Remuneration Committee Chairman will inform major shareholders and offer a meeting to discuss the proposals and take into consideration any feedback received.

The Remuneration Committee also considers shareholder feedback received at the AGM and at any other time, for example, via general letters from investors and circulated to remuneration committee chairs and specific investor guidelines. This feedback and that received during specific consultation exercises is considered as part of the Company's annual review of remuneration policy.

Details of votes cast for and against the resolution to approve last year's Remuneration Report are provided in the Annual Report on Remuneration.

There is no consultation with employees.

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

Report of the Remuneration Committee continued

Remuneration policy report continued

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	<p>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.</p> <p>The Committee will usually review executive directors' base salaries at the end of each calendar year with any increases effective from 1 January.</p> <p>The directors' salaries (and other elements of the remuneration package) are paid in the currency appropriate to their geographic location.</p>	<p>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.</p> <p>Details of the outcome of the most recent salary review are provided in the Annual Remuneration Report.</p>
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.	<p>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.</p> <p>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.</p>
Pension	To provide market competitive benefits	<p>A Company contribution to a pension scheme or provision of cash allowance in lieu of pension at the request of the individual.</p> <p>For directors based outside the UK, contributions to relevant retirement arrangements in those other countries, e.g. US 401(k) retirement provisions.</p> <p>Only base salary is pensionable.</p>	<p>UK resident: 17.5% of salary.</p> <p>Non-UK resident: retirement provision will be consistent with market practice in the relevant country.</p>

Element	Purpose and link to strategy	Operation	Maximum opportunity
Annual bonus	To incentivise and reward delivery of the Company's operational objectives	<p>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.</p> <p>Details of the performance targets set for the year under review and performance against them is provided in the Annual Remuneration Report.</p> <p>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.</p>	<p>The maximum bonus opportunity for all executive directors is 100% of salary.</p> <p>0% of salary vests for threshold performance.</p> <p>For performance below threshold, no bonus is payable.</p> <p>A graduated scale of targets operates between entry level and maximum performance.</p>
Long-term incentives ("LTIP")	<p>To incentivise and reward delivery of the Company's strategic objectives and provide alignment with shareholders through the use of shares</p> <p>Designed to motivate directors and senior employees, whilst retaining them in the Group's employment</p>	<p>Executive directors are eligible to participate in the Management Consulting Group 2008 Performance Share Plan ("PSP").</p> <p>Awards vest subject to continued employment and satisfaction of challenging performance conditions measured over three years.</p> <p>The Committee will select the most appropriate measures to support the Company's medium to long-term strategy.</p> <p>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.</p> <p>A clawback mechanism applies in the event of a material misstatement of the Group's accounts and also for other defined reasons.</p>	<p>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.</p> <p>20% of the award vests for threshold performance.</p> <p>No vesting for below threshold performance.</p>

Report of the Remuneration Committee continued

Remuneration policy report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity
Non-executive Chairman and other non-executive director fees	To attract and retain a high-calibre non-executive Chairman and non-executive directors by offering a market competitive fee level	<p>A non-executive Chairman and 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.</p> <p>The non-executive Chairman is paid a single fee for all his responsibilities. The non-executives are paid a basic fee. The non-executive Chairmen of the main Board Committees and the Senior Independent Director are paid an additional fee to reflect their extra responsibilities.</p> <p>Non-executives may be paid additional fees for other responsibilities such as being appointed to the Supervisory Board of subsidiaries of the Company.</p> <p>The level of these fees is normally reviewed annually by the Committee and Chief Executive for the non-executive Chairman and by the non-executive Chairman and executive directors for the 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.</p>	<p>As for the executive directors, there is no prescribed maximum annual increase.</p> <p>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.</p>
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

The Committee will operate the annual bonus plan and Performance Share Plan ("PSP") according to the rules of each respective plan and consistent with normal market practice and the Listing Rules, including flexibility in a number of regards. How the Committee will retain flexibility includes (albeit with quantum and performance targets restricted to the descriptions detailed above):

- who participates in the plan;
- when to make awards and payments;
- how to determine the size of an award, a payment, or when and how much of an award should vest;

- the testing of a performance condition over a shortened performance period;
- how to deal with a change of control or restructuring of the Group;
- whether a director is a good/bad leaver for incentive plan purposes, what proportion of awards vest at the original vesting date or whether and what proportion of awards may vest at the time of leaving;
- how and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or special dividends); and
- what the weighting, measures and targets should be for the annual bonus plan and PSP from year to year.

The Committee also retains the discretion within the policy to adjust existing targets and/or set different measures and alter weighting for the annual bonus plan and for the PSP if events happen that cause it to determine that the targets are no longer appropriate and amendment is required so they can achieve their original intended purpose and provided the new targets are not materially less difficult to satisfy. The Committee will disclose any changes and the reasons for those changes in the Annual Report on Remuneration for the year in which the alteration is made.

For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former directors (such as the payment of last year's annual bonus or the vesting/exercise of share awards granted in the past) that have been disclosed in previous Remuneration Reports and in respect of long-term incentive awards as detailed on pages 42 to 43 of the Annual Report on Remuneration. Details of any payments to former directors will be set out in the Annual Report on Remuneration as they arise.

Choice of performance measures and approach to target setting

The performance measures and targets set for the executive directors' annual bonus and PSP awards are carefully selected to align with the Company's strategic and key performance indicators.

For the annual bonus, financial and non-financial strategic measures are reviewed and selected by the Committee annually. The measures selected and weighting between them may vary annually depending on the key priorities of the business for the year ahead. Robust and demanding targets will be set annually taking into account the economic environment, market expectations and the Company's budget, business plan and strategic priorities for the year ahead.

The Committee will review the choice of performance measures and the appropriateness of targets prior to each PSP award being made and will set robust and stretching targets for any measures used.

Differences in remuneration policy for executive directors compared to other employees

The remuneration policy for the executive directors is designed with regard to the policy for employees across the Group as a whole. For example, the Committee takes into account the general basic salary increase for the broader employee population when determining the annual salary review for the executive directors. There are some differences in the structure of the remuneration policy for the executive directors and other senior employees compared to the wider employee group, which the Remuneration Committee believes are necessary to reflect the different levels of responsibility. The key differences in remuneration policy between the executive directors/other senior employees and employees across the Group are the increased emphasis on performance-related pay and the inclusion of a share-based long-term incentive plan.

Other director positions

The Company recognises that executive directors may be invited to become non-executive directors of other companies and/or sit on the board of subsidiary companies and that such appointments can broaden their knowledge and experience to the benefit of the Group and they are entitled to retain any fees earned. Such fees will be disclosed in the annual report on remuneration for the relevant year.

Approach to recruitment and promotions

The remuneration package for a new director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. Currently, for an executive director, this would facilitate annual bonus and PSP payments of no more than 100% of salary for each, except in exceptional circumstances where PSP limits of no more than 200% of salary may be made. This exceptional limit allows, in particular, for recruitment in exceptional circumstances meeting local market needs. For the annual bonus, specific targets could be introduced for an individual where necessary for the first year of appointment if it is appropriate to do so to reflect the individual's responsibilities and the point in the year in which they joined the Board. For long-term incentives, an award may be made in the year of joining or, alternatively, the award can be delayed until the following year.

The salary for a new executive director may (but will not necessarily) be set below the normal market rate, with phased increases over the first few years as the executive gains experience in their new role.

The Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and its shareholders. Such payments would only take account of remuneration relinquished when leaving the former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions and be of a broadly similar quantum.

For an internal executive director appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue and as such are part of the Company's remuneration policy for its executive directors.

For external and internal executive appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate.

For the appointment of a new non-executive Chairman or other non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

Report of the Remuneration Committee continued

Remuneration policy report continued

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).

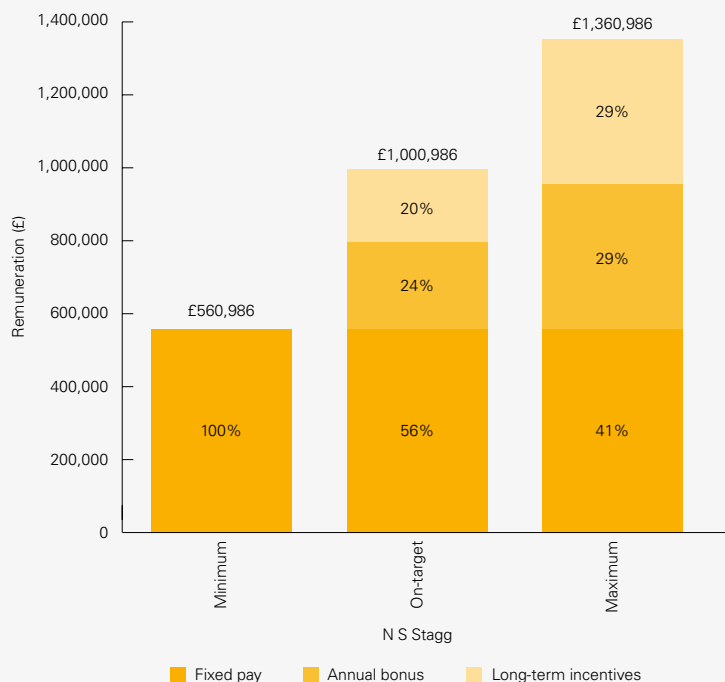
Chairman and non-executive directors

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.

Reward scenarios

The chart below provides an indication of the remuneration of the executive director at minimum, in line with expectation on-target and maximum performance, in accordance with the policy. The chart does not include share price movement and all other assumptions are noted below.



Assumptions:

- 1 Fixed pay consists of base salary, benefits and pension.
- 2 Base salaries are as at 1 January 2017.
- 3 Value of benefits is based on the expected value for 2017. Pension is based on 2017 policy applied to 1 January 2017 salaries.
- 4 Target annual bonus is assumed at 60% of maximum.
- 5 Target PSP award assumes vesting of 50% of award in the year.
- 6 Maximum is full vesting of annual bonus and PSP award in the year.
- 7 Annual bonus and PSP awards are in accordance with implementation of policy for 2017.
- 8 No share price appreciation is assumed.

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 2017 AGM. The information on pages 41 to 43 has been audited.

How the policy will be applied in 2017

2017 salary and benefits

Mr Stagg's salary has been reviewed with effect from 1 January 2017 and there is no increase.

	Salary as at 1 January 2016	Salary as at 1 January 2017	% increase
N S Stagg	£400,000	£400,000	—

The benefits and pension provision paid in 2016 will continue for 2017 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 as a result of his continuing role as Chief Executive Officer of Proudfoot.

Fees for the non-executive directors

A summary of fees as at 1 January 2017 is as follows:

	Fees at 1 January 2016	Fees at 1 January 2017	% 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 and LTIP awards 2017

For 2017, 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.

The performance conditions for any PSP awards to be granted in 2017 will be agreed by the Remuneration Committee prior to grant. The performance conditions attached to awards will be disclosed in the appropriate RNS announcement.

Remuneration for the year ended 31 December 2016

The table below sets out the remuneration received by the directors in relation to performance in FY 2016 (or for performance periods ending in FY 2016 in respect of long-term incentives).

£'000		Salary and fees	Benefits ¹	Pension ²	Annual bonus ³	Long-term incentives	Other ⁴	Total
Executive directors								
N S Stagg	2016	400,000	90,607	70,000	550,000	—	—	1,110,607
	2015	400,000	43,150	70,000	200,000	—	—	713,150
C J Povey ⁵	2016	223,718	2,687	39,151	200,000	—	263,462	729,018
	2015	250,000	3,566	43,750	130,000	—	—	427,316
Chairman								
A J Barber ⁶	2016	193,846	—	—	—	—	—	193,846
	2015	300,000	—	—	—	—	—	300,000
Non-executive directors								
M Capello	2016	—	—	—	—	—	—	—
	2015	—	—	—	—	—	—	—
S A Ferriss ⁷	2016	22,500	—	—	—	—	—	22,500
	2015	45,000	—	—	—	—	—	45,000
N L Halkes	2016	39,583	—	—	—	—	—	39,583
	2015	1,077	—	—	—	—	—	1,077
E Di Spiezio Sardo	2016	—	—	—	—	—	—	—
	2015	—	—	—	—	—	—	—
J D Waldron	2016	42,654	—	—	—	—	—	42,654
	2015	40,000	—	—	—	—	—	40,000
Total⁸	2016	922,301	93,294	109,151	750,000	—	263,462	2,138,208
	2015	1,036,077	46,716	113,750	330,000	—	—	1,526,543

1 Benefits include, where appropriate, a car, disruption allowance (Mr Stagg 2016: £50,000), insurances for life, personal accident, disability, permanent health and family medical cover.

2 Pensions represent 17.5% of base salary.

3 This relates to the payment of the annual bonus for performance in the relevant year and the transaction bonus payable following completion of the disposal of certain operations of Kurt Salmon to Accenture. Shareholder consent was provided on 21 October 2016 for the transaction that completed on 1 November 2016. The bonuses are paid entirely in cash. Further details are provided on the following page.

4 Payments made to Mr Povey in respect of his cessation on 17 November 2016 and as disclosed in further detail on page 43.

5 Remuneration disclosed above for Mr Povey includes payments made in respect of his cessation on 17 November 2016.

6 The reduction in Mr Barber's fee from 2015 to 2016 reflects his fee reducing from £300,000 pa to £100,000 pa from 20 June 2016.

7 Remuneration disclosed above for Mr Ferriss is up to 20 June 2016 when he ceased to be a Director.

8 The 2015 total figure differs from that in the table last year of £3,616,363 due to the exclusion from the table above of directors who left during 2015.

Report of the Remuneration Committee continued

Annual report on remuneration continued

Annual bonus for the year ended 31 December 2016

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 under the underlying operating profit element of the bonus. Initial targets were considered, however it soon became clear that the focus for the year would be the disposal of the remaining parts of the Kurt Salmon business. Due to the various disposals, the Committee did not feel it appropriate to revise the initial targets and has therefore used its judgement, as allowed for under the terms of the Remuneration Policy, in determining whether any bonus should be payable for the period under review.

In addition, the Committee has decided that, given the quantum of the Transaction Incentive Bonus payable to executives on the disposal of parts of the Kurt Salmon business (see below), no bonus will be payable for the strategic element of the bonus.

Transaction Incentive Bonus

Mr Stagg and Mr Povey received Transaction Incentive Bonuses of £200,000 and £130,000 respectively on the disposal of the French and related operations of the Kurt Salmon business, which completed in January 2016, which were reported in the financial year 2015. They received Transaction Incentive Bonuses of £550,000 and £200,000, respectively, on the disposal of the remainder of the Kurt Salmon business, which completed on 1 November 2016. These Transaction Incentive Bonuses did not fall within the parameters of the shareholder approved remuneration policy and were therefore specifically approved by shareholders at the General Meetings of the Company convened on 17 December 2015 and 21 October 2016 where the disposals were approved.

Share awards

The interests in the year of the directors in PSP awards in the Company are set out in the table below:

Director	Nature of award ¹	Date of grant	At 1 January 2016	Granted in year	Vested in year	Lapsed in year	At 31 December 2016	Date performance period ends	Date from which shares vest
N S Stagg	LTI FY 2013	7 March 2013	1,403,000	—	—	1,403,000	—	6 March 2016	6 March 2016
C J Povey	LTI FY 2013	7 March 2013	877,000	—	—	877,000	—	6 March 2016	6 March 2016

¹ Award type: LTI FY – Long-term incentive award under the 2008 Performance Share Plan for the financial year stated.

PSP awards made during the year

No PSP awards were granted to executive directors in 2016.

Vesting of PSP awards

In 2013 each executive director received an award made on 7 March 2013. The vesting of these PSP awards were based on performance to the third anniversary of the date of grant. The performance conditions for these awards were not met and these awards have now lapsed. Performance was as follows:

7 March 2013 award

Metric	Condition for performance period ending on third anniversary of grant	Actual	% vesting
Total shareholder return ("TSR")	20% vesting at TSR creation of 5p to 100% vesting for TSR creation of 25p with straight-line vesting in between	No TSR created	0%
Total vesting			—

The share price on the date of grant was 28.5p.

The market price at 31 December 2016 was 3.875p and the range during 2016 was 3.45p to 24.00p.

Outstanding PSP awards

At 31 December 2016, 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 2016	Beneficially owned at 15 March 2017	Outstanding PSP awards ³	% shareholding guideline achieved at 31 December 2016
Executive directors				
N S Stagg	1,364,972	1,364,972	—	13.2%
C J Povey ¹	32,000	n/a	—	n/a
Chairman and non-executive directors				
A J Barber	2,200,000	n/a	—	n/a
M Capello ²	—	—	—	n/a
S A Ferriss ³	367,451	n/a	—	n/a
N L Halkes	60,000	n/a	—	n/a
E Di Spiezio Sardo ²	—	—	—	n/a
J D Waldron	256,725	256,725	—	n/a

1 Shareholdings and share awards shown as at 17 November 2016, being the date of cessation as a director of Management Consulting Group PLC.

2 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.

3 Shareholdings and share awards shown as at 20 June 2016, being the date of cessation as a director of Management Consulting Group PLC.

Payments for loss of office

Mr Povey ceased to be an executive director of the Company and an employee of the Group on 17 November 2016. Mr Povey received base salary, benefits and pension to 17 November 2016. Mr Povey was entitled on cessation to the following payments:

- £250,000 payment in lieu of his contractual notice period; and
- £13,461.54 as compensation for 14 accrued vacation days.

All the remuneration paid in respect of Mr Povey's cessation is set out in the remuneration table on page 41. No annual bonus will be paid to him for the financial year 2016 and there are no outstanding PSP awards.

Non-executive directors received no payment for loss of office on ceasing to be directors.

Report of the Remuneration Committee continued

Annual report on remuneration continued

Unaudited information

Percentage increase in the remuneration of the Chief Executive Officer

	% change 2015 to 2016
Chief Executive	
Salary	—
Benefits*	110.0%
Bonus	175.0%
Average per employee	
Salary	—
Benefits	2.3%
Bonus	(13.7)%

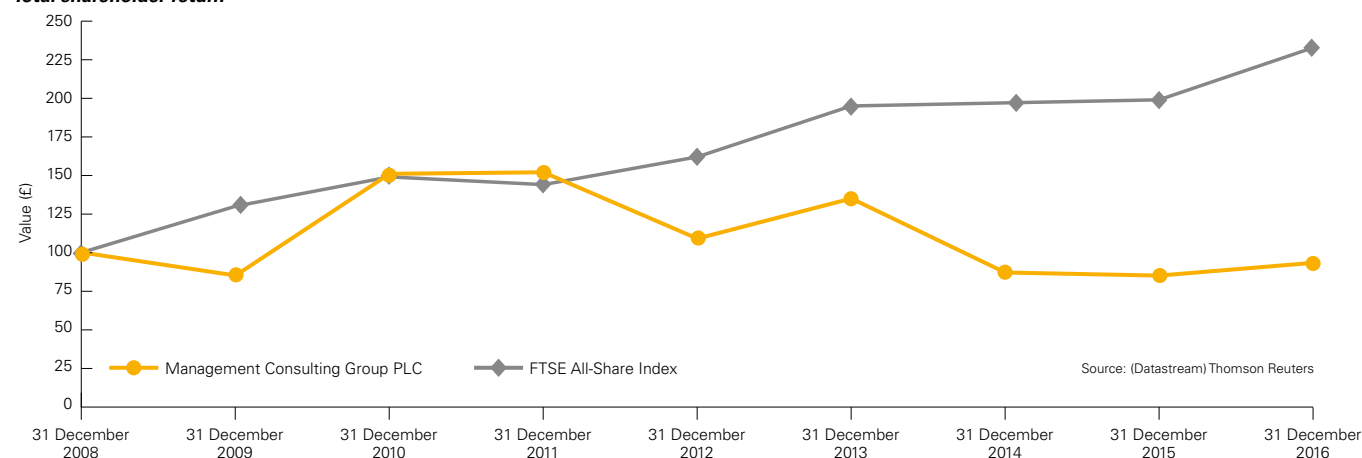
* Benefits in 2016 include the disruption allowance outlined on page 40.

The table above shows the percentage movement in the salary, benefits and bonus for the 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).

Total shareholder return



This graph shows the value, by 31 December 2016, 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.

Unaudited information continued

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

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

The table above shows the total remuneration figure for the 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

	2015 restated	2016	% increase/ (decrease)
Staff costs £'000	35,201	34,535	(1.9)%
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.

External advisers

New Bridge Street ("NBS") was appointed by the Remuneration Committee in 2011. NBS meets and/or speaks one-to-one with the Remuneration Committee Chairman at least once a year 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. 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 £19,141. The fees are charged 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 2016	FY 2015
N S Stagg		
Shinetrip Ltd	—	£27,500
Wedlake Bell – adviser to board	—	—

Report of the Remuneration Committee continued

Annual report on remuneration continued

Unaudited information continued

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

	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	

At the 2014 AGM, the Directors' Remuneration Policy received the following votes from shareholders:

Vote on the Remuneration Policy Report

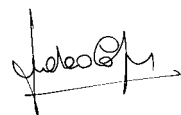
	2014 AGM	%
Votes cast in favour	286,611,866	82.6%
Votes cast against	60,541,616	17.4%
Total votes cast	347,153,482	100.0%
Votes withheld	1,306,559	

Approval

This Directors' Remuneration Report, including both the Policy and Annual 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

15 March 2017

Directors' responsibility statement

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

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

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

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


The Chairman's Statement, 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 15 March 2017. 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
15 March 2017

Independent auditor's report

to the members of Management Consulting Group PLC

Opinion on financial statements of Management Consulting Group PLC

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 2016 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.

The financial statements that we have audited comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Company Statements of Changes in Equity;
- the Group and Company Balance Sheets;
- the Group and Company Cash Flow Statements; and
- the related notes 1 to 27.

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.

Summary of our audit approach

Key risks	<p>The key risks that we identified in the current year were:</p> <ul style="list-style-type: none"> – accounting for disposals; – carrying value of goodwill; – revenue recognition; and – recoverability of deferred tax assets. <p>All of these risks are the same as those identified in the prior year.</p>
Materiality	<p>The materiality that we used in the current year was £225,000 which is determined on a blended measure using a combination of revenue and net assets benchmarks. This represents less than 1% of revenue from continuing operations and less than 1% of net assets.</p>
Scoping	<p>Our full scope audit procedures provided coverage at the Group's key locations representing 82% of revenue and 91% of total assets from continuing operations, and 73% of revenue and 94% of profit from discontinued operations. Due to the disposals in the period, we have increased our coverage of full scope audit procedures on the Proudfoot businesses and reduced our scope on the Kurt Salmon businesses.</p>
Significant changes in our approach	<p>As a result of the significant disposals which the Group has completed over the course of the year, we have amended our basis for materiality as well as our audit scope to reflect this. Further details are set out below.</p>

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the directors' statement on the longer-term viability of the group contained within the strategic report.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 12 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;
- the disclosures on pages 12 to 13 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 14 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 confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Independent auditor's report continued

to the members of Management Consulting Group PLC

Accounting for disposals

Risk description	<p>The Group completed the following disposals during the year:</p> <ul style="list-style-type: none"> – in January 2016 the sale of Kurt Salmon France and related operations to Solucom completed, which was largely accounted for in the 2015 financial statements in accordance with IFRS 5: Non-current assets held for sale and discontinued operations, with a profit on disposal of £0.2 million recorded in 2016; – in July 2016, the Group completed the sale of Kurt Salmon US Healthcare to ECG Management Consultants, recording a loss on disposal of £10.7 million; and – in November 2016, the Group sold Kurt Salmon Retail and Consumer Goods to Accenture, recording a profit on disposal of £53.2 million. <p>Given the significance of these disposals and the associated judgements, we continue to treat the accounting for these as a significant risk.</p> <p>Further information is included in note 27 to the accounts and the Report of the Audit and Risk Committee.</p>
How the scope of our audit responded to the risk	<p>We recomputed the respective profit and loss on disposals recognised with reference to the relevant legal agreements and other third party information. We have assessed the judgements made by management in calculating the profits and losses on disposal, including in relation to provisions, warranties, and any relevant disposal adjustments, with reference to historical performance and other available information.</p> <p>We also assessed the classification of the disposed business as discontinued operations against the relevant criteria in IFRS 5 and assessed the allocation of goodwill to the disposal group in line with IAS 36: Impairment of Assets.</p>
Key observations	<p>We concur with the treatment adopted in relation to accounting for disposals and the disclosure of these in the financial statements.</p>

Carrying value of goodwill

Risk description	<p>Following the disposal of Kurt Salmon, the remaining goodwill relates to Proudfoot and represents a significant asset on the balance sheet of £16.0 million. The Group has recorded an impairment of £30.4 million against the goodwill in the year to bring the carrying value in line with the recoverable amount. There are significant judgements required in respect of the recoverable amount, in particular in relation to forecasting future cash flows, associated discount rates and growth rates.</p> <p>Further information in this area is discussed in notes 2 and 10 of the accounts and the Report of the Audit and Risk Committee.</p>
How the scope of our audit responded to the risk	<p>We tested management's assumptions used in the impairment model for goodwill, described in note 10 to the financial statements.</p> <p>We considered and evaluated the key assumptions which we judged to be the 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.</p> <p>We focused our sensitivity analysis on the shortfall of actual performance to budget in recent years, and hypothesised numerous reduced growth scenarios. We used our internal valuation specialists to assess the calculation methodology for the discount rate.</p> <p>We have critically assessed the reasonableness of sensitivities applied by management against the base case scenario and recalculated the headroom available under the sensitised position.</p> <p>We have tested the mechanics of the impairment model prepared by management by validating the relevant calculations.</p>

Carrying value of goodwill continued

Key observations	We consider that management's base case forecasts for 2017–19 are challenging in relation to actual performance achieved in 2014–16 but have been appropriately prepared as disclosed in note 10 with forecast assumptions supported by appropriate evidence, and are not in excess of results achieved in 2013 and earlier. We therefore consider that the level of impairment recorded by management is within a reasonable range. We concur with the disclosures within note 10 that any unfavourable changes in the underlying assumptions within the impairment model, either individually or in aggregate, could result in material changes in the recoverable amount of goodwill, and that continued performance in line with that achieved in 2016 would result in a carrying value of nil.
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Revenue recognition

Risk description	<p>We consider that the risk specifically relates to the valuation and cut-off of revenue. The consultancy records revenue based on time incurred, and account for the deferral or accrual of revenue so as to estimate the fair value of work delivered where the consultancy has the right to consideration at the balance sheet date and there is judgement involved in the estimate of this fair value. There is also judgement involved in assessing the recoverability of aged or overdue debts and accrued income. The Group had £3.1 million trade receivables and £0.5 million accrued revenue at 31 December 2016.</p> <p>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.</p> <p>The Group's accounting policy for revenue recognition is set out in note 2 and this risk is discussed in the Report of the Audit and Risk Committee.</p>
How the scope of our audit responded to the risk	<p>We assessed the revenue recognition policies applied in the Group, including the valuation and timing of revenue recognition.</p> <p>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 tied to post year end billings. Time reports were assessed and used to recalculate revenue recognised for the year under review. We considered whether the revenue recognition policies adopted complied with IFRS.</p> <p>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.</p>
Key observations	We concur with the treatment adopted in relation to revenue recognition and provisioning for bad debts and accrued income.

Independent auditor's report continued

to the members of Management Consulting Group PLC

Recoverability of deferred tax assets

Risk description	<p>The Group has £8.3 million of deferred tax assets, and there is judgement in relation to the recognition of these, 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.</p> <p>Further information is provided in the critical accounting judgements in Note 2 of the accounts and the Report of the Audit and Risk Committee.</p>
How the scope of our audit responded to the risk	<p>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.</p> <p>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.</p>
Key observations	<p>The basis of recognition for the deferred tax asset is consistent with the assumptions used within the goodwill impairment model and in particular, the assumptions used for the Proudfoot US business. We therefore concur with the recognition of the deferred tax assets but note that any unfavourable changes in the underlying assumptions could result in the requirement for a valuation allowance against part or substantially all of the asset.</p>

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.

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 materiality	£225,000 (2015: £400,000)
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% (2015: less than 1%) of revenue from continuing operations and less than 1% (2015: less than 1%) of net assets.
Rationale for the benchmark applied	<p>Due to the disposals in the period and given that the Group made a loss from continuing operations and a profit on discontinued operations for the year, we considered a combination of revenue and net assets benchmarks in determining materiality to reflect the underlying continuing business.</p> <p>In setting an appropriate % to apply, we considered a number of factors, including prior year materiality and the materiality level as a % 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.</p>

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £11,250 (2015: £20,000), 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: Kurt Salmon US, Proudfoot US, Proudfoot Brazil, Proudfoot UK, Proudfoot France, and Proudfoot South Africa.

Full scope audit procedures were performed at each of these components based on the applicable component materiality level, which range from £112,500 to £200,000 (2015: capped at £325,000).

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 below table sets out our in scope components for 2015 and 2016:

	2016	2015
Proudfoot US	✓	✓
Proudfoot UK	✓	✓
Proudfoot Brazil	✓	✗
Proudfoot South Africa	✓	✓
Proudfoot France	✓	✗
Kurt Salmon US	✓ (10 month income statement only)	✓
Kurt Salmon France	✗	✓
Kurt Salmon UK	✗	✓
Kurt Salmon Germany	✗	✓

We have removed Kurt Salmon France, UK and Germany from our scope this year due to the disposal of these businesses during the year, although we have audited the ten month income statement balances for Kurt Salmon US to ensure we have sufficient coverage of the results from discontinued operations.

To ensure sufficient coverage of the continuing business we have additionally included Proudfoot Brazil and Proudfoot France within scope in the current year.

The locations where we have undertaken full scope audits represent the principal business units within the Group and represent 82% (2015: 80%) of the Group's revenue and 91% (2015: 78%) of total assets from continuing operations, and 73% of revenue and 94% of profit from discontinued operations. Central analytical review procedures will be performed at Group level for all other components.

Opinion on other matters prescribed by the Companies Act 2006

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

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and 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.

Independent auditor's report continued

to the members of Management Consulting Group PLC

Matters on which we are required to report by exception continued

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 arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

We confirm that we have not identified any such inconsistencies or misleading statements.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Anthony Morris, FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

15 March 2017

Group income statement

for the year ended 31 December 2016

	Note	2016 £'000	2015 restated £'000
Continuing operations			
Revenue	3	45,193	50,152
Cost of sales		(23,711)	(25,330)
Gross profit		21,482	24,822
Administrative expenses – underlying		(30,327)	(30,108)
Loss from operations – underlying		(8,845)	(5,286)
Administrative expenses – non-underlying impairment	4	(30,358)	—
Administrative expenses – non-underlying (net)	4	(410)	(450)
Total administrative expenses		(61,095)	(30,558)
Loss from operations	3	(39,613)	(5,736)
Investment revenues	6a	64	8
Finance costs	6b	(1,220)	(3,464)
Loss before tax	4	(40,769)	(9,192)
Tax	7	2,209	(1,185)
Loss for the period from continuing operations		(38,560)	(10,377)
Profit/(loss) for the period from discontinued operations	27	38,505	(55,171)
Loss for the period		(55)	(65,548)
(Loss)/earnings per share – pence			
From loss from continuing operations for the year attributable to owners of the Company:			
Basic	9	(7.6)	(2.1)
Diluted	9	(7.6)	(2.1)
Basic – underlying	9	(1.6)	(2.0)
Diluted – underlying	9	(1.6)	(2.0)
From the loss for the period:			
Basic	9	0.0	(13.3)
Diluted	9	0.0	(13.3)
Basic – underlying	9	(0.9)	(1.1)
Diluted – underlying	9	(0.9)	(1.1)

Group statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Loss for the year		(55)	(65,548)
Items that will not be reclassified subsequently to profit and loss			
Actuarial (losses)/gains on defined benefit post-retirement obligations	17	(574)	639
Tax items taken directly to comprehensive income	7, 15	(186)	306
		(760)	945
Items that may be reclassified subsequently to profit and loss			
Gain on available-for-sale investments		7	—
Exchange differences on translation of foreign operations		(20,667)	(1,738)
		(20,660)	(1,738)
Total comprehensive expense for the year attributable to owners of the Company		(21,475)	(66,341)

Group statement of changes in equity

for the year ended 31 December 2016

	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 2015	84,518	82,362	32,513	5,737	(3,063)	19,029	6,082	(29,513)	197,665
Loss for the year	—	—	—	—	—	—	—	(65,548)	(65,548)
Other comprehensive (expense)/income	—	—	—	—	—	(1,738)	—	945	(793)
Total other comprehensive expense	—	—	—	—	—	(1,738)	—	(64,603)	(66,341)
Shares issued	20	302	—	—	—	—	—	—	322
Share-based payments	—	—	—	1,797	—	—	—	—	1,797
Lapsed/vested shares	—	—	—	(3,355)	—	—	—	2,028	(1,327)
Shares transferred from employee benefit trusts	—	—	—	—	1,208	—	—	—	1,208
Dividends paid to shareholders	—	—	—	—	—	—	—	(4,018)	(4,018)
Recycling of merger reserve	—	—	(26,830)	—	—	—	—	26,830	—
Balance at 31 December 2015	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 other comprehensive income	—	—	—	—	—	(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

Group balance sheet

as at 31 December 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Intangible assets and goodwill	10	17,724	148,387
Property, plant and equipment	11	1,108	1,996
Investments	12	—	711
Deferred tax assets	15	8,324	14,448
Total non-current assets		27,156	165,542
Current assets			
Trade and other receivables	13	7,212	29,115
Current tax receivables	15	1,404	1,096
Cash and cash equivalents	22	38,067	15,478
Assets held for sale	27	—	91,785
Total current assets		46,683	137,474
Total assets		73,839	303,016
Current liabilities			
Financial liabilities	16	—	(68,294)
Trade and other payables	14	(20,162)	(39,875)
Current tax liabilities	15	(1,070)	(4,020)
Liabilities held for sale	27	—	(33,105)
Total current liabilities		(21,232)	(145,294)
Net current assets/(liabilities)		25,451	(7,820)
Non-current liabilities			
Financial liabilities	16	—	—
Retirement benefit obligations	17	(11,577)	(21,781)
Deferred tax liabilities	15	(707)	(5,413)
Long-term provisions	18	(7,711)	(1,222)
Total non-current liabilities		(19,995)	(28,416)
Total liabilities		(41,227)	(173,710)
Net assets		32,612	129,306
Equity			
Share capital	19	5,111	84,538
Share premium account		8,023	82,664
Merger reserve	20	—	5,683
Share compensation reserve		226	4,179
Shares held by employee benefit trusts		(108)	(1,855)
Translation reserve		(3,376)	17,291
Other reserves	20	7,064	6,082
Retained earnings		15,672	(69,276)
Equity attributable to owners of the Company		32,612	129,306

The financial statements were approved by the Board of Directors and authorised for issue on 15 March 2017. They were signed on its behalf by:



Nick Stagg
Director

Group cash flow statement

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Net cash (outflow)/inflow from operating activities	22	(14,369)	909
Investing activities			
Interest received		65	36
Purchases of property, plant and equipment		(414)	(577)
Purchases of intangible assets		(239)	(467)
Net proceeds from disposal		188,950	—
Disposal of financial assets		—	36
Acquisitions		—	(316)
Net cash generated from/(used in) investing activities		188,362	(1,288)
Financing activities			
Interest paid		(845)	(2,589)
Dividends paid		(7)	(4,000)
Proceeds from borrowings		9,663	48,574
Repayment of borrowings		(78,697)	(38,357)
Return of capital		(75,000)	—
Net cash (used in)/generated from financing activities		(144,886)	3,628
Net increase in cash and cash equivalents		29,107	3,249
Cash and cash equivalents at beginning of year		20,737	24,920
Effect of foreign exchange rate changes		(11,777)	(7,432)
Cash and cash equivalents at end of year	22	38,067	20,737

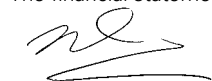
Company balance sheet

as at 31 December 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Intangible assets	10	6	12
Property, plant and equipment	11	168	136
Investments	12	112,020	164,775
Total non-current assets		112,194	164,923
Current assets			
Trade and other receivables	13	24,176	43,044
Cash and cash equivalents	22	25,361	169
Total current assets		49,537	43,213
Total assets		161,731	208,136
Current liabilities			
Financial liabilities	16	—	(26,551)
Trade and other payables	14	(133,946)	(20,901)
Total current liabilities		(133,946)	(47,452)
Net current liabilities		(84,409)	(4,239)
Non-current liabilities			
Long-term provisions	18	(192)	(192)
Retirement benefit obligations	17	(400)	—
Total non-current liabilities		(592)	(192)
Total liabilities		(134,538)	(47,644)
Net assets		27,193	160,492
Equity			
Share capital	19	5,111	84,538
Share premium account		8,023	82,664
Merger reserve	20	—	—
Share compensation reserve		226	4,179
Shares held by employee benefit trusts		(108)	(1,855)
Capital redemption reserve		1,186	1,186
Retained earnings	21	12,755	(10,220)
Equity attributable to owners of the Company		27,193	160,492

The Company made a loss of £58.1m in 2016.

The financial statements were approved by the Board of Directors and authorised for issue on 15 March 2017. 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 2016

	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 2015	84,518	82,362	26,830	5,737	(3,063)	1,186	23,213	220,783
Loss for the year	—	—	—	—	—	—	(58,252)	(58,252)
Shares issued	20	302	—	—	—	—	—	322
Share-based payments	—	—	—	1,797	—	—	—	1,797
Lapsed/vested shares	—	—	—	(3,355)	—	—	2,007	(1,348)
Shares transferred from employee benefit trusts	—	—	—	—	1,208	—	—	1,208
Dividends paid to shareholders	—	—	—	—	—	—	(4,018)	(4,018)
Recycling of merger reserve	—	—	(26,830)	—	—	—	26,830	—
Balance at 31 December 2015	84,538	82,664	—	4,179	(1,855)	1,186	(10,220)	160,492
Loss for the year	—	—	—	—	—	—	(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

Company cash flow statement

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Net cash (outflow)/inflow from operating activities	22	(8,528)	21,552
Investing activities			
Purchases of property, plant and equipment		(115)	(54)
Purchases of intangible assets		—	—
Cash advances from/(to) subsidiaries		137,695	(45,252)
Net cash generated from/(used in) investing activities		137,580	(45,306)
Financing activities			
Interest paid		(321)	(210)
Dividends paid		(7)	(4,000)
Purchase of own shares		—	—
Repayment of borrowings		(26,551)	—
Proceeds from borrowings		—	26,132
Return of equity		(75,000)	—
Net cash (used in)/generated from financing activities		(101,879)	21,922
Net increase/(decrease) in cash and cash equivalents		27,173	(1,832)
Cash and cash equivalents at beginning of year		169	362
Effect of foreign exchange rate changes		(1,981)	1,639
Cash and cash equivalents at end of year	22	25,361	169

Notes to the financial statements

for the year ended 31 December 2016

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 financial position of the Group, its cash flows, liquidity position, borrowing facilities and principal risks and uncertainties are described in the Financial Review and the Viability Statement. In addition, note 23 to the Group financial statements includes the Group’s objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to liquidity risk and credit risk.

The Group’s bank borrowings were repaid in full on 7 January 2016 from the net proceeds of the sale of the French and related operations of Kurt Salmon and the Group’s bank borrowing facility was terminated on that date. The Group’s working capital facility with HSBC was terminated on completion of the sale of the retail and consumer goods consulting practice of Kurt Salmon on 1 November 2016. The Group prepares regular business forecasts and monitors its projected cash flows, which are reviewed by the Board. Forecasts are adjusted for reasonable sensitivities that address the principal risks and uncertainties to which the Group is exposed. Consideration is given to the potential actions available to management to mitigate the impact of one or more of these sensitivities, in particular the discretionary nature of a significant amount of cost incurred by the Group.

The Board has concluded that the Group should be have adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the financial statements, and, accordingly, it continues to adopt the going concern basis in preparing the annual report and financial statements.

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 19: Defined Benefit Plans: Employee Contributions

Annual Improvements 2010–2012 Cycle

Annual Improvements 2012–2014 Cycle

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants

Amendments to IAS 27: Equity Methods in Separate Financial Statements

Amendments to IAS 1: Disclosure Initiative

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

Notes to the financial statements continued

for the year ended 31 December 2016

2. Significant accounting policies continued

(a) Basis of preparation continued

Adoption of new and revised standards continued

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

IFRS 15 Revenue from Contracts with Customers

IFRS 16 Leases

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

Amendments to IAS 7: Disclosure Initiative

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

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 9 may impact both the measurement and disclosures of financial instruments. IFRS 15 may have an impact on revenue recognition and related disclosures.

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 24, 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 2017.

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

REVENUE RECOGNITION

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. To the extent that a service has been provided to third parties but no billing made, the amount is recognised as revenue and recorded as accrued income. Revenue recognised in this manner is based on an assessment of the fair value of the services provided at the balance sheet date as a proportion of the total value of the engagement. This assessment is an estimate which is based on the nature of the service supplied and the terms of the contract and is calculated with reference to time spent as a proportion of the total time required to complete the service. Costs are expensed as incurred except to the extent that they relate to future services that have not yet been rendered, in which case they are recognised as an asset provided that they are expected to be recovered. Any significant underestimation or overestimation of amounts receivable could have a material effect on the Group's financial position and results of operations. Billings made in advance of services being provided are recognised as deferred income.

2. Significant accounting policies continued

(a) Basis of preparation continued

Critical accounting judgements continued

INCOME TAXES

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax liabilities and assets in the period in which such determination is made.

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 10.

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 17 to the financial statements.

PROVISIONS

The Group has provisions for certain onerous property leases, onerous contracts relating to transitional service arrangements with the acquirers of businesses which have been disposed of, and other matters. These require estimates in terms of the level of provision being carried on the balance sheet.

(b) Basis of consolidation

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.

Notes to the financial statements continued

for the year ended 31 December 2016

2. Significant accounting policies continued

(d) Goodwill

Goodwill arising in a business combination represents the excess of the cost of acquisition over the Group's interest in the net fair value of the recognised identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement. Goodwill is not amortised but is tested annually for impairment or 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.

(e) 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.

(f) Property, plant and equipment

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

(g) Leasehold improvements

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

(h) Impairment of tangible and intangible assets

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

For goodwill, Proudfoot is the Group's sole cash-generating unit.

(i) Dividend distribution

Dividends to holders of common shares are recognised as a liability in the Group and parent company's financial statements in the period in which the shareholders' right to receive payment has been established. 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.

(j) 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.

(k) 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.

2. Significant accounting policies continued

(l) 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.

(m) Taxation

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

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

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

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

(n) 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.

(o) 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.

(p) Investments

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

(q) 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.

(r) Dividend income

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

(s) Operating leases

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

Notes to the financial statements continued

for the year ended 31 December 2016

2. Significant accounting policies continued

(t) 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.

(u) 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.

(v) Foreign currencies

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

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

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

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

(w) Non-current assets held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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.

2. Significant accounting policies continued

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

This is defined as operating profit or loss before non-underlying items and amortisation of intangible assets.

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, 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.

Net cash/(debt)

This is cash and cash equivalents less financial liabilities.

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 segment:

(i) Revenue and underlying operating loss by geography

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-recurring expenses and amortisation of acquired intangibles	(4,418)	(1,867)	(2,560)	(8,845)
Non-underlying expenses and amortisation of acquired intangibles	(470)	(216)	276	(410)
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)
Year ended 31 December 2015 – restated	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Revenue – continuing operations	31,402	12,103	6,647	50,152
Profit/(loss) from operations before non-recurring expenses and amortisation of acquired intangibles	180	(2,264)	(3,202)	(5,286)
Non-underlying (expenses)/income and amortisation of acquired intangibles	(454)	70	(66)	(450)
Loss from operations	(274)	(2,194)	(3,268)	(5,736)
Investment revenue				8
Finance costs				(3,464)
Loss before tax				(9,192)

Notes to the financial statements continued

for the year ended 31 December 2016

3. Operating segments continued

(a) Geographical analysis continued

(ii) Net assets by geography

At 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

At 31 December 2015	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Assets				
Intangibles, including goodwill	120,529	24,173	3,685	148,387
Other segment assets	34,990	16,099	2,944	54,033
Total assets allocated to segments	155,519	40,272	6,629	202,420
Unallocated corporate assets				8,811
Assets held for sale				91,785
Consolidated total assets				303,016
Liabilities				
Segment liabilities	(41,296)	(52,259)	(4,515)	(98,070)
Unallocated corporate liabilities				(42,535)
Liabilities held for sale				(33,105)
Consolidated total liabilities				(173,710)
Net assets				129,306

4. Loss before tax

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

	Note	2016 £'000	2015 restated £'000
Net foreign exchange gains		(153)	(281)
Amortisation of intangible assets		109	317
Depreciation of property, plant and equipment		328	301
(Profit)/loss on disposal of fixed assets		(54)	1
Non-underlying items impairment	3	30,358	—
Non-underlying items (net)	3	410	450
Staff costs	5	34,535	35,201

The £0.4m of non-underlying expenses comprise £1.6m of restructuring-related redundancy costs, a £0.6m write off of capitalised costs relating to a discontinued product offering in Proudfoot, offset by a £0.3m provision release, and a £1.6m credit arising on the closure of the Proudfoot Defined Benefit Medical scheme.

4. Loss before tax continued

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

	2016 £'000	2015 £'000
Auditor's remuneration		
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 other services to the Group – the audit of the Company's subsidiaries	263	403
Total audit fees	310	450
Taxation compliance services	517	209
Taxation advisory services	221	128
Other non-audit services*	231	211
Total non-audit fees	969	548
Total auditor's remuneration	1,279	998

* Other non-audit services in 2016 include a fee of £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:

	2016 Number	2015 Number re-presented
Sales and marketing	53	72
Consultants	161	185
Support staff	60	69
Continuing activities	274	326
Discontinued operations	359	1,201
Total	633	1,527

The number of Group employees at the year end was 281 being employed by continuing operations (2015 restated: 320).

The aggregate payroll costs for the employees of the continuing operations were as follows:

	2016 £'000	2015 restated £'000
Wages and salaries	28,593	29,603
Social security costs	4,316	3,937
Other pension costs	1,626	1,661
	34,535	35,201

The average number of Company employees for the year was 18 (2015: 19). The payroll costs of the Company were £2,545,913 (2015: £2,121,519) for wages and salaries, £247,453 (2015: £238,382) for social security costs and £126,224 (2015: £180,400) for pension costs. Disclosures in respect of directors' emoluments are included in the Directors' Remuneration Report.

6a. Investment revenues

	2016 £'000	2015 restated £'000
Interest receivable on bank deposits and similar income	64	8

Notes to the financial statements continued

for the year ended 31 December 2016

6b. Finance costs

	Note	2016 £'000	2015 restated £'000
Interest payable on bank overdrafts and loans and similar charges		(468)	(1,964)
Finance costs on retirement benefit plans	17	(752)	(1,500)
		(1,220)	(3,464)

7. Tax

	2016			2015		
	Before non-underlying items £'000	Non-underlying items £'000	Total £'000	Before non-underlying items £'000 restated	Non-underlying items £'000	Total £'000
Recognised in the income statement:						
Income tax expense on continuing operations						
Current tax						
Current year	1,860	(3)	1,857	1,194	(5)	1,189
Adjustment in respect of prior years	(2,353)	—	(2,353)	87	—	87
Current tax (credit)/expense	(493)	(3)	(496)	1,281	(5)	1,276
Deferred tax						
Current year	(3,171)	190	(2,981)	17	(15)	2
Adjustment in respect of prior years	1,268	—	1,268	(93)	—	(93)
Deferred tax (credit)/expense	(1,903)	190	(1,713)	(76)	(15)	(91)
Total income tax						
Income tax (credit)/expense on continuing activities	(2,396)	187	(2,209)	1,205	(20)	1,185

UK corporation tax is calculated at 20.0% (2015: 20.25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2016			2015		
	Before non-underlying items £'000	Non-underlying items £'000	Total £'000	Before non-underlying items restated £'000	Non-underlying items restated £'000	Total restated £'000
Loss before tax from continuing operations	(40,359)	(410)	(40,769)	(8,742)	(450)	(9,192)
Notional income tax credit at the effective UK tax rate of 20.0% (2015: 20.25%)	(8,073)	(82)	(8,155)	(1,751)	(111)	(1,862)
Unrelieved current year tax losses	2,526	287	2,813	3,673	(66)	3,607
Irrecoverable withholding tax	830	—	830	738	—	738
Effects of different tax rates of subsidiaries operating in other jurisdictions	(4,773)	(18)	(4,791)	(200)	52	(148)
Other temporary differences not previously recognised	(555)	—	(555)	(3,635)	—	(3,635)
Permanent differences	8,734	—	8,734	2,386	105	2,491
Relating to prior years	(1,085)	—	(1,085)	(6)	—	(6)
Income tax (credit)/expense on continuing operations	(2,396)	187	(2,209)	1,205	(20)	1,185
Effective tax rate for the year	(6%)		(5%)	(14%)		(13%)

7. Tax continued

	2016 £'000	2015 £'000
Tax credited to other comprehensive income		
Current and deferred tax credits on actuarial and other movements on post-employment benefits	(186)	306
Tax credit on items recognised in other comprehensive income	(186)	306

8. Dividends

	2016 £'000	2015 £'000
Amounts recognised as distributions to equity holders in the year		
Final dividend for the year ended 31 December 2015 (2014: 0.595p)	—	2,902
Interim dividend for the year ended 31 December 2015 (2014: 0.23p)	—	1,116
	—	4,018

Dividends are not payable on shares held in the employee share trust, which has waived its entitlement to dividends. The amount of the dividend waived in 2016 was £nil (2015: £73,377).

9. Earnings per share

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

	2016			2015 re-presented		
Earnings	All £'000	Continuing £'000	Discontinued £'000	All £'000	Continuing £'000	Discontinued £'000
(Loss)/profit for the period	(55)	(38,560)	38,505	(65,548)	(10,377)	(55,171)
Add back: non-underlying items	39,856	30,768	9,088	6,825	450	6,375
Add back: amortisation of acquired intangibles	527	—	527	569	—	569
Adjustment for (profit)/loss on disposals	(42,779)	—	(42,779)	53,372	—	53,372
Reduction in tax charge due to add backs	(2,134)	(359)	(1,775)	(642)	(20)	(622)
Underlying (loss)/profit for the period	(4,585)	(8,151)	3,566	(5,424)	(9,947)	4,523
Number of shares					2016 Number million	2015 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					505	492
Effect of dilutive potential ordinary shares:						
Restricted share plan					0	13
Weighted average number of ordinary shares for the purposes of diluted earnings per share					505	505

Notes to the financial statements continued

for the year ended 31 December 2016

9. Earnings per share continued

(Loss)/earnings per share	2016			2015 re-presented		
	All Pence	Continuing Pence	Discontinued Pence	All Pence	Continuing Pence	Discontinued Pence
Basic (loss)/profit per share for the year attributable to the owners of the Company	0.0	(7.6)	7.6	(13.3)	(2.1)	(11.2)
Diluted (loss)/profit per share for the year attributable to the owners of the Company	0.0	(7.6)	7.6	(13.3)	(2.1)	(11.2)
Basic (loss)/profit per share – excluding non-underlying items and amortisation of acquired intangibles	(0.9)	(1.6)	0.7	(1.1)	(2.0)	0.9
Diluted (loss)/profit per share – excluding non-underlying items and amortisation of acquired intangibles	(0.9)	(1.6)	0.7	(1.1)	(2.0)	0.9

The average share price for the year ended 31 December 2016 was 16.5p (2015: 15.6p).

The weighted average number of the Company's ordinary shares used in the calculation of diluted loss per share in 2016 includes rights over 364,890 ordinary shares (2015: 12,853,033).

10. Intangible assets and goodwill

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
Impairment charge	(30,358)	—	(587)	(30,945)
Disposals	(180,127)	(20,946)	(3,967)	(205,040)
Exchange differences	28,784	2,155	1,285	32,224
At 31 December 2016	16,000	—	3,811	19,811
Amortisation				
At 1 January 2016	53,372	17,711	3,736	74,819
Charge for the year	—	527	1,006	1,533
Disposals	(53,372)	(20,946)	(3,518)	(77,836)
Exchange differences	—	2,708	863	3,571
At 31 December 2016	—	—	2,087	2,087
Carrying amount				
At 31 December 2016	16,000	—	1,724	17,724
At 31 December 2015	144,329	1,080	2,978	148,387

The £30.4m amortisation charge for goodwill relates to the impairment of Proudfoot goodwill.

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

10. Intangible assets and goodwill continued

Group	Goodwill £'000	Customer relationships £'000	Software costs £'000	Total intangibles £'000
Cost				
At 1 January 2015	253,195	18,961	10,758	282,914
Acquisitions	638	—	—	638
Transferred to assets held for sale	(52,840)	—	(4,356)	(57,196)
Additions	—	—	425	425
Disposals	—	—	(174)	(174)
Exchange differences	(3,292)	(170)	61	(3,401)
At 31 December 2015	197,701	18,791	6,714	223,206
Amortisation				
At 1 January 2015	—	17,337	7,035	24,372
Charge for the year	—	569	1,224	1,793
Impairment charge recognised on classification to assets held for sale	53,372	—	—	53,372
Transferred to assets held for sale	—	—	(4,326)	(4,326)
Category transfer	—	—	82	82
Disposals	—	—	(178)	(178)
Exchange differences	—	(195)	(101)	(296)
At 31 December 2015	53,372	17,711	3,736	74,819
Carrying amount				
At 31 December 2015	144,329	1,080	2,978	148,387
At 31 December 2014	253,195	1,624	3,723	258,542

Company	Software costs £'000
Cost	
At 1 January 2015	873
At 31 December 2015	873
Amortisation	
At 1 January 2015	729
Charge for the year	132
At 31 December 2015	861
Carrying amount	
At 31 December 2015	12
At 31 December 2014	144

Notes to the financial statements continued

for the year ended 31 December 2016

10. Intangible assets and goodwill continued

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.

	Kurt Salmon £'000	Alexander Proudfoot £'000	Total £'000
As at 1 January 2016	104,223	40,106	144,329
Impairment charge	—	(30,358)	(30,358)
Disposal	(127,413)	—	(127,413)
Translation	23,190	6,252	29,442
As at 31 December 2016	—	16,000	16,000

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 2016 are that the CGU will trade broadly in accordance with projections for the three years 2017 – 2019. These project higher financial results than that reported for 2016 and for example compound revenue growth in excess of 10% over that period. The budgets were prepared on a bottom-up basis, taking into account market and economic factors and have been approved by the Board. 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.

For longer term financial projections, cash flows are extrapolated based on long-term average growth rates of 2%. The rate used to discount the forecast post-tax cash flows is 13.2% 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 operating segments on the basis that, given the integrated nature of the segments, it cannot reasonably be allocated to a lower level of CGU.

The Board believes that the growth rates used in the value-in-use calculations are appropriate, have applied sensitivities to the calculations and are satisfied that the current recoverable amount of goodwill is appropriate. Trading activity to date in 2017 and performance against budget supports the growth rates used in our calculations. The assumptions used fall within historic variations experienced by the Group and are considered as reasonable estimations.

Review of the carrying value of goodwill

The financial performance of Proudfoot has deteriorated in the last financial year, reporting an underlying operating loss of £8.8m. During 2015 and 2016 Proudfoot's business model was significantly challenged as the Board implemented changes to develop the Proudfoot offering in order to build a more stable and predictable revenue base and drive top-line growth, as well as continuing weakness in demand from clients in the natural resources sector. Whilst the business did not adapt quickly enough to changes in the market, management is now focussed on further enhancing the front-end capabilities to drive revenue growth as well as continuing to take action to reduce costs. This has resulted in a pick-up in order input towards the end of 2016 and accordingly the Directors remain confident in the long-term prospects of the business.

The Directors recognise that there are risks and uncertainties in the CGU if the performance of the business does not improve as expected over the long term in line with management's forecasts. Factors that could cause the deterioration in future cash flows of the business compared to the forecasts include:

- the inability to recruit and retain key staff;
- the inability to win new and retain existing contracts at appropriate margins; and
- a failure to reduce costs to reflect lower base revenues.

The value of goodwill attributed to Proudfoot is £16.0m (2015: £40.1m) and is calculated at its value in use using the pre-tax discount rate of 13.2%. The goodwill impairment amounting to £30.4m was derived from the detailed forecast using a long-term growth rate of 2%.

As the carrying amount of the goodwill represents its value-in-use, the Directors recognise that it is possible that a further impairment to the goodwill could be identified if the business does not improve as expected over the longer term in line with the business plan. Sensitivity analysis on key assumptions indicates that relatively small changes in the underlying assumptions will result in additional changes in the recoverable amount on a value-in-use basis. Indeed, small unfavourable changes to the assumptions and projections could result in the recoverable amount of goodwill falling below its carrying value.

11. Property, plant and equipment

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
Fixtures, fittings and equipment	Group £'000	Company £'000
Cost		
At 1 January 2015	8,246	1,851
Additions	580	53
Disposals	(145)	—
Transfer to assets held for sale	(2,243)	—
Exchange differences	(130)	—
At 31 December 2015	6,308	1,904
Accumulated depreciation		
At 1 January 2015	5,499	1,503
Charge for the year	861	108
Exceptional impairment	161	157
Transfer to assets held for sale	(1,848)	—
Category transfer	(82)	—
Exchange differences	(142)	—
Disposals	(137)	—
At 31 December 2015	4,312	1,768
Carrying amount		
At 31 December 2015	1,996	136
At 31 December 2014	2,747	348

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for the year ended 31 December 2016

12. Investments

Group	2016 £'000	2015 £'000
Cost		
At 1 January 2016	711	727
Additions	—	1
Disposals	(711)	(35)
Exchange differences	—	18
At 31 December 2016	—	711

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

Company	Shares £'000	Loans £'000	Total £'000
Investment in Group companies			
At 1 January 2015	235,745	—	235,745
Impairment	(70,970)	—	(70,970)
At 31 December 2015	164,775	—	164,775
Impairment	(52,698)	—	(52,698)
Decrease in shareholding	(57)	—	(57)
At 31 December 2016	112,020	—	112,020

Brought forward shares as at 1 January 2015 are stated net of provisions of £5,970,000 against impairment in value.

13. Trade and other receivables

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade receivables – gross	4,362	17,735	1	—
Allowance for doubtful debts	(1,307)	(1,022)	—	—
Trade receivables – net	3,055	16,713	1	—
Amounts owed by Group undertakings	—	—	22,989	42,646
Other receivables	2,211	3,877	687	129
Accrued income	450	5,727	—	—
Prepayments	1,496	2,798	499	269
	7,212	29,115	24,176	43,044

Debtor days at the year end were 31 days (2015: 44 days). No interest was charged on receivables. The directors consider that the carrying value of trade and other receivables approximates to their fair value (see note 23).

14. Trade and other payables

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade payables	1,457	1,608	782	917
Amounts owed to Group undertakings	—	—	130,584	14,219
Other taxes and social security	2,438	5,848	290	937
Other payables	931	3,712	142	262
Deferred income	892	2,965	—	—
Accruals	14,444	25,742	2,148	4,566
	20,162	39,875	133,946	20,901

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 16 days (2015: 53 days). The directors consider that the carrying amount of trade payables approximates to their fair value (see note 23).

15. Tax assets and liabilities

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Current tax				
Current tax receivables	1,404	1,096	—	—
Current tax liabilities	(1,070)	(4,020)	—	—

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	Net short-term temporary differences £'000	Total £'000
Net deferred tax							
At 1 January 2015	6,933	4,385	—	(1,108)	(2,848)	3,404	10,766
Disposals	(380)	(1,061)	—	—	—	—	(1,442)
Foreign exchange	443	116	92	(47)	(175)	185	615
Reclassification	—	—	—	—	(110)	110	—
Recognised in Group statement of comprehensive income	306	—	—	—	—	—	306
Recognised direct to equity	—	—	—	—	—	—	—
(Charged)/credited to Group income statement	(461)	(2,355)	2,446	400	(276)	(964)	(1,210)
At 31 December 2015	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

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15. Tax assets and liabilities continued

Group	31 December 2016 £'000	31 December 2015 £'000
Deferred tax assets	8,324	14,448
Deferred tax liabilities	(707)	(5,413)
Total	7,617	9,035

At 31 December 2016 the Group recognised deferred tax assets totalling £7.7m (2015: £14.4m), of which £0.3m (2015: £1.1m) are in respect of US tax losses, £0.2m (2015: £1.1m) are in respect of French tax losses (2015: £Nil), £7.2m (2015: £11.3m) are in respect of other temporary differences relating to the US and £Nil (2015: £2.0m) in respect of other temporary differences relating to non-US jurisdictions. The Group believes there will be sufficient future taxable profits to utilise these tax losses and the deductions arising from the reversal of these other deferred tax assets. No deferred tax asset has been recognised in respect of non-US tax losses.

At 31 December 2016 the Group did not recognise deferred tax assets totalling £22.3m (2015: £26.1m), of which £Nil (2015: £4.9m) are in respect of US tax losses, £22.3m (2015: £20.5m) are in respect of non-US losses and £2.4m (2015: £0.7m) are in respect of temporary differences other than losses. Based on the current tax rules in the respective jurisdictions, the non-US losses of £98.8m are expected to expire as follows: £9.0m by the end of 2018, £2.5m by the end of 2023, £1.4m by the end of 2033, with the remaining £85.9m being carried forward indefinitely. The losses may be subject to adjustment on tax audit and it is uncertain if there will be sufficient future profits against which the losses can be offset.

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 2016 of £0.2m (2015: £1.5m) 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 2016 or 2015.

16. Bank borrowings

Group

The Group's bank borrowings were repaid in full on 7 January 2016 from the net proceeds of the sale of the French and related operations of Kurt Salmon and the Group's bank borrowing facility was terminated on that date. The Group's new £15m working capital facility with HSBC was terminated on completion of the sale of the retail and consumer goods consulting practice of Kurt Salmon on 1 November 2016.

	2016 £'000	2015 £'000
Current: bank borrowings	—	68,294
Non-current: bank borrowings	—	—
Total borrowings	—	68,294

	2016 £'000	2015 £'000
Six months or less	—	68,294
In the first to second year	—	—
Total	—	68,294

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

	2016 £'000	2015 £'000
Six months or less	—	68,294

16. Bank borrowings continued

Group continued

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

	2016		2015	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Bank borrowings	—	—	68,294	68,294

The carrying value of the loans held at 31 December 2015 is equal to the fair value on the basis the loans were repaid in full in January 2016.

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

Currency	2016 £'000	2015 £'000
Euro	—	64,902
US Dollar	—	3,392
	—	68,294

The Group has the following undrawn borrowing facilities:

	2016 £'000	2015 £'000
Floating rate	—	16,138

Company

The Company was party to the Group borrowing facility of £85m in 2015.

	2016 £'000	2015 £'000
Current: bank borrowings	—	26,551

	2016 £'000	2015 £'000
Six months or less	—	26,551

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

	2016 £'000	2015 £'000
Six months or less	—	26,551

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

	2016		2015	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Bank borrowings	—	—	26,551	26,551

The carrying value of the loans held at 31 December 2015 is equal to the fair value on the basis the loans were repaid in full in January 2016.

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

Currency	2016 £'000	2015 £'000
Euro	—	26,551

The Company has the following undrawn borrowing facilities:

	2016 £'000	2015 £'000
Floating rate	—	16,138

Notes to the financial statements continued

for the year ended 31 December 2016

17. Retirement benefit obligations

Defined contribution schemes

The Group operates a number of defined contribution pension schemes throughout the world. The total cost charged to income in respect of defined contribution schemes was £1,626,000 (2015 restated: £1,661,000), representing contributions payable to these schemes by the continuing Group at rates specified in the rules of the plans.

Defined benefit schemes

In the US the Group operates a closed defined benefit pension scheme. The closed unfunded plan in respect of post-retirement medical costs was closed with effect from 31 December 2016. In France, the Group has a statutory unfunded post-retirement benefit obligation and following the sale of Kurt Salmon, the Group took over the obligations relating to the KS UK funded pension scheme, which is defined contribution with defined benefit underpin; all plans are closed to new employees. Actuarial valuations are obtained annually from independent qualified actuaries for each of the defined benefit arrangements.

The retirement benefit obligations are summarised below:

	Note	2016 £'000	2015 £'000
US defined benefit pension scheme		(10,856)	(9,560)
US post-retirement medical plan		—	(2,415)
Proudfoot's French statutory obligation		(321)	(319)
German obligation		—	(9,487)
UK defined benefit pension scheme		(400)	—
Continuing schemes		(11,577)	(21,781)
Kurt Salmon's French statutory obligation	27	—	(2,188)
All schemes		(11,577)	(23,969)

(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 principal assumptions used for the recent actuarial valuations were:

	2016	2015
Discount rate	3.99%	4.25%
General inflation assumption	n/a	n/a
Mortality table	RP 2014 (scale: MP2016)	RP 2014 (scale: MP2015)

There are neither guaranteed nor discretionary increases to benefits after retirement. Expected pension contributions for 2017 are £nil (2016: £nil).

(i) COMPONENTS OF AMOUNTS RECOGNISED IN THE INCOME STATEMENT

	2016			2015		
	DB Scheme £'000	Medical Scheme £'000	Total £'000	DB Scheme £'000	Medical Scheme £'000	Total £'000
Service costs	197	—	197	130	—	130
Effects of settlement	—	(1,033)	(1,033)	879	—	879
Interest expense on plan obligations	2,319	101	2,420	2,361	96	2,457
Interest income on plan assets	(1,873)	—	(1,873)	(1,967)	—	(1,967)
Total charge to income statement	643	(932)	(289)	1,403	96	1,499

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

17. Retirement benefit obligations continued

Defined benefit schemes continued

(A) US schemes continued

(ii) COMPONENTS OF AMOUNTS RECOGNISED IN THE OTHER COMPREHENSIVE INCOME STATEMENT

	2016			2015		
	DB Scheme £'000	Medical Scheme £'000	Total £'000	DB Scheme £'000	Medical Scheme £'000	Total £'000
Liability loss/(gain) due to changes in assumptions	249	(32)	217	(2,305)	(163)	(2,468)
Liability experience loss/(gain) arising in the year	176	(178)	(2)	(182)	(81)	(263)
Asset losses arising during the year	1,577	—	1,577	1,813	—	1,813
Total loss/(gain) recognised in the other comprehensive income statement	2,002	(210)	1,792	(674)	(244)	(918)

(iii) THE AMOUNT INCLUDED IN THE BALANCE SHEET ARISING FROM THE GROUP'S OBLIGATIONS IN RESPECT OF THE US DEFINED BENEFIT PENSION SCHEME AND MEDICAL BENEFITS PLAN IS AS FOLLOWS:

	Note	2016 £'000	2015 £'000
Present value of defined benefit obligations	17(d)	(58,541)	(52,552)
Fair value of scheme assets	17(d)	47,685	40,577
Liability recognised in the balance sheet		(10,856)	(11,975)
Defined benefit pension scheme		(10,856)	(9,560)
Medical benefit plan		—	(2,415)
Liability recognised in the balance sheet		(10,856)	(11,975)

(iv) MOVEMENTS IN BALANCE SHEET AMOUNTS

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

	2016 £'000	2015 £'000
Opening defined benefit obligation	(52,552)	(63,130)
Interest cost	(2,420)	(2,457)
Service cost	(197)	(130)
Actuarial (loss)/gain	(220)	2,731
Contributions by participants	(9,819)	(81)
Exchange differences	(83)	(3,002)
Benefits paid	4,387	3,739
Settlements	2,363	9,778
Closing defined benefit obligation	(58,541)	(52,552)

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

	2016 £'000	2015 £'000
Opening fair value of plan assets	40,577	52,291
Expected return	1,873	1,967
Actuarial gain/(loss)	1,577	(1,813)
Contributions by employer/participants	—	—
Exchange differences	7,801	2,380
Benefits paid	(4,143)	(3,590)
Settlements	—	(10,658)
Closing fair value of plan assets	47,685	40,577
Net retirement benefit obligation	(10,856)	(11,975)

Notes to the financial statements continued

for the year ended 31 December 2016

17. Retirement benefit obligations continued

Defined benefit schemes continued

(A) US schemes continued

(v) THE FAIR VALUE OF PLAN ASSETS AT THE BALANCE SHEET DATE AND THE EXPECTED RATE OF RETURN ARE ANALYSED AS FOLLOWS:

	2016 £'000	2015 £'000
Equities	27,731	33,663
Bonds	18,997	6,518
Cash	753	396
	47,481	40,577

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 £5,751,000.

(vii) ESTIMATED FUTURE BENEFIT PAYMENTS

	2016 £'000	2015 £'000
In one year	4,392	3,785
In two years	4,427	3,839
In three years	4,505	3,860
In four years	4,641	3,929
In five years	4,349	3,935
In six to ten years	20,435	18,554

(B) French schemes

UNFUNDED FRENCH RETIREMENT OBLIGATION

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

	2016	2015
Rate of increase in salaries	4%	3–4%
Discount rate	1.3%	2.1%
Mortality tables	TPGFOS/TPGHOS	TPGFOS/TPGHOS

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

(i) COMPONENTS OF AMOUNTS RECOGNISED IN THE INCOME STATEMENT

	2016 £'000	2015 £'000 restated
Service costs	23	20
Interest expense on plan obligations	7	5
Total charge to income statement	30	25

(ii) AMOUNTS RECOGNISED IN THE OTHER COMPREHENSIVE INCOME STATEMENT

	2016 £'000	2015 £'000
Liability losses due to changes in assumptions	52	88
Total loss recognised in the other comprehensive income statement	52	88

17. Retirement benefit obligations continued

Defined benefit schemes continued

(B) French schemes continued

(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:

	2016 £'000	2015 £'000
Present value of defined benefit obligations	(321)	(319)
Fair value of scheme assets	—	—
Liability recognised in the balance sheet	(321)	(319)

(iv) MOVEMENTS IN BALANCE SHEET AMOUNTS

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

	2016 £'000	2015 £'000 restated
Opening defined benefit obligation	(319)	(312)
Service cost	(23)	(20)
Actuarial loss	(52)	(6)
Employer contribution	46	—
Interest cost	(7)	—
Foreign exchange difference	34	19
Closing defined benefit obligation	(321)	(319)

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 £16,378.

(C) German schemes

The German pension obligation transferred to Accenture on the sale of Kurt Salmon Germany on 1 November 2016. The components recognised in the income statement up to that date comprised service costs of £346,000 (2015: £314,000), and interest expenses on plan obligations of £232,000 (2015: £201,000).

(D) UK schemes

UK RETIREMENT OBLIGATION

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

	2016	2015
Discount rate	2.6%	3.7%
Inflation	3.5%	3.5%
Mortality table	90% of S2PA	90% of S2PA

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

(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:

	2016 £'000	2015 £'000
Interest expense on plan liabilities	285	100
Interest income on plan assets	(285)	(100)
Total charge to the income statement	—	—

Notes to the financial statements continued

for the year ended 31 December 2016

17. Retirement benefit obligations continued

Defined benefit schemes continued

(D) UK schemes continued

(ii) AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME STATEMENT

Amounts recognised in the other comprehensive income statement:

	2016 £'000	2015 £'000
Liability losses due to change in assumptions	1,100	100
Asset gains arising during the year	(700)	(100)
Total loss recognised in the other comprehensive income statement	(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:

	2016 £'000	2015 £'000
Present value of defined benefit obligations	(5,800)	(4,700)
Fair value of scheme assets	5,400	4,700
Liability recognised in the balance sheet	(400)	—

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

	2016 £'000	2015 £'000
Opening defined benefit obligation	(4,700)	(4,700)
Interest cost	(200)	(100)
Settlements	200	200
Actuarial loss	(1,100)	(100)
Closing defined benefit obligation	(5,800)	(4,700)

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

	2016 £'000	2015 £'000
Opening fair value of plan assets	4,700	4,700
Interest income	(200)	100
Settlements	200	(200)
Actuarial gain	700	100
Closing fair value of plan assets	5,400	4,700

The actual return on scheme assets was £900,000 (2015: £200,000).

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

	2016		2015	
	Expected return %	£'000	Expected return %	£'000
Equities	2.6	5,400	3.7	4,700

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.

18. Long-term provisions

	Group			Company
	Property provision £'000	Pensions 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

	Group			Company
	Property provision £'000	Pensions provision £'000	Total £'000	Property provision £'000
At 1 January 2015	4,840	77	4,917	2,139
Utilised	(1,040)	(46)	(1,086)	(318)
Released	(2,443)	—	(2,443)	(1,629)
Transfer to liabilities held for sale	(368)	—	(368)	—
Foreign exchange movement	200	2	202	—
At 31 December 2015	1,189	33	1,222	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.

19. Share capital

(a) Called up share capital

	2016 £'000	2015 £'000
Issued and fully paid		
511,136,857 (2015: 500,427,971) shares of 1p each	5,111	5,004
Nil (2015: 331,390,961) deferred shares of 24p each	—	79,534
	5,111	84,538

Shares issued in the year were:

	24p shares Number	1p shares Number	Nominal value £'000
At 1 January 2016	331,390,961	500,427,971	84,538
Issue of new shares	—	10,708,883	107
Cancelled shares	(331,390,961)	—	(79,534)
At 31 December 2016	—	511,136,854	5,111

Notes to the financial statements continued

for the year ended 31 December 2016

19. Share capital continued

(a) Called up share capital continued

The Company has two classes of shares: 1p ordinary shares that carry no right to fixed income; and 24p deferred shares that (i) have no entitlement to any dividend, (ii) whose voting rights are restricted to matters in connection with a winding up of the Company or abrogation of rights attaching to deferred shares and (iii) whose entitlement to a return of capital on a winding up of the Company is limited to the amount paid up on the deferred shares up to a maximum of 24p per share but only after any and all ordinary shares then in issue shall have received payment in respect of such amount as is paid up or credited as paid up on those ordinary shares plus the payment in cash or specie of £10m for every 1p paid up or credited as paid up on those ordinary shares.

As part of the reduction of capital 331,390,961 deferred shares were cancelled and the sum arising of £79.5m was credited to the Company's profit and loss account to create distributable reserves.

A net expense of £668,000 (2015: £1,155,000) has been recognised in the year in respect of share awards. The cumulative share compensation reserve at 31 December 2016 is £226,000 (2015: £4,190,000). The weighted average fair value of awards granted in the year was 13.1p (2015: 13.1p).

(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 42.

	Number of shares
Outstanding at 1 January 2016	2,564,000
Lapsed during the year	(2,280,000)
Satisfied during the year	(284,000)
Outstanding at 31 December 2016	—

The performance conditions for conditional awards were either purely TSR based or a combination of share price performance and the achievement of other non-market based financial targets.

The fair value of conditional awards was determined using the stochastic valuation model. Expected volatility was assessed by considering the historic volatility of the Company's share price.

Restricted awards

Share awards to employees other than directors may be made on a restricted basis. These awards are normally only subject to an employment condition and 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 2016	28,928,249	0.0
Granted during the year	44,872,600	0.0
Forfeited during the year	(41,558,760)	0.0
Satisfied during the year	(27,201,701)	0.0
Outstanding at 31 December 2016	5,040,388	0.0
Exercisable at 31 December 2016	1,792	0.0

The weighted average share price at the date of exercise for share awards satisfied during the year was 17.5p. The awards outstanding at 31 December 2016 had a weighted average exercise price of 0.0p and a weighted average remaining contractual life of 23 months.

In 2015, awards were granted on 11 March and 4 November. The aggregate of the estimated fair values of the options granted on those dates is £1,467,820.

20. Other reserves

Group	Statutory reserves of subsidiary undertakings £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Total other reserves £'000
At 1 January 2015	5,878	1,186	(982)	6,082
At 31 December 2015	5,878	1,186	(982)	6,082
Gain on available-for-sale investments	—	—	7	7
Recycling of revaluation reserve	—	—	975	975
At 31 December 2016	5,878	1,186	—	7,064

The Group's brought forward merger reserve of £5,878,000 relates to the premium arising on shares issued as consideration for the acquisition of Parson Consulting where merger relief, under the relevant section of the Companies Act, was applied. As at 31 December 2016 this element of the Group's merger reserve has been transferred in full to retained earnings following the disposal of Kurt Salmon.

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 364,890 shares (2015: 4,245,674). The value of these shares held in reserves is £108,489 (2015: £1,251,097). Shares held in treasury have been fully utilised in 2016 (2015: 2,427,620). The value of these shares held in reserves is £nil (2015: £604,128).

During 2016 the Group's employee benefit trust did not purchase any called up share capital (2015: £nil).

21. 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 £58,080,000 (2015: £58,252,000) dealt with in the financial statements of the Company.

22. Notes to the cash flow statement

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Loss from continuing operations	(39,613)	(5,736)	(58,080)	(57,069)
Profit from discontinued operations	(3,876)	3,944	—	—
Loss from operations	(43,489)	(1,792)	(58,080)	(57,069)
Adjustments for:				
Depreciation of property, plant and equipment	759	861	121	108
Amortisation of intangible assets	1,533	1,793	5	132
Profit on disposal of fixed assets	(3)	(7)	(57)	—
Adjustment for the cost of share awards	668	1,155	742	1,132
Increase/(decrease) in provisions	1,244	(3,143)	—	4,054
Goodwill impairment	30,358	—	—	—
Impairment of investments	—	—	52,697	70,970
Other non-cash items	2,108	159	400	—
Operating cash flows before movements in working capital	(6,822)	(974)	(4,172)	19,327
Increase/(decrease) in receivables	1,725	7,476	(790)	1,078
(Decrease)/increase in payables	(5,607)	1,119	(3,566)	1,151
Cash (used in)/generated by operations	(10,704)	7,621	(8,528)	21,556
Income taxes paid	(3,665)	(6,712)	—	(4)
Net cash (outflow)/inflow from operating activities	(14,369)	909	(8,528)	21,552

Notes to the financial statements continued

for the year ended 31 December 2016

22. Notes to the cash flow statement continued

Cash and cash equivalents

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

Note	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Cash at bank and in hand	38,067	15,478	25,361	169
Cash within assets held for sale	27 —	5,259	—	—
Cash and cash equivalents	38,067	20,737	25,361	169

Included within the 2016 Group cash balance of £38.1m and Company cash balance of £25.4m is £9.6m of cash which is not available for use by the Group. None of the cash held within the continuing Group's balance sheet as at 31 December 2015 was restricted.

23. 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:

	2016		2015	
	Average	Closing	Average	Closing
£1 = US Dollar	1.35	1.23	1.53	1.47
£1 = Euro	1.22	1.17	1.38	1.36

23. Financial instruments continued

Capital structure and treasury policies continued

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

Currency	Note	2016 Floating rate £'000	2015 Floating rate £'000
Financial assets			
Sterling		1,968	524
US Dollar		34,393	3,102
Euro		763	9,605
Other		943	2,247
Cash and cash equivalents	22	38,067	15,478
Sterling		—	276
Euro		—	42
US Dollar		—	393
Investments	12	—	711
Sterling		2,164	3,813
US Dollar		2,671	18,850
Euro		1,158	2,255
Other		1,219	4,197
Trade and other receivables	13	7,212	29,115
Financial liabilities			
Sterling		(7,630)	(11,231)
US Dollar		(4,326)	(18,221)
Euro		(4,013)	(5,259)
Other		(4,193)	(5,164)
Trade and other payables	14	(20,162)	(39,875)

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:

	Note	Carrying amount 2016 £'000	2015 £'000
Investments	12	—	711
Cash and cash equivalents	22	38,067	15,478
		38,067	16,189

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

	Note	Carrying amount 2016 £'000	2015 £'000
Europe		360	1,143
United States		841	12,718
Rest of the World		426	2,454
United Kingdom		1,428	398
	13	3,055	16,713

The Group's most significant customer accounts for 38% of the trade receivables carrying amount at 31 December 2016 (2015: 6%).

Notes to the financial statements continued

for the year ended 31 December 2016

23. Financial instruments continued

Exposure to credit risk – Group continued

	Note	2016 £'000	2015 £'000
Not past due		473	9,886
Past due 0–30 days		1,468	3,422
Past due 31–120 days		1,114	3,405
	13	3,055	16,713

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 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						
Bank loans	16	—	—	—	—	—
Trade and other payables	14	(20,162)	(20,162)	(20,107)	—	(55)
		(20,162)	(20,162)	(20,107)	—	(55)
31 December 2015	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						
Bank loans	16	(68,294)	(68,294)	(68,294)	—	—
Trade and other payables	14	(39,875)	(39,875)	(39,875)	—	—
		(108,169)	(108,169)	(108,169)	—	—

Currency risk – Group

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

	31 December 2016		31 December 2015	
	Euro £'000	US Dollar £'000	Euro £'000	US Dollar £'000
Trade receivables	360	841	1,143	12,718
Bank loans	—	—	(64,902)	(3,392)
Trade payables	(62)	(186)	(141)	(393)
Gross balance sheet exposure	298	655	(63,900)	8,933
Notional current year sales	6,980	14,235	17,115	83,229
Notional current year purchases	(3,692)	(8,195)	(8,238)	(58,025)
Gross and net exposure	3,288	6,040	8,877	25,204

23. Financial instruments continued

Sensitivity analysis – Group

A 10% strengthening of Sterling against the following currencies at 31 December 2016 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 2015.

	Equity £'000	Profit or loss £'000
2016		
US Dollar	(60)	(549)
Euro	(27)	(299)
2015		
US Dollar	(812)	(2,291)
Euro	5,809	(807)

A 10% weakening of Sterling against the following currencies at 31 December 2016 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 2015.

	Equity £'000	Profit or loss £'000
2016		
US Dollar	73	671
Euro	33	365
2015		
US Dollar	993	2,800
Euro	(7,100)	986

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2016 %	2015 %
Fixed rate instruments		
Financial liabilities of less than six months	—	3.3
Financial liabilities of one to two years	—	—

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 2016		31 December 2015	
	Note	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Available-for-sale financial assets	12	—	—	711	711
Cash and cash equivalents	22	38,067	38,067	15,478	15,478
Bank loans	16	—	—	(68,294)	(68,294)
Trade and other payables	14	(20,162)	(20,162)	(39,875)	(39,875)

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

Notes to the financial statements continued

for the year ended 31 December 2016

23. Financial instruments continued

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

Currency	Note	2016 Floating rate £'000	2015 Floating rate £'000
Financial assets			
Sterling		1,903	66
US Dollar		23,440	—
Euro		18	103
Cash and cash equivalents	22	25,361	169
Sterling		2,338	10,329
US Dollar		21,511	32,637
Euro		327	70
Other		—	8
Trade and other receivables	13	24,176	43,044
Financial liabilities			
Sterling		(17,217)	(6,730)
US Dollar		(107,273)	(3,498)
Euro		(9,428)	(10,611)
Other		(28)	(62)
Trade and other payables	14	(133,946)	(20,901)

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	
	2016 £'000	2015 £'000
Cash and cash equivalents	25,361	169

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 2016	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000
Non-derivative financial liabilities			
Bank loans	—	—	—
Trade and other payables	(133,946)	(133,946)	(133,946)
	(133,946)	(133,946)	(133,946)
31 December 2015	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000
Non-derivative financial liabilities			
Bank loans	(26,551)	(26,551)	(26,551)
Trade and other payables	(20,901)	(20,901)	(20,901)
	(47,452)	(47,452)	(47,452)

23. Financial instruments continued

Currency risk – Company

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

	31 December 2016		31 December 2015	
	Euro £'000	US Dollar £'000	Euro £'000	US Dollar £'000
Intercompany receivables	327	21,511	70	32,637
Intercompany payables	(9,428)	(107,273)	(10,611)	(3,498)
Gross balance sheet exposure	(9,101)	(85,762)	(10,541)	29,139

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 2016 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 2015.

	Equity £'000	Profit or loss £'000
2016		
US Dollar	6,315	(6,315)
Euro	705	(705)
2015		
US Dollar	(1,797)	1,797
Euro	707	(707)

A 10% weakening of Sterling against the following currencies at 31 December 2016 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 2015.

	Equity £'000	Profit or loss £'000
2016		
US Dollar	(7,718)	7,718
Euro	(862)	862
2015		
US Dollar	2,196	(2,196)
Euro	(864)	864

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	2016 %	2015 %
Fixed rate instruments		
Financial liabilities less than six months	—	3.1

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

Notes to the financial statements continued

for the year ended 31 December 2016

23. Financial instruments continued

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 2016		31 December 2015	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Cash and cash equivalents	25,361	25,361	169	169
Bank loans	—	—	(26,551)	(26,551)
Trade and other payables	(133,946)	(133,946)	(20,901)	(20,901)

24. Operating lease arrangements

Group	2016 £'000	2015 £'000
Minimum lease payments under operating leases recognised in the income statement for the year	2,227	4,157

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:

Group	2016		2015	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	2,581	47	3,152	89
In the second to fifth years inclusive	3,707	18	6,831	28
After five years	10	—	952	—
	6,298	65	10,935	117

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of four years.

25. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

During the year, the Group had no transactions with related parties (2015: £66,712).

All transactions with pension trustees have been disclosed in note 17.

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.

	2016 £'000	2015 £'000
Short-term employee benefits	1,467	1,410
Post-employment benefits	109	151
Termination benefits	263	1,613
	1,839	3,174

26. Subsidiary undertakings

At 31 December 2016, 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.

		Countries of incorporation/operation
Continuing operations:		
Management Consulting Group Overseas Ltd*	10 Fleet Place, London EC4M 7RB	United Kingdom
MCG Company No 4 Ltd*	10 Fleet Place, London EC4M 7RB	United Kingdom
Proudfoot Trustees Ltd*	10 Fleet Place, London EC4M 7RB	United Kingdom
MCG Company No 1 Ltd*	10 Fleet Place, London EC4M 7RB	United Kingdom
MCG Overseas Holdings Ltd (UK)*	10 Fleet Place, London EC4M 7RB	United Kingdom
Alexander Proudfoot (Europe) Ltd*	10 Fleet Place, London EC4M 7RB	United Kingdom
Alexander Proudfoot Company of Europe Ltd*	10 Fleet Place, London EC4M 7RB	United Kingdom
Alexander Proudfoot Ltd*	10 Fleet Place, London EC4M 7RB	United Kingdom
Kurt Salmon Associates Ltd	10 Fleet Place, London EC4M 7RB	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
Total Process Solutions LLC	11621 Kew Gardens Avenue, Suite 200, Palm Beach Gardens, Florida 33410, 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*	Handelskai 94-96, Top 2304 und 2305, (23rd Floor), Millennium Tower 1200 Wien, Austria	Austria
BSA Conseil Sarl	41 Zone d'activite Am Bann, L-3372 Leudelange, Luxembourg	Luxembourg
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
Kurt Salmon Associates BV	Van der Valk Boumanlaan 13 I, 3446 GE Woerden, The Netherlands	Netherlands
MCG Holdings Netherlands BV	Van der Valk Boumanlaan 13 I, 3446 GE Woerden, The Netherlands	Netherlands
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
MCG Nederland 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

Notes to the financial statements continued

for the year ended 31 December 2016

26. Subsidiary undertakings continued

		Countries of incorporation/operation
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. Cuauhtémoc, 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 to)/owed by subsidiary undertakings

	2016 receivable/(payable) £'000	2015 restated receivable/(payable) £'000
Alexander Proudfoot (Europe) Limited	19,625	186
Alexander Proudfoot Company of Europe Ltd	—	(1,000)
MCG Company No. 1 Limited	(109,075)	(1,646)
MCG Holdings Netherlands BV	(4,266)	(940)
Alexander Proudfoot Japan KK	21	21
Alexander Proudfoot GmbH	—	—
Alexander Proudfoot South Africa (Pty) Ltd	1	—
Alexander Proudfoot Spa	1	—
Alexander Proudfoot – Serviços Empresariais LTDA	388	389
Alexander Proudfoot Company	6	252
Alexander Proudfoot Europe SA	—	—
Management Consulting Group Overseas Limited	—	(427)
MCG Overseas Holdings BV	—	9
MCG Company No. 4 Limited	(14,207)	(23,290)
Alexander Proudfoot Inc	(23)	—
Alexander Proudfoot France SAS	—	—
Alexander Proudfoot SA (Esp)	(27)	—
Alexander Proudfoot Botswana (Pty) Ltd	—	—
MCG Holdings LLC	(38)	—
Kurt Salmon Associates AG	—	(191)
Proudfoot (Malaysia) SDN BHD	—	8
MCG Nederland B.V.	—	9
Amounts owed to	(107,594)	(26,620)

Transactions with subsidiary undertakings

	2016 expense/ (income) £'000	2015 restated expense/ (income) £'000
Alexander Proudfoot (Europe) Limited	44	44
Alexander Proudfoot Company	(1,015)	(1,361)
Alexander Proudfoot Inc.	—	—
Kurt Salmon Associates AG	—	38
Income from transactions with subsidiary undertakings	(971)	(1,279)

27. Discontinued operations and disposal

The French and related operations of Kurt Salmon were reported as discontinued operations in the Group financial statements for the year ended 31 December 2015 and the financial impact of the finalisation of the disposal of that business is reported in the discontinued operations caption in the Group financial statements for the year ended 31 December 2016. The assets and liabilities of the French and related operations of Kurt Salmon were shown in the Group balance sheet at 31 December 2015 as assets and liabilities held for sale of £91.8m and £33.1m respectively. The disposal transaction completed on 7 January 2016 for net cash proceeds of £58.6m.

The healthcare consulting practice formed part of the reported continuing operations of Kurt Salmon in the Group financial statements for the year ended 31 December 2015. The sale of the Kurt Salmon healthcare business was completed on 29 July 2016 for net cash proceeds of £6.2m. The results of its operations and the loss on disposal arising from the impairment of goodwill are reported as discontinued operations in the financial statements for the year ended 31 December 2016. The comparatives for 2015 have been restated on the same basis in relation to discontinued operations.

The Kurt Salmon retail and consumer group operations formed part of the reported continuing operations of Kurt Salmon in the Group financial statements for the year ended 31 December 2015. The sale of the Kurt Salmon retail and consumer group was completed on 1 November for net cash proceeds of £124.1m. The proceeds of disposal exceed the book value of the related net assets and accordingly no impairment losses have been recognised. The results of its operations and the profit on disposal are reported as discontinued operations in the financial statements for the year ended 31 December 2016. The comparatives for 2015 have been restated on the same basis in relation to discontinued operations.

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:

	2016				2015			
	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	91,528	17,423	71,353	180,304
Cost of sales	—	(7,282)	(47,049)	(54,331)	(67,167)	(13,454)	(49,081)	(129,702)
Gross profit	—	1,447	25,494	26,941	24,361	3,969	22,272	50,602
Administrative expenses – underlying	(63)	(2,951)	(18,188)	(21,202)	(19,528)	(3,220)	(16,967)	(39,715)
(Loss)/profit from operations – underlying	(63)	(1,504)	7,306	5,739	4,833	749	5,305	10,887
Administrative expenses – non-underlying	75	(419)	(8,744)	(9,088)	(6,572)	—	197	(6,375)
Amortisation of acquired intangibles	—	—	(527)	(527)	—	—	(568)	(568)
Total administrative expenses	12	(3,370)	(27,459)	(30,817)	(26,100)	(3,220)	(17,338)	(46,658)
Profit/(loss) from operations	12	(1,923)	(1,965)	(3,876)	(1,739)	749	4,934	3,944
Net finance cost	—	—	(188)	(188)	(1,514)	—	(213)	(1,727)
Profit/(loss) before tax	12	(1,923)	(2,153)	(4,064)	(3,253)	749	4,721	2,217
Attributable tax expense	—	—	(210)	(210)	(833)	(175)	(3,008)	(4,016)
(Loss)/profit after tax	12	(1,923)	(2,363)	(4,274)	(4,086)	574	1,713	(1,799)
Profit/(loss) on disposal of discontinued operations	244	(10,661)	53,196	42,779	(53,372)	—	—	(53,372)
Net profit/(loss) attributable to discontinued operations	256	(12,584)	50,833	38,505	(57,458)	574	1,713	(55,171)

The French and related operations of Kurt Salmon non-underlying expenses related to a release of a surplus transaction bonus (2015: £6.6m). Non-underlying expenses attributed to the Kurt Salmon healthcare disposal comprise £0.4m (2015: £nil) relating to the closure of the international business. Kurt Salmon's retail and consumer goods consulting operations non-underlying expenses totalled £8.7m (2015: £0.2m credit) chiefly comprising £2.4m of employee-related costs and charges related to surplus property and onerous contracts of £5.4m.

Notes to the financial statements continued

for the year ended 31 December 2016

27. Discontinued operations and disposal continued

The Kurt Salmon France gain on disposal reflects the taxable gain that crystallised at completion in respect of certain elements of the business sold net of £1.3m of currency translation reserve credits, which are realised in the year the transaction was completed, and a post-closing adjustment of £1.1m, which has no impact on cash flows.

The £10.7m Kurt Salmon healthcare loss on disposal arises as a result of the impairment of goodwill relating to the disposal group. The impairment charge represents the difference between the goodwill and the net assets attributed to the disposal group.

The £53.2m profit on disposal of Kurt Salmon's retail and consumer goods consulting operations includes £21.8m relating to the net proceeds of the disposal exceeding book value of the related net assets including goodwill, and £31.4m relating to the recycling of a currency translation reserve.

The cash flows arising from the disposals have been presented as proceeds from the disposal of subsidiaries in the Group cash flow statement.

In respect of Kurt Salmon France and related operations, no operating cash flows were attributable to 2016 (2015: £1.4m outflow). In 2016 there were no cash flows arising from investing activities (2015: £0.1m outflow). There were no cash flows arising from financing activities in either the current or prior year. Cash balances transferred at completion totalled £5.3m.

During the year the Kurt Salmon healthcare disposal group contributed a net operating cash outflow of £4.1m (2015: £0.2m outflow). There were no cash flows arising from investing or financing activities in either the current or prior year.

The Kurt Salmon retail and consumer goods disposal group contributed a net operating cash inflow of £2.5m (2015: £9.8m), of this £4.5m was held by the disposal group at completion. There were no cash flows arising from investing activities in the current year (2015: £0.4m outflow). There was a cash outflow from financing activities of £0.2m (2015: £nil).

Discontinued net assets disposed

	Kurt Salmon France £'000	Kurt Salmon Healthcare £'000	Kurt Salmon Retail and Consumer Group £'000	Total £'000
Non-current assets	134,604	22,114	106,405	263,123
Current assets	70,976	3,189	190,867	265,032
Total assets disposed	205,580	25,303	297,272	528,155
Non-current liabilities	(2,189)	—	(21,594)	(23,783)
Current liabilities	(137,587)	(1,144)	(167,305)	(306,036)
Total liabilities disposed	(139,776)	(1,144)	(188,899)	(329,819)
Net assets disposed	65,804	24,159	108,373	198,336

Contacts for investors and clients

www.mcgpplc.com

Registered office

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

Company number

1000608

Registrar

Capita Asset Services

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

Company Secretary

Charles Ansley

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

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

Investor relations

The Group welcomes contact with its shareholders.

Enquiries should be directed to:

Nick Stagg, Chief Executive

Nick.Stagg@mcgpplc.com

London office: +44 20 7710 5000

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

Financial calendar

Annual General Meeting: 30 May 2017

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.mcgpplc.com or through your broker. The share symbol is MMC.L.

Shareholder services

Online services are available to private shareholders. To use these facilities visit www.capitashareportal.com.

"Account Enquiry" allows shareholders to access their shareholding on the register including transaction history, dividend payment history and up to date share valuation.

"Amendment of Standing Data" allows shareholders to change their registered postal address and add, change or delete dividend mandate instructions. Certain forms can be downloaded, such as dividend mandate forms and stock transfer forms.

Should you have any queries please contact Capita 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 shareholderenquiries@capita.co.uk.

Share dealings

A quick and easy share dealing service is provided by Capita Share Dealing Services for UK registered certificated holders to either buy or sell shares. For further information on this service, or to buy and sell shares, please contact www.capitadeal.com (online dealing) or 0371 664 0445 (telephone dealing).

Company advisers

Stockbrokers

Peel Hunt LLP

Moor House
120 London Wall
London EC2Y 5ET
United Kingdom

Financial advisers

Rothschild

New Court
St Swithins Lane
London EC4N 8AL
United Kingdom

Auditor

Deloitte LLP

2 New Street Square
London EC4A 3BZ
United Kingdom

Financial PR advisers

FTI Consulting

Holborn Gate
26 Southampton Buildings
London WC2A 1PB
United Kingdom

Commercial bankers

HSBC Bank Plc

8 Canada Square
London E14 5HQ
United Kingdom

Legal advisers

Baker & McKenzie LLP

100 New Bridge Street
London EC4V 6JA
United Kingdom



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