Management Consulting Group PLC

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MCG Announces Record Underlying Results

Revenue from continuing operations up 60% and underlying profit up 33%

Management Consulting Group PLC ("MCG" or "the Group"), the international management consultancy group, today announces its results for the year ended 31 December 2008.

Key points

- Revenue from continuing operations up 60% on last year to £343.1m (2007: £214.5m)
- Underlying* profit from operations up 33% to £34.7m (2007: £26.1m). Loss from operations £15.9m (2007: £21.9m profit)
- Underlying EPS up 5% to 6.2p (2007: 5.9p). Basic EPS -6.4p (2007: 4.7p)
- Cash generated by operations up 22% to £41.2m (2007: £33.8m)
- Net debt at year end up 2% to £62.1m (2007: £60.9m) but down 31% to £42.3m at constant exchange rates
- Total dividend up 13% to 1.3p per share (2007: 1.15p per share)
- Business restructured during 2008 with significant cost reductions
- Current order book and revenue currently at similar levels to this stage last year

*Throughout this statement the term 'underlying' is defined as 'before non-recurring items and amortisation and impairment of acquired intangibles for continuing businesses'.

Alan Barber, Executive Chairman:

"2008 was a challenging but ultimately very successful year for MCG. Record underlying results and strong cash generation were achieved despite the gathering economic recession and the need to carry out a restructuring of the Group. By the end of the year we had created a more balanced and broad-based business that is far less reliant on any one industrial sector or geography for its success."

For further information please contact:

Management Consulting Group PLC

Alan Barber	Executive Chairman	020 7710 5000
Craig Smith	Group Finance Director	020 7710 5000

Financial Dynamics

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An analyst briefing will be held at the offices of Financial Dynamics at Holborn Gate, 26 Southampton Buildings, London WC2A 1PB on Monday 9 March at 9.30 am.

Notes to Editors

Management Consulting Group PLC (MMC.L) is an umbrella organisation for a diverse range of consulting and professional services offerings.

MCG operates through three divisions: Ineum Consulting, Kurt Salmon Associates, and Proudfoot Consulting. Ineum Consulting provides consulting services with industry expertise. Kurt Salmon Associates provides retail and healthcare consulting. Proudfoot Consulting provides operational improvement consulting. The Group operates worldwide. For further information, visit www.mcgplc.com.

Forward-looking statements

This preliminary announcement contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of Management Consulting Group PLC. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results of 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 9 March 2009. 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 announcement should be construed as a profit forecast.

Chairman's Statement

Overview

2008 was a challenging but ultimately very successful year for MCG. Record underlying results and strong cash generation were achieved despite the gathering economic recession and the need to carry out a painful restructuring of the Group. By the end of the year we had created a more balanced and broad-based business that is far less reliant on any one industrial sector or geography for its success.

The business is now structured as three resilient and client-focused practices: Ineum Consulting, Kurt Salmon Associates and Proudfoot. These continue to enjoy Group synergies while benefiting from independent management driving their growth. Although our share price has fallen by 36% during 2008 this compares favourably with a significant number of other small-cap companies. I hope that our share price during 2009 will reflect the broad base of our profit stream, the strong cash generation capability of our business and the benefits of the cost reduction exercise completed late in 2008.

Proudfoot and Ineum Consulting, in particular, performed very well in 2008. Proudfoot recorded its highest revenue and profit figures since the early 1990s and Ineum Consulting continued its very successful growth, reaching almost double its revenue in 2006, the year of its acquisition. Kurt Salmon Associates experienced more difficult trading towards the end of the year, particularly due to the slowdown in its core retail market. However it responded well by actively managing its cost base in advance of the downturn and is in good shape to face its future challenges.

The Group generates well over 90% of its business outside the UK and so the current weakness of Sterling is beneficial to its reported revenue and profits. Unless Sterling strengthens significantly against major currencies, this trend will continue during 2009.

The Group again generated cash strongly during 2008, with excellent working capital management across the divisions. Although the reported year-end net debt figure is inflated by the weakness of Sterling and a cash outflow relating to over £10m of non-recurring costs, at constant exchange rates debt decreased by £18.6m during the year. We remained comfortably within our debt facility and covenant limits throughout the year.

Shareholder returns remain uppermost in our priorities and, having restructured the Group during 2008, we regularly review and consider all the strategic options open to us as we look to maximise these returns.

Summary of trading performance

MCG reached record levels of revenue and underlying profit in 2008. Total revenue for the year ended 31 December 2008 from continuing businesses was up 60.0% to £343.1m (2007: £214.5m). The Group benefited from full year trading of the two 2007 acquisitions and the strength of the Euro and the US Dollar, the Group's major trading currencies. Underlying profit from operations was up 33.3% to £34.7m (2007: £26.1m). The weakness of Sterling compared to the Euro and the US Dollar had a positive effect on the Group's results. If translated at 2007 exchange rates revenue would have been £34.4m lower and underlying profit from operations £2.7m lower.

The performance of the Group's consultancies is set out below:

	Year ended 31 Dec 2008	Year ended 31 Dec 2007
	£'000	£'000
Revenue		
Ineum Consulting including Parson Consulting*	**153,109**	123,809
Kurt Salmon Associates	**82,971**	17,078
Proudfoot Consulting	**106,964**	73,603
Total revenue	**343,044**	214,490
Operating profit		
Ineum Consulting including Parson Consulting	**9,938**	11,188
Kurt Salmon Associates	**6,743**	2,625
Proudfoot Consulting	**18,055**	12,255
Underlying operating profit	**34,736**	26,068

*Note that excluding the US, UK and Australian results of Parson Consulting, Ineum Consulting would have recorded revenue of £131.0m (2007: £101.9m) and operating profit of £13.9m (2007: £13.1m)

Non-recurring costs of £21.5m (2007: £2.5m) were incurred in respect of the many restructuring programmes undertaken during 2008. There was a charge of £26.7m (2007: zero) relating to the impairment of the goodwill in respect of Parson Consulting. Consequently there was an overall loss from operations of £15.9m (2007: £21.9m profit). The full year effect of the additional debt, taken on during 2007 to finance acquisitions, has increased interest expense, net of investment income, to £4.2m (2007: £2.1m). The loss before tax was £20.0m (£19.8m profit).

Following an underlying effective tax rate of 33% (2007: 31%), the underlying earnings per share from continuing operations were up 4.9% to 6.2p (2007: 5.9p). Basic earnings per share were –6.4p (2007: 4.7p). An interim dividend of 0.40p per share (2007: 0.33p per share) was paid on 21 October 2008. The directors recommend a final dividend of 0.90p per share (2007: 0.82p per share) to be paid on 2 July 2009 to ordinary shareholders on the register at 5 June 2009.

Cash generation was strong throughout the year and net debt at year end was £62.1m (2007: £60.9m). The vast majority of the Group's debt is in Euros and US Dollars and so was adversely affected by exchange movements during the year. At 2007 exchange rates, year-end net debt would have been £42.3m.

Group structure and strategy

Ineum Consulting and Kurt Salmon Associates are industry-led consultancies offering strategic and business management consultancy services. Proudfoot is an operational improvement business. To maintain the appropriate focus on these three practices I have revamped the organisational structure of the Group so that each reports directly to me. As a consequence their results will be shown separately in this report. During 2008 Parson Consulting and Viaduct Consulting were integrated into Ineum Consulting and their names discontinued. In December 2008 the stake in Salzer Consulting was sold back to the original owner.

In parallel to these organisational changes a strategic review was undertaken to develop a blueprint for the future direction of the Group. This too was completed just as the credit squeeze began to take hold and the global economy headed towards recession. Growth opportunities for the Group were identified during the process and the Group intends to invest cautiously in the resource required to exploit these as external economic conditions allow. Likewise many cost saving opportunities became evident and the Group has embraced these quickly and expediently in order to refocus the business to its three key brands and its appropriate geographical footprint. Non-client facing costs, particularly central costs, have been minimised during 2008. Around a dozen properties have been withdrawn from during the year and a further five downsized. The Group has restructured its old Parson Consulting and Viaduct Consulting businesses, integrating these into Ineum Consulting, sold its stake in Salzer Consulting and downsized its operations in China to reduce substantially the losses in the region.

The strategy of MCG remains to maximise shareholder value through organic growth and selected small acquisitions whilst reducing the net debt of the business, with a view to becoming debt free before the expiry of the current committed banking facility in 2012.

People

On 19 February 2008, Rolf Stomberg, Chairman and Kevin Parry, Chief Executive, stood down from the Board. On the same day I was appointed Executive Chairman and continue to have overall executive responsibility for the Group. On 19 March 2008, Luiz Carvalho, Miguel de Fontenay and Mark Wietecha joined the Board as Executive Directors. On 23 April 2008, Mark Wietecha was appointed Deputy Chairman and Luiz Carvalho and Miguel de Fontenay appointed Managing Directors of MCG. On 19 February 2008, Craig Smith, Finance Director, announced his resignation but on 23 April 2008 agreed to withdraw this and continue in that role. On 8 October 2008, Julian Waldron was appointed to the Board as Non-executive Director. At the 2008 Annual General Meeting Mark Wietecha will relinquish his position as Deputy Chairman and become a Managing Director of MCG with executive responsibility for Kurt Salmon Associates. The Board currently has five Non-executive Directors and is seeking to appoint one more to reflect the geographical diversity of MCG. I would like to take this opportunity to thank all the Directors who worked with MCG during 2008, and indeed all the employees, for their sterling efforts during this turbulent year in the Group's history.

Prospects

Life is as challenging for MCG as it is for many other businesses in today's economic climate. However, during 2008 we have created a balanced portfolio of practices and maintained a secure financial position and good cash generation while continuing to develop a team of highly professional partners and staff. Currently our order book and revenue are at a similar level to last year and we remain very focused on meeting the significant economic challenge of today's trading environment.

Alan Barber
Executive Chairman
9 March 2009

	Note	2008 £'000	2007 £'000
Continuing operations			Restated
Revenue		**343,055**	214,490
Cost of sales		**(188,665)**	(106,287)
Gross profit		**154,390**	108,203
Administrative expenses – underlying		**(119,654)**	(82,165)
Profit from operations before non-recurring expenses and amortisation of acquired intangibles		**34,736**	26,068
Administrative expenses – non-recurring impairment		**(26,695)**	—
Administrative expenses – non-recurring other		**(21,502)**	(2,480)
(Loss) / profit from operations before amortisation of acquired intangibles		**(13,461)**	23,588
Administrative expenses – amortisation of acquired intangibles		**(2,390)**	(1,665)
Total administrative expenses		**(170,241)**	(86,280)
(Loss) / profit from operations		**(15,851)**	21,923
Investment income		**1,232**	1,104
Finance costs		**(5,394)**	(3,194)
(Loss) / profit before tax		**(20,013)**	19,833
Tax expense		**(907)**	(6,459)
(Loss) / profit for the year from continuing operations		**(20,920)**	13,374
Discontinued operations		**(1,099)**	(193)
(Loss) / profit for the year attributable to equity holders of the parent		**(22,019)**	13,181
Earnings per share – pence			
From continuing operations			
Basic	8	**(6.4)**	4.7
Diluted	8	**(6.4)**	4.7
Basic – excluding non-recurring items and amortisation of acquired intangibles	8	**6.2**	5.9
From (loss) / profit for the year attributable to equity holders of the parent			
Basic	8	**(6.8)**	4.7
Diluted	8	**(6.8)**	4.7

	2008 £'000	2007 £'000
Exchange differences on translation of foreign operations	**51,195**	9,057
Actuarial (loss) / gains on defined benefit pension obligations and medical schemes	**(12,674)**	734
Loss on available for sale investments	**(1,652)**	(26)
Tax on items taken directly to equity	**2,489**	167
Net income recognised directly in equity	**39,358**	9,932
(Loss) / profit for the year	**(22,019)**	13,181
Total recognised income and expense for the period attributable to equity holders of the parent	**17,339**	23,113

Group balance sheet

	Note	2008 £'000	2007 £'000
Non-current assets			Restated
Intangible assets		**307,992**	262,800
Property, plant and equipment		**5,057**	3,572
Financial assets		**7,076**	6,650
Deferred tax assets		**21,899**	13,175
Total non-current assets		**342,024**	286,197
Current assets			
Trade and other receivables		**90,265**	74,846
Cash and cash equivalents		**35,761**	20,895
Total current assets		**126,026**	95,741
Total assets		**468,050**	381,938
Current liabilities			
Financial liabilities		**(31,780)**	(29,205)
Trade and other payables		**(145,638)**	(106,561)
Current tax liabilities		**(14,971)**	(7,597)
Total current liabilities		**(192,389)**	(143,363)
Net current liabilities		**(66,363)**	(47,622)
Non-current liabilities			
Financial liabilities		**(66,112)**	(52,619)
Retirement benefit obligation		**(20,927)**	(7,852)
Non-current tax liabilities		**(8,992)**	(11,627)
Long term provisions		**(5,235)**	(7,465)
Total non-current liabilities		**(101,266)**	(79,563)
Total liabilities		**(293,655)**	(222,926)
Net assets		**174,395**	159,012
Equity			
Share capital		**82,817**	82,225
Share premium account		**48,981**	48,894
Merger reserve		**32,513**	32,513
Shares to be issued		**—**	—
Share compensation reserve		**2,720**	2,952
Own shares held by employee share trust		**(1,296)**	(1,296)
Translation reserve		**55,091**	3,896
Other reserves		**5,386**	7,038
Retained earnings		**(51,817)**	(17,210)
Total equity attributable to equity holders of the parent	10	**174,395**	159,012

Consolidated cash flow statement

	Note	2008 £'000	2007 £'000
Net cash inflow from operating activities	9	**40,688**	31,197
Investing activities			
Interest received		**701**	784
Acquisitions of subsidiaries, net of cash and overdrafts acquired		**—**	(39,895)
Purchases of property, plant and equipment		**(2,469)**	(2,111)
Purchases of intangible assets		**(784)**	(994)
Disposal of fixed assets		**57**	—
Purchase of financial assets		**(606)**	(1,152)
Disposal of financial assets		**1,359**	—
Net cash used in investing activities		**(1,742)**	(43,368)
Financing activities			
Interest paid		**(4,591)**	(3,420)
Dividends paid		**(3,959)**	(3,561)
Proceeds from borrowings		**1,695**	45,069
Refinancing of acquired borrowings by term debt		**—**	(2,587)
Repayment of borrowings		**(8,833)**	(12,657)
Proceeds from issue of shares		**679**	13
Disposal of subsidiary		**(196)**	—
Net cash (used in) / raised by financing activities		**(15,205)**	22,857
Net increase in cash and cash equivalents		**23,741**	10,686
Cash and cash equivalents at beginning of year		**20,895**	10,278
Effect of foreign exchange rate changes		**(8,875)**	(69)
Cash and cash equivalents at end of year		**35,761**	20,895

Notes

1. Basis of preparation

The financial information included in this statement does not constitute the company's statutory accounts for the years ended 31 December 2008 or 2007, but is derived from those accounts. Statutory accounts for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their reports and did not contain statements under S237(2) or (3) Companies Act 1985.

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

The Group’s Annual Report and Accounts will be sent to shareholders on 18 March 2009 and will be available at the Company’s registered office at 10 Fleet Place, London, EC4M 7RB, United Kingdom and on our website: www.mcgplc.com.

The Annual General Meeting will be held at 2pm on 21 April 2009 at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London, EC4V 6JA.

2. Accounting policies

The financial information has been prepared in accordance with IFRSs. These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (as at 31 December 2008). The policies have been consistently applied to all the periods presented.

Full details of the Group’s accounting polices can be found in the 2007 Annual Report in note 2 which is available on our website: www.mcgplc.com.

3. Going concern

The directors have acknowledged the latest guidance on going concern. Whilst the current economic environment has caused general uncertainty, the Group has committed borrowing facilities until September 2012, together with a balanced and broad-based business which is not reliant on any one industrial sector or geography. There is significant working capital headroom and strong covenant compliance. As a consequence, the directors believe that that Group is well placed to manage its business risks successfully and as such the Group’s financial statements have been prepared on a going concern basis.

Notes (continued)

4. Segmental information

The Group has one business reporting segment: management consultancy consisting of the three consultancies: Ineum Consulting, Kurt Salmon Associates, Proudfoot Consulting.

Primary reporting format – geographic segments

The Group operates in three geographic areas: the Americas, Europe and the Rest of the World.

The Group reports segment information on the basis of geographic area as follows:

(a) *Income statement*

Year ended 31 December 2008	Americas £'000	Europe £'000	Rest of World £'000	Group £'000
Continuing operations				
Revenue				
External sales	**126,293**	**183,702**	**33,060**	**343,055**
Profit from operations before acquisition integration costs, depreciation and amortisation of acquired intangibles	**20,858**	**11,624**	**4,742**	**37,224**
Administrative expenses – non-recurring impairment	**(26,695)**	**—**	**—**	**(26,695)**
Administrative expenses – non-recurring other	**(8,006)**	**(10,216)**	**(3,280)**	**(21,502)**
Amortisation of acquired intangibles	**(970)**	**(1,420)**	**—**	**(2,390)**
Depreciation and other amortisation	**(756)**	**(1,583)**	**(149)**	**(2,488)**
(Loss) / profit from operations	**(15,569)**	**(1,595)**	**1,313**	**(15,851)**
Finance cost (net)				**(4,162)**
Loss before tax				**(20,013)**
Income tax expense				**(907)**
Loss for the year from continuing operations				**(20,920)**
Discontinued operations				
External sales			**1,988**	**1,988**
Loss from discontinued operations			**(272)**	**(272)**
Finance cost			**(63)**	**(63)**
Loss before tax			**(335)**	**(335)**
Tax			**(38)**	**(38)**
Loss after tax from discontinued operations			**(373)**	**(373)**
Loss on disposal			**(726)**	**(726)**
Loss for the year from discontinued operations				**(1,099)**
Loss for the year attributable to equity holders of the parent				**(22,019)**

Notes (continued)

4. Segmental information (continued)

(b) Net assets

At 31 December 2008	Americas £'000	Europe £'000	Rest of World £'000	Group £'000
Assets				
Intangibles, including goodwill	**119,638**	**188,354**	**—**	**307,992**
Other segment assets	**31,402**	**72,550**	**1,389**	**105,341**
	151,040	**260,904**	**1,389**	**413,333**
Unallocated corporate assets				**54,646**
Consolidated total assets				**467,979**
Liabilities				
Segment liabilities	**(73,791)**	**(81,449)**	**(6,541)**	**(161,781)**
Unallocated corporate liabilities				**(131,803)**
Consolidated total liabilities				**(293,584)**
Net assets				**174,395**

(c) Capital additions, depreciation and amortisation

Year ended 31 December 2008	Americas £'000	Europe £'000	Rest of World £'000	Group £'000
Capital additions	**654**	**719**	**58**	**1,431**
Unallocated corporate additions	**—**	**—**	**—**	**1,192**
Total capital additions	**654**	**719**	**58**	**2,623**
Depreciation and amortisation	**1,725**	**3,003**	**140**	**4,868**

Notes (continued)

4. Segmental information (continued)

(d) *Income statement*

Year ended 31 December 2007	Americas £'000	Europe £'000	Rest of World £'000	Group £'000
Continuing operations				
Revenue				
External sales	60,815	139,904	13,771	214,490
Profit from operations before non-recurring items, depreciation and amortisation of acquired intangibles	9,633	18,710	(432)	27,911
Non-recurring items	(799)	(1,681)	—	(2,480)
Amortisation of acquired intangibles	(441)	(1,224)	—	(1,665)
Depreciation and other amortisation	(447)	(1,332)	(64)	(1,843)
Profit from operations	7,946	14,473	(496)	21,923
Finance cost (net)				(2,090)
Profit before tax				19,833
Income tax expense				(6,459)
Profit for the year from continuing operations				13,374
Discontinued operations				
External sales			1,297	1,297
Loss from operations before non-recurring items, depreciation and amortisation of acquired intangibles			(127)	(127)
Depreciation and other amortisation			(22)	(22)
Loss from discontinued operations			(149)	(149)
Finance cost			(29)	(29)
Profit before tax			(178)	(178)
Tax			(15)	(15)
Loss after tax from discontinued operations			(193)	(193)
Profit for the year attributable to equity holders of the parent				13,181

Notes (continued)

4. Segmental information (continued)

(e) ***Net assets***

At 31 December 2007	Americas £'000	Europe £'000	Rest of World £'000	Group £'000
Assets				
Intangibles, including goodwill	155,618	106,507	675	262,800
Other segment assets	33,253	55,148	7,951	96,352
	194,984	161,655	2,513	359,152
Unallocated corporate assets				22,786
Consolidated total assets				381,938
Liabilities				
Segment liabilities	(57,717)	(56,508)	(6,618)	(120,843)
Unallocated corporate liabilities				(102,083)
Consolidated total liabilities				(222,926)
Net assets				159,012

(f) ***Capital additions, depreciation and amortisation***

Year ended 31 December 2007	Americas £'000	Europe £'000	Rest of World £'000	Group £'000
Acquisitions	11,769	3,728	—	15,497
Capital additions	1,158	1,354	420	2,932
Unallocated corporate additions	—	—	—	1,325
Total capital additions	12,927	5,082	420	19,754
Depreciation and amortisation	889	2,555	86	3,530

Notes (continued)

5. Dividends

	2007	2006
	£'000	£'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2007 of 0.82p (2006: 1.0p)	**2,657**	2,667
Interim dividend for the year ended 31 December 2008 of 0.40p per share(2007: 0.33p)	**1,302**	894
	3,959	3,561

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 2008 (in respect of the year ended 31 December 2007 was £51,000 (2007: £56,000).

The directors recommend the payment of a final dividend in respect of 2008 of 0.90 pence per share to be paid on 2 July 2009 to ordinary shareholders on the register on 5 June 2009.

6. Staff numbers and costs

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

	2008	2007
Sales and marketing	**148**	360
Consultants	**1,685**	1,066
Support staff	**352**	272
	2,185	1,698

As at 31 December 2008, the Group employed 2,231 (2007: 2,176) people.

The aggregate payroll costs of these persons were as follows:

	2008	2007
	£'000	£'000
Wages and salaries	**166,209**	97,191
Social security costs	**35,463**	24,843
Other pension costs	**4,363**	1,798
	206,035	123,832

Wages and salaries include £1,324,000 (2007: £779,000) relating to share options recognised as an expense under IFRS 2.

Notes (continued)

7. Finance income/(costs)

	2008	2007
	£'000	£'000
Interest receivable on bank deposits and similar income	**779**	784
Interest payable on bank overdrafts and loans and similar charges	**(5,010)**	(3,171)
Net finance income on retirement benefit plans	**69**	268
	(4,162)	(2,119)

8. Tax

	2008	2007
	£'000	£'000
Tax in respect of current year		
UK corporation tax	**200**	20
Foreign tax	**11,970**	5,223
Deferred tax – acquired intangible assets	**(836)**	(155)
Deferred tax – temporary differences and other	**2,165**	(718)
Deferred tax – tax losses	**(361)**	1,561
Deferred tax – US goodwill	**—**	875
Total deferred tax	**968**	1,563
Total current year tax	**13,138**	6,806
Prior year taxation	**(2,883)**	(332)
Total tax expense on underlying profit	**10,255**	6,474
Tax in respect of non-recurring items		
Foreign tax	**(3,245)**	—
Deferred tax – US goodwill	**(4,702)**	—
Deferred tax – temporary differences and other	**(1,401)**	—
Total tax expense	**907**	6,474

UK corporation tax is calculated at 28.5% (2006: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

Notes (continued)

9. Earnings per share

From continuing operations

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

Earnings	2008 £'000	2007 £'000
Earnings for the purposes of basic earnings per share and diluted earnings per share being net profit attributable to equity holders of the parent	**(22,019)**	13,181
Non-recurring items – impairment	**26,695**	—
Non-recurring items – other	**21,502**	2,480
Non-recurring items – tax	**(9,347)**	(800)
Discontinued operations	**1,099**	193
Amortisation of acquired intangibles	**2,390**	1,665
Earnings for the purpose of basic earnings per share excluding non-recurring items and amortisation of acquired intangibles	**20,320**	16,719

Number of shares	Number (million)	Number (million)
Weighted average number of ordinary shares for the purposes of basic earnings per share, and basic excluding non-recurring items and amortisation of acquired intangibles	**326.0**	281.5
Effect of dilutive potential ordinary shares:		
– share options	**-**	0.7
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**326.0**	282.2

	P	P
Basic (loss) / earnings per share – continuing operations	**(6.4)**	4.7
Diluted (loss) / earnings per share – continuing operations	**(6.4)**	4.7
Basic earnings per share – excluding non-recurring items and amortisation of acquired intangibles	**6.2**	5.9
Basic earnings per share from (loss) / profit for the year attributable to equity holders of the parent	**(6.8)**	4.7
Diluted earnings per share from (loss) / profit for the year attributable to equity holders of the parent	**(6.8)**	4.7

The average share price for the year ended 31 December 2008 was 31.6p (2007: 45.2p).

Notes (continued)

10. Notes to the cash flow statement

	Group	
	2008	2007
	£'000	£'000
(Loss) / profit from continuing operations	**(15,851)**	21,923
(Loss) / profit from discontinued operations	**—**	(149)
(Loss) / profit from operations, as reported	**(15,851)**	21,774
Adjustments for:		
Depreciation of property, plant and equipment	**1,501**	1,259
Amortisation of intangible assets	**3,367**	2,271
Impairment charge	**26,695**	—
Loss on disposal of plant and equipment	**—**	7
Adjustment for pension funding	**(919)**	(692)
Adjustment for share options charge	**1,324**	779
Increase / (decrease) in provisions	**(2,295)**	(540)
Operating cash flows before movements in working capital	**13,822**	24,858
(Increase) / decrease in receivables	**(11,691)**	2,521
Increase in payables	**39,067**	6,450
Cash generated by operations	**41,198**	33,829
Income taxes paid	**(510)**	(2,632)
Net cash inflow / (outflow) from operating activities	**40,688**	31,197

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Notes (continued)

11. Group statement of changes in equity

	Group	
	2008	2007
	£'000	£'000
At 1 January	**159,012**	112,189
Dividends paid	**(3,959)**	(3,561)
(Loss) / profit for the period	**(22,019)**	13,181
Issue of share capital		
On acquisition of subsidiary undertakings	**—**	25,155
Exercise of share options	**679**	13
Share options	**1,324**	2,103
Other recognised income and expense	**41,010**	9,958
Revaluation reserve	**(1,652)**	(26)
At 31 December	**174,395**	159,012