Management Consulting Group PLC

contents

corporate profile

Management Consulting Group PLC

Group consultancies

The Group currently provides two consulting offerings:

- Proudfoot Consulting
- Parson Consulting

Profiles of the two consultancies are set out on the following pages.

Heritage

Proudfoot Consulting was founded in 1946 in Chicago. It grew into an international partnership, which in 1987 listed on the London Stock Exchange. To accelerate Proudfoot's growth in Europe it acquired IMR in 2000 and Czipin in 2001 and merged those businesses into the European Proudfoot business.

Parson Consulting was acquired in 2002. It was based in the United States and has been expanded into Europe and the Pacific region.

Management's objective

To deliver substantial shareholder value over the medium term.

Strategy

The Group will:

- operate and continually invest in its consultancies to ensure they deliver profitable, sustainable revenue growth that is ahead of the market rates of growth for the consultancy sector;
- acquire consultancies that either diversify the range of consulting offerings available to clients or deepen the coverage of existing Group offerings. Each consulting offering will go to market through its own brand and be operated separately by its own dedicated management team; and
- communicate clearly, regularly and fairly with all its stakeholders.

Participation

It is the medium term aim that 20% of the equity should be held by Group employees.

Management Consulting Group PLC will, over time, become an umbrella organisation for a diverse range of consulting and professional service offerings.

consultancy profile

Our uniqueness

Proudfoot Consulting implements sustainable operational improvements at no net annualised cost to its clients. We operate globally with offices in five continents.

Our focus

Our consulting offering combines three core disciplines:

- **Process improvements:** The thorough review and redesign of existing business processes for sales, output, direct costs, overheads or capital expenditure to improve measurably their effectiveness;
- **People solutions:** Working with, educating, training and communicating with all relevant people to provide solutions that align thinking and behaviour in support of the redesigned processes and to facilitate positive change; and
- **Management operating systems:** The development of coherent impactable indicators to precipitate corrective managerial actions.

We call the successful combination of these three disciplines an installation. We project manage the installation using the proprietary technique of Co-Venture® which, through partnership with our clients, accelerates the pace of change from the consulting intervention.

How we work with clients

First, we identify the opportunities for improvements in profitability through discussions with senior management. **Second**, we analyse the identified opportunities using an extensive suite of proprietary techniques to quantify the extent of the benefits obtainable. **Finally**, we undertake an installation to realise the identified benefits.

Satisfaction

We ensure continuing satisfaction by weekly meetings with our clients which include approval of work performed and fees incurred. Any issues are therefore promptly addressed and overcome. To demonstrate our commitment, clients have the right to terminate the engagement at two weeks' notice without penalty. 90% of our clients are prepared to act as references.

(Based on independent research by Franklin Consulting Works, an outside research firm)

Representative clients

Clients span all industries and all geographies. Representative clients include Anglo American, Avaya, BP, National Australia Bank, Newmont Mining, Nissan, PSA Peugeot-Citroën and Société Générale.

Our people

Our analysts are highly trained in identifying clients' issues and quantifying the impact of those issues. Our consultants are typically former managers with practical experience who have become consultants in their 30s. We have people with backgrounds in most industries.

people ▪ productivity ▪ profitability

proudfoot consulting™

What we are not	Strategy consultants, IT installers, HR policy consultants, outsourcers. We know what we can do well and limit our practice to our expertise.
How we charge	Initial discussions are free and without obligation. Business reviews that analyse improvement potential are charged on a time basis. The installation is charged on a fixed-fee basis ensuring that the annualised benefit to the client is a multiple of our fees.
Our challenges to clients	If you can say that you are content with your level of profitability and productivity, you do not want us. If you believe that you can improve, you should be talking to us. With our fee structure, what have you got to lose?

Engagement snapshots

- Improved planning control and visibility throughout the supply chain, restored stability to the inventory and improved customer service levels, reduced obsolete stock and raw material inventory by 40%.
- Reduced the development time for prototypes by 50% from 36 to 18 months, enabling a component supplier to ensure competitive advantage.
- Worked with a major vehicle manufacturer, rolled out best practice to all teams and delivered a 7% rise in weekly output, equivalent to 100,000 extra cars per year.
- Working in a highly unionised environment, we succeeded in uniting all parts of the company behind a project to maximise productivity in operations, streamline the organisational structure and optimise the purchasing system, reducing costs by 13%.
- In a parts manufacturer, we implemented a streamlined product process that increased throughput and delivered savings of 33%.
- Partnering with a telecommunications manufacturer, we delivered a 67% increase in output, 50% increase in productivity, improved product availability and reduced customer lead-time by 30%.

Regional head offices

Africa	+27 11 706 8080
Americas	+1 212 755 2550
China	+852 3102 2938
Europe	+44 20 7710 5100
Pacific	+61 2 9957 5027

www.proudfootconsulting.com

consultancy profile

no-conflict financial management

Our uniqueness

Parson Consulting is a financial management consultancy. To meet today's standards of corporate governance we are not involved in auditing or reselling of software and therefore are free of any conflicts of interest. We provide services from 14 offices across the United States, Europe and Asia Pacific.

Our focus

Parson Consulting assists Chief Financial Officers to provide financial information and insight to shareholders through strategic finance, accounting and finance operations, governance and risk management, and corporate transactions support.

We enhance clients' management decision making through business process improvements, business systems optimisation, and project management.

How we work with clients

We systematically implement agreed upon, practical solutions using the right combination of functional experience, process design, and systems applications expertise. Our flexibility allows us to enter client projects at any stage and deliver client-customised solutions.

We always seek to maximise current resources and technology to increase clients' return on investment.

We provide services that auditors are prohibited or discouraged from supplying under the Sarbanes-Oxley Act and other similar regulations and guidance, often with preferred supplier status.

Satisfaction

We have a very high client satisfaction record.

Our client satisfaction level of over 90% is more than twice the industry standard.
(Based on independent research conducted by Gantz Wiley, an outside research firm)

Representative clients

We have worked with over 1,000 clients, including many FTSE 350 clients and over one-third of the Fortune 500. Among them are: Ameriquest Mortgage, Avis, Barclays, BP, BOC Group, Citigroup, Ecolab, Federal Home Loan Bank, Ford, General Mills, Kingfisher, Lawson, Shell, Tomkins, Trustmark and Warner Bros.

Our people

Our people typically have worked in financial management and operational roles for over ten years. They are full time consultants.

What we are not

External or internal auditors, policy and strategy consultants, tax advisers, merchant or investment bankers, software or hardware on-sellers, software coders/programmers, recruitment consultants. We know what we can do well and limit our practice to our expertise.

parson consulting™

How we charge

Initial discussions are free and without obligation. We generally charge weekly to ensure clients have a clear understanding of a project's progress. Fixed fees can be agreed for tightly defined projects.

Our challenges to clients

Does your finance function produce accurate, business relevant information on a timely basis as efficiently as possible or is there room for improvement? If you believe you can improve, we can help you.

Are your existing auditors or consultants free from auditing conflicts of interest (whether actual or perceived)? Do they have the breadth and depth of experience as full-time consultants that you require? If you have any reservations, think of us.

Parson Consulting can meet all your financial management consulting needs. With our expertise, what have you got to lose?

Engagement snapshots

- Designed and managed a Sarbanes-Oxley Section 404 compliance programme for a global chemical manufacturer that involved coordinating activities at operational units in several countries.
- Ensured the smooth integration of a financial transaction-processing centre after a series of small and large acquisitions had caused problems for over 5,000 contractors across many client sites.
- After a strategic finance review, restructured the reporting lines for a large oil company ensuring that the financial and non-financial KPIs were reported consistently by each back office function and geography.
- Achieved over $6 million annual tax savings for a major entertainment company by integrating three disparate databases, increasing visibility of financial information, and installing enhanced reporting and analysis capabilities.
- Realised a 60% reduction in the monthly close cycle by installing a shared service accounting centre for a Fortune 200 diversified manufacturer.
- Increased labour efficiency by 50% and cut resources by 75% in the planning and budgeting operations of a major financial services company through process improvements and Hyperion Pillar implementation.
- After conducting a project assessment, managed an Oracle 11i implementation project and achieved substantial savings for a speciality software company.
- Project managed the transition of payroll outsourcing for over 50,000 employees.
- Assisted a service company to prepare detailed working capital forecasts supporting an equity offering and debt restructuring programme.

Regional head offices

Americas	+1 312 541 4690	France	+33 1 4076 9888
UK	+44 20 7710 5200	Australia	+61 2 8913 9600

www.parsonconsulting.com

management statement

The results for the year ended 31 December 2004 are summarised as follows:

	Year ended 31 Dec 2004 £'000	Year ended 31 Dec 2003 £'000
Revenue		
Proudfoot Consulting	**81,437**	68,238
Parson Consulting	**37,811**	20,411
	119,248	88,649
Operating profit/(loss) before goodwill amortisation		
Proudfoot Consulting	**10,063**	4,519
Parson Consulting	**2,278**	(4,310)
	12,341	209

Overview

Trading in 2004 improved markedly over the prior year with both businesses performing well. In particular, the performance of Parson Consulting improved significantly as a result of continuing investment, the completion of its restructuring, a broadening of its client base, new service offerings and increased client spending resulting from US regulatory changes.

Turnover was up 35% in Sterling terms. Underlying growth was even stronger because the US dollar, in which the majority of our revenues are billed, weakened relative to Sterling. At 2004 constant exchange rates, the underlying growth was 44%.

The operating profit before goodwill amortisation increased by £12.1 million to £12.3 million (2003: £0.2 million), demonstrating the significant operational gearing in both the Proudfoot Consulting and Parson Consulting businesses. Exchange rate movements had only a small impact on operating profit because we largely match the currency of our costs with the currency of our sales.

Headline earnings per share were 5.0 pence (2003: loss of 0.5 pence), the highest level for 10 years.

In the light of the profitability of the Group and the trading prospects, the directors are recommending a 34% increase in the final dividend to 0.67 pence per share.

Group consultancies

The Group comprises two consultancies: Proudfoot Consulting and Parson Consulting.

Proudfoot Consulting helps clients to achieve significantly increased profitability through the implementation of operational improvements leading to increased sales, lower operating and overhead costs, greater output and lower capital expenditure. Proudfoot Consulting's appeal is to operationally focused senior managers intent on executing strategy and achieving stretching goals.

Parson Consulting specialises in financial management consultancy. It is free of auditing conflicts and provides Sarbanes-Oxley compliant services. It has four service lines: governance and risk management, operational financial management, strategic financial management and transaction support. Parson Consulting's appeal is to Chief Financial Officers intent on achieving the highest standards of financial management.

The operating profit before goodwill amortisation of Proudfoot Consulting was £10.1 million, an increase of £5.5 million relative to the prior year and that of Parson Consulting was £2.3 million, an increase of £6.6 million.

Proudfoot Consulting

Proudfoot Consulting's turnover was £81.4 million, an increase of 19% over 2003 and 26% in constant currency terms. This represents 68% (2003: 77%) of Group turnover.

Turnover in the dominant markets of North America and Europe grew strongly; North America by 26% and Europe by 24%.

The North American business rebounded strongly in 2004 after a difficult 2003. Significant engagements were undertaken to increase output for natural resource clients which are benefiting from high commodity prices. In the telecommunication and financial sectors there was a particular emphasis on engagements to improve customer service and productivity. These latter two sectors increased their spending on consulting after several years of cut backs.

The European business was influenced more by the improving general economic conditions than by particular industry sectors. Earlier in the year the demand for services increased in the UK, Spain and Portugal and latterly this extended to France and Germany. Whilst this is encouraging, it may be premature to conclude that there will be a sustained increase in demand for consulting services in Europe.

South African businesses are very aware of their need to favour black empowered suppliers. Accordingly we concluded transactions with two groups of previously disadvantaged individuals (PDIs) which resulted in the formation of Proudfoot Consulting Africa (Proprietary) Limited, a company with 51% ownership by PDIs. This business model takes account of the specific circumstances in South Africa and will significantly increase our credentials for winning work in that economy. We are delighted to be the first international consultancy to be majority black owned.

In Asia Pacific we have established an office in China which will allow us to serve more readily that growing market place.

The operating profit before goodwill amortisation for the Proudfoot Consulting business was £10.1 million (2003: £4.5 million). The EBITDA margin was 13% (2003: 8%) compared with our unchanged target of a sustainable 15% margin.

Parson Consulting

At the end of the year, we had owned Parson Consulting for some two and a half years. During 2004 we made significant progress not only by selling the Sarbanes-Oxley related services that we had developed in 2003 but also from the introduction of other service offerings.

Parson Consulting's turnover increased by 85% compared with 2003 to £37.8 million. In constant currency the growth was over 100%. The operating profit before goodwill amortisation was £2.3 million compared with a loss of £4.3 million in 2003. The EBITDA margin was 7%. We are aiming to achieve a sustainable 15% EBITDA margin, the same as our aim for Proudfoot Consulting.

We have significantly expanded our US client base on the back of the regulatory requirements. To ensure that we are not over-reliant on Sarbanes-Oxley related work, we have developed a range of new services that we started to offer in the autumn and which have been well received. This is part of a continuing programme of service developments to meet the increasing demands that are being placed on finance functions and back offices in large businesses.

As expected, Sarbanes-Oxley work peaked in the fourth quarter of 2004. This work was mainly assisting larger US clients to comply for the first time with the requirements of Section 404 of the Sarbanes-Oxley Act. Corporate governance and risk related work will continue to be an important service in the future. Work on initial compliance with Sarbanes-Oxley is continuing in 2005 because smaller US companies and foreign registrants have a later deadline for compliance. Further, clients will need assistance with the continuing compliance obligations and will wish to use dedicated software for this purpose.

management statement

(continued)

Accordingly, we have entered into a partnership agreement with Certus, a company that has developed specialised compliance software. This allows us to be at the leading edge of future work in this area.

The turn-around of Parson Consulting has now been completed in line with our original timetable after lagging by some months in the earlier part of 2003. Key elements of the turn-around have been investment in senior people, investment in service offerings, process improvements installed by Proudfoot Consulting, fully valuing our services and developing the capability to undertake larger and more complex engagements. We are continuing to invest further in people, service lines, training and geographies.

Following the success of the London office which was opened at the tail end of 2003, we are planning to open two additional offices in the United States as well as offices in Paris and Sydney. The latter two will be based in our existing Proudfoot Consulting offices in those cities which will reduce the additional real estate and other infrastructure costs of the start-ups.

Earnings

The net finance expense was less than £0.1 million, little changed from 2003. Interest income was offset by the discount unwind associated with the closed US retirement benefit plans.

The tax charge was £3.0 million (2003: £1.1 million) giving an effective tax rate on pre-tax profits before goodwill amortisation of 24%. The tax charge benefits from the utilisation of brought forward tax losses, particularly in the United States, but the Group suffers from minimum tax charges in certain jurisdictions and has taxable income in others.

The basic earnings per share were 3.0 pence (2003: loss of 2.7 pence). The headline earnings per share, which adds back goodwill amortisation to the basic earnings per share, were 5.0 pence (2003: loss of 0.5 pence).

Balance sheet

Goodwill amounts to £62.3 million (2003: £69.2 million). Goodwill has reduced due to the annual amortisation, the weakness of the US dollar relative to Sterling and the write-back of deferred consideration that did not become payable in connection with acquisitions.

The cash balance increased by £4.8 million to £14.5 million at 31 December 2004 (2003: £9.7 million). The increase in cash is attributable to trading profits, offset by the payment of deferred consideration, contributions to the closed US defined benefit pension plan, tax and dividends.

The balance sheet liability in respect of the closed US retirement benefit plans reduced by £1.8 million to £11.4 million as a result of funding during the year, foreign exchange movements and an improvement in the value of assets, offset in part by the effect of the actuary adopting more conservative actuarial assumptions.

Dividend

The board is delighted to recommend a final dividend of 0.67 pence per share (2003: 0.50 pence per share) which will be payable on 25 May 2005 to shareholders on the register on 29 April 2005.

International Financial Reporting Standards

The Group will be reporting its results in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union from 1 January 2005.

Note 30 presents and explains the expected consolidated results of the Group converted from UK Generally Accepted Accounting Principles (UK GAAP) to an IFRS basis for the year ended 31 December 2004, and includes the restated opening balance sheet at 1 January 2004, which is the transition date for the Group's adoption of IFRS.

The transition to IFRS results in an increase in both operating profit and profit before tax for the year ended 31 December 2004 of £3.9 million compared to UK GAAP. This is due to the removal of goodwill amortisation

(£3.8 million) and deferral of long-term employee benefits (£0.5 million), offset in part by a new charge for employee share options in 2004 of £0.4 million.

Equity shareholders' funds at 31 December 2004 increase by £5.5 million under IFRS compared to UK GAAP. This reflects the adjustments noted above which, after tax, increase the retained profit for the year by £4.3 million, and the reversal of the proposed year end dividend of £1.2 million which is recorded when declared under IFRS.

Basic earnings per share are 2.1 pence higher under IFRS at 5.1 pence per share.

People

During the course of the year we have recruited many employees to the Group. We are grateful for the contribution that all employees have made and we are pleased by the part that they have all played in the continued development of Proudfoot Consulting and Parson Consulting.

As previously announced, Stephen Purse has resigned as a director with effect from 7 March 2005 to become the finance director of Clifford Chance LLP. Gareth Jones, who has completed his three year term as a non-executive director, will not be standing for re-election at the forthcoming Annual General Meeting. We are grateful for their important contributions to the development of the Group and wish them well for the future. Also as previously announced, Mark Currie joined the board on 1 March 2005 and succeeds Stephen Purse as the finance director. He will offer himself for re-election at the forthcoming Annual General Meeting.

In addition, Alan Barber is offering himself for election as a non-executive director at the forthcoming Annual General Meeting. He was a partner in KPMG LLP for 25 years until he retired last year. He provided audit and other services to many of KPMG's largest clients. He has not previously been involved in providing services to Management Consulting Group PLC. He is currently a non-executive director of Teather and Greenwood Holdings plc, lastminute.com plc and the Animal Health Institute. It is intended that he will succeed Gareth Jones as Chairman of the Audit Committee.

Prospects

Group revenue in the first two months of 2005 has matched the level of the first two months of last year. We are continuing to invest in both Proudfoot Consulting and Parson Consulting to deliver growth in 2005 and the effect of this is already visible in the cumulative order book of both Proudfoot Consulting and Parson Consulting, which is some 10% up since the beginning of the year.

The board expects that in 2005, Parson Consulting will contribute an increased proportion of the Group's turnover, resulting in a broader mix of revenue than previously. Parson Consulting's revenue in the first two months of 2005 is in line with the run rate for the second half of 2004, even though the second half of last year represented the peak of the work associated with our clients' Sarbanes-Oxley initial compliance. This has been achieved as a result of steps taken last year to broaden the service offerings provided by Parson Consulting, which have been well received due to clients' continuing investment in finance functions.

The Board is pleased with the 2004 results of both Proudfoot Consulting and Parson Consulting and we anticipate further progress in the current calendar year.

Dr Rolf Stomberg

Chairman

Kevin Parry

Chief Executive

operating and financial review

The business, its objectives and strategy

Information on the Group's businesses, corporate objectives and strategy are set out in the corporate profile and consultancy profile sections of this annual report.

During 2004 particular attention was directed towards:

- completing the restructuring of Parson Consulting as a profitable and growing business;
- managing headcount and costs in line with revenues;
- establishing an operationally and financially strong platform for future growth.

Operating review

Performance in the year

The overall revenues of the Group were £119.2 million (2003: £88.6 million). Proudfoot Consulting revenues were £81.4 million (2003: £68.2 million) and Parson Consulting contributed revenue of £37.8 million (2003: £20.4 million). 65% (2003: 61%) of the Group's revenues arose in North America. In terms of the average exchange rate, the US dollar weakened by approximately 12% in 2004 compared with the prior year. At constant 2004 exchange rates the underlying revenue growth was 44%.

Five year summary

	2004	2003	2002	2001	2000
Turnover	*£m*	*£m*	*£m*	*£m*	*£m*
Continuing operations	119.2	88.6	107.3	72.1	31.7
Discontinued operations	–	–	–	–	6.2
	119.2	**88.6**	**107.3**	**72.1**	**37.9**
Operating profit/(loss) from continuing operations before goodwill amortisation	12.3	0.2	7.6	1.7	(9.5)
Headline earnings/(loss) per share* (pence)	5.0	(0.5)	4.7	1.4	(7.3)
Dividend	0.67p	0.50p	0.50p	–	–

* adjusted for effect of capital issue in May 2002

The operating profit for the year before goodwill amortisation was £12.3 million (2003: £0.2 million). After goodwill amortisation the operating profit for the year was £8.5 million (2003: loss of £3.8 million).

EBITDA for the year was £13.5 million (2003: £1.4 million). This comprises the operating profit of £8.5 million (2003: loss of £3.8 million) adjusted for depreciation of £1.2 million (2003: £1.2 million) and amortisation of goodwill of £3.8 million (2003: £4.0 million).

The profit before taxation, comprising the operating profit together with net finance costs, was £8.5 million (2003: loss of £3.9 million). Net finance costs were negligible and comprised interest and similar income on surplus funds of £0.4 million (2003: £0.9 million), less interest payable and similar charges of £0.2 million (2003: £0.2 million) and the interest charge related to the closed US retirement benefit schemes of £0.3 million (2003: £0.7 million).

The Group's tax charge for 2004 was £3.0 million (2003: £1.1 million). The tax charge takes account of tax losses carried forward in the US, UK and elsewhere. However, the group suffers minimum taxes in certain jurisdictions and has taxable income that is not covered by losses in others.

Further information on the performance of the individual businesses and geographical units is given in the Management Statement.

Returns to shareholders

The basic earnings per share amounted to 2.98 pence compared with a loss of 2.68 pence in the prior year. After adding back goodwill amortisation, the headline earnings per share were 5.03 pence (2003: loss of 0.49 pence). The diluted earnings per share amounted to 2.96 pence which compares to a diluted loss of 2.68 pence in the prior year. The diluted amount takes account of the potentially dilutive effects of share options. No dilution is assumed when losses arise.

Having regard to the trading prospects and the cash balance, a final dividend of 0.67 pence per share (2003: 0.50 pence) is proposed.

Resources and risks of the business 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 regularly reviewing the performance of every engagement, in conjunction with the client, whilst the engagement is underway. This enables timely action to be taken to ensure that the client is highly satisfied with the results of each assignment. It is the objective that every client becomes a reference for potential future clients; post-engagement reviews of client satisfaction are carried out on all significant engagements. There is no undue dependence upon any individual client project. The largest client in 2004 accounted for approximately 9.8% of Group revenue. We undertook eight separate projects for this client, the largest of which accounted for 3.6% of Group revenue. The largest single project undertaken during the year accounted for approximately 7.5% of Group revenue.

The remuneration policies of the Group are designed to retain key individuals by rewarding performance and deferring the payment of a proportion of incentives conditional upon continued employment. The performance of every employee is reviewed regularly and actions are agreed to deal with any identified performance issues. An integrated performance measurement system has been installed to enable the performance of individuals to be measured and compared across the business. The training needs of each employee are also reviewed and tailored training programmes have been developed for each of the core functions within both the Proudfoot Consulting and Parson Consulting businesses. The headcount needs of the businesses are reviewed weekly in light of the projected requirements of the business as indicated by the forward order book and order prospects. Standardised employment contracts are in place that take account of local laws and practices.

The Group has developed an intranet-based knowledge management system to document the intellectual property that has been developed through many years of assisting clients. Client needs are regularly reviewed and new products developed in accordance with the identified needs. Appropriate steps are taken to safeguard the security of the Group's intellectual property and we do not hesitate to take legal or other actions to protect it, if this is necessary.

The Group has operating and financial policies and procedures designed to maximise shareholder value within a defined risk management framework. The key risks to which the business is exposed are reviewed regularly by senior management and the Board as a whole.

Potential contractual liabilities arising from client engagements are managed through careful control of contractual conditions and appropriate insurance arrangements. There is no material outstanding litigation against the Group, of which the directors are aware, which is not covered by insurance, or provided for in the financial statements.

Clients are generally billed on a weekly basis. Amounts outstanding from clients are reported to management on a weekly basis and appropriate action is taken to obtain payment of any amounts not paid within the contractual terms. Trade debtors at 31 December 2004 represented approximately 16 days' sales (2003: 11 days).

Investment for the future has continued in staff skill sets, training, IT and marketing. During 2004 the core systems in Parson Consulting were upgraded and further integrated with those of Proudfoot Consulting. Marketing expenditure has continued to focus on building the awareness of the Group's brands. In particular, expenditure was incurred on marketing the new service lines launched by Parson Consulting during the year.

operating and financial review

(continued)

Financial review

Capital structure and treasury policies

Shareholders' funds decreased by £1.0 million during the year. This reflects the profit for the year of £5.5 million, less the proposed dividend of £1.2 million, the actuarial loss relating to retirement benefit schemes of £1.7 million, foreign exchange losses of £1.7 million and the movement in the reserve for shares to be issued of £2.0 million.

A summary of the terms of the long term incentive plan is provided in the Directors' Remuneration Report. In accordance with UITF 17 net costs amounting to £1.0 million were recognised in the profit and loss account in prior years in relation to shares potentially issuable under the plan. Having regard both to the fact that the previous tranches of such shares did not vest and to the current share price, the amount of shares potentially issuable has been reassessed. £0.8 million of the costs previously recognised in the profit and loss account were reversed during 2004, leaving an amount of £0.2 million to cover the Board's estimate of the potential cost of shares which may be issued in the third and final tranche.

The Group's retirement benefits liability relates to the closed US defined benefit pension scheme and to the closed US post-retirement medical benefits plan.

The Group actively manages the potential liabilities arising from the retirement benefit schemes, regularly reviewing performance and making changes where appropriate. Qualified actuaries are consulted and they carry out regular reviews of the position. During the year the potential retirement benefits liability reduced by £1.8 million to £11.4 million, despite more conservative actuarial assumptions. Cash contributions to the schemes amounted to £2.9 million. The net actuarial loss of £1.7 million reflects more conservative mortality assumptions and the discount rate applicable to benefits was decreased by 0.25% to 5.75%. Foreign exchange and other movements reduced the liability by £0.6 million.

Treasury activities are managed on a day-to-day basis by a treasurer who reports regularly to the executive directors and are subject to periodic independent reviews and audits. There are established treasury policies that are reviewed regularly to ensure that they remain relevant to our business. The objective of the Group's treasury policies is to provide liquidity for the Group at minimum risk and minimum cost and to hedge known financial exposures. The main treasury risks faced by the Group are liquidity and exchange rate risk.

Investment of the Group's cash is made within policies that cover counter party risk and liquidity. The Group's cash position is closely monitored and there are effective cash forecasting procedures in place. These procedures involve careful review of future billing levels and new business prospects with operational management. Surplus funds are collected centrally and invested with approved counter parties, within authorised limits and with the aim of maintaining short term liquidity whilst maximising yield.

The Group's businesses operate mainly in their local currency and, as a result, the Group's transactional exposure to exchange rate movements is minimal.

Cash flows

The cash balance at the year end was £14.5 million compared to £9.7 million at the prior year end, an increase of £4.8 million.

The net cash inflow from operating activities was £12.0 million compared with an outflow of £5.0 million in 2003. The inflow during the year reflects the operating profit of £8.5 million adjusted for non-cash items of £3.5 million.

The principal cash outflows were tax of £3.8 million, purchases and sales of fixed assets of £1.3 million (net), deferred acquisition payments of £1.1 million and the dividend paid of £0.9 million.

Current liquidity

Surplus cash is invested generally on maturities of three months or less. Details of the interest rate and currency profile are given in note 26 to the financial statements.

The net current liabilities in the Group balance sheet reflect significant creditors that continually renew and which, therefore, do not result in short term funding requirements.

International Financial Reporting Standards

The Group will be required to adopt International Financial Reporting Standards (IFRS) in the financial statements for the year ending 31 December 2005, which will include comparative information for 2004. Further information on the impact of IFRS is set out in note 30 to the accounts.

Going concern

The directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future. For this reason the going concern basis has been adopted in preparing the financial statements.

Stephen Purse
Finance Director

board of directors

Chairman * # **

R W H Stomberg

Dr Rolf Stomberg, aged 65, joined the Board in September 1998. He is Chairman of the Supervisory Board of Lanxess AG and a non-executive director of a number of leading international companies including Scania AB, TPG Group, Reed Elsevier PLC, and Smith and Nephew plc. He was formerly a director of British Petroleum Company Plc where he spent 27 years, latterly as Chief Executive of BP Oil International. He is Chairman of the Nominations Committee.

Chief Executive **

K A H Parry

Kevin Parry, aged 43, was appointed Chief Executive on 1 January 2000. A graduate in management studies from Cambridge University, he qualified as a Chartered Accountant with KPMG in 1986. He was appointed a London partner in that firm in 1994 and, on appointment as a managing partner in 1998, joined the UK firm's management team and was responsible for the Information, Communications & Entertainment practice. He left KPMG to join the Group on 31 December 1999. He is a non-executive director and chairman of the audit committee of Schroders plc and a non-executive of Knight Frank LLP.

Finance Director Designate

M A Currie

Mark Currie, aged 42, joined the Board on 1 March 2005 and takes over as Finance Director on 7 March 2005. A graduate in law from the London School of Economics he qualified as a Chartered Accountant with KPMG in 1987. Between 1997 and 2000 he was an executive in the Principal Finance group at Nomura. Prior to joining the Board he was a partner in KPMG for five years where he was involved in providing transaction support services to global clients and building the private equity practice.

Finance Director

S J Purse

Stephen Purse is standing down from the Board on 7 March 2005 to become the finance director of Clifford Chance LLP. He is aged 52, began working with the Group in April 2000 and was appointed as Finance Director in November 2001. He qualified as a Chartered Accountant with KPMG in 1977 and was a partner from 1987 to 1998. He was finance director of Westminster Health Care Holdings, a company listed on the London Stock Exchange, between 1998 and 2000. He is a non-executive director of Rail Settlement Plan Limited.

Non-executive Director * # **

Baroness Cohen

Baroness Cohen, aged 64, joined the Board in August 2003. She was originally a solicitor, then had a career in the Department of Trade and Industry, and subsequently as a corporate financier and adviser in the Charterhouse Group. She sits as a Labour peer in the House of Lords. She is chairman of BPP Holdings plc and a non-executive director of the London Stock Exchange PLC. She is the senior independent director and the Chairman of the Remuneration Committee.

Non-executive Director

J P Bolduc

J P Bolduc, aged 65, joined the Board in September 1996. He is a US citizen and is currently Chairman and Chief Executive Officer of JPB Enterprises, Inc. He was formerly President and Chief Executive Officer of WR Grace & Co. and Interim President and Chief Executive Officer of J.A. Jones. Mr Bolduc also serves on the Boards of Unisys Corporation and EnPro Industries, Inc.

Non-executive Director

D G Jones * # **

Gareth Jones, aged 56, joined the Board in August 2002 and will be retiring from it at the forthcoming Annual General Meeting. He qualified as a Chartered Accountant in 1971. He is currently the Chairman of Paterson Enterprises and a non-executive director of TBI plc, Kensington Group plc and Orbis Capital. He is also a former Chairman of the Association of Corporate Treasurers. He acts as an advisor to various private equity funds and banks and is an adviser to the Economic and Social Research Council and the Railway Heritage Committee. Mr Jones is Chairman of the Audit and Risk Committee.

* *Member of the Remuneration Committee.*
\# *Member of the Audit and Risk Committee.*
** *Member of the Nominations Committee.*

Note: ages are as at the date of the Annual General Meeting

directors' report

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 2004. These will be laid before the shareholders at the Annual General Meeting on 26 April 2005.

Activity

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

Business review

The Management Statement and the Operating and Financial Review contain a detailed overview of the Group's business and future prospects.

Group results

The Group's profit before taxation for the year ended 31 December 2004 amounted to £8.5 million (2003: loss of £3.9 million).

Dividend

The directors recommend the payment of a final dividend of 0.67 pence per share to be paid on 25 May 2005 to ordinary shareholders on the register on 29 April 2005 (2003: 0.50 pence).

Directors

The names and brief biographical details of the directors are shown on the preceding two pages. The directors held office throughout the year ended 31 December 2004 except for Mark Currie who was appointed to the board on 1 March 2005.

In accordance with the Company's Articles of Association, Mr Currie, having been appointed a director after the last Annual General Meeting, will offer himself for re-election at the forthcoming Annual General Meeting. Rolf Stomberg and Gareth Jones will retire from the Board by rotation at the forthcoming Annual General Meeting. Dr Stomberg will offer himself for re-election and Mr Jones will not offer himself for re-election.

Alan Barber is offering himself for election as a non-executive director at the forthcoming Annual General Meeting. He was a partner in KPMG for 25 years until he retired last year. He provided audit and other services to many of KPMG's largest clients. He has not previously been involved in providing services to Management Consulting Group. He is currently a non-executive director of Teather and Greenwood Holdings plc, lastminute.com plc and the Animal Health Institute. It is intended that he will succeed Mr Jones as Chairman of the Audit Committee.

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.

Creditor payment policy

The Group's policy, in relation to all of its suppliers, is to agree the terms of payment when first contracting with the supplier and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow any code on payment practice but operates a prompt payment policy on settling invoices. The amount of trade creditors shown in the balance sheet at 31 December 2004 represents 7 days of average purchases during the year (2003: 21 days) for the Company and 15 days (2003: 16 days) for the Group.

Substantial share interests

As at 7 March 2005 (the latest practicable date prior to the issue of this report), the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

	no of ordinary shares	% of issued share capital
Schroders Investment Management Limited	32,082,821	16.97
UBS AG	20,516,023	10.85
BriTel Fund Trustees Limited	9,118,572	4.82

Corporate social responsibility

Full details of our policies covering corporate social responsibility are available on our website. Stephen Purse was the director appointed throughout the year to be responsible for our corporate social responsibilities. A brief summary is set out below.

Environmental policy

Maintaining and improving the quality of the environment in which we live is an important concern for our staff, our clients, our suppliers and the communities in which we operate. By the nature of our business, we have a low impact on the environment. We are, however, adopting high standards of environmental practices and aim to minimise our impact on the environment, wherever this is practical.

Group ethics

The Group subscribes to the Association of Management Consulting Firms' Code of Ethics and has supplemented this with additional specific guidance. Employees can voice their concerns about unethical behaviour through our internal 'whistleblowing' process.

Employees

The Group operates in a number of countries and its employment practices vary to meet local requirements and best practices. It is Group policy to ensure equal opportunity for employment without discrimination due to age, gender, disability, sexual orientation or ethnic background. In South Africa the Group operates positive discrimination in respect of previously disadvantaged individuals (PDIs). Wherever possible the employment of members of staff who become disabled will be continued and appropriate training and career development will be offered.

One of the Group's key objectives is to achieve a shared commitment by all employees to the success of the business. We recognise the importance of employees understanding the Group strategy, the businesses' priorities and the expectations of individuals. Presentations on strategy and priorities are made at meetings of employees and are supplemented by monthly communications. All employees have a written job description and are appraised by their manager quarterly or semi-annually using a formal process. There is an executive development programme for the leaders and future leaders of the business, training programmes for client facing staff and an induction programme for all staff. There is regular communication via internal meetings, email, intranets and an in-house magazine.

directors' report
(continued)

Charitable and political contributions

No political contributions were made in 2004 or 2003. Charitable donations of approximately £17,000 (2003: £5,000) were made during the year.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution to re-appoint Deloitte & Touche LLP as auditors of the Company and to authorise the directors to determine their remuneration is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The formal Notice of the Annual General Meeting is set out on the last three pages of this report and accounts.

Item 1 proposes the adoption of the annual report and accounts for the year ended 31 December 2004.

Item 2 proposes that shareholders approve the Directors' Remuneration Report, as required by the Directors' Remuneration Report Regulations 2002.

Item 3 proposes the declaration of a final dividend of 0.67 pence per share.

Items 4 and 5 propose successive resolutions for the re-appointment of directors.

Item 6 proposes the appointment of Mr Alan Barber as a director.

Item 7 relates to the proposed re-appointment of Deloitte & Touche LLP as auditors to the Company and proposes that the directors be authorised to determine the auditors' remuneration.

Item 8(a) is an ordinary resolution to renew, for a period of five years, the directors' authority to allot shares under Section 80 of the Companies Act 1985, up to a maximum of £19,340,000, which represents the nominal value of 77.4 million ordinary shares. In accordance with the guideline issued by the Association of British Insurers this comprises approximately one third of the issued share capital (63.0 million shares) together with commitments, subject to certain conditions, to issue shares in connection with options over new shares (13.1 million shares) and the Management Incentive Plan (1.3 million shares).

Item 8(b) is a special resolution to renew, for a period of five years, the expiring authority held by the directors to allot certain equity securities for cash as if Section 89(1) of the Companies Act 1985 (which gives shareholders certain pre-emption rights on the issue of shares or convertible securities) did not apply to any such allotment. The resolution, if approved, permits issues by way of rights issues or similar arrangements up to a maximum nominal value of £27,743,910.50 and other issues of shares for cash limited to shares having an aggregate nominal value of £2,362,804.25, representing 9,451,217 ordinary shares, which is approximately 5% of the Company's issued share capital as at 31 December 2004.

The directors have no present intention of making any issue of shares under the authorities that would be granted by resolutions 8(a) and 8(b), other than pursuant to existing employee share schemes and existing acquisition agreements. The directors believe that it is in the Company's best interests that they have the flexibility which items 8(a) and 8(b) would confer. Authority is being sought to renew the authority for five years in compliance with the Listing Rules of the Financial

Services Authority acting as the UK Listing Authority.

Item 8(c) is a special resolution to provide the directors with the flexibility to be able to make market purchases of the Company's own shares. The authority, if granted, would be in respect of up to 18,902,435 ordinary shares (approximately 10% of the Company's issued share capital as at 31 December 2004) and would run until 25 July 2006 or, if earlier, the conclusion of the 2006 Annual General Meeting. The price at which purchases could be made would not exceed 105% of the average of the middle market quotations for an ordinary share derived from the London Stock Exchange Daily Official List for the five business days before each purchase and would not be lower than an ordinary share's nominal value. There is no present intention to purchase shares. The directors would only exercise the authority if an improvement in earnings per share were expected to result and if they consider that the purchase would be in the best interests of shareholders generally.

Shares purchased under this authority from distributable profits will become treasury shares which the Company can cancel or hold for sale for cash or transfer for the purposes of or pursuant to an employee share scheme. In considering any proposed transfer of treasury shares for the purposes of or pursuant to an employee share scheme, the Company will have regard to the limits relating to such schemes on the use of unissued shares as if the proposed transfer of treasury shares was an issue of unissued shares.

As at the date of this document, there were commitments to, subject to certain conditions, issue up to approximately 14.4 million new ordinary shares as described in connection with item 8(a) above, representing, in aggregate, 7.6% of the Company's currently issued share capital. If the authority sought under item 8(c) were to be exercised in full, commitments, subject to certain conditions, to issue shares would represent 8.5% of the Company's remaining outstanding share capital.

By order of the Board

F Steven Hitchcock
Company Secretary

7 March 2005

corporate governance

The July 2003 FRC Combined Code of Corporate Governance ('the Code') first applied to the Company for the year ended 31 December 2004. The maintenance of effective corporate governance is a key priority for the Board. Accordingly, the Board has considered carefully the requirements of the Code and has taken various actions in light of its guidance. The Company has complied throughout the year with the Code except in relation to provisions concerning Board and Committee membership (provision A3, Board balance and independence). These departures from the Code, which are explained below, are a consequence of the small size of the Board and will be kept under review as and when additional independent directors are appointed to the Board.

Board of directors

Throughout the year ended 31 December 2004 the Board comprised the non-executive Chairman, three other non-executive directors (two of whom are regarded as independent) and two executive directors.

Under the terms of the Code, the Chairman is not regarded as independent by virtue of his position. Mr Bolduc is not considered to be independent by reason of the commission arrangements described in the Directors' Remuneration Report. Baroness Cohen and Mr Jones are considered to be independent non-executive directors. Mr Barber, who is being proposed at the Annual General Meeting for election to the Board, will be an independent non-executive director. It is intended that he will join the Audit and Risk Committee, the Nominations Committee and the Remuneration Committee.

It is the intention, in due course, to appoint a further independent non-executive director in order to comply with the recommendation of the Code that at least half the Board, excluding the Chairman, should comprise independent non-executive directors.

The roles of the Board and the management are clearly defined. The roles of Chairman, Chief Executive and Senior Independent Director are 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 number of Board and Committee meetings attended by each of the directors during the year was as follows:

Name	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
J P Bolduc	6	–	–	–
Baroness Cohen	6	4	2	2
D G Jones	6	4	2	2
K A H Parry	6	–	–	2
S J Purse	6	–	–	–
R W H Stomberg	6	4	2	2
Total meetings held	**6**	**4**	**2**	**2**

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.

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.

Election and re-election of directors

The Company's Articles of Association contain detailed rules for the appointment and retirement of directors. Directors newly appointed to the Board during the year are required to retire at the next Annual General Meeting, but can offer themselves for re-election by shareholders. All directors are required to submit themselves for re-election at intervals not exceeding three years.

The Board annually evaluates the performance of individual directors, the Board as a whole and its Committees. This review comprises structured interviews with each director, conducted by the Company Secretary or the Senior Independent Director, followed by the presentation of the results of this process to the Board and individual discussions with the Chairman or Chief Executive. The results of the evaluation are specifically considered when considering the re-appointment of directors.

Operation of the Board

The Board meets regularly. Six meetings were held during 2004. All members of the Board are supplied, in advance of meetings, with appropriate information covering matters which are to be considered.

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

Audit and Risk Committee

Details of the membership, role and operation of the Audit and Risk Committee are provided in the Report of the Audit and Risk Committee.

The Code recommends that the Committee should comprise at least two members and that all members should be independent non-executive directors. The Committee comprises two independent non-executive directors and Dr Stomberg, who is not regarded as independent by virtue of his position as the Chairman of the Board. The Board has concluded that it is appropriate that the Committee should comprise at least three members and the membership of the Committee will be reconsidered as and when further independent directors are appointed.

Nominations Committee

The present membership of the Committee is:

- Dr Rolf Stomberg *(Chairman of Nominations Committee, member since 1998)*
- Baroness Cohen *(member since 2003)*
- Mr Gareth Jones *(member since 2003)*
- Mr Kevin Parry *(member since 2000)*

corporate governance
(continued)

The Committee's purpose is to consider future appointments to the Board and succession policy for key management positions. The Nominations Committee has adopted formal terms of reference dated 14 March 2003 and these are available from the Company Secretary upon request.

The Code recommends that a majority of the members of the Nominations Committee should be independent non-executive directors. Currently the Committee comprises four directors, two of whom are independent directors. The Board will keep the membership of the Committee under review but considers that the current membership is appropriate having regard to the small number of directors on the Board.

Following a review by the Nominations Committee, Mark Currie was appointed as Finance Director Designate with effect from 1 March 2005. This review included consideration of the skills required of the finance director and interviews by the Committee and other Board members. In accordance with the Articles of Association, Mr Currie will be proposed for re-election at the forthcoming Annual General Meeting.

Alan Barber is being proposed for appointment as a non-executive director at the forthcoming Annual General Meeting. This follows a review by the Nominations Committee of his experience, particularly in relation to the Audit Committee, and interviews by the Committee and other Board members.

Remuneration Committee

Details of the membership, role and operation of the Remuneration Committee are provided in the Directors' Remuneration Report.

The Code recommends that the Committee should comprise at least two members and that all members should be independent non-executive directors. The Committee comprises two independent non-executive directors and Dr Stomberg, who is not regarded as independent by virtue of his position as the Chairman of the Board. The Board has concluded that it is appropriate that the Committee should comprise at least three members and the membership of the Committee will be reconsidered as and when further independent directors are appointed.

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 "whistleblower" policy whereby procedures exist that allow members of staff 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 auditors and has adopted procedures in respect of the purchase of these services to minimise the risk of an actual or perceived conflict of interest. For similar reasons, the Board has adopted a policy in respect of hiring staff from the auditors who have been involved in the Group's audit.

Relations with investors and the AGM

The Annual General Meeting gives all shareholders the opportunity to communicate directly with the Board. During the year, the directors are available to respond to enquiries from investors on the Group's operations. Effective communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy.

During the year, the executive directors hold discussions with major shareholders. The Chairman is available to major 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. Registered shareholders are sent copies of both the annual report and accounts and the interim report. The Group's website www.mcgplc.com also contains information relevant to investors.

The notice convening the Annual General Meeting to be held on 26 April 2005 is contained on the final three pages of this annual report and accounts.

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 implement the guidance issued in September 1999 (The Turnbull Committee Report) and by reporting in accordance with that guidance.

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 is in accordance with the guidance set out in The Turnbull Committee Report and has been in place for the year under review and up to the date of approval of the annual report and accounts. This process, which is regularly reviewed by the Board, is as follows:

- The Group's management operates a risk management process which identifies the key risks facing the business and reports to the Board on how those risks are being managed. This is based on a risk register produced by executive management which identifies the 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 Board meetings on a regular basis and regular monitoring reports are presented to the Board;
- Large acquisitions and capital projects require Board approval;
- There is an embedded culture of openness of 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 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.*

corporate governance

(continued)

- *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.*
- *Group tax and treasury 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 position.*

■ Internal audits are performed by Group staff or outsourced on an as-needed basis to external professional firms.

report of the

audit and risk committee

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

Membership

The present membership of the Committee is:

- Mr Gareth Jones
  (Chairman of Audit and Risk Committee, member since 2002)
- Dr Rolf Stomberg
  (member since 1998)
- Baroness Cohen
  (member since 2003)

The Chairman of the Committee, Mr Jones, is a Chartered Accountant. The Committee met four times during the year. The external auditors attended three meetings and the Committee met privately with them on each occasion.

Operation of the Committee

The Committee's terms of reference were reviewed and updated with effect from 14 March 2003 and are available from the Company Secretary. The main activities of the Committee during the year were as follows:

- **Financial statements**. The Committee reviewed the interim and full year financial statements. Presentations were made by management and the auditors about the key technical and judgmental matters relevant to the financial statements. The Committee was satisfied that it was appropriate for the Board to approve the financial statements.
- **Internal financial control and risk management systems**. The Committee reviewed the register of Group risks prepared by management, recommendations made by the external auditors and internal audit reports. The Committee was satisfied that it was appropriate for the Board to make the statements regarding internal controls included in the Corporate Governance Report.
- **External auditors**. The Committee has considered the independence of the external auditors and is satisfied that independence has been maintained. It is the policy that the auditors shall not provide any services that would potentially result in them auditing the result of their own work or which are prohibited under the US Sarbanes-Oxley Act. The Committee pre-approves any material permitted non-audit engagements. Regular reports were presented of fees paid to the external auditors in order to ensure that the relationship between non-audit fees and audit fees was not inappropriate. The Committee reviewed the external audit plan proposed by the auditors and participated in the review of the quality of the service that they provided.
- **Internal audit function**. The Committee approved the work programme of the internal audit function and reviewed all internal audit reports.

directors' remuneration report

Introduction

This report describes how the Board has applied the Principles of Good Governance relating to directors' remuneration set out in the Directors' Remuneration Report Regulations 2002. It has been prepared in accordance with the Regulations and also meets the relevant requirements of the Listing Rules of the Financial Services Authority. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the annual report and accounts will be approved.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for unaudited and audited information.

Unaudited information

The Remuneration Committee

The present membership of the Committee is:

- Baroness Cohen *(Chairman of Remuneration Committee, member since 2003)*
- Dr Rolf Stomberg *(member since 1998)*
- Mr Gareth Jones *(member since 2002)*

The Committee reviews and determines, on behalf of the Board, the salary, benefits and pension packages of the executive directors and the Chairman. The Committee also reviews, on behalf of the Board, the remuneration packages of the highest paid executives and the Company Secretary. A committee of the Board, comprising the Chairman and the two executive directors, sets the fees for the non-executive directors.

In determining the directors' remuneration for the year the Committee consulted Mr Parry (Chief Executive) about its proposals save in relation to Mr Parry's 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 Consultants LLP have been appointed by the Committee and provided advice to it on the operation of the Company's incentive schemes when they were last reviewed during 2003. A statement regarding the relationship between the Company and New Bridge Street Consultants LLP is published on the Company's website. New Bridge Street Consultants LLP has no other connection with the Company other than in the provision of advice on executive and employee remuneration.

Remuneration policy

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

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

Basic salaries

The Committee's policy is to set the basic salaries of each executive director at levels that reflect their roles, experience and the practices in the employment market. Executive directors' salaries were last increased with effect from 1 January 2004. Having considered market surveys and the highly competitive nature of the international professional services market the Committee concluded that, with effect from 1 January 2005, the salary of Mr Parry should be increased by 7.1% to £525,000 per annum and that of Mr Purse by 18.2% to £260,000 per annum. Mr Currie was appointed to the Board on 1 March 2005 on a salary of £260,000 per annum.

Annual bonus scheme

Each executive director is entitled to an annual bonus that comprises two elements. The Group's budgeted profit before tax is used as the benchmark for the financial performance in relation to both elements of the scheme. The budget is set at a level in excess of market expectations at the time. Under the first element, each director is entitled to an amount equal to up to 125% of his basic salary. The amount payable is determined on the basis of the financial performance of the Group and the achievement of detailed individual performance criteria pre-agreed with the Remuneration Committee. Any sums payable in relation to this first element are payable in cash no later than three months after the end of the relevant financial year. Under the second element, an amount of up to 75% of basic salary may be earned, subject to the achievement of a sliding scale of profit before tax targets. Two-thirds of this second element will be payable in cash three years after the end of the relevant financial year. The remaining third will be used to acquire shares in the Company which will also be transferred to the executive director three years after the end of the relevant financial year. However, both the deferred cash and share elements of the annual bonus will normally be forfeited if the executive director ceases employment during this three year period.

The market expectation at the end of 2003, when the budget for 2004 was set, was that the profit before taxation of the Group for 2004 would amount to less than £1 million. The budget was set at a higher level than the market expectation. The actual profit before taxation of the group for 2004 amounted to £8.5 million, an increase of £12.4 million compared to the prior year. The financial performance criteria were met in full in relation to both elements of the scheme, as a result of which each executive director became entitled to a current cash bonus of 62.5% of salary and a deferred cash and shares bonus amounting in total to 75% of salary. The balance of the current cash bonus (which is capped at a further 62.5% of salary) amounts to 56.3% of salary in the case of Mr Parry and 53.4% of salary in the case of Mr Purse and reflects the Committee's assessment of the achievement of personal performance objectives. The bonuses payable are summarised in the following table.

	Current	Deferred for three years	
	cash	Cash	Shares
	£	£	£
Kevin Parry	582,000	245,000	122,500
Stephen Purse	255,000	110,000	55,000

Mr Purse will forfeit the deferred amounts shown above as a result of his resignation from the Board with effect from 7 March 2005. On 5 January 2005 the Company purchased in the market 214,912 ordinary shares in order to satisfy the potential obligation in relation to the deferred shares bonus for Mr Parry.

directors' remuneration report

(continued)

Share incentives

The Group has three share incentive schemes under which awards currently subsist:

- the Proudfoot Share Option Scheme ('the Closed Scheme');
- the Proudfoot PLC Executive Share Option Scheme ('the 1998 Scheme'); and
- the Proudfoot Management Investment Plan ('the Management Incentive Plan').

Shareholder approval for the Closed Scheme expired in 1997 and no further options may be granted under this Scheme.

The 1998 Scheme (under which market value options are granted) is designed to motivate directors and senior employees, whilst retaining them in the Group's employment, by granting options which are exercisable in two equal amounts after three years and five years respectively. For grants made after 1 January 2003, options are subject to a performance condition that compares the Total Shareholder Return ('TSR') over the three year period following grant (with no ability to re-test performance in subsequent years) with the TSR of the constituents of the FTSE Mid 250 as follows:

TSR ranking compared to FTSE Mid 250	Percentage of option that vests
Below median	0%
At median	50%
Between median and upper quartile	50–100% (pro rated)
Upper quartile	100%

Grants made in 2005 will be subject to the same performance condition. The Committee believes that this performance condition is appropriate as options will only vest in full following the generation of returns to shareholders significantly ahead of the market. The TSR calculations will be undertaken by a third party to ensure independent verification of the extent to which the performance condition is met.

Options granted under the 1998 Scheme prior to 1 January 2003 may not be exercised unless the Group's three year average annualised percentage growth in fully diluted earnings per share (excluding goodwill amortisation, certain exceptional items and share scheme charges) at least equals the average annualised growth in the Retail Price Index plus 5 percentage points; and the average annualised share price growth over that period at least equals the average annualised growth in the FTSE Small Cap Index (excluding investment companies). If those two hurdles are passed, options vest as follows:

Annual share price performance	Aggregate proportion of share options which vest
Less than 15%	nil and options lapse at three year point
15%	40%
15% to 35%	increase uniformly from 40% to 100%
35% or more	100%

Under the rules of the 1998 Scheme, options over shares with an aggregate exercise consideration of up to eight times remuneration may be granted to an individual in a ten year period. However, it is the Committee's current intention that option grants for directors will be limited to 50% of salary each year.

At 31 December 2004 there were 13.1 million options outstanding over new shares under share option schemes, comprising 6.9% of the issued share capital. In addition, there were outstanding options over 1.7 million shares which are already in issue and are owned by an employee trust. These include options issuable under arrangements put in place in connection with acquisitions for which shareholder approval was obtained at the time of the acquisitions.

No further awards will be made under the Management Incentive Plan. The only remaining participant in the Management Incentive Plan is Mr Parry. The Management Incentive Plan required him to invest £300,000 in the Company over the three year period ended 31 December 2002. The investment must be retained until the vesting date of any awards.

Awards under the Management Incentive Plan vest by reference to the growth in the share price above 12.33 pence which was the share price prior to the announcement of Mr Parry's recruitment adjusted to take account of the issue of new shares in May 2002. No awards vested during 2003. Mr Parry has one remaining potential award, which vests on a straight-line basis once the minimum performance has been achieved:

Period	Min growth in price pa	Max growth in price pa	Minimum no of shares	Maximum no of shares
2000-2005	32.5%	65%	643,763	1,287,525

Shares potentially issuable under the Management Incentive Plan comprised 0.7% of the issued share capital.

International Financial Reporting Standards, which will apply for the first time to the 2005 financial statements of the Group, require that a charge is recognised against profits in relation to share options. More details in relation to this are provided in note 30 to the accounts.

Pension arrangements

The Group contributes 17.5% of salary (and in the case of Mr Purse for the year ended 31 December 2004 only an additional £20,000 per annum) to defined contribution pension schemes of each executive director's choice. Bonuses and other payments to directors are not pensionable. Currently, we do not anticipate the need to change these arrangements as a result of the tax legislation changes that take effect from April 2006.

Other benefits

Benefits comprise a car and insurances for life, personal accident, disability, permanent health and family medical cover.

Service contracts

Each of the executive directors has a contract with a Group company continuing until the age of 58. Either party is able to terminate the contract by giving 12 months' notice. This policy is consistent with current market practice.

In the event of the early termination of an executive director's contract it is the Committee's policy that the amount of compensation (if any) paid to the executive director will be determined by reference to the relevant circumstances that prevail at the time. However, the Committee's aim will be to avoid rewarding poor performance. Furthermore, the Committee will take account of the executive director's duty to mitigate his loss. No compensation payment will arise as result of Mr Purse's resignation from the Board with effect from 7 March 2005.

directors'
remuneration report
(continued)

The dates of the executive directors' contracts are as follows:

Director	Date of contract
K A H Parry	29 November 1999
S J Purse	15 November 2001
M A Currie	4 January 2005

External appointments

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of the Group. Executive directors may hold no more than two non-executive directorships and the related fees may be retained by the director. During 2004 Mr Parry earned fees of £57,000 (2003: £42,000) as a non-executive director of Schroders plc and fees of £16,250 (2003: £nil) as a non-executive of Knight Frank LLP. Mr Purse earned fees of £12,500 (2003: £nil) as a non-executive director of Rail Settlement Plan Limited.

Non-executive directors – summary of entitlements

In relation to 2004 the Chairman received total fees of £80,000. Each of the other non-executive directors received a fee of £25,000 per annum and the Chairman of the Audit and Risk Committee and the Chairman of the Remuneration Committee each received an additional fee of £5,000.

The fees payable to the Chairman were last reviewed with effect from 1 January 2000 and the fees payable to other non-executive directors were last reviewed with effect from 1 January 2004. Having reviewed market survey information and the increased time commitment and responsibilities of the non-executive directors, the Board concluded that, with effect from 1 January 2005, the fees payable to the Chairman should be increased to £90,000 and the fees payable to other non-executive directors should be increased to £30,000 per annum. The additional fees payable to the Chairman of the Audit and Risk Committee and the Chairman of the Remuneration Committee remain at £5,000.

Mr Bolduc is entitled to a retainer of $35,000 per annum for his services as an introducer of business to the Group. In addition, he may earn commission of 2.5% of the value of any work introduced. No commission was payable in relation to 2004 but, in light of the level of commissions potentially payable to Mr Bolduc, he is not considered to be an independent non-executive director. The independent non-executive directors consider that these arrangements are appropriate for the business.

The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any share scheme.

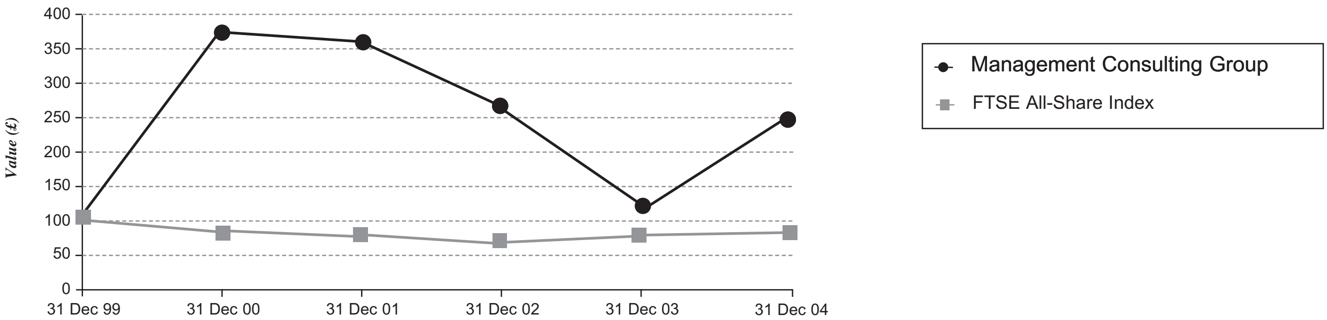
None of the non-executive directors has a service contract and all are appointed for three year fixed terms. Consequently, none of the non-executive directors are subject to notice periods and none have any rights to compensation on termination. The Company considers this approach appropriate in the current circumstances. The dates of the most recent letters of appointment of non-executive directors are set out below:

Director	Date of letter of appointment
R W H Stomberg	18 April 2000
J P Bolduc	15 April 2003
Baroness Cohen	9 July 2003
D G Jones	16 June 2003

Performance Graph

The Regulations require this report to contain a graph illustrating the Company's performance compared to an appropriate "broad equity market index" over the past five years. Management Consulting Group PLC is 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 Total Shareholder Return (share price growth plus dividends paid).

Total shareholder return



This graph looks at the value, by the end of 2004, of £100 invested in Management Consulting Group on 31 December 1999 compared with the value of £100 invested in the FTSE All Share Index. The other points plotted are the values at financial year ends.

Source: Datastream

Audited information

Directors' remuneration

The remuneration of the directors who served in the year ended 31 December 2004 was as follows:

	Salaries and fees as directors	Bonus and other*	Benefits	Pension contributions	**Total emoluments 2004**	*Salaries, fees and bonuses*	*Pension contributions*	*Total emoluments 2003*
	£	£	£	£	**£**	£	£	£
Executive								
K A H Parry	490,000	582,000	27,468	85,750	**1,185,218**	*473,371*	*78,750*	*552,121*
S J Purse	220,000	255,000	32,621	62,000	**569,621**	*227,273*	*35,000*	*262,273*
R G Cara**	–	–	–	–	**–**	*82,761*	*10,854*	*93,615*
P George**	–	–	–	–	**–**	*265,483*	*18,123*	*283,606*
Non-executive								
R W H Stomberg	80,000	–	–	–	**80,000**	*80,000*	–	*80,000*
J P Bolduc	25,000	19,106	–	–	**44,106**	*50,570*	–	*50,570*
Baroness Cohen	30,000	–	–	–	**30,000**	*10,186*	–	*10,186*
D G Jones	30,000	–	–	–	**30,000**	*26,000*	–	*26,000*
G R Mackenzie**	–	–	–	–	**–**	*7,479*	–	*7,479*
	875,000	856,106	60,089	147,750	**1,938,945**	*1,223,123*	*142,727*	*1,365,850*

* *Comprises current cash bonuses payable to Mr Parry and Mr Purse and the retainer payable to Mr Bolduc. Deferred bonuses will be included in the above table if and when they become payable.*

** *Ceased to be director on 15 April 2003.*

directors'
remuneration report
(continued)

Interests in shares

The beneficial interests of the directors in office at 31 December 2004 in the ordinary share capital of the Company were as follows:

	7 March 2005	*31 December 2004*	*31 December 2003*
Executive			
K A H Parry	**504,827**	*504,827*	*504,827*
S J Purse	**190,620**	*190,620*	*190,620*
Non-executive			
R W H Stomberg	**600,000**	*600,000*	*600,000*
J P Bolduc	**800,000**	*800,000*	*800,000*
Baroness Cohen	**36,000**	*36,000*	*–*
D G Jones	**120,000**	*120,000*	*120,000*

In addition, Mr Parry and Mr Purse are deemed to be interested in 3,879,584 shares held by the employee share trust, although there is no intention to grant them any rights over these shares, and Mr Parry is interested in 214,912 shares acquired by the Company on 5 January 2005 in connection with potential deferred bonus obligations to him.

The interests of the directors in share options in the Company are set out in the table below:

Director	At 1 Jan 2004	Granted/ (lapsed) in year	At 31 Dec 2004	Exercise price (in pence)	Date from which exercisable	Expiration date
K A H Parry	2,027,090	–	2,027,090	29.85	23 Mar 2003	22 Mar 2010
	569,620	–	569,620	39.50	17 Mar 2006	16 Mar 2013
	–	675,862	675,862	36.25	1 Mar 2007	28 Feb 2014
	2,596,710	675,862	3,272,572			
S J Purse*	41,201	(41,201)	–	68.20	19 Mar 2004	18 Mar 2011
	1,030,025	(1,030,025)	–	51.21	15 Nov 2004	14 Nov 2011
	253,165	–	253,165	39.50	17 Mar 2006	16 Mar 2013
	–	303,448	303,448	36.25	1 Mar 2007	28 Feb 2014
	1,324,391	(767,778)	556,613			

** Mr Purse's options will lapse on 7 March 2005 as a result of his resignation from the Group.*

All directors' options are under the 1998 Scheme and no consideration was payable for the grant of the options. The options granted to Mr Parry and exercisable with effect from 23 March 2003 met the related performance conditions for vesting in full.

All other options held by directors are subject to the TSR performance condition described earlier in this report. No options were exercised by directors during 2004. No other director held share options at 31 December 2004.

The interests of Mr Parry in shares pursuant to his participation in the Management Incentive Plan are set out below:

Director	Interest as at 1 January 2004	Lapsed in year	Interest as at 31 December 2004
K A H Parry	2,575,050	(1,287,525)	1,287,525

Subject to attainment of the performance criteria described earlier in this report, 75% of any award under the Management Incentive Plan will vest in 2005 with the balance deferred until 2007.

The market price of a share in the Company at 31 December 2004 was 48.50 pence and the range during 2004 was 22.50 pence to 50.25 pence.

Approval

This report was approved by the Board of Directors and signed on its behalf by:

Janet Cohen

Baroness Cohen of Pimlico 7 March 2005
Chairman of the Remuneration Committee

independent
auditors' report

To the members of Management Consulting Group PLC

We have audited the financial statements of Management Consulting Group PLC for the year ended 31 December 2004 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets, the cash flow statement, and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Transition to International Financial Reporting Standards (IFRS)

Note 30 to the financial statements shows a reconciliation prepared by management from its financial position and results prepared under United Kingdom accounting standards and IFRS. Without qualifying our opinion, we draw attention to the fact that Note 30 explains why there is a possibility that the comparative information included in the first complete set of IFRS financial statements for the year ending 31 December 2005 may differ from that in Note 30. Moreover, we draw attention to the fact that, under IFRS, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity and cash flow statement, together with comparative financial information and explanatory notes, can provide a fair representation of the company's financial position, results of operations and cash flows in accordance with IFRS.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and
- the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

7 March 2005

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibilty of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

directors' responsibility statement

In respect of the preparation of the financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Statement on pages 8 to 11 and the Operating and Financial Review on pages 12 to 15 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 will 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. Nothing in this report should be construed as a profit forecast.

group profit and loss account

year ended 31 December	note	2004 £'000	2003 £'000
Turnover	3	**119,248**	*88,649*
Cost of sales		**(60,270)**	*(45,137)*
Gross profit		**58,978**	*43,512*
Selling costs		**(30,362)**	*(28,303)*
Administrative expenses			
Excluding goodwill amortisation		**(16,275)**	*(15,000)*
Goodwill amortisation		**(3,792)**	*(4,029)*
Total administrative expenses		**(20,067)**	*(19,029)*
Operating profit/(loss):			
Before goodwill amortisation		**12,341**	*209*
After goodwill amortisation		**8,549**	*(3,820)*
Total operating profit/(loss)	3	**8,549**	*(3,820)*
Finance costs	7	**(34)**	*(46)*
Profit/(Loss) on ordinary activities before taxation	3, 4	**8,515**	*(3,866)*
Tax on profit/(loss) on ordinary activities	8	**(2,995)**	*(1,062)*
Profit/(Loss) on ordinary activities after taxation		**5,520**	*(4,928)*
Equity dividends	9	**(1,221)**	*(944)*
Retained profit/(loss)for the financial year		**4,299**	*(5,872)*
Earnings/(Loss) per share - pence	10		
Basic		**2.98**	*(2.68)*
Diluted		**2.96**	*(2.68)*
Headline		**5.03**	*(0.49)*

There is no material difference between the results reported on the historical cost basis and those disclosed in the profit and loss account.

Turnover and operating results in both the current and prior years relate to continuing operations.

group statement of total recognised gains and losses

year ended 31 December	note	**2004** £'000	*2003* £'000
Profit/(Loss) after taxation for the financial year		**5,520**	*(4,928)*
Actuarial (loss)/gain relating to retirement benefit schemes	28	**(1,696)**	*285*
Currency translation differences on foreign currency net investments		**(1,745)**	*250*
Total recognised gains and losses relating to the year		**2,079**	*(4,393)*

group balance sheet

as at 31 December			2004		2003
	note	**£'000**	**£'000**	*£'000*	*£'000*
Fixed assets					
Intangible assets	11		**62,317**		*69,206*
Tangible assets	12		**1,789**		*1,649*
Total fixed assets			**64,106**		*70,855*
Current assets					
Debtors	14	**12,575**		*7,910*	
Cash at bank and in hand and deposits	23	**14,510**		*9,738*	
		27,085		*17,648*	
Creditors: amounts falling due within one year	15	**(30,718)**		*(24,015)*	
Net current liabilities			**(3,633)**		*(6,367)*
Total assets less current liabilities			**60,473**		*64,488*
Creditors: amounts falling due after more than one year	16		**(2,545)**		*(3,387)*
Provisions for liabilities and charges	17		**(2,885)**		*(3,180)*
Net assets excluding retirement benefits liability			**55,043**		*57,921*
Retirement benefits liability	28		**(11,383)**		*(13,213)*
Net assets including retirement benefits liability			**43,660**		*44,708*
Capital and reserves					
Called up share capital	18		**47,256**		*47,198*
Share premium account	19		**38,026**		*38,009*
Shares to be issued	19		**185**		*2,166*
Own shares held by employee share trust	19		**(970)**		*(970)*
Other reserves	19		**(1,336)**		*409*
Profit and loss account	20		**(39,501)**		*(42,104)*
Shareholders' funds – equity	21		**43,660**		*44,708*

These financial statements were approved by the Board of Directors on 7 March 2005 and signed on its behalf by:

Stephen Purse
Director

group cash flow statement

year ended 31 December	note		2004		2003
		£'000	**£'000**	*£'000*	*£'000*
Net cash inflow/(outflow) from operating activities	22		**12,048**		*(4,957)*
Returns on investments and servicing of finance					
Interest received		**206**		*247*	
Net cash inflow from returns on investments and servicing of finance			**206**		*247*
Taxation			**(3,806)**		*(553)*
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(1,438)**		*(594)*	
Proceeds from sale of tangible fixed assets		**117**		*205*	
Net cash outflow from capital expenditure and financial investment			**(1,321)**		*(389)*
Acquisitions and disposals					
Payments to acquire subsidiary undertakings		**(1,074)**		*(5,189)*	
Net cash outflow from acquisitions and disposals			**(1,074)**		*(5,189)*
Equity dividends paid			**(925)**		*(911)*
Cash inflow/(outflow) before use of liquid resources and financing			**5,128**		*(11,752)*
Financing					
Net proceeds from issue of ordinary shares		**48**		–	
Net cash inflow from financing			**48**		–
Increase/(Decrease) in cash in the year	23, 24		**5,176**		*(11,752)*

company balance sheet

as at 31 December			**2004**		*2003*
	note	**£'000**	**£'000**	*£'000*	*£'000*
Fixed assets					
Tangible assets	12		**399**		*57*
Investments	13		**103,376**		*107,719*
Total fixed assets			**103,775**		*107,776*
Current assets					
Debtors	14	**53,514**		*41,972*	
Cash at bank and in hand		**4,836**		*2,988*	
		58,350		*44,960*	
Creditors: amounts falling due within one year	15	**(22,865)**		*(10,773)*	
Net current assets			**35,485**		*34,187*
Total assets less current liabilities			**139,260**		*141,963*
Net assets			**139,260**		*141,963*
Capital and reserves					
Called up share capital	18		**47,256**		*47,198*
Share premium account	19		**38,026**		*38,009*
Shares to be issued	19		**185**		*2,166*
Own shares held by employee share trust	19		**(970)**		*(970)*
Capital redemption reserve	19		**1,186**		*1,186*
Profit and loss account	20		**53,577**		*54,374*
Shareholders' funds - equity	21		**139,260**		*141,963*

These financial statements were approved by the Board of Directors on 7 March 2005 and signed on its behalf by:

Stephen Purse
Director

notes to the
financial statements

(Forming an integral part of the financial statements)

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

(a) Basis of accounting

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable UK accounting standards. Note 30 shows the impact of International Financial Reporting Standards (IFRS) on the results and restates the balance sheets under IFRS at the transition date of 1 January 2004 and at 31 December 2004.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Management Consulting Group PLC and all its subsidiary undertakings. The results of subsidiary undertakings acquired during the year are accounted for as acquisitions from the dates of acquisition. The results of subsidiary undertakings disposed of during the year are included up to the date of disposal.

(c) Goodwill

Goodwill, being the difference between the cost of businesses acquired and the fair value of their separable net assets, is included in the balance sheet as an intangible asset and is amortised over its estimated useful economic life.

Goodwill previously eliminated against reserves is taken into account when realised on the sale or closure of subsidiaries.

(d) Turnover

Turnover represents the value of services provided to third parties and is stated net of sales taxes. It is recognised when services have been provided and the right to consideration has been earned.

(e) Depreciation

Depreciation is calculated so as to write off the cost, less estimated residual value, of tangible fixed assets by equal annual instalments over their estimated useful lives of between three and seven years.

(f) Foreign exchange

Company

Transactions denominated in foreign currencies are translated into Sterling and recorded at the rate of exchange which approximates to that ruling at the date of the transaction. Balances denominated in foreign currencies are translated at the exchange rates ruling on the balance sheet date.

Group

The results of overseas subsidiaries are translated at the average rates of exchange for the year. The balance sheets of overseas subsidiaries are translated at the exchange rate ruling on the balance sheet date. All exchange differences are taken to the profit and loss account with the exception of:

(i) differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange differences on the carrying amount of the related investments; and

(ii) exchange differences arising from the retranslation of opening net assets together with the difference between the profit and loss account translated at the average rates and the closing rates, which are recorded as movements on reserves.

(g) Investments

Investments held as fixed assets are carried at cost less provisions for any impairment in value. Investments held as current assets are stated at the lower of cost and net realisable value.

(h) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(i) Retirement benefits

For defined contribution pension schemes the amount charged to the profit and loss account is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

For the defined benefit pension scheme and the post-retirement medical benefits plan the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The 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

1. Principal accounting policies (continued)

(i) Retirement benefits (continued)

benefit pension scheme and the unfunded post-retirement medical benefits plan 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. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of any related deferred tax, is presented separately after other net assets on the face of the balance sheet.

(j) Operating leases

Rentals payable on operating leases are charged evenly to the profit and loss account over the lease term.

(k) Share schemes

For share schemes that contingently award shares at a price below the fair value of the Company's shares on the date of grant, a charge is recognised systematically in the profit and loss account and credited to the shares to be issued reserve based on the directors' estimate of the extent that related performance criteria will be met.

(l) Own shares held by employee share trust

The Management Consulting Group PLC ordinary shares owned by the employee share trust are presented as a reduction of shareholders' funds.

2. Profit and loss account

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The consolidated profit for the financial year includes a profit of £424,000 (2003: profit of £4,050,000) dealt with in the financial statements of the Company.

3. Segmental information and EBITDA

(a) Turnover

The analysis of turnover by geographical origin is as follows:

	2004	2003
Continuing operations	**£'000**	*£'000*
North America	**77,656**	*54,457*
Europe	**33,670**	*24,650*
Africa	**3,791**	*4,698*
Asia Pacific	**4,131**	*4,844*
	119,248	*88,649*

There is no material difference between turnover by geographical origin and turnover by geographical destination.

(b) Profit/(Loss) on ordinary activities before taxation

The analysis of the profit/(loss) by geographical region is as follows:

	2004	2003
Continuing operations	**£'000**	*£'000*
North America	**11,558**	*2,736*
Europe	**(2,161)**	*(6,899)*
Africa	**(728)**	*25*
Asia Pacific	**(120)**	*318*
Total operating profit/(loss)	**8,549**	*(3,820)*
Finance costs	**(34)**	*(46)*
Group profit/(loss) on ordinary activities before taxation	**8,515**	*(3,866)*

Management consultancy is the Group's sole business segment.

(c) Earnings before interest, tax, depreciation and amortisation

	2004	2003
	£'000	*£'000*
Operating profit/(loss)	**8,549**	*(3,820)*
Depreciation	**1,164**	*1,223*
Amortisation of goodwill	**3,792**	*4,029*
EBITDA	**13,505**	*1,432*

(d) Net assets/(liabilities)

The net assets/(liabilities) by geographical region were:

	2004	2003
	£'000	*£'000*
North America	**9,409**	*11,691*
Europe	**23,047**	*27,731*
Africa	**(1,557)**	*(1,198)*
Asia Pacific	**(403)**	*(574)*
	30,496	*37,650*
Net funds	**14,510**	*9,738*
Unallocated net liabilities	**(1,346)**	*(2,680)*
Total net assets	**43,660**	*44,708*

4. Profit/(Loss) on ordinary activities before taxation

Profit/(Loss) on ordinary activities before taxation is stated after charging/(crediting) the following:

		2004		2003
		£'000		£'000
Depreciation and other amounts written off tangible fixed assets		**1,164**		*1,223*
Goodwill amortisation		**3,792**		*4,029*
Auditors' remuneration:				
Audit fees:				
Group statutory audit	**270**		*230*	
Audit-related statutory reporting	**20**		*22*	
	290		*252*	
Other assurance services				
Accounting advice	**15**		*15*	
Other reporting	**22**		*–*	
	37		*15*	
Tax fees				
Overseas compliance	**117**		*85*	
Overseas advisory	**26**		*13*	
UK compliance	**4**		*13*	
UK advisory	**42**		*125*	
	189		*236*	
Total fees paid to auditors		**516**		*503*
Company audit fees (included above)		**30**		*25*
Rentals payable under operating leases:				
Hire of plant and machinery		**128**		*126*
Other - principally properties		**1,995**		*2,309*
Adjustment for management incentive plan		**(757)**		*(1,919)*

5. Directors

Directors' emoluments, share options, long-term incentive plan and pension entitlements are shown within the Directors' Remuneration Report.

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:

	2004	2003
Sales and marketing	**181**	*178*
Consultants	**454**	*420*
Support staff	**122**	*121*
	757	*719*

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£'000	*£'000*
Wages and salaries	**58,231**	*50,332*
Social security costs	**6,346**	*5,752*
Other pension costs	**800**	*828*
	65,377	*56,912*

Details of the amounts included in operating results in respect of the closed US retirement benefit schemes are shown in note 28.

7. Finance costs

	2004	2003
	£'000	*£'000*
Interest receivable and similar income	**421**	*859*
Interest payable and similar charges	**(183)**	*(180)*
Other finance charges (note 28(b))	**(272)**	*(725)*
	(34)	*(46)*

8. Tax on profit/(loss) on ordinary activities

The tax charge comprises:

		2004		2003
	£'000	**£'000**	*£'000*	*£'000*
Current tax				
UK corporation tax at 30% (2003: 30%) based on profit/(loss) for the year:		**148**		*18*
Adjustment in respect of prior years	**–**		*(212)*	
Double tax relief	**(21)**		*(18)*	
		(21)		*(230)*
		127		*(212)*
Foreign tax for year	**3,828**		*638*	
Adjustment in respect of prior years	**490**		*228*	
		4,318		*866*
Total current tax		**4,445**		*654*
Deferred tax (credit)/charge		**(1,450)**		*408*
Total tax on profit/(loss) on ordinary activities		**2,995**		***1,062***

Factors affecting the tax charge for the current year

The average applicable rate of tax on the Group's profit on ordinary activities (weighted in proportion to accounting profits) is currently approximately 38% (2003: 38%). The tax charge for the current year is greater than the charge expected by applying the average rate for the reasons set out in the following reconciliation:

	2004 £'000	2003 £'000
Profit/(Loss) on ordinary activities before taxation	**8,515**	*(3,866)*
Tax charge/(credit) on profit on ordinary activities at the average rate applicable across the Group of 38% (2003: 38%)	**3,236**	*(1,469)*
Factors affecting charge in the year:		
Minimum taxes payable	**150**	*605*
Net impact of unrelieved losses	**1,660**	*2,011*
Adjustments in respect of prior years	**490**	*16*
Permanent differences and other	**(1,091)**	*(509)*
Group current tax charge	**4,445**	*654*

Factors that may affect the future tax charge

A deferred tax asset has not been recognised in respect of unrelieved losses of up to £7.0 million, or a potential deferred tax asset totalling £4.3 million in respect of the retirement benefit liability, and other timing differences as there is insufficient evidence that the assets will be able to be recovered in the near term.

On the same basis, no deferred tax asset is recognised in respect of surplus Advance Corporation Tax totalling £1.4 million.

9. Equity dividends proposed

	2004 £000	2003 £000
Equity shares		
Proposed final dividend of 0.67p (2003: 0.50p)	**1,221**	*944*

The directors recommend the payment of a final dividend of 0.67 pence to be paid on 25 May 2005 to ordinary shareholders on the register on 29 April 2005. The dividend is not payable on shares held in the employee share trust, which has waived its entitlement to dividends. The amount of the 2004 dividend waived was £26,000 (2003: £19,000).

10. Earnings/(Loss) per share

The basic earnings per share is calculated by dividing the profit after tax by the weighted average number of Ordinary Shares in issue during the year after deducting 3.9 million shares held by the Group in an employee share trust.

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all potentially dilutive Ordinary Shares. The Group's dilutive instruments are share options granted to employees where the exercise price is less than the average market price during the year. Dilution is not recognised where continuing operations are loss making.

The average market price of Ordinary Shares for the year ended 31 December 2004 was 41.3 pence (2003: 36.9 pence).

Headline earnings per share has been calculated in accordance with the definition in the Institute of Investment Management Research ('IIMR') Statement of Practice No. 1, 'The Definition of IIMR Headline Earnings'.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

			2004			*2003*
	Earnings £'000	**Weighted average number of shares (million)**	**Earnings per share amount (pence)**	*Earnings £'000*	*Weighted average number of shares (million)*	*Earnings per share amount (pence)*
Basic earnings per share						
Profit/(Loss) attributable to shareholders	**5,520**	**185.0**	**2.98**	*(4,928)*	*183.7*	*(2.68)*
Effect of dilutive securities						
Options	**–**	**1.8**	**(0.02)**	*–*	*–*	*–*
Diluted earnings per share	**5,520**	**186.8**	**2.96**	*(4,928)*	*183.7*	*(2.68)*
Basic earnings per share	**5,520**	**185.0**	**2.98**	*(4,928)*	*183.7*	*(2.68)*
Goodwill amortisation	**3,792**	**–**	**2.05**	*4,029*	*–*	*2.19*
Headline earnings per share	**9,312**	**185.0**	**5.03**	*(899)*	*183.7*	*(0.49)*

11. Intangible fixed assets

Goodwill	**The Group £'000**
Cost	
At 1 January 2004	78,021
Adjustment to consideration	(1,137)
Exchange adjustments	(1,960)
At 31 December 2004	74,924
Accumulated amortisation	
At 1 January 2004	8,815
Charge for the year	3,792
At 31 December 2004	12,607
Net book value	
At 31 December 2004	**62,317**
At 31 December 2003	69,206

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. The goodwill shown above is being amortised on a straight line basis over 20 years.

12. Tangible fixed assets

Fixtures, fittings and equipment	The Group £'000	The Company £'000
Cost		
At 1 January 2004	3,897	352
Additions	1,438	430
Disposals	(416)	(141)
Exchange adjustments	(354)	–
At 31 December 2004	4,565	641
Depreciation		
At 1 January 2004	2,248	295
Charge for the year	1,164	88
Disposals	(299)	(141)
Exchange adjustments	(337)	–
At 31 December 2004	2,776	242
Net book value		
At 31 December 2004	**1,789**	**399**
At 31 December 2003	1,649	57

13. Investments held as fixed assets

The Company	Investment in group companies		
	Shares £'000	Loans £'000	Total £'000
At 1 January 2004	106,444	1,275	107,719
Repayment of loans to subsidiaries	–	(325)	(325)
Provisions	(3,536)	–	(3,536)
Adjustment to cost of investment	(482)	–	(482)
At 31 December 2004	**102,426**	**950**	**103,376**

Shares are stated net of provisions of £6,655,000 (2003: £3,119,000) against impairment in value.

The cost of shares in Group companies includes the related costs of acquisitions.

Details of the Company's principal subsidiary undertakings are set out in note 29.

14. Debtors

	The Group		The Company	
	2004	*2003*	**2004**	*2003*
	£'000	*£'000*	**£'000**	*£'000*
Falling due within one year				
Trade debtors	**7,121**	*4,482*	**–**	*–*
Amounts owed by Group undertakings	**–**	*–*	**53,248**	*41,852*
Other debtors	**1,525**	*710*	**89**	*26*
Taxation recoverable	**204**	*1,592*	**–**	*–*
Deferred tax asset	**2,001**	*–*	**–**	*–*
Prepayments and accrued income	**1,724**	*1,126*	**177**	*94*
	12,575	*7,910*	**53,514**	*41,972*

15. Creditors: amounts falling due within one year

	The Group		The Company	
	2004	*2003*	**2004**	*2003*
	£'000	*£'000*	**£'000**	*£'000*
Trade creditors	**1,708**	*1,424*	**64**	*134*
Amounts owed to Group undertakings	**–**	**–**	**16,273**	*6,497*
Corporation tax	**4,722**	*3,987*	**–**	*–*
Other taxes and social security	**2,066**	*1,838*	**287**	*252*
Other creditors	**7**	*1,052*	**7**	*1,030*
Deferred income	**1,966**	*1,782*	**–**	*–*
Accruals	**19,009**	*12,988*	**4,994**	*1,916*
Proposed dividend	**1,240**	*944*	**1,240**	*944*
	30,718	*24,015*	**22,865**	*10,773*

16. Creditors: amounts falling due after more than one year

	The Group		The Company	
	2004	*2003*	**2004**	*2003*
	£'000	*£'000*	**£'000**	*£'000*
Corporation tax	**1,859**	*2,359*	**–**	*–*
Accruals	**686**	*1,028*	**–**	*–*
	2,545	*3,387*	**–**	**–**

All of the above balances fall due within five years.

17. Provisions for liabilities and charges

The Group	Deferred taxation £'000	Other provisions £'000	Total £'000
Balance at 1 January 2004	1,296	1,884	3,180
Utilised	–	(110)	(110)
Transfer to corporation tax creditor	(736)	–	(736)
Profit and loss account charge	551	–	551
Balance at 31 December 2004	**1,111**	**1,774**	**2,885**

There are no provisions held by the Company. Other provisions primarily relate to liabilities assumed on discontinued businesses.

The amounts provided for deferred taxation are set out below:

	The Group		The Company	
	2004	*2003*	**2004**	*2003*
	£'000	*£'000*	**£'000**	*£'000*
Profits earned, taxable in a future year	**1,111**	*1,296*	**–**	*–*

18. Share capital

(a) Called up share capital

	2004 £'000	*2003* *£'000*
Authorised: 300 million (2003: 300 million) shares of 25p each	**75,000**	*75,000*
Allotted, called up and fully paid: 189,024,358 (2003: 188,790,907) shares of 25p each	**47,256**	*47,198*

Shares issued in the year were:

	Number '000	Nominal Value £'000	Consideration £'000
Acquisitions made in prior years (note 25)			
Parson Consulting	69	17	27
Employee share options exercised (note 18(b))	164	41	48
	233	58	75

(b) Share options

At 31 December 2004, there were options outstanding to subscribe for new ordinary shares of 25 pence each as set out below. The number of options outstanding at the previous year end over new ordinary shares was 12,245,641.

Option grant date	Number of shares under option	Exercise price (pence)	Exercisable not earlier than
The Closed Scheme			
March 1996	150,405	29.13	March 1999
October 1996	459,862	25.00	October 1999
The 1998 Scheme			
September 1999	643,765	25.00	September 2002
March 2000	2,027,090	29.85	March 2003
March 2002	1,120,668	68.20	March 2005
June 2002	525,000	71.50	June 2005
March 2003	3,565,535	39.50	March 2006
March 2004	4,583,560	36.25	March 2007
Total	13,075,885		

In March 2004, 4,979,060 options over new ordinary shares were granted at a price of 36.25 pence per share. The following options over new ordinary shares were exercised during the year:

Granted	Number	Nominal value £	Consideration £
March 1996	161,346	40,337	47,000
January 1997	3,002	750	750
	164,348	41,087	47,750

During the year, options over 3,984,468 new ordinary shares lapsed. Share options under the Closed Scheme and the 1998 Scheme expire ten years after the date of grant.

The total subscription price, if all share options over new shares are exercised, is £5,134,000 (2003: £5,682,000).

The above amounts exclude options over 1,696,720 shares (2003: 1,836,241 shares) which are already in issue and are owned by an employee trust.

19. Reserves

The Group	Share premium account £'000	Shares to be issued £'000	Own shares held by employee share trust £'000
At 1 January 2004	38,009	2,166	(970)
Deferred consideration issued	10	(27)	–
Adjustment for management incentive plan	–	(817)	–
Adjustment to deferred consideration	–	(1,137)	–
Share option schemes	7	–	–
At 31 December 2004	**38,026**	**185**	**(970)**

	Merger reserve £'000	Statutory reserves of subsidiary undertakings £'000	Capital redemption reserve £'000	Currency translation reserve £'000	**Total other reserves £'000**
At 1 January 2004	5,683	5,878	1,186	(12,338)	409
Currency translation differences	–	–	–	(1,745)	(1,745)
At 31 December 2004	**5,683**	**5,878**	**1,186**	**(14,083)**	**(1,336)**

The Company	Share premium account £'000	Shares to be issued £'000	Own shares held by employee share trust £'000	Capital redemption reserve £'000
At 1 January 2004	38,009	2,166	(970)	1,186
Deferred consideration issued	10	(27)	–	–
Adjustment for management incentive plan	–	(817)	–	–
Adjustment to deferred consideration	–	(1,137)	–	–
Share option schemes	7	–	–	–
At 31 December 2004	**38,026**	**185**	**(970)**	**1,186**

Shares to be issued comprise the estimated value of shares that may be issued under the Management Incentive Plan.

Own shares held by the employee share trust represents 3,879,584 shares held in an employee trust issued at their nominal value of £970,000.

20. Profit and loss account

	The Group		The Company	
	2004	*2003*	**2004**	*2003*
	£'000	*£'000*	**£'000**	*£'000*
At 1 January	**(42,104)**	*(36,517)*	**54,374**	*51,268*
Retained profit/(loss) for the year	**4,299**	*(5,872)*	**(797)**	*3,106*
Actuarial (loss)/gain relating to retirement benefits scheme (note 28 (c))	**(1,696)**	*285*	**–**	*–*
At 31 December	**(39,501)**	*(42,104)*	**53,577**	*54,374*

	The Group	
	2004	*2003*
	£'000	*£'000*
Profit and loss reserve excluding retirement benefits liability	**(28,118)**	*(28,891)*
Retirement benefits liability (note 28)	**(11,383)**	*(13,213)*
Profit and loss reserve at 31 December	**(39,501)**	*(42,104)*

The total amount of goodwill written off to the profit and loss reserve which resulted from acquisitions made prior to the implementation of FRS 10, net of the goodwill attributable to subsidiary undertakings which have been disposed of or closed, is £121,245,000 (2003: £121,245,000).

21. Reconciliation of movements in equity shareholders' funds

	The Group		The Company	
	2004	*2003*	**2004**	*2003*
	£'000	*£'000*	**£'000**	*£'000*
Profit/(Loss) for the financial year	**5,520**	*(4,928)*	**424**	*4,050*
Other recognised gains and losses during the year	**(3,441)**	*535*	**–**	*–*
	2,079	*(4,393)*	**424**	*4,050*
Equity dividends proposed	**(1,221)**	*(944)*	**(1,221)**	*(944)*
Issue of share capital				
Deferred consideration for acquisitions	**27**	*1,281*	**27**	*699*
Exercise of share option schemes	**48**	*–*	**48**	*–*
Movement in reserve for shares to be issued	**(1,981)**	*(7,261)*	**(1,981)**	*(7,261)*
Net decrease in shareholders' funds	**(1,048)**	*(11,317)*	**(2,703)**	*(3,456)*
Opening shareholders' funds	**44,708**	*56,025*	**141,963**	*145,419*
Closing shareholders' funds	**43,660**	*44,708*	**139,260**	*141,963*

22. Reconciliation of operating profit/(loss) to net cash flow from operating activities

	2004 £'000	2003 £'000
Operating profit/(loss)	**8,549**	*(3,820)*
Depreciation	**1,164**	*1,223*
Amortisation of goodwill	**3,792**	*4,029*
Management long-term incentive plan	**(757)**	*(1,919)*
Adjustment for pension funding	**(2,911)**	*(3,029)*
(Increase)/Decrease in debtors	**(4,053)**	*534*
Increase/(Decrease) in creditors	**6,374**	*(2,043)*
(Decrease)/Increase in provisions	**(110)**	*68*
Net cash inflow/(outflow) from operating activities	**12,048**	*(4,957)*

23. Analysis of net funds

				2004
	Net funds at 1 Jan 2004 **£'000**	Cash flow **£'000**	Exchange movement **£'000**	Net funds at 31 Dec 2004 **£'000**
Cash at bank	**9,738**	**5,176**	**(404)**	**14,510**

24. Reconciliation of net cash flow to movement in net funds

	2004 £'000	2003 £'000
Increase/(Decrease) in cash in the year arising from cash flows	**5,176**	*(11,752)*
Exchange movement	**(404)**	*(438)*
Movement in net funds in the year	**4,772**	*(12,190)*
Net funds at 1 January	**9,738**	*21,928*
Net funds at 31 December	**14,510**	*9,738*

25. Acquisitions

The following summarises payments made during the year in relation to acquisitions in prior years and the remaining obligations in relation to those acquisitions:

(i) Czipin & Partners – acquired 31 May 2001

The final deferred cash payment of €1,454,000 together with accrued interest was paid on 31 May 2004. Additional consideration may become payable if the value of any shares of the Company allotted to certain vendors and still held by them at 31 May 2006 is less than the average price at which they were allotted. Any additional consideration is payable in cash or shares at the Company's option. Any such additional consideration is reduced by any notional profit (relative to the value on 31 May 2006) that could have been made had the shares been sold earlier than 31 May 2006 and also by any increase in the value of the shares between 31 May 2006 and 31 May 2008. Based upon the recent price of the Company's shares no material additional consideration will arise.

(ii) Parson Consulting – acquired 28 May 2002

69,103 shares were issued during the year at a price of 39.5 pence per share.

26. Financial instruments

Details of the Group's objectives and strategies with regard to financial instruments are set out in the Operating and Financial Review. The disclosures set out below exclude short term debtors and creditors as permitted by FRS 13. The amounts disclosed reflect the book value and fair value of the Group's financial instruments.

Interest rate and currency profile of financial instruments at the year end

Financial assets	**2004**	*2003*
	Floating rate	*Floating rate*
Currency	**£'000**	*£'000*
Sterling	**884**	*3,192*
US Dollar	**11,870**	*4,955*
Euro	**932**	*634*
Other	**824**	*957*
	14,510	*9,738*

The cash and short-term deposits attract interest rates based on LIBOR for periods of up to three months.

27. Commitments

Leases

The following annual commitments exist in respect of non-cancellable operating leases which expire as follows:

The Group	2004		2003	
	Land and buildings £'000	**Other £'000**	*Land and buildings £'000*	*Other £'000*
Within one year	**320**	**13**	*475*	*40*
In the second to fifth years inclusive	**1,069**	**14**	*735*	*24*
After five years	**373**	**–**	*494*	*–*
	1,762	**27**	*1,704*	*64*

28. Retirement benefits

The Group operates a number of defined contribution pension schemes throughout the world. In addition, in the USA the Group operates a closed defined benefit pension scheme and a closed unfunded plan which provides benefits in respect of post-retirement medical costs.

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 medical benefits plan applies only to certain former employees who retired prior to 30 June 1995 and to the post-retirement medical costs of a small number of current and former employees who were employed at that date.

Actuarial valuations of the US defined benefits pension scheme and medical benefits plan are carried out annually as at 1 January and updated to 31 December by a qualified actuary. The principal assumptions used for the recent actuarial valuations were:

	2004 %	*2003 %*	*2002 %*
Rate of increase in salaries	**not applicable**	*not applicable*	*not applicable*
Discount rate	**5.75**	*6.00*	*6.75*
General inflation assumption	**3.00**	*3.00*	*3.00*

In addition, the mortality assumptions were updated during 2004 resulting in an increase in the estimated future liabilities. There are neither guaranteed nor discretionary increases to benefits after retirement.

The net liabilities included in the Group balance sheet in relation to the US defined benefit pension scheme and medical benefits plan were:

	2004 £'000	*2003 £'000*	*2002 £'000*
US defined benefit pension scheme	**(10,262)**	*(11,858)*	*(13,508)*
US medical benefits plan	**(1,121)**	*(1,355)*	*(3,782)*
	(11,383)	*(13,213)*	*(17,290)*

The fair value of the assets in the US defined benefit pension scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were:

	2004		*2003*		*2002*	
	%	**£'000**	*%*	*£'000*	*%*	*£'000*
Equities	**9.0**	**17,099**		*15,831*		*13,223*
Bonds	**5.5**	**6,903**		*6,543*		*6,930*
Cash		**385**		*–*		*416*
Total fair value of assets	**8.0**	**24,387**	*8.0*	*22,374*	*9.0*	*20,569*
Present value of scheme liabilities		**(34,649)**		*(34,232)*		*(34,077)*
Deficit in the scheme		**(10,262)**		*(11,858)*		*(13,508)*

The contributions required to the scheme are determined annually in order to meet the US statutory minimum funding requirements and the contributions made in 2004 and the prior year are set out in the table of movement in balance sheet amounts below.

a) Analysis of the amount charged to operating profit

	2004	*2003*
	£'000	*£'000*
US defined benefit pension scheme		
Current service costs	**1**	*1*
Defined contribution schemes	**799**	*827*
Operating charge in respect of pension schemes	**800**	*828*
US medical benefits plan		
Past service costs	**–**	*(1,575)*
Total operating charge/(credit)	**800**	*(747)*

b) Analysis of the amount included in net finance income

	2004	*2003*
	£'000	*£'000*
US defined benefit pension scheme		
Expected return on pension scheme assets	**1,764**	*1,579*
Interest on pension scheme liabilities	**(1,968)**	*(2,211)*
	(204)	*(632)*
US medical benefits plan		
Interest on plan liabilities	**(68)**	*(93)*
Net finance charges	**(272)**	*(725)*

c) Analysis of the actuarial (loss)/gain in the statement of total recognised gains and losses (STRGL)

	2004 £'000	2003 £'000
US defined benefit pension scheme		
Actual return less expected return on pension scheme assets	**567**	*2,973*
Experience gains and losses arising on the scheme liabilities	**(123)**	*(136)*
Changes in assumptions underlying the present value of the scheme liabilities	**(2,233)**	*(3,173)*
	(1,789)	*(336)*
US medical benefits plan		
Experience gains and losses arising on the plan liabilities	**123**	*302*
Changes in assumptions underlying the present value of the plan liabilities	**(30)**	*319*
	93	*621*
Actuarial (loss)/gain recognised in STRGL	**(1,696)**	*285*

d) Movement in balance sheet amount

	2004 £'000	2003 £'000
US defined benefit pension scheme		
At 1 January	**(11,858)**	*(13,508)*
Current service costs	**(1)**	*(1)*
Contributions	**2,790**	*1,315*
Net finance charge	**(204)**	*(632)*
Actuarial loss	**(1,789)**	*(336)*
Foreign exchange translation	**800**	*1,304*
At 31 December	**(10,262)**	*(11,858)*
US medical benefits plan		
At 1 January	**(1,355)**	*(3,782)*
Past service costs	**–**	*1,575*
Payment of benefits	**122**	*140*
Net finance charge	**(68)**	*(93)*
Actuarial gain	**93**	*621*
Foreign exchange translation	**87**	*184*
At 31 December	**(1,121)**	*(1,355)*
Total at 31 December	**(11,383)**	*(13,213)*

e) History of experience gains and losses

	2004	2003	2002	2001	2000
	£'000	£'000	£'000	£'000	£'000
US defined benefit pension scheme					
Difference between the expected and actual return on scheme assets:	**567**	2,973	(5,214)	(4,931)	25
Percentage of scheme assets	**2.3%**	13.3%	(25.3%)	(18.4%)	0.1%
Experience gains and losses on scheme liabilities	**(123)**	(136)	(1,001)	(432)	(365)
Percentage of the present value of the scheme liabilities	**(0.4%)**	(0.4%)	(2.9%)	(1.3%)	(1.1%)
Total actuarial loss in the statement of total recognised gains and losses	**(1,789)**	(336)	(8,368)	(6,643)	(3,211)
Percentage of the present value of the scheme liabilities	**(5.2%)**	(1.0%)	(24.6%)	(19.5%)	(9.9%)
US medical benefits plan					
Experience gains and losses on plan liabilities	**123**	302	477	649	1,020
Percentage of the present value of the plan liabilities	**11.0%**	22.3%	12.6%	13.2%	19.7%
Total actuarial gain in the statement of total recognised gains and losses	**93**	621	763	532	905
Percentage of the present value of the plan liabilities	**8.3%**	45.8%	20.2%	10.8%	17.5%

29. Principal subsidiary undertakings

At 31 December 2004, the Company had the following principal subsidiary undertakings engaged in the provision of management consultancy services. The shareholdings were 100% of the subsidiary undertakings' ordinary shares and were held indirectly, except where otherwise indicated.

	Countries of incorporation / operation
Proudfoot Consulting Company	USA
Proudfoot Consulting Inc	Canada
Proudfoot Consulting (Europe) Limited*	Great Britain / Europe
Czipin & Proudfoot Consulting GmbH	Germany
IMR Proudfoot SAS	France
Czipin & Proudfoot Consulting GmbH	Austria
IMR Proudfoot SA	Spain
Proudfoot South Africa (Pty) Ltd	South Africa/Africa
Proudfoot Consulting Africa (Pty) Ltd	South Africa/Africa
Proudfoot Company Management Services GmbH (trading as Proudfoot Consulting)	Switzerland/Australia, New Zealand, Hong Kong
Parson Consulting LLC	USA
Parson Consulting Limited*	Great Britain

* Held directly

A full list of subsidiary and other related companies will be annexed to the next annual return of Management Consulting Group PLC to be filed with the Registrar of Companies.

30. Restatement of financial information under International Financial Reporting Standards

Basis of preparation

For the year ended 31 December 2005 the Company will be required to prepare consolidated financial statements under 'International Accounting Standards' as adopted by the European Commission (IFRS). These will be those International Accounting Standards, International Financial Reporting Standards and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB) that have been endorsed by the European Commission. This process is continuing and the Commission has yet to endorse certain standards issued by the IASB. In particular, the European Commission has not yet considered the adoption of an amendment to IAS 19 Employee benefits which would permit the actuarial gain relating to employee benefits schemes to be recognised through a Statement of Total Recognised Income and Expense rather than the Income Statement. The Group has assumed that this amendment will be endorsed in preparing the financial information in this note.

The process of finalising IFRS is continuing and, accordingly, it has been necessary to prepare the IFRS information included in this note using certain assumptions regarding the form of IFRS that will apply to the 2005 financial statements when they are prepared. It is possible, therefore, that the comparative information included in the financial statements for the year ending 31 December 2005 may differ from the information provided in this note.

Under IFRS, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity and cash flow statement, together with comparative financial information and explanatory notes can provide a fair presentation of the Group's financial position, results of operations and cash flows in accordance with IFRS.

As the Group's consolidated financial statements for the year ending 31 December 2005 will be prepared under IFRS, the Group's financial results for the six months ending 30 June 2005 will also be prepared under IFRS.

This note presents and explains the consolidated results of the Group converted from UK Generally Accepted Accounting Principles (UK GAAP) to an IFRS basis for the year ended 31 December 2004. It summarises, on an IFRS basis:

- the consolidated income statement for the year ended 31 December 2004;
- the consolidated opening balance sheet at 1 January 2004, which is the transition date for the Group's adoption of IFRS;
- the consolidated balance sheet at 31 December 2004; and
- the consolidated cash flow statement for the year ended 31 December 2004.

The standards giving rise to changes to the Group's consolidated results on transition from UK GAAP to IFRS, and their financial impact, are as follows:

IFRS 2 Share-based Payment

Under IFRS 2, the Group recognises a charge for the fair value of outstanding share options granted to employees after 7 November 2002. The charge has been calculated using the stochastic option pricing model and the resulting cost has been charged to the income statement over the relevant option vesting periods, adjusted to reflect actual and expected levels of vesting. There was no charge to the profit and loss account in 2004 under UK GAAP in relation to share options granted to employees. The impact of IFRS 2 is a reduction in retained earnings as at 1 January 2004 of £0.2 million and a charge of £0.4 million for the year ended 31 December 2004. A deferred tax asset of £0.2 million is recognised in relation to the share option scheme.

IFRS 3 Business Combinations

Under IFRS, goodwill is no longer amortised but held at carrying value in the balance sheet and tested annually for impairment (with a specific requirement to be tested at the date of transition) and when there are indications of impairment. The goodwill amortisation under UK GAAP of £3.8 million charged during the year has been reversed under IFRS. All goodwill has been tested for impairment for the year ended 31 December 2004 and at the transition date in accordance with IFRS, and no adjustment was deemed necessary.

Under the transitional rules of IFRS 1, the Group has taken advantage of the option not to apply IFRS 3 retrospectively to business combinations that took place before the date of transition. As a result, goodwill arising from past business combinations is recorded initially in the opening balance sheet at the amortised carrying value under UK GAAP on that date.

IAS 10 Events after the Balance Sheet Date

IAS 10 requires that dividends are recognised in the period in which they are declared. This is different to UK GAAP where the proposed dividend is recognised in the profit and loss account. The final proposed dividend for 2003 of £0.9 million has been reversed out of the opening balance sheet and recorded at the amount paid in the year ended 31 December 2004. Similarly, the final proposed dividend for 2004 of £1.2 million has been reversed from the income statement.

30. Restatement of financial information under International Financial Reporting Standards (continued)

IAS 19 Other Long-term Benefits

Deferred employee bonuses awarded in respect of the year ended 31 December 2004 but not payable in cash and shares until 31 December 2007, are accounted for under IAS 19 as deferred long-term benefits, and will be expensed to the income statement over the subsequent three year deferral period under IFRS. Under UK GAAP they are charged in full to the profit and loss account in 2004. This results in a credit to the 2004 income statement of £0.5 million, included in "Other adjustments," and a corresponding reduction in liabilities at 31 December 2004. Deferred tax of £0.2 million is provided under IFRS in respect of the deferred employee bonuses.

IAS 38 Intangible Assets

IAS 38 requires computer software costs, including development costs, to be classified as intangible assets. Capitalised software of £0.4 million is reclassified at 31 December 2004 as intangible assets, which continue to be amortised over three years or the life of the software contract if shorter. The opening balance sheet under IFRS includes a similar reclassification of £0.4 million.

IAS 21 The Effects of Changes in Foreign Exchange

Under IFRS, translation differences arising from the date of transition to IFRS that are permitted to be taken to reserves must be tracked in a separate foreign exchange reserve. Foreign exchange taken to reserves relating to translation of foreign equity investments must be recycled to the income statement on disposal of the investment.

The Group has elected to take the exemption, permitted under the transitional rules, of not applying IAS 21 retrospectively; this has allowed the Group to reset to zero its historic foreign exchange reserve at 1 January 2004 of £12.3 million by means of a reclassification to retained earnings. The gain or loss on any subsequent disposal of a foreign subsidiary will be adjusted only by those accumulated translation adjustments arising after 1 January 2004.

(a) Income statement for the year ended 31 December 2004

	Previously reported under UK GAAP £'000	IFRS 2 Share based payment £'000	IFRS 3 Business combinations £'000	IAS 10 Dividend £'000	Other £'000	Restated under IFRS £'000
Revenue	**119,248**	**–**	**–**	**–**	**–**	**119,248**
Cost of sales	(60,270)	(144)	–	–	–	(60,414)
Gross profit	**58,978**	**(144)**	**–**	**–**	**–**	**58,834**
Distribution costs	(30,362)	(86)	–	–	–	(30,448)
Goodwill amortisation	(3,792)	–	3,792	–	–	–
Administrative expenses excluding goodwill amortisation	(16,275)	(209)	–	–	534	(15,950)
Operating profit	**8,549**	**(439)**	**3,792**	**–**	**534**	**12,436**
Finance costs	(34)	–	–	–	–	(34)
Profit before tax	**8,515**	**(439)**	**3,792**	**–**	**534**	**12,402**
Tax	(2,995)	160			(190)	(3,025)
Profit after tax	**5,520**	**(279)**	**3,792**	**–**	**344**	**9,377**
Dividends	(1,221)	–	–	296	–	(925)
Profit for the year	**4,299**	**(279)**	**3,792**	**296**	**344**	**8,452**
Earnings per share - basic	**2.98p**					**5.07p**
Earnings per share - diluted	**2.96p**					**5.02p**

30. Restatement of financial information under International Financial Reporting Standards (continued)

(b) Balance sheet as at 1 January 2004 (date of transition)

	Previously reported under UK GAAP £'000	IFRS 2 Share based payment £'000	IAS10 Dividends £'000	IAS 38 Intangible assets £'000	IAS 21 Foreign exchange reserve £'000	Restated under IFRS £'000
Non-current assets						
Goodwill	69,206	–	–	–	–	69,206
Other intangible assets	–	–	–	390	–	390
Property, plant and equipment	1,649	–	–	(390)	–	1,259
Total non-current assets	**70,855**	**–**	**–**	**–**	**–**	**70,855**
Current assets						
Trade and other receivables	7,910	–	–	–	–	7,910
Cash and cash equivalents	9,738	–	–	–	–	9,738
Total current assets	**17,648**	**–**	**–**	**–**	**–**	**17,648**
Total assets	**88,503**	**–**	**–**	**–**	**–**	**88,503**
Current liabilities						
Trade and other payables	(19,084)	–	–	–	–	(19,084)
Dividend to shareholders	(944)	–	944	–	–	–
Current tax liability	(3,987)	–	–	–	–	(3,987)
Total current liabilities	**(24,015)**	**–**	**944**	**–**	**–**	**(23,071)**
Total assets less current liabilities	**64,488**	**–**	**944**	**–**	**–**	**65,432**
Non-current liabilities						
Retirement benefits obligation	(13,213)	–	–	–	–	(13,213)
Non-current tax liabilities	(2,359)	–	–	–	–	(2,359)
Deferred tax liabilities	(1,296)	–	–	–	–	(1,296)
Long-term provisions	(1,884)	–	–	–	–	(1,884)
Other non-current payables	(1,028)	–	–	–	–	(1,028)
Total non-current liabilities	**(19,780)**	**–**	**–**	**–**	**–**	**(19,780)**
Total assets less total liabilities	**44,708**	**–**	**944**	**–**	**–**	**45,652**
Equity						
Share capital	47,198	–	–	–	–	47,198
Share premium account	38,009	–	–	–	–	38,009
Shares to be issued	2,166	–	–	–	–	2,166
Share compensation reserve	–	177	–	–	–	177
Own shares	(970)	–	–	–	–	(970)
Hedging and translation reserves	(12,338)	–	–	–	12,338	–
Other reserves	12,747	–	–	–	–	12,747
Retained earnings	(42,104)	(177)	944	–	(12,338)	(53,675)
Total equity	**44,708**	**–**	**944**	**–**	**–**	**45,652**

(c) Balance sheet as at 31 December 2004

	Previously reported under UK GAAP £'000	IFRS 2 Share based payment £'000	IFRS 3 Business combinations £'000	IAS 10 Dividends £'000	IAS 38 Intangible assets £'000	IAS 21 Foreign exchange reserve £'000	Other £'000	Restated under IFRS £'000
Non-current assets								
Goodwill	62,317	–	3,792	–	–	–	–	66,109
Other intangible assets	–	–	–	–	392	–	–	392
Property, plant and equipment	1,789	–	–	–	(392)	–	–	1,397
Total non-current assets	**64,106**	**–**	**3,792**	**–**	**–**	**–**	**–**	**67,898**
Current assets								
Trade and other receivables	12,575	160	–	–	–	–	–	12,735
Cash and cash equivalents	14,510	–	–	–	–	–	–	14,510
Total current assets	**27,085**	**160**	**–**	**–**	**–**	**–**	**–**	**27,245**
Total assets	**91,191**	**160**	**3,792**	**–**	**–**	**–**	**–**	**95,143**
Current liabilities								
Trade and other payables	(24,756)	–	–	–	–	–	534	(24,222)
Dividend to shareholders	(1,240)	–	–	1,240	–	–	–	–
Current tax liability	(4,722)	–	–	–	–	–	–	(4,722)
Total current liabilities	**(30,718)**	**–**	**–**	**1,240**	**–**	**–**	**534**	**(28,944)**
Total assets less current liabilities	**60,473**	**160**	**3,792**	**1,240**	**–**	**–**	**534**	**66,199**
Non-current liabilities								
Retirement benefits obligation	(11,383)	–	–	–	–	–	–	(11,383)
Non-current tax liabilities	(1,859)	–	–	–	–	–	–	(1,859)
Deferred tax liabilities	(1,111)	–	–	–	–	–	(190)	(1,301)
Long-term provisions	(1,774)	–	–	–	–	–	–	(1,774)
Other non-current payables	(686)	–	–	–	–	–	–	(686)
Total non-current liabilities	**(16,813)**	**–**	**–**	**–**	**–**	**–**	**(190)**	**(17,003)**
Total assets less total liabilities	**43,660**	**160**	**3,792**	**1,240**	**–**	**–**	**344**	**49,196**
Equity								
Share capital	47,256	–	–	–	–	–	–	47,256
Share premium account	38,026	–	–	–	–	–	–	38,026
Shares to be issued	185	–	–	–	–	–	–	185
Share compensation reserve	–	616	–	–	–	–	–	616
Own shares	(970)	–	–	–	–	–	–	(970)
Hedging and translation reserves	(14,083)	–	–	–	–	12,338	–	(1,745)
Other reserves	12,747	–	–	–	–	–	–	12,747
Retained earnings	(39,501)	(456)	3,792	1,240	–	(12,338)	344	(46,919)
Total equity	**43,660**	**160**	**3,792**	**1,240**	**–**	**–**	**344**	**49,196**

30. Restatement of financial information under International Financial Reporting Standards (continued)

(d) Cash flow statement as at 31 December 2004

	Previously reported under UK GAAP £'000	Effect of transition to IFRS for the year ended 31 December 2004 £'000	Restated under IFRS £'000
Cash flow from operating activities	**12,048**	**(3,806)**	**8,242**
Cash flow from investing activities	**206**	**(2,395)**	**(2,189)**
Taxation	(3,806)	3,806	–
Capital expenditure and financial investments	(1,321)	1,321	–
Acquisitions and disposals	(1,074)	1,074	–
	6,053	**–**	**6,053**
Cash flow from financing activities	**48**	**(925)**	**(877)**
Equity dividends paid	(925)	925	–
Net increase in cash and cash equivalents	**5,176**	–	**5,176**
Cash and cash equivalents at beginning of year	**9,738**	**–**	**9,738**
Effect of foreign exchange rates	(404)	–	(404)
Cash and cash equivalents at end of year	**14,510**	**–**	**14,510**

contacts for investors and clients

www.mcgplc.com

Registered office

Fleet Place House
2 Fleet Place
Holborn Viaduct
London EC4 7RF
Tel: +44 20 7710 5000
Fax: +44 20 7710 5001

Company number 1000608

Registrar

Capita Registrars
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Company secretary

Steve Hitchcock, *Company Secretary*
stevehitchcock@mcgplc.com

Palm Beach Gardens administrative office:
+1 561 624 4377

Additionally, we encourage shareholders to register for copies of corporate communications on our investor relations website at **www.mcgplc.com**

The Company's corporate governance report, corporate governance guidelines and terms of reference of the Board's committees can also be found at **www.mcgplc.com**

Investor relations

The Group welcomes contact with its shareholders.

Enquiries should be directed to:

Kevin Parry, *Chief Executive*
kparry@mcgplc.com
or
Mark Currie, *Finance Director*
mcurrie@mcgplc.com

London Office: +44 20 7710 5000

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

Financial calendar

Annual General Meeting	26 April 2005
Ex-dividend date	27 April 2005
Record date	29 April 2005
Final dividend payment	25 May 2005

Operational contacts

We welcome clients introduced by shareholders. Shareholders wishing to provide introductions to potential clients should contact Kevin Parry or Mark Currie (see contact details above).

Share price information

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

The Financial Times City line service also provides this information on 0906 003 4677 (calls charged at 60p per minute).

Shareholder services

On-line services are now available to private shareholders. To use these facilities visit www.capitaregistrars.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 Registrars helpline on 0870 162 3100, overseas +44 20 8639 2157, or email ssd@capitaregistrars.com.

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 (on-line dealing) or 0870 458 4577 (telephone dealing).

company advisers

Joint stockbroker and joint financial adviser
Panmure Gordon
50 Stratton Street
London W1J 8LL
United Kingdom

Joint stockbroker
Evolution Securities
100 Wood Street
London EC2V 7AN
United Kingdom

Joint financial adviser
KPMG Corporate Finance
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Auditors
Deloitte & Touche LLP
Hill House
1 Little New Street
London EC4A 3TR
United Kingdom

Investor relations
The Maitland Consultancy Limited
Orion House
5 Upper St Martin's Lane
London WC2H 9EA
United Kingdom

Legal adviser
Baker & McKenzie
100 New Bridge Street
London EC4V 6JA
United Kingdom

notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Management Consulting Group PLC will be held at the Institute of Directors, 116 Pall Mall, London, SW1Y 5ED on Tuesday 26 April 2005, at 10am for the undermentioned purposes:

1. To receive and adopt the Directors' report and annual accounts of the Company for the year ended 31 December 2004 together with the auditors' report on those accounts.
2. To receive and approve the Directors' Remuneration Report as set out in the report and accounts of the Company for the year ended 31 December 2004.
3. To declare the final dividend for the year ended 31 December 2004 of 0.67 pence per share.
4. To re-appoint Dr Rolf Stomberg as a director of the Company, who is retiring by rotation.
5. To re-appoint Mr Mark Currie as a director of the Company, who, having been appointed after the last Annual General Meeting, is required to stand down and offer himself for re-appointment.
6. To appoint Mr Alan Barber as a director of the Company.
7. To re-appoint Deloitte & Touche LLP as auditors to the Company, to hold office until the conclusion of the next Annual General Meeting and to authorise the directors to determine the auditors' remuneration.
8. To consider and, if thought fit, pass the following resolutions, which will be proposed, as to resolution 8(a) as an ordinary resolution, and, as to resolutions 8(b) and (c), as special resolutions:
   (a) THAT the directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (within the meaning of that Section) up to an aggregate nominal amount of £19,340,000 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in General Meeting) on the earlier of the fifth anniversary of the passing of this resolution and the Annual General Meeting of the Company to be held in 2010, save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority hereby conferred had not expired and such authority shall be in substitution for all previous authorities pursuant to the said Section 80, which are hereby revoked, without prejudice to any allotment of relevant securities pursuant thereto.
   (b) THAT, subject to the passing of resolution 8(a) in the notice of meeting, the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act as from time to time amended) wholly for cash pursuant to the authority conferred by such resolution as if subsection (1) of Section 89 of the said Act did not apply to such allotment provided that this power shall be limited:
      (i) to the allotment of equity securities where the securities have been offered (whether by way of rights issue, open offer or otherwise) to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory);
      (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £2,362,804.25;

notice of Annual General Meeting

(continued)

and shall expire (unless previously renewed, varied or revoked by the Company in General Meeting) on the earlier of the fifth anniversary of the passing of this resolution and the Annual General Meeting to be held in 2010, save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired and such authority shall be in substitution for all previous disapplications of Section 89(1) of the Companies Act 1985, which are hereby revoked, without prejudice to any allotment of securities pursuant thereto.

(c) THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 25 pence each in the capital of the Company ('ordinary shares') provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 18,902,435;

(ii) the minimum price which may be paid for an ordinary share shall be an amount equal to the nominal value of an ordinary share from time to time;

(iii) the maximum price which may be paid for an ordinary share shall be an amount equal to 105% of the average of the middle market quotations for an ordinary share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;

(iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 25 July 2006, whichever is earlier, unless such authority is renewed or revoked prior to such time, save that the company may enter into contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contracts will or may be executed wholly or partly after the expiry of such authority, and may make purchases of ordinary shares pursuant to any such contracts.

By order of the Board

F Steven Hitchcock
Company Secretary

7 March 2005

Notes

(i) An explanation of the business of the meeting is given in the Directors' Report.

(ii) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of the member. Any such proxy need not be a member of the Company. Completion of a proxy form will not prevent a member from attending and voting at the meeting should the member so wish.

(iii) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company, as at 10am on 24 April 2005, shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the relevant register of securities after 10am on 24 April 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(iv) To appoint a proxy:

either,

- the proxy form, which is enclosed for this purpose, together with any authority under which it is executed (or a notarially certified copy of such authority), must be duly completed and lodged with the Registrar at the offices of Capita Registrars, The Registry, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 10am on 24 April 2005.

or,

- CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such Instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA 10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST systems and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35 (5)(a) of the Uncertificated Securities Regulations 2001.

(v) Copies of the directors' service contracts will be available for inspection at the registered office during usual business hours on any weekday (Saturdays, Sundays and Public Holidays excepted) up to and including the date of the meeting and at the place of meeting for 15 minutes prior to, and during the meeting.

(vi) The register of directors' interests in shares of the Company in accordance with Section 325 of the Companies Act 1985 will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and Public Holidays excepted) up to and including the date of the meeting and at the place of meeting for 15 minutes prior to, and during the meeting.