Management Consulting Group PLC

contents

corporate profile

Management Consulting Group PLC

Group consultancies

Management Consulting Group PLC is comprised of two leading specialist consultancies:

- 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 by acquisition and by delivering organic revenue and margin growth as a multi-disciplinary consulting and professional services group.

Strategy

The Group will:

- operate and continually invest in its consultancies and its people 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.

Head office

Investor relations +44 20 7710 5000

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

consultancy profile

people ■ productivity ■ profitability

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. Over 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 geographic regions. Representative clients include AMP, BP, Degussa, Exide, Newmont Mining, Sara Lee and Société Générale.

Our people

Our analysts are highly trained to identify clients' issues and quantify 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.

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.

proudfoot consulting™

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 also 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

- An insurance company halved the new product development cycle by installing more timely and frequent launches of targeted products resulting in a sales increase of over US$15 million within nine months.
- Over the last five years working with a global telecommunications manufacturer on manufacturing, logistics, product development and revenue enhancement, we delivered over US$157 million of profit improvements.
- A worldwide flooring and kitchen manufacturer had successfully increased its sales but needed a better management system to deliver its products to fulfill the orders. The new process and procedures delivered a profit improvement of over US$13 million annually.
- A leading business service provider, focused on outsourcing and marketing services, reduced costs by £2 million whilst improving relationships with key clients by installing relevant and efficient KPIs and a focused management operating system.
- For 10 years, we have worked with one of the world's largest mining companies to increase production at different sites against a background of initially falling and more recently rising minerals prices. We have achieved over £78 million in profit growth, in one case, and extended the life of a mine by ten years.
- Call centre employees at a global 100 telecommunications company only spent 25% of their time selling with the rest of their time spent on onerous administration. By streamlining administration and improving the handling rates, sales increased by £2.8 million, annual cost savings of £1 million and improved customer service were achieved.
- Partnering with a car component manufacturer, we improved the supply chain efficiency and procurement practices resulting in benefits of US$3.3 million.
- Working in a unionised environment, we increased productivity in operations, streamlined an organisational structure and optimised the purchasing system, reducing costs by 27% and saving €5.8 million.

Regional head offices

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

www.proudfootconsulting.com

consultancy profile

no-conflict financial management

Our uniqueness

Parson Consulting develops excellence in finance and operations. To meet today's standards of corporate governance we do not audit or resell software and therefore are free of any conflicts of interest. Our financial management consulting services are provided from 14 offices across the United States, Europe and Asia Pacific.

Our focus

Parson Consulting assists Chief Financial Officers to provide valuable financial information and insight to stakeholders 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.

We assist finance functions and operational support functions whether they adopt a maximum efficiency, maximum value added or balanced service approach.

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.

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 independent research firm)

Representative clients

We have worked with over 1,000 clients, including over one-third of the Fortune 500. Among them are: Astra Zeneca, Avis, Barclays, Citigroup, Ford, General Mills, JP Morgan Chase, Shell, Unilever and Warner Bros.

Our people

Our people typically have extensive professional experience and have worked in financial management and operational roles. 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.

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

Do you produce accurate, business relevant information on a timely basis as efficiently as possible? Does your business comply with corporate governance standards such as Sarbanes-Oxley? Do you need assistance with modelling and forecasting in relation to a corporate transaction? If you believe you can develop, 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

Strategic finance

- A global industrial gases company, with a finance shared service centre, wanted to understand the benefits, risks and costs associated with an offshore finance business process outsourcing solution prior to determining its future location.
- After a strategic finance review, the reporting lines for a large oil company were restricted to ensure that the financial and non-financial KPIs were reported consistently by each back office function and geographic region.

Accounting and finance operations

- Following the merger of a European defence company, we examined its operating structure, forecasting and overall efficiency. Savings of £15-20 million were identified.
- A 60% reduction in the monthly close cycle time was obtained by installing a shared service accounting centre for a Fortune 200 diversified manufacturer.

Governance and risk management

- After completing the Sarbanes-Oxley Section 404 compliance work for a global consumer goods manufacturer, the work was expanded to identify control improvements and other opportunities regarding process efficiency and operational risk.
- A major clothing retailer stabilised its ongoing Sarbanes-Oxley Section 404 compliance programme by implementing specialist Sarbanes-Oxley software. We configured the software to customise it to the client's environment and supported the implementation process.

Transaction assistance

- A private equity backed business was supported through its twin track IPO/trade sale process, preparing forecasts and information as part of the due diligence process.
- An £800 million pan European services business required specialist resource to assist with its secondary fund raising by project managing the internal process, preparing and challenging forecast information and liaising with stakeholders.

Regional head offices

Americas	+1 312 541 4690	France	+33 1 4076 9000
UK	+44 20 7710 5200	Australia	+61 2 8913 9600

www.parsonconsulting.com

management statement

The results for the year ended 31 December 2005 are summarised as follows:

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
	£'000	£'000
Revenue		
Proudfoot Consulting	**86,385**	81,437
Parson Consulting	**43,216**	37,811
	129,601	119,248
Profit from operations		
Proudfoot Consulting	**11,314**	10,082
Parson Consulting	**2,245**	2,354
	13,559	12,436

All figures are stated in accordance with International Financial Reporting Standards.

Overview

Trading in 2005 showed good progress in both consultancies. The performance of the Group improved as the year progressed. We entered 2006 with a strong order book.

Revenue for the year was up 9%. There was no material change in the balance of our businesses with Proudfoot Consulting generating 67% of revenue (2004: 68%) and Parson Consulting generating 33% of revenue (2004: 32%).

North America remains our most important geographic region but its dominance declined somewhat from 65% of revenue to 61% of revenue with a greater share in Europe and elsewhere. This reflected our investment in geographic regions outside North America.

The gross profit margin continues to be tightly managed and was little changed from last year at 50% (2004: 49%). Administrative expenses increased by only 2%. Selling costs increased to 27% of revenue compared with 26% last year reflecting the recruitment costs as we expanded the geographic coverage of Proudfoot Consulting to Greater China and Parson Consulting to France and Australia.

Profit from operations increased by 9% to £13.6 million. This includes a credit of £0.9 million arising from a time expired indemnity given in 2000 in connection with the sale of Proudfoot Consulting's Japanese operations. The 2004 profit included a similar sized credit of £0.8 million arising from an expired management incentive plan.

Net finance income increased to £0.4 million, primarily from interest income on our cash balance.

Profit before tax was £13.9 million, an increase of 12% on 2004.

Earnings per share increased by 15% to 5.3 pence per share.

Proudfoot Consulting

Proudfoot Consulting's revenue was £86.4 million, an increase of 6% over 2004. Revenue grew in both the dominant markets of North America and Europe; North America by 7% and Europe by 3%.

In North America, the same industry sectors continued to buy Proudfoot Consulting's services as last year: manufacturing, natural resources, telecommunications and financial. The services purchased focussed on clients achieving greater sales effectiveness and greater output through productivity gains as well as an ongoing emphasis on lower cost production through better supply chain and procurement management in particular.

The UK business continued to be the strongest in Europe. In addition, there were, late in 2005, encouraging signs of increased activity in continental Europe, particularly in Germany. We have not however, yet seen a sustained pattern of increased activity in any individual continental European country.

The revenue in the rest of the world included revenue of £0.8 million from Greater China following our opening of offices in Hong Kong and Shanghai in early 2005.

The profit from operations for the Proudfoot Consulting business was £11.3 million (2004: £10.1 million). After adding back depreciation, the EBITDA margin was unchanged at 13%, compared with our target of a sustainable 15% margin. The second half margin was 16% reflecting the higher revenue in the second half than in the first half and the inherent operational gearing in the business.

Parson Consulting

Parson Consulting's revenue increased to £43.2 million, an increase of 14% over 2004. The growth in revenue was achieved despite the peak demand for US domestic Sarbanes-Oxley related work having passed in 2004.

The profit from operations was £2.2 million, £0.1 million lower than 2004. After adding back depreciation and the start up costs, the EBITDA margin was 9%. We continue to target a sustainable 15% EBITDA margin from top line growth and operational gearing.

Parson Consulting has continued to invest in diversifying its worldwide service offerings and its non US geographic regions to counteract the impact of the declining demand for US based Sarbanes-Oxley related work. The revenue growth results from these investments. Non Sarbanes-Oxley related work amounted to £17 million in the year and the non US business now represents nearly 25% of the total revenue.

There were significant improvements in project margins in the year but this is not yet visible in the profit from operations due to the investments in service developments and people in Australia and France.

Balance sheet

Net assets increased by £9.7 million to £57.9 million, driven primarily by the post tax profits in the year of £9.8 million.

Whilst the average exchange rates were little changed in 2005 compared with 2004, the year end closing rates of exchange showed a strengthening of the US dollar to Sterling. As a result net assets increased by £1.5 million. This was offset by the lowering of the discount rate used to estimate our closed defined benefit pension fund liability which reduced net assets by approximately £1.6 million.

The cash balance increased by £7.1 million to £21.6 million at 31 December 2005 (2004: £14.5 million). The increase in cash is attributable to the trading result, offset by contributions to the closed US defined benefit pension plan, tax and dividends. The current cash balance places the Group in a strong position to pursue modest sized acquisitions as part of its strategy to grow the Group and diversify its consulting offerings.

Long term provisions declined due to the release of the Japanese indemnity provision, offset by a £0.5 million increase in the liability to the US retirement benefit plan as a result of foreign exchange losses and more conservative actuarial assumptions. In the year we continued to fund the plan to reduce the deficit further. The investment performance was broadly in line with actuarial assumptions.

Dividend

As a result of the growth in earnings per share from 4.6 pence to 5.3 pence, the cash position and the outlook for 2006, the Board is pleased to recommend a final dividend of 0.8 pence per share which represents an increase of 19% over the 0.67 pence per share in respect of 2004. The dividend will be payable on 5 June 2006 to shareholders on the register on 19 May 2006. Under IFRS, this dividend will be recognised in the Group's results in 2006.

People

We are grateful for the contribution of all employees and their part in the

management statement
(continued)

continued development of Proudfoot Consulting and Parson Consulting.

On 1 March 2005, Mark Currie joined the Board and succeeded Stephen Purse as the finance director. At the Annual General Meeting held on 26 April 2005, Alan Barber was appointed as a non-executive director to the Board.

On 3 March 2006, Stephen Ferriss and Andrew Simon joined the Board as non-executive directors and will offer themselves for re-election at the forthcoming Annual General Meeting.

Strategy

Our strategy is focussed on building a Group comprising a series of consultancies with particular specialisms in different aspects of consulting. This approach will diversify the dependency of the Group from our two existing consultancies.

We remain of the view that both the Proudfoot Consulting and the Parson Consulting businesses have excellent medium term prospects. Going forward, we will continue to expand the geographical overlap of the two businesses to maximise the benefit that comes from our existing infrastructure. We also intend to deepen the resource and our commitment to our existing businesses and continue to develop our service offerings.

Prospects

2005 was characterised by an abnormal first half to second half revenue split in Proudfoot Consulting. We do not expect this to be repeated in the current year. As it is too early in our current year to have good visibility into second half trading, it would be appropriate to assume that the normal seasonal bias to the first half of the year will be observed in 2006.

The strong end to 2005 in Proudfoot Consulting produced a high order book in that consultancy providing good visibility into the first half of the year. Parson Consulting's order book was little changed from the end of the previous year. Trading in the first two months of the year in Proudfoot Consulting has shown strong year on year growth in all its markets. Parson Consulting has started the year slowly in North America but has shown good growth in other geographic regions.

Consequently, the Group should deliver strong year on year revenue growth in the first half of the year driven by an encouraging outlook for Proudfoot Consulting balanced by a more cautious view for Parson Consulting.

Dr Rolf Stomberg

Chairman

Kevin Parry

Chief Executive

financial review

The business, its objectives and strategy

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

During 2005 particular attention was directed towards:

- extending the Parson Consulting and Proudfoot Consulting offering into new geographic regions; and
- building the consultancies in their core geographic regions.

Business review

The Group operates two management consulting businesses with very similar economic drivers.

Our business model

Proudfoot Consulting earns its revenue through charging its clients fixed fees, to assist them to improve their profitability. Clients are generally billed weekly over the period of the assignment and fees are inclusive of out of pocket expenses.

Parson Consulting generally charges clients on a time and expenses basis where out of pocket expenses are a pass-through cost. Parson Consulting bills clients weekly.

Five year summary

	2005 IFRS	2004 IFRS	2004 UK GAAP*	2003 UK GAAP*	2002 UK GAAP*	2001 UK GAAP*
	£m	£m	£m	£m	£m	£m
Revenue	**129.6**	**119.2**	119.2	88.6	107.3	72.1
Profit from operations	**13.6**	**12.4**	12.3	0.2	7.6	1.7
Finance income	**0.4**	**–**	–	–	0.4	0.5
Taxation	**(4.1)**	**(3.9)**	(3.0)	(1.1)	(0.6)	(0.5)
Profit/(loss) for the year	**9.8**	**8.5**	9.3	(0.9)	7.4	1.7
Basic earnings/(loss) per share+	**5.3p**	**4.6p**	5.0p	(0.5)p	4.7p	1.4p

* For 2004 and prior, the UK GAAP numbers have been adjusted to remove goodwill amortisation which was the major adjustment to profit from operations arising from the conversion to IFRS.
+ adjusted for effect of capital issue in May 2002

Both consultancies actively manage their utilisation through rigorous staff forecasting and scheduling. This, in combination with tight management of travel and accommodation costs in Proudfoot Consulting, allows us to achieve a consistent 50% gross margin after allowing for investment in training our delivery staff and time off for holidays and sickness. We manage our resource base on a continental and global basis to optimise utilisation. Our consultants are incentivised to deliver quality profitable assignments through a bonus scheme.

Our sales force is also incentivised through a bonus scheme; they receive bonuses based on the cash collected from fees billed to clients. They are paid a base salary and their bonus begins to accrue once they have sold a multiple of their salary at our target margin levels. This results in the sales cost to revenue ratio falling as revenue grows.

Overheads represent the costs of the support infrastructure for both consultancies and the head office management function, which provides shared service support for a number of functions including knowledge management, management information systems, human resources, marketing and finance. A number of our facilities are also shared across the world. Our overhead base has the capacity to support a greater level of revenue and activity than we currently generate. The bonus scheme for our back office staff is linked to the underlying profitability of

financial review
(continued)

our businesses which provides a hedge for the shareholders' return.

Information on the trading performance of the individual businesses and geographical units is given in the Management Statement.

Net assets

Net assets increased by £9.7 million to £57.9 million, driven primarily by the post tax profits in the year of £9.8 million.

Our profit for the year of £9.8 million is arrived at after charging £0.6 million for share option charges and £0.8 million for deemed tax charges connected to our US pension contributions. Neither of these items create liabilities for the Group so are added back to net assets.

During 2005 we paid a dividend of £1.2 million in respect of 2004's profits.

The major movements in the net assets were an increase in goodwill of £2.2 million to £68.3 million due to foreign exchange movements and an improvement in net current assets due to retained profits. The cash balance was £21.6 million, an increase of £7.0 million due to our high operational cash generation and continued strong working capital management.

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 2005 represented approximately 18 days' sales (2004: 16 days).

Whilst the average exchange rates were little changed in 2005 compared with 2004, the year end closing exchange rates showed a strengthening of the US dollar to Sterling. As a result net asset growth benefited from the strengthening of the US Dollar between the balance sheet dates of 10% resulting in an increase in our net assets of £1.5 million. This was offset by the actuarial loss on our closed defined benefit pension fund liability which reduced net assets by approximately £1.6 million.

Resources 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, while the engagement is being undertaken. This enables timely resolution of issues arising to ensure that the client is highly satisfied with the results of each assignment. It is our 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 on any individual client project. The largest client in 2005 accounted for approximately 10% (2004: 10%) of Group revenue. We undertook three separate engagements for that client, the largest of which accounted for 5% of Group revenue. The largest single project undertaken during the year accounted for approximately 5% (2004: 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 portion of incentive pay which is conditional on 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 businesses. 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 that take account of local laws and practices are in place.

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 services developed in accordance with the identified needs. Both Proudfoot Consulting and Parson Consulting have dedicated Practices groups which turn client needs into concrete offerings we can deliver to the market. 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.

Investment for the future has continued in staff skill sets, training, management information systems and marketing. Marketing expenditure has continued to focus on building potential clients' awareness of the Group's brands and the services we offer.

Risk management

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.

The major risks our business faces are related to maintaining and extending our client base, attracting and retaining talented employees and using our intellectual capital to full advantage.

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.

Financial review

Capital structure and treasury policies

The Group is wholly financed by shareholders' equity. The Group had surplus cash at 31 December 2005, which places the Group in a strong position to pursue modest sized acquisitions as part of its strategy to grow the Group and diversify its consulting offerings.

The Group's foreign exchange exposure is primarily a translation risk as 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. Translation risk arises primarily from the goodwill being denominated in US$ and Euros whilst there is a partial hedge against translation movement from the US$ long term retirement benefits liability.

Treasury activities are managed on a day-to-day basis by a treasurer who reports frequently to the executive directors. 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

financial review
(continued)

Group at minimum risk and minimum cost and to hedge known financial exposures. The main treasury risks faced by the Group are country specific liquidity risks.

Investment of the Group's cash is made within policies that cover counter party risk and liquidity. Surplus cash is invested generally on maturities of three months or less. 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 counterparties, within authorised limits and with the aim of maintaining short term liquidity whilst maximising yield.

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 retirement benefit obligation increased by £0.5 million to £11.9 million, as a result of more conservative actuarial assumptions. Cash contributions to the schemes amounted to £2.5 million. A net actuarial loss of £1.6 million arose as a result of the discount rate applicable to future benefits being decreased by 0.25% to 5.5%, more conservative mortality assumptions being used and the investment return of 7.3% being slightly below the long term assumed average of 8%. Our returns beat the benchmark returns by 1.4% points. The strengthening of the US$ increased the net liability by £1.3 million.

Cash flows

The cash balance at the year end was £21.6 million compared to £14.5 million at the prior year end, an increase of £7.1 million, of which £0.4 million was due to foreign exchange movements.

The net cash inflow from operating activities before taxation and pension funding was £14.1 million compared with £15.0 million in 2004. This represents an operating cash conversion rate of 104% (2004: 120%) due to our negative working capital profile which arises from the interaction of rapid debtor collection and deferred bonuses for employees.

The principal cash outflows were tax of £2.7 million, net investments in fixed assets of £1.1 million, payments into the closed pension and medical benefits schemes of £2.5 million and the payment of the 2004 dividend of £1.2 million.

Taxation

The Group's tax charge for 2005 was £4.1 million (2004: £3.9 million), which represents a reported effective tax rate of 30% (2004: 32%).

Excluding the credit in the current year associated with the Japanese indemnity provision, the effective tax rate is 32% (2004 excluding the credit in the prior year associated with the management incentive plan: 34%). The 2005 charge benefited from a release of prior year over-estimated liabilities of £1.2 million.

The current year effective "cash tax" rate is 29% as this benefits from tax deductions of £1.6 million in respect of pension contributions and goodwill which are not reflected in the income statement tax charge (in accordance with accounting standards).

We expect our "cash tax" charge to remain below the income statement tax charge for some years.

In addition we have tax losses in various countries. The ability to utilise these losses is uncertain and dependent on improvements in profitability particularly in Europe. Consequently, no deferred tax asset is recognised in respect of these losses.

Returns to shareholders

The basic earnings per share amounted to 5.3 pence, an increase of 15% compared with 4.6 pence in the prior year. The diluted earnings per share amounted to 5.2 pence compared with 4.5 pence in the prior year. Dilution occurs if performance criteria related to share options are met.

Having regard to the trading prospects and the cash balance, a final dividend of 0.8 pence per share is proposed. This represents a 19% increase over the dividend paid in respect of 2004's profits.

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.

International Financial Reporting Standards

The Group reports its full year results for 2005 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union from 1 January 2005. The prior year comparative figures have been restated under IFRS. The restatements of the 2004 full year results and balance sheet from UK Generally Accepted Accounting Principles (UK GAAP) to an IFRS basis and the restated opening balance sheet at 1 January 2004, which is the transition date for the Group's adoption of IFRS, are set out in notes 28 and 29 to the financial statements repeating information published previously.

The transition to IFRS resulted in an increase in both profit from operations and profit before tax for the year ended 31 December 2004 of £3.9 million compared with UK GAAP, 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 increased by £4.6 million under IFRS compared to UK GAAP, due predominantly to the post tax impact of the necessary adjustments and the reversal of the necessary proposed year end dividend of £1.2 million which is recorded when declared under IFRS.

Basic earnings per share for 2004 of 4.6 pence were 0.4 pence lower under IFRS than the headline earnings per share under UK GAAP (before goodwill amortisation).

Mark Currie
Finance Director

board of directors

Chairman **

R W H Stomberg

Dr Rolf Stomberg, aged 66, 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 TNT 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 44, 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 adviser to Knight Frank LLP.

Finance Director

M A Currie

Mark Currie, aged 43, joined the Board on 1 March 2005 and took 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.

Non-executive Director

A J Barber * # **

Alan Barber, aged 58, joined the Board in April 2005. He is a non-executive director of Invesco English & International Investment Trust PLC, JP Morgan Fleming Japanese Investment Trust PLC as well as two other private companies. He is a former non-executive director of Lastminute.com PLC and Teather & Greenwood Holdings PLC and was a partner in KPMG's London office up to 2004. He is Chairman of the Audit and Risk Committee.

Non-executive Director * # **

Baroness Cohen of Pimlico

Baroness Cohen, aged 65, 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 and TRL Electronics plc. She is the senior independent director and the Chairman of the Remuneration Committee.

Non-executive Director

J P Bolduc

J P Bolduc, aged 66, 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 President and Chief Executive Officer of J.A. Jones Inc. Mr Bolduc also serves on the Boards of Unisys Corporation and EnPro Industries, Inc. as well as several other private and not for profit enterprises.

Non-executive Director

S A Ferriss

Stephen Ferriss, aged 60, joined the Board on 3 March 2006. He is a US citizen residing in London. He spent 17 years at Bank of America working in the United States of America and latterly in London and Madrid. In 1987 he joined Bankers Trust and served in various roles including managing director and partner of the Bankers Trust's Global Investment Bank in London and New York. He spent three years from 1999 to 2002 as President and CEO of Santander Central Hispano Investment Securities Inc. He is a non-executive director of Santander Bancorp in Puerto Rico and of Unión Española de Explosivos S.A. in Spain.

Non-executive Director * **

A H Simon OBE

Andrew Simon, aged 60, joined the Board on 3 March 2006. He spent 23 years as the managing director, chief executive and chairman of the Evode Group PLC. Mr Simon holds an MBA from Wharton School of Finance in Philadelphia and has a diversified range of non-executive director and chairman positions. He is a non-executive director of Associated British Ports PLC, Brake Bros Limited, Dalkia PLC and Travis Perkins PLC in the UK and sits on the supervisory board of SGL Carbon AG. He is also a non-executive director of Finning International Inc. in Canada.

** 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 2005. These will be laid before the shareholders at the Annual General Meeting on 12 May 2006.

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 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 2005 amounted to £13.9 million (2004: £12.4 million).

Dividend

The directors recommend the payment of a final dividend of 0.8 pence per share to be paid on 5 June 2006 to ordinary shareholders on the register on 19 May 2006 (2004: 0.67 pence).

Directors

The names and brief biographical details of the directors are shown on the preceding two pages. Dr Stomberg, Mr Parry, Mr Bolduc and Baroness Cohen held office throughout the year. Mr Currie was appointed on 1 March 2005, Mr Barber was appointed on 26 April 2005 and both Mr Ferriss and Mr Simon were appointed on 3 March 2006. Mr Purse resigned to take up a position elsewhere on 7 March 2005, and Mr Jones stood down from the Board on 26 April 2005.

In accordance with the Company's Articles of Association Mr Ferriss and Mr Simon, having been appointed as directors after the last Annual General Meeting, will offer themselves for re-election at the forthcoming Annual General Meeting. Mr Bolduc and Baroness Cohen will retire from the Board by rotation at the forthcoming Annual General Meeting. Both Mr Bolduc and Baroness Cohen will offer themselves for re-election.

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. Related party transactions are disclosed in note 26.

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 2005 represents 24 days of average purchases during the year (2004: 7 days) for the Company and 15 days (2004: 15 days) for the Group.

Substantial share interests

As at 3 March 2006 (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	33,189,628	17.52
BriTel Fund Trustees Limited	15,255,855	8.05
UBS AG	9,326,177	4.92
Royal Mail Pensions Trustees Limited	7,756,099	4.09
Legal and General Group PLC	6,465,130	3.42
Barclays PLC	6,144,828	3.24

Corporate social responsibility

Mr Currie replaced Mr Purse on 7 March 2005 as the director responsible for the Group's corporate social responsibility. Since the last annual report was published, active steps have been taken to improve the Group's policies and performance. A proposed Environmental Management System has been produced and submitted to the Board. In the places in which the Group operates, it aims to make a social and economic contribution, including minimising effects on the environment.

Environmental policy

The Group seeks excellence in all aspects of its business and during 2005 carried out a thorough review of its environmental practices. A revised environmental policy has been developed that aims to minimise, where practical, the Group's impact on the environment.

As a group of management consulting companies, the Group's business has a relatively small impact on the environment. Nevertheless, the Board recognises the quality of the environment in which it operates is a concern for its stakeholders and others in the community and consequently is essential to the long-term financial performance of the Group.

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

Following the reporting guidelines issued by the Department for Environment, Food and Rural Affairs (DEFRA), the Group's Environmental Officer has identified areas where the Group could have an impact on the environment and has taken steps to reduce this impact. These are detailed below. Reviews of the quantitative impact on the environment in these and other areas will continue to be undertaken to enable the Group's environmental performance to be assessed and further improved.

Energy use and climate change

Carbon dioxide is one of the most significant air pollutants as it is currently responsible for approximately 60% of the "enhanced greenhouse gas effect".

From 1 January 2005, the amount of electricity used in the Group's largest offices is being measured to identify how much is used and identify where reductions can be made in the future.

Due to the nature of the business and the need for employees with appropriate experience to work on projects, employees regularly need to travel to clients' sites, often this involves travelling to different countries. Employees are encouraged, wherever possible, to use public transport. Fee-earning staff currently fly to approximately 54% of assignments. However, because of careful resource planning, over 90% of flights made by employees are short-haul.

Whilst improvements are still possible, the Group has made progress in reducing energy consumption. One third of offices have energy saving devices within them. The principle methods adopted by the Group to reduce energy consumption are as follows:

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

Waste and recycling

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

Quantitative information regarding the amount of waste produced by the Group during a particular period is currently not available, however it is estimated that over 70% of such waste could be recycled. All offices recycle printer cartridges and over half currently recycle paper.

The Group has stepped up its efforts to reduce waste and increase recycling by:

- encouraging employees to recycle paper and toner cartridges. Recycling facilities are available in the largest offices and by the end of 2006, the Group aims to have facilities in all offices with ten or more employees;
- giving furniture and computer equipment which is no longer needed to local schools or selling it to employees; and
- stripping obsolete computer equipment for useful parts before being disposed of in accordance with the European Waste Electrical and Electronic Equipment Directive.

Water

Water usage throughout the world is growing at an unsustainable speed. The UK government predicts that by 2025 two-thirds of the world's population will live in water-stressed conditions. The Group does not use a significant amount of water, however where available, the Group seeks to lease buildings with water-efficient fittings and white goods.

Health and safety

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

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

During 2005, a Health and Safety Committee chaired by the Director of Human Resources and including three employees was set up in the London office. The Committee has devised a revised policy that not only adheres to the Health and Safety at Work Act (1974) and the Management of Health and Safety at Work Regulations, but also incorporates views of other employees.

The Committee attended a training session provided by an external consultant and has identified what it considers to be the major risks and has put steps in place to reduce these risks.

During 2006, a review of health and safety policies in each office will be undertaken so that any necessary improvements can be made.

Group ethics

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

The Board considers the financial management team as holding an important role in corporate governance, having both the responsibility and authority to protect, balance and preserve the interests of all stakeholders. Specific polices are in place and form part of the financial management team's bi-annual appraisal.

All employees can voice their concerns about any unethical behaviour through an 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. 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. Employees have a written job description and are appraised by their manager quarterly or bi-annually using a formal process. There are executive and management development programmes 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.

Charitable and political contributions

No political donations were made in 2005 or 2004. Charitable donations of approximately £12,500 (2004: £17,000) were made during the year.

During 2005, the Board established a Charitable Donations Committee to oversee the charitable donations by the Group. Three senior members of staff were appointed to the Committee and meet at regular intervals.

directors' report

(continued)

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.

The Company is seeking your consideration and approval of the matters set out below:

Item 1 proposes the adoption of the annual report and accounts for the year ended 31 December 2005.

Item 2 proposes that shareholders approve the Directors' Remuneration Report, as required by the Directors' Remuneration Report Regulations 2002. In accordance with sections 241A of the Companies Act 1985, the vote is advisory only.

Item 3 proposes the declaration of a final dividend of 0.8 pence per share. This dividend is recommended by the Board and requires the approval of shareholders in the Annual General Meeting.

Items 4, 5, 6, & 7 propose individual resolutions for the re-appointment of directors. The Nominations Committee, having reviewed their performance recommends their re-election. The Company's Articles of Association require that one third of directors retire annually by rotation. Baroness Cohen and Mr Bolduc are accordingly standing for re-election. Baroness Cohen is the senior independent director and chairman of the Remuneration Committee. She brings extensive knowledge of UK government practice. Mr Bolduc is American and provides extensive commercial advice on American business practices and networks extensively on behalf of the Group. Mr Ferriss and Mr Simon have been appointed directors since the last Annual General Meeting are, in accordance with the Articles of Association, required to stand for re-election. The appointment of the two directors provides further depth to the Board as they have extensive business experience both in the markets currently served by the Group and in the markets in which the Group seeks to develop.

Item 8 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. The Company's auditors are required to be appointed at each Annual General Meeting at which accounts are presented.

Item 9(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 £19,378,544 which represents the nominal value of 77.5 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 (63.2 million shares) together with commitments, subject to certain conditions, to issue shares in connection with options over new shares (14.1 million shares) and the Management Incentive Plan (0.2 million shares).

Item 9(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 £19,378,544 and other issues of shares for cash limited to shares having an aggregate nominal value of £2,368,668, representing 9,474,671 ordinary shares, which is approximately 5% of the Company's issued share capital as at 31 December 2005.

The directors have no present intention of making any issue of shares under the authorities that would be granted by resolutions 9(a) and 9(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 9(a) and 9(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 9(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 18,949,341 ordinary shares (approximately 10% of the Company's issued share capital as at 31 December 2005) and would run until 10 August 2007 or, if earlier, the conclusion of the 2007 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 but the directors will keep this matter under review. 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 14.3 million new ordinary shares as described in connection with item 9(a) above, representing, in aggregate, 7.5% of the Company's currently issued share capital (excluding treasury shares). If the authority sought under item 9(c) were to be exercised in full, commitments, subject to certain conditions, to issue shares would represent 8.4% of the Company's remaining outstanding share capital (excluding treasury shares). Other than the options referred to in 9(a), the Company has no warrants or options to subscribe for equity shares that are outstanding at the date of this document. The Company currently has no treasury shares.

Your directors consider that the above proposals are in the best interests of the Company and its shareholders and recommend that you vote in favour of all the resolutions, as they intend to do in respect of their own beneficial holdings.

By order of the Board,

F Steven Hitchcock
Company Secretary

Fleet Place House
2 Fleet Place
Holborn Viaduct
London EC4M 7RF
6 March 2006

corporate governance

The maintenance of effective corporate governance is a key priority for the Board. Accordingly, the Board has considered carefully the requirements of Section 1 of the 2003 FRC Combined Code of Corporate Governance (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 have been addressed with the appointment of additional independent directors in March 2006.

Board of directors

Throughout the year ended 31 December 2005 the Board comprised the non-executive Chairman, three other non-executive directors (two of whom are regarded as independent) and two executive directors.

It was stated in last year's report that the Board intended to appoint further independent non-executive directors 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.

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, Mr Barber, Mr Ferriss and Mr Simon are considered to be 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 Board is satisfied that the Chairman and each of the non-executive directors committed sufficient time during 2005 for the fulfilment of their duties as directors of the Company. None of the non-executive directors has any conflict of interest which has not been disclosed to the Board.

The number of Board and Committee meetings eligible for and attended by each of the directors during the year was as follows:

Name	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
A J Barber	5	4	1	1
J P Bolduc	6	–	–	–
Baroness Cohen	6	5	2	2
M A Currie	5	–	–	–
D G Jones	1	1	1	1
K A H Parry	6	–	–	2
S J Purse	1	–	–	–
R W H Stomberg	6	5	2	2
Total meetings held	**6**	**5**	**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 2005. 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. During 2005, the Committee comprised 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 concluded that it was appropriate that the Committee should comprise at least three members. Following the appointment of Mr Ferriss to the Board, he has joined the Audit and Risk Committee in place of Dr Stomberg.

corporate governance

(continued)

Nominations Committee

The present membership of the Committee is:

- Dr Rolf Stomberg *(Chairman of Nominations Committee, member since 1998)*
- Mr Alan Barber *(appointed 26 April 2005)*
- Baroness Cohen *(member since 2003)*
- Mr Kevin Parry *(member since 2000)*
- Mr Andrew Simon *(appointed 3 March 2006)*

The Committee's purpose is to consider future appointments to the Board and the 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. During 2005 the Committee comprised four directors, two of whom were independent directors. The Board membership during 2005 was appropriate having regard to the small number of directors on the Board. Following the appointment of Mr Simon to the Board, he has joined the Nominations Committee. Consequently a majority of the Committee is now independent.

Following a review by the Nominations Committee, Mr Ferriss and Mr Simon were appointed as non-executive directors with effect from 3 March 2006. This review included consideration of the skills required of non-executive directors and interviews by the Committee and other Board members. In accordance with the Articles of Association, Mr Ferriss and Mr Simon will be proposed for re-election at the forthcoming Annual General Meeting.

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. During 2005 the Committee comprised 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 concluded that it was appropriate that the Committee should comprise at least three members. Following the appointment of Mr Simon to the Board he has joined the Remuneration Committee in place of Dr Stomberg.

Financial matters

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

The Board has also defined which services can be purchased from the Group's 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 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 12 May 2006 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 those key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level. This risk register is discussed at Board meetings on a regular basis and regular monitoring reports are presented to the Board;

corporate governance

(continued)

- 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.*
  - *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 positions.*
- 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 Alan Barber
  (Chairman of Audit and Risk Committee, appointed 26 April 2005)
- Baroness Cohen
  (member since 2003)
- Mr Stephen Ferriss
  (appointed 3 March 2006)

The Chairman of the Committee, Mr Barber, is a Chartered Accountant. Mr Jones, a Chartered Accountant, was Chairman of the Committee until his resignation on 26 April 2005. The Committee met five times during the year. The external auditors attended three meetings and the Committee met privately with them on each occasion. Dr Stomberg, a member of the Committee since 1998, was a member of the Committee throughout 2005 and resigned when Mr Ferriss was appointed.

Operation of the Committee

The Committee's terms of reference were reviewed and updated with effect from 19 October 2005 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 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 and the Code. 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)
- Mr Alan Barber
  (appointed 26 April 2005)
- Mr Andrew Simon
  (appointed 3 March 2006)

Mr Jones was a member of the Committee until his resignation from the Board on 26 April 2005. Dr Stomberg, a member of the committee since 1998, was a member of the committee throughout 2005 and resigned when Mr Simon was appointed.

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. Fees for the Chairman and other non-executive directors are determined annually by the Board based on market information obtained from external surveys.

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 has been appointed by the Committee and provides advice to it on the operation of the Company's incentive schemes and the remuneration of executive and non-executive directors as well as employee remuneration. New Bridge Street Consultants LLP may also advise the Committee on other matters within the Committee's terms of reference, which were last reviewed during 2004. New Bridge Street Consultants LLP has no other connection with the Company.

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.

Base salaries

The Committee's policy is to set the base 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 2005. Having considered market surveys and the highly competitive nature of the international professional services market the Committee concluded that, with effect from 1 January 2006, the salary of Mr Parry should be increased by 5% to £550,000 per annum and that of Mr Currie by 6% to £275,000 per annum.

Annual bonus scheme

Each executive director is entitled to an annual bonus that comprises two elements. The Group's budgeted profit from operations 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 split equally by reference to the financial performance of the Group and the achievement of detailed individual short and medium term performance criteria pre-agreed with the Remuneration Committee. Any sums payable in relation to this first element are payable in cash within three months of the end of the relevant financial year. Under the second element, an amount of up to 75% of base salary may be earned, subject to the achievement of a sliding scale of profit before tax targets which are above budget. 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 with a Group company during that three year period.

The market expectation at the end of 2004, when the budget for 2005 was set, was that the profit from operations of the Group for 2005 would amount to £12.0 million. The budget was set at a higher level than the market expectation. The actual profit from operations of the group for 2005 amounted to £13.6 million, an increase of £1.1 million compared to the prior year. The financial performance criteria were largely met in relation to the first element of the scheme, as a result of which each executive director became entitled to a current cash bonus of 38% of salary. The balance of the current cash bonus amounts to 59% of salary in the case of Mr Parry and 57% of salary in the case of Mr Currie and reflects the Committee's assessment of the achievement of personal performance objectives. No bonus was payable in respect of the second element of the scheme as the stretch budget was not achieved. The bonuses payable are £510,000 for Mr Parry and £205,000 for Mr Currie.

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 2006 will be subject to the same performance condition except for the TSR being compared to the FTSE All-Share Index. The Committee believes that these performance measures are appropriate as options will only vest in full following the generation of returns to shareholders significantly ahead of the market. The change to the FTSE All-Share Index has been made to align the performance conditions with the index to which the Company belongs. The TSR calculations will be undertaken by a third party to ensure independent verification of the extent to which the performance condition is met.

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 2005 there were 14.1 million options outstanding over new shares under share option schemes, comprising 7.4% of the issued share capital. In addition, there were outstanding options over 2.3 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. 3.6 million options outstanding are expected to lapse on 17 March 2006, because the performance criteria are not likely to be met.

The only remaining participant in the Management Incentive Plan is Mr Parry. Details of Mr Parry's interests in awards arising from the management incentive plan are set out in the remuneration and interest in shares tables below. 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. No further awards will be made under this plan.

International Financial Reporting Standards require that a charge is recognised against profits in relation to share options. More details in relation to this are provided in note 19 to the financial statements.

Pension arrangements

The Group contributes 17.5% of salary to defined contribution pension schemes of each executive director's choice. Bonuses and other payments to directors are not pensionable. Currently, the Committee does 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 but will be reviewed in the next six months in the light of the forthcoming statutory change in retirement dates to age 65.

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 arose as result of Mr Purse's resignation from the Board with effect from 7 March 2005. Mr Purse also forfeited his deferred bonus as a result of his resignation.

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

Director	Date of contract
K A H Parry	29 November 1999
M A Currie	5 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 2005 Mr Parry earned fees of £75,000 (2004: £57,000) as a non-executive director of Schroders plc and fees of £30,000 (2004: £16,250) as a non-executive advisor to Knight Frank LLP. During the period from 1 January 2005 to his resignation on 7 March 2005, Mr Purse earned fees of £2,500 (2004: £12,500) as a non-executive director of Rail Settlement Plan Limited.

__Non-executive directors – summary of entitlements__

In relation to 2005, the Chairman received total fees of £90,000. Each of the other non-executive directors received a fee of £30,000 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 and the other non-executive directors were last reviewed with effect from 1 January 2006. Having reviewed market survey information, the Board concluded that there should be no increase in the fees payable to the Chairman or to other non-executive directors. 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 US$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

directors' remuneration report

(continued)

2005 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 other 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 is subject to notice periods and none has 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
A J Barber	26 April 2005
J P Bolduc	15 April 2003
Baroness Cohen	9 July 2003
S A Ferriss	3 March 2006
A H Simon	3 March 2006

Audited information

Directors' remuneration

The remuneration of the directors who served in the year ended 31 December 2005 was as follows:

	Salaries and fees as directors	Bonus and other[1]	Deferred Bonus[2]	Benefits	Pension contributions	**Total emoluments 2005**	*Salaries, fees and bonuses*	*Pension contributions*	*Total emoluments 2004*
	£	£	£	£	£	**£**	*£*	*£*	*£*
Executive									
M A Currie[3]	216,667	205,000	–	13,396	37,917	**472,980**	–	–	–
K A H Parry	525,000	510,000	336,518	20,070	91,875	**1,483,463**	*1,099,468*	*85,750*	*1,185,218*
S J Purse[4]	49,333	–	–	5,173	8,633	**63,139**	*507,621*	*62,000*	*569,621*
Non-executive									
R W H Stomberg	90,000	–	–	–	–	**90,000**	*80,000*	–	*80,000*
A J Barber[5]	23,819	–	–	–	–	**23,819**	–	–	
J P Bolduc	30,000	19,238	–	–	–	**49,238**	*44,106*	–	*44,106*
Baroness Cohen	35,000	–	–	–	–	**35,000**	*30,000*	–	*30,000*
D G Jones[6]	11,574	–	–	–	–	**11,574**	*30,000*	–	*30,000*
	981,393	734,238	336,518	38,639	138,425	**2,229,213**	*1,791,195*	*147,750*	*1,938,945*

[1] *Comprises current cash bonuses payable to Mr Parry and Mr Currie and the retainer payable to Mr Bolduc*

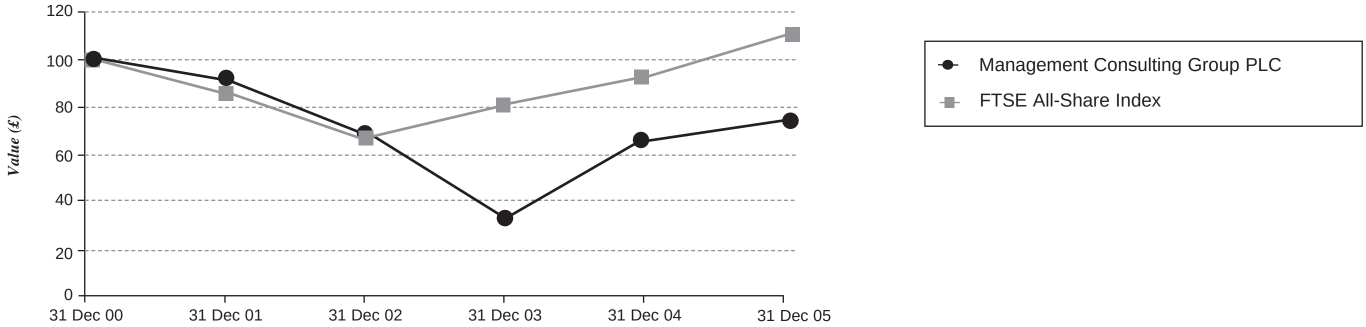
[2] *Comprises vested shares received under the Management Incentive Plan*

[3] *Appointed 1 March 2005* [4] *Resigned on 7 March 2005* [5] *Appointed 26 April 2005* [6] *Resigned 26 April 2005*

Performance Graph

The Regulations require this report to contain a graph illustrating the Company's performance compared with an appropriate "broad equity market index" over the past 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 2005, of £100 invested in Management Consulting Group PLC on 31 December 2000 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

Interests in shares

The beneficial interests of the directors in office at 31 December 2005 in the ordinary share capital of the Company were as follows:

	6 March 2006	*31 December 2005*	*31 December 2004*
Executive			
M A Currie	**70,000**	*70,000*	–
K A H Parry	**837,876**	*837,876*	*504,827*
Non-executive			
R W H Stomberg	**600,000**	*600,000*	*600,000*
A J Barber	**108,000**	*108,000*	–
J P Bolduc	**800,000**	*800,000*	*800,000*
Baroness Cohen	**48,800**	*48,800*	*36,000*

In addition, Mr Parry and Mr Currie are deemed to be interested in 4,197,374 shares held by the employee share trust, although there is no intention to grant them any rights over these shares except for 214,912 shares acquired by the Company on 5 January 2005 in connection with potential deferred bonus obligations to Mr Parry. Mr Simon, who was appointed to the Board on 3 March 2006, has a beneficial interest in 12,100 shares of the Company.

directors'
remuneration report
(continued)

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

Director	At 1 Jan 2005	Granted in year	At 31 Dec 2005	Exercise price (in pence)	Date from which exercisable	Expiration date
M A Currie	–	217,573	217,573	59.75	7 Mar 2008	6 Mar 2015
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
	–	439,331	439,331	59.75	7 Mar 2008	6 Mar 2015
	3,272,572	439,331	3,711,903			

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 2005. No other director held share options at 31 December 2005. The TSR performance criteria, relating to the share options first exercisable on 17 March 2006, are not likely to be achieved, so the options are not likely to vest.

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

Director	Interest as at 1 Jan 2005	Vested in year	Lapsed in year	Interest as at 31 Dec 2005
K A H Parry	1,287,525	(555,082)	(547,416)	185,027

Under the Management Incentive Plan, the interest at 31 December 2005 will vest in 2007, subject only to Mr Parry continuing to be employed by a Group company.

The market price of a share in the Company at 31 December 2005 was 52.50 pence and the range during 2005 was 44 pence to 61.75 pence.

Approval

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

Janet Cohen

Baroness Cohen of Pimlico
Chairman of the Remuneration Committee

6 March 2006

independent auditors' report

To the members of Management Consulting Group PLC

We have audited the Group and individual Company financial statements (the financial statements) of Management Consulting Group PLC for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated and individual Company balance sheets, the consolidated and individual Company cash flow statements, the consolidated statement of recognised income and expense 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 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

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the directors' responsibilities statement.

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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework 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 and Article 4 of the IAS Regulation. We also report 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 other transactions is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 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 including the unaudited part of the directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

independent auditors’ report

(continued)

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Company’s circumstances, 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.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group’s affairs as at 31 December 2005 and of its profit for the year then ended;
- the individual Company financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985 of the state of the individual Company’s affairs as at 31 December 2005; and
- 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 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS

As explained in note 2, the Group in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the Group’s affairs as at 31 December 2005 and of its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, UK

6 March 2006

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 statements since first published. These matters are the responsibility 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 statements differs from legislation in other jurisdictions.

directors' responsibility statement

In respect of the preparation of the financial statements

The directors are responsible for preparing the annual report and financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the Company in accordance with IFRS. United Kingdom company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

The Group financial statements are required to present fairly the financial position and performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving fair presentation. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. They have responsibility for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors having prepared the financial statements, have requested the auditors to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

The Management Statement on pages 8 to 10 and the Financial Review on pages 11 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 may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this report should be construed as a profit forecast.

consolidated income statement

for the year ended 31 December 2005

	note	2005 £'000	*2004 £'000*
Continuing operations			
Revenue	3	**129,601**	*119,248*
Cost of sales		**(64,847)**	*(60,414)*
Gross profit		**64,754**	*58,834*
Selling costs		**(34,931)**	*(30,448)*
Administrative expenses		**(16,264)**	*(15,950)*
Profit from operations		**13,559**	*12,436*
Investment income	6	**453**	*421*
Finance costs	6	**(92)**	*(455)*
Profit before tax	4	**13,920**	*12,402*
Tax expense	7	**(4,128)**	*(3,945)*
Profit for the period		**9,792**	*8,457*
Earnings per share – pence			
From continuing operations			
Basic	9	**5.3**	*4.6*
Diluted	9	**5.2**	*4.5*

consolidated statement of recognised income and expense

for the year ended 31 December 2005

	note	**2005** **£'000**	*2004* *£'000*
Exchange differences on translation of foreign operations		**1,488**	*(1,745)*
Actuarial losses on defined benefit pension fund and medical schemes	17	**(1,646)**	*(1,696)*
Tax on items taken directly to equity		**825**	*–*
Net income/(expense) recognised directly in equity		**667**	*(3,441)*
Profit for the period		**9,792**	*8,457*
Total recognised income and expense for the period		**10,459**	*5,016*

consolidated balance sheet

as at 31 December 2005

	note	**2005** £'000	*2004* £'000
Non-current assets			
Goodwill	10	**68,278**	*66,109*
Other intangible assets	11	**418**	*392*
Property, plant and equipment	12	**1,521**	*1,397*
Total non-current assets		**70,217**	*67,898*
Current assets			
Trade and other receivables	14	**16,159**	*12,735*
Cash and cash equivalents		**21,555**	*14,510*
Total current assets		**37,714**	*27,245*
Total assets		**107,931**	*95,143*
Current liabilities			
Trade and other payables	15	**(28,045)**	*(24,222)*
Current tax liabilities	16	**(3,959)**	*(4,722)*
Total current liabilities		**(32,004)**	*(28,944)*
Net current assets/(liabilities)		**5,710**	*(1,699)*
Non-current liabilities			
Retirement benefit obligation	17	**(11,869)**	*(11,383)*
Non-current tax liabilities	16	**(4,674)**	*(4,080)*
Long-term provisions	18	**(871)**	*(1,774)*
Non-current accruals		**(581)**	*(686)*
Total non-current liabilities		**(17,995)**	*(17,923)*
Total liabilities		**(49,999)**	*(46,867)*
Net assets		**57,932**	*48,276*
Equity			
Share capital	19	**47,373**	*47,256*
Share premium account	20	**38,146**	*38,026*
Shares to be issued	20	**46**	*185*
Share compensation reserve	20	**1,256**	*616*
Own shares held by employee share trust	20	**(1,270)**	*(970)*
Translation reserve	20	**(257)**	*(1,745)*
Other reserves	20	**12,747**	*12,747*
Retained earnings	21	**(40,109)**	*(47,839)*
Total equity	22	**57,932**	*48,276*

The financial statements were approved by the Board of Directors and authorised for issue on 6 March 2006.

They were signed on its behalf by:

M A Currie
Director

consolidated cash flow statement

for the year ended 31 December 2005

	note	2005 £'000	*2004 £'000*
Net cash from operating activities	23	**8,826**	*8,242*
Investing activities			
Interest received		**323**	*206*
Acquisitions of subsidiaries		**–**	*(1,074)*
Purchases of property, plant and equipment		**(669)**	*(1,061)*
Purchases of intangible assets		**(454)**	*(377)*
Proceeds on disposal of property, plant and equipment		**13**	*117*
Purchase of own shares		**(181)**	*–*
Net cash used in investing activities		**(968)**	*(2,189)*
Financing activities			
Dividends paid	8	**(1,241)**	*(925)*
Proceeds from issue of shares		**35**	*48*
Net cash used in financing activities		**(1,206)**	*(877)*
Net increase in cash and cash equivalents		**6,652**	*5,176*
Cash and cash equivalents at beginning of year		**14,510**	*9,738*
Effect of foreign exchange rate changes		**393**	*(404)*
Cash and cash equivalents at end of year		**21,555**	*14,510*

company balance sheet

as at 31 December 2005

	note	2005 £'000	*2004* *£'000*
Non-current assets			
Investments in subsidiaries	13	**141,224**	*103,376*
Other intangible assets	11	**73**	*28*
Property, plant and equipment	12	**355**	*371*
Total non-current assets		**141,652**	*103,775*
Current assets			
Trade and other receivables	14	**19,592**	*53,594*
Cash and cash equivalents		**1,171**	*4,836*
Total current assets		**20,763**	*58,430*
Total assets		**162,415**	*162,205*
Current liabilities			
Trade and other payables	15	**(17,553)**	*(21,518)*
Current tax liabilities	16	**(394)**	*(27)*
Total current liabilities		**(17,947)**	*(21,545)*
Net current assets		**2,816**	*36,885*
Net assets		**144,468**	*140,660*
Equity			
Share capital	19	**47,373**	*47,256*
Share premium account	20	**38,146**	*38,026*
Shares to be issued	20	**46**	*185*
Share compensation reserve	20	**1,256**	*616*
Own shares held by employee share trust	20	**(1,270)**	*(970)*
Other reserves	20	**1,186**	*1,186*
Retained earnings	21	**57,731**	*54,361*
Total equity	22	**144,468**	*140,660*

These financial statements were approved by the Board of Directors and authorised for issue on 6 March 2006. They were signed on its behalf by:

Mark Currie
Director

company cash flow statement

for the year ended 31 December 2005

	note	2005 £'000	*2004 £'000*
Net cash from operating activities	23	**(2,278)**	*(461)*
Investing activities			
Interest received		**99**	*89*
Acquisitions of subsidiaries		**–**	*(1,074)*
Purchases of property, plant and equipment		**(95)**	*(401)*
Purchases of intangible assets		**(59)**	*(28)*
Proceeds on disposal of property, plant and equipment		**14**	*–*
Purchase of own shares		**(181)**	*–*
Cash advances to subsidiaries		**(7,222)**	*(1,761)*
Dividends received		**7,589**	*6,135*
Net cash used in investing activities		**145**	*2,960*
Financing activities			
Dividends paid	8	**(1,241)**	*(925)*
Proceeds from issue of shares		**35**	*48*
Net cash used in investing activities		**(1,206)**	*(877)*
Net (decrease)/increase in cash and cash equivalents		**(3,339)**	*1,622*
Cash and cash equivalents at beginning of year		**4,836**	*2,988*
Effect of foreign exchange rate changes		**(326)**	*226*
Cash and cash equivalents at end of year		**1,171**	*4,836*

notes to the
financial statements

for the year ended 31 December 2005

1. General information

Management Consulting Group PLC (the Company) is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 82. The nature of the Group's operations and its principal activity are set out in note 3 and in the Financial Review on pages 11 to 15.

2. Significant 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 preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The required disclosures concerning the transition from UK Generally Accepted Accounting Principles (UK GAAP) to IFRS are given in notes 28 and 29. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU International Accounting Standards (IAS) regulation.

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with IFRS. The required disclosures for the restatement of the Company financial statements are given in notes 28 and 30.

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

(b) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. This generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from or to the effective date of acquisition or disposal, respectively.

All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(ii) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

(c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale which are recognised and measured at fair value less costs to sell.

The interest of minority shareholders in the acquiree is initially the minority's proportion of the net recognised fair value of the assets, liabilities and contingent liabilities.

(d) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the recognised identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity. Goodwill is tested annually for impairment or when there is indication of impairment and carried at cost less accumulated impairment loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

(e) Intangible assets – software

Acquired computer software licences are capitalised as intangible assets on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which do not exceed three years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

(f) Property, plant and equipment

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

2. Significant accounting policies (continued)

(g) Impairment of tangible and intangible assets

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

For goodwill each of those cash-generating units represents the Group's investment in each geographic region of operation by each consultancy.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

(i) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which such differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

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

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

(j) Provisions

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

(k) Own shares

The Company shares owned by the employee share trust established in respect of certain share based awards are presented as a reduction of equity.

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided to third parties in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue from services is recognised when services have been provided and the right to consideration has been earned. Revenue includes reimbursement of expenses that are re-billed to clients in connection with certain projects.

(m) Operating leases

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

(n) Retirement benefit costs

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

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

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 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 is presented separately on the face of the balance sheet.

2. Significant accounting policies (continued)

(o) Share-based payments

Share options are awarded to selected employees on a discretionary basis. Awards are measured at their fair value (which is measured using the stochastic pricing model at the date of grant) and is recognised as an employee benefits expense on a straight line basis over the vesting period based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions, with a corresponding increase in the share compensation reserve. The expected life used in the valuation model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The proceeds received net of any directly attributable transaction costs are credited to share capital (in respect of the nominal value) and share premium (in respect of the balance) when the options are exercised.

(p) Foreign currencies

The individual financial statements of each Group entity are drawn up in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in pounds sterling, which is the Company's functional and presentation currency.

In preparing the financial statements, transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign company are not retranslated.

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in pounds sterling using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rate for the period unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(q) Dividend distribution

Dividends to shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are legally distributable.

3. Business and geographic segments

The Group has one business reporting segment: management consultancy comprising the two consultancies, Proudfoot Consulting and Parson Consulting.

Primary reporting format – geographic segments

The Group operates in three geographic areas – North America, Europe and the Rest of the World. The Group reports segment information on the basis of geographic area, as follows:

(a) Income statement

Year ended 31 December 2005

	North America £'000	Europe £'000	Rest of World £'000	Consolidated £'000
Revenue				
External sales	**79,484**	**40,701**	**9,416**	**129,601**
Profit/(loss) from operations before release of indemnity provision	**14,103**	**306**	**(1,747)**	**12,662**
Release of indemnity provision	**–**	**–**	**897**	**897**
Profit/(loss) from operations	**14,103**	**306**	**(850)**	**13,559**
Finance income				**361**
Profit before tax				**13,920**
Income tax expense				**(4,128)**
Profit for the period				**9,792**

Year ended 31 December 2004

	North America £'000	*Europe £'000*	*Rest of World £'000*	*Consolidated £'000*
Revenue				
External sales	*77,656*	*33,670*	*7,922*	*119,248*
Profit/(loss) from operations before release of management incentive plan	*12,487*	*66*	*(874)*	*11,679*
Release provision in respect of management incentive plan	*–*	*–*	*757*	*757*
Profit/(loss) from operations	*12,487*	*66*	*(117)*	*12,436*
Finance costs				*(34)*
Profit before tax				*12,402*
Income tax expense				*(3,945)*
Profit for the period				*8,457*

(b) Net assets

At 31 December 2005

	North America £'000	**Europe £'000**	**Rest of World £'000**	**Consolidated £'000**
Assets				
Goodwill	**30,856**	**37,422**	**–**	**68,278**
Other segment assets	**8,047**	**6,473**	**835**	**15,355**
	38,903	**43,895**	**835**	**83,633**
Unallocated corporate assets				**24,298**
Consolidated total assets				**107,931**
Liabilities				
Segment liabilities	**(14,576)**	**(10,855)**	**(2,587)**	**(28,018)**
Unallocated corporate liabilities				**(21,981)**
Consolidated total liabilities				**(49,999)**
Net assets				**57,932**

At 31 December 2004

	North America £'000	*Europe £'000*	*Rest of World £'000*	*Consolidated £'000*
Assets				
Goodwill	*27,745*	*38,364*	*–*	*66,109*
Other segment assets	*7,860*	*3,302*	*332*	*11,494*
	35,605	*41,666*	*332*	*77,603*
Unallocated corporate assets				*17,540*
Consolidated total assets				*95,143*
Liabilities				
Segment liabilities	*(12,605)*	*(8,678)*	*(2,052)*	*(23,335)*
Unallocated corporate liabilities				*(23,532)*
Consolidated total liabilities				*(46,867)*
Net assets				*48,276*

(c) Capital additions, depreciation and amortisation

Year ended 31 December 2005

	North America £'000	**Europe £'000**	**Rest of World £'000**	**Consolidated £'000**
Capital additions	**718**	**168**	**83**	**969**
Unallocated corporate additions				**154**
Total capital additions				**1,123**
Depreciation and amortisation	**781**	**107**	**52**	**940**
Unallocated corporate depreciation and amortisation				**125**
Total depreciation and amortisation				**1,065**

Year ended 31 December 2004

	North America £'000	*Europe £'000*	*Rest of World £'000*	*Consolidated £'000*
Capital additions	*857*	*126*	*25*	*1,008*
Unallocated corporate additions				*430*
Total capital additions				*1,438*
Depreciation and amortisation	*742*	*230*	*82*	*1,054*
Unallocated corporate depreciation and amortisation				*110*
Total depreciation and amortisation				*1,164*

The most important foreign currencies for the Group are the US dollar and the Euro. The relevant exchange rates to pounds sterling were:

		2005		*2004*
	Average	**Closing**	*Average*	*Closing*
£1 = US$	**1.82**	**1.72**	*1.83*	*1.92*
£1 = Euro	**1.46**	**1.45**	*1.47*	*1.41*

4. Profit before tax

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

	2005 £'000	*2004 £'000*
Net foreign exchange gains	**(120)**	*(29)*
Amortisation of intangible assets	**461**	*346*
Depreciation of property, plant and equipment	**604**	*818*
Staff costs (note 5)	**70,953**	*65,816*
Release of indemnity provision	**(897)**	*–*
Release of provision in respect management incentive plan	**–**	*(757)*
Auditor's remuneration for audit services	**310**	*290*

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

Auditor's remuneration	**2005 £'000**	**2005 %**	*2004 £'000*	*2004 %*
Audit services	**310**	**55**	*290*	*56*
Other assurance services	**55**	**9**	*37*	*7*
Tax services				
Compliance services	**152**	**27**	*121*	*24*
Advisory services	**53**	**9**	*68*	*13*
	205	**36**	*189*	*37*
Total auditor's remuneration	**570**	**100**	*516*	*100*

Company audit fees, included above were £32,000 (2004: £30,000).

Fees for other assurance services principally comprise £18,000 (2004: £22,000) for the audit of the US pension scheme and accounting advice. A description of the work of the Audit Committee is set out in the Report of the Audit and Risk Committee on page 29 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

5. Staff numbers and costs

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

	2005	*2004*
Sales and marketing	**201**	*183*
Consultants	**459**	*454*
Support staff	**136**	*120*
	796	*757*

The aggregate payroll costs of these persons were as follows:

	2005	*2004*
	£'000	*£'000*
Wages and salaries	**62,936**	*58,670*
Social security costs	**6,932**	*6,346*
Other pension costs	**1,085**	*800*
	70,953	*65,816*

A charge of £nil (2004: £1,000) was included in the operating results in respect of the current cost of the closed US retirement benefit schemes (see note 17). Wages and salaries includes £640,000 (2004: £439,000) relating to charges in respect of share options.

6. Investment income/(finance costs)

	2005	*2004*
	£'000	*£'000*
Investment income		
Interest receivable on bank deposits and similar income	**453**	*421*
Finance costs		
Interest payable on bank overdrafts and loans and similar charges	**(10)**	*(183)*
Net finance charge on retirement benefits plans (see note 17)	**(82)**	*(272)*
	(92)	*(455)*

7. Tax expense

	2005 £'000	2004 £'000
Tax in respect of current year		
UK corporation tax	**500**	*127*
Foreign tax	**4,899**	*3,828*
Deferred tax	**(43)**	*(500)*
	5,356	*3,455*
Prior year taxation	**(1,228)**	*490*
	4,128	*3,945*

UK corporation tax is calculated at 30% (2004: 30%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005 £'000	2004 £'000
Profit before tax	**13,920**	*12,402*
Tax at the average tax rate applicable across the group of 36% (2004: 38%)	**5,011**	*4,713*
Net tax effect of unrelieved losses	**1,967**	*1,660*
Net tax effect of permanent differences and other	**(1,622)**	*(2,918)*
Prior year items	**(1,228)**	*490*
Tax expense for the year	**4,128**	*3,945*
Effective tax rate for the year	**30%**	*32%*

8. Dividends

	2005 £'000	2004 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2004 of 0.67p (2003: 0.5p) per share	**1,241**	*925*

Dividends are not payable on shares held in the employee share trust which has waived its entitlement to dividends. The amount of the dividend waived in 2005 (in respect of the year ended 31 December 2004) was £26,000 (2004: £19,000). The directors recommend the payment of a final dividend in respect of 2005 of 0.8 pence per share to be paid on 5 June 2006 to ordinary shareholders on the register on 19 May 2006. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

9. Earnings per share

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

	2005 £'000	2004 £'000
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share being net profit attributable to equity holders of the parent	**9,792**	*8,457*
Number of shares	**Number (million)**	*Number (million)*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**185.2**	*185.0*
Effect of dilutive potential ordinary shares:		
– Share options	**1.4**	*1.8*
– Long term incentive plan	**0.2**	*–*
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**186.8**	*186.8*
	Pence	*Pence*
Basic earnings per share	**5.3**	*4.6*
Diluted earnings per share	**5.2**	*4.5*

The average share price for the year ended 31 December 2005 was 51.5 pence (2004: 41.3 pence).

10. Goodwill

Goodwill	Group £'000
Cost and carrying amount	
At 1 January 2005	66,109
Exchange differences	2,169
At 31 December 2005	**68,278**

Goodwill acquired in a business combination is allocated to the cash-generating units (CGU) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2005 £'000	*2004 £'000*
Parson Consulting	**30,856**	*27,745*
Proudfoot Consulting Europe	**37,422**	*38,364*
	68,278	*66,109*

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to contribution during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU.

The Group prepares cash flow forecasts based on the most recent financial budgets approved by management. The cash flows are extrapolated based on long-term industry wide revenue growth assumptions of 5% and contribution rates which are consistent with past experience and industry norms.

The rate used to discount the forecast cash flows for each CGU is 9%.

11. Other intangible assets

Capitalised software costs	Group £'000	Company £'000
Cost		
At 1 January 2005	2,336	147
Additions	454	59
Exchange differences	258	–
Eliminated on disposals	(6)	(2)
At 31 December 2005	3,042	204
Amortisation		
At 1 January 2005	1,944	119
Charge for the year	461	14
Exchange differences	219	–
Eliminated on disposal	–	(2)
At 31 December 2005	2,624	131
Carrying amount		
At 31 December 2005	**418**	**73**
At 31 December 2004	392	28

The amortisation period for capitalised software costs is three years or the life of the software contract if shorter.

12. Property, plant and equipment

Fixtures, fittings and equipment	Group £'000	Company £'000
Cost		
At 1 January 2005	2,229	494
Additions	669	95
Exchange differences	308	–
Eliminated on disposal	(323)	(56)
At 31 December 2005	2,883	533
Accumulated depreciation		
At 1 January 2005	832	123
Charge for the year	604	111
Exchange differences	202	–
Eliminated on disposal	(276)	(56)
At 31 December 2005	1,362	178
Carrying amount		
At 31 December 2005	**1,521**	**355**
At 31 December 2004	1,397	371

13. Investments held as fixed assets

Company

Investment in Group companies	Shares £'000	Loans £'000	Total £'000
At 1 January 2005	102,426	950	103,376
Repayment of loans to subsidiaries	–	(950)	(950)
Additions	38,670	128	38,798
At 31 December 2005	**141,096**	**128**	**141,224**

Shares are stated net of provisions of £6,655,000 (2004: £6,655,000) against impairment in value. Additions in the year represent capitalisation of amounts owed by Group undertakings. 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 27.

14. Trade and other receivables

	Group		Company	
	2005 £'000	*2004 £'000*	**2005 £'000**	*2004 £'000*
Trade receivables	**11,269**	*7,121*	**–**	*–*
Amounts owed by Group undertakings	–	–	**19,235**	*53,248*
Other receivables	**1,375**	*1,525*	**85**	*89*
Taxation recoverable	**175**	*204*	**–**	*–*
Deferred tax assets (note 16)	**1,358**	*2,161*	**137**	*80*
Prepayments and accrued income	**1,982**	*1,724*	**135**	*177*
	16,159	*12,735*	**19,592**	*53,594*

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and clients.

Debtor days at the year end were 18 days (2004: 16 days). No interest was charged on receivables. The directors consider that the carrying value of trade and other receivables approximates to their fair value.

15. Trade and other payables

	Group		Company	
	2005	*2004*	**2005**	*2004*
	£'000	*£'000*	**£'000**	*£'000*
Trade payables	**1,809**	*1,708*	**181**	*64*
Amounts owed by Group undertakings	–	–	**12,871**	*16,273*
Other taxes and social security	**2,407**	*2,066*	**284**	*287*
Other payables	**144**	*7*	**6**	*7*
Deferred income	**2,878**	*1,966*	**–**	–
Accruals	**20,807**	*18,475*	**4,211**	*4,887*
	28,045	*24,222*	**17,553**	*21,518*

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 15 days (2004: 15 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

16. Tax assets and liabilities

	Group		Company	
	2005	*2004*	**2005**	*2004*
	£'000	*£'000*	**£'000**	*£'000*
Current tax liabilities	**3,959**	*4,722*	**394**	*27*
Non-current tax liabilities				
Tax liabilities	**1,859**	*1,859*	**–**	–
Deferred tax liabilities	**2,815**	*2,221*	**–**	–
	4,674	*4,080*	**–**	–
Total tax liabilities	**8,633**	*8,802*	**394**	*27*

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

Group

Deferred tax assets	Tax losses £'000	Other £'000	Total £'000
At 1 January 2005	2,001	160	2,161
Charge to income	(2,000)	–	(2,000)
Credit to income	1,100	97	1,197
At 31 December 2005	**1,101**	**257**	**1,358**

Deferred tax liabilities	Profits taxable in future years £'000	Goodwill £'000	Other £'000	Total £'000
At 1 January 2005	1,111	920	190	2,221
Transfer to corporation tax creditor	(561)	–	–	(561)
Charge to income	550	795	–	1,345
Credit to income	–	–	(190)	(190)
At 31 December 2005	**1,100**	**1,715**	**–**	**2,815**

Additionally the Group has potential unrealised deferred tax assets at the year end of approximately £25 million (2004: £23 million) in respect of tax losses. The tax losses are partly not yet agreed with tax authorities and/or may be subject to adjustment on tax audits. Consequently, they are subject to uncertain and unquantifiable adjustments. Due to these uncertainties, and uncertainty as to the likely jurisdictions of future profits against which the losses can be offset, the deferred tax asset recognised is limited to the amount stated above.

17. Retirement benefit obligations

Defined contribution scheme

The Group operates a number of defined contribution pension schemes throughout the world. The total cost charged to income in respect of defined contribution schemes was £1,085,000 (2004: £800,000), representing contributions payable to these schemes by the Group at rates specified in the rules of the plans.

Defined benefit schemes

In the United States 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 September 1995 and to the post-retirement medical costs of a small number of current and former employees who were employed at that date.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2005 by Mike Von Behren and Julie Porcelli of Mercer Human Resource Consulting who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. The principal assumptions used for the recent actuarial valuations were:

	2005	*2004*
	%	*%*
Rate of increase in salaries	**not applicable**	*not applicable*
Expected long term return on scheme assets	**8.00**	*8.00*
Discount rate	**5.50**	*5.75*
General inflation assumption	**3.00**	*3.00*

In addition, the mortality assumptions were updated during 2005 resulting in an increase in the estimated future liabilities. There are neither guaranteed nor discretionary increases to benefits after retirement.

a) Amounts recognised in finance costs in respect of these defined benefit schemes are as follows:

	2005 £'000	2004 £'000
US defined benefit pension scheme		
Expected return on pension scheme assets	**2,039**	*1,764*
Interest on pension scheme liabilities	**(2,056)**	*(1,968)*
	(17)	*(204)*
US medical benefits plan		
Interest on plan liabilities	**(65)**	*(68)*
Net finance charges	**(82)**	*(272)*

Actuarial gains and losses have been reported in the statement of recognised income and expense. The actual return on scheme assets was £1,762,000 (2004: £2,332,000).

b) The amount included in the balance sheet arising from the Group's obligations in respect of the US defined benefit pension scheme and medical benefits plan is as follows:

	2005 £'000	2004 £'000
Present value of defined benefit obligations	**(41,915)**	*(35,770)*
Fair value of scheme assets	**30,046**	*24,387*
Liability recognised in the balance sheet	**(11,869)**	*(11,383)*
Defined benefit pension scheme (note 17 (e) (i))	**(10,863)**	*(10,262)*
Medical benefit plan (note 17 (e) (ii))	**(1,006)**	*(1,121)*
	(11,869)	*(11,383)*

c) Movements in balance sheet amounts

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

	2005 £'000	2004 £'000
Opening defined benefit obligation	**(35,770)**	*(35,586)*
Service cost	**–**	*(1)*
Interest cost	**(2,121)**	*(2,037)*
Actuarial losses	**(1,369)**	*(2,263)*
Exchange differences	**(4,226)**	*2,583*
Benefits paid	**1,571**	*1,534*
Closing defined benefit obligation	**(41,915)**	*(35,770)*

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

	2005 £'000	2004 £'000
Opening fair value of plan assets	**24,387**	*22,373*
Expected return	**2,039**	*1,765*
Actuarial (losses)/gains	**(277)**	*567*
Contributions by employer	**2,528**	*2,912*
Exchange differences	**2,940**	*(1,696)*
Benefits paid	**(1,571)**	*(1,534)*
Closing fair value of plan assets	**30,046**	*24,387*
Net retirement benefit obligation	**(11,869)**	*(11,383)*

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

	Expected return %	2005 £'000	Expected return %	2004 £'000
Equities	**9.0**	**20,954**	*9.0*	*17,099*
Bonds	**5.5**	**8,317**	*5.5*	*6,903*
Cash		**775**		*385*
	8.0	**30,046**	*8.0*	*24,387*

e) History of experience gains and losses

(i) US defined pension scheme

The five-year history of experience adjustments in relation to the US defined benefit pension scheme is as follows:

	2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000
Present value of defined benefit obligations	**(40,909)**	*(34,649)*	*(34,232)*	*(34,077)*	*(34,151)*
Fair value of scheme assets	**30,046**	*24,387*	*22,374*	*20,569*	*26,846*
Deficit in the scheme	**(10,863)**	*(10,262)*	*(11,858)*	*(13,508)*	*(7,305)*
Experience adjustments on scheme liabilities					
Amount	**86**	*(123)*	*(136)*	*(1,001)*	*(432)*
Percentage of scheme liabilities	**0.2%**	*(0.4%)*	*(0.4%)*	*(2.9%)*	*(1.3%)*
Experience adjustments on scheme assets					
Amount	**(277)**	*567*	*2,973*	*(5,214)*	*(4,931)*
Percentage of scheme assets	**(0.9%)**	*2.3%*	*13.3%*	*(25.3%)*	*(18.4%)*

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £2.5 million.

(ii) US medical benefit plan

The five-year history of experience adjustments in relation to the US medical plan is as follows:

	2005	*2004*	*2003*	*2002*	*2001*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Present value of plan liabilities	**(1,006)**	*(1,121)*	*(1,355)*	*(3,782)*	*(4,907)*
Experience adjustments of plan liabilities	**210**	*123*	*302*	*477*	*649*
Percentage of the plan liabilities	**20.9%**	*11.0%*	*22.3%*	*12.6%*	*13.2%*

18. Long-term provisions

	£'000
At 1 January 2005	1,774
Utilised	(36)
Released	(897)
Foreign exchange movement	30
At 31 December 2005	**871**

The provisions primarily relate to liabilities assumed on discontinued businesses and obligations to former employees of the Group.

There are no provisions held by the Company.

19. Share capital

(a) Called up share capital

	2005	*2004*
	£'000	*£'000*
Authorised: 300 million (2004: 300 million) shares of 25p each	**75,000**	*75,000*
Allotted, called up and fully paid: 189,493,412 (2004: 189,024,358) shares of 25p each	**47,373**	*47,256*

Shares issued in the year were:

	Number	Nominal value £'000	Consideration £'000
At 1 January 2005	189,024,358	47,256	
Issued to the employee share trust	333,049	83	202
Employee share options exercised (note 19 (b))	136,005	34	35
At 31 January 2005	189,493,412	47,373	237

The company has one class of ordinary shares which carry no right to fixed income.

(b) Share options

At 31 December 2005, 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 13,075,885.

Option grant date	Number of shares under option	Exercise price (pence)	Exercisable not earlier than
The Closed Schemes			
March 1996	133,904	29.13	March 1999
October 1996	442,911	25.00	October 1999
The 1998 Scheme			
September 1999	540,762	25.00	September 2002
March 2000	2,027,090	29.85	March 2003
March 2003	3,163,370	39.50	March 2006
March 2004	4,041,362	36.25	March 2007
March 2005	3,753,604	59.75	March 2008
Total	14,103,003		

The total shareholder return performance conditions, relating to the share options exercisable in March 2006 are not likely to be achieved so the options are not likely to vest.

In March 2005, 3,970,004 options over new ordinary shares were granted at a price of 59.75 pence per share. The following options over new ordinary shares were exercised during the year:

Granted	Number	Nominal value £	Consideration £
March 1996	16,501	4,125	4,806
October 1996	16,501	4,125	4,125
September 1999	103,003	25,751	25,751
	136,005	34,001	34,682

During the year, options over 2,806,881 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 £5,847,000 (2004: £5,134,000).

The above amounts exclude options over 2,250,750 shares (2004: 1,696,720 shares) which are already in issue and are owned by an employee trust.

The fair value of options granted was determined using the stochastic valuation model. An expense of £640,000 has been recognised in the period in respect of the share options granted (2004: £439,000). The cumulative share compensation reserve at 31 December 2005 is £1,256,000 (2004: £616,000).

The inputs into the stochastic valuation model for the 2005 options are as follows:

	3 year vesting	5 year vesting
Fair value of option	26 pence	31 pence
Exercise price and share price on date of grant	59.75 pence	59.75 pence
Expected life	5 years	7 years
Expected volatility	54.9%	62.7%
Performance condition discount	9.5%	13.8%
Risk free rate	4.79%	4.79%
Expected dividend yield	1.12%	1.12%

The inputs into the stochastic valuation model for the 2004 options are as follows:

	3 year vesting	5 year vesting
Fair value of option	18 pence	19 pence
Exercise price and share price on date of grant	36.25 pence	36.25 pence
Expected life	5 years	7 years
Expected volatility	66.0%	67.0%
Performance condition discount	9.4%	14.6%
Risk free rate	4.66%	4.71%
Expected dividend yield	1.38%	1.38%

The inputs into the stochastic valuation model for the 2003 options are as follows:

	3 year vesting	5 year vesting
Fair value of option	19 pence	21 pence
Exercise price and share price on date of grant	39.50 pence	39.50 pence
Expected life	5 years	7 years
Expected volatility	64.8%	66.0%
Performance condition discount	10.0%	14.4%
Risk free rate	4.04%	4.21%
Expected dividend yield	1.27%	1.27%

20. Equity

Group

	Share premium account £'000	Shares to be issued £'000	Share compensation reserve £'000	Own shares held by employee share trust £'000	Currency translation reserve £'000
At 1 January 2004	*38,009*	*2,166*	*177*	*(970)*	*–*
Currency translation differences	*–*	*–*	*–*	*–*	*(1,745)*
Share compensation expense	*–*	*–*	*439*	*–*	*–*
Deferred consideration issued	*–*	*(27)*	*–*	*–*	*–*
Management incentive plan	*–*	*(817)*	*–*	*–*	*–*
Adjustment to deferred consideration	*10*	*(1,137)*	*–*	*–*	*–*
Share option schemes	*7*	*–*	*–*	*–*	*–*
At 31 December 2004	*38,026*	*185*	*616*	*(970)*	*(1,745)*
At 1 January 2005	38,026	185	616	(970)	(1,745)
Currency translation differences	–	–	–	–	1,488
Share compensation expense	–	–	640	–	–
Management incentive plan	–	(139)	–	83	–
Shares issued to employee share trust	119	–	–	(202)	–
Purchase of shares	–	–	–	(181)	–
Share option schemes	1	–	–	–	–
At 31 December 2005	**38,146**	**46**	**1,256**	**(1,270)**	**(257)**

	Merger reserve £'000	Statutory reserves of subsidiary undertakings £'000	Capital redemption reserve £'000	**Total other reserves £'000**
At 1 January 2004, 1 January 2005 and 31 December 2005	**5,683**	**5,878**	**1,186**	**12,747**

Company

	Share premium account £'000	Shares to be issued £'000	Share compensation reserve £'000	Own shares held by employee share trust £'000	Capital redemption reserve £'000
At 1 January 2004	*38,009*	*2,166*	*177*	*(970)*	*1,186*
Share compensation expense	–	–	*439*	–	–
Deferred consideration issued	–	*(27)*	–	–	–
Management incentive plan	–	*(817)*	–	–	–
Adjustment to deferred consideration	*10*	*(1,137)*	–	–	–
Share option schemes	*7*	–	–	–	–
At 31 December 2004	*38,026*	*185*	*616*	*(970)*	*1,186*
At 1 January 2005	38,026	185	616	(970)	1,186
Share compensation expense	–	–	640	–	–
Management incentive plan	–	(139)	–	83	–
Shares issued to employee share trust	119	–	–	(202)	–
Purchase of shares	–	–	–	(181)	–
Share option schemes	1	–	–	–	–
At 31 December 2005	**38,146**	**46**	**1,256**	**(1,270)**	**1,186**

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

The share compensation reserve represents the credit arising from the charge for share options.

Own shares held by the employee share trust represents 4,197,374 shares (2004: 3,879,584 shares) issued at a value of £1,270,000 (2004: £970,000).

21. Retained earnings

	Group		Company	
	2005 £'000	*2004 £'000*	**2005 £'000**	*2004 £'000*
At 1 January	**(47,839)**	*(53,675)*	**54,361**	*55,141*
Net profit for the year	**9,792**	*8,457*	**4,611**	*145*
Dividends paid	**(1,241)**	*(925)*	**(1,241)**	*(925)*
Actuarial loss related to retirement benefit schemes	**(1,646)**	*(1,696)*	**–**	–
Tax on items taken directly to equity	**825**	–	**–**	–
At 31 December	**(40,109)**	*(47,839)*	**57,731**	*54,361*

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The consolidated income statement for the financial year includes a profit of £4,611,000 (2004: £145,000) dealt with in the financial statements of the Company.

22. Statement of changes in equity

	Group		Company	
	2005	*2004*	**2005**	*2004*
	£'000	*£'000*	**£'000**	*£'000*
At 1 January	**48,276**	*45,652*	**140,660**	*142,907*
Dividends paid	**(1,241)**	*(925)*	**(1,241)**	*(925)*
Profit for the period	**9,792**	*8,457*	**4,611**	*145*
Own shares purchased for deferred share awards	**(181)**	*–*	**(181)**	*–*
Issue of share capital				
Exercise of share options	**35**	*48*	**35**	*48*
Movement in compensation expense	**640**	*439*	**640**	*439*
Adjustment to deferred consideration	**–**	*(1,137)*	**–**	*(1,137)*
Movement in reserve for management incentive plan	**(56)**	*(817)*	**(56)**	*(817)*
Other recognised income and expense	**667**	*(3,441)*	**–**	*–*
At 31 December	**57,932**	*48,276*	**144,468**	*140,660*

23. Notes to the cash flow statement

	Group		Company	
	2005	*2004*	**2005**	*2004*
	£'000	*£'000*	**£'000**	*£'000*
Profit/(loss) from operations	**13,559**	*12,436*	**(2,511)**	*(7,072)*
Adjustments for:				
Depreciation of property, plant and equipment	**604**	*818*	**111**	*63*
Amortisation of intangible assets	**462**	*346*	**14**	*25*
Gain on disposal of plant and equipment	**14**	*–*	**15**	*–*
Management incentive plan	**(56)**	*(757)*	**(56)**	*(757)*
Adjustment for pension funding	**(2,528)**	*(2,911)*	**–**	*–*
Adjustment for share options charge	**640**	*439*	**640**	*439*
(Decrease)/Increase in provisions	**(903)**	*(110)*	**–**	*3,536*
Operating cash flows before movements in working capital	**11,792**	*10,261*	**(1,787)**	*(3,766)*
(Increase)/Decrease in receivables	**(4,153)**	*(4,053)*	**(285)**	*191*
Increase/(Decrease) in payables	**3,911**	*5,840*	**(208)**	*3,114*
Cash generated by operations	**11,550**	*12,048*	**(2,280)**	*(461)*
Income taxes (paid)/received	**(2,724)**	*(3,806)*	**2**	*–*
Net cash from operating activities	**8,826**	*8,242*	**(2,278)**	*(461)*

24. Financial instruments

Details of the Group's objectives and strategies with regard to financial instruments are set out in the Financial Review. The disclosures set out below exclude short-term debtors and creditors. 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	2005	*2004*
	Floating rate	*Floating rate*
Currency	£'000	*£'000*
Sterling	1,102	*884*
US Dollar	16,789	*11,870*
Euro	2,079	*932*
Other	1,585	*824*
	21,555	*14,510*

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

25. Operating lease arrangements

	2005	*2004*
Group	£'000	*£'000*
Minimum lease payments under operating leases recognised in the income statement for the year	1,961	*2,123*

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

Group	2005		*2004*	
	Land and buildings	Other	*Land and buildings*	*Other*
	£'000	£'000	*£'000*	*£'000*
Within one year	1,690	30	*1,486*	*165*
In the second to fifth years inclusive	5,483	31	*5,028*	*28*
After five years	1,517	4	*1,999*	*–*
	8,690	65	*8,513*	*193*

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

26. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Except as disclosed below, no Group company entered into a transaction with a related party that is not a member of the Group.

Remuneration of key management personnel

The aggregate remuneration of the key management personnel of the Group, is set out below. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 30 to 36.

	2005	*2004*
	£'000	*£'000*
Short-term employee benefits	**2,331**	*2,750*
Post-employment benefits	**146**	*153*
Other long-term benefits	**163**	*–*
Share based payments	**172**	*129*
	2,812	*3,032*

During the year, the Group entered into the following transactions with related parties:
Parson Consulting LLC paid £4,123 to JP Enterprises, Inc for rental of office space. Mr Bolduc, a director of the Company, is the majority shareholder and director of JP Enterprises, Inc.

27. Principal subsidiary undertakings

At 31 December 2005, 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
Proudfoot Consulting GmbH	Germany
Proudfoot Consulting S.A.S.	France
Proudfoot Consulting GmbH	Austria
Proudfoot Consulting S.A.	Spain
Proudfoot South 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
Parson Consulting S.A.S.	France
Parson Consulting Pty Limited	Australia

* 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.

28. Restatement of financial information under International Financial Reporting Standards

This is the first year that the Company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was therefore 1 January 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 pre-tax charge of £0.4 million for the year ended 31 December 2004. A deferred tax asset of £0.2 million was recorded in the year ended 31 December 2004 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. A deferred tax liability of £0.9 million has been recorded in the year ended 31 December 2004 relating to the temporary difference arising as the goodwill deductible for overseas tax purposes is no longer subject to amortisation under IFRS (IAS 12 Income Taxes).

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.

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 was provided in the year ended 31 December 2004 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.

29. Restatement of Group financial information under International Financial Reporting Standards

(a) Reconciliation of income for the year ended 31 December 2004

	Previously reported under UK GAAP	IFRS 2 Share based payment	IFRS 3 Business combinations	IAS 10 Dividend	Other	Restated under IFRS
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenue	**119,248**	**–**	**–**	**–**	**–**	**119,248**
Cost of sales	(60,270)	(144)	–	–	–	(60,414)
Gross profit	**58,978**	**(144)**	**–**	**–**	**–**	**58,834**
Selling 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	(920)	–	(190)	(3,945)
Retained profit after tax	**5,520**	**(279)**	**2,872**	**–**	**344**	**8,457**
Dividends	(1,221)	–	–	296	–	(925)
Profit for the period	**4,299**	**(279)**	**2,872**	**296**	**344**	**7,532**
Earnings per share - basic	**3.0p**					**4.6p**
Earnings per share - diluted	**3.0p**					**4.5p**

(b) Reconciliation of equity as at 1 January 2004 (date of transition to IFRS)

	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 liabilities	(3,987)	–	–	–	–	(3,987)
Total current liabilities	(24,015)	–	944	–	–	(23,071)
Net current assets/(liabilities)	**(6,367)**	**–**	**944**	**–**	**–**	**(5,423)**
Non-current liabilities						
Retirement benefits obligation	(13,213)	–	–	–	–	(13,213)
Non-current tax liabilities	(3,655)	–	–	–	–	(3,655)
Long-term provisions	(1,884)	–	–	–	–	(1,884)
Non-current accruals	(1,028)	–	–	–	–	(1,028)
Total non-current liabilities	(19,780)	–	–	–	–	(19,780)
Total liabilities	**(43,795)**	**–**	**944**	**–**	**–**	**(42,851)**
Net assets	**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 held by employee share trust	(970)	–	–	–	–	(970)
Translation reserve	(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**

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

(c) Balance sheet as at 31 December 2004

	Previously reported under UK GAAP	IFRS 2 Share based payment	IFRS 3 Business combinations	IAS 10 Dividends	IAS 38 Intangible assets	IAS 21 Foreign exchange reserve	Other	Restated under IFRS
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'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 liabilities	(4,722)	–	–	–	–	–	–	(4,722)
Total current liabilities	(30,718)	–	–	1,240	–	–	534	(28,944)
Net current assets/(liabilities)	**(3,633)**	**160**	**–**	**1,240**	**–**	**–**	**534**	**(1,699)**
Non-current liabilities								
Retirement benefits obligation	(11,383)	–	–	–	–	–	–	(11,383)
Non-current tax liabilities	(2,970)	–	(920)	–	–	–	(190)	(4,080)
Long-term provisions	(1,774)	–	–	–	–	–	–	(1,774)
Non-current accruals	(686)	–	–	–	–	–	–	(686)
Total non-current liabilities	(16,813)	–	(920)	–	–	–	(190)	(17,923)
Total liabilities	**(47,531)**	**–**	**(920)**	**1,240**	**–**	**–**	**344**	**(46,867)**
Net assets	**43,660**	**160**	**2,872**	**1,240**	**–**	**–**	**344**	**48,276**
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 held by employee share trust	(970)	–	–	–	–	–	–	(970)
Translation reserve	(14,083)	–	–	–	–	12,338	–	(1,745)
Other reserves	12,747	–	–	–	–	–	–	12,747
Retained earnings	(39,501)	(456)	2,872	1,240	–	(12,338)	344	(47,839)
Total equity	**43,660**	**160**	**2,872**	**1,240**	**–**	**–**	**344**	**48,276**

30. Restatement of Company financial information under International Financial Reporting Standards

a) Company income statement for the year ended 31 December 2004

	Under UK GAAP £'000	IFRS2 Share based payment £'000	IAS10 Dividends £'000	Other £'000	Restated under IFRS £'000
Provision against investments	(3,537)	–	–	–	(3,537)
Administrative expenses	(3,203)	(439)	–	107	(3,535)
Operating loss	**(6,740)**	**(439)**	**–**	**107**	**(7,072)**
Finance income	1,027	–	–	–	1,027
Income from investments	6,135	–	–	–	6,135
Profit before tax	**422**	**(439)**	**–**	**107**	**90**
Tax credit/(expense)	2	80	–	(27)	55
Profit after tax	**424**	**(359)**	**–**	**80**	**145**
Dividends payable	(1,221)	–	296	–	(925)
Loss for the period	**(797)**	**(359)**	**296**	**80**	**(780)**

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

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

	Previously reported under UK GAAP	IFRS2 Share based payment	IAS10 Dividend	IAS38 Intangible assets	Restated under IFRS
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Non-current assets					
Investments in subsidiaries	107,719	–	–	–	107,719
Other intangible assets	–	–	–	28	28
Property, plant and equipment	57	–	–	(28)	29
Total non-current assets	107,776	–	–	–	107,776
Current assets					
Trade and other receivables	41,972	–	–	–	41,972
Cash and cash equivalents	2,988	–	–	–	2,988
Total current assets	44,960	–	–	–	44,960
Total assets	**152,736**	–	–	–	**152,736**
Current liabilities					
Trade and other payables	(9,829)	–	–	–	(9,829)
Dividends to shareholders	(944)	–	944	–	–
Total current liabilities	(10,773)	–	944	–	(9,829)
Net current assets	**34,187**	**–**	**944**	**–**	**35,131**
Net assets	**141,963**	**–**	**944**	**–**	**142,907**
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 held by employee share trust	(970)	–	–	–	(970)
Capital redemption reserve	1,186	–	–	–	1,186
Retained earnings	54,374	(177)	944	–	55,141
Total equity	**141,963**	**–**	**944**	**–**	**142,907**

c) Company balance sheet as at 31 December 2004

	Previously reported under UK GAAP £'000	IFRS2 Share based payment £'000	IAS10 Dividends £'000	IAS38 Intangible assets £'000	Other £'000	Restated under IFRS £'000
Non-current assets						
Investments in subsidiaries	103,376	–	–	–	–	103,376
Other intangible assets	–	–	–	28	–	28
Property, plant and equipment	399	–	–	(28)	–	371
Total non-current assets	103,775	–	–	–	–	103,775
Current assets						
Trade and other receivables	53,514	80	–	–	–	53,594
Cash and cash equivalents	4,836	–	–	–	–	4,836
Total current assets	58,350	80	–	–	–	58,430
Total assets	**162,125**	**80**	**–**	**–**	**–**	**162,205**
Current liabilities						
Trade and other payables	(21,625)	–	–	–	107	(21,518)
Current tax liabilities	–	–	–	–	(27)	(27)
Dividends to shareholders	(1,240)	–	1,240	–	–	–
Total current liabilities	(22,865)	–	1,240	–	80	(21,545)
Net current assets	**35,485**	**80**	**1,240**	**–**	**80**	**36,885**
Net assets	**139,260**	**80**	**1,240**	**–**	**80**	**140,660**
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 held by employee share trust	(970)	–	–	–	–	(970)
Other reserves	1,186	–	–	–	–	1,186
Retained earnings	53,577	(536)	1,240	–	80	54,361
Total equity	**139,260**	**80**	**1,240**	**–**	**80**	**140,660**

contacts for
investors and clients

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Company number 1000608

Registrar

Capita Registrars
The Registry
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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	12 May 2006
Ex-dividend date	17 May 2006
Record date	19 May 2006
Final dividend payment	5 June 2006

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 843 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).

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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 Regus Centre, 1 Northumberland Avenue, Trafalgar Square, London, WC2N 5BW on Friday 12 May 2006, at 10am for the undermentioned purposes:

Ordinary business

1. To receive and adopt the Directors' report and annual accounts of the Company for the year ended 31 December 2005 together with the auditors' report on those accounts and on the auditable parts of the Directors' Remuneration Report.
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 2005.
3. To declare the final dividend for the year ended 31 December 2005 of 0.8 pence per share.
4. To re-appoint Baroness Cohen of Pimlico as a director of the Company, who is retiring by rotation.
5. To re-appoint Mr J P Bolduc as a director of the Company, who is retiring by rotation.
6. To re-appoint Mr S A Ferriss as a director of the Company, who, having been appointed since the last Annual General Meeting, is required to stand down and offer himself for re-appointment.
7. To re-appoint Mr A H Simon as a director of the Company, who, having been appointed since the last Annual General Meeting, is required to stand down and offer himself for re-appointment.
8. To re-appoint Deloitte & Touche LLP as auditors to the Company, to hold office from the conclusion of the meeting until the conclusion of the next Annual General Meeting and to authorise the directors to determine the auditors' remuneration.

Special business

9. To consider and, if thought fit, pass the following resolutions, which will be proposed, as to resolution 9(a) as an ordinary resolution, and, as to resolutions 9(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 £19,378,544 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 2011, 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 9(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);

notice of Annual General Meeting

(continued)

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £2,368,667.75;

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 2011, 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 18,949,341;

(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; and

(iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 10 August 2007, 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

6 March 2006

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 6pm on 10 May 2006, 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 6pm on 10 May 2006 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 10 May 2006.

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.