NEXT15

Next Fifteen Communications Group plc

Annual Report 2012

DIGITAL EVOLUTION

INTRODUCTION

Using your smartphone, scan this code to access our online Review of 2012.

Or visit: http://www.ar12.next15.com

THIS YEAR WE HAVE CREATED AN ONLINE REVIEW OF 2012 TO COMPLEMENT THIS ANNUAL REPORT, WHICH CAN BE FOUND ON OUR WEBSITE, WWW.NEXT15.COM. THE SITE FEATURES CLIENT CASE STUDIES, GIVING EXAMPLES OF THE DIFFERENT TYPES OF DIGITAL WORK WE ARE NOW DOING. THE REVIEW OF THE YEAR ALSO EXAMINES OUR PROGRESS ON TRANSITIONING THE BUSINESS IN THE NEW DIGITAL WORLD.

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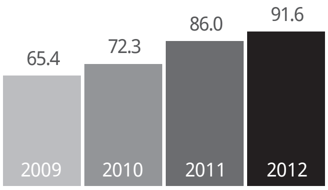
Financial highlights

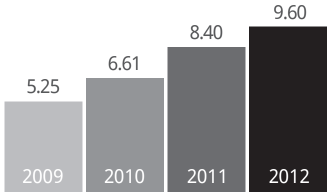
Revenue (£m)



£91.6m +6%

(2011: £86.0m)

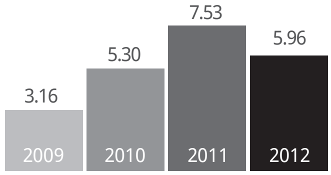
Adjusted profit before tax (£m)[1]



£9.6m +14%

(2011: £8.4m)

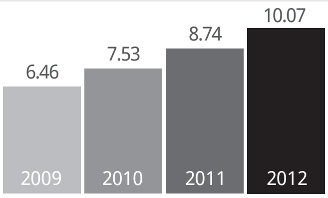
Profit before tax (£m)



£6.0m -21%

(2011: £7.5m)

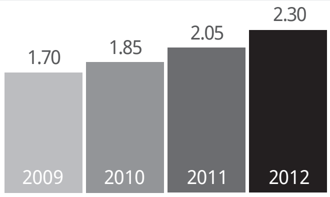
Diluted adjusted earnings per share (pence)[2]



10.07p +15%

(2011: 8.74p)

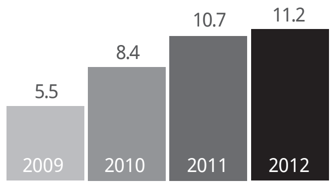
Dividend per share (pence)



2.30p +12%

(2011: 2.05p)

Adjusted earnings before interest, tax,depreciation and amortisation (£m)[4]



11.2m +5%

(2011: £10.7m)

[1] See note 5 to the financial statements.

[2] See note 10 to the financial statements.

OPERATIONAL HIGHLIGHTS

- Adjusted pre-tax profit margin increased to 10.5% from 9.8% last year
- Net debt increased by just £1.0m year on year to £2.6m, despite spending of £5.7m on acquisition-related payments[3]
- Acquired 80% of the issued share capital of two German-based businesses, Trademark PR and Trademark Consulting, to be integrated within the Bite Communications group
- Acquired the remaining 20% of CMG Worldwide Limited (trading as Bourne) that the Group did not already own
- Acquired a 71.8% shareholding in Paratus Communications Limited, a small UK-based corporate and consumer agency integrated within Lexis
- Acquisition of Content & Motion in August 2012, providing Beyond with a talented social media team creating programmes that drive engagement through blogger and media outreach and clients' owned social media presences

[3] Net debt excludes contingent consideration and share purchase obligations. See note 19 to the financial statements.

[4] Operating profit before depreciation, amortisation and the impact of fraudulent activity.

CHAIRMAN'S STATEMENT

Next 15, a worldwide digital communications group, is pleased to report that it has continued to trade well with strong operational performances from almost every part of the Group. This success has been underpinned by the Group's early transition from traditional PR to digital and social marketing services. As I reported last year, this strategy is giving the Group access to new revenue streams and helping to drive growth in many global markets. The transition is being driven both through organic expansion and targeted acquisitions. While the global economy continues to struggle, Next 15 continues to deliver revenue and earnings growth with a strong balance sheet. On a separate note, the recent discovery of a fraud in one of our operations is covered in some detail later in this statement and also in the Financial Review but I'm pleased to report that the initial investigation is now concluded.

The Group has reported revenue up 6% to £91.6m (2011: £86.0m) and adjusted profits[1] before tax were up 14% at £9.6m (2011: £8.4m). Profit before tax was down to £6.0m (2011: £7.5m), following the impact of the fraudulent activity notified to shareholders on 31 October 2012 (see below). Diluted adjusted earnings per share[2] increased 15% to 10.07p (2011: 8.74p) and the Group ended the year with a modest net debt (excluding contingent consideration liabilities and share purchase obligations) of £2.6m. This level of debt represents less than 25% of adjusted EBITDA[3], being £11.2m (2011: £10.7m). On the back of these results the Board is recommending a final dividend of 1.735p per share, which increases the dividend for the year by 12% to 2.3p (2011: 2.05p).

THE DIGITAL TRANSITION

Next 15's strategy is animated by a core belief that technology is driving fundamental changes in best marketing practices. This is evidenced by the roles Google, Microsoft, Twitter and Facebook now play in the marketing activities of most major companies. Whilst the pace of adoption of new techniques varies from company to company, the Group is now equipped to advise all clients on how to make best use of digital and social opportunities as they continue to emerge.

Next 15 has strong domain expertise in the technology market and advises many of the leading online marketing businesses on the development of their own online influence models. The insights thus developed create a core of expertise applicable to traditional technology vendors as well as broader consumer and business to business brands.

The transition from traditional PR services to more social and digital activities will generate mixed levels

[1] See note 5 to the financial statements.

[2] See note 10 to the financial statements.

[3] Operating profit before depreciation, amortisation and the impact of fraudulent activity.

of growth across the business as new service lines replace the old. The digital investments made in the Group continue to pay off, with organic growth substantially greater in those agencies that are further along the digital marketing path. This underpins the Board's view that continued investment – organic and by acquisition – is merited in areas that can accelerate the Group through this extraordinary market transition. For example the Group generated only 3% of its revenues from research and analytics in the last year. This is an important area of potential growth through the sale of products and services complementary to the core service lines.

SEGMENTAL PERFORMANCE

Technology PR, which remains at the heart of the Group, representing 66% of revenues, grew by just over 2%, despite the loss of HP in our Bite Communications business.

The Consumer PR division, representing 16.5% of total revenue, declined by just over 6% following a tough year for Lexis, which has been re-staffed and retooled considerably during the year. This agency completed the acquisition of Paratus in May, strengthening its social and corporate communications capabilities. I am pleased to report that these actions have resulted in a return to growth for the agency and respectable profit margins.

The Corporate Communications division, which now represents 7.2% of Group revenue grew by an impressive 31%, aided by a full-year contribution from The Blueshirt Group, while the Pure Digital/Research segment which now accounts for just over 10% of revenues grew by 67%, assisted by a full-year contribution from Bourne, with organic growth of an impressive 34%.

FRAUDULENT ACTIVITY

On 31 October 2012 we informed shareholders that, in the latter stages of finalising the audit, a fraud was discovered in the San Francisco office of Bite Communications. This has now been thoroughly investigated with the conclusion that this was an act of personal embezzlement by a long-standing member of the finance team in a trusted position. The required accounting adjustment has been to write off as an exceptional item \$2.8m (£1.8m) (see note 4) relating to unrecoverable assets and unrecorded liabilities, reflecting cash stolen from the business. The fraud continued into the early part of the current financial year, which will require a further write-off of \$0.2m (£0.1m). This crime is now being investigated by the FBI and the SFPD. All steps will be taken to recoup lost assets but it is too soon to estimate the likely scale of any recovery.

The Board is undertaking a comprehensive review of the internal financial controls environment, the details of which you can find in the Financial Review. Meanwhile, as indicated in the statement of 31 October, this regrettable event will not impact the operational performance of the Group or affect its ability to make the investments it has planned for the coming year.

PROSPECTS

The Group continues to recognise the low global economic growth prospects and unsettled currency values, underlining the need for continued fiscal prudence. That said, it is well-positioned in the world's key markets, in particular the US, which remains an excellent market for the Group's services. As highlighted above, the Group is also well-placed to benefit from the continued shift of audiences and marketing expenditures to digital and social marketing platforms.

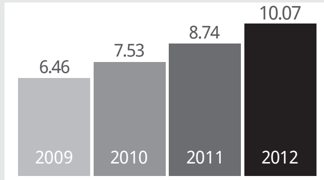
We continue to explore ways to expand digital capabilities through a mix of organic investment and targeted acquisitions using our strong balance sheet position.

As the new financial year begins, the signs are encouraging. We remain confident about the prospects for Next 15 as the year progresses.

Richard Eyre
Chairman

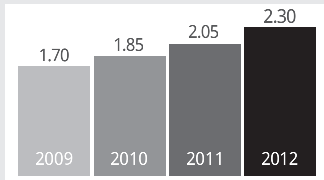
26 November 2012

Diluted adjusted earnings per share (pence)



10.07p +15%
(2011: 8.74p)

Dividend per share (pence)



2.30p +12%
(2011: 2.05p)

BUSINESS REVIEW

Last year I devoted my review to the opportunity facing our business. I described the transition that the marketing services industry was going through as 'the biggest, most exciting industry transition we've ever seen'. Twelve months on I can report that the pace and energy surrounding this transition has not decreased. If anything, the industry is witnessing an even greater reorganisation, thanks in large part to the challenges thrown at it by the technology market.

This year, Facebook is expected to generate higher revenues than News Corporation. Meanwhile, Google will generate more revenues than all three major US TV broadcast networks combined. Put another way, the growth of social and digital marketing businesses such as Google, Facebook and Twitter is a reflection of the way companies are now spending their marketing funds. The pace of this transition has surprised many of the major media businesses, some of which are over a hundred years old. Google, on the other hand, is one of the oldest of the internet marketing businesses, having recently celebrated its fourteenth birthday and Facebook is just seven.

Number of clients
1,077 +9%
(2011: 984)

Offices worldwide
53 +4%
(2011: 51)

Average number of staff
1,088 +2%
(2011: 1,067)

With marketing spend shifting away from print and traditional broadcast towards digital and social channels such as the ones I've mentioned, we are seeing companies change the way they reach and influence their customers. For a business like Next 15 this is a huge, once-in-a-lifetime opportunity. We must add new skills and new products, and change our entire approach to helping clients. But we must do this while also delivering great PR consultancy, a service that remains hugely valuable if delivered through digital and social channels. In other words, it is not an 'out with the old and in with the new'. Instead it is 're-engineer the old and add the new'. As business challenges go, it's a great problem to have!

As we work through this transition, we are being forced to make some tough decisions but we are also uncovering some exciting opportunities. We are evolving away from a business centred around press relations to a business centred around online influence. This still demands fabulous media skills but these skills are now *a* component rather than *the* component. To help us evolve, we have invested in social media skills and the ability to create digital, branded content in our existing businesses. We have also created new agency businesses, such as Beyond, where customer engagement is approached from a social media and social network perspective rather than a media perspective.

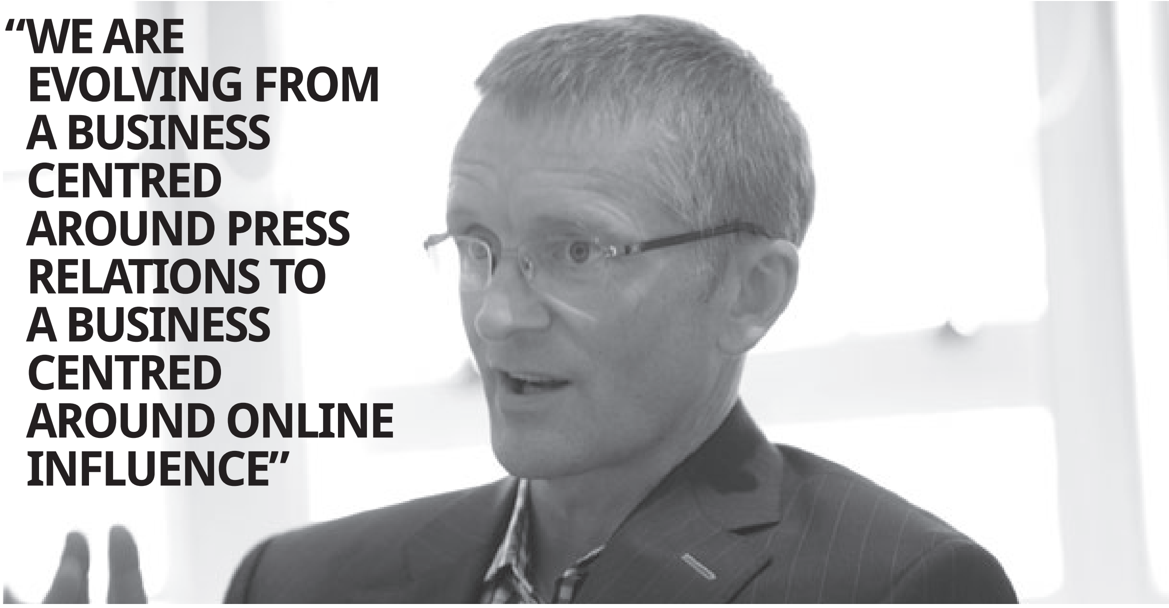
It would be easy to see the transition as just a US or UK phenomenon. But it's also clear that emerging markets such as India and China are leapfrogging aspects of traditional marketing, just as they are leapfrogging certain technologies and jumping straight to the leading products and services. In Next 15 this has resulted in solid growth of 8% in our Asia business. Europe is also moving to the new model but at a slower pace. The slower migration, coupled with a weak economy, have held back our business across mainland Europe, a situation we are not expecting to change dramatically in the coming year.

In the last 12 months we have seen exciting growth coming from our pure digital businesses. Indeed, this segment of our business experienced growth of 67%, while our overall business grew by just over 6%. In other words, we are seeing the sales of traditional services remain at best flat, while the sales of new digital services are expanding rapidly. In the next few years I expect this trend to accelerate, but only if we continue to make the right investments.

Digital is now very much at the core of how we think at Next 15, but as we go through this transition, we recognise that high-value consulting is a persistent need and we intend to continue to expand our capabilities in this respect, albeit with a digital twist. We saw the fruits of this approach in the last year where our corporate businesses saw organic growth of 10%, and we expect them to continue to grow in the current year.

Right now it would be easy for us to stray away from our core business and start selling a wide range of unconnected but nevertheless digital services. We will not do that. Instead we will focus our investment around businesses that complement the agencies we already own. For example, in the next year we intend to invest in the 'Insight' space. Thanks to social networks and the ever-increasing amount of online content, brands can use technology to scrape the internet and learn a huge amount about their customers and potential customers in ways that the old market-research industry could only have done with huge budgets and long

“WE ARE EVOLVING FROM A BUSINESS CENTRED AROUND PRESS RELATIONS TO A BUSINESS CENTRED AROUND ONLINE INFLUENCE”



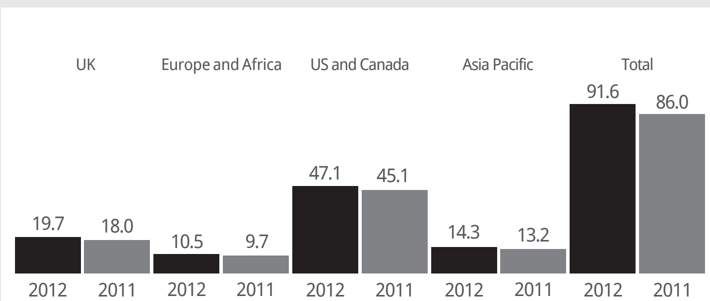
timelines. Today, gaining these insights can be done at a much lower cost and far more quickly, but it still requires a mix of human analysis and creativity to derive insights upon which a client can act. If this can be achieved, brands can market in real time, knowing their spend is well-directed and has a greater probability of being effective.

Overall, I’m very pleased with the progress that the Group has made in the last year. Transitioning the business from its traditional PR roots is going well, despite tough economic headwinds in Europe. In some cases we are exiting old client relationships and in many cases we are hiring people with social media and digital skills. Through this kind of business re-engineering, the Group is expanding its potential market and elevating its role within the client’s business. Over the next 12 to 18 months we will continue to evolve the skill base and services offered by the Group. If we continue to execute well, we will emerge from this transition as a social and digital marketing powerhouse that represents many of the world’s most exciting and respected companies and organisations. Put another way, even against a tough economic backdrop, I see an exciting future for Next 15.

Tim Dyson
Chief Executive Officer

26 November 2012

Revenue by region (£m)



FINANCIAL REVIEW

OVERVIEW

The year to 31 July 2012 was set against very difficult global economic conditions. We enjoyed some strong performances within our portfolio of businesses in the US, and had another stable year in terms of the relative strength of the dollar against sterling. The only disappointment in the US came in our Bite business, where a change in leadership at its client HP resulted in wholesale changes in their marketing partners, with Bite losing one of its largest clients in the process. A similar fate befell Lexis in the UK, where its largest client, Boots, decided on a change of course after five years.

The strength of the Group is demonstrated by the fact that these two sizeable account losses were more than offset by increased budgets from some existing clients and new clients taking advantage of our enhanced range of digital services. These are provided both by our Pure Digital and Research division, whose revenue grew by 67% and also from the wide range of hybrid digital services delivered by our communications businesses serving the technology and consumer sectors. Revenue grew by 6% to £91.6m (2011: £86.0m) but, when adjusting for acquisitions and currency movements, underlying organic growth was 1%. There are a number of accounting adjustments, mainly non-cash in nature and relating to acquisitions, that create volatility and distort the visibility of the underlying performance of the Group, and in this review the adjusted profit and earnings numbers have been used to eliminate these factors. The impact of the fraudulent activity described in the Chairman's Statement has also been excluded from the adjusted figures. Adjusted profit before tax increased by 14%, to £9.6m (2011: £8.4m) (see note 5), and the diluted adjusted EPS rose by 15%, to 10.07p (2011: 8.74p) (see note 10).

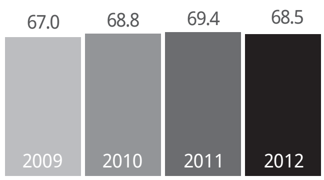
The Group's adjusted EBITDA[1] was £11.2m (2011: £10.7m) and it generated £7.5m of cash from operating activities (after tax) (2011: £8.8m). However, £5.7m expended on acquisition- related payments resulted in a Group net-debt position of £2.6m, compared to £1.6m in 2011[2]. This level of debt represents gearing of under 7%, and leaves the Group with a strong base from which to deliver future growth.

[1] Operating Profit before depreciation, amortisation and the impact of fraudulent activity.

[2] Net debt excludes contingent consideration and share purchase obligations, see note 19 to the financial statements.

Key performance indicators

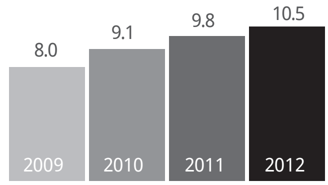
Staff costs to revenue (%)



68.5%

(2011: 69.4%)

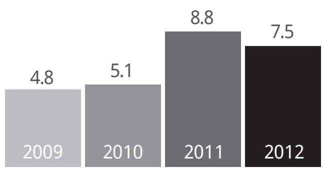
Adjusted profit before income tax margin (%)



10.5%

(2011: 9.8%)

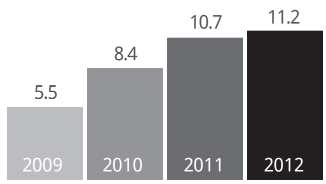
Net cash from operating activities (£m)



7.5m

(2011: £8.8m)

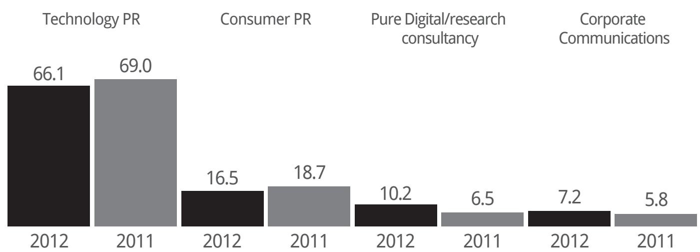
Adjusted earnings before interest, tax, depreciation and amortisation (£m)[1]



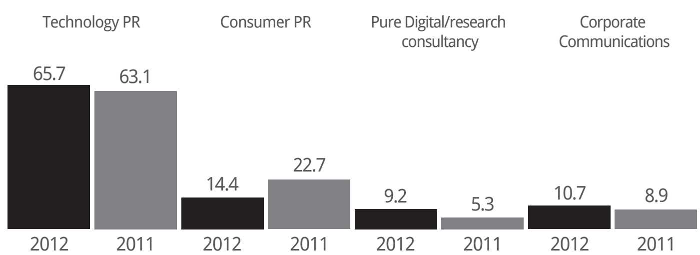
11.2m

(2011: £10.7m)

Revenue by segment (%) of total



Adjusted operating profit by segment (%)[3]



[3] As a % of total adjusted operating profit excluding head office costs and the impact of fraudulent activity.

SEGMENTAL, GEOGRAPHIC AND CLIENT ANALYSIS

At 31 July 2012, the Group had 53 offices in 17 countries and a further five licensed partners.

The Technology PR segment remains by far the largest part of the Group, with 66% of the revenue, having grown by 2%. This growth is coming largely from OutCast and Text 100 in the US and from Bite in Asia. The Consumer PR segment fell by 6% and represents 16.5% of Group revenue. This decline masks a solid performance from M Booth in the US, which was overshadowed by the impact on Lexis from losing Boots at the beginning of the year. This event provided a catalyst to re-engineer the Lexis brand to make it more digitally and social-media focused, and involved the acquisition and integration of Paratus Communications in May 2012. The Corporate Communications segment had a strong year, growing 31%, with The Blueshirt Group, an investor and media relations agency based in San Francisco and New York, leading the way in its first full year in the Group. The final segment of the business is Pure Digital and Research Consultancy, which experienced very significant growth of 67%. This came from a combination of excellent momentum from Beyond, based in the US and UK and completing its second full year of trading, and a full-year contribution from Glasgow-based Bourne, which joined the Group in May 2011.

The proportion of the Group's revenue generated outside the UK in the last year was 78.5%. The US remained the largest geographic region, accounting for 51.4% of revenue. With the UK share of revenue being 21.5%, the Group generated around 73% of its revenue in these two strongest markets for communications and marketing services. The US region grew by 4%, to £47.1m (2011: £45.1m). UK revenue increased almost 10% on the previous year, and included the full-year contribution from Bourne. In Europe and Africa the businesses experienced 7% growth, to £10.5m, thanks to the addition of Munich-based Trademark, which joined the Bite Group in October 2011, but mitigated by a 3% weakening of the euro. The Asia Pacific region grew by 8%, to £14.3m (2011: £13.2m). The organic growth was 7%, benefiting from good results posted by our operations in India and Australia.

It is also pleasing to note that the concentration of the Group's key clients reduced further. The top ten clients now represent approximately 26% of the revenue of the business (2011: 30%), with no single client accounting for more than 5% of the total. This broadening of the client base comes as a result of the Group having a more diverse range of service to offer. The Group still has an impressive list of global blue-chip clients, with each of the top ten clients generating annual fees in excess of £1.3m. The total number of clients rose by 9% to almost 1,100 aided by the acquisitions referenced above, and project clients still represent almost 40% of the total by number. This reflects the nature of the relationships held in the Pure Digital and Research division as well as the move to more project work in the EMEA PR client base. The average client size fell by 3%, to £83,000, because of the number of smaller clients in acquired businesses and the nature of the market in research, which is characterised by small projects. We have around 200 international clients, representing 18% of total clients, but more significantly they are more than three times the size of the average client and account for over 60% of group revenue. The international nature of our client base provides greater scope for growth than reliance on domestic clients only.

FOREIGN EXCHANGE RISK

The Group has established treasury policies and procedures which monitor exposure to the US dollar and euro, which are the two main operating currencies other than sterling. Cover periods have remained short, with cover based on the expected surplus cash receipts returned to the UK in the current financial year only. As a result of this policy, there should be much reduced volatility in the accounting charges arising from the requirement to fair-value these contracts.

MARGIN PERFORMANCE

The adjusted profit before tax margin of the Group increased to 10.5%, from 9.8% last year, following the continued recovery from global recession in the Technology PR segment and increasing momentum from higher margin areas such as Corporate Communications. Excluding head office costs, the adjusted operating profit margin was 15.5%, compared to 14.8% last year. There have been some margin pressures in some of the Group's businesses, but they have worked very hard in difficult economic circumstances to remain close to the target minimum margin threshold of 16% before head office costs. The Technology PR segment achieved 15.5%, with Bite having the biggest challenge in reaching target following a significant client loss in the US and its investment in some of its sub-scale APAC businesses. The Consumer PR segment achieved a margin of 13.6%, following the problems at Lexis noted above. The Pure Digital and Research businesses achieved 14%, up from 12% last year as the digital businesses become more established. The Corporate Communications segment achieved a margin of 23%, with the full-year contribution from Blueshirt, and in line with last year. From a regional perspective, the US and UK achieved the required target rates, improving slightly on the prior year, but EMEA's margin suffered again as the economy has stagnated, and the APAC region is still very much at a sub-optimal scale, with the Bite India business still in the development phase.

CASH FLOW

The net cash generated from operations (before tax payments) was strong once again, at £10.1m (2011: £11.4m), which was 119% of operating profit. The main investment activities in the year requiring a cash payment were £4.4m for contingent consideration for M Booth and Blueshirt, acquired in August 2009 and September 2010 respectively, and £0.8m for the initial payment for the 80% of Trademark acquired in October 2011. Dividends paid to Next 15's shareholders totalled £1.2m. The Group continues to face pressure on payment terms from some clients, particularly those financed by debt. Typically these are large companies with professional procurement teams, who still offer a good credit risk but who use their size to negotiate extended payment terms on a take-it- or-leave-it basis. In the face of these pressures, the finance teams within the Group have done a great job in managing the debtor profile and bad debt exposure.

BALANCE SHEET

The key movements in the Group's balance sheet are the goodwill arising from the acquisitions of the majority interest in Trademark and Paratus, and the Bourne minority interest and the increased receivables and payables consolidated following the Trademark acquisition. The cash balances were £8.4m, compared to £8.5m last year, with the acquisition payments partly funded by drawing down £1.0m from the bank facilities described below. The net debt position after deducting bank borrowings and finance leases was £2.6m (2011: £1.6m). Net assets at 31 July 2012 were £37.2m (2011: £32.3m).

TREASURY AND FUNDING

The Group has a revolving-credit facility from Barclays Bank of £16m, expiring in December 2014.
The facility was used to help make the upfront payments on the acquisition of Trademark. The facility is available in a combination of sterling, US dollar, and euro, at an interest rate of 2.25% over LIBOR. Also available is an overdraft facility of £1.5m, available in sterling, US dollar and euro. All of the UK businesses are part of a composite accounting system which allows the offset of UK overdrawn and credit balances. In the US, the Group has consolidated facilities with Wells Fargo, supported by a $2.7m credit line for letters of credit and working-capital purposes. In addition, Wells Fargo provided a $1m loan facility at the call-loan rate plus 2.5%, repayable over 5 years, which was used to partly fund the purchase of the additional stake in 463 Communications in 2009. The Group aims to return any surplus cash to the UK, subject to any local transfer restrictions, and as far as possible to hold only moderate non-deposit cash balances in overseas subsidiaries, subject to working-capital needs.

FRAUDULENT ACTIVITY

As described in the Chairman's Statement, the Group has suffered from an act of personal embezzlement by a long-serving employee in a trusted position heading up the finance team in the Bite office in San Francisco. This entailed a cheque fraud over a number of years, involving forging signatures and producing forged documentation. The weaknesses of controls that allowed this to happen were a lack of segregation of duties, management override of controls and inadequate review. Prior to 1 August 2010 the amounts were small and were expensed through the income statement, amounting to an identified total of $300k (£190k). As the amounts increased they were accumulated in the balance sheet, spread over two statutory entities. The total amount of cash taken is around $3m (£1.9m). We have identified that $200k (£127k) was taken after 31 July 2012 and will therefore be expensed in the current year. For the remaining $2.8m (£1.8m), the ongoing investigation has so far identified that around $1.4m (£0.9m) cash was extracted in 2012, and $1.4m (£0.9m) prior to 2012 ($0.7m (£0.4m) in 2011 and $0.7m (£0.4m) prior to 2011).

As at 31 July 2012, a total of $2.5m (£1.6m) was held on the balance sheet and represented by fictitious assets. Of that \$2.5m (£1.6m), an amount of \$1.1m (£0.7m) had existed at 31 July 2011. The Board have concluded that allocating the impact of the write off across each respective prior year would not make a material difference to an understanding of the accounts.

A further \$0.3m (£190k) was identified relating to unrecorded tax liabilities and associated penalties and interest which have now been accrued. The write off and recognition of liabilities has resulted in a total charge associated with the fraud of \$2.8m (£1.8m) being recognised in the 2012 income statement (see note 4).

In response to this fraud, the Board is undertaking a comprehensive review of the internal financial controls environment, including cash management involving both payments and receipts. A decision has been taken to create a dedicated Internal Audit function, with resources to be recruited in the US and UK.

TAXATION

The total tax charge for the year is £1.7m (2011: £2.3m) on consolidated profit before tax of £6.0m (2011: £7.5m). This represents an effective tax rate of 28%, being 3% higher than the standard UK rate, reflecting the higher tax rates in the US, where an increasing proportion of group profits are made. There were also losses in some of the individual Bite entities in territories in which it would not be prudent to recognise deferred tax assets. The higher tax charge also reflects a reduction in the value of our UK deferred tax asset further to the reduction in the UK corporation tax rate to 23% effective from 1 April 2013.

Tax relief is expected in the year ending 31 July 2013 in respect of the \$2.8m (£1.8m) charge relating to the fraud. A deferred tax asset has been recognised on the consolidated balance sheet as at 31 July 2012 accordingly.

EARNINGS

Basic earnings per share, adjusted for the highlighted items shown in note 5, rose 12%, to 11.42p (see note 10). This rise reflects the increased profit levels but was mitigated by the increased number of shares used in the calculation. This arises from shares issued in relation to contingent consideration earned during the year for the acquisition of M Booth and on the acquisition of the Bourne minority interest. The calculation is also affected by shares issued from the ESOP during the year when employees exercised share options and on the vesting of performance shares.

The diluted adjusted earnings per share rose by 15%, to 10.07p, and this is 12% lower than the adjusted basic figure. This dilution comes from the options and performance shares outstanding under the Long-Term Incentive Plan and also as a result of taking into account shares that are expected to be issued in the future as part of the contingent consideration for acquisitions. This level of dilution is less than it was last year (14%) as some of the LTIP shares were issued during the year and some shares were issued as payment for acquisitions.

DIVIDENDS

The proposed final ordinary dividend per share is 1.735p, which takes the total for the year to 2.3p, a 12% increase on the total dividend of 2.05p last year. It will be paid on 8 February 2013, assuming that it is approved at the AGM on 29 January 2013. The dividend is covered more than four times by diluted adjusted earnings per share. The Board continues to view its dividend policy over the medium term and aims to strike a balance between the importance placed on dividends by shareholders and the needs of the Company to invest for future growth.

David Dewhurst
Finance Director

26 November 2012

BOARD OF DIRECTORS

RICHARD EYRE

Chairman# Aged 58

Richard was appointed as Chairman in May 2011. He is Chairman of the Internet Advertising Bureau and the Eden Project as well as being a non-executive director of Grant Thornton LLP, MGt Ltd and Results International Group LLP. He was formerly CEO of ITV Network Ltd and Capital Radio plc and Director of Content and Strategy for the RTL Group.

TIM DYSON

Chief Executive Officer* Aged 51

Tim joined the Group in 1984, immediately after graduating from Loughborough University, and became its CEO in 1992. As one of the early pioneers of tech PR, he has worked on major corporate and product campaigns with such companies as Cisco, Microsoft, IBM, Sun and Intel. Tim oversaw the flotation of the Company on the London Stock Exchange and has managed a string of successful acquisitions by the Group in recent years, including M Booth in the US and Upstream in Asia Pacific. Tim moved from London to set up the Group's first US business in 1995 in Seattle, and is now based in Palo Alto, the heart of Silicon Valley. Outside Next 15, Tim is on the advisory boards of several emerging technology companies. Tim also writes a blog at http://timdyson.wordpress.com/ where he comments on news and topical issues affecting the public relations industry.

DAVID DEWHURST, ACA

Finance Director Aged 49

David Dewhurst graduated from the University of Birmingham in 1984. He then joined KPMG as a trainee accountant, qualifying in 1987. David worked as a corporate and group accountant for Hillsdown Holdings plc between 1988 and 1992. In 1992, David became Group Finance Director for Strong & Fisher Holdings plc before being appointed, in 1997, to the same post at The Media Business Group plc. He joined the Board of Next 15 as Finance Director in 1999 to take the Company through its flotation in December 1999.

Member of the Audit, Remuneration and Nomination Committees.

***** Member of the Nomination Committee.

ALICJA LESNIAK, FCA

Non-executive Director and Senior Independent Director# Aged 60

Alicja joined the Board in July 2011 and is currently a non-executive director at Channel 4 Television Corporation and SThree plc. Alicja started her career as a Chartered Accountant at Arthur Andersen but rapidly moved into the financial, commercial and operational management of professional service businesses. Since 1987 she has worked in the marketing services sector with global companies such as WPP Group plc, J Walter Thompson Group Ltd, Ogilvy & Mather Worldwide Inc, BBDO Worldwide Inc and Aegis Group plc, where she was Chief Financial Officer. She has extensive experience of working internationally, including roles based in New York and Paris.

MARGIT WENNMACHERS

Non-executive Director* Aged 47

Margit joined the Board in August 2011. She is a partner at Andreessen Horowitz, a venture capital firm, where she heads the firm's marketing efforts. Margit joined Andreessen Horowitz in July 2010. Before that she co-founded OutCast Communications Corp, which became a subsidiary of Next 15 in 2005. Prior to OutCast, Margit spent over four years at Blanc & Otus, where she managed several of that agency's largest client accounts. Before joining Blanc & Otus, Margit was based in Germany and was responsible for European marketing and communications for Stardent Computers.

Member of the Audit, Remuneration and Nomination Committees.

***** Member of the Nomination Committee.

REPORT OF THE DIRECTORS

The Directors present their Annual Report together with the audited financial statements of Next Fifteen Communications Group plc (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 July 2012.

This Annual Report includes the Directors' Report and the audited financial statements for the year ended 31 July 2012. Certain information required to be disclosed in the Directors' Report is provided in other sections of the Annual Report. This includes the Financial Review, the Directors' Statement on Corporate Governance, the Remuneration Report and specific elements of the financial statements noted below and, accordingly, these are incorporated into the Directors' Report by reference.

Principal activity

Next Fifteen Communications Group plc is the parent company of a group whose principal activity during the year continued to be the provision of communications services. The Group's business is organised into four reportable segments: Technology PR, Consumer PR, Pure Digital and Research Consultancy and Corporate Communications. Within the Technology and Consumer PR segments, the Group operates five independent PR brands that function as autonomous businesses, thus enabling them to service competing clients. These are Text 100, Bite Communications, The OutCast Agency, The Lexis Agency and M Booth. The Group's Pure Digital and Research Consultancy segment comprises the Beyond, Bourne and Redshift brands. The Corporate Communications segment comprises 463 Communications, a policy communications consultancy, and The Blueshirt Group, an investor relations business.

Review of business and future prospects

A detailed review of the business, current trading and future developments of the Group is given in the Chairman's Statement, the Business Review and the Financial Review, the latter of which includes an overview of the key performance indicators of the business. Details of the Group's principal risks and uncertainties are given in the Directors' Statement on Corporate Governance on pages 21 to 26.

Results and dividends

The Group's financial statements for the year ended 31 July 2012 show that profit before tax for the financial year was £5,959,000 (2011: £7,527,000). The Group made a profit attributable to shareholders of the Company for the year of £3,906,000 (2011: £4,997,000). The Directors have recommended a final dividend of 1.735p per share (2011: 1.535p) for the year ended 31 July 2012, to be paid to shareholders on the register at 11 January 2013, which, together with the interim dividend of 0.565p (2011: 0.515p) paid on 1 June 2012, makes a total for the year of 2.30p per share (2011: 2.05p).

Company's listing

The Company continues to be listed on the Alternative Investment Market (AIM) of the London Stock Exchange. Information required by AIM rule 26 has been provided on the Group's website, www.next15.com.

Acquisitions

The following is a summary of Group acquisitions made in the year ended 31 July 2012, more detailed disclosure of which can be found in note 26 to the financial statements. On 4 October 2011 the Group acquired 80% of the issued share capital of two German-based businesses, Trademark PR and Trademark Consulting ('Trademark'), which were incorporated into the Bite brand. The acquisition was a key part of the Group's plans to offer a global service to its clients by providing specialist communications and marketing expertise in the key economies. The initial consideration for the share purchase was €1.38m (£1.20m) satisfied in cash with further payments, at multiples of PBIT ranging between five and six, dependent on the PBIT and margin levels achieved by Trademark over the following five years. The maximum consideration payable is €4.5m (£3.88m).

On 1 May 2012 The Lexis Agency Limited acquired a 71.8% shareholding in Paratus Communications Limited. The initial consideration was £250,000 in cash paid on completion, with a further payment of up to £150,000 payable based on the revenue and profit of the acquired business in the 12-month period following completion. The remaining shares will be acquired over the following five years.

On 5 April 2012 the Company acquired the remaining 20% of CMG Worldwide Limited (trading as Bourne) that it did not already own. This was part of a variation to the original share purchase agreement, and the deferred consideration for the original acquisition of 80% of CMG Worldwide Limited was also re-negotiated. Part of the consideration for the 20% was the issue to the sellers of 309,729 shares in the Company.

Financial instruments

Information on both the Group's financial risk management objectives and the Group's policies on exposure to relevant risks in respect of financial instruments is set out in note 19.

Directors

The names and biographical details of the Directors who held office at the date of this report appear on pages 11 and 12.

The Company's Articles of Association require that one-third of the Directors must retire by rotation each year. At the next Annual General Meeting of the Company, David Dewhurst will retire from the Board and offer himself for re-election.

Additional information relating to Directors' remuneration, service agreements and interests in the Company's shares is given in the Remuneration Report.

Other than service contracts, no Director has a material interest in any contract to which the Company or any of its subsidiaries is a party. The Company has maintained insurance to cover Directors' and Officers' liabilities and costs for claims in connection with any act or omission by its Directors or Officers in the execution of their duties. No claims have been made against this policy.

Substantial shareholdings

The Company has been notified of the following interests in 3% or more of the issued share capital in accordance with the Disclosure and Transparency Rules at 22 November 2012 and 31 July 2012:

	22 November 2012		31 July 2012	
Name	Total	%	Total	%
Liontrust Investment Partners LLP	11,486,878	19.65%	11,486,878	20.00%
Timothy Dyson	5,781,004	9.89%	5,781,004	10.25%
Herald Investment Management	5,231,796	8.95%	5,231,796	9.27%
Octopus Investments	4,648,555	7.95%	4,648,555	8.09%
BlackRock Investment Management (UK)	3,699,581	6.33%	3,699,581	6.56%
River and Mercantile Asset Management LLP	3,200,549	5.48%	2,733,049	4.85%
Mr Thomas Lewis	2,800,000	4.79%	2,968,538	5.26%

The market price of the Company's shares during the year was as follows:

Price at 1 August 2011	84.0p
Highest price	97.0p
Lowest price	73.0p
Price at 31 July 2012	93.0p

Charitable donations

During the year the Group made charitable donations of £17,000 (2011: £47,000).

Political donations

It is the Group's policy not to make donations for political purposes.

Payments to suppliers

It is the policy of the Group to agree suitable terms and conditions for its business transactions with all suppliers. These terms and conditions range from standard written terms to individually drafted contracts. Once such terms are agreed, it is the Group's policy to adhere fully to them, provided the supplier has also complied with the terms and conditions. The number of days taken by the Company to pay suppliers, on the basis of trade creditors at 31 July 2012 and average daily purchases for the year, was 35 days (2011: 32 days).

Employee involvement

The Group operates a policy of regularly informing all employees of the Group's financial performance, through a combination of meetings and electronic communications. In addition, the Group's employee share option plans, long-term incentive plans and bonus schemes encourage employees at all levels to contribute to the achievement of the Group's short-term and long-term goals.

Equal opportunities

The Group gives full and fair consideration to all applications for employment made by people with disabilities, having regard to their particular aptitudes and abilities. The Group's policies for training, career development and promotion do not disadvantage such people. The Group seeks to recruit, develop and employ throughout the organisation suitably qualified, capable and experienced people, irrespective of sex, age, race, disability, religion or belief, marital or civil partnership status or sexual orientation.

Health and safety

The Group recognises and accepts its responsibilities for health, safety and the environment. The Group is committed to maintaining a safe and healthy working environment in accordance with applicable requirements at all locations in the UK and overseas. The Finance Director is responsible for the implementation of the Group policy on health and safety.

Annual General Meeting

The Annual General Meeting of the Company will be held at the Company's offices at The Triangle, 5–17 Hammersmith Grove, London W6 0LG on Tuesday 29 January 2013 at 3.30 pm. The notice convening the meeting accompanies this document for shareholders who requested a hard copy, and is also available on the Company's website at www.next15.com.

Post balance sheet events

On 7 August 2012 the Group acquired the entire issued share capital of Content and Motion Limited, to be incorporated into its Beyond brand within its Social Acquisition and Engagement team. This acquisition rounds Beyond's service capability as a new style of socially-driven creative digital agency. The consideration paid on completion was £420,000 in cash plus a 6.5% stake in Beyond. A further payment of up to £100,000 is payable depending on the profit of the business in the first year following completion.

Corporate governance

The Company's Statement on Corporate Governance is set out in pages 21 to 26 of these financial statements and forms part of this Directors' Report.

Share capital

The Company's issued share capital comprises a single class of share capital which is divided into Ordinary Shares of 2.5p each. All issued shares are fully paid. The share capital during the year is shown in note 20 to the financial statements. The rights and obligations attaching to the Company's Ordinary Shares are set out in the Company's Articles of Association, copies of which can be obtained from www.next15.com, by writing to Companies House in the UK, or by writing to the Company Secretary. Holders of Ordinary Shares are entitled to speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, to appoint corporate representatives. Holders of Ordinary Shares may also receive a dividend and, on a liquidation, may share in the assets of the Company.

Auditors

All the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office as Auditors and a resolution that they be reappointed will be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 26 November 2012 and signed on its behalf by:

David Dewhurst
Company Secretary

REMUNERATION REPORT

The Remuneration Committee and its role

The Remuneration Committee (the 'Committee') comprises two non-executive Directors, Alicja Lesniak (who also chairs the Committee) and Richard Eyre. For the year ended 31 July 2012, the Chief Executive Officer attended certain meetings of the Committee by invitation to provide advice on Group performance and strategy and the performance of other executives, as appropriate. The Committee takes professional advice as and when it considers this necessary. No individual may participate in decisions relating to his or her own remuneration.

The role of the Committee is to determine and recommend to the Board the general policy for the remuneration of the executive Directors and senior executives, and make recommendations to the Board concerning the allocation of bonuses and long-term incentive rewards to the two executive Directors and to senior executives in the Group. Its key terms of reference are to:

- determine the total individual remuneration package of each executive Director;
- determine the policy for, and scope of, pension arrangements for executive Directors; and
- determine and approve the long-term performance incentives for executive Directors and senior executives of the Group.

The Committee takes into consideration the performance of the senior executives and Directors and sets the scale and structure of their remuneration and the basis of their service agreements, with due regard to the interests of shareholders. The Committee's terms of reference are published on the Company's website.

Remuneration policy

The Group's remuneration policy aims to be competitive, performance-based and aligned to shareholder interests and seeks to:

- attract, develop, motivate and retain, at all levels, talented people of the calibre required to continue the Group's growth and development in a challenging business environment;
- ensure that key executives are appropriately rewarded for their contribution to the Group; and
- encourage the holding of Company shares as an effective way of aligning the interests of employees with those of shareholders.

In framing this policy, the Committee and the Board have given consideration to the provisions of the UK Corporate Governance Code and the QCA guidelines for Smaller Quoted Companies. In formulating its recommendations, the Committee reviewed data of its key competitors.

Remuneration package for executive Directors

The policy for executive Directors' remuneration is concerned to ensure that their individual contributions to the Group's performance are fairly rewarded. This is achieved through a combination of a competitive salary and the opportunity to increase remuneration with short-term and long-term incentives. Executive remuneration packages are reviewed each year. The remuneration package for executive Directors consists of a basic salary, benefits, an annual performance-related bonus, pension and participation in a long-term incentive plan. Details for each Director are set out below. As the Chief Executive Officer has a large shareholding in the Company, this is also taken into consideration when decisions are made regarding short-term and long-term incentives for him.

Short-term incentives

Executive Directors' remuneration includes an element of performance-related pay so that awards can be aligned to improvements in shareholder value. The level of bonuses is entirely at the discretion of the Committee. Bonuses are based on the performance of the Group against market expectations, and the Committee's assessment of the performance of individuals.

Long-term incentives

The Committee recommends the award of share options and performance shares to executive Directors and senior executives to incentivise and retain them. The current plan in place is the Next Fifteen Communications Group plc Long-Term Incentive Plan ('LTIP'), which provides share options and performance share awards to Directors and senior employees.

Under the terms of the LTIP, participants are either awarded share options with a grant price equal to the market price on the day before the grant date, or are awarded performance shares in the Company which are released to the participant subject to the satisfaction of certain performance conditions and the participant remaining an employee of the Group. During the year, the following performance shares were awarded to Directors:

Name of Director	Number of shares	Grant date	End of performance period
Executive Directors			
Tim Dyson	150,000	9 May 2012	31 July 2015
David Dewhurst	150,000	9 May 2012	31 July 2015

The performance conditions for the above awards are based upon an adjusted earnings per share ('EPS') measure. EPS growth is calculated from the information published in the Group's accounts and is based on the adjusted EPS measure. The awards vest when the annual report for the final financial year of the relevant performance period is published on the Company's website. For executive Directors, the performance shares awarded under the LTIP are subject to the following conditions:

- The EPS growth of the Group must exceed the Retail Prices Index ('RPI') by an average of 10% or more per annum over the performance period for 100% of the award to vest;
- If there is an average of between 3% and 10% EPS growth over RPI per annum over the performance period, between 20% and 100% of the award will vest on a straight-line basis;
- If EPS does not grow at an average of 3% or more over RPI per annum over the performance period, the full award will lapse.

The performance in relation to executive Directors' awards is measured over a period of four consecutive financial years of the Group, commencing with the financial year in which the award was granted. The level of vesting is determined using the best three of the four years' performance.

When senior executives are awarded performance shares under the LTIP, the performance conditions are based upon two measures: an adjusted earnings per share ('EPS') measure and a budgeted profit measure. The conditions are as follows:

- The EPS growth of the Group must exceed the Retail Prices Index ('RPI') by an average of 10% or more per annum over the performance period for 50% of the award to vest;
- If there is an average of between 3% and 10% EPS growth over RPI per annum over the performance period, between 10% and 50% of the award will vest on a straight-line basis;
- If EPS does not grow at an average of 3% or more over RPI per annum over the performance period, the full 50% of the award measured by reference to the EPS measure will lapse;
- The remaining 50% of an award may vest if the profit of the particular business in which a participant is employed meets its budgeted profit before management charges, interest and tax targets over the performance period;
- To the extent that the budgeted profit targets are not met, for every 1% below budget, 5% of an award will lapse on a straight-line basis;
- If a business's adjusted profit before management charges, interest and tax is 10% or more below budget over the performance period, the full 50% of the award measured by reference to the budgeted profit measure will lapse.

For senior executives the level of vesting is determined using the best three of the four years' performance for each performance measure. Performance is measured over a period of four consecutive financial years of the Group, commencing with the financial year in which the award was granted.

For more information on share options and performance shares, see notes 21 and 22.

Directors' service contracts

All executive Directors have rolling contracts that are terminable on six months' notice. There are no contractual entitlements to compensation on termination of the employment of any of the Directors other than payment in lieu of notice at the discretion of the Company. The executive Directors are allowed to accept appointments and retain payments from sources outside the Group, provided such appointments are approved by the Board in writing. Details of the executive Directors' current service contracts are:

Executive Director	Date of current letter of contract	Notice period
Tim Dyson	1 June 1997	6 months
David Dewhurst	7 July 1999	6 months

Non-executive Directors

The fee for each of the non-executive Directors is determined by the executive Directors, reflecting the time commitment required, the responsibility of each role and the fees paid in other comparable companies. All non-executive Directors are engaged under letters of appointment terminable on three months' notice at any time. Non-executive Directors are not entitled to any pension benefit or any payment in compensation for early termination of their appointment. Details of the date of the current letters of appointment for non-executive Directors are:

Non-executive Director	Date of current letter of contract	Notice period
Richard Eyre	12 May 2011	3 months
Alicja Lesniak	1 June 2011	3 months
Margit Wennmachers	17 August 2011	3 months

Directors' remuneration

	Salary and fees 2012 £'000	Performance-related bonus 2012 £'000	Pension contributions 2012 £'000	Other benefits 2012 £'000	**Total 2012 £'000**	Total 2011 £'000
Executive Directors						
Tim Dyson	389	–	39	32	**460**	519
David Dewhurst	192	–	19	3	**214**	244
Non-executive Directors						
Richard Eyre	80	–	–	–	**80**	18
Alicja Lesniak	43	–	–	–	**43**	4
Margit Wennmachers[1]	35	–	–	–	**35**	–

[1] Margit Wennmachers was appointed as a non-executive Director on 17 August 2011.

Directors' interests in share plans

No share options were exercised by the Directors in the year ended 31 July 2012 and none remained unexercised at this date.

As at 31 July 2012, the following Directors held performance-share awards under the LTIP over Ordinary Shares of 2.5p each, as detailed below:

Name of Director	Number of shares at 1 August 2011	Shares lapsing during year	Shares vesting during year	Shares granted during year	**Number of shares at 31 July 2012**	Grant date	End of performance period
Executive Directors							
David Dewhurst	45,860	–	(45,860)	–	**–**	09.11.2007	31.07.2011
	80,000	–	–	–	**80,000**	21.11.2008	31.07.2012
	150,000	–	–	–	**150,000**	09.02.2010	31.07.2013
	150,000	–	–	–	**150,000**	16.11.2010	31.07.2014
				150,000	**150,000**	09.05.2012	31.07.2015
Tim Dyson	150,000	–	–	–	**150,000**	09.02.2010	31.07.2013
	150,000	–	–		**150,000**	16.11.2010	31.07.2014
				150,000	**150,000**	09.05.2012	31.07.2015

Directors' interests in the shares of Next Fifteen Communications Group plc

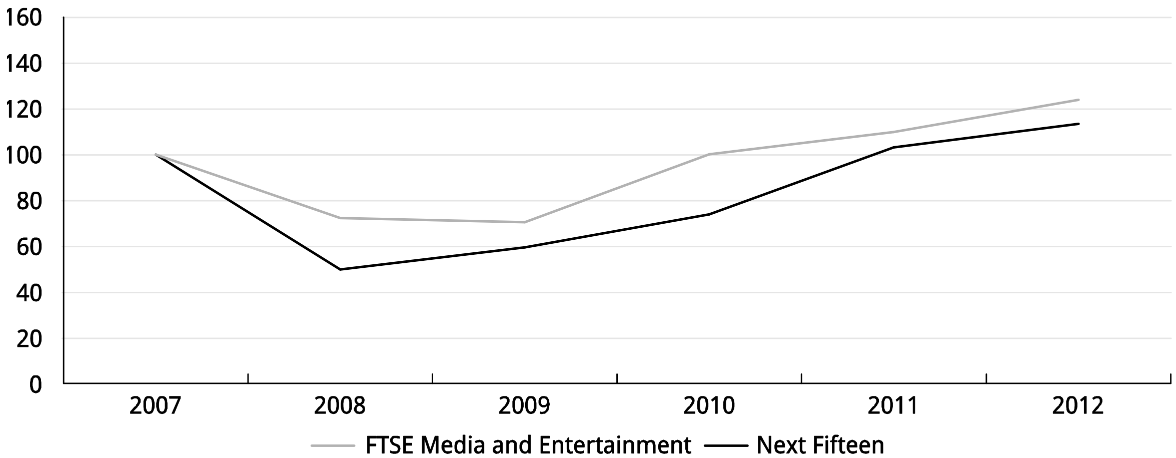
The interests of the Directors in the share capital of the Company at 1 August 2011 and 31 July 2012 are as follows:

	Ordinary Shares		LTIP performance shares	
	1 August 2011*	**31 July 2012**	1 August 2011	**31 July 2012**
Executive Directors				
David Dewhurst	299,438	**320,000**	425,860	**530,000**
Tim Dyson	5,781,004	**5,781,004**	300,000	**450,000**
Non-executive Directors				
Richard Eyre	–	**29,500**	–	**–**
Alicja Lesniak	–	**–**	–	**–**
Margit Wennmachers	–	**–**	–	**–**

* or date of appointment.

Total shareholder return

The Company's total shareholder return performance for the five years to 31 July 2012 is shown on the following graph compared with the FTSE Media and Entertainment Index.



This graph shows the value on 31 July 2012, of £100 invested in the Company on 31 July 2007 compared with £100 invested in the FTSE Media and Entertainment Index. The Directors consider that a comparison of the Company's total shareholder return to that of similar businesses on the Main Market is more relevant than a comparison with the FTSE AIM All-Share index.

Approved by the Board on 26 November 2012 and signed on its behalf by:

Alicja Lesniak
Chairman of the Remuneration Committee

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

The Board is accountable to the Company's shareholders for good corporate governance. The Company is committed to high standards of corporate governance throughout the Group and has adopted appropriate measures for a company of its size. The Company is AIM-listed and is not required to comply with the provisions of the UK Corporate Governance Code (the 'Code'); however, it seeks to comply with the Code and with the Corporate Governance Guidelines for Smaller Quoted Companies (the 'QCA Code') where appropriate. The measures taken to apply principles of corporate governance are set out below.

The Board

The Board of Directors is responsible for the strategic direction, investment decisions and effective control of the Group. During 2012 the Board comprised two executive Directors and three non-executive Directors. All of the Directors served throughout the year with the exception of Margit Wennmachers, who was appointed on 17 August 2011.

Directors' biographies, including the Committees on which they serve and chair, are shown on pages 11 to 12. As these biographies demonstrate, the Directors possess a broad range of skills, knowledge and experience, enabling them to bring independent judgement on issues of strategy and performance.

During the year, nine Board meetings were held, which included five face-to-face meetings (the others being by telephone conference). All Directors attended all meetings, except for Margit Wennmachers who was unable to attend two meetings. Full details of each Director's Board and Committee meeting attendance are given on page 23.

As Tim Dyson and Margit Wennmachers are located in San Francisco, many of the Board meetings are held by telephone conference. The Board meets face-to-face when possible and aims to do so at least quarterly. There is a schedule of matters reserved for Board approval which is regularly reviewed and includes, among other things, the Group's annual budget, establishment of new subsidiaries, property leases, significant acquisitions or disposals of fixed assets, and significant client contracts. The Board regularly reviews the identification, evaluation and management of the principal risks faced by the Group and the effectiveness of the Group's system of internal control.

Prior to each Board meeting, every member of the Board receives an agenda, supporting documents and, when relevant, monthly trading results, together with a detailed commentary. The non-executive Directors are encouraged to ask for further information if necessary.

Chairman and Chief Executive

The division of responsibilities between the Chairman and Chief Executive Officer has been clearly defined. The Chairman, Richard Eyre, is responsible for the leadership of the Board and the Chief Executive Officer, Tim Dyson, is responsible for managing the Group's operations.

Board balance and independence

The Board comprises two executive Directors, Tim Dyson, Chief Executive Officer, and David Dewhurst, Finance Director. There are three non-executive Directors: Richard Eyre, Chairman, Alicja Lesniak, who is the Company's Senior Independent Director, and Margit Wennmachers, non-executive Director. At the time of his appointment as Chairman, Richard Eyre was considered independent in accordance with the provisions of the Code. Alicja Lesniak is also considered to be independent as defined by the Code.

The Board considers that the current Board structure is appropriate, and that it complies with the QCA Code.

Appointments to the Board

Appointments to the Board are the responsibility of the Board as a whole, upon the recommendation of the Nomination Committee.

Information and professional development

The Directors have adopted a number of policies and procedures to help them to operate effectively. Appropriate training for new and existing Directors is provided where necessary. There is an agreed procedure for Directors to take independent professional advice at the Company's expense when considered necessary.

In accordance with the provisions on conflicts of interest in the Companies Act 2006, the Company has put in place a policy for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such conflicts by the Board. In deciding whether to authorise a conflict or potential conflict, the Directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict, and the terms of authorisation, may be reviewed at any time and, in accordance with best practice, a review of Directors' conflicts of interest is conducted annually.

Re-election of Directors

In accordance with the Company's Articles of Association, one-third of the Directors retire by rotation each year. At the forthcoming Annual General Meeting, David Dewhurst will retire and, being eligible, offer himself for re-election.

Remuneration

The Remuneration Report on pages 16 to 20 sets out details of the Directors' remuneration and the work of the Remuneration Committee.

Committees of the Board

The Board has established three Committees, each with its own delegated authority defined in terms of reference. These terms are reviewed periodically. The Board appoints the members of all Board Committees. The Audit Committee and Remuneration Committee comprise the two non-executive Directors, Alicja Lesniak (Committee Chairman) and Richard Eyre. The Nomination Committee comprises Richard Eyre (Committee Chairman), Alicja Lesniak, Margit Wennmachers and Tim Dyson. There were three Remuneration Committee meetings and three Audit Committee meetings during the year and these were attended by all members. Due to the appointment of the three non-executive Directors at the end of the previous financial year, no further Nomination Committee meetings were held during the year. Details of the Remuneration Committee are contained within the Remuneration Report on pages 16 to 20.

Audit Committee and auditors

The Audit Committee meets periodically and at least twice per year with the external auditors, and with other Directors and management attending by invitation. The primary role of the Committee is to keep under review the Group's financial reporting procedures and financial systems and controls and to ensure the integrity of the financial information reported to shareholders. Its key terms of reference are:

- reviewing the findings of the audit work undertaken by the Group's auditors;
- reviewing the effectiveness of the financial reporting and internal control procedures;
- reviewing the relationship with external auditors; and
- determining the level of the auditors' fees.

Its terms of reference are available on the Company's website at www.next15.com. The independence and objectivity of the auditors is considered by the Committee on a regular basis. The split between audit and non-audit work for the year is set out in note 4 to the financial statements. The non-audit fees were in respect of tax services, valuation advice and advice on the Company's share option and long-term incentive schemes. This work is not considered to affect the independence or objectivity of the auditors. The Committee also receives an annual confirmation of independence from the auditors.

Nomination Committee

The Nomination Committee members are Richard Eyre (who also chairs the Committee), Alicja Lesniak, Margit Wennmachers (appointed 17 August 2011) and Tim Dyson. The Committee's duties include the regular review of the Board's structure, size and composition; identifying and nominating candidates to fill Board vacancies as they arise and the consideration of succession planning for Directors.

The Committee engages external search consultants to assist in the specification of Board positions and their selection of prospective candidates to ensure that there is a robust, measurable and orderly process. The Committee believes that this process has led to the recruitment of talented individuals, significantly enhancing the composition of the Board.

Due to the appointment of the three non-executive Directors at the end of the previous financial year, no further Nomination Committee meetings were held during the year.

Board and Committee attendance	Board	Audit	Remuneration	Nomination
Richard Eyre	9 of 9	3 of 3	3 of 3	–
Tim Dyson	9 of 9	–	–	–
David Dewhurst	9 of 9	–	–	–
Alicja Lesniak	9 of 9	3 of 3	3 of 3	–
Margit Wennmachers	7 of 9	–	–	–

Financial reporting and going concern

The statement of the Directors' responsibilities in respect of the financial statements is set out on page 27. The Directors have reviewed the Group's budget and cash requirements for the year ending 31 July 2013 and considered outline plans for the Group thereafter. The Directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going-concern basis in preparing the financial statements.

Internal control and principal risks

The Directors have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. These systems have been in place for the full financial year. Controls are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are properly authorised and that material errors and irregularities are prevented or, failing which, are discovered on a timely basis. The Group's system of internal control is designed to manage and reduce, rather than eliminate, risk. It is the responsibility of management to implement Board policies on risk and control.

Business risk evaluation takes place at operating company and Board level. Having identified risks, operating companies then monitor, review and update the risks regularly, assessing the extent and likelihood of each risk and the effectiveness of the controls that manage these risks. The principal risks of the Group are subject to review by the Audit Committee and the Board, which produces a significant risks review for the Group.

Internal controls review

In reviewing the business assurance arrangements during the year the Audit Committee had discussed what form of Internal Audit would be appropriate for the Group. Following the discovery of personal embezzlement in the Bite San Francisco office towards the end of the audit process, the Board has concluded that strengthening the internal financial control environment of the Group needs to be accelerated. A decision has been taken to form an Internal Audit function with resources to be recruited in the US and UK. This action is part of a comprehensive review that will include controls around cash management involving both payments and receipts, designed to improve authorisation controls.

Risk identification and evaluation, including the nature, likelihood and materiality of the risks affecting each Group business, is owned and assessed by management and reviewed periodically. The Board and Audit Committee review risks and assess and monitor actions to mitigate them. On the basis of these assessments, the risks outlined below are those that the Group believes are the principal and material risks. It should be noted that additional risks, which the Group does not consider material, or of which it is not aware, could have an adverse impact.

Area of risk	Potential impact	Mitigation
OPERATIONAL RISK		
Client risk: Unexpected loss of clients for reasons outside the Group's control	The loss of significant clients continues to be a risk to the Group. It has successfully reduced its overall reliance on a few key clients through a process of adding new businesses to the Group. However, losing a major client unexpectedly can have a significant impact on an individual business's resourcing, revenue and profit.	Ensuring a good marketing plan and identifying new client opportunities is key to all businesses. It is also critical to get regular client feedback and take all appropriate steps to retain existing clients.
Employee risk: The ability of the Group to recruit new talent with the relevant skills and retain existing employees	The Group is very reliant on highly skilled employees who are vital to its success in building enduring client relationships and winning new mandates.	Policies are regularly reviewed to ensure high levels of staff motivation and development. The Group's Human Resources teams regularly consider the remuneration and benefits offered to employees and seek to ensure that all businesses provide exciting and challenging career development.
Industry transition to digital services	As the marketing and communications landscape evolves through the opportunities provided by digital channels, there is a risk that some businesses will transition less successfully than others.	The Board has been focused on capitalising on the digital opportunity for the last three years. There has been notable success in the creation of Beyond, a digital marketing agency with revenue of over £6m. The transition of the existing PR businesses is progressing at differing speeds.
Acquisitions	The Group has pursued acquisitions as part of its overall growth strategy. Integration of these businesses, either within the overall Group or as part of existing businesses, can be challenging and time consuming.	The Board is very careful when selecting potential acquisition partners. Due diligence procedures are performed prior to all acquisitions to identify and evaluate potential risks. Total consideration paid for a business typically includes a significant element of deferred consideration, contingent upon future performance. It is also the Group's policy to encourage vendors to retain a minority equity stake to give them a greater incentive to remain with the business upon joining the Group.

Area of risk	Potential impact	Mitigation
FINANCIAL RISK		
Liquidity risk	With the Group having made a number of acquisitions requiring deferred payments, there is a risk that there are insufficient funds for future investment opportunities.	The Board has always maintained a prudent approach to taking on debt. Acquisitions are funded from a combination of a medium-term bank facility and the strong cash flows of the Group. The intention is that the scale and timing of acquisitions is such that they are funded over the business cycle without excessive leverage. The net debt at 31 July 2012 represented just over 23% of adjusted EBITDA.
Currency risk	As a global business, currency fluctuations continue to be a potential impact on the Group's translated results. Most of the Group's revenue is matched by costs arising in the same currency, but some global contracts are in a single currency of the client's choosing. The Company is listed in the UK with sterling as its functional currency but makes much of its profit outside of the UK.	The Board continues to consider if and when hedging policies should be in place and to take steps to reduce this risk where it is considered appropriate. Ultimately, as a global business, the Group is well-placed to take advantage of opportunities arising in different parts of the world, where economic growth is stronger.
Economic downturn	The global economic downturn of the past four years could result in fewer client orders, longer procurement processes and downward pressure on budgets and pricing, which may impact revenue growth and operating margins.	The Group has wide geographical spread of clients, minimising reliance on any one economic environment. The Group has also invested in the creation of digital products and services, the demand for which is higher than traditional services.
Legal and regulatory compliance	The Group operates in a large number of jurisdictions and, as a consequence, is subject to a range of regulations. Any failure to respond quickly to legislative requirements could result in civil or criminal liabilities, leading to fines, penalties or restrictions being placed upon the Group's ability to trade resulting in reduced sales and profitability and reputational damage.	The Group has maintained an in-house legal function over the whole of its life as a public company and also uses external legal counsel to advise on local legal and regulatory requirements.

The risk management procedures and systems of internal control are designed to identify and assess the significant risks which the Group faces and to manage them appropriately. However, such systems can only provide reasonable and not absolute protection against material mis-statement or loss.

Environment

Due to the nature of its businesses, the Board considers that its direct or indirect impact on the environment is minimal and of low risk. However, the Company still seeks to minimise the environmental impact of its activities and its business practices support environmental good practice, such as reducing paper wastage through reuse, recycling, use of electronic communications and reducing business travel by replacing face-to-face meetings with conference calls where practical.

Relations with shareholders

The Company maintains regular dialogue with institutional shareholders and analysts, and feedback received is reported to the Board so that all Directors retain an understanding of the views of major shareholders about the Company. Trading updates are issued as appropriate and the Company's brokers provide briefings on shareholder opinion and compile independent feedback from investor meetings. Copies of presentations given at investor and analysts' meetings, together with financial press releases, are available on the Group's website.

The Chief Executive Officer and Finance Director attend one-to-one meetings with institutional investors immediately after publication of the annual and interim results. While the other non-executive Directors do not ordinarily attend meetings with major shareholders, they would do so if requested by the shareholders.

The Annual General Meeting is used by the Directors to communicate with both institutional and private investors. The Chief Executive presents a summary of the Group's progress throughout the year and invites questions from attendees. Proxy votes are disclosed following a show of hands on each resolution. Shareholders were encouraged to submit questions to the Board throughout the year.

The Company also publishes on its website its annual and interim reports, the Company's regulatory news announcements and video clips to explain the interim and full-year results further. These measures enable the Company to circulate information to a greater number of investors and interested stakeholders.

Approved by the Board on 26 November 2012 and signed on its behalf by:

David Dewhurst
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Website publication

The Directors are responsible for ensuring that the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Approved by the Board on 26 November 2012 and signed on its behalf by:

David Dewhurst
Company Secretary

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEXT FIFTEEN COMMUNICATIONS GROUP PLC

We have audited the financial statements of Next Fifteen Communications Group plc (the 'Company') for the year ended 31 July 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flow, the Company reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent Company's financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 July 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Scott McNaughton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

26 November 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED INCOME STATEMENT

for the year ended 31 July 2012

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Billings			**108,453**		105,163
Revenue	2		**91,583**		86,035
Staff costs	3	**62,767**		59,699	
Depreciation	4,12	**1,328**		1,201	
Amortisation and impairment	4,11	**1,483**		1,494	
Charge for misappropriation of assets	4	**1,778**		–	
Other operating charges		**17,589**		15,624	
Total operating charges			**(84,945)**		(78,018)
Operating profit	2,4		**6,638**		8,017
Finance expense	6		**(2,170)**		(3,170)
Finance income	7		**1,477**		2,680
Net finance expense			**(693)**		(490)
Share of profits of associate			**14**		–
Profit before income tax	2,5		**5,959**		7,527
Income tax expense	8		**(1,652)**		(2,260)
Profit for the year			**4,307**		5,267
Attributable to:					
Owners of the parent			**3,906**		4,997
Non-controlling interests			**401**		270
			4,307		5,267
Earnings per share	10				
Basic (pence)			**6.85**		9.10
Diluted (pence)			**6.04**		7.82

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 July 2012

	Note	2012 £'000	2011 £'000
Profit for the year		**4,307**	5,267
Other comprehensive income:			
Exchange differences on translating foreign operations		**229**	(1,022)
Translation differences on long-term foreign currency intercompany loans		**(80)**	583
Net investment hedge	19	**(235)**	213
Other comprehensive income for the year		**(86)**	(226)
Total comprehensive income for the year		**4,221**	5,041
Total comprehensive income attributable to:			
Owners of the parent		**3,820**	4,771
Non-controlling interests		**401**	270
		4,221	5,041

CONSOLIDATED BALANCE SHEET

as at 31 July 2012

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Assets					
Property, plant and equipment	12	**2,721**		3,067	
Intangible assets	11	**41,019**		37,926	
Investment in equity accounted associate		**292**		–	
Deferred tax assets	18	**3,320**		2,503	
Other receivables	13,19	**875**		840	
Total non-current assets			**48,227**		44,336
Trade and other receivables	13,19	**24,661**		25,931	
Cash and cash equivalents	19	**8,436**		8,517	
Corporation tax asset		**240**		321	
Total current assets			**33,337**		34,769
Total assets			**81,564**		79,105
Liabilities					
Loans and borrowings	19	**10,750**		9,754	
Deferred tax liabilities	18	**245**		122	
Other payables	14,19	**6**		6	
Provisions	15,19	**129**		131	
Contingent consideration	17,19	**4,987**		6,316	
Share purchase obligation	17,19	**3,989**		4,348	
Total non-current liabilities			**(20,106)**		(20,677)
Loans and borrowings	19	**259**		272	
Trade and other payables	14,19	**19,605**		20,085	
Corporation tax liability		**1,101**		732	
Derivative financial liabilities	19	**320**		405	
Contingent consideration	17,19	**2,945**		4,601	
Total current liabilities			**(24,230)**		(26,095)
Total liabilities			**(44,336)**		(46,772)
Total net assets			**37,228**		32,333
Equity					
Share capital	20	**1,454**		1,416	
Share premium reserve		**6,935**		5,996	
Merger reserve		**3,075**		3,075	
Share purchase reserve		**(2,673)**		(4,261)	
Foreign currency translation reserve		**2,351**		2,202	
Other reserves	24	**(133)**		(525)	
Retained earnings		**24,100**		21,137	
Total equity attributable to owners of the parent			**35,109**		29,040
Non-controlling interests			**2,119**		3,293
Total equity			**37,228**		32,333

These financial statements were approved and authorised by the Board on 26 November 2012.

R Eyre
Chairman

D Dewhurst
Finance Director

Company number 01579589

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 July 2012

	Share capital £'000	Share premium reserve £'000	Merger reserve £'000	Share purchase reserve £'000	Foreign currency translation reserve £'000	Other reserves[1] £'000	Retained earnings £'000	Equity attributable to owners of the parent £'000	Non-controlling interests £'000	Total equity £'000
At 31 July 2011	1,416	5,996	3,075	(4,261)	2,202	(525)	21,137	29,040	3,293	32,333
Profit for the year	–	–	–	–	–	–	3,906	3,906	401	**4,307**
Other comprehensive income for the year	–	–	–	–	149	(235)	–	(86)	–	**(86)**
Total comprehensive income for the year	–	–	–	–	149	(235)	3,906	3,820	401	**4,221**
Shares issued in satisfaction of vested share options	11	82	–	–	–	595	(595)	93	–	**93**
Shares issued on acquisitions	27	857	–	–	–	–	–	884	–	**884**
Share purchase obligation settled on acquisition of non-controlling interest	–	–	–	1,588	–	–	538	2,126	(1,549)	**577**
Movement due to ESOP share option exercises	–	–	–	–	–	32	(30)	2	–	**2**
Movement in relation to share-based payments	–	–	–	–	–	–	312	312	–	**312**
Deferred tax on share-based payments	–	–	–	–	–	–	40	40	–	**40**
Dividends to Owners of the parent	–	–	–	–	–	–	(1,208)	(1,208)	–	**(1,208)**
Non-controlling interest arising on acquisition	–	–	–	–	–	–	–	–	254	**254**
Non-controlling interest dividend	–	–	–	–	–	–	–	–	(280)	**(280)**
At 31 July 2012	**1,454**	**6,935**	**3,075**	**(2,673)**	**2,351**	**(133)**	**24,100**	**35,109**	**2,119**	**37,228**

[1] Other reserves include ESOP reserve, treasury reserve and hedging reserve.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 July 2011

	Share capital £'000	Share premium reserve £'000	Merger reserve £'000	Share purchase reserve £'000	Foreign currency translation reserve £'000	Other reserves £'000	Retained earnings £'000	Equity attributable to owners of the parent £'000	Non-controlling interests £'000	Total equity £'000
At 31 July 2010	1,401	5,575	3,075	(1,359)	2,014	(868)	16,791	26,629	950	27,579
Profit for the year	–	–	–	–	–	–	4,997	4,997	270	5,267
Other comprehensive income for the year	–	–	–	–	(439)	213	–	(226)	–	(226)
Total comprehensive income for the year	–	–	–	–	(439)	213	4,997	4,771	270	5,041
Dividends	–	–	–	–	–	–	(1,045)	(1,045)	–	(1,045)
Share purchase obligation arising on existing subsidiary	–	–	–	(556)	–	–	–	(556)	4	(552)
Share purchase obligation arising on acquisitions	–	–	–	(2,346)	–	–	–	(2,346)	–	(2,346)
Non-controlling interest on business combination	–	–	–	–	–	–	–	–	2,346	2,346
Shares issued on acquisitions	15	421	–	–	–	–	–	436	–	436
Movement in relation to share-based payments	–	–	–	–	–	–	449	449	–	449
Deferred tax on share-based payments	–	–	–	–	–	–	400	400	–	400
Movement due to ESOP share option exercises	–	–	–	–	–	130	(11)	119	–	119
Movements on reserves for non-controlling interests	–	–	–	–	–	–	183	183	(183)	–
Movements on reserves in respect of translation differences on long-term intercompany loans	–	–	–	–	627	–	(627)	–	–	–
Non-controlling interest dividend	–	–	–	–	–	–	–	–	(94)	(94)
At 31 July 2011	1,416	5,996	3,075	(4,261)	2,202	(525)	21,137	29,040	3,293	32,333

CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 31 July 2012

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Cash flows from operating activities					
Profit for the year		**4,307**		5,267	
Adjustments for:					
Depreciation	4,12	**1,328**		1,201	
Amortisation and impairment	4,11	**1,483**		1,494	
Finance expense	6	**2,170**		3,170	
Finance income	7	**(1,477)**		(2,680)	
Share of profit from equity-accounted associate		**(14)**		–	
Loss on sale of property, plant and equipment	4	**11**		–	
Income tax expense	8	**1,652**		2,260	
Share-based payment charge	4,21	**312**		449	
Movement in fair value of forward foreign exchange contracts	4	**13**		(13)	
Net cash inflow from operating activities before changes in working capital			**9,785**		11,148
Change in trade and other receivables		**3,229**		(3,301)	
Change in trade and other payables		**(2,960)**		3,420	
(Decrease)/Increase in provisions		**(2)**		173	
Change in working capital			**267**		292
Net cash generated from operations			**10,052**		11,440
Income taxes paid			**(2,520)**		(2,618)
Net cash from operating activities			**7,532**		8,822
Cash flows from investing activities					
Acquisition of subsidiaries and trade and assets, net of cash acquired	26	**(1,101)**		(6,304)	
Payment of contingent consideration		**(4,563)**		–	
Acquisition of property, plant and equipment		**(835)**		(1,920)	
Proceeds on disposal of property, plant and equipment		**3**		5	
Acquisition of intangible assets		**(90)**		(77)	
Net movement in long-term cash deposits		**(35)**		168	
Interest received	7	**51**		54	
Net cash outflow from investing activities			**(6,570)**		(8,074)
Net cash from operating and investing activities			**962**		748

CONSOLIDATED STATEMENT OF CASH FLOW CONTINUED

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Net cash from operating and investing activities			**962**		748
Cash flows from financing activities					
Proceeds from sale of own shares		**96**		118	
Issue costs on issue of ordinary shares		**(8)**		–	
Capital element of finance lease rental repayment		**(72)**		(83)	
Net cash movement in bank borrowings		**983**		1,993	
Interest paid	6	**(521)**		(479)	
Dividend and profit share paid to non-controlling interest partners	9	**(280)**		(94)	
Dividend paid to shareholders of the parent	9	**(1,208)**		(1,045)	
Net cash (outflow)/inflow from financing activities			**(1,010)**		410
Net (decrease)/increase in cash and cash equivalents			**(48)**		1,158
Cash and cash equivalents at beginning of the year			**8,517**		7,296
Exchange (losses)/gains on cash held			**(33)**		63
Cash and cash equivalents at end of the year	19		**8,436**		8,517

1 Accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations adopted by the European Union ('Adopted IFRSs') and the parts of the Companies Act 2006 applicable to companies reporting under Adopted IFRSs.

B. New and amended standards adopted by the Group

No new standards or amendments that have become effective in the year have resulted in a material effect on the Group.

C. Basis of consolidation

The Group's financial statements consolidate the results of Next Fifteen Communications Group plc and all of its subsidiary undertakings using the acquisition method of accounting.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying 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.

In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Each of these approaches have been used by the Group. Non-controlling interests are subsequently measured as the amount of those non-controlling interests at the date of the original combination and the non-controlling interest's share of changes in equity since the date of the combination.

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Associates are accounted for under the equity method of accounting, where the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The Income Statement reflects the share of the results of the operations of the associate after tax.

Intercompany transactions, balances and unrealised gains on transactions between Group companies (Next Fifteen Communications Group plc and its subsidiaries) are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies for subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

D. Merger reserve

Where the conditions set out in section 612 or equivalent sections of previous Companies Acts 2006 are met, shares issued as part of the consideration in a business combination are measured at their fair value in the consolidated balance sheet, and the difference between the nominal value and fair value of the shares issued is recognised in the merger reserve.

1 Accounting policies (continued)

E. Revenue
Billings represent amounts receivable from clients, exclusive of VAT, sales taxes and trade discounts in respect of charges for fees, commission and rechargeable expenses incurred on behalf of clients.

Revenue is billings less amounts payable on behalf of clients to external suppliers where they are retained to perform part of a specific client project or service, and represents fees, commissions and mark-ups on rechargeable expenses. Revenue is recognised on the following basis:

- Retainer and other non-retainer fees are recognised as the services are performed, in accordance with the terms of the contractual arrangement.
- Project fees are recognised on a percentage of completion basis as contract activity progresses, if the final outcome can be assessed with reasonable certainty. The stage of completion is generally measured on the basis of the services performed to date as a percentage of the total services to be performed.
- Expenses are recharged to clients at cost plus an agreed mark-up when the services are performed.

F. Intangible assets
Goodwill Goodwill represents the excess of the fair value of consideration payable, the amount of any non-controlling interest in the acquiree and acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired. The fair value of consideration payable includes assets transferred, liabilities assumed and equity instruments issued. The amount relating to the non-controlling interest is measured on a transaction-by-transaction basis, at either fair value or the non-controlling interest's proportionate share of net assets acquired. Both approaches have been used by the Group. Goodwill is capitalised as an intangible asset, not amortised but reviewed annually for impairment or in any period in which events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment in carrying value is charged to the consolidated income statement.

Software Licences for software that are not integral to the functioning of a computer are capitalised as intangible assets. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs. Amortisation is provided on software at rates calculated to write off the cost of each asset evenly over its expected useful life of five years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. No amortisation is charged on assets in the course of construction until they are available for operational use in the business.

Trade names Trade names acquired in a business combination are recognised at fair value at the acquisition date. Trade names have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trade names over their estimated useful lives of 20 years.

Customer relationships Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of three to six years.

G. Property, plant and equipment
Property, plant and equipment is stated at cost, net of depreciation. Depreciation is provided on all property, plant and equipment at annual rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Short leasehold improvements	– Over the term of the lease.
Office equipment	– 20% – 50% per annum straight-line.
Office furniture	– 20% per annum straight-line.
Motor vehicles	– 25% per annum straight-line.

1 Accounting policies (continued)

H. Impairment

Impairment tests on goodwill are undertaken annually at the financial year end. Other non-financial assets (excluding deferred tax) are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Where the carrying value of an asset exceeds its recoverable amount, which is measured as the higher of value in use and fair value less costs to sell, the asset is impaired accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, defined as the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill. The cash-generating units represent the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Impairment charges are included within the amortisation and impairment line of the income statement unless they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

I. Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the exchange rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the income statement. In the consolidated financial statements, foreign exchange movements on intercompany loans with indefinite terms, for which there is no expectation of a demand for repayment, are recognised directly in equity within a separate foreign currency translation reserve.

On consolidation, the results of overseas operations are translated into sterling at the average exchange rates for the accounting period. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rates and the results of overseas operations at average rates are recognised directly in the foreign currency translation reserve within equity. The effective portion arising on the retranslation of foreign currency borrowings which are designated as a qualifying hedge is recognised within equity. See note 19 for more detail on hedging activities.

On disposal of a foreign operation, the cumulative translation differences recognised in the foreign currency translation reserve relating to that operation up to the date of disposal are transferred to the consolidated income statement as part of the profit or loss on disposal.

On a reduction of ownership interest in a subsidiary that does not affect control, the cumulative retranslation difference is only allocated to the NCI and not recycled through the income statement.

J. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

1 Accounting policies (continued)

K. Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the asset or liability. The Group's accounting policies for different types of financial asset and liability are described below.

Trade receivables Trade receivables are initially recognised at fair value and will subsequently be measured at amortised cost less allowances for impairment. An allowance for impairment of trade receivables is established when there is objective evidence (such as significant financial difficulties on the part of the counterparty, or default or significant delay in payment) that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows associated with the impaired receivable. Such provisions are recorded in a separate allowance account, with the loss being recognised as an expense in the other operating charges line in the consolidated income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value is written off against the associated allowance.

Cash and cash equivalents Cash and cash equivalents comprise cash in hand and short-term call deposits held with banks. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated balance sheet, except where there is a pooling arrangement with a bank that allows them to be offset against cash balances. In such cases the net cash balance will be shown within cash and cash equivalents in the consolidated balance sheet.

Derivative financial instruments Derivative financial instruments utilised by the Group are protection contracts on US dollar interest rate contracts (cap-and-collar) and US dollar and Euro foreign exchange contracts. Derivative financial instruments are initially recognised at fair value at the contract date and continue to be stated at fair value at the balance sheet date, with gains and losses on revaluation being recognised immediately in the consolidated income statement. The fair value of derivative financial liabilities is determined by reference to third-party market valuations.

Hedging activities The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Where a foreign currency loan is designated as a qualifying hedge of the foreign exchange exposure arising on retranslation of the net assets of a foreign operation, any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income in a separate hedging reserve included within Other Reserves. This offsets the foreign exchange differences arising on the retranslation of the foreign operation's net assets, which is recognised in the separate foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance income/expense.

Gains and losses accumulated in equity on retranslation of the foreign currency loan are recycled through the income statement when the foreign operation is sold or is partially disposed of so that there is a loss of control. At this point the cumulative foreign exchange differences arising on the retranslation of the net assets of the foreign operation are similarly recycled through the income statement. Where the hedging relationship ceases to qualify for hedge accounting, the cumulative gains and losses remain within the foreign currency translation reserve until control of the foreign operation is lost; subsequent gains and losses on the hedging instrument are recognised in the income statement. Where there is a change in the ownership interest without effecting control, the exchange differences are adjusted within reserves.

Bank borrowings Interest-bearing bank loans and overdrafts are recognised at their fair value, net of direct issue costs and, thereafter, at amortised cost. Finance costs are charged to the consolidated income statement over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs which are initially recognised as a reduction in the proceeds of the associated capital instrument and unwound over the term of the debt.

1 Accounting policies (continued)

K. Financial instruments (continued)

Deal costs Costs associated with acquisitions are recognised in the consolidated income statement within the 'other operating charges' line in the year in which they are incurred.

Contingent consideration Contingent consideration relating to acquisitions has been included based on discounted management estimates of the most likely outcome. On initial recognition, the liability is measured at fair value based on the present value of the ultimate expected payment with the corresponding debit included within Goodwill. Subsequent movements in the present value of the ultimate expected payment are recognised in the consolidated income statement.

Share purchase obligation Put-option agreements that allow the non-controlling interest shareholders in the Group's subsidiary undertakings to require the Group to purchase the non-controlling interest are recorded in the balance sheet as liabilities. On initial recognition, the liability is measured at the present value of the ultimate expected payment with the corresponding debit included in the share purchase reserve. Subsequent movements in the present value of the ultimate expected payment are recognised in the consolidated income statement.

Trade payables Trade payables are initially recognised at fair value and, thereafter, at amortised cost.

L. Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation, and are discounted to present value where the effect is material.

Provisions are created for vacant or sublet properties when the Group has a legal obligation for future expenditure in relation to onerous leases. The provision is measured at the present value of the Group's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

M. Retirement benefits

Pension costs which relate to payments made by the Group to employees' own defined contribution pension plans are charged to the consolidated income statement as incurred.

N. Share-based payments

The Group issues equity-settled share-based payments to certain employees. The share-based payments are measured at fair value at the date of the grant and expensed on a straight-line basis over the vesting period. The cumulative expense is adjusted for failure to achieve non-market performance vesting conditions.

Fair value is measured by use of the Black-Scholes model on the grounds that there are no market-related vesting conditions. The expected life used in the model has been adjusted, based on the Board's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

O. Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a 'finance lease'), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased asset and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the consolidated income statement on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction to the rental expense over the lease term on a straight-line basis.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

Where Group assets are leased out under operating leases with the Group acting as lessor, the asset is included in the balance sheet and lease income is recognised over the term of the lease on a straight-line basis.

1 Accounting policies (continued)

P. Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the asset can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Where a temporary difference arises between the tax base of employee share options and their carrying value, a deferred tax asset should arise. To the extent the future tax deduction exceeds the related cumulative IFRS 2 Share-Based Payments ('IFRS 2') expense, the excess of the associated deferred tax balance is recognised directly in equity. To the extent the future tax deduction matches the cumulative IFRS 2 expense, the associated deferred tax balance is recognised in the consolidated income statement.

Q. Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

R. Employee Share Ownership Plan ('ESOP')

As the Group is deemed to have control of its ESOP trust, the trust is treated as a subsidiary and is consolidated for the purposes of the Group accounts. The ESOP's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the Group financial statements. The ESOP's investment in the Group's shares is deducted from equity in the consolidated balance sheet as if they were treasury shares and presented in the ESOP reserve.

S. Treasury shares

When the Group re-acquires its own equity instruments, those instruments (treasury shares) are deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's treasury shares. Such treasury shares may be acquired and held by other members of the Group. Consideration paid or received is recognised directly in equity.

T. Significant estimates and judgements

The preparation of the consolidated financial statements requires the Group to make certain estimates and assumptions that have an impact on the application of the policies and amounts reported in the consolidated financial statements. Estimates and judgements are evaluated based on historical experiences and expected outcomes and are believed to be reasonable at the time such estimates and judgements are made, although actual experience may vary from these estimates.

1 Accounting policies (continued)

I. Impairment of goodwill. In line with lAS 36, Impairment of Assets, the Group is required to test the carrying value of goodwill, at least annually, for impairment. As part of this review process the recoverable amount of the goodwill is determined using value-in-use calculations, which requires estimates of future cash flows and as such is subject to estimates and assumptions. Further details are contained in note 11.

II. Taxation. The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining the provision for income taxes. The Group recognises assets/liabilities for anticipated tax issues based on estimates of the tax treatment. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

The Group has provided in full for what it considers to be the likely outcome of ongoing overseas tax litigation based on the evidence available at the present time. In the event that the overseas tax litigation is resolved in the Group's favour there will be a material credit to the Group's income statement tax charge in a future accounting period. The Group is hopeful that the overseas tax litigation will be resolved during the financial year ending 31 July 2013.

III. Contingent consideration, share purchase obligation and valuation of put options. Contingent consideration and share purchase obligations relating to acquisitions have been included based on discounted management estimates of the most likely outcome. The difference between the fair value of the liabilities and the actual amounts payable is charged to the income statement as notional finance costs over the life of the associated liability. Changes in the estimates of contingent consideration payable and the share purchase obligation are recognised in finance income/expense. Further details are contained in note 17.

U. New standards and amendments not applied

Standards, interpretations and amendments to existing standards that have been published as mandatory for later accounting periods but are not yet effective and have not been adopted early by the Group are as follows:

IFRS 9, Financial Instruments will eventually replace IAS 39 in its entirety. IFRS 9 as issued on 12 November 2009 (effective for accounting periods beginning on or after 1 January 2013) addresses the classification and measurement of financial assets. Classification of a financial asset is on the basis of an entity's business model for managing them and the contractual cash flows characteristic of the asset. IFRS 9 outlines the conditions to measure a financial asset at amortised cost and subsequent measurement at amortised cost or fair value as well as subsequent reclassification between categories. IFRS 9 requires that changes in the fair value of financial liabilities designated as at fair value through profit or loss which relate to changes in own credit risk should generally be recognised directly in other comprehensive income.

All other standards, interpretations and amendments to existing standards published as mandatory for this accounting periods or later accounting period would not have a material effect.

2 Segment information

Reportable segments

The Board of Directors has identified the operating segments based on the reports it reviews as the chief operating decision-maker to make strategic decisions, assess performance and allocate resources. The Group's business is separated into a number of brands which are considered to be the underlying operating segments. These brands are organised into four reportable segments, being the provision of public relations services in the technology and consumer markets, digital and research consultancy, and corporate communications consultancy. Within these reportable segments the Group operates a number of separate competing businesses in order to offer services to clients in a confidential manner where otherwise there may be issues of conflict.

Measurement of operating segment profit

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted operating profit before intercompany recharges, which reflects the internal reporting measure used by the Board of Directors. This measurement basis excludes the effects of certain fair value accounting charges, including movement in fair value of financial instruments, unwinding of the discount on contingent consideration and share purchase obligation, changes in estimates of contingent consideration and share purchase obligations, amortisation of acquired intangibles, and goodwill impairment charges. Other information provided to them is measured in a manner consistent with that in the financial statements.

2 Segment information (continued)

Measurement of operating segment profit (continued)

Head office costs relate to group costs before allocation of intercompany charges to the operating segments. Intersegment transactions have not been separately disclosed as they are not material. The Board of Directors does not review the assets and liabilities of the Group on a segmental basis and therefore this is not separately disclosed. They do review results by both service sector and also by geography, and so both are presented.

	Technology PR £'000	Consumer PR £'000	Pure Digital/ research consultancy £'000	Corporate Communications £'000	Head Office £'000	Total £'000
Year ended 31 July 2012						
Revenue	**60,556**	**15,080**	**9,340**	**6,607**	**–**	**91,583**
Segment adjusted operating profit	**9,350**	**2,053**	**1,308**	**1,522**	**(4,186)**	**10,047**
Year ended 31 July 2011						
Revenue	59,323	16,103	5,583	5,026	–	86,035
Segment adjusted operating profit	8,022	2,884	670	1,146	(3,899)	8,823

	UK £'000	Europe and Africa £'000	US and Canada £'000	Asia Pacific £'000	Head Office £'000	Total £'000
Year ended 31 July 2012						
Revenue	**19,744**	**10,470**	**47,113**	**14,256**	**–**	**91,583**
Segment adjusted operating profit	**3,345**	**907**	**9,312**	**669**	**(4,186)**	**10,047**
Year ended 31 July 2011						
Revenue	17,986	9,746	45,142	13,161	–	86,035
Segment adjusted operating profit	2,935	855	8,693	239	(3,899)	8,823

A reconciliation of segment adjusted operating profit to profit before income tax is provided as follows:

	2012 £'000	2011 £'000
Segment adjusted operating profit	**10,047**	8,823
Amortisation of acquired intangibles	**(1,181)**	(819)
Reorganisation costs (note 4)	**(437)**	–
Charge for misappropriation of assets (note 4)	**(1,778)**	–
Movement in fair value of forward foreign exchange contracts	**(13)**	13
Total operating profit	**6,638**	8,017
Unwinding of discount on contingent consideration	**(968)**	(1,007)
Unwinding of discount on share purchase obligation	**(453)**	(322)
Change in estimate of future contingent consideration payable	**532**	966
Change in estimate of future share purchase obligation	**584**	285
Movement in fair value of interest rate cap-and-collar contract	**84**	14
Share of profits of associate	**14**	–
Other finance expense	**(523)**	(479)
Other finance income	**51**	53
Profit before income tax	**5,959**	7,527

3 Employee information

	2012 £'000	2011 £'000
Staff costs for all employees, including Directors, consist of:		
Wages and salaries	**56,246**	53,587
Social security costs	**4,966**	4,372
Pension costs	**1,243**	1,291
Share-based payment charge	**312**	449
	62,767	59,699

	2012 Number	2011 Number
The average number of employees during the year, by reportable service segment, was as follows:		
Technology PR	**774**	763
Consumer PR	**150**	162
Pure digital/research	**104**	87
Corporate Communications	**44**	38
Head Office	**16**	17
	1,088	1,067

	2012 Number	2011 Number
The average number of employees during the year, by geographical location, was as follows:		
UK	**233**	225
Europe and Africa	**121**	111
US and Canada	**384**	385
Asia Pacific	**334**	330
Head Office	**16**	17
	1,088	1,067

Key management personnel are considered to be the Board of Directors as set out on pages 11 and 12.

	2012 £'000	2011 £'000
Directors' remuneration, consists of:		
Aggregate emoluments	**862**	860
Pension costs	**58**	57
Compensation for loss of office	**–**	44
Share-based payment charge	**48**	52
	968	1,013

The highest paid Director received total emoluments of £479,000 (2011: £481,000).

4 Operating profit

		2012 £'000	2011 £'000
This is arrived at after charging/(crediting):			
Depreciation of owned property, plant and equipment		**1,119**	1,112
Depreciation of assets held under finance leases		**209**	89
Amortisation of intangible assets		**1,483**	1,494
Loss/(profit) on sale of property, plant and equipment		**11**	(5)
Movement in fair value of forward foreign exchange contracts		**13**	(13)
Defined contribution pension cost		**1,243**	1,291
Share-based payment charge		**312**	449
Operating lease income		**(344)**	(266)
Operating lease rentals	– property	**5,478**	5,061
	– plant and machinery	**168**	179
Charge for misappropriation of assets[1]		**1,778**	–
Reorganisation costs[2]		**437**	–
Foreign exchange loss		**92**	49
Fees payable to Group auditors		**455**	447

[1] The charge for misappropriation of assets relates to a fraud whereby cash was extracted from the business by a long-serving employee in a trusted position and hidden through recognition of fictitious assets and understated liabilities across two of the Group's North American Bite subsidiaries. Having now been identified, the overstated assets have been written off and liabilities re-instated. The impact on the Group is as follows:

	Total impact on Group Income statement £'000
Charge for write off of assets	1,608
Charge for recognition of understated liabilities	170
Pre tax expense	**1,778**
Tax	(553)
Post Tax expense (note 10)	**1,225**

[2] Reorganisation costs relate to the restructure of one of the Group's subsidiaries, Lexis. During the year the company rebranded itself as The Lexis Agency and shifted the direction of the business to give a more digitally-focused service offering which was aided by the acquisition of Paratus Communications Limited. As part of this process, the senior management team was re-aligned to better fit the new direction.

Auditors' remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors and its associates:

	2012 £'000	2011 £'000
Fees payable to the Company's auditor for the statutory audit of the Company's and consolidated annual statements	**77**	88
Other services:		
The auditing of financial statements of the subsidiaries pursuant to legislation	**291**	306
Tax services	**23**	23
Other services	**64**	30
	455	447

5 Reconciliation of pro forma financial measures

	2012 £'000	2011 £'000
Profit before income tax	**5,959**	7,527
Movement in fair value of interest rate cap-and-collar contract	**(84)**	(14)
Movement in fair value of forward foreign exchange contracts	**13**	(13)
Unwinding of discount on contingent and deferred consideration	**968**	1,007
Unwinding of discount on share purchase obligation	**453**	322
Charge for misappropriation of assets (note 4)	**1,778**	–
Change in estimate of future contingent consideration payable	**(532)**	(966)
Change in estimate of future share purchase obligation	**(584)**	(285)
Reorganisation costs (note 4)	**437**	–
Amortisation of acquired intangibles	**1,181**	819
Adjusted profit before income tax	**9,589**	8,397

Adjusted profit before income tax has been presented to provide additional information which will be useful to the reader to gain a better understanding of the underlying performance of the Group. The adjusted measure is also used for the performance calculation of the adjusted earnings per share used for the vesting of employee share options and performance shares.

6 Finance expense

	2012 £'000	2011 £'000
Financial liabilities at amortised cost		
Bank interest payable	**513**	472
Financial liabilities at fair value through profit and loss		
Unwinding of discount on contingent consideration	**968**	1,007
Unwinding of discount on share purchase obligation	**453**	322
Change in estimate of future contingent consideration payable	**118**	746
Change in estimate of future share purchase obligation	**108**	616
Other		
Finance lease interest	**2**	7
Other interest payable	**8**	–
Finance expense	**2,170**	3,170

7 Finance income

	2012 £'000	2011 £'000
Financial assets at amortised cost		
Bank interest receivable	**50**	54
Financial assets at fair value through profit and loss		
Movement in fair value of interest rate cap-and-collar contract	**84**	14
Change in estimate on contingent consideration	**650**	1,712
Change in estimate on share purchase obligation	**692**	900
Other		
Other interest receivable	**1**	–
Finance income	**1,477**	2,680

8 Taxation

The major components of income tax expense for the year ended 31 July 2012 are:

	2012 £'000	2011 £'000
Consolidated income statement		
Current income tax		
Current income tax expense	**2,709**	2,284
Adjustments in respect of (over)/under provision of current income tax in prior years	**(62)**	247
Deferred income tax		
Relating to the origination and reversal of temporary differences	**(974)**	(177)
Adjustments in respect of deferred tax for prior years	**(21)**	(94)
Income tax expense reported in the consolidated income statement	**1,652**	2,260
Consolidated statement of changes in equity		
Tax credit relating to share-based remuneration	**(40)**	(400)
Income tax expense reported in equity	**(40)**	(400)
Factors affecting the tax charge for the year		
The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 25.33% (2011: 27.33%). The difference is explained below:		
Profit before income tax	**5,959**	7,527
Corporation tax expense at 25.33% (2011: 27.33%)	**1,509**	2,057
Effects of:		
Disallowed expenses	**(3)**	(155)
Recognition and utilisation of previously unrecognised tax losses	**(7)**	(55)
Non-utilisation of tax losses	**116**	54
Higher rates of tax on overseas earnings	**989**	839
Deductions for overseas taxes	**(876)**	(688)
Adjustments in respect of prior years	**(76)**	208
	1,652	2,260

The Group's effective corporation tax rate for the year ended 31 July 2012 (28%) is slightly higher than the standard UK rate (25.33%) due to acquisitions undertaken by the Group and the impact of the reduction in the UK corporation tax rate. As a result of the acquisitions, a greater proportion of Group profit was generated in higher tax regimes and losses arose in territories in which it would not be prudent to recognise deferred tax assets.

As a result of the reduction in the UK corporation tax rate to 23% that was substantively enacted on 3 July 2012 and effective from 1 April 2013, the UK deferred tax balances have been remeasured. The UK corporation tax rate is expected to reduce by a further 1% to 22% from 1 April 2014. This change had not been substantively enacted at the balance sheet date and, therefore, is not recognised in the financial statements.

9 Dividend

	2012 £'000	2011 £'000
Dividends paid during the year		
Final dividend paid for prior year of 1.535p per Ordinary Share (2011: 1.375p)	**881**	761
Interim dividend paid of 0.565p per Ordinary Share (2011: 0.515p)	**327**	284
	1,208	1,045
Non-controlling interest dividend[1]	**280**	94

[1] The Group acquired control of 463 Communications as at 1 August 2008. During the year, a profit share was paid to the holders of the non-controlling interest of 463 Communications of £54,000 (2011: £75,000) and the Blueshirt Group LLC of £124,000 (2011: £19,000). A dividend was paid to the non-controlling interest of Beyond of £102,000 (2011: £Nil).

The ESOP waived its right to dividends in the financial year ended 31 July 2012 (£192) and the year ended 31 July 2011 (£4,000).

A final dividend of 1.735p per share (2011: 1.535p) has been proposed. This has not been accrued. The interim dividend was 0.565p per share (2011: 0.515p), making a total for the year of 2.3p per share (2011: 2.05p). The final dividend, if approved at the AGM on the 29 January 2013, will be paid on 8 February 2013 to all shareholders on the Register of Members as at 11 January 2013. The ex-dividend date for the shares is 9 January 2013.

10 Earnings per share

	2012 £'000	2011 £'000
Earnings attributable to ordinary shareholders	**3,906**	4,997
Movement in fair value of interest rate cap-and-collar contract	**(65)**	(10)
Movement in fair value of forward foreign exchange contracts	**10**	(9)
Unwinding of discount on contingent consideration	**968**	1,007
Unwinding of discount on share purchase obligation	**453**	322
Charge for misappropriation of assets (note 4)	**1,225**	–
Change in estimate of future contingent consideration payable	**(534)**	(966)
Change in estimate of share purchase obligation	**(589)**	(285)
Reorganisation costs	**336**	–
Amortisation of acquired intangibles	**803**	528
Adjusted earnings attributable to ordinary shareholders	**6,513**	5,584

	Number	Number
Weighted average number of Ordinary Shares	**57,036,925**	54,925,003
Dilutive share options/performance shares outstanding	**5,008,853**	6,127,173
Other potentially issuable shares	**2,645,103**	2,867,156
Diluted weighted average number of Ordinary Shares	**64,690,881**	63,919,332
Basic earnings per share	**6.85p**	9.10p
Diluted earnings per share	**6.04p**	7.82p
Adjusted earnings per share	**11.42p**	10.17p
Diluted adjusted earnings per share	**10.07p**	8.74p

Adjusted and diluted adjusted earnings per share have been presented to provide additional useful information. The adjusted earnings per share is the performance measure used for the vesting of employee share options and performance shares. The only difference between the adjusting items in this note and the figures in note 5 is the tax effect of those adjusting items.

11 Intangible assets

	Software £'000	Trade name £'000	Customer relationships £'000	Goodwill £'000	Total £'000
Cost					
At 1 August 2010	2,399	1,391	2,121	24,659	30,570
Additions resulting from internal development	90	–	–	–	90
Acquired through business combinations	638	810	2,000	10,396	13,844
Disposals	–	–	–	(709)	(709)
Exchange differences	(46)	(70)	(114)	(729)	(959)
At 31 July 2011	3,081	2,131	4,007	33,617	42,836
Additions resulting from internal development	97	–	–	–	97
Acquired through business combinations[1]	31	–	1,138	2,638	3,807
Disposals	(3)	–	–	–	(3)
Exchange differences	112	101	90	655	958
At 31 July 2012	**3,318**	**2,232**	**5,235**	**36,910**	**47,695**
Amortisation and impairment					
At 1 August 2010	1,164	78	592	1,625	3,459
Charge for the year	691	99	704	–	1,494
Exchange differences	38	(4)	(30)	(47)	(43)
At 31 July 2011	1,893	173	1,266	1,578	4,910
Charge for the year	456	111	916	–	1,483
Disposals	(3)	–	–	–	(3)
Exchange differences	99	9	47	131	286
At 31 July 2012	**2,445**	**293**	**2,229**	**1,709**	**6,676**
Net book value at 31 July 2012	**873**	**1,939**	**3,006**	**35,201**	**41,019**
Net book value at 31 July 2011	1,188	1,958	2,741	32,039	37,926

[1] During the year, the Group acquired Trademark PR GmbH, Trademark Consulting GmbH, Paratus Communications Limited and the trade and assets of Red Brick Media (note 26), recognising intangible customer relationships of £446,000, £223,000, £441,000, and £28,000 respectively. In addition, an intangible asset associated with software was recognised in respect of Trademark PR GmbH of £31,000.

Impairment testing for cash-generating units containing goodwill

Goodwill acquired through business combinations is allocated to groups of cash-generating units ('CGUs') for impairment testing as follows:

	2012 £'000	2011 £'000
Bite (UK)	**1,512**	1,512
Lexis (UK)[1]	**9,329**	8,625
OutCast (US)	**6,683**	6,441
Bite (US)	**320**	323
Beyond (UK)	**61**	58
Beyond (US)	**75**	73
M Booth (US)	**4,290**	4,048
Bite Upstream (APAC)[2]	**1,173**	1,152
Blueshirt	**4,376**	4,176
Bourne	**5,631**	5,631
Trademark	**1,751**	–
	35,201	32,039

11 Intangible assets (continued)

Impairment testing for cash-generating units containing goodwill (continued)

[1] Includes £243,000 addition in respect of the acquisition of Glasshouse and £703,000 in respect of the acquisition of Paratus Communications Limited.

[2] Includes an addition of £31,000 in respect of the acquired trade and assets of ILS, £116,000 in respect of OneXeno and £9,000 in respect of Red Brick Media.

Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill. The cash-generating units represent the lowest level within the entity at which the goodwill is monitored for internal management purposes. In the case of Bite Upstream and Lexis, performance is monitored at the combined level (inclusive of the subsidiaries listed in the footnotes). As such, goodwill is reviewed for impairment at the aggregated level.

Cash flow projections

The recoverable amounts of all CGUs have been determined from value-in-use calculations based on the pre-tax operating profits before non-cash transactions including amortisation and depreciation.

The initial projection period is based on operating profits in the 2013 budget approved by the Board for each cash-generating unit. After that initial projection period, the long-term forecasts are calculated using one of two methods depending on whether a subsidiary is currently within an earnout period.

For those subsidiaries not subject to an earnout period, after the initial projection period, no further formal forecasts are approved by the Board and so a steady long-term growth rate of 2.5% with no improvement in operating margin has been applied to the operating profit cash flow forecast into perpetuity. This is considered prudent based on experience and current expectations of the long-term industry growth rate and is used for all CGUs unless conditions specific to a CGU indicate that growth rates will be lower than the steady long-term rate. Beyond, M Booth, Upstream, Blueshirt, Bourne, Trademark and Paratus (part of Lexis) are all within their earnout period.

For recent acquisitions where subsidiaries are still within an earnout period, formal Board approval is required for those forecasts used in estimating the present values of future profitability and cash flows used in estimating contingent consideration and share purchase obligations. These approved forecasts are used when considering impairment for a period of no more than a further four years after the initial projection period. After this, a steady long-term growth rate of 2.5% with no improvement in operating margin has been applied to the pre-tax cash flow forecast into perpetuity.

Pre-tax discount rate

A pre-tax discount rate, being the Group's weighted average cost of capital of 12% (2011: 12%), has been used in discounting all projected cash flows.

The Board recognises that the WACC will be different for different industries and geographies where subsidiaries operate. Based on the results of sensitivity analysis and an appreciation of the general country/industry risk premiums, further consideration is given as to whether an industry and geography specific WACC should be used. No instances where that would be necessary have yet been identified.

Sensitivity to changes in assumptions

The Board has considered reasonable possible sensitivities in key assumptions on which the value-in-use calculations are based. If growth rates reduced to 0% for all subsidiaries not subject to earnout periods, or if the discount rate increased to 18%, this would not cause the carrying values of the groups of CGUs to exceed their recoverable amounts except for Lexis.

During the year, Lexis underwent a significant reorganisation (note 4). Changes in the senior management team, direction of the company and integration of Paratus add an additional uncertainty over the FY13 budget which forms the basis for the extrapolated long-term operating profit cash flow projections. Headroom over goodwill is substantial at £2,207,000. Management have control over staff costs and so it is assumptions around new business wins and client attrition where there is most scope for error in estimations. Even if budgeted revenues were below the level which was actually delivered in FY12 no impairment would be indicated. Assuming gross margins are kept constant, FY13 budgeted revenue can fall by 20% before headroom falls to £Nil. The board considers that this is a sufficient level of headroom and does not indicate the existence of any potential impairment.

11 Intangible assets (continued)

Impairment testing for cash-generating units containing goodwill (continued)

Further sensitivity analysis on the extrapolation assumptions shows that if the discount rate is increased in isolation to 14%, or if the growth rate fell to 0.25%, the estimated recoverable amount of Lexis is equal to carrying value.

For goodwill associated with subsidiaries currently in their earnout, Bourne is the most sensitive. Growth rates used in the Board-approved forecasts could fall to negative (9.5%) and the discount rate could increase to 16% before headroom is reduced to £Nil.

There was no impairment of goodwill as the estimated recoverable amount exceeds the carrying value for all CGUs.

12 Property, plant and equipment

	Short leasehold improvements £'000	Office equipment £'000	Office furniture £'000	Motor vehicles £'000	Total £'000
Cost					
At 31 July 2010	3,498	5,358	1,429	41	10,326
Exchange differences	(53)	(51)	(37)	–	(141)
Additions	691	900	329	–	1,920
Acquired through business combinations	3	67	7	–	77
Disposals	(505)	(206)	(58)	(5)	(774)
At 31 July 2011	3,634	6,068	1,670	36	11,408
Exchange differences	59	102	38	(3)	196
Additions	71	710	54	–	835
Acquired through business combinations	15	103	–	–	118
Disposals	(57)	(166)	(81)	–	(304)
At 31 July 2012	**3,722**	**6,817**	**1,681**	**33**	**12,253**
Accumulated depreciation					
At 1 August 2010	2,335	4,596	1,098	28	8,057
Exchange differences	(37)	(82)	(31)	–	(150)
Charge for the year	454	575	166	6	1,201
Disposals	(501)	(203)	(58)	(5)	(767)
At 31 July 2011	2,251	4,886	1,175	29	8,341
Exchange differences	34	90	31	(2)	153
Charge for the year	457	700	167	4	1,328
Disposals	(57)	(158)	(75)	–	(290)
At 31 July 2012	**2,685**	**5,518**	**1,298**	**31**	**9,532**
Net book value					
At 31 July 2012	**1,037**	**1,299**	**383**	**2**	**2,721**
At 31 July 2011	1,383	1,182	495	7	3,067

The net book value of property, plant and equipment for the Group includes assets held under finance lease contracts as follows: £7,000 of short leasehold improvements (2011: £29,000) and £66,000 of office equipment and furniture (2011: £244,000).

13 Trade and other receivables

	2012 £'000	2011 £'000
Current		
Trade receivables	**19,897**	20,707
Less: provision for impairment of trade receivables	**(409)**	(350)
Trade receivables – net	**19,488**	20,357
Other receivables	**763**	1,030
Prepayments	**1,520**	1,527
Accrued income	**2,890**	3,017
	24,661	25,931
Non-current		
Rent deposits	**875**	840

As of 31 July 2012, trade receivables of £409,000 (2011: £350,000) were impaired. Movements in the provision are as follows:

	2012 £'000	2011 £'000
At 1 August	**350**	227
Acquired through business combinations	**–**	56
Provision for receivables impairment	**226**	105
Receivables written off during the year as uncollectable	**(150)**	(29)
Unused amounts reversed	**(23)**	(4)
Foreign exchange movements	**6**	(5)
At 31 July	**409**	350

The provision for receivables impairment has been determined by considering specific doubtful balances and by reference to historic default rates. Owing to the immaterial level of the provision for impairment of receivables, no further disclosure is made. The Group considers there to be no material difference between the fair value of trade and other receivables and their carrying amount in the balance sheet.

As at 31 July, the analysis of trade receivables that were not impaired is as follows:

	2012 £'000	2011 £'000
Not past due	**11,105**	10,333
Up to 30 days	**5,213**	5,698
31 to 60 days	**1,975**	2,609
Greater than 61 days	**1,195**	1,717
At 31 July	**19,488**	20,357

14 Trade and other payables

	2012 £'000	2011 £'000
Current		
Trade creditors	**3,365**	3,110
Finance lease obligation	**25**	56
Other taxation and social security	**1,533**	1,907
Short-term compensated absences	**1,814**	1,683
Other creditors	**2,009**	3,402
Accruals	**6,136**	5,467
Deferred income	**4,723**	4,460
	19,605	20,085
Non-current		
Finance lease obligation	**6**	6

15 Provisions

	2012 £'000	2011 £'000
At 1 August	**131**	58
Additions	**–**	109
Used during year	**(2)**	(36)
At 31 July	**129**	131
Current	**–**	–
Non-current	**129**	131

Provisions comprise liabilities where there is uncertainty about the timing of settlement, but where a reliable estimate can be made of the amount. At 31 July 2012 £23,000 of the provision covers the cost of dilapidations on a property which Bite leased. A dilapidations provision of £106,000 has also been recognised by Lexis in respect of obligations under the lease on its premises.

16 Amounts due under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Amounts payable:				
Within 1 year	**25**	57	**25**	56
In 2 to 5 years	**6**	7	**6**	6
	31	64	**31**	62
Less: finance charges allocated to future periods	**–**	(2)	**–**	–
Present value of lease obligations	**31**	62	**31**	62

17 Other financial liabilities

	Contingent consideration[1] £'000	Share purchase obligation[2] £'000
At 31 July 2010	6,112	1,499
Arising during the year	7,510	2,917
Changes in assumptions	(966)	(285)
Exchange differences	(338)	(105)
Utilised	(2,408)	–
Unwinding of discount	1,007	322
At 31 July 2011	10,917	4,348
Arising during the year	1,430	516
Changes in assumptions[3]	(532)	(584)
Exchange differences	295	134
Utilised	(5,146)	(878)
Unwinding of discount	968	453
At 31 July 2012	**7,932**	**3,989**
Current	2,945	–
Non-current	4,987	3,989

[1] Contingent consideration on acquisitions – During the year, the Group acquired a controlling stake in the following companies: Trademark Consulting GmbH, Trademark PR GmbH and Paratus Communications Limited. See note 26 for additional information on these acquisitions. The Group also acquired the trade and assets of one stand-alone businesses, Red Brick Media, a small digital team based in Hong Kong, giving rise to £19,000 contingent consideration.

[2] Share purchase obligation – A share purchase obligation also arose on the acquisition of Paratus (note 26) adding to the existing share purchase obligations.

[3] Change in estimates – as seen in the table below, a significant amount of the change in assumptions comes from the addendum to the Bourne acquisition agreement (note 26) rather than changes in underlying estimates. Net of that, the change in assumptions would have resulted in a £158,000 credit for contingent consideration and a £495,000 credit for share purchase obligations.

The estimates around contingent consideration and share purchase obligations are considered by management to be an area of significant judgement, with any changes in assumptions and forecasts creating volatility in the Income Statement. Management form expectations based on an analysis of the approved FY13 budget with further consideration being given to current and forecast wider market conditions. An assumed medium-term growth expectation is then applied which is specific to each individual entity over the course of the earnout. Certain markets have been identified as more volatile than others, such as the IPO market for Blueshirt. In such cases, applying an expectation for the average annual growth rate over the earnout period can result in significant under/over-performance in any one year.

17 Other financial liabilities (continued)

Sensitivity analysis has been provided below for each significant arrangement, focusing on two key metrics of i) performance – where a basic assumption of a 10% uplift on the original forecast revenue in each year of the earnout is assumed and ii) timing – a comparison is made between the present value of the obligation, assuming settlement of the obligation is at the earliest opportunity, and at the latest opportunity, which is the normal assumption. 10% growth in revenue is used in each case in order to allow a consistent comparison of sensitivity across the different earnouts. It is also considered to be a realistic assumption for potential maximum volatility in most cases over the course of earnouts.

	Total liability as at 31 July 2011 £'000	Liability arising on acquisition £'000	Unwinding of discount £'000	Change in estimate of share purchase obligation £'000	Change in estimate of contingent consideration £'000	Effect of FX during the year £'000	Settlement during the year £'000	**Total liability as at 31 July 2012 £'000**	**Income statement sensitivity to a 10% increase in revenue £'000**	**Income statement sensitivity to timing of settlement £'000**
Blueshirt	5,477	–	451	11	108	249	(2,784)	**3,512**	(517)	(61)
Upstream	1,498	–	124	(521)	–	68	–	**1,169**	(91)	167
Beyond	618	–	86	98	–	–	–	**802**	(80)	211
M Booth	4,242	–	326	–	(102)	191	(2,153)	**2,504**	–	45
463	500	–	52	(83)	–	23	–	**492**	(49)	(26)
Bourne	2,613	–	264	(89)	(374)	–	(877)	**1,537**	–	–
Other	317	19	–	–	8	4	(210)	**138**	–	–
Trademark	–	1,231	103	–	(172)	(106)	–	**1,056**	(92)	–
Paratus	–	696	15	–	–	–	–	**711**	(41)	–
	15,265	**1,946**	**1,421**	**(584)**	**(532)**	**429**	**(6,024)**	**11,921**	**(870)**	**336**

[1] Blueshirt and 463 differ from the other acquisitions in terms of the impact of timing. The assumptions around timing where the vendors have put option windows for sale, we assume that the vendors will want to choose the option that maximises their returns. Where the assumed annual growth rate is higher than an expected rate of return an individual could get elsewhere (e.g. bank interest rates), we assume the vendor will delay exercise of the put option until the latest date. This is the situation in all earnouts. However, if that growth rate is lower than the discount rate applied to acquisitions by the Group (12%), delaying payments also results in a present value benefit to the Group rather than a cost. For Blueshirt and 463, the expected annual growth rate is below 12%.

Blueshirt

Blueshirt is considered the most sensitive to changes in revenue, both in terms of the magnitude of the balances and the proportionate movements. Contingent consideration satisfied in cash will be made over the course of four years based on a multiple of average profits and margin performance. There is an option for the sellers to sell the remaining 15% stake in Blueshirt after five years from completion and an option for Next 15 to acquire the remaining 15% after six years from completion, provided that the value of the business at the relevant time has reached a certain level. The length of time over which the earnout runs adds to the judgemental nature of setting forecasts. A 10% uplift in revenues will result in an increase in the total liability of £517,000 (15%). For timing sensitivity, the accounting treatment assumes settlement will take place at the latest opportunity. If settled at the earliest opportunity, the liability would increase by £61,000 (2%) representing an expense to the Group.

17 Other financial liabilities (continued)

The IPO market in which Blueshirt operates is considered to be the most volatile and makes it the most difficult to predict of all earnouts. A complete dislocation of this market could result in material variances from expected performance in any one year. A multiplier is applied to the calculation of earnout consideration and based on the business reaching certain profit margins. The potential multiples are six or seven, which further increase the scope volatility of estimates. Management therefore take a more medium-term view of likely growth in the business when setting expectations for the earnout obligations. The FY12 liability reflects an expectation of achieving the FY13 approved budget performance and thereafter achieving an average 10% growth in revenues over the remaining earnout period (accepting that there can be variances either side of that medium-term average in any one year). Consistent profit margins are anticipated each year with those expected in the FY13 approved budget.

Beyond

Beyond is considered the most sensitive earnout to potential changes in timing of settlement for the obligation. There is no contingent consideration associated with Beyond. The earliest date settlement could take place is FY13 whereas the accounting assumes settlement will take place at the latest possible date, FY15. If settlement of the liability happened in FY13, this would decrease the liability by £211,000 (26%), representing an income to the Group. Multipliers exist based on the business reaching certain profit margins. The multiples range between five and seven, which further increases the potential volatility of estimates.

Upstream, Trademark and Bourne

During the year, Upstream, Trademark and Bourne have each had significant movements in the liability due to changes in estimate of future contingent consideration and share purchase obligations. For Upstream and Trademark this follows a re-estimation of future performance based on lower than expected current year results, approved FY13 budgets, and revised expectations for future market conditions over the course of the earnouts. The total change in estimate for Bourne (£460,000) arises on the early settlement of the obligation (see note 26). Part of the settlement was made in share options which had a fair value of £430,000. Under accounting rules they were required to be accounted for as remuneration rather than consideration since the terms of the option grant include continuous-employment conditions. Had that fair value been allocated to consideration, the settlement for Bourne would have resulted in only a marginal £30,000 credit for changes in estimate. See note 26 for further information on the Bourne settlement).

M Booth

Due to a 'cap' on the consideration payable through the earnout which has already been reached, further increases in revenues of 10% have no impact on the current liability. A bye year election was available to the vendors, it was not utilised therefore there is no impact on the present value of the liability.

18 Deferred taxation

Temporary differences between the carrying value of assets and liabilities in the balance sheet and their relevant value for tax purposes result in the following deferred tax assets and liabilities:

	Accelerated capital allowances £'000	Short-term compen-sated absences £'000	Share-based remunera-tion £'000	Provision for impairment of trade receivables £'000	Excess book basis over tax basis of intangible assets £'000	Derivative financial instru-ments £'000	Other temporary differences £'000	Write off for miss-apropria-tion of assets £'000	Total £'000
At 31 July 2010	579	439	421	81	(919)	113	744	–	1,458
Credit/(charge) to income	(254)	109	216	12	(231)	(12)	431	–	271
Exchange differences	(29)	(1)	–	(8)	(96)	–	73	–	(61)
Acquired through business combinations	–	–	–	–	–	–	(14)	–	(14)
Offset against goodwill	–	–	–	–	327	–	–	–	327
Taken to equity: Share option schemes	–	–	400	–	–	–	–	–	400
At 31 July 2011	296	547	1,037	85	(919)	101	1,234	–	2,381
Credit/(charge) to income	74	(38)	(21)	(7)	230	(27)	250	534	995
Exchange differences	(9)	6	–	3	14	–	62	4	80
Re class from current tax	–	–	–	–	–	–	(80)	–	(80)
Taken to equity:	–	–	–	–	(341)	–	–	–	(341)
Share option schemes	–	–	40	–	–	–	–	–	40
At 31 July 2012	**361**	**515**	**1,056**	**81**	**(1,016)**	**74**	**1,466**	**538**	**3,075**

After netting off balances, the following are the deferred tax assets and liabilities recognised in the consolidated balance sheet:

	2012 £'000	2011 £'000
Net deferred tax balance		
Deferred tax assets	**3,320**	2,503
Deferred tax liabilities	**(245)**	(122)
Net deferred tax asset	**3,075**	2,381

18 Deferred taxation (continued)

Deferred tax has been calculated using the anticipated rates that will apply when the assets and liabilities are expected to reverse based on tax rates enacted or substantively enacted by the balance sheet date. The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned.

The estimated value of the deferred tax asset not recognised in respect of tax losses available to carry forward was £116,000. The deferred tax asset not recognised in respect of tax losses available to carry forward includes an amount relating to India (£42,000), which will fully expire by 2019, and to China (£142,000), which will fully expire by 2017.

19 Financial instruments

Financial risk management, policies and strategies

The Group's principal financial instruments comprise bank loans, finance leases, cash and short-term deposits and derivative financial instruments. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise directly from operations.

The Group enters into derivative transactions, primarily cap-and-collar interest rate and forward foreign exchange contracts. The purpose of such contracts is to protect the profits and surplus funds arising in principal markets from currency fluctuations and to manage the interest rate risks on the Group's sources of finance. Fair value gains and losses on the derivative cap-and-collar interest rate contracts are recognised directly within the income statement within interest received/paid. Hedging gains and losses associated with forward foreign currency exchange contracts are recognised directly within the income statement within other operating expense/income.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign exchange risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations.

The Group's policy is to manage its interest costs arising on variable rate debts by entering into interest rate cap-and-collar and swap contracts. These agreements are designed to protect underlying debt obligations against significant increases in interest rates as required under the terms of the Group's revolving loan facility with Barclays Bank. At 31 July 2012 borrowings of US$12m are held under an interest rate swap arrangements with rates fixed at 2.09% through to December 2014.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax at 31 July 2012, based on year end balances and rates.

	Movement in basis points	**2012 £'000**	2011 £'000
United Kingdom	+200	**(211)**	(189)
US	+200	**335**	457

A rise in US interest rates of 2% would give a positive movement of £345,000 (2011: £470,000) in the fair value of the interest rate cap-and-collar and rate swap contracts in place.

The interest rate cap-and-collar contracts and rate swap contracts are categorised as a level two financial instruments in the fair-value hierarchy.

19 Financial instruments (continued)

Liquidity risk

The Group manages its risk to a shortage of funds with a mixture of long- and short-term committed facilities. As at 31 July 2012 the Group had undrawn committed facilities of £6,180,000 (2011: £7,119,000). In addition, the Group has an overdraft facility with Barclays Bank, of £1,500,000 (2011: £1,500,000) at a rate of 1.5% (2011: 1.5%) above Barclays Bank's base rate, available in sterling, US dollar and euro, and a credit line with Wells Fargo Bank of US$2,735,000 (£1,746,000) (2011: US$2,735,000 (£1,666,159)) at the prime rate (currently 2.7%) available in US dollars. The Barclays Bank overdraft facility is reviewed at the bank's discretion with no expiry date. The Wells Fargo Bank overdraft facility is reviewed on an annual basis and expires in March 2013. At the balance sheet date, the Group had utilised £97,000 of the Barclays Bank facility, £nil of the Wells Fargo overdraft facility.

The following table summarises the maturity profile based on the remaining period at the balance sheet date to the contractual maturity date of the Group's financial liabilities at 31 July 2012 and 2011, based on contractual undiscounted payments:

	Within one year £'000	Between two and five years £'000	Total £'000
As at 31 July 2012			
Financial liabilities	**22,370**	**19,695**	**42,065**
Derivative financial instruments – cash inflows	**–**	**–**	**–**
Derivative financial instruments – cash outflows	**126**	**174**	**300**
	22,496	**19,869**	**42,365**
As at 31 July 2011			
Financial liabilities	24,150	24,824	48,974
Derivative financial instruments – cash inflows	–	–	–
Derivative financial instruments – cash outflows	196	62	258
	24,346	24,886	49,232

Currency risk

As a result of significant global operations, the Group's balance sheet can be affected significantly by movements in the foreign exchange rates against sterling. This is largely through the translation of balances denominated in a currency other than the functional currency of an entity. The Group has transactional currency exposures in the US, Europe, Africa and Asia Pacific region, including foreign currency bank accounts and intercompany recharges. The Group uses currency derivatives to protect significant US dollar and euro currency exposures against changes in exchange rates.

The following table demonstrates the sensitivity to reasonable possible changes in exchange rates, with all other variables held constant, of the Group's profit before tax at 31 July 2012 based on year-end balances and rates.

	Weakening against sterling	2012 £'000	2011 £'000
US dollar	20%	**(492)**	(509)
Euro	20%	**(346)**	(223)
Australian dollar	20%	**(317)**	(794)
Chinese renminbi	20%	**29**	214
Hong Kong dollar	20%	**51**	6
Indian rupee	20%	**(79)**	101
Singapore dollar	20%	**166**	(30)

19 Financial instruments (continued)

The following table demonstrates the sensitivity to reasonable possible changes in exchange rates, with all other variables held constant, of the Group's equity at 31 July 2012 based on year-end balances and rates.

	Weakening against sterling	**2012 £'000**	2011 £'000
US dollar	20%	**(4)**	(676)
Euro	20%	**(37)**	(33)
Australian dollar	20%	**(35)**	(4)
Chinese renminbi	20%	**26**	27
Hong Kong dollar	20%	**17**	13
Indian rupee	20%	**(63)**	(27)
Singapore dollar	20%	**(35)**	(21)

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables which represent the Group's maximum exposure to credit risk in relation to financial assets. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that customers who wish to trade on credit terms be subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts has not been significant. The amounts presented in the balance sheet are net of provisions for impairment of trade receivables, estimated by the Group's management based on investigation into the facts surrounding overdue debts, historic experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are reputable banks with high credit ratings assigned by international credit-rating agencies, although the Board recognises that in the current economic climate these indicators cannot be relied upon exclusively.

Maximum exposure to credit risk:

	2012 £'000	2011 £'000
Total trade and other receivables	**25,536**	26,771
Cash and cash equivalents	**8,436**	8,517

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Total capital of the Group is calculated as total equity as shown in the consolidated balance sheet, plus net debt. Net debt is calculated as total borrowings and finance leases, less cash and cash equivalents. This measure of net debt excludes any acquisition related contingent liabilities or share purchase obligations. The quantum of these obligations is dependent on estimations of forecast profitability. Settlement dates are variable and range from 2012 to 2018.

	2012 £'000	2011 £'000
Total loans and borrowings	**11,009**	10,026
Obligations under finance leases	**31**	62
Less: cash and cash equivalents	**(8,436)**	(8,517)
Net debt[1]	**2,604**	1,571
Total equity	**37,228**	32,333
Total capital	**39,832**	33,904

[1] Net debt includes external bank borrowings and finance obligations but excludes any acquisition-related contingent liabilities or share purchase obligations. The quantum of these obligations is dependent on estimations of forecast profitability whereby if no profits are generated from the businesses over the earnout period, contingent consideration would fall to £Nil. Settlement dates are variable and range from 2012 to 2018.

19 Financial instruments (continued)

Capital risk management (continued)

	2012 £'000	2011 £'000
Net debt	**2,604**	1,571
Share purchase obligation	**3,989**	4,348
Contingent consideration	**7,932**	10,917
	14,525	16,836

Externally imposed capital requirement

Under the terms of the Group's banking covenants the Group must meet certain criteria based on gross borrowings to earnings before interest, tax, depreciation, amortisation and impairment, interest cover and guarantee ratios on turnover, operating profit, total assets and total operating cash flows to consolidated gross financing costs. There have been no breaches of the banking covenants in the current or prior year.

Fair values of financial assets and liabilities

Fair value is the amount at which a financial instrument can be exchanged in an arm's-length transaction between informed and willing parties, other than a forced or liquidation sale.

The book value of the Group's financial assets and liabilities equals the fair value of such items as at 31 July 2012, with the exception of obligations under finance leases. The book value of obligations under finance leases is £31,000 (2011: £62,000) and the fair value is £30,000 (2011: £63,000).

Financial instruments – detailed disclosures

Financial instruments recognised in the balance sheet

The IAS 39 categories of financial assets and liabilities included in the balance sheet and the heading in which they are included are as follows:

	At fair value through profit or loss £'000	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Total £'000
As at 31 July 2012				
Non-current financial assets				
Other receivables	–	–	875	875
	–	–	875	875
Current financial assets				
Cash and cash equivalents	–	–	8,436	8,436
Trade and other receivables	–	–	24,661	24,661
	–	–	33,097	33,097
Current financial liabilities				
Loans and borrowings	–	259	–	259
Trade and other payables	–	19,605	–	19,605
Contingent consideration[1]	2,945	–	–	2,945
Derivative financial liabilities	320	–	–	320
	3,265	19,864	–	23,129
Non-current financial liabilities				
Loans and borrowings	–	10,750	–	10,750
Provisions	–	129	–	129
Obligations under finance leases	–	6	–	6
Contingent consideration[1]	4,987	–	–	4,987
Share purchase obligation[1]	3,989	–	–	3,989
	8,976	10,885	–	19,861

[1] See note 17.

19 Financial instruments (continued)

Financial instruments recognised in the balance sheet (continued)

	At fair value through profit or loss £'000	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Total £'000
As at 31 July 2011				
Non-current financial assets				
Other receivables	–	–	840	840
	–	–	840	840
Current financial assets				
Cash and cash equivalents	–	–	8,517	8,517
Trade and other receivables	–	–	25,931	25,931
	–	–	34,448	34,448
Current financial liabilities				
Loans and borrowings	–	272	–	272
Trade and other payables	–	20,085	–	20,085
Contingent consideration[1]	4,601	–	–	4,601
Derivative financial liabilities	405	–	–	405
	5,006	20,357	–	25,363
Non-current financial liabilities				
Loans and borrowings	–	9,754	–	9,754
Provisions	–	131	–	131
Obligations under finance leases	–	6	–	6
Contingent consideration[1]	6,316	–	–	6,316
Share purchase obligation[1]	4,348	–	–	4,348
	10,664	9,891	–	20,555

[1] See note 17.

Interest-bearing loans and borrowings

The table below provides a summary of the Group's loans and borrowing as at 31 July 2012:

	Effective interest rate	**2012 £'000**	2011 £'000
Current			
Variable rate bank loan	Wells Fargo Bank call-loan rate + 0.01%	**–**	9
Variable rate bank loan	Wells Fargo Bank call-loan rate + 2.88%	**130**	128
Fixed rate bank loan	7.17%	**115**	135
		245	272
Obligations under finance leases	3.42%	**25**	56
Non-current			
Variable rate bank loan	Barclays Bank LIBOR + 2.25%	**10,443**	9,212
Variable rate bank loan	Wells Fargo Bank call-loan rate + 2.88%	**219**	324
Variable rate bank loan	Wells Fargo Bank call-loan rate + 0.01%	**88**	103
Fixed rate bank loan	7.17%	**–**	115
		10,750	9,754
Obligations under finance leases	3.42%	**6**	6

19 Financial instruments (continued)

Hedge of net investment in foreign entity

A proportion of the Group's US dollar-denominated borrowings amounting to US$7,000,000 is designated as a hedge of the net investment in the Group's US subsidiary M Booth & Associates, Inc. A further US$3,250,000 has been designated as a hedge of the net investment in the Group's US subsidiary Blueshirt. The fair value of the borrowings at 31 July 2012 is US$10,250,000 (£6,348,000) (FY11: US$8,500,000 (£5,178,000)). The foreign exchange loss of £235,000 (FY11: gain of £213,000) on translation of the borrowing to functional currency at the end of the reporting period is recognised in a hedging reserve, in shareholders' equity.

20 Share capital

Called-up share capital

Ordinary Shares of 2.5p each:

	Number	£'000
Allotted, called up and fully paid		
At 1 August 2011	56,651,849	1,416
Issued in the year in respect of contingent consideration and share purchase obligations (note 17)	1,058,532	27
Issued in the year in satisfaction of exercised share options	438,580	11
At 31 July 2012	**58,148,961**	**1,454**

21 Share-based payments

The Group uses the Black-Scholes model to calculate the fair value of options on grant date for new issues and modifications. At each year end the cumulative expense is adjusted to take into account any changes in estimate of the likely number of shares expected to vest. Details of the relevant option schemes are given in note 22. All the share-based payment plans are subject to non-market performance conditions such as adjusted earnings per share targets and continued employment. All schemes are equity-settled. The key inputs are listed below and market price on each grant date is obtained from external, publicly available sources.

	2012	2011
Risk-free rate	**2.00%**	4.75%
Dividend yield	**2.22%**	2.53%
Volatility[1]	**34%**	40%

[1] Volatility is based on the Group's share price movement between January 2003 and July 2012. In the opinion of the Directors this period is appropriate, given the Group's history of growth and acquisitions and external industry factors.

In the year ended 31 July 2012 the Group recognised a charge of £312,000 (2011: £449,000).

21 Share-based payments (continued)

Movement on options and performance shares granted (represented in Ordinary Shares):

	Outstanding at 1 August 2011 Number ('000)	Granted number ('000)	Lapsed number ('000)	Exercised number ('000)	**Outstanding 31 July 2012 Number ('000)**	**Exercisable 31 July 2012 Number ('000)**
Executive share option scheme	447	–	(58)	(170)	**219**	**219**
Long-Term Incentive Plan – options	76	–	–	(28)	**48**	**48**
Long-Term Incentive Plan – performance shares	6,273	1,610	(1,033)	(1,695)	**5,155**	**–**
Bourne Acquisition Grant (note 26)	–	1,340	–	–	**1,340**	**–**
Restricted Stock Grant Agreement	175	–	–	(88)	**87**	**–**
	6,971	2,950	(1,091)	(1,981)	**6,849**	**267**
Weighted-average exercise price (p)	3.88	–	1.96	4.49	**2.35**	**60.38**

A total of 1,941,000 share options were exercised during the year ended 31 July 2012 at a weighted average market share price of 86p (2011: 402,000 at 75p).

Options over Ordinary Shares outstanding	
Range of exercise prices (p)	0 – 66
Weighted average exercise price (p)	2.63
Weighted average remaining contractual life (months)	20

The fair value of options granted in the year calculated using the Black-Scholes model:

	Dec 2011	Apr 2012	May 2012
Fair value of performance shares granted under the LTIP (p)	71	81	88
Share price at date of grant (p)	85	97	96
Risk-free rate (%)	2.00	2.00	2.00
Expected life (years)	4	4	4
Expected volatility (%)	34%	25%	25%
Dividend yield (%)	2.22	2.16	2.19

Performance shares issued by the Company under the Next Fifteen Communications Group plc Long-Term Incentive Plan are granted at a nil exercise price.

22 Share options

The Company has issued options over its shares to employees that remain outstanding as follows:

Share option type	Number of shares	Option price per share	Option grant date
Next Fifteen Communications Group plc Executive Share Option Schemes	30,000	59.5p	22 October 2003
	30,000		
Next Fifteen Communications Group plc Californian Executive Share Option Schemes	158,334	59.5p	22 October 2003
	30,000	63p	12 May 2004
	188,334		
Next Fifteen Communications Group plc Long-Term-Incentive Plan	18,271	56p	11 November 2005
	29,545	66p	10 April 2006
	47,816		

Performance shares	Number of shares	Performance period start date	Performance period end date	Performance share grant date
Next Fifteen Communications Long-Term- Incentive Plan	1,122,653	1 August 2008	31 July 2012[1]	21 November 2008
	1,255,000	1 August 2009	31 July 2013	9 February 2010
	35,000	1 August 2009	31 July 2013	4 June 2010
	1,222,000	1 August 2010	31 July 2014	16 November 2010
	1,130,000	1 August 2011	31 July 2015	22 December 2011
	390,000	1 August 2011	31 July 2015	10 May 2012
	5,154,653			
Bourne Acquisition Grant	613,402	1 August 2012	31 July 2016	5 April 2012
	108,247	1 August 2012	31 July 2016	5 April 2012
	618,557	1 August 2012	31 July 2017	5 April 2012
	1,340,206			
Restricted Stock Grant Agreement	87,595	3 August 2009	3 August 2012	3 August 2009
	6,582,454			

[1] Performance criteria modified on 26 January 2010.

22 Share options (continued)

Under the Next Fifteen Communications Group plc Executive Share Option Schemes ('ESOP's, save as explained hereafter, all options are normally exercisable on or after the third anniversary of the date of grant and remain exercisable until the tenth anniversary of the date of the grant, to the extent that they have vested. Options will vest in respect of one-third of the shares on each of the third, fourth and fifth anniversaries of their date of grant. Options granted to employees in California from 23 October 2001 are exercisable at a rate of 20% per year over five years from the date of grant. The vesting of all share options granted after 30 November 1999 is conditional on achievement of a performance criterion of the Group's earnings per share growing over a three-year period after the grant by at least 30%.

6,839,475 share options/performance shares/conditional shares awarded by the Company under the ESOP, the Long-Term Incentive Plan and the Restricted Stock Grant Agreement are options/performance shares/conditional shares over unissued shares. It is intended for the remaining 9,129 options/performance shares/conditional shares to be satisfied with shares held by the ESOP (9,129). During the year the Company satisfied part of the share option exercises through shares held in treasury (1,164,258). No shares are now held in treasury (see note 23).

For all awards under the LTIP, performance will be measured over a period of four consecutive financial years of the Group, commencing with the financial year in which the award was granted. The conditions are based upon two measures – an adjusted earnings per share ('EPS') measure and a budgeted profit measure. The level of vesting will be determined using the best three of the four years' performance for each performance measure. The growth of adjusted EPS of the Group must exceed the UK Consumer Price Index ('CPI') by an average of 10% or more per annum over the performance period for 50% of the award to vest. If the growth of adjusted EPS over CPI is between an average of 3% and 10% per annum over the performance period, between 10% and 50% of the award will vest on a straight-line basis. The remaining 50% of an award may vest if the profit of the particular business in which a participant is employed meets its budgeted profit targets over the performance period. To the extent that the budgeted profit targets are not met, for every 1% below budget, 5% of the award will lapse on a straight-line basis. Employees who work in group roles will be measured by reference to whole group performance, rather than any particular business unit.

On 3 August 2009 the Group acquired M Booth & Associates, Inc. ('M Booth') and entered into a Restricted Stock Grant Agreement of US$200,000. The number of shares granted was determined by reference to the average of the mid-market price of the Company's shares for the ten trading day period ended four days prior to issuance, leading to a total of 262,796 shares granted. The fair value of the shares was based on the market value at the date of grant. The grant shares will vest in equal amounts on each of the first three anniversaries of the date of grant, provided that each participant remains a full-time employee of M Booth as of the anniversary vesting date. On 3 August 2010 87,600 shares vested and on 14 November 2011 a further 87,600 vested in relation to this agreement, leaving 87,595 restricted shares outstanding at 31 July 2012.

22 Share options (continued)

On 5 April 2012 the Group acquired the remaining 20% non-controlling interest in CMG Worldwide Limited ('Bourne'). As part of the settlement, three grants of performance shares were awarded each of which has the same fair value characteristics but different non market based conditions attached to them. 721,649 of the options are based on budget targets over a 4-year period in line with the budget performance targets of the standard LTIP options. These were issued in two separate grants, one for 108,247 and the other for 613,402. The grant of 108,247 does not contain any continuous employment conditions and is treated as part of the consideration settlement of the 20% non-controlling interest. The grant of 613,402 does contain a continuous employment requirement over the 4-year vesting period commencing on 1 August 2012. As such, those options are deemed to be remuneration with the charge spread over that vesting period.

The remaining grant of 618,557 performance shares contains a different performance condition based on a pure profit target to be achieved which is based on the average of FY16/FY17 results. These performance shares contain no continuous employment conditions and are treated as consideration for the acquisition of the 20% non-controlling interest. See note 26 for more information.

23 Investment in own shares

Employee share ownership plan (ESOP)

The purpose of the ESOP is to enable the Company to offer participation in the ownership of its shares to Group employees, principally as a reward and incentive scheme. Arrangements for the distribution of benefits to employees, which may be the ownership of shares in the Company or the granting of options over shares in the Company held by the ESOP, are made at the ESOP's discretion in such manner as the ESOP considers appropriate. Administration costs of the ESOP are accounted for in the profit and loss account of the Company as they are incurred.

At 31 July 2012 the ESOP held 9,129 (2011: 98,729) Ordinary Shares in the Company, which represents 0.0% (2011: 0.2%) of the Ordinary Share capital. The ESOP reserve of £233 (2011: £32,000) represents the cost of these shares held by the ESOP in the Company at 31 July 2012. The nominal value of shares held was £228 (2011: £2,468), and the market value at 31 July 2012 was £8,489 (2011: £82,932). The right to receive dividends on all shares has been waived.

During the year to 31 July 2012, a number of employees exercised their options. In total 2,000 (2011: 228,408) ESOP options were exercised, for proceeds of £470 (2011: £118,487), as were 328,380 (2011: 86,159) performance shares.

Treasury shares

At 31 July 2012, the Group held no treasury shares (2011: 1,164,258) at a cost of £Nil (2011: £595,000). The nominal value of shares held at 31 July 2012 was £Nil (2011: £29,106), and the market value was £Nil (2011: £977,977). The right to receive dividends on all shares has been waived.

24 Other reserves

	ESOP reserve[1] £'000	Treasury shares[2] £'000	Hedging reserve £'000	Total other reserves £'000
At 1 August 2010	(162)	(595)	(111)	(868)
Total comprehensive income for the year	–	–	213	213
Movement due to ESOP share option exercises	130	–	–	130
At 31 July 2011	(32)	(595)	102	(525)
Total comprehensive income for the year	–	–	(235)	(235)
Movement due to issue of Treasury shares	–	595	–	595
Movement due to ESOP share option exercises	32	–	–	32
At 31 July 2012	**–**	**–**	**(133)**	**(133)**

[1] The ESOP Trust's investment in the Group's shares is deducted from equity in the consolidated balance sheet as if they were treasury shares and presented in the ESOP reserve.

[2] When the Group re-acquires its own equity instruments, those instruments (treasury shares) are deducted from equity and presented in the treasury shares reserve. During the year, all shares held as Treasury shares were used to satisfy the LTIP share option award vesting in November 2011.

25 Commitments and contingent liabilities

Operating leases – Group as lessee

As at 31 July 2012, the Group's total future minimum lease rentals are as follows:

	2012 Land and buildings £'000	**2012 Other £'000**	2011 Land and buildings £'000	2011 Other £'000
In respect of operating leases which will expire:				
Within one year	**4,842**	**170**	4,968	107
In two to five years	**11,129**	**219**	11,496	136
After five years	**381**	**–**	966	1
	16,352	**389**	17,430	244

26 Acquisitions

During the year the following transactions took place:

1. *The acquisition of two German-based businesses previously trading under the Trademark brand name;*
2. *The acquisition of UK based business Paratus Communications Limited;*
3. *The acquisition of the remaining 20% non-controlling interest in CMG Worldwide Limited;*
4. *Part-settlement of the remaining M Booth and Blueshirt contingent consideration, full settlement for Glasshouse, ILS and One Xeno acquisitions of the prior year and small acquisition of trade and assets of Red Brick Media.*

More details on each transaction are provided below.

1. *Trademark Acquisition*

   On 4 October 2011, Bite Communications Group Limited ('Bite') acquired 80% of the issued share capital of two German-based businesses Trademark Public Relations GmbH and Trademark Consulting GmbH (referred to hereafter as 'Trademark businesses'). The acquisition was made with a view to strengthen Bite Group's reach across mainland Europe.

   The initial consideration paid in cash on completion was £1,199,000 (€1,378,000). A further payment of £126,000 (€150,000) was paid on 30 March 2012 based on the agreed working-capital position of the acquisition date balance sheet.

   Contingent consideration will be payable subject to the achievement of certain revenue and staff metric performance targets. The first payment is based on the 10 months of results from the date of acquisition through to the financial year end of 31 July 2012. Additional payments may become due in each of the 4 subsequent years up to 31 July 2016, dependent on the achievement of performance targets. A final payment may be payable based on the 2-month results to 31 September 2016.

   The contingent consideration that may be payable will be satisfied by 50% cash and 50% Next 15 shares. Management's best estimate of contingent consideration payable at the date of acquisition was £1,823,000 (€2,113,000) undiscounted and £1,231,000 (€1,427,000) discounted. At the balance sheet date, the present value of the obligation was £1,056,000.

   Acquisition costs of £105,000 were paid in relation to the purchase of the Trademark businesses, and recognised within the consolidated income statement in the period to 31 July 2012.

   Goodwill of £1,922,000 (€2,228,000) arises from anticipated profitability and future operating synergies from the combination.

26 Acquisitions (continued)

1. Trademark Acquisition (continued)

Intangible assets of £669,000 have been recognised in respect of customer relationships, which will be amortised over five years. An associated deferred tax liability of £235,000 has been capitalised and is included within the value of goodwill. The liability will be released over the same term as the amortisation. Management considered whether there was any value associated with the trade name of the business however, based on an understanding of the German market, competitors within the industry and consideration of any likely purchaser of the stand-alone trade name, it was concluded that there was no value in the stand-alone trade name. Value in the business is generated by the reputations of senior management and their ability to attract lucrative client contracts and maintain strong client relationships.

The remaining 20% interest in the business at acquisition has been recognised as the non-controlling interest's proportion of the fair value of net assets (£159,000).

In the post-acquisition period, the Trademark businesses contributed £1,676,000 to revenue and £121,000 to profit before tax.

The following table sets out the estimated book values of the identifiable assets acquired and their fair value to the Group.

	Book value at acquisition £'000	Fair value adjustments[1] £'000	Fair value to the Group £'000
Non-current assets			
Acquired intangible assets[1]	–	669	669
Property, plant and equipment	111	–	111
Current assets			
Cash and cash equivalents	487	–	487
Other current assets	1,076	–	1,076
Current liabilities	(1,315)	–	(1,315)
Deferred tax liability	–	(235)	(235)
Net assets acquired	**359**	**434**	**793**
Goodwill			1,922
			2,715
Consideration			
Cash consideration			1,199
Total contingent cash consideration			1,231
Excess working capital payment			126
			2,556
Fair value of non-controlling interest			159
			2,715

[1] The fair-value adjustment relating to intangible assets is due to the recognition of €775,000 (£669,000) in respect of customer relationships and which have been independently valued. The customer relationships will be amortised over five years.

26 Acquisitions (continued)

2. Paratus Acquisition

On 1 May 2012, The Lexis Agency Limited ('Lexis') acquired 71.8% of the issued share capital of UK-based Paratus Communications Limited ('Paratus'). The acquisition was made with a view to enhancing the existing consumer and corporate PR capabilities and to bring in a new digital and social-marketing division.

The initial consideration paid in cash on completion was £250,000. A top-up payment will be made based on a mix of revenue and profit margin targets for the 12 months from acquisition, subject to a cap of £150,000.

A further bonus payment of £1 will be made for every £1 by which profit is greater than £320k in the 12-month period, subject to a maximum of £30,000.

Lexis has entered into an option deed under which it has an obligation to acquire the remaining 28.2% Paratus shares over a five-year period, based on the profitability of the acquired business.

The consideration that may be payable will be satisfied by 75% cash and 25% in Next 15 shares. Management's best estimate of consideration payable to settle the share purchase obligation at the date of acquisition was £776,000 undiscounted and £516,000 discounted. At the balance sheet date, the present value of the obligation was £531,000.

Acquisition costs of £33,000 were paid in relation to the purchase of Paratus, and recognised within the consolidated income statement in the period to 31 July 2012.

Goodwill of £703,000 arises from anticipated profitability and future operating synergies from the combination.

Intangible assets of £441,000 have been recognised in respect of customer relationships, which will be amortised over five years. An associated deferred tax liability of £99,000 has been capitalised and is included within the value of goodwill. The liability will be released over the same term as the amortisation. Pre-acquisition, the Paratus business offered a low margin which did not indicate any value associated with the trade name. With additional consideration to the market conditions, management concluded that a third party would pay no consideration for the stand-alone trade name and so no value was associated with it.

The remaining 28.2% interest in the business at acquisition has been recognised as the non-controlling interest's proportion of the fair value of net assets (£94,000).

In the post-acquisition period, the Paratus business contributed £368,000 to revenue and £19,000 to profit before tax.

26 Acquisitions (continued)

The following table sets out the estimated book values of the identifiable assets acquired and their fair value to the Group.

	Book value at acquisition £'000	Fair value adjustments[1] £'000	Fair value to the Group £'000
Non-current assets			
Acquired intangible assets[1]	–	441	441
Property, plant and equipment	7	–	7
Current assets			
Cash and cash equivalents	(73)	–	(73)
Other current assets	547	–	547
Current liabilities	(485)	–	(485)
Deferred tax liability	–	(99)	(99)
Net assets acquired	**(4)**	**342**	**338**
Goodwill			703
			1,041
Consideration			
Cash consideration			250
Total contingent cash consideration			180
Total share purchase obligation			516
			946
Fair value of non-controlling interest			95
			1,041

[1] The fair value adjustment relating to intangible assets is due to the recognition of £441,000 in respect of customer relationships and which have been independently valued. The customer relationships will be amortised over five years.

26 Acquisitions (continued)

3. *Acquisition of 20% non-controlling interest in Bourne*

On 5 April 2012, Next 15 acquired the remaining 20% non-controlling interest in CMG Worldwide Limited (trading as 'Bourne') early under an addendum to the original share purchase agreement. Next 15 originally purchased 80% of the business on 12 May 2011 for which an earnout existed running to 31 July 2014. The 80% earnout was also accelerated as part of the deal. The amendments to the deal were considered beneficial by both parties resulting in reduced uncertainty over changes in consideration based on future performance for both, earlier cash and share settlement as a preference for the vendors and ownership of 100% of the future profits benefiting Next 15 going forward.

At the end of the prior year, the discounted fair value of contingent consideration for the initial 80% purchased was £1,719,000 (£1,836,000 at 4 April 2012) and the fair value of the share purchase obligation for the remaining 20% was £894,000 (£963,000 at 4 April 2012). This gave a total estimated liability of £2,800,000 for consideration of 100% of the business immediately prior to the addendum.

The fair value of settlement on 5 April 2012 as detailed in the addendum to the original agreement has been split between a consideration element and a remuneration element on the following basis:

- *Consideration* – £1,900,000 maximum undiscounted cash consideration which is deferred and paid in two tranches in January 2013 and October 2014 with a discounted value of £1,463,000;
- *Consideration* – 309,279 Next 15 shares at an issued share price of £0.97 and total value of £300,000; and
- *Consideration* – 726,598 Next 15 LTIP share options. Share options were valued using the Black-Scholes Model (Note 21) and have been assigned a fair value of £577,000 based on a valuation of £0.79 per share option.
- *Remuneration* - 613,402 options include continuous employment conditions over the 4-year vesting period and as such are considered under accounting rules to be remuneration rather than consideration with the fair value taken to the P&L and spread over the vesting period. These share options have a fair value of £487,000 (£430,000 based on Black-Scholes valuation of £0.79 and applying a leaver rate expectation).

As at the settlement date, the total amount deemed to be consideration is therefore £2,340,000 giving rise to a credit in the P&L for changes in estimate of consideration paid amounting to £460,000.

A further £430,000 is being treated as remuneration, given the continuous employment conditions attached to those share options. The options vest over four years with the performance period starting on 1 August 2012. As such, the income statement charge associated with those options is spread over that vesting period.

4. *Settlement of contingent consideration and Red Brick Media acquisition*

Payments in respect of contingent consideration totalled £4,563,000 during the year.

On 24 October 2011, the Group paid US$3,393,000 (£2,153,000) relating to year-two earnings-contingent consideration for the purchase of M Booth. US$2,545,000 (£1,615,000) was satisfied in cash and US$848,000 (£538,000) in shares (691,522 shares). M Booth is a wholly owned subsidiary acquired in August 2009.

On 24 November 2011, the Group paid US$4,388,000 (£2,784,000) relating to year-one earnings-contingent consideration for the purchase of Blueshirt. The entire payment was satisfied in cash.

During the period, subsidiaries of the Group settled obligations for Glasshouse, One Xeno and ILS contingent consideration totalling £209,000. Cash payments for contingent consideration totalled £164,000 and part of the Glasshouse contingent consideration was settled by issue of 57,731 Next 15 shares at a value of £45,000.

On 1 June 2012 £13,000 cash was paid for a small acquisition of trade and assets from Hong Kong-based Red Brick Media.

27 Subsidiaries

The Group's principal subsidiaries at 31 July 2012 are listed below:

Name	Country of incorporation	Directly owned by the Company	Percentage voting rights held by Group
August.One Communications International Limited	England	✓	100
Beijing Text 100 Consulting Services Limited	China		100
Bite Communications (Canada) Limited	Canada		100
Bite Communications Corporation	USA		100
Bite Communications Group Limited	England	✓	100
Bite Communications Limited	England		100
Bite Consulting GmbH	Germany		80
Bite Communications GmbH	Germany		80
The Lexis Agency Limited	England		100
M Booth & Associates, Inc.	USA		100
Next Fifteen Communications Corporation	USA	✓	100
Next Fifteen Communications Hong Kong Limited	Hong Kong	✓	100
The OutCast Agency	USA		100
Panther Communications Group Limited	England	✓	100
Paratus Communications Limited	England	✓	71.8
Redshift Research Limited	England	✓	100
Text 100 AB	Sweden		100
Text 100 BV	Netherlands		100
Text 100 Corporation	USA		100
Text 100 SARL	France		100
Text 100 GmbH	Germany	✓	100
Text 100 International Limited	England	✓	100
Text 100 Italy Srl	Italy		100
Text 100 Japan KK	Japan		100
Text 100 Limited	England		100
Text 100 Pte Limited	Singapore		100
Text 100 (Pty) Limited	South Africa		100
Text 100 Pty Limited	Australia		100
Text 100 SL	Spain		100
Text Hundred India Private Limited	India		100
Vox Public Relations India Private Limited	India		100
Soundbite Communications SARL	France		100
Bite Digital Communications Private Limited	India		85
Blueshirt Group LLC	USA		85
CMG Worldwide Limited	England	✓	100
Bourne Marketing Group Inc	USA		100
463 Communications, LLC	USA		76
Bite Asia Holdings Limited	England	✓	55
Bite Marketing Consulting Pte Limited	Singapore		55
Bite Communications Hong Kong Limited	Hong Kong		55
Bite Marketing Consulting Pty Limited	Australia		55
Upstream Asia (China) Consulting Limited	China		55
Beyond Corporation Limited	England	✓	51
Beyond International Corporation	USA		51

The above list does not include all the subsidiary companies of Next Fifteen Communications Group plc, as the Directors consider that to give full particulars of all Group undertakings would lead to a statement of excessive length.

27 Subsidiaries (continued)

The principal activity of the subsidiary undertakings is communications consultancy specialising predominantly in the technology sector, except for The Lexis Agency Limited, Paratus Communications Limited and M Booth & Associates, Inc., which work for clients predominantly in consumer sectors, Redshift Research Limited, which is a research company, Blueshirt Group LLC which is an investor and media relations agency, and Beyond Corporation Limited, Beyond International Corporation and CMG Worldwide Limited (Bourne) which are digital marketing consultancies.

All subsidiary undertakings operate in the country in which they have been incorporated.

All subsidiary undertakings listed are included in the consolidated results.

28 Related-party transactions

The ultimate controlling party of the Group is Next Fifteen Communications Group plc (incorporated in England and Wales). The Company has a related-party relationship with its subsidiaries (note 27) and with its Directors.

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

During the year to 31 July 2012 there were the following related-party transactions:

Bourne subleased property to another undertaking (Cargo Ecommerce Solutions Ltd) in which one of the Directors of Bourne has an interest, total rental income was £8,250 (2011: £2,000). Bourne also provided creative services for which they recognised income of £51,750 (2011: £nil).

Bite US provided PR, marketing and consulting services and sublease office space to Series C LLP. Next 15 have a 20% interest in the company for which they paid $333,000 (£212,000) and for whom the President of Bite US has a controlling interest. During the year £53,000 was recognised as an expense in respect of marketing and consulting services provided by Series C and £21,000 as income in respect of rental and service charge. At the year end, Bite recognise a receivable of £21,000 and payable of £15,000.

Text 100 received services from Du Crew Pty Ltd during the year for graphic design and branding. The husband of a director at Text 100 is a director of Du Crew Pty Ltd. An expense of £26,000 was recognised in the year and £Nil is outstanding at the year end.

Blueshirt received website design services from Danne Design Corp for website design. One director has an interest in this company through their spouse. The cost of services provided was £5,000 and the balance remains outstanding at the year end.

Bite Hong Kong acted as an agent for Asset Pioneer, an entity in which one of the Bite directors has an interest. No income was recognised in the year, given that the agent principle has been applied. £2,482 remained outstanding from the company at the year end.

Dividends were paid to Directors of the Company during the year in proportion to their shareholdings in the Company. Tim Dyson, David Dewhurst and Richard Eyre received dividends of £121,401, £6,720 and £620 respectively.

29 Operating lease rental receivables

As at 31 July, the Group's total future minimum lease payments receivable under non-cancellable leases are as follows:

	2012 £'000	2011 £'000
In respect of operating leases which will expire:		
Within one year	**100**	141
In two to five years	**108**	106
	208	247

30 Events after the balance sheet date

After the year end two transactions were entered into. Due to the immaterial nature of these deals, full post balance sheet event disclosure is not required, however an outline of the transaction is provided below.

Outcast

On 1 August 2012, Next 15 established a long-term equity-based incentive scheme for the senior management team at the OutCast Agency to help drive a commercial change in behaviour to focus attention on improving the gross margin of the business, ultimately improving the overall profit margin of the business.

At the year end Next 15 owned 100% of the equity in OutCast LLC. On 1 August 2012, 15% of that equity was allotted to certain members of the Outcast senior management team for £Nil consideration. The 15% interest has defined terms around which it accrues value.

The holders of the 15% non-controlling interest have the option of selling 50% of their interest back to Next 15 commencing at the end of fiscal year 2015 or year 3 and the remaining 50% interest can be sold by the participant at the end of fiscal year 2016 or year 4 or any subsequent fiscal year or held indefinitely.

Content and Motion

On 7 August 2012, Beyond Corporation Limited ('Beyond') acquired 100% of the issued share capital of Content and Motion Limited ('C&M'), a small social marketing agency based in the UK.

The initial consideration consisted of 6.5% of the issued share capital in Beyond and its US sister company Beyond International Corporation and cash on completion of £420,000. Next 15 have a share purchase obligation for the 6.5% holding. A top-up payment will be made based on a mix of revenue and profit margin targets for the 12 months from acquisition, subject to a cap of £100,000. Acquisition costs of £38,000 were paid in relation to the purchase of C&M, and recognised within the consolidated income statement in the period to 31 July 2012.

Post acquisition, on 1 September 2012, the entire trade and assets of C&M were transferred to Beyond, becoming part of the Pure Digital marketing agency.

COMPANY BALANCE SHEET

as at 31 July 2012

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Fixed assets					
Tangible assets	3		**287**		512
Investments	4		**66,990**		61,547
			67,277		62,059
Current assets					
Debtors: amounts falling due within 1 year	5	**5,633**		7,570	
Cash at bank and in hand		**–**		259	
		5,633		7,829	
Current liabilities					
Creditors: amounts falling due within 1 year	6	**(6,741)**		(4,198)	
Net current assets			**(1,108)**		3,631
Total assets less current liabilities			**66,169**		65,690
Creditors: amounts falling due after more than 1 year	7		**(11,979)**		(12,845)
Net assets			**54,190**		52,845
Capital and reserves					
Called up share capital	9	**1,454**		1,416	
Share premium account	9	**6,935**		5,996	
Merger reserve	9	**3,075**		3,075	
Share-based payment reserve	9	**2,615**		1,726	
ESOP reserve	9	**–**		(32)	
Treasury shares	9	**–**		(595)	
Other reserve	9	**28,566**		28,566	
Profit and loss account	9	**11,545**		12,693	
Equity shareholders' funds			**54,190**		52,845

These financial statements were approved and authorised for issue by the Board on 26 November 2012.

R Eyre
Chairman

D Dewhurst
Finance Director

Company number 01579589

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 July 2012

	Company 2012 £'000	Company 2011 £'000
Profit attributable to shareholders	**685**	5,954
Dividends	**(1,208)**	(1,045)
	(523)	4,909
Issue of shares	**977**	436
Issue of performance shares on acquisition	**577**	–
Movement on share-based payment reserve	**312**	449
Disposal of own equity shares held in ESOP	**2**	119
Net addition to shareholders' funds	**1,345**	5,913
Opening shareholders' funds	**52,845**	46,932
Closing shareholders' funds	**54,190**	52,845

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards in the United Kingdom. As permitted by section 408 of the Companies Act 2006 the Company has not presented its own profit and loss account.

Merger reserve

Where the conditions set out in section 612 of the Companies Act 2006 are met, shares issued as part of an acquisition the Company records the cost of the investment at the nominal value of the shares issued and records the excess of fair value over nominal value as a merger reserve. This is applicable where equity interest is greater than 90%.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation. Depreciation is provided on all tangible fixed assets at annual rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Office equipment	20% – 50% per annum straight-line.
Computer software	20% per annum straight-line.

The carrying values of tangible fixed assets are reviewed for impairment periodically if events or changes in circumstances indicate the carrying value may not be recoverable.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are expressed in sterling at the rate of exchange ruling at the balance sheet date. Foreign currency transactions are expressed in sterling at the rates of exchange ruling at the dates of the transactions. Exchange gains and losses and translation differences are taken directly to the profit and loss account.

Financial instruments

Derivative financial instruments utilised by the Company are interest rate cap-and-collar contracts and forward foreign exchange contracts. The Company does not enter into speculative derivative contracts. All such instruments are used to alter the risk profile of an underlying exposure of the Company in line with the Group's risk management policies. Premiums payable under foreign exchange contracts are expensed over the life of the contract and any gains and losses arising on these contracts are deferred and are recognised in the profit and loss account only when the protected transaction has itself been reflected in the Company's financial statements.

Leasing transactions

Assets held under finance leases are included in the balance sheet. The amount capitalised is the present value of the minimum lease payments. Depreciation on the relevant assets is charged to the profit and loss account over the shorter of the estimated useful economic life and the period of the lease. The interest element on these obligations is charged to the profit and loss account so as to approximate a constant interest rate over the life of each agreement. Operating lease rentals are charged to the profit and loss account in equal amounts over the lease term.

Pension costs

Pension costs, which relate to payments made by the Company to employees' own defined contribution pension plans, are charged to the profit and loss account as incurred.

Investments

Fixed asset investments are stated at cost less provisions for impairment.

1 Accounting policies (continued)

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Share-based employee remuneration

There are share options granted prior to 7 November 2002 which remain outstanding at 31 July 2012. Details of all grants are disclosed in note 22 of the consolidated financial statements.

Fair value is measured by use of a Black-Scholes model on the grounds that there are no market-related vesting conditions. The expected life used in the model has been adjusted, based on the Board's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Details of the risk-free rate and dividend yield used to underpin these assumptions are included in note 21 of the consolidated financial statements. The market price on the grant date is obtained from external publicly available sources.

Employee share ownership plan

The cost of the Company's shares held by the ESOP is deducted from shareholders' funds in the Consolidated and Company balance sheet. Any gain or loss made by the ESOP on disposal of the shares it holds is also recognised directly in shareholders' funds. Other assets and liabilities of the ESOP (including borrowings) are recognised as assets and liabilities of the Company.

Finance costs

Finance costs are charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs which are initially recognised as a reduction in the proceeds of the associated capital instrument.

Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Dividends receivable from investments are recognised in the profit and loss account in the period in which they are paid.

Treasury shares

When the Company re-acquires its own equity instruments, those instruments (treasury shares) are deducted from equity. No gain or loss is recognised in the profit and loss account on the purchase, sale, issue or cancellation of the Company's treasury shares. Such treasury shares may be acquired and held by other members of the Group. Consideration paid or received is recognised directly in equity.

Cash flow statement

The Company has applied the exemption allowed under FRS 1 and has not presented a cash flow statement. The cash flow statement has been presented in the Group financial statements.

2 Profit and loss account of the Parent Company

The Parent Company's profit after tax for the financial year was £685,000 (2011: £5,954,000).

3 Tangible assets

	Office equipment £'000	Computer software £'000	Total £'000
Cost			
At 1 August 2011	583	1,507	2,090
Additions	53	–	53
At 31 July 2012	**636**	**1,507**	**2,143**
Accumulated depreciation			
At 1 August 2011	531	1,047	1,578
Charge for the year	48	230	278
At 31 July 2012	**579**	**1,277**	**1,856**
Net book value			
At 31 July 2012	**57**	**230**	**287**
At 31 July 2011	52	460	512

4 Investments

	Company equity interest in subsidiaries £'000
Cost	
At 1 August 2011	61,547
Additional acquired equity stake in subsidiary undertakings[1]	877
Additional investment in 100% owned subsidiary[2]	4,940
Change in estimate for contingent consideration[1]	(374)
At 31 July 2012	**66,990**

[1] In the prior year on 12 May 2011, the Company acquired 80% of the Ordinary Share Capital of CMG Worldwide Limited (trading as 'Bourne'), a digital agency with offices in the UK and US. Initial cash consideration was £1,950,000 with a further £1,633,000 payable in contingent consideration. On 5 April 2012, an addendum to the SPA was agreed under which Next 15 purchased the remaining 20% minority interest and amended the terms of the original earnout agreement for the contingent consideration. Consideration for the 20% minority interest was made up of £300,000 shares in Next 15 and performance share options with fair value of £577,000 as determined under the Black-scholes model recognised within the Share-based payment reserve. Contingent consideration for the original 80% was capped at £1,900,000 with 100% payable in cash. After the effects of discounting, this has given rise to a £374,000 decrease in the estimated settlement liability.

[2] The additional investment in a subsidiary follows the issue of additional shares by the Company's 100% subsidiary, August.One International Limited. The additional shares were acquired at a premium in order to fund the settlement of a deferred consideration payment of £2,785,000 to M Booth & Associates, Inc. and an acquisition payment of £2,155,000 for Blueshirt Group LLC.

The Directors consider the value of investments in subsidiary undertakings to be not less than that stated in the balance sheet of the Company.

The Group's principal subsidiaries are listed in note 27 of the consolidated financial statements.

5 Debtors

	Company 2012 £'000	Company 2011 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**4,237**	6,680
Other debtors	**79**	36
Prepayments and accrued income	**1,105**	704
Deferred tax asset	**111**	55
Corporation tax	**53**	–
Other taxation	**48**	95
Total debtors	**5,633**	7,570

6 Creditors: amounts falling due within one year

	Company 2012 £'000	Company 2011 £'000
Overdraft	**1,536**	1,630
Obligations under finance leases	**–**	20
Trade creditors	**188**	105
Amounts owed to subsidiary undertakings	**4,450**	1,761
Corporation tax	**–**	5
Other taxation and social security	**38**	30
Other creditors	**7**	38
Accruals and deferred income	**522**	609
	6,741	4,198

7 Creditors: amounts falling due after more than one year

	Company 2012 £'000	Company 2011 £'000
Bank loan[1]	**10,442**	9,212
Contingent consideration	**1,537**	1,719
Amounts owed to subsidiary undertakings	**–**	1,914
	11,979	12,845

[1] The 2012 Company figure of £10,442,000 is in relation to a £16,000,000 revolving-loan facility at an interest rate of 2.25% above LIBOR.

The bank loans are valued at the net proceeds drawn down at the exchange rates ruling at the time they are drawn. The foreign currency element of the loans is revalued at the prevailing rate at 31 July 2012.

8 Related-party transactions

During the period the Company received/(paid) the following amounts in respect of Head Office costs and intercompany interest from/to subsidiary undertakings which are not wholly owned:

	Recharges		Intercompany Interest	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
CMG Worldwide Limited ('Bourne')	**30**	14	**2**	1
Beyond Corporation Limited	**24**	4	**(1)**	5
Beyond International Corporation	**25**	34	**–**	–

At the 31 July the Company had the following intercompany amounts receivable from/(payable to) the subsidiaries above:

	2012 £'000	2011 £'000
CMG Worldwide Limited ('Bourne')	**27**	14
Beyond Corporation Limited	**(66)**	23
Beyond International Corporation	**15**	2

9 Reserves

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Share-based payment reserve £'000	ESOP reserve £'000	Treasury shares £'000	Other reserve £'000	Profit and loss account £'000	Total £'000
At 1 August 2010	1,401	5,575	3,075	1,277	(162)	(595)	28,566	7,795	46,932
Profit attributable to shareholders	–	–	–	–	–	–	–	5,954	5,954
Dividends	–	–	–	–	–	–	–	(1,045)	(1,045)
Shares issued on acquisitions	15	421	–	–	–	–	–	–	436
Movement in relation to share-based payments	–	–	–	449	–	–	–	–	449
Movement due to ESOP share option exercises	–	–	–	–	130	–	–	(11)	119
At 31 July 2011	1,416	5,996	3,075	1,726	(32)	(595)	28,566	12,693	52,845
Profit attributable to shareholders	–	–	–	–	–	–	–	685	685
Dividends	–	–	–	–	–	–	–	(1,208)	(1,208)
Shares issued in satisfaction of vested share options and performance shares	11	82	–	–	–	595	–	(595)	93
Shares and performance shares issued on acquisitions	27	857	–	577	–	–	–	–	1,461
Movement in relation to share-based payments	–	–	–	312	–	–	–	–	312
Movement due to ESOP share option exercises	–	–	–	–	32	–	–	(30)	2
At 31 July 2012	**1,454**	**6,935**	**3,075**	**2,615**	**–**	**–**	**28,566**	**11,545**	**54,190**

FIVE-YEAR FINANCIAL INFORMATION

for the year ended 31 July 2012 (unaudited)

	2012 IFRS £'000	2011 IFRS £'000	2010 IFRS £'000	2009 IFRS £'000	2008 IFRS £'000
Profit and loss					
Billings	**108,453**	105,163	91,175	77,287	73,916
Revenue	**91,583**	86,035	72,328	65,394	63,107
Staff costs	**62,767**	59,699	49,757	43,792	42,455
Operating profit	**6,638**	8,017	6,508	3,850	6,117
Net finance (expense)	**(693)**	(490)	(1,204)	(692)	(718)
Profit before income tax	**5,959**	7,527	5,304	3,158	5,516
Income tax (expense)	**(1,652)**	(2,260)	(1,591)	(884)	(1,655)
Profit for the year	**4,307**	5,267	3,713	2,274	3,861
Non-controlling interests	**(401)**	(270)	(38)	(342)	(198)
Profit attributable to owners of the parent	**3,906**	4,997	3,675	1,932	3,663
Balance sheet					
Non-current assets	**48,227**	44,336	31,919	22,618	20,206
Net current assets	**9,107**	8,674	4,222	7,603	5,303
Non-current liabilities	**(20,106)**	(20,677)	(8,562)	(5,319)	(5,871)
Total equity attributable to owners of the parent	**35,109**	29,040	26,629	24,147	19,392
Non-controlling interests	**2,119**	3,293	950	755	246
Total equity	**37,228**	32,333	27,579	24,902	19,638
Cash flow					
Profit for the year	**4,307**	5,267	3,713	2,274	3,861
Non-cash adjustments and working capital movements	**5,745**	6,173	2,859	3,987	5,738
Net cash generated from operations	**10,052**	11,440	6,572	6,261	9,599
Income tax paid	**(2,520)**	(2,618)	(1,465)	(1,476)	(1,090)
Net cash from operating activities	**7,532**	8,822	5,107	4,785	8,509
Acquisition of subsidiaries net of cash acquired	**(5,664)**	(6,304)	(2,875)	(4,448)	(829)
Acquisition of property, plant and equipment	**(835)**	(1,920)	(1,178)	(415)	(1,591)
Net cash outflow from investing activities	**(6,570)**	(8,074)	(4,918)	(4,709)	(2,808)
Net cash movement in bank borrowings	**983**	1,993	2,559	(1,462)	(337)
Dividends paid to owners of the parent	**(1,208)**	(1,045)	(932)	(900)	(807)
Net cash inflow/(outflow) from financing activities	**(1,010)**	410	(65)	(3,330)	(2,215)
Increase/decrease in cash for the year	**(48)**	1,158	(129)	(3,254)	3,486
Dividend per share (p)	**2.30**	2.05	1.85	1.70	1.70
Basic earnings per share (p)	**6.85**	9.10	6.75	3.67	7.08
Diluted earnings per share (p)	**6.04**	7.82	6.02	3.66	6.99

FIVE-YEAR FINANCIAL INFORMATION CONTINUED

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Key performance indicator and other non-statutory measures					
Staff costs as a % of revenue	**68.5**	69.4	68.8	67.0	67.3
Adjusted EBITDA[1]	**11,227**	10,712	8,446	5,531	8,139
Adjusted profit before income tax[2]	**9,589**	8,397	6,612	5,249	6,582
Adjusted earnings per share (p)[3]	**11.42**	10.17	8.45	6.48	8.62
Diluted adjusted earnings per share (p)[3]	**10.07**	8.74	7.53	6.46	8.51
Net (debt)/cash[4]	**(2,604)**	(1,571)	(871)	1,785	3,410

[1] Operating profit before depreciation, amortisation and the impact of fraudulent activity.

[2] See note 5 of the financial statements.

[3] See note 10 of the financial statements.

[4] Net debt excludes contingent consideration and share purchase obligations. See note 19 of the financial statements.

FINANCIAL CALENDAR AND CONTACTS

Final dividend

Ex-dividend date	9 January 2013
Record date	11 January 2013
Annual General Meeting	29 January 2013
Payment of 2012 final dividend	8 February 2013

Interim dividend

Interim results announcement	23 April 2013
Ex-dividend date	1 May 2013
Record date	3 May 2013
Payment of 2013 interim dividend	31 May 2013

Preliminary results

Full-year results announcement	November 2013

Advisers

Nominated Adviser and Brokers	Auditors	Solicitors	Bankers	Registrars
Canaccord Genuity Ltd 88 Wood Street London EC2V 7QR	BDO LLP 55 Baker Street London W1U 7EU	Salans LLP Millennium Bridge House 2 Lambeth Hill London EC4V 4AJ	Barclays Bank plc Floor 28 1 Churchill Place London E14 5HP	Capita Registrars Northern House 34 Beckenham Road Beckenham Kent BR3 4TU

Investor relations contacts

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Registrars
Shareholders can check their details and transaction histories via the Registrars' website at www.capitaregistrars.com. If you have a query about your shareholding, please contact the Registrars using the contact information below. The Registrars should be informed of any changes in your personal details.

Capita Registrars
The Registry, 34 Beckenham Road, Beckenham Kent BR3 4TU

Telephone from the UK: 0871 664 0391
Calls cost 10p per minute plus network extras. Lines are open Monday to Friday (8.30 a.m. – 5.30 p.m.)
Telephone from overseas: +44 (0)20 8639 3367
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