



Continuing our digital progress

NEXT 15

Next Fifteen Communications Group plc
Annual Report 2013

INTRODUCTION

Using your smartphone, scan this code to access our online Review of 2013.

Or visit: <http://www.ar13.next15.com>



THIS YEAR WE HAVE CREATED AN ONLINE REVIEW OF 2013 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 ONLINE REVIEW ALSO EXAMINES HOW OUR BUSINESS IS EVOLVING, FROM BEING LARGELY CENTRED ON PRESS RELATIONS TO ONE THAT IS DRIVING ONLINE INFLUENCE.

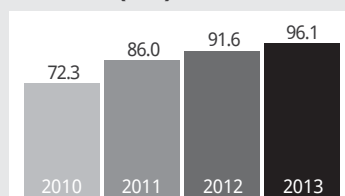
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HIGHLIGHTS

Financial highlights

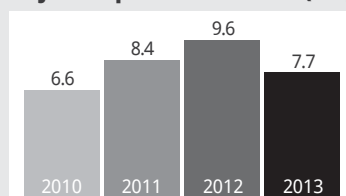
Revenue (£m)



£96.1m

(2012: £91.6m)

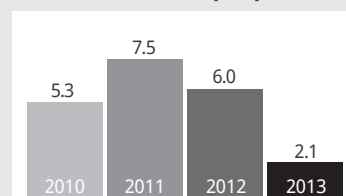
Adjusted profit before tax (£m)¹



£7.7m

(2012: £9.6m)

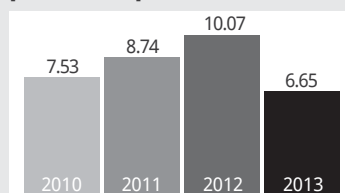
Profit before tax (£m)



£2.1m

(2012: £6.0m)

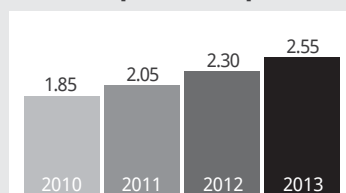
Diluted adjusted earnings per share (pence)²



6.65p

(2012: 10.07p)

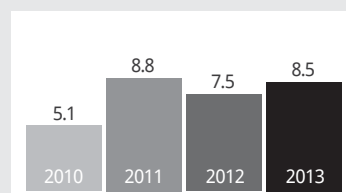
Dividend per share (pence)



2.55p

(2012: 2.30p)

Net cash from operating activities (£m)



£8.5m

(2012: £7.5m)

¹ See note 5 to the financial statements.

² See note 10 to the financial statements.

OPERATIONAL HIGHLIGHTS

Revenues increased by 5% to £96.1m from £91.6m last year

Acquired an 80% shareholding in Connections Media, a US-based digital public affairs agency

Net debt³ decreased by £0.8m year on year to £1.8m, despite spending of £3.0m on acquisition-related payments

Acquisition of Content and 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

Launch of Agent3, a new agency that sells technology platforms and data-based marketing services

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



“WHILE THIS HAS BEEN A TOUGH YEAR, IT REMAINS A YEAR OF PROGRESS IN MANY WAYS. RECORD REVENUES AND THE STEADY TRANSITION OF THE BUSINESS WILL UNDERPIN THE FUTURE GROWTH OF THE COMPANY.”

The headline financial results for 2013 mask two very different outcomes for the brands in the Next 15 Group.

On the one hand, Text 100, OutCast, M Booth and The Blueshirt Group each achieved their highest ever revenues, driving record revenues of £96.1m for the Group as a whole. The US businesses in total delivered 10% organic growth, providing reassurance around the fundamental business model and strategic direction of the Group in its primary market by scale.

On the other hand, the Bite Group, in isolation, has had a difficult year compounded by accounting issues in two of its twelve offices.

In summary, the Group has reported:

- Revenue up 5% to £96.1m from £91.6m last year.
- Adjusted profits before tax of £7.7m compared with £9.6m last year.
- Reported profit before tax of £2.1m compared with £6.0m last year.
- Diluted adjusted earnings per share of 6.65p compared with 10.07p last year.
- Net cash generated from operating activities up 13% to £8.5m from £7.5m last year.
- Net debt¹ down 31% to £1.8m despite making £3.0m of acquisition-related payments.

Revenue grew by 5% across the Group to £96.1m compared with £91.6m last time. The Group saw an improvement in organic growth from 1% at the interim stage to 2% for the full year, following gains made in H2, led by our North American businesses. During the second half of the year the US grew at an impressive 17% on an organic basis and now accounts for

55% of Group revenues. Using the new divisional splits introduced at the interim stage, Integrated Agencies (84% of Group revenues) grew by a total of 3% and Specialist Agencies grew by 15%. For the full year, the UK saw its revenues decline by 3% primarily due to net client losses at the end of the prior year, EMEA remained flat and APAC declined by 2% given local currency movements. At the same time, the US grew revenues by 11%.

The Board of Directors is satisfied that the adverse impact on this year's earnings has resulted from issues that have been identified and are being managed. The agency portfolio is strong and our strategy is delivering organic growth, particularly in our largest market. Accordingly, the Board is recommending a final dividend of 1.925p per share, which increases the dividend for the year by 11% to 2.55p (2012: 2.30p).

The marketing sector is being radically changed by the way people discover, consume and distribute content. Thanks to the social and increasingly

¹ Net debt excludes contingent consideration and share purchase obligations. See note 19 to the financial statements.

mobile web, consumers share their experiences of products and services in real time, in ways that greatly influence buying behaviour. Marketing can no longer be a brand's clothing; it must be its skin. Advancing into today's new marketing techniques is a natural step for this Group as it entails the joining of conversations and engaging people in fascinating content, skills which are an extension of Next 15's PR heritage.

Next 15 is now essentially helping clients to become publishers and broadcasters, like Virgin whose new site, virgin.com, was designed and built by Beyond. A sophisticated content engine underpins this new site, creating reasons for Virgin customers to return with greater frequency and hold conversations with others while they are visiting. Symptomatic of the Group's digital transition, Beyond's work included sophisticated analytics that enable the content on the site to adapt to people's interests.

The re-engineering of the Next 15 Group for this new marketing context started several years ago and excellent progress has been made. Assignments for major brands such as American Express, Virgin, IBM, Cisco, Google and Facebook are no longer simple media relations work. In some cases, this has enabled the Group to expand its relationship with key clients (Google and American Express). In all cases, sophisticated social and digital programs tie into the media relations content generated by these businesses. In 2013, I am pleased to report, Next 15 has made real strides towards becoming an integrated social and digital communications group.

The Group has had to deal with growing pains as it makes this transition. Adjustments identified at the year end within Bite Germany and Bite UK reduced profits by £1.6m,

impacting both the Group's adjusted profit and profit before tax. Further to this, impairment of the £2.0m goodwill associated with Bite Germany creates an overall reduction on profit before tax of £3.6m. More information on the source of these charges is included within the Financial Review.

The resulting charges have had a significant impact on the Group's overall profitability this year. Importantly though, they are one-off issues that can be contained and resolved, not evidence of a flawed business model. Management has moved quickly to adapt and the business should emerge stronger as a result.

Following David Dewhurst's agreement to step down, the Board has embarked on a search for a replacement. Alicja Lesniak is leading the search. In the meantime Peter Harris, who has extensive media industry experience with Communis, Centaur, the Engine Group, 19 and Capital Radio, has been appointed as Interim Chief Financial Officer. A key aspect of the Finance Director's responsibilities will be to further develop the finance and accounting infrastructure within the brands, and reporting lines to Group, such that there is full financial transparency but without impeding the entrepreneurial nature of the brands. This will build on the actions already taken in response to the fraud discovered in 2012, which included the appointment of our Head of Internal Audit, recruitment of lead internal auditors in the US and UK, an overhaul of treasury controls and the roll out of a two- to three-year cyclical review plan.

Looking ahead, the Group has a sound balance sheet with low net debt¹ at £1.8m, giving it the opportunity to add further agencies, such as Connections Media which

became part of Next 15 six months ago, adding depth to the portfolio of client services. This Washington DC-based digital agency provides specialist digital services in the public affairs arena, a reflection that every area of marketing is being reinvented in the digital revolution.

The Group is also keen to continue to participate in the creation and development of new businesses. In the last year it invested in the start-up of Agent 3, a digital marketing agency founded by three employees. The agency sells technology platforms and data-based marketing services that help companies connect their CRM systems to their marketing activities. This type of organic investment is an important part of the long-term growth of the Group. Overall, during the year, the Group has invested an additional £1m in its digital transition, in line with guidance given at the interims.

While this has been a tough year, it remains a year of progress in many ways. Record revenues and the steady transition of the business will underpin the future growth of the company. Indeed, the Group has made a good start to the current financial year and has already added work from clients such as Sainsbury's and HBO.

On behalf of the Board, I would like to thank our staff in 11 agencies and 18 countries for their hard work, creativity and ingenuity this year.



Richard Eyre
Chairman

6 December 2013

¹ Net debt excludes contingent consideration and share purchase obligations. See note 19 to the financial statements.

BUSINESS REVIEW

MBA students around the world review case study after case study, where the critical question is the identification of the business a company is really in. In other words, the way management thinks about its business determines the opportunities and challenges it will face and how it will tackle them.

At Next 15 we are in the influence business, not the PR business. We create ways for businesses to influence their target audiences. This is important. If you are a PR agency you see every problem or opportunity as a PR challenge. This means you automatically generate solutions that use PR-driven techniques. In today's social and mobile world, PR is just one of the ways to influence people's behaviour. Increasingly, clients need an integrated set of services that will shift opinion, perception and ultimately, behaviour.

I am pleased to say that our agencies have all made this mental leap and are charging ahead. The management teams no longer describe the client brief in PR terms. Instead they talk about the client's commercial challenges and how to engage the right people in the right conversations. In some cases this means creating content and content channels that go direct to the consumer, in others it means working with third-party influencers such as social media commentators, media and analysts. However, this rethink of the business model comes with some interesting new challenges. Our clients are, understandably, at different stages of understanding and comfort with these new approaches, but there is a powerful solution to this: data. When customers see evidence of the impact our programs can have, they are willing to engage. It's for this reason that I'm pushing our businesses to invest in the development of products and services that deliver actionable insights to customers. With evidence comes action.

In the last year you may have heard a lot about 'big data' and how businesses are trying to take advantage of all the information they now have on customers' behaviour and within their own operations. This is at the heart of the challenge for us. We need people that live and breathe big data and ways of making big data a marketing advantage for our customers. Richard mentioned our work with Virgin but we have also used data to drive programs for Cisco, American Express, Facebook and Coca-Cola. The era of evidence-based marketing is firmly upon us¹. And the fruits of work in this space are what is behind the growth we are seeing in North America and in other parts of our business. It is why businesses such as Text 100, M Booth, Blueshirt, Beyond and Outcast all had record sales.

Turning now to the challenges of the last year, which can be simply described. We have made mistakes in executing the transition from a simple PR group to a more broadly-based communications group. In some places, we have appointed highly-qualified people who have not worked out; in some cases people have been in too much of a hurry to transform the business, in other cases not fast enough. In other areas, we have failed to ensure that our processes keep pace with the business. Thankfully, these problems have been clearly identified and are ones that can be fixed. I am confident that, by this time next year, we will have moved beyond these challenges and will have delivered yet another year of revenue growth.

Number of clients

1,067

(2012: 1,077)

Offices worldwide

53

(2012: 53)

Average number of staff

1,146

(2012: 1,088)

¹ As we notified in the half-yearly report we amended the segmental reporting structure. Where necessary we refer to individual businesses and geographies, rather than reportable segments, to give greater clarity over the performance of the Group.

“AT NEXT 15 WE ARE IN THE INFLUENCE BUSINESS, NOT THE PR BUSINESS. WE CREATE WAYS FOR BUSINESSES TO INFLUENCE THEIR TARGET AUDIENCES.”



We have seen solid growth in a number of businesses. We know what it takes to achieve it – we need to stay true to simple principles. We need to focus and we need to learn from our mistakes. We cannot be drawn into work outside our core competences and we must only work for customers who will truly benefit from the services we offer. We must steadfastly refuse opportunities for short-term revenue that take us nowhere; instead, investing our resources and talent in those that move us and the client forward. We must also correct the processes that let us down this

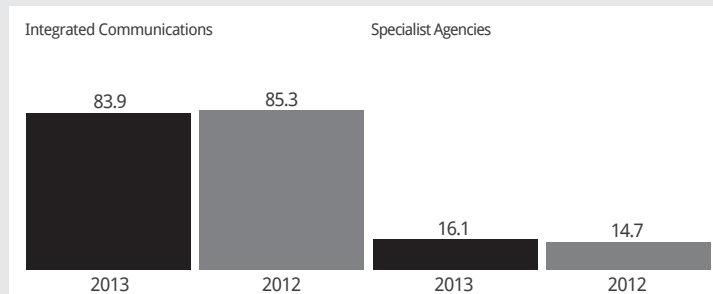
year by learning from the mistakes we made and executing smart changes.

The changing marketing context creates a massive opportunity to grow this business. If we try and do everything we will fail. If we do a few things REALLY well, my report next year will be very easy to write.

Tim Dyson
Chief Executive Officer

6 December 2013

Revenue by segment (%) of total



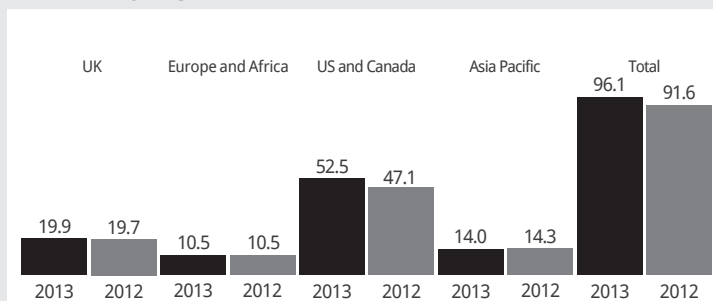
FINANCIAL REVIEW

OVERVIEW

The year to 31 July 2013 was a year of growth but also of challenges. We delivered record revenues thanks to excellent performances by some of the Group's businesses but we also delivered a disappointing Group profit due in large part to issues in one of our eleven agencies. We enjoyed some strong performances within our portfolio of businesses in the United States and this was helped by a second half recovery in the relative strength of the dollar against sterling. The only disappointment in the US came in our Bite business, where a number of client losses and changes in the leadership team contributed to an unsatisfactory financial performance. Outside of the US, resolution of financial issues within Bite Germany and Bite UK generated year end adjustments resulting in £1.6m being taken to the Income Statement as an expense in addition to a £2.0m write off of Bite Germany goodwill. Further details are included later in this review. Elsewhere, Lexis in the UK suffered from the loss of a large client at the beginning of the year, and Beyond, our digital agency, won some great client projects but experienced some margin erosion as it scaled up to deliver them.

The strength of the Group is demonstrated by the fact that it now has a balanced portfolio of businesses which allows set-backs in some businesses to be largely compensated by strong performances elsewhere. In terms of the numbers, revenue grew by 5% to £96.1m (2012: £91.6m) but when adjusted for acquisitions and currency movements, underlying organic growth was 2%. There are a number of accounting adjustments mainly 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. Adjusted profit before tax decreased to £7.7m (2012: £9.6m) (see note 5), and the diluted adjusted EPS fell to 6.65p (2012: 10.07p) (see note 10). The adjusted Group EBITDA was £8.6m (2012: £11.2m) (see note 5) and it generated £8.5m of cash from operating activities (after tax) (2012: £7.5m). Despite £3.0m expended on acquisition-related payments the Group net debt position improved to £1.8m compared to £2.6m in 2012¹. This level of debt represents gearing of under 5% and leaves the Group with a strong base from which to deliver future growth.

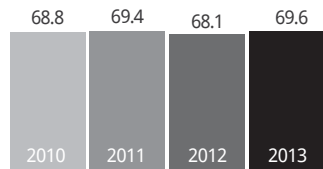
Revenue by region (£m)



¹ See net funds analysis in the capital risk management section of note 19 of the financial statements.

Key performance indicators

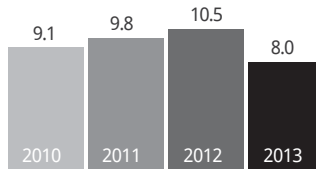
Adjusted staff costs to revenue (%)¹



69.6%

(2012: 68.1%)

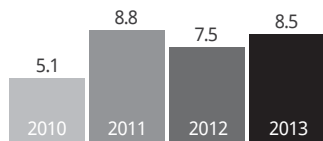
Adjusted profit before income tax margin (%)



8.0%

(2012: 10.5%)

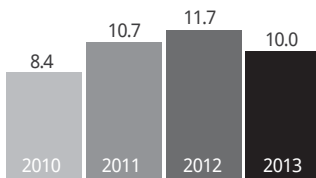
Net cash from operating activities (£m)



£8.5m

(2012: £7.5m)

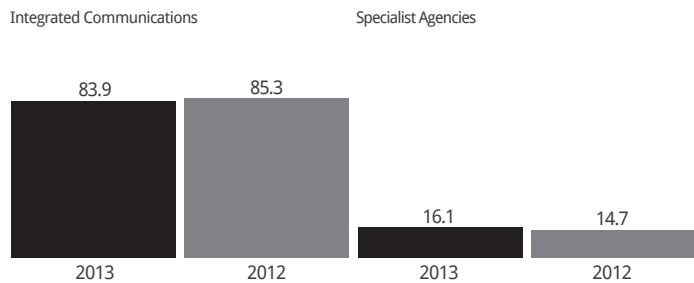
Adjusted earnings before interest, tax, depreciation and amortisation (£m)²



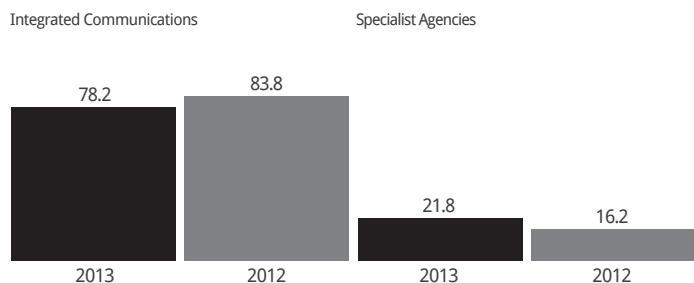
£10.0m

(2012: £11.7m)

Revenue by segment (%) of total



Adjusted operating profit by segment (%)³



¹ Staff costs are adjusted to exclude reorganisation costs and charges associated with equity transactions accounted for as share-based payments (note 5).

² See note 5 to the financial statements

³ As a % of total adjusted operating profit excluding head office costs, impairment and the impact of the prior year's fraudulent activity.

FINANCIAL REVIEW CONTINUED

BITE EMEA

Bite Germany has presented a challenge for the Group since the acquisition in October 2011. A significant amount of senior resource has been invested in resolving issues but progress had been hampered by cultural differences with the management of that business and staff turnover in key financial positions. In 2013, the decision was taken to remove the three managing directors but as they were also minority shareholders it was not until August 2013 that the last of them exited and real progress could be made. Following internal investigation of balances, a £1.1m expense related to provisions, write offs and recognition of liabilities has been identified, much of which is historic. With the old management out and a firm financial base established, Bite EMEA management have a solid plan in place to rebuild that business and expand within the German market. Uncertainty does however exist over the business's future and the Board recognise that the goodwill associated with the original business acquired is now impaired. As a result, a charge of £1.95m has been recognised as a write off of all of the goodwill related to Bite Germany.

Bite UK also recognised some significant year end adjustments totalling £0.5m associated with provisions, write offs and incorrect application of revenue recognition policies following the integration of Bourne into the Bite Group. The cause of these issues is being addressed by both local and Group management, alongside Internal Audit.

SEGMENTAL, GEOGRAPHIC AND CLIENT ANALYSIS

At 31 July 2013, the Group had 53 offices in 18 countries and a further five licensed partners. This year we changed the reporting segments to better reflect the nature of the businesses in the Group. We brought the Technology PR and Consumer PR segments together to form Integrated Communications. This segment represents 84% of Group revenue and has grown by 3%. This growth is coming largely from Outcast, M Booth and Text 100 in the US market and Bite in Asia. The remaining businesses form the Specialist Agencies segment, which had a strong year growing 15% with The Blueshirt Group, an investor and media relations agency based in San Francisco and New York, leading the way.

From a geographic perspective, the proportion of the Group's revenue outside the UK in the last year was 80%. US remained the largest geographic region, accounting for 55% of revenue. With the UK share of revenue being 20%, the Group generated around 75% of its revenue in these two strongest markets for communications and marketing services. The US region grew by 11% to £52.5m (2012: £47.1m), with 10% of this growth being organic. In Europe and Africa the businesses delivered revenue broadly the same as last year at £10.5m, dampened by a slight weakening of the euro and a 13% fall in the value of the South African rand. The Asia Pacific region declined by 2%, to £14.0m (2012: £14.3m), impacted by significant currency weakness in India (-7%) and Japan (-13%).

It is also pleasing to note that the concentration of the Group's key clients reduced further. The top ten clients now represent approximately 23% of the revenue of the business (2012: 26%), with no single client accounting for more than 5% of the total. This broadening of the client base is a result of having a more diverse range of service to offer. The Group still has an impressive list of global blue chip clients with all of the top ten clients generating annual fees in excess of £1.1m. The total number of clients remains above 1,000. The average client size increased marginally by 6% to £90,000 due mainly to increased value of project relationships. We have over 200 international clients representing 21% of total clients but more significantly they are more than three times the size of the average client and account for almost two-thirds 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.

FINANCIAL CONTROLS

Over the last nine months the Group has begun a detailed review of the internal financial controls environment in its major operating subsidiaries. An Internal Audit function has been established with qualified resources recruited in the US and UK and a comprehensive implementation plan created following advice from outside experts and a wide engagement with internal stakeholders. The initial focus will remain on risk mapping and development/communication of minimum financial controls for all businesses around the group with the roll out of two- to three-year cyclical internal audit review process ensuring adherence to those controls. If significant control weaknesses are noted during the risk mapping process, such as those identified in Bite UK and Germany at the year end, immediate action will be taken to address these weaknesses. Alongside this, there has been an immediate focus on cash management. This has resulted in the implementation of standardised banking controls. Consideration of wider non-financial risk management and business performance improvement are the medium-term goals.

MARGIN PERFORMANCE

The adjusted profit before tax margin of the Group decreased to 8.0% from 10.5% last year, following the disappointing performance from the Bite Group. Excluding head office costs the adjusted operating profit margin was 13.5%, compared to 18.5% last year. There have been some margin pressures in some of the other Group 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 Integrated Communications segment achieved 12.6% with Bite having the biggest challenge in reaching target following a significant client loss in the US, operational difficulties at its German and UK subsidiaries and the investment in its APAC growth markets. The Specialist Agencies segment achieved a margin of 18.2%, following the strong performance from The Blueshirt Group. From a regional perspective, the US was the only region to achieve the required target rates, with the UK and EMEA's margins continuing to suffer as the economy stagnated, and the APAC region is still very much at a sub-optimal scale. The staff cost to revenue ratio is critical to managing margin performance but this increased to 69.6% from 68.1% last year (excluding adjusting items). The longer-term target has been 65%, but this is proving difficult to achieve with higher staff cost ratios in the sub-scale EMEA and APAC region offices and salary pressures in some markets running ahead of clients' willingness to increase budgets.

CASH FLOW

The net cash generated from operations (before tax payments) was strong once again at £11.2m (2012: £10.1m), which was 145% (2012: 105%) of adjusted profit before tax (note 5). The main investment activities in the year requiring a cash payment were £2.1m for contingent consideration for M Booth acquired in August 2009 and £0.6m (net of cash acquired) for the initial payment for the 80% of Connections Media acquired in April 2013. Dividends paid to Next 15 shareholders totalled £1.4m. 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 acquisition of Connections Media and the impairment of historic goodwill on Bite Germany. The cash balances were £8.1m compared to £8.4m last year offset by a partial repayment of the medium-term bank facilities described below. The net debt¹ position after deducting bank borrowings and finance leases was £1.8m (2012: £2.6m). Net assets at 31 July 2013 were £38.2m (2012: £37.2m).

¹ Net debt excludes contingent consideration and share purchase obligations. See note 19 to the financial statements.

FINANCIAL REVIEW CONTINUED

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 payment on the acquisition of Connections Media. 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 banking 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 LIBOR plus 2.5% repayable over five 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.

TAXATION

The total tax charge for the year is £1.4m (2012: £1.7m) on consolidated profit before tax of £2.1m (2012: £6.0m). Certain important factors are having a significant effect on the tax rate in FY13 as follows: (i) there were losses in certain territories (£0.7m negative rate impact), notably the UK (£0.3m), Germany (£0.3m) and other territories (£0.1m), where it would not be prudent to recognize deferred tax assets; (ii) charges made in the income statement associated with adjustments to acquisition accounting for subsidiaries that are not taxable (£0.7m negative tax rate impact); (iii) higher rates of tax for overseas subsidiaries (£1.0m negative rate impact); (iv) the rate benefited from deductions taken for overseas taxes (£0.9m) and by the adjustment to the prior year tax liability of £0.4m following management revision of estimates for future tax exposures.

EARNINGS

Adjusted basic earnings per share was 7.49p (2012: 11.42p) (see note 10). The basic earnings per share was 0.56p (2012: 6.85p). Reductions in profit attributable to members following the Bite EMEA year end adjustments and impairment (£3.6m) is the primary cause of this fall. The diluted adjusted earnings per share fell to 6.65p (2012: 10.07p) and this is 11% less than the adjusted basic figure. This dilution is coming 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.

DIVIDENDS

The proposed final dividend per Ordinary share is 1.925p, which takes the total for the year to 2.55p, an 11% increase on the total dividend of 2.30p last year. It will be paid on 7 February 2014, assuming that it is approved at the AGM on 21 January 2014. 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.

BOARD OF DIRECTORS



RICHARD EYRE

Chairman (Age 59)

Chair of the Nomination and member of the Audit and Remuneration Committees

Richard was appointed as Chairman in May 2011. He was formerly CEO of ITV Network Ltd and Capital Radio plc, and Director of Content and Strategy for the RTL group. He is Chairman of the Internet Advertising Bureau and holds non-executive roles at Grant Thornton LLP, PayWizard plc and Results International Group LLP. In 2013 he was awarded the prestigious Mackintosh Medal for outstanding personal and public service to advertising.



TIM DYSON

Chief Executive Officer (Age 52)

Member of the Nomination Committee

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 Connections Media 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 sits 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.

BOARD OF DIRECTORS CONTINUED



ALICJA LESNIAK, FCA

Senior Independent non-executive Director (Age 61)

Chair of the Audit and Remuneration and member of the Nomination Committees

Alicja joined the Board in July 2011. She 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. Alicja is currently a non-executive Director at Channel 4 Television Corporation, where she chairs the Audit Committee, and SThree plc, where she is a member of three sub-committees.



MARGIT WENNMACHERS

Non-executive Director (Age 48)

Member of the Nomination Committee

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.

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

The Board recognises that it is accountable to shareholders for the Group's activities and is responsible for the effectiveness of its corporate governance practices. 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 Board

The Board of Directors is responsible for the strategic direction, investment decisions and effective control of the Group. During 2013 the Board comprised two executive Directors and three non-executive Directors. All of the Directors served throughout the year. Directors' biographies, including the Committees on which they serve and chair, are shown on pages 11 to 12.

We believe that the Board retains a range of financial, commercial and entrepreneurial experience, and that there is a good balance of skills, independence, diversity and knowledge of both the Company and the sector in which it operates. The non-executive Directors have been appointed on merit and for their specific areas of expertise and knowledge. This enables them to bring independent judgement on issues of strategy and performance and to debate matters constructively. No single Director is dominant in the decision-making process.

Board balance and independence

Following David Dewhurst's agreement to step down as Finance Director on 29 October 2013, the Board is now comprised of one executive Director: Tim Dyson, Chief Executive Officer. There are three non-executive Directors: Richard Eyre, Chairman; Alicja Lesniak, who is the Company's Senior Independent non-executive Director; and Margit Wennmachers, non-executive Director. The Board has embarked on a search for a replacement Finance Director and Alicja Lesniak is leading this process. In the meantime Peter Harris, who has extensive media industry experience, has been appointed as Interim Chief Financial Officer. At the time of his appointment as Chairman, Richard Eyre was considered independent in accordance with the provisions of the QCA Code. Alicja Lesniak is also considered to be independent as defined by the QCA Code. The Board considers that the current Board structure is appropriate in that it encourages independent challenge to the executive Directors and senior management, and that it complies with the QCA Code.

Director appointment, election and re-election

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

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, Richard Eyre will retire and, being eligible, will offer himself for re-election by the shareholders.

The Board is satisfied that the Director standing for re-election continues to perform effectively and demonstrates commitment to their role, including commitment of time for Board and sub-committee meetings as well as any other duties that may be undertaken by them from time to time. Changes to the commitments of any Director are considered by the Board to ensure they are still able to fulfil their duties to the Company's satisfaction.

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE CONTINUED

Operation of the Board

There is a schedule of matters specifically reserved for decision by the Board which has been reviewed during the year. It includes, among other things, the Group's strategy and management, structure and capital, financial reporting and controls, risk management and internal controls, major capital projects and material contracts, Board appointments and remuneration and corporate governance matters. The schedule of matters reserved for Board approval is displayed on the Group's website at www.next15.com.

The division of responsibilities between the Chairman and Chief Executive Officer has been clearly defined. The Chairman is responsible for leading the Board and ensuring it operates effectively. The Chairman is responsible for setting the agenda for Board meetings and ensures that Board and shareholder meetings are properly conducted. The Chief Executive Officer has day-to-day responsibility for all businesses of the Group and for implementing the agreed strategy and policies of the Board.

Board papers are prepared and issued in advance of Board meetings, to enable Directors to give due consideration to agenda items. When relevant, Board members receive monthly trading results, together with a detailed commentary. The non-executive Directors are encouraged to ask for further information when required.

During the year, ten formal Board meetings were held, which included four face-to-face meetings. Full details of each Director's Board and Committee meeting attendance are given on page 20. As Tim Dyson and Margit Wennmachers are located in San Francisco, some of the Board meetings are held by telephone conference. The Board meets face to face whenever possible and aims to do so at least quarterly.

Conflicts of interest

In accordance with the provisions on conflicts of interest in the Companies Act 2006 (the 'Act'), the Company has implemented a policy for the disclosure 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 Act. In accordance with best practice, a review of Directors' conflicts of interest is conducted annually.

Information, professional development and support

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 and Directors may take independent professional advice at the Company's expense. All Directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that the Company complies with all applicable rules, regulations and obligations.

Committees of the Board

The Board has established an Audit Committee, a Nomination Committee and a Remuneration Committee. Each Committee has its own terms of reference, setting out its authority, composition, activities and duties. The terms are reviewed and updated as necessary to ensure ongoing compliance with best practice guidelines. Copies of the Committees' terms of reference are available from the Group's website at www.next15.com.

The Board appoints the Committee members. The Audit Committee and Remuneration Committee comprise the two non-executive Directors, Alicja Lesniak (Committee Chair) and Richard Eyre. The Nomination Committee comprises Richard Eyre (Committee Chair), Alicja Lesniak, Margit Wennmachers and Tim Dyson. Attendance records of Committee meetings can be found on page 20.

The Remuneration Report on pages 21 to 25 sets out the work of the Remuneration Committee and details of the Directors' remuneration.

Relations with shareholders

The Board places great importance on the maintenance of effective communication with shareholders. Feedback received from institutional shareholders and analysts 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, annual and interim reports, regulatory news announcements and video clips to explain the interim and full-year results further, are available on the Group's website at www.next15.com.

The Chairman and Senior Independent non-executive Director are available to discuss governance and strategy with major shareholders should such a request be made and both are prepared to contact individual shareholders should any specific area of concern or enquiry be raised.

At the AGM the Chief Executive Officer presents a summary of the Group's progress throughout the year and invites questions from attendees before the Chairman deals with the formal business of the meeting. After the AGM, shareholders can meet informally with the Directors. Proxy votes are disclosed following a show of hands on each resolution. Shareholders are encouraged to submit questions to the Board throughout the year.

Financial reporting and going concern

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 30. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 4 to 5. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 6 to 10.

The Directors have reviewed the Group's budget and cash requirements for the year ending 31 July 2014 and considered outline plans for the Group thereafter. After making enquiries, the Directors have a reasonable expectation 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 risk management

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. This control system is designed to manage rather than eliminate risk of failure to achieve business objectives and to provide reasonable but not absolute assurance that assets are safeguarded against unauthorised use or material loss, that its transactions are properly authorised and recorded and material errors and irregularities are prevented or, failing which, are discovered on a timely basis. The Board delegates responsibility to management to implement Board policies on risk and control, to consider and assess the effectiveness of existing controls and to identify whether any new risks have arisen. Systems have been in place for the full financial year.

The Group reviewed the effectiveness of its internal financial controls for the year ended 31 July 2013 and up to the date of signing the Annual Report and Accounts to further safeguard investment and the Group's assets.

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE CONTINUED

Internal controls review

The Group's internal control and risk management activities are managed through two primary activities: Board led business risk reviews plus a supporting set of internal controls, and an Internal Audit review of the design and operation of internal controls.

Business risk reviews

Business risk evaluation takes place at operating company and Board level. Having identified risks, operating companies regularly monitor, review and update the risks, 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 Board, which produces a significant risks review for the Group. 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.

Internal Audit

During the year, the Group formed an Internal Audit function to provide assurance over the Group's control environment. This has involved the appointment of a Head of Internal Audit, and recruitment of lead internal auditors in the US and UK.

Internal Audit engaged PwC to aid in the design of the roadmap to implementation of an effective Internal Audit function. That process involved communication to, and ensured buy-in from, a wide stakeholder group consisting of the Board, the external auditors (BDO) and the CEOs and CFOs of each regional office for each Brand. Approval for the final audit plan was obtained from the Audit Committee and the Board.

As part of the approved audit plan, a risk-based approach is used to prioritise the focus of Internal Audit. The primary brief of the function was to assess the failure in controls that led to the fraud in the prior year and to implement new controls and processes in that area to strengthen any weaknesses. The ongoing activity of the function is to assess the overall control environment around the Group and to design, develop and roll out new minimum controls across all businesses. Once in place, adherence to those minimum controls will be reviewed on a two-to-three year cyclical basis. Where significant or immediate risks are identified, a process of more regular monitoring will be implemented.

The Board gain assurance over the adequacy of design and operation of internal controls across the Group through the following process:

- The annual audit plan is presented to the Audit Committee for approval each year. That plan provides an assessment of the current control environment, consideration of the key risks faced by the business and the timetable for on-site assessment/development of controls and audit of adherence;
- Findings from each Internal Audit engagement are reported to management, the Executive Directors and the Audit Committee. Reporting covers significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board;
- Depending on the risk associated with any weaknesses noted, recommendations made are followed up and reported on routinely;
- Internal Audit independently reviews the risk identification procedures and control processes implemented by management and advises on policy and procedure changes.

Internal Audit presents findings of reports to the Audit Committee at each Audit Committee Meeting. The Head of Internal Audit has direct access to the Audit Committee Chair.

As part of the year end process, the Internal Audit review of financial records identified errors totalling £0.3m and £0.9m within Bite UK and Bite Germany respectively. Continued work from external audit on other financial statement areas identified a further £0.4m across these businesses. During the year, Internal Audit have also devoted resource to restructure the Bite US finance team, processes and controls and have completed projects ensuring assurance over integrity of financial data used to determine earnout payments.

Whistleblowing and Bribery Act 2010

Whistleblowing procedures are in place for individuals to report suspected breaches of law or regulations or other malpractice. The Group has implemented an anti-bribery code of conduct which is intended to extend to all the Group's business dealings and transactions in all countries in which it or its subsidiaries and associates operate.

Principal risks and uncertainties

The system of risk management used to identify the principal risks facing the Group are described on page 16. 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. The matters described below are not intended to be an exhaustive list of possible risks and uncertainties and 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. Creating a portfolio of brands which is diversified across different geographic and communications markets and disciplines. 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 former PR businesses is progressing, albeit 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.

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE CONTINUED

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 2013 represented 18% of adjusted EBITDA (note 5).
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 the majority 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 than the UK.
Financial and operating systems	The Group has grown both organically, including adding additional geographic locations, and by acquiring new businesses. This has led to a mixture of accounting and operating systems in use. Some of the legacy systems in the acquired businesses have more basic functionality. The Group would gain better control by seeking to move the majority of businesses to a common platform with appropriate software controls that exist in more sophisticated systems.	The Group has initiated a project to replace these disparate systems with a common platform. It has arrived at a shortlist of potential systems, which are under detailed review and user testing, in order to make a final selection decision.
Economic downturn	Turbulence in the macroeconomic environment could result in fewer client assignments, longer procurement processes and downward pressure on budgets and pricing, which may impact revenue growth and operating margins. Strategic financial communications businesses operating in the IPO market can see significant volatility in revenues year on year.	The Group has a wide geographical spread of clients, reducing reliance on any one economic environment, but the Board acknowledges a high current dependence on the US. The Group has also invested in the creation of digital products and services, for which the growth in demand 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.

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.

Audit Committee and auditors

The Audit Committee members are Alicja Lesniak (who also chairs the Committee) and Richard Eyre. The Board is satisfied that the Committee members are sufficiently competent in financial matters. Alicja Lesniak has relevant financial experience and up-to-date knowledge of financial matters. The Committee meets periodically and at least twice per year with the external auditors, and with other Directors and management attending by invitation. Attendance records of meetings held during the year can be found on page 20.

The Committee's responsibilities include:

- monitoring the integrity of the financial and regulatory reporting process of the Group and reviewing the Group's accounting policies, financial reporting standards and disclosure practices;
- monitoring the performance and independence of the external auditors;
- reviewing the effectiveness of the Group's internal controls and risk management systems;
- reviewing the relationship with the Company's external auditors, considering the objectivity and effectiveness of the external audit process and making recommendations to the Board in relation to the appointment and remuneration of the external auditors; and
- monitoring the effectiveness of the Company's Internal Audit function.

During the year the Audit Committee met to discuss a number of matters including:

- assessment of the Group's risk environment, internal controls and risk review process;
- implementation of an Internal Audit function and review of Internal Audit reports;
- roll out of the Group's whistleblowing policy;
- compliance with the UK Bribery Act and other legal and regulatory requirements;
- appointment of external auditors;
- key accounting matters including judgement areas around tax provisions, goodwill impairment and earnout liabilities;
- half-year and full-year results and the Annual Report and Accounts.

The Committee's terms of reference were reviewed during the year and amendments were made to reflect the latest FRC recommendations and other relevant guidelines. The terms of reference are available on the Company's website at www.next15.com.

The independence and objectivity of the auditors is considered regularly by the Committee. 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 Company has in place a policy on the engagement of external auditors for non-audit services. The objective of the policy is to ensure that the provision of non-audit services by the external auditors does not impair, or is not perceived to impair, the external auditors' independence or objectivity. The policy will be reviewed from time to time and its application will be monitored by the Audit Committee.

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE CONTINUED

Nomination Committee

The Nomination Committee members are Richard Eyre (who also chairs the Committee), Alicja Lesniak, Margit Wennmachers and Tim Dyson. The Committee meets at least once per year, with other Directors and management attending by invitation. Attendance records of meetings held during the year can be found below.

The Committee's duties include:

- reviewing the structure, size and composition of the Board;
- 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 the 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.

The Committee's terms of reference were reviewed during the year. A copy is available on the Company's website at www.next15.com.

Board and Committee attendance	Board	Audit	Remuneration	Nomination
Richard Eyre	10 of 10	5 of 5	4 of 4	1 of 1
Tim Dyson	10 of 10	-	-	1 of 1
David Dewhurst	10 of 10	-	-	-
Alicja Lesniak	10 of 10	5 of 5	4 of 4	1 of 1
Margit Wennmachers	9 of 10	-	-	1 of 1

REMUNERATION REPORT

Remuneration Committee report

This report of the Remuneration Committee (the 'Committee'), prepared on behalf of the Board, sets out the policy and disclosures on remuneration for the executive and non-executive Directors of the Board. It takes account of the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies (the 'QCA Code').

Terms of reference and activities in the year

The Committee is responsible for setting remuneration policy for the executive Directors and for key senior executives. The main duties of the Committee include:

- reviewing the ongoing appropriateness and relevance of the remuneration policy;
- applying formal and transparent procedures regarding executive remuneration and remuneration packages;
- making recommendations concerning the total individual remuneration package of each executive Director; and
- reviewing the implementation and operation of the Company's bonus schemes and Long-Term Incentive Plan ('LTIP').

The Committee is authorised by the Board to investigate any matters within its terms of reference. It meets as frequently as needed, with a minimum of one meeting per year. In the financial year ended 31 July 2013 the Committee met four times. Subsequent to the year end, one further meeting has taken place.

The Committee's terms of reference are reviewed regularly to ensure continuing compliance with evolving best practice guidelines. The terms of reference are available from the Company's website at www.next15.com.

Composition of the Remuneration Committee

The Committee comprises two non-executive Directors, Alicja Lesniak (who also chairs the Committee) and Richard Eyre. During the year ended 31 July 2013 meetings were attended by the Chief Executive Officer and the Finance Director on all matters except those relating to their own remuneration. The Committee is authorised to take professional advice as and when it considers this necessary.

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.

The Group's approach is to set remuneration which takes account of market practice, economic conditions and the performance of the Group, its businesses and individuals. The Committee consults with the Chief Executive Officer and pays due regard to his recommendations for other senior executives. Individual Directors are not involved in decisions concerning their own remuneration. In framing remuneration policy, the Committee and the Board have given consideration to the provisions of the UK Corporate Governance Code and the QCA Code.

The Committee believes that its policy provides a balance between fixed remuneration, short-term cash bonus and long-term share-based incentives. The Committee is committed to keeping remuneration policy under regular review, taking into account changes in the competitive environment, remuneration practices and relevant guidelines.

REMUNERATION REPORT CONTINUED

Remuneration package for executive Directors

The policy for executive Directors' remuneration seeks 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 annually. The remuneration package for executive Directors consists of a basic salary, benefits, an annual performance-related cash bonus, pension and participation in a long-term equity 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 Committee determines the level of any bonuses paid. 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 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. The LTIP's objectives are to:

- align the long-term interests of shareholders and management;
- reward achievement of long-term stretching targets; and
- recruit, retain and motivate management of the required calibre.

The LTIP was approved by shareholders in 2005 and is the sole long-term incentive arrangement operated for the executive Directors. The Committee recommends the award of share options and performance shares to executive Directors and to senior executives who are not Board members but who have a significant influence over the Group's ability to meet its strategic objectives.

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 vest 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	175,000	7 January 2013	31 July 2016
David Dewhurst*	175,000	7 January 2013	31 July 2016

*David Dewhurst agreed to step down as Finance Director on 29 October 2013

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 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 awards vest when the Annual Report for the final financial year of the relevant performance period is published on the Company's website. The level of vesting is determined using the best three of the four years' performance.

For executive Directors, the performance shares awarded under the LTIP are subject to the following conditions:

- For 100% of the award to vest, 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;
- 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.

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 and a payment for compliance with post-termination restrictions. 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. The dates of the executive Directors' current service contracts and notice periods 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

*David Dewhurst agreed to step down as Finance Director on 29 October 2013

REMUNERATION REPORT CONTINUED

Non-executive Directors

The remuneration for each of the non-executive Directors is payable solely in cash fees and is not performance-related. Fees are 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. The dates of the current letters of appointment and notice periods 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 2013 £'000	Performance-related bonus 2013 £'000	Pension contributions 2013 £'000	Other benefits 2013 £'000	Total 2013 £'000	Total 2012 £'000
Executive Directors						
Tim Dyson	447	–	42	30	519	460
David Dewhurst	220	–	22	3	245	214
Non-executive Directors						
Richard Eyre	80	–	–	–	80	80
Alicja Lesniak	43	–	–	–	43	43
Margit Wennmachers	36	–	–	–	36	35

Directors' interests in share plans

No share options were exercised by the Directors in the year ended 31 July 2013 and none remained unexercised at this date.

As at 31 July 2013, 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 2012	Shares lapsing during year	Shares vesting during year	Shares granted during year	Number of shares at 31 July 2013	Grant date	End of performance period
Executive Directors							
David Dewhurst	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
	–	–	–	175,000	175,000	07.01.2013	31.07.2016
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
	–	–	–	175,000	175,000	07.01.2013	31.07.2016

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

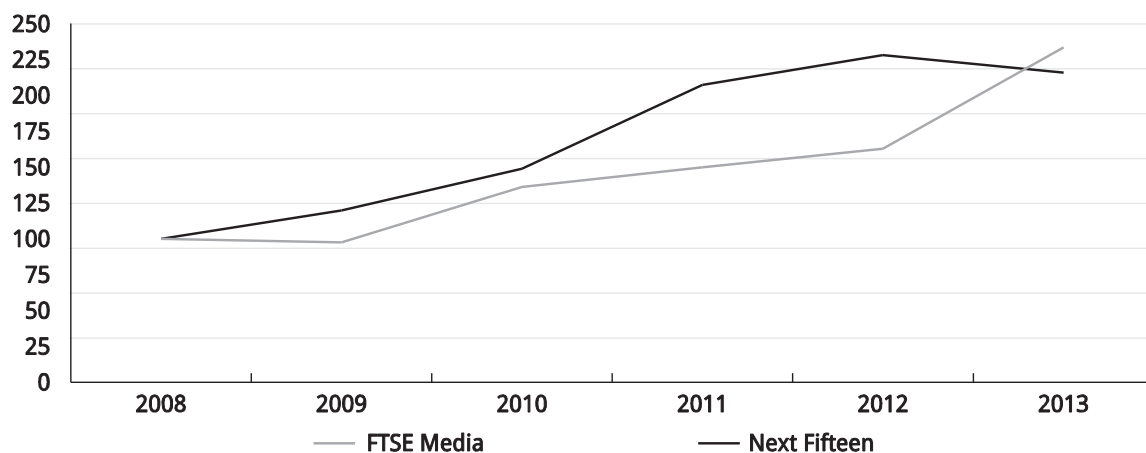
The interests of the Directors in the share capital of the Company at 1 August 2012 and 31 July 2013 are as follows:

	Ordinary Shares		LTIP performance shares	
	1 August 2012	31 July 2013	1 August 2012	31 July 2013
Executive Directors				
David Dewhurst*	320,000	320,000	530,000	625,000
Tim Dyson	5,781,004	5,000,000	450,000	625,000
Non-executive Directors				
Richard Eyre	29,500	75,129	-	-
Alicja Lesniak	-	-	-	-
Margit Wennmachers	-	-	-	-

*David Dewhurst agreed to step down as Finance Director on 29 October 2013

Total shareholder return

The Company's total shareholder return performance for the five years to 31 July 2013 is shown on the following graph compared with the FTSE Media Index.



This graph shows the value on 31 July 2013, of £100 invested in the Company on 31 July 2008 compared with £100 invested in the FTSE Media 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.

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 2013.

This Annual Report includes the Directors' Report and the audited financial statements for the year ended 31 July 2013. Certain information required to be disclosed in the Directors' Report is provided in other sections of the Annual Report. This includes the Chairman's Statement, Business Review, Financial Review, Directors' Statement on Corporate Governance, 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 two reportable segments: Integrated Communications and Specialist Agencies. Within the Integrated Communications segment, the Group operates five independent communications 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 Specialist Agencies segment comprises Beyond, with a focus on digital, Redshift which specialises in research, 463 Communications and Connections Media focusing on public affairs and policy communications, and The Blueshirt Group which operates in the investor and analyst relations field.

Review of business and future prospects

The Group is required to produce a business review complying with the requirements of section 417 of the Act. A detailed review of the business, current trading and future developments of the Group is given in the Chairman's Statement, Business Review and 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 13 to 20.

Corporate governance statement

The Company's Statement on Corporate Governance is set out in pages 13 to 20 of these financial statements and forms part of this Directors' Report.

Group results and dividends

The Group's financial statements for the year ended 31 July 2013 show that profit before tax for the financial year was £2,085,000 (2012: £5,959,000). The Group made a profit attributable to shareholders of the Company for the year of £328,000 (2012: £3,906,000). The Directors have recommended a final dividend of 1.925p per Ordinary share (2012: 1.735p) for the year ended 31 July 2013, to be paid to shareholders on the register at 10 January 2014, which, together with the interim dividend of 0.625p (2012: 0.565p) paid on 31 May 2013, makes a total for the year of 2.55p per share (2012: 2.30p).

AIM 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 2013, more detailed disclosure of which can be found in note 26 to the financial statements.

On 1 April 2013, Next Fifteen Communications (US Holdings) LLC ('Next Fifteen USH') acquired 80% of the issued share capital of US-based Connections Media LLC ('Connections Media'). The acquisition was made with a view to enhancing both the digital service offering of the Group and extending the capabilities in the public affairs and policy communications field. The initial consideration paid in cash on completion was £1,202,000 (\$1,846,000).

On 1 August 2012, Beyond Corporation Limited acquired the entire issued share capital of UK-based Content & Motion Limited for initial consideration of £425,000. On 1 September 2012 the trade and assets of Content & Motion Limited were transferred into the acquiring company. The acquisition will enhance Beyond Corporation Limited's services capability as a new style of socially-driven creative digital agency.

Financial instruments

Information on the Group's financial risk management objectives, policies and activities and on the Group's 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 during the year and at the date of this report appear on pages 11 and 12.

Additional information relating to Directors' remuneration, service agreements and interests in the Company's shares is given in the Remuneration Report on pages 21 to 25.

Except for Directors' service contracts, no Director has a material interest in any contract to which the Company or any of its subsidiaries is a party. In accordance with the Articles, the Company has the power (at its discretion) to grant an indemnity to the Directors in respect of its liabilities incurred as a result of their office. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a Directors' and Officers' liability insurance policy throughout the period. Although their defence costs may be met, neither the Company's indemnity nor the insurance policy provides cover in the event that the Director is proved to have acted dishonestly or fraudulently. No claims have been made against this policy.

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, Richard Eyre will retire from the Board and offer himself for re-election.

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 2 December 2013 and 31 July 2013:

Name	2 December 2013		31 July 2013	
	Total	%	Total	%
Liontrust Investment Partners LLP	11,486,878	19.22%	11,486,878	19.22%
Octopus Investments	5,847,256	9.79%	5,847,256	9.79%
Herald Investment Management	5,231,796	8.76%	5,231,796	8.76%
Timothy Dyson	5,000,000	8.37%	5,000,000	8.37%
Hargreaves Hale Limited	3,785,000	6.33%	3,173,000	5.31%
River and Mercantile Asset Management LLP	3,200,549	5.36%	3,200,549	5.36%
Mr Thomas Lewis	2,804,000	4.79%	2,804,000	4.79%
JO Hambro Capital Management Group	1,846,000	3.09%	3,112,833	5.21%

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

Price at 1 August 2012	93.0p
Highest price	115.0p
Lowest price	79.5p
Price at 31 July 2013	88.0p

Charitable and political donations

During the year the Group made charitable donations of £35,209 (2012: £17,000). It is the Group's policy not to make donations for political purposes and, accordingly, there were no payments to political organisations during the year (2012: £Nil).

Supplier payment

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 that suppliers also comply with all relevant terms and conditions. The number of days taken by the Company to pay suppliers, on the basis of trade creditors at 31 July 2013 and average daily purchases for the year, was 45 days (2012: 35 days).

REPORT OF THE DIRECTORS CONTINUED

Employee involvement

Employees are key to the Group's success and we rely on a committed workforce to help us to achieve our business objectives. The Group's employee share option plans, Long-Term Incentive Plans and bonus schemes seek to encourage employees at all levels to contribute to the achievement of the Group's short-term and long-term goals. In addition, the Group operates a policy of regularly informing employees of the Group's financial performance, through a combination of meetings and electronic communications.

Equal opportunities

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. 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 people with disabilities.

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.

Post balance sheet events

Blueshirt

On 29 October 2013, Next Fifteen (US Holdings Corporation) Limited settled part of its contingent consideration liability to Blueshirt. \$3,126,000 (£1,942,000) was paid to the Vendors in cash.

M Booth

On 30 October 2013, part of the final contingent consideration earnout liability was settled. Next Fifteen Communications Limited paid \$852,000 (£530,000) cash in part settlement of the liability. Upon completion of the close period, a further \$451,000 (£280,000) will be issued in the share capital of Next 15. The final portion of the contingent consideration earnout liability will be paid out within the next 12 months. The remaining balance of \$500,000 can be settled in the share capital of Next 15 or in cash at the discretion of the Group.

Beyond

On 9 August 2013, David Hargreaves tendered his resignation as a Director of Beyond Corporation Limited and Beyond International Corp ('Beyond'). At that date, Next 15 and David Hargreaves entered into a deed of covenant to acquire the entire share capital of Beyond held by David Hargreaves which consisted of 10.4% in Beyond. On 23 August 2013, 240 shares of common stock of Beyond International Corporation were transferred to Text 100 LLC in exchange for £80,000 in cash consideration. At the same date, 240 shares of capital stock in Beyond Corporation Limited were transferred to Next Fifteen Communications Group plc in exchange for cash consideration of £321,000. This acquisition of shares takes Next 15's direct and indirect ownership of both businesses to 61.4%.

BiteDA

On 28 August 2013, a previously dormant entity within the Bite Group changed its name to BiteDA Limited. On 1 October 2013, certain trade and assets within Bite Communications Limited were transferred to BiteDA Limited with consideration set equal to net book value. The business will continue going forwards as a creative digital marketing agency engaged to design and build email content and websites.

Group Finance Director

On 29 October 2013 the Group Finance Director, David Dewhurst agreed to step down from his position. The Board has embarked on a search for a replacement Finance Director and Alicja Lesniak is leading this process. In the meantime Peter Harris, who has extensive media industry experience, has been appointed as Interim Chief Financial Officer.

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.

Directors' statement regarding disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, as far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information (that is, information needed by the auditors in connection with preparing their report) and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The notice convening the Company's 2014 AGM at the Company's offices at The Triangle, 5-17 Hammersmith Grove, London W6 0LG on Tuesday 21 January 2014 at 3.30 p.m. is set out in a separate document and accompanies this report for shareholders who requested a hard copy. It is also available on the Company's website at www.next15.com.

Independent auditors

At the 2013 AGM, shareholders appointed BDO LLP as auditors for the Group. BDO LLP have expressed their willingness to continue in office as auditors and, on the recommendation of the Audit Committee, in accordance with section 489 of the Companies Act 2006, resolutions are to be proposed at the AGM for the appointment of BDO LLP as auditors of the Company and to authorise the Board to fix their remuneration.

Approved by the Board on 6 December 2013 and signed on its behalf by:

Tim Dyson
CEO

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 and Company 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 6 December 2013 and signed on its behalf by:

Tim Dyson
CEO

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 2013 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 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC'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 FRC's website at www.frc.org.uk/auditscopeukprivate.

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 2013 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.

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

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.

Don Williams (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

6 December 2013

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 2013

	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Billings			113,360		108,453
Revenue	2		96,069		91,583
Staff costs	3	68,261		62,767	
Depreciation	4,12	1,540		1,328	
Amortisation	4,11	1,589		1,483	
Impairment	4,11	1,950		-	
Charge for misappropriation of assets	4	526		1,778	
Other operating charges		19,198		17,589	
Total operating charges			(93,064)		(84,945)
Operating profit	2,4		3,005		6,638
Finance expense	6		(3,331)		(2,170)
Finance income	7		2,490		1,477
Net finance expense			(841)		(693)
Share of (losses)/profits of associate			(79)		14
Profit before income tax	2,5		2,085		5,959
Income tax expense	8		(1,364)		(1,652)
Profit for the year			721		4,307
Attributable to:					
Owners of the parent			328		3,906
Non-controlling interests			393		401
			721		4,307
Earnings per share	10				
Basic (pence)			0.56		6.85
Diluted (pence)			0.49		6.04

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 July 2013

	Note	2013 £'000	2012 £'000
Profit for the year		721	4,307
Other comprehensive income / (expense):			
Exchange differences on translating foreign operations		951	229
Translation differences on long-term foreign currency intercompany loans		(118)	(80)
Net investment hedge	19	(229)	(235)
Other comprehensive income / (expense) for the year		604	(86)
Total comprehensive income for the year		1,325	4,221
Total comprehensive income attributable to:			
Owners of the parent		932	3,820
Non-controlling interests		393	401
		1,325	4,221

CONSOLIDATED BALANCE SHEET

as at 31 July 2013

	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Assets					
Property, plant and equipment	12	3,165		2,721	
Intangible assets	11	41,369		41,019	
Investment in equity accounted associate		1		80	
Trade investment		219		212	
Deferred tax assets	18	3,662		3,320	
Other receivables	13,19	1,041		875	
Total non-current assets			49,457		48,227
Trade and other receivables	13,19	26,646		24,661	
Cash and cash equivalents	19	8,064		8,436	
Corporation tax asset		2,883		240	
Total current assets			37,593		33,337
Total assets			87,050		81,564
Liabilities					
Loans and borrowings	19	9,131		10,750	
Deferred tax liabilities	18	1,388		245	
Other payables	14,19	88		6	
Provisions	15,19	345		129	
Deferred consideration	17,19	1,319		-	
Contingent consideration	17,19	2,945		4,987	
Share purchase obligation	17,19	3,251		3,989	
Total non-current liabilities			(18,467)		(20,106)
Loans and borrowings	19	591		259	
Trade and other payables	14,19	24,218		19,605	
Provisions	15,19	62		-	
Corporation tax liability		1,811		1,101	
Derivative financial liabilities	19	206		320	
Share purchase obligation	17,19	295		-	
Contingent consideration	17,19	3,207		2,945	
Total current liabilities			(30,390)		(24,230)
Total liabilities			(48,857)		(44,336)
Total net assets			38,193		37,228
Equity					
Share capital	20	1,494		1,454	
Share premium reserve		7,557		6,935	
Merger reserve		3,075		3,075	
Share purchase reserve		(2,673)		(2,673)	
Foreign currency translation reserve		3,184		2,351	
Other reserves	24	(583)		(133)	
Retained earnings		23,954		24,100	
Total equity attributable to owners of the parent			36,008		35,109
Non-controlling interests			2,185		2,119
Total equity			38,193		37,228

These financial statements were approved and authorised by the Board on 6 December 2013.

T Dyson

Chief executive officer

Company number 01579589

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 July 2013

	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 2012	1,454	6,935	3,075	(2,673)	2,351	(133)	24,100	35,109	2,119	37,228
Profit for the year	-	-	-	-	-	-	328	328	393	721
Other comprehensive income for the year	-	-	-	-	833	(229)	-	604	-	604
Total comprehensive income for the year	-	-	-	-	833	(229)	328	932	393	1,325
Shares issued in satisfaction of vested share options	27	72	-	-	-	-	-	99	-	99
Shares issued on acquisitions	13	550	-	-	-	-	-	563	-	563
Movement due to ESOP share purchases	-	-	-	-	-	(245)	-	(245)	-	(245)
Movement due to ESOP share option exercises	-	-	-	-	-	24	-	24	-	24
Movement in relation to share-based payments	-	-	-	-	-	-	569	569	-	569
Deferred tax on share-based payments	-	-	-	-	-	-	(84)	(84)	-	(84)
Share-based payment charge for disposal of equity in a subsidiary to employees	-	-	-	-	-	-	450	450	-	450
Dividends to Owners of the parent	-	-	-	-	-	-	(1,409)	(1,409)	-	(1,409)
Non-controlling interest arising on acquisition	-	-	-	-	-	-	-	-	176	176
Non-controlling interest dividend	-	-	-	-	-	-	-	-	(503)	(503)
At 31 July 2013	1,494	7,557	3,075	(2,673)	3,184	(583)	23,954	36,008	2,185	38,193

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

	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 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

CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 31 July 2013

	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Cash flows from operating activities					
Profit for the year		721		4,307	
Adjustments for:					
Depreciation	4,12	1,540		1,328	
Amortisation	4,11	1,589		1,483	
Impairment	4,11	1,950		-	
Finance expense	6	3,331		2,170	
Finance income	7	(2,490)		(1,477)	
Share of loss / (profit) from equity-accounted associate		79		(14)	
Loss on sale of property, plant and equipment	4	82		11	
Income tax expense	8	1,364		1,652	
Share-based payment charge	4,21	1,019		312	
Movement in fair value of forward foreign exchange contracts	4	-		13	
Net cash inflow from operating activities before changes in working capital			9,185		9,785
Change in trade and other receivables		(1,178)		3,229	
Change in trade and other payables		2,910		(2,960)	
Movement in provisions		269		(2)	
Change in working capital			2,001		267
Net cash generated from operations			11,186		10,052
Income taxes paid			(2,686)		(2,520)
Net cash from operating activities			8,500		7,532
Cash flows from investing activities					
Acquisition of subsidiaries and trade and assets, net of cash acquired		(961)		(1,101)	
Payment of contingent consideration		(2,058)		(4,563)	
Acquisition of property, plant and equipment		(1,786)		(835)	
Proceeds on disposal of property, plant and equipment		-		3	
Acquisition of intangible assets		(161)		(90)	
Net movement in long-term cash deposits		(166)		(35)	
Interest received	7	48		51	
Net cash outflow from investing activities			(5,084)		(6,570)
Net cash from operating and investing activities			3,416		962

	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Net cash from operating and investing activities			3,416		962
Cash flows from financing activities					
Proceeds from sale of own shares		95		96	
Issue costs on issue of Ordinary Shares		(5)		(8)	
Purchase of own shares		(221)		-	
Capital element of finance lease rental repayment		(59)		(72)	
Net cash movement in bank borrowings and overdrafts		(1,286)		983	
Interest paid	6	(483)		(521)	
Dividend and profit share paid to non-controlling interest partners	9	(503)		(280)	
Dividend paid to shareholders of the parent	9	(1,409)		(1,208)	
Net cash outflow from financing activities			(3,871)		(1,010)
Net decrease in cash and cash equivalents			(455)		(48)
Cash and cash equivalents at beginning of the year			8,436		8,517
Exchange gains/(losses) on cash held			83		(33)
Cash and cash equivalents at end of the year	19		8,064		8,436

NOTES TO THE ACCOUNTS

for the year ended 31 July 2013

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 of the Companies Act 2006 or equivalent sections of previous Companies Acts 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.

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.

1 Accounting policies (continued)

- 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 and 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 it is 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.

Non-compete Certain acquisition agreements contain non-compete arrangements restricting the vendor's ability to compete with the acquiring business during an earnout period. The non-compete arrangements have a finite useful life equivalent to the length of the earnout period and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the length of the arrangement.

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% to 50% per annum straight-line.
Office furniture	– 20% per annum straight-line.
Motor vehicles	– 25% per annum straight-line.

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.

NOTES TO THE ACCOUNTS CONTINUED

1 Accounting policies (continued)

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 Non-controlling interests (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.

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.

1 Accounting policies (continued)

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 loans 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.

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 On initial recognition, the liability for contingent consideration relating to acquisitions is measured at fair value. The liability is calculated 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 fair value and is calculated based on 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.

NOTES TO THE ACCOUNTS CONTINUED

1 Accounting policies (continued)

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.

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).

1 Accounting policies (continued)

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.

I. Impairment of goodwill. In line with IAS 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. 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.

NOTES TO THE ACCOUNTS CONTINUED

1 Accounting policies (continued)

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 period or later accounting periods 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 two reportable segments, being those providing Integrated Communications and those considered to be Specialist Agencies. Integrated Communications incorporates the two segments reported in the prior year of public relations services in the technology and consumer markets. Specialist Agencies incorporate results of the digital and research consultancy, and corporate communications consultancy reported separately in the prior year. Within these two 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, 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. Head office costs relate to Group costs before allocation of intercompany charges to the operating segments. Inter-segment 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.

	Integrated Communications £'000	Specialist Agencies £'000	Head Office £'000	Total £'000
Year ended 31 July 2013				
Revenue	80,570	15,499	-	96,069
Segment adjusted operating profit	10,170	2,828	(4,778)	8,220
Year ended 31 July 2012				
Revenue	78,100	13,483	-	91,583
Segment adjusted operating profit	11,934	2,299	(4,186)	10,047

2 Segment information (continued)

Measurement of operating segment profit (continued)

	UK £'000	Europe and Africa £'000	US £'000	Asia Pacific £'000	Head Office £'000	Total £'000
Year ended 31 July 2013						
Revenue	19,119	10,504	52,468	13,978	-	96,069
Segment adjusted operating profit	1,146	(217)	11,804	265	(4,778)	8,220
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

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

	2013 £'000	2012 £'000
Segment adjusted operating profit	8,220	10,047
Amortisation of acquired intangibles	(1,379)	(1,181)
Impairment of goodwill (note 11)	(1,950)	-
Reorganisation costs (note 4)	(779)	(437)
Charges associated with equity transactions accounted for as share-based payments (note 4)	(581)	-
Charge for misappropriation of assets (note 4)	(265)	(1,778)
Income from recovery and subsequent re-sale of assets (note 4)	318	-
Cost associated with investigation and response to fraudulent activity (note 4)	(579)	-
Movement in fair value of forward foreign exchange contracts	-	(13)
Total operating profit	3,005	6,638
Unwinding of discount on contingent consideration (note 6)	(797)	(968)
Unwinding of discount on share purchase obligation (note 6)	(370)	(453)
Change in estimate of future contingent consideration payable (note 17)	(254)	532
Change in estimate of future share purchase obligation (note 17)	901	584
Movement in fair value of interest rate cap-and-collar contract (note 7)	114	84
Share of (losses)/profits of associate	(79)	14
Other finance expense (note 6)	(483)	(523)
Other finance income (note 7)	48	51
Profit before income tax	2,085	5,959

NOTES TO THE ACCOUNTS CONTINUED

3 Employee information

	2013 £'000	2012 £'000
Staff costs for all employees, including Directors, consist of:		
Wages and salaries	60,850	56,246
Social security costs	4,995	4,966
Pension costs	1,397	1,243
Share-based payment charge (note 21)	1,019	312
	68,261	62,767

	2013 Number	2012 Number
The average number of employees during the year, by reportable service segment, was as follows:		
Integrated Communications	977	924
Specialist Agencies	152	148
Head Office	17	16
	1,146	1,088

	2013 Number	2012 Number
The average number of employees during the year, by geographical location, was as follows:		
UK	234	233
Europe and Africa	98	121
US	422	384
Asia Pacific	375	334
Head Office	17	16
	1,146	1,088

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

	2013 £'000	2012 £'000
Directors' remuneration consists of:		
Short term employee benefits	859	862
Pension costs	64	58
Share-based payment charge	145	48
	1,068	968

The highest paid Director received total emoluments of £477,000 (2012: £479,000).

4 Operating profit

	2013 £'000	2012 £'000
This is arrived at after charging/(crediting):		
Depreciation of owned property, plant and equipment	1,460	1,119
Depreciation of assets held under finance leases	80	209
Amortisation of intangible assets	1,589	1,483
Impairment of goodwill	1,950	–
Loss on sale of property, plant and equipment	82	11
Movement in fair value of forward foreign exchange contracts	–	13
Defined contribution pension cost	1,397	1,243
Charge for misappropriation of assets ¹	526	1,778
Reorganisation costs ²	779	437
Share-based payment charge	438	312
Share-based payment charge arising on acquisition of non-controlling interest ³	131	–
Share-based payment charge for disposal of equity in a subsidiary to employees ⁴	450	–
Operating lease income	(225)	(344)
Operating lease rentals		
– property	4,849	5,478
– plant and machinery	206	168
Foreign exchange loss	478	92
Fees payable to Group auditors	549	455

¹Charges 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. In the current year part of the charge relates to the cost of investigating the fraudulent activity and the impact on restructuring the senior finance team at Bite. There has also been some recovery of assets purchased with the misappropriated cash. The impact on the Group is as follows:

	Total impact on Group Income statement 2013 £'000	Total impact on Group Income statement 2012 £'000
Charge for write off of assets	265	1,608
Income from recovery and subsequent re-sale of assets	(318)	–
Charge for recognition of understated liabilities	–	170
Cost associated with investigation and response to fraudulent activity	579	–
Pre tax expense	526	1,778
Tax	(203)	(553)
Post Tax expense (note 10)	323	1,225

²Restructure costs relate to significant non-recurring spend within Brands wholly required to transition them into Integrated Communications businesses with more focus on digital services.

³This transaction relates to the acquisition of the 20% minority interest in Bourne whereby performance shares were issued as partial consideration.

⁴This transaction relates to a restricted grant of equity given to employees of the OutCast subsidiary at nil cost which, whilst giving them no access to the value of net assets at inception, does hold value in the form of access to future profit distributions as well as any future sale value under the performance-related mechanism set out in the share sale agreement. This value is recognised as a one-off share-based payment expense of £450,000 in the current year income statement (note 26).

NOTES TO THE ACCOUNTS CONTINUED

4 Operating profit (continued)

Auditors' remuneration

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

	2013 £'000	2012 £'000
Fees payable to the Company's auditor for the statutory audit of the Company's and consolidated annual statements	85	77
Other services:		
The auditing of financial statements of the subsidiaries pursuant to legislation	397	291
Tax services	24	23
Other services	43	64
	549	455

5 Reconciliation of pro forma financial measures

The following reconciliations of pro forma financial measures have been presented to provide additional information which will be useful to the users of the financial statements in understanding the underlying performance of the Group.

The adjusted measures are also used for the performance calculation of the adjusted earnings per share used for the vesting of employee share options (note 10), banking covenants and cashflow analysis.

Adjusted profit before income tax

	2013 £'000	2012 £'000
Profit before income tax	2,085	5,959
Movement in fair value of interest rate cap-and-collar contract	(114)	(84)
Movement in fair value of forward foreign exchange contracts	-	13
Unwinding of discount on contingent and deferred consideration (note 17)	797	968
Unwinding of discount on share purchase obligation (note 17)	370	453
Charge for misappropriation of assets (note 4)	265	1,778
Income from recovery and sale of misappropriated assets (note 4)	(318)	-
Cost associated with investigation and response to fraudulent activity (note 4)	579	-
Change in estimate of future contingent consideration payable (note 17)	254	(532)
Change in estimate of future share purchase obligation (note 17)	(901)	(584)
Charges associated with equity transactions accounted for as share-based payments (note 4)	581	-
Restructuring and reorganisation costs associated with digital transitions within brands (note 4)	779	437
Amortisation of acquired intangibles	1,378	1,181
Impairment of goodwill ¹	1,950	-
Adjusted profit before income tax	7,705	9,589

¹ The impairment for goodwill relates to Bite Germany (note 11).

5 Reconciliation of pro forma financial measures (continued)

Adjusted EBITDA

	2013 £'000	2012 £'000
Operating profit	3,005	6,638
Depreciation of owned property, plant and equipment	1,460	1,119
Depreciation of assets held under finance leases	80	209
Amortisation of intangible assets	1,589	1,483
Impairment of goodwill	1,950	–
Charge for misappropriation of assets (note 4)	265	1,778
Income from recovery and sale of misappropriated assets (note 4)	(318)	–
Cost associated with investigation and response to fraudulent activity (note 4)	579	–
EBITDA excluding impact of prior years' fraudulent activity	8,610	11,227
Charges associated with equity transactions accounted for as share-based payments (note 4)	581	–
Restructuring and reorganisation costs associated with digital transitions within brands (note 4)	779	437
Adjusted EBITDA	9,970	11,664

Adjusted Staff Costs

	2013 £'000	2012 £'000
Staff costs	68,261	62,767
Reorganisation costs	(779)	(437)
Charges associated with equity transactions accounted for as share-based payments (note 4)	(581)	–
Adjusted Staff Costs	66,901	62,330

NOTES TO THE ACCOUNTS CONTINUED

6 Finance expense

	2013 £'000	2012 £'000
Financial liabilities at amortised cost		
Bank interest payable	464	513
Unwinding of discount on share purchase obligation (note 17)	370	453
Change in estimate of future share purchase obligation (note 17)	145	108
Financial liabilities at fair value through profit and loss		
Unwinding of discount on contingent consideration (note 17)	797	968
Change in estimate of future contingent consideration payable (note 17)	1,536	118
Other		
Finance lease interest	8	2
Other interest payable	11	8
Finance expense	3,331	2,170

7 Finance income

	2013 £'000	2012 £'000
Financial assets at amortised cost		
Bank interest receivable	41	50
Change in estimate of future share purchase obligation (note 17)	1,046	692
Financial assets at fair value through profit and loss		
Movement in fair value of interest rate cap-and-collar contract	114	84
Change in estimate of future contingent consideration (note 17)	1,282	650
Other		
Other interest receivable	7	1
Finance income	2,490	1,477

8 Taxation

The major components of income tax expense for the year ended 31 July 2013 are:

	2013 £'000	2012 £'000
Consolidated Income Statement		
Current income tax		
Current income tax expense	1,148	2,709
Adjustments in respect of current income tax in prior years	(397)	(62)
Deferred income tax		
Relating to the origination and reversal of temporary differences	757	(974)
Adjustments in respect of deferred tax for prior years	(144)	(21)
Income tax expense reported in the Consolidated Income Statement	1,364	1,652
Consolidated Statement of Changes in Equity		
Tax debit/(credit) relating to share-based remuneration	84	(40)
Income tax expense/(benefit) reported in equity	84	(40)
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 23.67% (2012: 25.33%). The difference is explained below:		
Profit before income tax	2,085	5,959
Corporation tax expense at 23.67% (2012: 25.33%)	494	1,509
Effects of:		
Disallowed expenses	724	(3)
Recognition and utilisation of previously unrecognised tax losses	(77)	(7)
Non-utilisation of tax losses	740	116
Higher rates of tax on overseas earnings	897	989
Deductions for overseas taxes	(986)	(876)
Adjustments in respect of prior years	(428)	(76)
	1,364	1,652

The Group's effective corporation tax rate for the year ended 31 July 2013 (65%) is higher than the standard UK rate (23.67%) due to certain important factors having a significant effect on the tax rate: (i) there were losses in certain territories (notably UK and Germany) where it would not be prudent to recognise deferred tax assets, (£740k impact on the tax rate); (ii) charges made in the income statement associated with adjustments to acquisition accounting for subsidiaries that are not taxable (£724k negative rate impact); and (iii) adjustments to the prior year tax liability following revision of management estimates for future tax exposure.

As a result of the reduction in the UK corporation tax rate to 21% that was substantively enacted in July 2013 and effective from 1 April 2014, the UK deferred tax balances have been remeasured. The UK corporation tax rate is expected to reduce by a further 1% to 20% from 1 April 2015. This change had not been substantively enacted at the balance sheet date and, therefore, is not recognised in the financial statements.

NOTES TO THE ACCOUNTS CONTINUED

9 Dividend

	2013 £'000	2012 £'000
Dividends paid during the year		
Final dividend paid for prior year of 1.735p per Ordinary Share (2012: 1.535p)	1,036	881
Interim dividend paid of 0.625p per Ordinary Share (2012: 0.565p)	373	327
	1,409	1,208
Non-controlling interest dividend ¹	503	280

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 £160,000 (2012: £54,000), The Blueshirt Group LLC of £174,000 (2012: £124,000), Outcast of £31,000 (2012: Nil) and Bourne of £28,000 (2012: Nil). A dividend was paid to the non-controlling interest of Beyond of £110,000 (2012: £102,000).

The ESOP waived its right to dividends in the financial year ended 31 July 2013 (£215) and the year ended 31 July 2012 (£192).

A final dividend of 1.925p per share (2012: 1.735p) has been proposed. This has not been accrued. The interim dividend was 0.625p per share (2012: 0.565p), making a total for the year of 2.55p per share (2012: 2.3p). The final dividend, if approved at the AGM on the 21 January 2014, will be paid on 7 February 2014 to all shareholders on the Register of Members as at 10 January 2014. The ex-dividend date for the shares is 8 January 2014.

10 Earnings per share

	2013 £'000	2012 £'000
Earnings attributable to ordinary shareholders	328	3,906
Movement in fair value of interest rate cap-and-collar contract	(87)	(65)
Movement in fair value of forward foreign exchange contracts	–	10
Unwinding of discount on contingent and deferred consideration	797	968
Unwinding of discount on share purchase obligation	370	453
Charge for misappropriation of assets	158	1,225
Income from recovery and sale of misappropriated assets	(191)	–
Cost associated with investigation and response to fraudulent activity	356	–
Change in estimate of future contingent consideration payable	(360)	(534)
Change in estimate of share purchase obligation	(953)	(589)
Charges associated with equity transactions accounted for as share-based payments	550	–
Restructuring and reorganisation costs associated with digital transitions within brands	569	336
Amortisation of acquired intangibles	940	803
Impairment of intangibles	1,950	–
Adjusted earnings attributable to ordinary shareholders	4,427	6,513

10 Earnings per share (continued)

	Number	Number
Weighted average number of Ordinary Shares	59,068,925	57,036,925
Dilutive share options/performance shares outstanding	5,641,070	5,008,853
Other potentially issuable shares	1,863,899	2,645,103
Diluted weighted average number of Ordinary Shares	66,573,894	64,690,881
Basic earnings per share	0.56p	6.85p
Diluted earnings per share	0.49p	6.04p
Adjusted earnings per share	7.49p	11.42p
Diluted adjusted earnings per share	6.65p	10.07p

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	Non-compete £'000	Goodwill £'000	Total £'000
Cost						
At 1 August 2011	3,081	2,131	4,007	–	33,617	42,836
Additions resulting from internal development	97	–	–	–	–	97
Acquired through business combinations	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
Additions resulting from internal development	205	–	–	–	–	205
Acquired through business combinations ¹	–	–	835	79	1,772	2,686
Exchange differences	11	75	242	–	821	1,149
At 31 July 2013	3,534	2,307	6,312	79	39,503	51,735
Amortisation and impairment						
At 1 August 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
Charge for the year	352	112	1,095	30	–	1,589
Impairment ²	–	–	–	–	1,950	1,950
Exchange differences	57	13	132	–	(51)	151
At 31 July 2013	2,854	418	3,456	30	3,608	10,366
Net book value at 31 July 2013	680	1,889	2,856	49	35,895	41,369
Net book value at 31 July 2012	873	1,939	3,006	–	35,201	41,019

¹ During the year, the Group acquired Content and Motion and Connections Media (note 26), recognising intangible customer relationships of £240,000 and £595,000 respectively. In addition, an intangible asset associated with non-compete agreements was recognised in respect of both companies of £57,000 and £22,000 respectively.

² The impairment for goodwill relates to Bite Germany. Further details are provided later in this note.

NOTES TO THE ACCOUNTS CONTINUED

11 Intangible assets (continued)

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:

	2013 £'000	2012 £'000
Bite (UK) ¹	6,580	1,512
Lexis (UK)	9,349	9,329
OutCast (US)	6,974	6,683
Bite (US) ¹	990	320
Beyond (UK) ²	320	61
Beyond (US)	79	75
M Booth (US)	4,476	4,290
Bite Upstream (APAC)	1,212	1,173
Blueshirt	4,521	4,376
Bourne	-	5,631
Trademark ³	-	1,751
Connections Media (note 26)	1,394	-
	35,895	35,201

¹ During the year, the trade and assets of Bourne were transferred into the Bite UK and Bite US businesses. As such, the goodwill associated with Bourne in the prior year of £5,631,000, has been allocated to Bite UK (£5,068,000) and Bite US (£563,000).

² Includes an addition of £258,000 in respect of the acquisition of Content and Motion (note 26).

³ During the year, working capital payments of £110,000 were made to the vendors based on finalisation of the working capital position. This amount was capitalised within Goodwill since it fell within the measurement period adjustment window. A further uplift of £89,000 was recognised in respect of retranslation of the foreign currency denominated asset. Subsequently the entire goodwill associated with the Trademark businesses has been impaired. See below.

Goodwill is allocated on initial recognition to each of the Group's cash-generating units ("CGU") 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 Asia 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 2014 budget approved by the Board for each cash-generating unit.

There are two possible stages to the impairment testing process. Stage two is reached only if impairment is indicated at stage one.

Stage one: After the initial projection period, no further formal forecasts are required to be submitted to the Board and a steady long-term growth rate of 2.5% with no improvement in operating margin is 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.

Stage two: If, under stage one assumptions, the present value of future cash flows is less than the associated carrying value of goodwill, more specific assumptions for growth rates and margins over the projection period of four years following the 2014 budget are required and submitted to the Board.

In both stages, after the initial five year projection period, 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.

11 Intangible assets (continued)

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

Pre-tax discount rate

A pre-tax discount rate, being the Board's estimated of the Group's weighted average cost of capital ("WACC"), of 13% (2012: 12%), has been used in discounting all projected cash flows.

The Board recognises that the WACC will be different for different sectors and geographies where subsidiaries operate. Based on the results of sensitivity analysis and an appreciation of the country and 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

Two CGUs have been identified as showing indications of impairment, those being Bite Germany and Lexis. With the exception of those two businesses, if expected growth rates reduced to 0%, or if the discount rate increased to 15%, this would not cause the carrying values of the groups of CGUs to exceed their recoverable amounts.

Lexis

During the prior year and continuing into the current year, Lexis underwent a significant transformation as part of the Group's digital transition. Changes in the senior management team, direction of the Company and integration of the acquired business Paratus, have represented an investment in future growth prospects and opportunities of the business. The skill sets acquired with Paratus have complimented the Lexis offering and giving access to more profitable client base in a newer market.

Through this transformation process the business continues to replace high-turnover, low-margin clients with higher value work. Existing client attrition, notably from three of the businesses larger clients, has reduced revenues but has been offset with some exciting new wins, particularly in the social media and digital seeding disciplines, which is where much of the investment and growth in the business is now expected to come from.

Whilst confidence in future growth is high, it is noted that the growth comes from a lower revenue base in a more uncertain and unpredictable project environment. This creates uncertainty in the five-year forecasts for Lexis which has been recognised by the Board. Management have control over staff costs but it is assumptions around new business wins and client attrition where there is most scope for error in estimations.

Expectations of an average 6% growth in revenues for a projection period of five years from 2013 and an average operating margin of 19%, generates substantial headroom over goodwill of £3,095,000 (33%). Sensitivity indicates that if the WACC were to increase by 2% to 15%, the value in use of the business falls by £2,300,000. If gross margins over the five-year projection period fall by 2%, there would be a reduction in headroom of £913,000.

Further sensitivity analysis on the assumptions shows that if the discount rate is increased in isolation to 15%, growth in revenues over the five-year projection period would need to be 5.3% with an average operating margin of 18% for the estimated recoverable amount of Lexis to be equal to its carrying value.

Confidence is high for the future growth of Lexis and expectations around discounted cash flows offer support for the value of goodwill associated with Lexis. They are very sensitive to changes in assumption or actual results. Given the uncertain environment and sensitivity to results, management will therefore continue to monitor the investment in Lexis.

Bite Germany

Bite Germany have seen significant management disruption over the past 12 months which required a total restructure of the leadership within the business. During the five-year projection period, management are anticipating the company will enter into a phase of recovery. Uncertainty exists over the ability of the business to generate significant cash flows over the projection period that would be sufficient to support the £1,950,000 value of goodwill however they are sufficient to cover the value of intangibles and property, plant and equipment.

The lower expectation of performance also indicate that there is no future liability for contingent consideration and as such there has been a credit to the income statement of £1,116,000 in respect of that change in estimate (note 17).

NOTES TO THE ACCOUNTS CONTINUED

11 Intangible assets (continued)

Detailed forecasts around what the business is capable of producing indicate an impairment over the investment. Given the uncertainties around the forecast results of the business and historic results to date, and the management expectations of future growth, the Board have taken the decision to fully impair the goodwill at this point.

There is still a strong focus from both Bite management and the Next Fifteen Board to re-invest in this business and to expand into the German market.

For all other CGUs there was no impairment of goodwill as the estimated recoverable amount comfortably exceeds the carrying value.

12 Property, plant and equipment

	Short leasehold improvements £'000	Office equipment £'000	Office furniture £'000	Motor vehicles £'000	Total £'000
Cost					
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
Exchange differences	69	56	39	(2)	162
Additions	1,010	558	217	8	1,793
Acquired through business combinations	-	118	4	-	122
Disposals	(223)	(340)	(457)	(25)	(1,045)
At 31 July 2013	4,578	7,209	1,484	14	13,285
Accumulated depreciation					
At 1 August 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
Exchange differences	43	32	26	(1)	100
Charge for the year	566	799	172	3	1,540
Disposals	(187)	(356)	(484)	(25)	(1,052)
At 31 July 2013	3,107	5,993	1,012	8	10,120
Net book value					
At 31 July 2013	1,471	1,216	472	6	3,165
At 31 July 2012	1,037	1,299	383	2	2,721

The net book value of property, plant and equipment for the Group includes assets held under finance lease contracts as follows: £Nil of short leasehold improvements (2012: £7,000) and £318,000 of office equipment and furniture (2012: £66,000). Depreciation charged in the year in respect of finance leases was £80,000 (2012: £209,000)

13 Trade and other receivables

	2013 £'000	2012 £'000
Current		
Trade receivables	20,133	19,897
Less: provision for impairment of trade receivables	(651)	(409)
Trade receivables – net	19,482	19,488
Balance owing from associate	335	–
Other receivables	1,154	763
Prepayments	1,458	1,520
Accrued income	4,217	2,890
	26,646	24,661
Non-current		
Rent deposits	1,041	875

As of 31 July 2013, trade receivables of £651,000 (2012: £409,000) were impaired. Movements in the provision are as follows:

	2013 £'000	2012 £'000
At 1 August	409	350
Provision for receivables impairment	456	226
Receivables written off during the year as uncollectable	(164)	(150)
Unused amounts reversed	(72)	(23)
Foreign exchange movements	22	6
At 31 July	651	409

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:

	2013 £'000	2012 £'000
Not past due	11,948	11,105
Up to 30 days	4,496	5,213
31 to 60 days	1,864	1,975
Greater than 61 days	1,174	1,195
At 31 July	19,482	19,488

NOTES TO THE ACCOUNTS CONTINUED

14 Trade and other payables

	2013 £'000	2012 £'000
Current		
Trade creditors	4,410	3,365
Finance lease obligation	63	25
Other taxation and social security	1,274	1,533
Short-term compensated absences	1,840	1,814
Other creditors	3,301	2,009
Accruals	7,727	6,136
Deferred income	5,603	4,723
	24,218	19,605
Non-current		
Finance lease obligation	88	6

15 Provisions

	2013 £'000	2012 £'000
At 1 August	129	131
Additions	301	-
Used during year	(23)	(2)
At 31 July	407	129
Current	62	-
Non-current	345	129

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 2013 £142,000 (2012: £23,000) of the provision covers the cost of dilapidations on a property which Bite leased following refurbishments during the year. A dilapidations provision of £106,000 (2012: £106,000) is also been recognised by Lexis in respect of obligations under the lease on its premises. Agreement and settlement of dilapidations provisions is not expected within the year. The remaining provision of £159,000 is management's best estimate of other provisions required.

16 Amounts due under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Amounts payable:				
Within one year	62	25	63	25
In two to five years	115	6	88	6
	177	31	151	31
Less: finance charges allocated to future periods	(26)	-	-	-
Present value of lease obligations	151	31	151	31

17 Other financial liabilities

	Deferred consideration ² £'000	Contingent consideration ¹ £'000	Share purchase obligation £'000	Total £'000
At 31 July 2011	-	10,917	4,348	15,265
Arising during the year	-	1,430	516	1,946
Changes in assumptions	-	(532)	(584)	(1,116)
Exchange differences	-	295	134	429
Utilised	-	(5,146)	(878)	6,024
Unwinding of discount	-	968	453	1,421
At 31 July 2012	-	7,932	3,989	11,921
Reclassification	1,537	(1,537)	-	-
Arising during the year	-	888	-	888
Changes in assumptions	-	254	(901)	(647)
Exchange differences	-	172	88	260
Utilised	(380)	(2,192)	-	(2,572)
Unwinding of discount	162	635	370	1,167
At 31 July 2013	1,319	6,152	3,546	11,017
Current	-	3,207	295	3,502
Non-current	1,319	2,945	3,251	7,515

¹ Contingent consideration on acquisitions – during the year, the Group acquired a controlling stake in Connections Media. See note 26 for additional information on this acquisition.

² Deferred consideration relates to Bourne where the quantity of the final payment has been agreed.

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 estimate the fair value of these liabilities taking into account expectations of future payments. The expectation of future payments is based on an analysis of the approved FY14 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.

	Total liability as at 31 July 2012 £'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 2013 £'000	Income statement sensitivity to a 10% increase in revenue £'000	Income statement sensitivity to timing of settlement £'000
Blueshirt	3,512	-	558	145	984	170	-	5,369	(438)	47
Upstream	1,169	-	89	(426)	-	29	-	861	(102)	-
Beyond	802	-	67	(240)	-	-	-	629	(63)	188
M Booth	2,504	-	179	-	552	(22)	(2,057)	1,156	-	-
463	492	-	57	(15)	-	18	-	552	(55)	(59)
Bourne	1,537	-	162	-	-	-	(380)	1,319	-	-
Other	138	-	-	-	-	-	(135)	3	-	-
Trademark	1,056	-	-	-	(1,116)	60	-	-	(12)	-
Paratus	711	-	20	(365)	(166)	-	-	200	(50)	-
Connections Media	-	888	35	-	-	5	-	928	(93)	-
	11,921	888	1,167	(901)	254	260	(2,572)	11,017	(813)	176

NOTES TO THE ACCOUNTS CONTINUED

17 Other financial liabilities (continued)

Sensitivity analysis

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.

Blueshirt

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 FY13 liability reflects an expectation of achieving the FY14 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 FY14 approved budget.

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 £438,000 (8%). For timing sensitivity over the share purchase obligation (£1,319,000), the accounting treatment assumes settlement will take place at the latest opportunity. If settled at the earliest opportunity, the liability would decrease by £47,000 (4%) representing an income to the Group.

Trademark

During the year, Trademark has had significant movements in the liability due to changes in estimate of future contingent consideration. This follows a re-estimation of future performance based on lower than expected current year results, approved FY14 budgets which see a fall in revenue and profit due to poor market conditions, and revised expectations for future market conditions over the course of the earnout.

Bourne

Following completion of the performance period, the final contingent consideration for the acquisition of CMG Worldwide Limited (trading as 'Bourne') was fixed at a set amount (£1,900,000), discounted back to its present value (£1,537,000) and reclassified to deferred consideration. On 16 January 2013, the Group paid the first instalment of £380,000 with the remaining £1,520,000 not becoming due until after 31 July 2014.

M Booth

The final M Booth contingent consideration is based on results to 31 July 2013. Since the balance sheet date, these numbers have been finalised and audited as such post the balance sheet date the amount has been reclassified as deferred consideration to reflect the fact that there is no sensitivity over the payment. There was an increase in the change in estimate in the year due to stronger than expected performance allowing M Booth to reach a kicker payment within their earnout agreement.

17 Other financial liabilities (continued)

Paratus

During the year, Paratus has had significant movements in the liability due to changes in estimate of future share purchase obligations. This is based on lower than expected current year results due to the loss of one of their largest clients and subsequently a re-estimation of future performance based approved FY14 budgets, and revised expectations for future market conditions over the course of the earnout.

Beyond

The actual results for Beyond in FY13 were below budget, resulting in a reduction in the estimate of future consideration. Beyond is considered the most sensitive earnout to potential changes in timing of settlement for the obligation. The earliest date settlement could take place is FY14 whereas the accounting assumes settlement will take place at the latest possible date, FY15. If settlement of the liability happened in FY14, this would decrease the liability by £188,000 (30%), 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

The Upstream share purchase obligation is based on FY13 actual results which are known and the expected FY14 results. The reduction of the liability in the year was a result of the FY13 budget not being met and a downward revision of the FY14 budget.

The sensitivity of this liability has decreased as there is only 1 year left for which there are now approved budgets in place.

NOTES TO THE ACCOUNTS CONTINUED

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 compensated absences £'000	Share-based remuneration £'000	Provision for impairment of trade receivables £'000	Excess book basis over tax basis of intangible assets £'000	Derivative financial instruments £'000	Other temporary differences £'000	Write off for misappropriation of assets £'000	Total £'000
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
Credit/(charge) to income	(114)	28	163	40	(360)	(31)	199	(538)	(613)
Exchange differences	-	(16)	-	-	-	-	(22)	-	(38)
Re class from current tax	-	-	-	-	(66)	-	-	-	(66)
Share option schemes	-	-	(84)	-	-	-	-	-	(84)
At 31 July 2013	247	527	1,135	121	(1,442)	43	1,643	-	2,274

After netting off balances, the following are the deferred tax assets and liabilities recognised in the Consolidated Balance Sheet:

	2013 £'000	2012 £'000
Net deferred tax balance		
Deferred tax assets	3,662	3,320
Deferred tax liabilities	(1,388)	(245)
Net deferred tax asset	2,274	3,075

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 £740,255. The deferred tax asset not recognised in respect of tax losses available to carry forward includes an amount relating to the UK £306,080, which has no time limit for utilisation, Germany £323,128, which also has no time limit for utilisation, Hong Kong £50,270 no time limit on utilisation and other territories £60,777 that have time limits for utilisation of between five years and an indefinite life.

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 2013 borrowings of US\$12m are covered by an interest rate swap arrangement with rates fixed at 2.09% less 3 month US Libor, above borrowing costs, 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 2013, based on year end balances and rates.

	Movement in basis points	2013 £'000	2012 £'000
United Kingdom	+200	(181)	(211)
US	+200	191	335

A rise in US interest rates of 2% would give a positive movement of £200,000 (2012: £345,000) 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 instrument in the fair value hierarchy.

NOTES TO THE ACCOUNTS CONTINUED

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 2013 the Group had a £16,000,000 revolving loan credit facility from Barclays Bank, available in sterling, US dollar and euro, with the undrawn amount of £7,254,000 (2012: £5,557,000). The interest rate is 2.25% above LIBOR and the facility is available to 31 December 2014. In addition, the Group has an overdraft facility with Barclays Bank, of £1,500,000 (2012: £1,500,000) at a rate of 1.5% (2012: 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 (£1,804,000) (2012: US\$2,735,000 (£1,746,000)) at the prime rate (currently 3.25%) 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 2014. At the balance sheet date, the Group had utilised £449,000 of the Barclays Bank facility and \$950,000 of the Wells Fargo facility was in use for letters of credit.

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 2013 and 2012, based on contractual undiscounted payments:

	Within one year £'000	Between two and five years £'000	Total £'000
As at 31 July 2013			
Financial liabilities	28,663	16,672	45,335
Derivative financial instruments – cash inflows	–	–	–
Derivative financial instruments – cash outflows	144	54	198
	28,807	16,726	45,533
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

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 considers the use of 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 2013 based on year end balances and rates.

	Weakening against sterling	2013 £'000	2012 £'000
US dollar	20%	(200)	(492)
Euro	20%	(371)	(346)
Australian dollar	20%	(44)	(317)
Chinese renminbi	20%	298	29
Hong Kong dollar	20%	(209)	51
Indian rupee	20%	20	(79)
Singapore dollar	20%	219	166

19 Financial instruments (continued)

Currency risk

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 2013 based on year end balances and rates.

	Weakening against sterling	2013 £'000	2012 £'000
US dollar	20%	17	(4)
Euro	20%	84	(37)
Australian dollar	20%	(28)	(35)
Chinese renminbi	20%	(28)	26
Hong Kong dollar	20%	62	17
Indian rupee	20%	(17)	(63)
Singapore dollar	20%	29	(35)

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:

	2013 £'000	2012 £'000
Total trade and other receivables	26,646	24,661
Cash and cash equivalents	8,064	8,436

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 2013 to 2018.

	2013 £'000	2012 £'000
Total loans and borrowings	9,722	11,009
Obligations under finance leases	151	31
Less: cash and cash equivalents	(8,064)	(8,436)
Net debt	1,809	2,604
Total equity	38,193	37,228
Total capital	40,002	39,832

NOTES TO THE ACCOUNTS CONTINUED

19 Financial instruments (continued)

Capital risk management (continued)

	2013 £'000	2012 £'000
Net debt	1,809	2,604
Share purchase obligation	3,546	3,989
Deferred consideration	1,319	-
Contingent consideration	6,152	7,932
	12,826	14,525

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; 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 2013, with the exception of obligations under finance leases. The book value of obligations under finance leases is £177,000 (2012: £31,000) and the fair value is £151,000 (2012: £31,000).

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 2013				
Non-current financial assets				
Other receivables	-	-	1,041	1,041
	-	-	1,041	1,041
Current financial assets				
Cash and cash equivalents	-	-	8,064	8,064
Trade and other receivables	-	-	26,646	26,646
	-	-	34,710	34,710
Current financial liabilities				
Loans and borrowings	-	591	-	591
Trade and other payables	-	24,218	-	24,218
Provisions	-	62	-	62
Share purchase obligation ¹	-	295	-	295
Contingent consideration ¹	3,207	-	-	3,207
Derivative financial liabilities	206	-	-	206
	3,413	25,166	-	28,579
Non-current financial liabilities				
Loans and borrowings	-	9,131	-	9,131
Provisions	-	345	-	345
Other payables	-	88	-	88
Deferred consideration ¹	1,319	-	-	1,319
Contingent consideration ¹	2,945	-	-	2,945
Share purchase obligation ¹	-	3,251	-	3,251
	4,264	12,815	-	17,079

¹ See note 17.

NOTES TO THE ACCOUNTS CONTINUED

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 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
Other payables	-	6	-	6
Contingent consideration ¹	4,987	-	-	4,987
Share purchase obligation ¹	-	3,989	-	3,989
	4,987	14,874	-	19,861

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 2013:

	Effective interest rate	2013 £'000	2012 £'000
Current			
Variable rate bank loan	Barclays Bank base rate + 1.5%	449	-
Variable rate bank loan	Wells Fargo Bank call-loan rate + 2.88%	-	130
Variable rate bank loan	Wells Fargo Bank call-loan rate + 2.75%	142	-
Fixed rate bank loan	7.17%	-	115
		591	245
Obligations under finance leases	3.42%	63	25
Non-current			
Variable rate bank loan	Barclays Bank LIBOR + 2.25%	8,746	10,443
Variable rate bank loan	Wells Fargo Bank call-loan rate + 2.88%	-	219
Variable rate bank loan	Wells Fargo Bank call-loan rate + 2.75%	85	-
Variable rate bank loan	Wells Fargo Bank call-loan rate + 0.01%	-	88
Fixed rate bank loan	3.21%	300	-
		9,131	10,750
Obligations under finance leases	3.42%	88	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\$3,200,000 has been designated as a hedge of the net investment in the Group's US subsidiary Blueshirt.

An additional \$1,800,000 has been designated as a hedge of the net investment in the Group's US subsidiary Connections Media. The fair value of the borrowings at 31 July 2013 is US\$12,000,000 (£7,915,000) (FY12: US\$10,250,000 (£6,348,000)). The foreign exchange loss of £229,000 (FY12: loss of £235,000) 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 2012	58,148,961	1,454
Issued in the year in respect of contingent consideration and share purchase obligations	531,343	13
Issued in the year in satisfaction of exercised share options (note 21)	1,076,723	27
At 31 July 2013	59,757,027	1,494

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.

	2013	2012
Risk-free rate	4.00%	4.00%
Dividend yield	2.81%	2.22%
Volatility ¹	33%	34%

¹ Volatility is based on the Group's share price movement between January 2003 and July 2013. 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 2013 the Group recognised a charge of £1,019,000 made up of; £438,000 (2012: £312,000) in respect of employment-related LTIP shares; £131,000 (2012: £Nil) in respect performance shares offered in respect of consideration for the remaining non-controlling interest acquired in Bourne in 2012; and £450,000 (2012: £Nil) in respect of the disposal of a 15% interest in Outcast (note 26).

NOTES TO THE ACCOUNTS CONTINUED

21 Share-based payments (continued)

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

	Outstanding at 1 August 2012 Number (‘000)	Granted number (‘000)	Lapsed number (‘000)	Exercised number (‘000)	Outstanding 31 July 2013 Number (‘000)	Exercisable 31 July 2013 Number (‘000)
Executive share option scheme	219	-	-	(126)	93	93
Long-Term Incentive Plan – options	48	-	-	-	48	48
Long-Term Incentive Plan – performance shares	5,155	1,703	(1,065)	(864)	4,929	-
Bourne Acquisition Grant	1,340	-	-	-	1,340	-
Restricted Stock Grant Agreement	87	-	-	(87)	-	-
	6,849	1,703	(1,065)	(1,077)	6,410	141
Weighted-average exercise price (p)	2.35	-	-	7.01	1.33	60.41

A total of 1,077,000 share options were exercised during the year ended 31 July 2013 at a weighted average market share price of 101p (2012: 1,941,000 at 86p).

Options over Ordinary Shares outstanding

Range of exercise prices (p)	0 – 66
Weighted average exercise price (p)	1.33
Weighted average remaining contractual life (months)	19

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

	Jan 2013	May 2013
Fair value of performance shares granted under the LTIP (p)	84	69
Share price at date of grant (p)	92	77
Risk-free rate (%)	4.00	4.00
Expected life (years)	4	4
Expected volatility (%)	21%	25%
Dividend yield (%)	2.29	2.81

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	13,334	59.5p	22 October 2003
	13,334		
Next Fifteen Communications Group plc Californian Executive Share Option Schemes	80,000	59.5p	22 October 2003
	80,000		
Next Fifteen Communications Group plc Long-Term Incentive Plan	18,271	56p	11 November 2005
	29,545	66p	10 April 2006
	47,816		

22 Share options (continued)

Performance shares	Number of shares	Performance period start date	Performance period end date	Performance share grant date
Next Fifteen Communications				
Long-Term Incentive Plan	1,045,000	1 August 2009	31 July 2013	9 February 2010
	35,000	1 August 2009	31 July 2013	4 June 2010
	1,056,000	1 August 2010	31 July 2014	16 November 2010
	900,000	1 August 2011	31 July 2015	22 December 2011
	390,000	1 August 2011	31 July 2015	10 May 2012
	1,483,092	1 August 2012	31 July 2016	7 January 2013
	20,000	1 August 2012	31 July 2016	1 May 2013
	4,929,092			
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			
	6,269,298			

Under the Next Fifteen Communications Group plc Executive Share Option Schemes ('ESOPs') except 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%.

During the year the Company issued 864,128 shares to satisfy the part of the share option exercises/LTIP vesting which were initially subscribed for by the ESOP. A restricted stock grant of 87,595 was also satisfied via the same process. 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 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 the growth of adjusted EPS over RPI 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, the final 87,595 restricted shares vested during FY13 there are no outstanding shares at 31 July 2013.

NOTES TO THE ACCOUNTS CONTINUED

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 four-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 also contains a continuous employment requirement over the four-year vesting period commencing on 1 August 2012. The employment condition means that under IFRS 2, 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.

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 2013 the ESOP held 259,129 (2012: 9,129) Ordinary Shares in the Company, which represents 0.4% (2012: 0.0%) of the Ordinary Share capital. The ESOP reserve of £221,401 (2012: £233) represents the cost of these shares held by the ESOP in the Company at 31 July 2013. The nominal value of shares held was £6,478 (2012: £228), and the market value at 31 July 2013 was £235,807 (2012: £8,489). The right to receive dividends on all shares has been waived.

During the year to 31 July 2013, a number of employees exercised their options. No shares were issued by the ESOP in satisfaction of share option exercises (2012: 2,000 were issued for proceeds of £470). The ESOP subscribed for 864,128 newly issued shares which were allotted and immediately disposed of in order to satisfy LTIP vesting for £Nil consideration (2012: 240,780 disposed of). A total of 87,595 shares were subscribed for, allotted and immediately disposed of in respect of satisfaction of a restricted stock arrangement for £Nil proceeds (2012: 87,600).

Treasury shares

At 31 July 2013, the Group held no treasury shares (2012: Nil) at a cost of £Nil (2012: £Nil).

24 Other reserves

	ESOP reserve ¹ £'000	Treasury shares ² £'000	Hedging reserve £'000	Total other reserves £'000
At 1 August 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)
Total comprehensive income for the year	-	-	(229)	(229)
Purchase and take on of shares	(245)	-	-	(245)
Movement due to restricted stock issue as part of acquisition arrangements	2	-	-	2
Movement due to ESOP share option and LTIP exercises	22	-	-	22
At 31 July 2013	(221)	-	(362)	(583)

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. In the prior 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 2013, the Group's total future minimum lease rentals are as follows:

	2013 Land and buildings £'000	2013 Other £'000	2012 Land and buildings £'000	2012 Other £'000
In respect of operating leases which will expire:				
Within one year	4,945	129	4,842	170
In two to five years	7,234	350	11,129	219
After five years	-	-	381	-
	12,179	479	16,352	389

26 Acquisitions and equity transactions

During the year the following transactions took place:

1. *Set up an equity incentive scheme for Outcast;*
 2. *The acquisition of US-based business Connections Media;*
 3. *The acquisition of UK-based business Content and Motion;*
- More details on each transaction are provided below.

1. 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.

As at 31 July 2012, Next 15 owned 100% of the equity in OutCast LLC. On 1 August 2012, 15% of that equity was reclassified as a new restricted class of shares and allotted to certain members of the Outcast senior management team for £Nil consideration. The 15% interest holds value based on access to non-cumulative and restricted profit distributions as well as the opportunity to gain value from future incremental growth in profitability above the level of profit seen in the year to 31 July 2011. Any value is realised on any subsequent sale of shares which is restricted by defined terms around the timing and pricing formula.

NOTES TO THE ACCOUNTS CONTINUED

26 Acquisitions and equity transactions (continued)

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 and the remaining 50% interest can be sold by the participant at the end of fiscal year 2016 or any subsequent fiscal year or held indefinitely. In the event an employee shareholder leaves the business, Next 15 have the option to re-purchase the shares under a consistent pricing formula.

The allotment of shares is accounted for as an equity settled share-based payment with no performance period resulting in a one-off charge (£450,000) to the income statement at inception.

2. *Connections Media*

On 1 April 2013, Next Fifteen Communications (US Holdings) LLC ('Next Fifteen USH') acquired 80% of the issued share capital of US-based Connections Media LLC ('Connections Media'). The acquisition was made with a view to enhancing the digital service offering of the Group.

The initial consideration paid in cash on completion was £1,202,000 (\$1,846,000).

Contingent consideration will be payable subject to the achievement of certain profit and margin targets. The first payment is based on the average profits achieved by the entity for the financial years ended 31 July 2014 and 31 July 2015. The second and final payment is based on the average profits achieved by the entity of the financial years ended 31 July 2016 and 31 July 2017.

At the option of the Next Fifteen US Holding and Next 15, in their sole and absolute discretion, a maximum of 25% of the contingent consideration can be satisfied by Next 15 shares. The remaining 20% stake will be acquired at a mutually agreeable time. Management's best estimate of consideration payable to settle this share purchase obligation at the date of acquisition was £1,365,000 undiscounted and £888,000 discounted. At the balance sheet date, the present value of the obligation was £928,000.

Acquisition costs of £33,000 were paid in relation to the purchase of Connections Media, and recognised within the Consolidated Income Statement in the period to 31 July 2013.

Goodwill of £1,387,000 arises from anticipated profitability and future operating synergies from the combination.

Intangible assets of £594,000 have been recognised in respect of customer relationships and £22,000 for Non-compete agreements, both of which will be amortised over six years.

In the post-acquisition period, the Connections Media business contributed £508,000 to revenue and £134,000 to profit before tax.

26 Acquisitions and equity transactions (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	–	616	616
Property, plant and equipment	115	–	115
Current assets			
Cash and cash equivalents	644	–	644
Other current assets	147	–	147
Current liabilities	(643)	–	(643)
Net assets acquired	263	616	879
Goodwill			1,387
			2,266
Consideration			
Cash consideration			1,202
Total contingent cash consideration			888
			2,090
Fair value of non-controlling interest			176
			2,266

¹The fair value adjustment relating to intangible assets is due to the recognition of £616,000 in respect of customer relationships and brand name which have been independently valued and will be amortised over six years.

3. Content and Motion

On 1 August 2012, Beyond Corporation Limited (previously Project Metal Limited) acquired the entire issued share capital of UK-based Content and Motion Limited. On 1 September 2012 the trade and assets of Content and Motion Limited were transferred into the acquiring company. The acquisition will round out Beyond Corporation Limited's services capability as a new style of socially-driven creative digital agency.

The initial consideration paid in cash on completion was £425,000.

Acquisition costs of £38,000 were paid in relation to the purchase of Content and Motion, and recognised within the consolidated income statement in the period to 31 July 2013.

Goodwill of £258,000 arises from anticipated profitability and future operating synergies from the combination.

Intangible assets of £240,000 have been recognised in respect of customer relationships, which will be amortised over four years and £57,000 for a non-compete agreement, which will be amortised over two years.

Deferred tax liabilities of £66,000 arise on recognition of the intangible fixed assets which will be released over the same amortisation period of those assets.

NOTES TO THE ACCOUNTS CONTINUED

26 Acquisitions and equity transactions (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	–	297	297
Property, plant and equipment	11	–	11
Current assets			
Cash and cash equivalents	22	–	22
Other current assets	147	–	147
Current liabilities	(244)	–	(244)
Deferred tax liabilities	–	(66)	(66)
Net assets acquired	(64)	231	167
Goodwill			258
			425
Consideration			
Cash consideration			425
			425

¹The fair value adjustment relating to intangible assets is due to the recognition of £297,000 in respect of customer relationships, a non-compete agreement and associated deferred tax liabilities which have been independently valued and will be amortised over four and two years respectively.

NOTES TO THE ACCOUNTS CONTINUED

27 Subsidiaries

The Group's principal subsidiaries at 31 July 2013 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
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.

NOTES TO THE ACCOUNTS CONTINUED

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, Connections Media and Beyond Corporation Limited and Beyond International Corporation 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 2013 there were the following related-party transactions:

463 provided consultancy services to Digital Citizens Advisory Alliance ('DCAA'). A Director of 463 has an interest in this company. Income of £252,412 was recognised during the year and £95,445 is outstanding at the year end.

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 had a controlling interest. During the year £75,101 (2012: expense of £53,000) was recognised as an expense in respect of marketing and consulting services provided to Series C and £9,202 (2012: £21,000) as income in respect of rental and service charge. At the year end, Bite US recognised a receivable of £62,762 (2012: £21,000) and payable of £Nil (2012: £15,000).

Text 100 France provided services to Sofitel during the year for blogger outreach and community management. The sister-in-law of a Director at Text 100 has an interest in this company. Income of £15,660 was recognised in the year and £Nil is outstanding at the year end.

Text 100 Denmark provided media relations services to Barsmark. A senior executive at Text 100 has an interest in this company. Income of £6,685 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 parent. The cost of services provided was £383 (2012: £5,000) and £Nil is outstanding at the year end (2012: £5,000).

Bite Hong Kong acted as an agent for Asset Pioneer, an entity in which one of the Bite Directors has an interest through their spouse. No income was recognised in the year, given that the agent principle has been applied. £4,567 (2012: £2,482) remained outstanding from the company at the year end.

Bite Hong Kong received video editing and shooting services from Merz Productions Ltd in which one of the Bite Directors has an interest through their spouse. During the year £3,034 was recognised as an expense and £Nil is outstanding at the year end.

Bite Singapore provided public relations consultancy services to 3radical Pte Ltd. One Director has an interest in this company through their parent. Income of £26,249 was recognised during the year and £9,116 is outstanding at the year end.

Bite Australia leased a motor vehicle from the spouse of a Director. An expense of £8,225 was recognised during the year and £Nil is outstanding 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 £118,000, £552 and £696 respectively. Key management personnel compensation is disclosed in note 3.

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:

	2013 £'000	2012 £'000
In respect of operating leases which will expire:		
Within one year	124	100
In two to five years	24	108
	148	208

30 Events after the balance sheet date

Blueshirt

On 29 October 2013, Next Fifteen (US Holdings Corporation) Limited settled part of its contingent consideration liability to Blueshirt. \$3,126,000 (£1,942,000) was paid to the Vendors in cash.

M Booth

On 30 October 2013, part of the final contingent consideration earnout liability was settled. Next Fifteen Communications Limited paid \$852,000 (£530,000) cash in part settlement of the liability. Upon completion of the close period, a further \$451,000 (£280,000) will be issued in the share capital of Next 15. The final portion of the contingent consideration earnout liability will be paid out within the next 12 months. The remaining balance of \$500,000 can be issued in the share capital of Next 15 or in cash at the discretion of the Group.

Due to the immaterial nature of additional transactions entered into after the year end, full post balance sheet event disclosure is not required, however an outline of these events is provided below.

Beyond

On 9 August 2013, David Hargreaves tendered his resignation as a Director of Beyond Corporation Limited and Beyond International Corp ('Beyond'). At that date, Next 15 and David Hargreaves entered into a deed of covenant to acquire the entire share capital of Beyond held by David Hargreaves which consisted of 10.4% in Beyond. On 23 August 2013, 240 shares of common stock of Beyond International Corporation were transferred to Text 100 LLC in exchange for £80,000 in cash consideration. At the same date, 240 shares of capital stock in Beyond Corporation Limited were transferred to Next Fifteen Communications Group plc in exchange for cash consideration of £321,000. This acquisition of shares takes Next 15's direct and indirect ownership of both businesses to 61.4%.

BiteDA

On 28 August 2013, a previously dormant entity within the Bite Group changed its name to BiteDA Limited. On 1 October 2013, certain trade and assets within Bite Communications Limited were transferred to BiteDA Limited with consideration set equal to net book value. The business will continue going forwards as a creative digital marketing agency engaged to design and build email content and websites.

Group Finance Director

On 29 October 2013, the Group Finance Director, David Dewhurst agreed to step down from his position. The Board has embarked on a search for a replacement Finance Director and Alicja Lesniak is leading this process. In the meantime Peter Harris, who has extensive media industry experience, has been appointed as Interim Chief Financial Officer.

COMPANY BALANCE SHEET

as at 31 July 2013

	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Fixed assets					
Tangible assets	3		157		287
Investments	4		70,776		66,990
			70,933		67,277
Current assets					
Debtors: amounts falling due within one year	5	4,508		5,633	
		4,508		5,633	
Current liabilities					
Creditors: amounts falling due within one year	6	(8,426)		(6,741)	
Net current liabilities			(3,918)		(1,108)
Total assets less current liabilities			67,015		66,169
Creditors: amounts falling due after more than one year	7		(10,066)		(11,979)
Net assets			56,949		54,190
Capital and reserves					
Called up share capital	9	1,494		1,454	
Share premium account	9	7,557		6,935	
Merger reserve	9	3,075		3,075	
Share-based payment reserve	9	3,183		2,615	
ESOP reserve	9	(221)		-	
Other reserve	9	28,566		28,566	
Profit and loss account	9	13,295		11,545	
Equity shareholders' funds	9		56,949		54,190

These financial statements were approved and authorised for issue by the Board on 6 December 2013.

T Dyson

Chief executive officer

Company number 01579589

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 July 2013

	Company 2013 £'000	Company 2012 £'000
Profit attributable to shareholders	3,159	685
Dividends	(1,409)	(1,208)
	1,750	(523)
Issue of shares	662	977
Issue of performance shares on acquisition	-	577
Movement on share-based payment reserve	568	312
Movement of own equity shares held in ESOP	(221)	2
Net addition to shareholders' funds	2,759	1,345
Opening shareholders' funds	54,190	52,845
Closing shareholders' funds	56,949	54,190

NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 July 2013

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% to 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

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

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.

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 £3,159,000 (2012: £685,000).

NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS

CONTINUED

3 Tangible assets

	Office equipment £'000	Computer software £'000	Total £'000
Cost			
At 1 August 2012	636	1,507	2,143
Additions	15	–	15
At 31 July 2013	651	1,507	2,158
Accumulated depreciation			
At 1 August 2012	579	1,277	1,856
Charge for the year	30	115	145
At 31 July 2013	609	1,392	2,001
Net book value			
At 31 July 2013	42	115	157
At 31 July 2012	57	230	287

4 Investments

	Company equity interest in subsidiaries £'000
Cost	
At 1 August 2012	66,990
Capital contribution in subsidiary undertaking ¹	520
Additional investment in 100% owned subsidiary ²	3,266
At 31 July 2013	70,776

¹ On 1 August 2012, the Company made a capital contribution to Beyond Corporation Limited, a 51% owned subsidiary. The contribution was made in order for Beyond Corporation Limited to acquire 100% of the Ordinary Share Capital of Content and Motion Limited, a company registered and incorporated in England and Wales, which is engaged in the provision of social communications services.

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 £2,057,000 to M Booth & Associates, Inc. and an acquisition payment of £1,209,000 for Connections Media 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 2013 £'000	Company 2012 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	3,115	4,237
Amounts due from associate	328	–
Other debtors	160	79
Prepayments and accrued income	799	1,105
Deferred tax asset	83	111
Corporation tax	–	53
Other taxation	23	48
Total debtors	4,508	5,633

6 Creditors: amounts falling due within one year

	Company 2013 £'000	Company 2012 £'000
Overdraft ¹	1,647	1,536
Trade creditors	202	188
Amounts owed to subsidiary undertakings	6,077	4,450
Corporation tax	4	–
Other taxation and social security	43	38
Other creditors	2	7
Accruals and deferred income	451	522
Total	8,426	6,741

7 Creditors: amounts falling due after more than one year

	Company 2013 £'000	Company 2012 £'000
Bank loan ^{1,2}	8,747	10,442
Contingent consideration	1,319	1,537
Amounts owed to subsidiary undertakings	–	–
Total	10,066	11,979

¹ The entire bank facility is secured on guarantees from the guarantor pool.

² The 2013 Company figure of £8,747,000 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 prevailing at the time they are drawn. The foreign currency element of the loans is revalued at the prevailing rate at 31 July 2013.

NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS CONTINUED

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) undertakings which were not wholly owned at the balance sheet date:

	Recharges		Intercompany Interest	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Agent3 Limited	33	-	2	-
CMG Worldwide Limited ('Bourne')	-	30	-	2
Beyond Corporation Limited	28	24	(1)	(1)
Beyond International Corporation	12	25	-	-

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

	2013 £'000	2012 £'000
Agent3 Limited	328	-
CMG Worldwide Limited ('Bourne')	-	27
Beyond Corporation Limited	(252)	(66)
Beyond International Corporation	1	15

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 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
Profit attributable to shareholders	-	-	-	-	-	-	-	3,159	3,159
Dividends	-	-	-	-	-	-	-	(1,409)	(1,409)
Shares issued in satisfaction of vested share options and performance shares	27	72	-	-	-	-	-	-	99
Shares issued to existing subsidiaries	13	550	-	-	-	-	-	-	563
Movement in relation to share-based payments	-	-	-	568	-	-	-	-	568
Movement due to ESOP share purchases	-	-	-	-	(245)	-	-	-	(245)
Movement due to ESOP share option exercises	-	-	-	-	24	-	-	-	24
At 31 July 2013	1,494	7,557	3,075	3,183	(221)	-	28,566	13,295	56,949

FIVE-YEAR FINANCIAL INFORMATION

for the year ended 31 July 2013 (unaudited)

	2013 IFRS £'000	2012 IFRS £'000	2011 IFRS £'000	2010 IFRS £'000	2009 IFRS £'000
Profit and loss					
Billings	113,360	108,453	105,163	91,175	77,287
Revenue	96,069	91,583	86,035	72,328	65,394
Staff costs	68,261	62,767	59,699	49,757	43,792
Operating profit	3,005	6,638	8,017	6,508	3,850
Net finance (expense)	(841)	(693)	(490)	(1,204)	(692)
Profit before income tax	2,085	5,959	7,527	5,304	3,158
Income tax (expense)	(1,364)	(1,652)	(2,260)	(1,591)	(884)
Profit for the year	721	4,307	5,267	3,713	2,274
Non-controlling interests	(393)	(401)	(270)	(38)	(342)
Profit attributable to owners of the parent	328	3,906	4,997	3,675	1,932
Balance sheet					
Non-current assets	49,457	48,227	44,336	31,919	22,618
Net current assets	7,203	9,107	8,674	4,222	7,603
Non-current liabilities	(18,467)	(20,106)	(20,677)	(8,562)	(5,319)
Total equity attributable to owners of the parent	36,008	35,109	29,040	26,629	24,147
Non-controlling interests	2,185	2,119	3,293	950	755
Total equity	38,193	37,228	32,333	27,579	24,902
Cash flow					
Profit for the year	721	4,307	5,267	3,713	2,274
Non-cash adjustments and working capital movements	10,465	5,745	6,173	2,859	3,987
Net cash generated from operations	11,186	10,052	11,440	6,572	6,261
Income tax paid	(2,686)	(2,520)	(2,618)	(1,465)	(1,476)
Net cash from operating activities	8,500	7,532	8,822	5,107	4,785
Acquisition of subsidiaries net of cash acquired	(3,019)	(5,664)	(6,304)	(2,875)	(4,448)
Acquisition of property, plant and equipment	(1,786)	(835)	(1,920)	(1,178)	(415)
Net cash outflow from investing activities	(5,084)	(6,570)	(8,074)	(4,918)	(4,709)
Net cash movement in bank borrowings	(1,286)	983	1,993	2,559	(1,462)
Dividends paid to owners of the parent	(1,409)	(1,208)	(1,045)	(932)	(900)
Net cash inflow/(outflow) from financing activities	(3,871)	(1,010)	410	(65)	(3,330)
Increase/decrease in cash for the year	(455)	(48)	1,158	(129)	(3,254)
Dividend per share (p)	2.55	2.30	2.05	1.85	1.70
Basic earnings per share (p)	0.56	6.85	9.10	6.75	3.67
Diluted earnings per share (p)	0.49	6.04	7.82	6.02	3.66

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Key performance indicator and other non-statutory measures					
Adjusted staff costs as a % of revenue ¹	69.6	68.1	69.4	68.8	67.0
Adjusted EBITDA ²	8,610	11,227	10,712	8,446	5,531
Adjusted profit before income tax ³	7,705	9,589	8,397	6,612	5,249
Adjusted earnings per share (p) ⁴	7.49	11.42	10.17	8.45	6.48
Diluted adjusted earnings per share (p) ⁴	6.65	10.07	8.74	7.53	6.46
Net (debt)/cash ⁵	(1,809)	(2,604)	(1,571)	(871)	1,785

¹ Staff costs excluding restructuring costs and charges associated with equity transactions accounted for as share based payments. See note 5 of the financial statements.

² Operating profit before depreciation, amortisation and the impact of fraudulent activity.

³ See note 5 of the financial statements.

⁴ See note 10 of the financial statements.

⁵ 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	8 January 2014
Record date	10 January 2014
Annual General Meeting	21 January 2014
Payment of 2013 final dividend	7 February 2014

Interim dividend

Interim results announcement	8 April 2014
Ex-dividend date	16 April 2014
Record date	22 April 2014
Payment of 2014 interim dividend	16 May 2014

Preliminary results

Full-year results announcement	November 2014
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These dates are provisional and may be subject to change.

Advisers

Nominated Adviser and Brokers

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EC2V 7QR

Auditors

BDO LLP
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London
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Registrars

Capita Asset Services

The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
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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
E-mail: ssd@capitaregistrars.com

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Company Number

01579589

Registrar

Shareholders who change address, lose their share certificates, want to have dividends paid directly into their bank account or otherwise have a query or require information relating to their shareholding should contact the Company's Registrar using the contact information above. Shareholders can also check their details and transaction histories via the Registrars' website at www.capitaregistrars.com.

Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan (DRIP) enables shareholders to use their dividends to buy further Next 15 shares. Full details of the DRIP can be obtained from the Registrars. If shareholders would like their final 2013 and future dividends to qualify for the DRIP, completed application forms must be returned to the Registrar by 13 January 2014.

Unauthorised brokers (boiler room scams)

Shareholders are advised to be wary of scams, where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad. While high profits are promised, those who buy or sell shares in this way usually lose their money. If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should note the name of the person and organisation contacting you and check that they are properly authorised by the FCA (www.fca.org.uk/register/) before handing over any money. If you deal with an unauthorised firm, you will not have access to the Financial Ombudsmen or the Services Compensation Scheme if things go wrong. If you think you have been approached by an unauthorised firm you should contact the FCA consumer helpline on 0800 111 6768. More detailed information can be found on the FCA website at www.fca.org.uk/consumers/protect-yourself/unauthorised-firms.

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Or visit: <http://www.ar13.next15.com>



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