

Notes to the accounts

for the year ended 31 July 2009

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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 periods presented, unless otherwise stated.

A. Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union ('adopted IFRS').

The income statement for the year ended 31 July 2008 presented gains or losses on forward foreign exchange contracts that were settled during the year within other operating charges. The movement in the fair value of forward foreign exchange contracts open at the opening and closing balance sheet dates was presented within finance expense. The income statement for the year ended 31 July 2008 has been restated to ensure that these items are both presented within other operating charges. This resulted in a decrease in finance expense and a corresponding increase in other operating charges of £589,000. There is no impact on profit for the year.

B. Transitional provisions of IFRS accounting policies

The Group's date of transition to adopted IFRS is 1 August 2006. IFRS 1 First-time Adoption of International Financial Reporting Standards sets out the procedures that the Group has followed as the basis for preparing its consolidated financial statements under IFRS. The Group was required to establish its IFRS accounting policies as at 31 July 2008 and, in general, apply these retrospectively to determine the IFRS balance sheet at the date of transition.

The standard provides a number of optional exemptions to this general principal. The most significant of these are set out below, together with the description in each case of the exemptions adopted by the Group.

i) Business combinations that occurred before the transition date (IFRS 3 Business Combinations)

The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place before the date of transition. As a result, in the transition balance sheet, goodwill arising on past business combinations remains as stated under UK GAAP as at 31 July 2006.

ii) Fair value or revaluation at deemed cost (IAS 16 Property and Equipment)

The option to restate items of property, plant and equipment to their fair value at the transition date has not been taken by the Group. For all items, the Group has elected to take their carrying value as shown previously under UK GAAP as their deemed cost.

iii) Foreign currency translation reserve (IAS 21 The Effects of Changes in Foreign Exchange)

For accounting periods beginning on or after the transition date, IFRS requires amounts taken to reserves on the translation of foreign subsidiaries, associates and branches to be recorded in a separate foreign currency translation reserve and to be included in the future calculation of profit or loss on disposal of the subsidiary, associate or branch. The foreign currency translation reserve was set at zero at the transition date.

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.

Notes to the accounts continued

1 Accounting policies (continued)

C. Basis of consolidation (continued)

Where the Group obtains and recognises the power to govern the financial and operating policies of an associate undertaking, the associate becomes a subsidiary. The assets, liabilities, contingent liabilities and results are accounted for in line with subsidiary accounting discussed above, effective from the date in which control is recognised (the acquisition date). Control can be gained where the right to purchase the majority shareholding exists, whether or not that right is exercised. Where the recognition of control is accompanied with a purchase of a shareholding in the now subsidiary, goodwill is calculated at the acquisition date. Goodwill is calculated separately for each tranche of shares acquired and is based on the fair value of the consideration less the fair value of assets, liabilities and contingent liabilities acquired. The original holding (prior to the recognition of the associate as a subsidiary) is revalued based on existing fair values at the acquisition date and any gain or loss is recognised in a separate revaluation reserve within equity in the consolidated balance sheet.

See V(III) for information regarding accounting for the increase in stake of a subsidiary.

Inter-company 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 131 of the Companies Act 1985 (section 612 of the Companies Act 2006 after 1 October 2009) 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. Associates

Where the Group has the power to exercise significant influence (but not control) over the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated balance sheet at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's unrealised profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

F. Revenue

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

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

- Retainer and other non-retainer fees are recognised as the services are performed, in accordance with the terms of the contractual arrangement.
- Project fees are recognised on a percentage 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.

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1 Accounting policies (continued)

G. Intangible assets

Goodwill Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement.

Software Licences for software that are not integral to the functioning of a computer are capitalised as intangible assets. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs.

Amortisation is provided on software at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life of five to seven years.

No amortisation is charged on assets in the course of construction until they are available for operational use in the business. Capitalised computer software that is not an asset in the course of construction is amortised on a straight-line basis over its useful economic life. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

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 costs 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 five years.

H. 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, or until the first break clause.
Office equipment	– 20% – 50% per annum straight-line.
Office furniture	– 20% per annum straight-line.
Motor vehicles	– 25% per annum straight-line.

I. Impairment

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

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

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

Impairment charges are included within amortisation in the consolidated income statement, except to the extent they reverse gains previously recognised in the consolidated statement of recognised income and expense. An impairment loss recognised for goodwill is not reversed.

Notes to the accounts continued

1 Accounting policies (continued)

J. 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. Foreign exchange movements on inter-company loans with indefinite terms, and for which there is no expectation of a demand for repayment, are recognised directly in equity.

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, the results of overseas operations at average rates and on foreign currency borrowings are recognised directly in the foreign currency translation reserve within equity.

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.

K. Segment reporting

A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Primary segment: The Group has one business segment, being the provision of public relations services.
A second business segment, being research, is not large enough to require segmental disclosure.

Secondary segments: The Group operates in four geographical segments, being the UK, Europe and Africa, US and Canada, and Asia Pacific.

L. 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. On confirmation that the trade receivable will not be collectable, the gross carrying value is written off against the associated allowance.

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

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1 Accounting policies (continued)

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.

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

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

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

M. 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.

N. Borrowing costs

Finance costs of borrowing are recognised in the income statement over the term of the borrowings.

O. 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.

P. 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 vesting conditions.

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.

Q. 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.

Notes to the accounts continued

1 Accounting policies (continued)

R. Deferred taxation

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

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

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

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

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

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

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

S. 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.

T. 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 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 investment-in-own-shares reserve.

U. 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.

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1 Accounting policies (continued)

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

III. Accounting for the increase in stake of a subsidiary IFRS 3 Business Combinations does not provide guidance on this subject, as increasing the holding in a business which is already treated as a subsidiary is outside the scope of IFRS 3. The purchase of an additional stake in a business does not constitute a business combination as the business combination occurred when control was established. The Board has exercised judgement regarding the accounting treatment of increasing the holding in a subsidiary, and the part or full acquisition of a minority interest is treated as giving rise to additional economic interest held by the Group. A purchase will generally result in the recognition of goodwill and reduced minority interest. Goodwill is recognised according to the fair value of the consideration and the fair value of the assets and liabilities acquired at the date of the purchase.

W. 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:

a) Interpretations to existing standards and new standards which are not yet effective but are mandatory to the Group's future accounting periods, which the Group has not early adopted

IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009) replaces IAS 14 and aligns segment reporting with the requirements of the US standard and SFAS 131 Disclosures about Segments and an Enterprise and Related Information. The new standard uses a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

IAS 1 Presentation of Financial Statements revised (effective for accounting periods beginning on or after 1 January 2009). IAS 1 has been revised to enhance the usefulness of information presented in the Group financial statements.

IFRS 3 Business Combinations revised (effective for accounting periods beginning on or after 1 July 2009) requires that all acquisition costs must be expensed, contingent consideration is to be measured at fair value at the acquisition date and any subsequent movements must be recognised as an expense in the consolidated income statement. In addition, equity interests held prior to control being obtained must be re-measured at fair value at the acquisition date, with any gain or loss recognised in the consolidated income statement. Increases in ownership interest in a subsidiary that do not result in a change of control are treated as transactions amongst equity holders and reported within equity.

Notes to the accounts continued

1 Accounting policies (continued)

Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009). This amendment relates in particular to acquisitions of subsidiaries achieved in stages and disposals of interests, with significant differences in the accounting depending on whether control is gained or not, or a transaction simply results in a change in the percentage of the controlling interest. The amendment does not require the restatement of previous transactions. The amendment to IAS 27 must be adopted at the same time as IFRS 3 Revised.

IAS 23 Borrowing Costs revised (effective for accounting periods beginning on or after 1 January 2009). The revised standard eliminates the option of expensing all borrowing costs and requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.

IFRS 2 Share-Based Payment Vesting Conditions and Cancellations (effective for accounting periods beginning on or after 1 January 2009) requires that vesting conditions are service conditions and performance conditions only and that all cancellations, whether by the entity or other parties, should receive the same accounting treatment.

Amendments to IFRS 7 (effective for accounting periods beginning on or after 1 January 2009). This amendment requires the analysis of each class of financial asset and financial liability into a three-level fair value measurement hierarchy. It also implements some changes to the definition of and disclosures associated with liquidity risk.

IAS 39 Financial Instruments Recognition and Measurement: Eligible Hedged Items (effective for accounting periods beginning on or after 1 July 2009) clarifies the principles that determine whether a hedged risk or portion of cash flows is eligible for designation.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2009) clarifies that the presentation currency does not create an exposure to which an entity may apply hedge accounting and the hedging instrument(s) may be held by any entity or entities within the Group, other than the entity being hedged.

IAS 24 Related Party Transactions (effective for accounting periods beginning on or after 1 January 2011) clarifies and simplifies the definition of a related party.

b) Interpretations to existing standards which are not yet effective and not relevant for the Group's operations

IFRS 1, IAS 27 Cost of an Investment in a Subsidiary, Jointly controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2009).

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009).

IFRIC 18 Transfer of Assets from Customers (effective for accounting periods beginning on or after 1 July 2009).

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (effective for accounting periods beginning on or after 1 January 2009).

Amendments to IFRIC 9 and IAS 39 Embedded Derivatives (effective for accounting periods beginning on or after 30 June 2009).

Amendments to IFRS2 Group Cash-settled Share-based Payment Transactions (effective for accounting periods beginning on or after 1 January 2010).

The Group does not consider that these standards will have a significant impact on the financial statements of the Group in the period of initial application. The impact of the revisions to IAS 27 and IFRS 3 will depend on the circumstances of the business combinations occurring on or after 1 August 2009.