

M&CSATCHI

Subsidiary NO 041239240



FRIDAY



A7CIBVCH

A20

17/08/2018

#255

COMPANIES HOUSE

ANNUAL REPORT

| | |
|---------------------------------------|-----------|
| CHAIRMAN | 2 |
| RESULTS | 3 |
| NEW BUSINESS | 4 |
| STRATEGIC REPORT | 5 |
| CHIEF EXECUTIVE | 6 |
| FINANCE DIRECTOR | 9 |
| BOARD | 16 |
| DIRECTORS' REPORT | 18 |
| REMUNERATION REPORT | 25 |
| FINANCIAL STATEMENTS AND NOTES | 28 |
| ADDITIONAL INFORMATION | 96 |

CHAIRMAN

2017 was a challenging year for our competitors. The larger communication groups were hampered by both their size and their age, making it difficult for them to react quickly to the changing climate and the changing client requirements.

Once again, our strategy was our saviour. New business and new businesses pushed turnover, profits and dividends to new highs. Credit must be given to our partners round the world; the system of shared ownership unites our interests, creating an infectious combination of enthusiasm and determination.

This success increases the amount we pay our entrepreneurs, which can decrease our (statutory) profits but since we don't pay it unless they make it, the more the better.

Last year we started sixteen new companies, eight being exports of successful enterprises and eight being completely new divisions. With luck, amongst them will be the next M&C Saatchi Mobile or the next LIDA or the next M&C Saatchi World Services. We need to be as imaginative with our structure and our ways of working as we are with the work we do for our clients.

If any of our shareholders sees a gap in the market or knows someone who shouldn't be a wage slave, please let us know. We are constantly looking for new people in new places.

Jeremy Sinclair
Chairman
21 March 2018

RESULTS

REVENUE

+12%

PROFIT*

+37%

HEADLINE

- PROFIT*

+16%

- EARNINGS

+17%

- EPS

+9%

* Profit Before Tax.
A full reconciliation of headline measures can be found in note 1.

NEW BUSINESS

ALDAR PROPERTIES

AMFF

AUTOMARK

BONDUELLE

CASINO SUPERMARKETS

CENTERPARTIET

CHARLES & ALICE

CLINIQUE

COSTA COFFEE

DREAMS

HEINEKEN EXPORT

JACK DANIELS

LEXUS

LIPTON

LITTLE DISH

PACIFIC LIFE

PE CONSULTING

PFIZER

PRUDENTIAL

SISAL

SOUTH AFRICAN RESERVE BANK

THE BODY SHOP

UAE BANKS FEDERATION

VISIT BRITAIN

WINDHOEK

STRATEGIC REPORT

In the following report the terms Headline and Statutory are used.

Headline measures are used by the Board to assess the underlying profitability of the Group; these are alternative performance measures that the Board considers provide a more appropriate basis to assess the results of each region and are how the business is managed and monitored on a day to day basis. The Group also uses a constant currency measure to allow comparison of each business units performance between periods.

As described elsewhere, the Group's business model relies on allowing entrepreneurs to have a shareholding in their local business, whether organic start-ups or acquired. To give the entrepreneur potential future value and to protect the Group from having non-engaged minority shareholders, the local deals are structured to reflect local circumstances, often with put and call agreements in place.

The accounting treatment of these put options depends upon whether the options are forfeited or not on leaving the Group. If the put options are linked to continued employment and forfeited on leaving, then the option is deemed remuneration and accounted for as a share based payment (called conditional share awards). Otherwise, the put option is accounted for as a minority put option and revalued at the end of each accounting period with any movement being charged or credited as finance income or cost (referred to as minority shareholder put option liabilities). The Board excludes minority put option and share based payment charges from Headline profit.

Other adjustments made in deriving the Group's Headline profit include adding back amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investment in associates and investments; and profit and loss on disposal of associates. Such exclusions are consistent with our industry peer group.

Statutory numbers within the Group's results are prepared in accordance with International Financial Reporting standards (IFRS).

The key movements between statutory to headline results

| £'m | 2017 | 2016 | Movement | % |
|---------------------------------------|-------|------|----------|-----|
| Statutory profit before taxation | 9.3 | 6.8 | 2.5 | 37% |
| Conditional share awards | 13.5 | 8.6 | 4.9 | |
| Adjustments to put option liabilities | (3.0) | – | (3.0) | |
| Impairment charge | 5.2 | 3.7 | 1.5 | |
| Other | 2.7 | 4.7 | (2.0) | |
| Headline profit before taxation | 27.7 | 23.8 | 3.9 | 16% |

CHIEF EXECUTIVE

Summary of results

2017 saw record results in terms of both revenue and earnings. Revenues grew by 12%, with constant currency revenues increasing 7%. Excluding the costs of businesses started in the year, we returned a headline operating margin of 11.3%, up from 10.2% in 2016. The headline profit before tax advanced 16% to £27.7m and headline earnings also rose 17%. Statutory profit before tax was up 37% from £6.8m to £9.3m.

Our competitive advantages continue to deliver market-beating growth. We have an entrepreneurial culture and ownership structure that motivates our people to deliver exceptional performance. We have a genuine integrated offering that delivers greater effectiveness and efficiency to our clients. We are not dependent upon multinational packaged goods clients, media buying or M&A. We are of a scale and nimbleness where the birth, growth and success of our businesses can mitigate against macro headwinds. Lastly, we start companies with the best talent in attractive geographies and in new growth channels, with 16 new businesses started in 2017.

UK

Revenue in the UK was up 6%, with Sport & Entertainment, PR and Mobile continuing to trade particularly positively. New business wins included Dreams, Visit Britain, Little Dish, Lipton, The Body Shop, Costa Coffee and Clinique.

M&C Saatchi Sport & Entertainment was crowned Large Sponsorship Consultancy of the year, M&C Saatchi PR was awarded Mid-sized PR Agency of the year and M&C Saatchi Mobile won Most Effective Mobile Agency.

Our London advertising agency management team is now complete, incentivised with shares and building good new business momentum.

M&C Saatchi Merlin, our talent management agency, launched a social influencer division in May which has very positive growth potential. We started Re, our successful Australian brand identity unit, in the UK in June.

The UK headline operating profit was up 46% on 2016 without last year's one-off restructuring costs in the London advertising agency. The headline operating margin also benefited from this, increasing to 16.1% compared with 2016's 11.7%. These margins exclude the impact of Group recharges.

REVENUE

+12%

CONSTANT CURRENCY

REVENUES

+7%

UK REVENUES

+6%

CHIEF EXECUTIVE

Continued

Europe

European revenues increased 26% year on year. Headline operating profit was up 30%, with a headline operating margin of 15.3% (2016: 15.1%).

The Stockholm office maintained its dynamic new business performance, winning the property company AMIFF, the engineering client PE Consulting and the political party Centerpartiet.

Both Germany and Italy continue to excel. Mobile opened in Berlin whilst Italy was appointed by Sisal, a gaming company, in addition to being reappointed by Unicredit.

France remains challenging but in the second half the Paris office won projects from Casino Supermarkets, the sugar free children's fruit snacks provider Charles & Alice and Bonduelle, the processed vegetable producer.

The Madrid office is much improved, and we started a sponsorship operation there in April.

Middle East and Africa

Revenues in the Middle East and Africa were up 26%.

South Africa converted Windhoek, Heineken Export and the South African Reserve Bank. In January 2018, they picked up Lexus and the second-hand car retailer Autotrade. We also acquired a Johannesburg based sport and entertainment company Leverage.

UAE won the accounts of Aldar Properties, UAE Banks Federation and Unilever's Lipton account. M&C Saatchi PR opened in the UAE and won the Abu Dhabi Motors Rolls Royce account.

Operating profit in the region was up 45% and the headline operating margin increased to 10.7% from 9.3% in 2016.

Asia and Australia

In Asia and Australia, revenues were up 23% year on year.

Australia performed well, benefitting from a full year of Woolworths. They won projects from Pfizer, Prudential and Jack Daniels, although one significant client was lost in the year, IAG. In February 2017, we acquired 51% of Bohemia, a media buying and planning operation. This wider offer is important in this market, where clients are increasingly looking for a tighter relationship between the creative providers and media buying and planning. In March, we launched The Source, our successful UK research operation, in Melbourne.

EUROPE REVENUES
+26%

**MIDDLE EAST AND AFRICA
REVENUES**
+26%

**ASIA AND AUSTRALIA
REVENUES**
+23%

CHIEF EXECUTIVE

Continued

We opened a new office in Jakarta in January 2018.

The headline regional headline operating margin was 11.4% (2016: 11.0%), with the headline operating profit ahead 37% on 2016.

Americas

Revenues decreased 3% and headline operating profit was down 53% with a headline operating margin of 7.4% (2016: 15.5%).

Our Mobile operations continue to perform well and are building a potent network across the US.

There was a drag in New York with a slowdown in advertising revenues, which dented the overall region's performance. SS+K's political and charitable project revenues were particularly hard hit in the second half. A major restructuring was undertaken, and the agency is profitable in the first quarter of 2018. LIDA New York opened for business and was appointed by Aston Martin.

Our Los Angeles office had a better year and was appointed by Pacific Life. We unveiled both Clear and Sport & Entertainment there in the first half and our Mexico City office opened its doors in September. This year we launched Majority in Los Angeles, a production company with initially an all-women director roster.

Outlook

2017 was another record year for M&C Saatchi in terms of both revenue and headline earnings. Our established strategy of winning new business and starting new businesses continues to deliver.

This year has begun well, and we are confident that we will continue to make good progress in 2018 and beyond.

David Kershaw

Chief Executive

21 March 2018

AMERICAS REVENUE

-3%

FINANCE DIRECTOR

Objectives and strategic priorities

Key performance indicators

The Group manages its operational performance through a number of key performance indicators:

- revenue growth, both regionally and within divisions, up 11.6%;
- continual improvement of headline operating margins, up from 10.2% to 10.6%;
- headline earnings per share growth, up 9.3%;
- enhancement of net cash from operating activities, up £6.7m year on year; and
- improvement of the talent levels within the Group, in particular our creative capabilities, as well as the reputation and integrity of all our businesses.

Summary of results

| £'m | Statutory | | Headline | |
|---|-----------|--------|----------|--------|
| | 2017 | 2016 | 2017 | 2016 |
| Billing | 536 | 458.2 | 536 | 458.2 |
| Revenue | 251.5 | 225.4 | 251.5 | 225.4 |
| Operating profit | 5.3 | 6.6 | 26.7 | 23 |
| Profit before taxation | 9.3 | 6.8 | 27.7 | 23.8 |
| Profit for the year | 4.6 | 3.3 | 20.8 | 19.7 |
| Earnings | 2.7 | 0.1 | 18 | 15.4 |
| EPS | 3.4p | 0.2p | 23.0p | 21.1p |
| Operating profit margin (on revenue) | 2.10% | 3.00% | 10.60% | 10.20% |
| Tax rate | 50.90% | 50.80% | 24.70% | 17.30% |
| | | | | 7.4pts |

Revenue

Group revenues increased 11.6%, enhanced by currency movement, the main influence being the full year positive effect of a weakening of sterling against most currencies following the Brexit vote. The constant currency revenue growth was 6.9% (constant currency basis).

FINANCE DIRECTOR

Continued

Operating profit and margin

At Group level, we monitor results on a headline basis. Our headline operating margin increased to 10.6%, and excluding the new businesses we have started during the year was 11.3% (2016: 10.2%), with improvements in the UK, the Middle East and Africa and Asia and Australia margins.

Headline results

The Group's "headline" measures are used by the Board to assess the underlying profitability of the Group; these are alternative performance measures that the Board considers provide a more appropriate basis to assess the results of each region and are how the business is managed and monitored on a day-to-day basis. The Group also uses a constant currency measure to allow comparison of each business units performance between periods.

The key movements between statutory to headline results

| £'m | 2017 | 2016 | Movement | % |
|---------------------------------------|-------|------|----------|-----|
| Statutory profit before taxation | 9.3 | 6.8 | 2.5 | 37% |
| Conditional share awards | 13.5 | 8.6 | 4.9 | |
| Adjustments to put option liabilities | (3.0) | | (3.0) | |
| Impairment charge | 5.2 | 3.7 | 1.5 | |
| Provision against investments | - | 0.7 | (0.7) | |
| Associate revaluation | - | 0.9 | (0.9) | |
| Amortisation of acquired intangibles | 2.0 | 2.3 | (0.3) | |
| Acquisition related remuneration | 0.7 | 0.8 | (0.1) | |
| Headline profit before taxation | 27.7 | 23.8 | 3.9 | 16% |

As described elsewhere, the Group's business model relies on allowing entrepreneurs to have a stake in their local business, whether organic start-ups or acquired. To give the entrepreneur potential future value and to protect the Group from having non-engaged minority shareholders, the local deals are structured to reflect local circumstances, often with put call agreements in place.

The accounting treatment of these put options depends upon whether the options are forfeited or modified on leaving the Group. If the put options are linked to continued employment and forfeited on leaving, then the option is deemed remuneration and accounted for as a share based payment. Otherwise, the put option is accounted for as a minority put option and the liability is revalued at the end of each accounting period with any movement being charged or credited to the incomes statement as finance income or cost.

OPERATING MARGIN

- HEADLINE

+0.4PTS

- EXCLUDING START-UPS

+1.1PTS

For a full reconciliation of statutory to headline results see note 1.
For constant currency results see note 2.

FINANCE DIRECTOR

Continued

The key movements between statutory to headline results continued

The Board excludes put options and share based payment charges from Headline profit. Other adjustments made in deriving the Group's Headline profit include adding back amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investment in associates and investments; and profit and loss on disposal of associates. Such exclusions are consistent with our industry peer group.

The increase in the put option and share based payment charge resulted from the addition of new businesses with minority equity as well as the enhanced performance of some of our business units, which resulted in some of the future charges being accelerated.

During the year a deterioration in the revenues of one of our business units, SS+K, following a loss of political and charitable projects, has resulted in a more cautious view of its future profitability, and a goodwill impairment, see note 17.

Financial income and expense

The Group's headline net interest payable was £1.1m (2016: £0.8m). The increase in headline net interest payable arose mainly from the full year effect of increased Group borrowing to fund acquisitions during 2016.

The credit for non-headline fair value adjustment to minority put option liabilities of £3.0m (2016: charge £0.6m) arose from reductions in future profitability estimates of one of our business units, SS+K, together with movements in our share price, which decreased slightly from 380.0p as at 1 January 2017 to 371.5p as at 31 December 2017. Further details can be seen in note 27.

FINANCE DIRECTOR

Continued

Tax

Most of the equity held by our entrepreneurs and our interests in subsidiary companies receives no tax credit in the event they are charged to the income statement via share based payments; put option revaluations; revaluations of contingent payments and goodwill impairments. Such charges to the income statement can create large swings and variations to our statutory tax rate.

The Group tax rate is different to the UK's corporate tax rate:

| | 2017 | 2016 |
|--|--------------|--------------|
| UK corporation tax rate | 19.3% | 20.0% |
| Headline adjustments: | | |
| Higher overseas tax rates | 6.7% | 4.5% |
| US tax rate change | 1.1% | - |
| US tax losses utilised | (3.4)% | (5.0)% |
| Under provision prior years | 2.2% | (0.4)% |
| Other | (1.2)% | (1.8)% |
| Headline tax rate | 24.7% | 17.3% |
| Statutory adjustments: | | |
| Higher overseas tax rates and profit mix | (3.0)% | (6.2)% |
| US tax rate change | 14.8% | - |
| Put option charges | 14.4% | 26.8% |
| Impairments with no tax credits | - | 12.9% |
| Statutory tax rate | 50.9% | 50.8% |

Full reconciliation can be found in note 14.

The Group operates globally, mainly with countries whose tax rates are higher than the UK's. In December 2017 legislation was passed that reduced US federal tax rate from 35% to 21% from 1 January 2018. This has caused a revaluation of all US deferred tax at the year end resulting in a short term effect of reducing our local business profit after tax by £0.3m (headline profit) and in addition consolidated profit after tax by a further £1.4m (statutory profit).

Over the last few years our tax rate has benefited from the recognition of historic US tax losses, these were used up in 2017. In the past our future profitability in the US has been very uncertain. At the headline level the use of US tax losses in 2017 has offset the effect of the change in US tax rate and the higher US rate in 2017 as compared to its future rate.

FINANCE DIRECTOR

Continued

Non-controlling interest

The proportion of profits attributable to non-controlling shareholders reduced to £1.9m (2016: £3.2m) with headline reducing to £2.8m (2016: £4.2m). The reduction was caused by our increased holdings of US entities and our continued investment in new businesses.

Dividend

As part of a progressive dividend policy, the Board is proposing to pay a final dividend of 7.40p per share (2016: 6.44p), giving a total dividend of 9.53p compared to 8.29p in 2016. The final dividend will be paid, subject to shareholder approval at the 6 June 2018 AGM, on 6 July 2018 to shareholders on the register at 8 June 2018.

Cash flow, banking arrangements and net assets

Cash net of bank borrowings at 31 December 2017 was £10.3m compared to £3.6m at 31 December 2016. The Group continued to generate cash, with the final quarter of 2017 being particularly strong, which it used to make small tactical acquisitions and fund new offices. The Group spent £2.3m cash and issued £1.5m of equity for acquisitions in Australia and South Africa during the year.

To manage these acquisitions and to fund them going forward, the Group amended its banking facilities with RBS on 29 November 2017. These comprise a revolving credit facility totalling £40.0m, which reduces on 31 December 2018 to £38.0m and on 31 December 2019 to £36.0m. This facility matures on the 30 April 2020. In addition, to fund working capital in the UK, the Group has a £5m debt factoring arrangement, of which £2.9m was drawn down at the year end.

Net assets advanced to £64.1m (2016: £49.4m); the main movements being the net cash balance increasing to £10.3m (2016: £3.6m) reflecting an increase in retained earnings of £9.4m.

Capital expenditure

Total capital expenditure for 2017 reduced to £3.8m (2016: £4.0m). This was a function of reduced refurbishment costs, with less investment in office fit out needed, and increased computer equipment cost as we update our security and accounting systems.

Associates

The after tax return from our associates was a profit of £2.0m (2016: £1.5m). The majority of this profit came from our UK associate Blue 449 (formerly Walker Media) returning £1.6m (2016: £1.3m) with a contribution of £0.3m (2016: £0.2m) from aeiou, our associate in China.

Principal activity, trading review and future developments See Directors' Report on page 18.

DIVIDEND
+15% PER SHARE

FINANCE DIRECTOR

Continued

Risks and uncertainties

During 2017 we have instituted an ongoing review process of the Group's risks and uncertainties along with implementing the actions needed to mitigate them. In the past our principal risk has been client losses. This review added cyber risk and staff retention.

Client losses are damaging, although some turnover over time is normal and to be expected.

Losses can happen for a variety of reasons, including the effect of other risks such as economic or political risk resulting in clients' reduction or cessation of business; running out of funding after work has been commissioned; or redirecting their expenditure elsewhere. To mitigate this, we continue to develop our offerings to reflect clients' changing marketing mix and cross selling opportunities (new businesses). We continue to convert new clients on the basis of our creative excellence, our strategic wisdom, the commitment and brilliance of our staff and our diverse portfolio of services (new business).

Staff remain our greatest asset and losing them is one of our principal risks. Our business model, of empowering local entrepreneurs, giving them equity in their local businesses and allowing them to develop our offering helps us reward and motivate the local entrepreneurs, and in turn motivate them to enhance local staff working with them and thus create business continuity. Best practices from each office are shared, via bi-annual worldwide meetings and on an ad hoc basis through local and global working groups.

As our product range expands and becomes more data and technology dependent so does our cyber risk. The Group continues to monitor this expansion, update its computer systems, introduce training programmes and employ knowledgeable staff. Cyber risk is regularly discussed at Board meetings and we learn from the cyber events of others.

PRINCIPAL RISKS

1. Client loss
2. Staff retention
3. Cyber

FINANCE DIRECTOR

Continued

The other risks the Group faces are:

- Internal control risk is exacerbated by local minorities' ability to put their equity at a multiple of profit. This is mitigated by regular meetings with management, sharing and reviewing financial data, local accounting manuals, an outsourced internal audit function, and business continuity rules embedded in most put options;
- Location risk due to local events where our staff are working globally that endanger our staff or restrict our ability to trade. We monitor our global foot print, insurances and travel plans;
- Regulatory and legal changes can affect our trading, ownership structures or interpretation of our financial data. This risk is illustrated by the changes to accounting standards (note 34) and the recent changes to US tax regulations and their future interpretations both at a federal and state level that may affect our corporate structure in the US and our exporting to the US. We monitor and plan for proposed and actual changes and interpretations;
- The risk that our suppliers, clients, or staff transgress or some event devalues our brand or restricts our ability to trade. We have policies and training programmes and vet and monitor clients and suppliers for association risk at all levels and take any relevant action;
- Economic and political risks that could restrict our ability to access finance or trade internationally. Such risks include as a UK headquartered Group and as a UK exporter, the potential effects of Brexit on our ability to sell and invest globally or receive dividends and returns from our investments in a tax efficient manner. We monitor and plan for proposed and actual changes;
- Financial risk caused by changes to exchange rates, interest rates or our forecasts and estimates and the Group's share price, can affect our profitability and cash flows (note 6). We monitor and model likely and actual changes; and
- Investment risk, that businesses we acquire or invest in fail to deliver their anticipated results. We monitor our businesses' performance and give assistance where required. Where acquisitions have not performed as well as expected, we review and apply learnings to future investments.

Strategic report approval

By order of the Board

Jamie Hewitt
Finance Director
21 March 2018

BOARD



JEREMY SINCLAIR

CHAIRMAN



DAVID KERSHAW

CHIEF EXECUTIVE



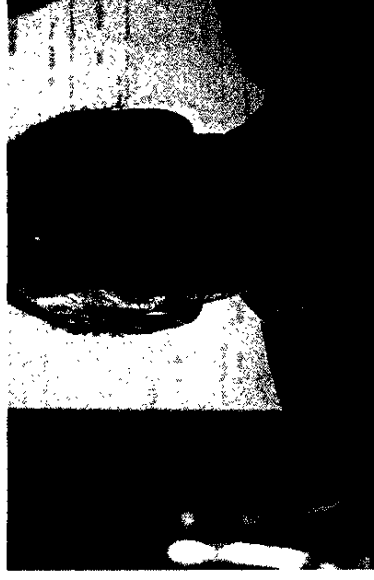
MAURICE SAATCHI

EXECUTIVE DIRECTOR



BILL MUIRHEAD

EXECUTIVE DIRECTOR



JAMIE HEWITT

FINANCE DIRECTOR

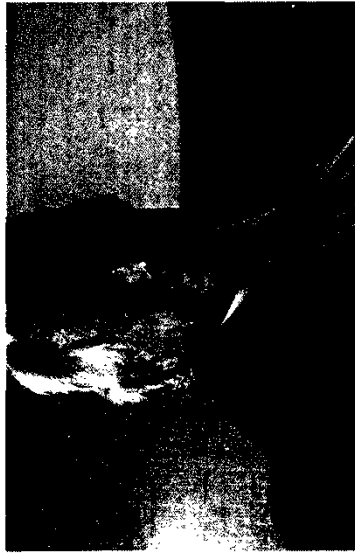
BOARD
Continued



JONATHAN GOLDSTEIN
INDEPENDENT NON-EXECUTIVE DIRECTOR



MICHAEL PEAT
INDEPENDENT NON-EXECUTIVE DIRECTOR



MICHAEL DOBBS
INDEPENDENT NON-EXECUTIVE DIRECTOR



LORNA TILBAN
INDEPENDENT NON-EXECUTIVE DIRECTOR*

* Lorna Tilban was appointed as a Non-Executive Director on 30 January 2018.

DIRECTORS' REPORT

DIVIDEND
+15% PER SHARE
£7.7M (2016: £6.4M)

The Directors submit their report together with the audited financial statements of the Group and Company for the year ended 31 December 2017.

Results and dividends

The consolidated income statement on page 28 shows the results for the year. The Directors approved an interim dividend of 2.13p totalling £1,714,073 (2016: £1,373,629) and recommend a final dividend of 7.4p totalling £5,966,827 (2016: £5,032,796).

Principal activity, trading review and future developments

The principal activity of the Group during the year was the provision of advertising and marketing services. The review of trading, future developments and key performance indicators (being revenue growth, headline operating margin, headline earnings per share, and cash generation) is on pages 5 to 13.

Risks and uncertainties

The Strategic Report sets out the principal risks and uncertainties page 14. Further details of our financial risks and risk management can be seen in note 6.

Going concern

Given the strength of the Group's balance sheet, its net cash, its forecast compliance with bank covenants, the risks the Group faces (note 6), the expected trading performance and the two-year cash flow projections, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Directors review the Group's profit forecasts, and review monthly its balance sheet and cash flow forecasts. Annually, or earlier if needed, the longer term (greater than one year) cash flow projections of the Group are reviewed, based on anticipated scenarios and acquisitions. If additional funding is required, it is secured before expenditure is committed.

Based on this, the Directors believe the Group will continue as a going concern for the foreseeable future.

DIRECTORS' REPORT

Continued

Financial Instruments

Details of the use of financial instruments by the Group are contained in notes 23 to 25 of the financial statements.

Political contributions and effect of European Union referendum

The risks the Group faces with the UK's departure from the EU include the following:

- Dividend flows are received from EU operations, which are presently not subject to unrecoverable withholding tax, that many non-EU resident Groups suffer.
- The Group is dependent on high quality and flexible labour. The unknown changes to immigration rules are creating uncertainty with the EU staff working in our UK offices.
- Increased exchange volatility, with our contracts for exporting from the UK creating extra risks to the Group. This has created, in the short term, a benefit to the Group, but this can quickly reverse.

During the year, the Group made no political donations (2016: £5,000 of staff time was provided free as part of the campaign to remain within the European Union).

Directors

The names of the Directors are given on pages 16 and 17, biographies can be found on our website (www.mcsaatchiplc.com).

The Board reviews the independence of the Non-Executive Directors on an annual basis and considers them independent. *Three Non-Executive Directors sit on our remuneration committee and audit committee, with Jonathan Goldstein serving as Chair of our remuneration committee and as Senior Independent Director and Michael Peat serving as Chair of our audit committee.*

The Board met seven times during the year. The Board governs in the spirit of the QCA corporate governance code for small and mid-size quoted companies.

Audit committee

The Committee works to a programme of activities aligned to key events in the financial reporting cycle, standing items which occur regularly as required by the Committee's terms of reference and other agenda items that the Committee identifies.

DIRECTORS' REPORT

Continued

The main roles and responsibilities of the Committee include:

- monitoring the integrity of the Group's financial statements and other announcements relating to its financial performance;
- considering the Group's accounting policies and practices, application of accounting standards and significant judgements;
- overseeing the relationship with the Group's external auditor, including consideration of the objectivity and effectiveness of the external audit process and making recommendations to the Board in relation to the external auditor's appointment;
- keeping under review the effectiveness of the Group's internal control and risk management systems; and
- monitoring the remit and effectiveness of the Group's outsourced internal audit function.

The Audit committee met formally three times in 2017, holding a joint meeting and individual meeting with both the Group's Auditor (KPMG LLP) and the outsourced internal auditor (BDO LLP). The Group's Auditor has regular direct contact with the audit committee Chairman.

The Audit committee's activities included:

- planning of and review of the external and internal audits;
- considering significant financial reporting judgements around accounting treatment of put options and acquisition accounting;
- considering managements' key estimates used to support its valuation of goodwill and associates;
- reviewing of management's use of alternative profit measures;
- assisting the Board in its assessment of the Group's risk environment, internal controls and risk management processes;
- reviewing internal auditor reports and the implementation of proposed corrective actions;
- reviewing working capital management; and
- overseeing the relationship with the external auditor, including the assessment of their independence.

Auditor independence:

The external auditor, KPMG LLP, was first appointed in 2013, for the financial year ended 31 December 2013. The Board is satisfied that the Company has adequate policies and safeguards in place to ensure that KPMG maintain their objectivity and independence. The external auditor reports annually on its independence from the Company. The fees paid to KPMG in respect of non-audit services are shown in note 9. This work is not considered to affect the independence or objectivity of the auditor.

DIRECTORS' REPORT

Continued

Remuneration committee

Meets on an ad hoc basis, when there is a need to review Executive Directors' pay and rewards. There have been no meetings during the year.

Nominations committee

Meets on an ad hoc basis, when there is a need to appoint new Directors.

Social responsibility

The Group follows the guidance in the International (Social Responsibility) Standard ISO 26000 and is accredited for BS OHSAS 18001, ISO 14001 and is registered with CIPS Sustainability Index.

On top of which, the Group is involved with many campaigns (including paid, low bono and pro bono) that help create a socially responsible world.

Employees and equal opportunities

The Group's equal opportunities policy is not to discriminate on any grounds other than someone's ability to work effectively. To deliver this we will make reasonable adjustments to working arrangements and to the physical aspects of the workplaces.

Diversity of thought is important to the Group and its clients. The Group is working globally and locally to improve its future talent pool and to enhance our ability to attract and nurture the best talent regardless of background, ethnicity or any disabilities. For details of our initiatives please see www.mcsaatchi.com/diversity/.

The Group recognises that its principal asset is its employees and their commitment to the Group's service, standards and customers. Decisions are made wherever possible in consultation with local management, with succession planning performed on a regular basis at all levels. Communication with employees varies according to need and local business size.

Slavery and human trafficking statement

The Group continually monitors its supply chains and operates a zero-tolerance policy to slavery and human trafficking as reflected in its Modern Slavery Statement. (www.mcsaatchiplc.com/#governance)

Insurance

The Company purchases insurance to cover its Directors and Officers against costs they may incur in defending themselves in legal proceedings instigated against them as a direct result of duties carried out on behalf of the Company.

DIRECTORS' REPORT

Continued

Directors & Substantial shareholdings

As at 20 March 2018, the Company has been notified by shareholders representing 3% or more of issued share capital of the following interests:

| | Shares held | % |
|--------------------------------|-------------|-------|
| Octopus Investments | 9,858,637 | 11.9% |
| Paradice Investment Management | 9,305,257 | 11.3% |
| Aviva plc and its subsidiaries | 4,780,768 | 5.8% |
| Invesco Perpetual | 4,506,805 | 5.5% |
| David Kershaw* | 4,127,060 | 5.0% |
| Bill Muirhead* | 4,127,060 | 5.0% |
| Maurice Saatchi* | 4,127,060 | 5.0% |
| Jeremy Sinclair* | 4,127,060 | 5.0% |
| Herald Investment Trust plc | 3,836,433 | 4.6% |
| Canaccord Genuity Group Inc | 3,818,997 | 4.6% |
| Investec Wealth & Investment | 3,310,859 | 4.0% |

* The above directors' shares and the 54,461 shares held by Jamie Hewitt have not changed during the year.

Regularly updated details of the Directors and substantial shareholding can be found on the corporate website www.mcsaatchiplc.com.

Events since the end of the financial year

The Directors are not aware of any events since the end of the financial year that have had, or may have, a significant impact on the Group's operations, the results of those operations, or the state of affairs of the Group in future years.

Treasury shares

At the Annual General Meeting (AGM) in 2017, the Directors were given the authority to purchase up to 7,770,000 of its ordinary shares. The Directors will seek to renew this authority at the next AGM. During the year, the Company held 700,000 of its ordinary shares ("treasury shares"). The Directors will use them to fulfil option obligations.

**MORE THAN 30% SHARES HELD
BY LESS THAN 3% HOLDERS**

DIRECTORS' REPORT

Continued

Directors' power to issue shares

At the AGM in 2017, the Directors were given the authority to issue up to 50,800,000 of its ordinary shares of which 5,570,000 were approved to be issued for cash. During the year, the Company issued 6,382,606 shares to fulfil options and to acquire equity (note 29). The Company did not issue any shares for cash.

Agreements that vest on change of control

Depending on the circumstance some of our put option agreements vest on change of control.

Directors' responsibilities

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

SHARES ISSUED IN YEAR
6.4M

DIRECTORS' REPORT

Continued

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

Website publication

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website (www.mcsaatchiplc.com). Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

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

KPMG LLP will be seeking re-appointment as Auditor of the Company and a resolution proposing this will be put to the 2018 AGM.

By order of the Board

Andy Blackstone
Company Secretary
21 March 2018

REGULAR UPDATES
WWW.MCSAATCHIPLC.COM

REMUNERATION REPORT

Policy on Directors' remuneration

Attracting and retaining high calibre executives is a key Group objective. We seek to reward them in a way that encourages the creation of value for shareholders.

Directors' pension arrangements

The pension contributions, if made, are to the Directors' money purchase pension schemes.

Directors' contracts

All Executive Directors listed in the Remuneration Report have service contracts with 12-month notice periods. All Non-Executive Directors have contracts with a nil to 30-day notice period dependent on the circumstances.

Directors' options, conditional share awards

In 2016, four participants paid (by way of a combination of payroll taxes and subscription price) £100,727 each for the award. This amount is not refundable if the vesting conditions are not met. In addition, one participant paid (by way of a combination of subscription price and deferred payment) £51,266.75 for the award. This amount is not refundable and will be paid in full if the vesting conditions are not met.

Vesting of the awards is subject to:

- the achievement of certain earnings and total shareholder return (TSR) targets (the "Performance Conditions") measured over the period from 1 January 2015 to 31 December 2018 (the "Performance Period"); and
- the Company's share price being above £5.00 per share at a point during the period between 1 January 2019 and 31 December 2022 (the "Share Price Target").

20% of the award will be earned if average diluted EPS growth over the Performance Period is above 10%. This 20% level will increase to 100% of the award on a straight-line basis if diluted EPS growth over the Performance Period is between 10% and 20% (with 100% of the award being earned if diluted EPS growth of 20% or more is achieved). If EPS growth is below 10% diluted, no award will be earned.

REMUNERATION REPORT

Continued

Earned awards will be adjusted by the TSR condition. If TSR over the Performance Period is above 50% an earned award will be increased by a half; if TSR over the Performance Period is between 0% and 50% no adjustment will be made to an earned award; if TSR over the Performance Period is below 0% then earned awards will be reduced by 25%. The base share price used for TSR is 297p being the share price at the time the award was valued.

Subject to the Share Price Target being achieved, an earned award, representing shares in M&C Saatchi Worldwide, may be exchanged for M&C Saatchi plc shares. The maximum number of M&C Saatchi plc shares that may be required to be issued under the LTIP arrangements is 3,383,605.

The award caused an accounting charge of £401k in the year (2016: £231k).

Other benefits

No Director of the Company has received or become entitled to receive a benefit (other than a fixed salary as an employee/consultant of the Company, the options indicated in this report, or a benefit included in the aggregate amount of remuneration shown in the financial statements) by reason of a contract made by the Company or a related corporation of which the Director is a member or with a company in which the Director has a substantial financial interest.

By order of the Board

Andy Blackstone

Company Secretary

21 March 2018

REMUNERATION REPORT

Continued

| 2017 | Basic salary £000 | Bonus £000 | Benefits in kind ² £000 | Pension £000 | Total £000 |
|--------------------------------|----------------------|---------------|---------------------------------------|-----------------|---------------|
| Directors | | | | | |
| David Kershaw | 374 | - | 48 | - | 420 |
| Bill Muirhead | 374 | - | 47 | - | 421 |
| Maurice Saatchi | 374 | - | 42 | - | 416 |
| Jeremy Sinclair | 374 | - | 45 | - | 419 |
| Jamie Hewitt | 250 | 125 | 4 | 15 | 394 |
| Total | 1,746 | 125 | 184 | 15 | 2,070 |
| Non-Executive Directors | | | | | |
| Jonathan Goldstein | 40 | - | - | - | 40 |
| Michael Dobbs | 40 | - | - | - | 40 |
| Michael Peat | 40 | - | - | - | 40 |
| Total | 120 | - | - | - | 120 |
| Total Rewards | 1,866 | 125 | 184 | 15 | 2,190 |
| 2018 | | | | | |
| Directors | | | | | |
| David Kershaw | 374 | 50 | 48 | 1 | 473 |
| Bill Muirhead | 374 | 50 | 49 | - | 473 |
| Maurice Saatchi | 374 | 50 | 45 | - | 469 |
| Jeremy Sinclair | 374 | 50 | 46 | - | 470 |
| Jamie Hewitt | 250 | - | 4 | 15 | 269 |
| Total | 1,746 | 200 | 192 | 16 | 2,154 |
| Non-Executive Directors | | | | | |
| Jonathan Goldstein | 40 | - | - | - | 40 |
| Michael Dobbs | 40 | - | - | - | 40 |
| Michael Peat ³ | 22 | - | - | - | 22 |
| Adrian Martin ³ | 18 | - | - | - | 18 |
| Total | 120 | - | - | - | 120 |
| Total Rewards | 1,866 | 200 | 192 | 16 | 2,274 |

¹ These paper bonuses were given as part of the conditional share award.

² Benefits in kind include car allowances and permanent health insurance benefit.

³ Served on board for only part of the year.

CONSOLIDATED INCOME STATEMENT

| Year ended 31 December | Note | 2017 5900 | 2018 2000 |
|---|------|--------------|--------------|
| Billings | 1 | 535,964 | 458,180 |
| Revenue | 1 | 251,481 | 225,387 |
| Operating costs | 7 | (248,146) | (218,738) |
| Operating profit | 1 | 5,335 | 6,649 |
| Share of results of associates and joint ventures | 10 | 1,987 | 1,530 |
| Finance income | 11 | 3,328 | 440 |
| Finance costs | 12 | (1,348) | (1,828) |
| Profit before taxation | 1 | 9,302 | 6,791 |
| Taxation | 14 | (4,736) | (3,451) |
| Profit for the year | | 4,566 | 3,340 |
| Attributable to: | | | |
| Equity shareholders of the Group | 1 | 2,672 | 144 |
| Non-controlling interests | 1 | 1,894 | 3,196 |
| Profit for the year | 1 | 4,566 | 3,340 |
| Earnings per share | | | |
| Basic (pence) | 1 | 3.43p | 0.20p |
| Diluted (pence) | 1 | 3.31p | 0.19p |

Headline results*

| | | |
|---|--------|--------|
| Operating profit | 28,725 | 23,037 |
| Profit before tax | 27,655 | 23,776 |
| Profit after tax attributable to equity shareholders of the Group | 17,871 | 15,423 |
| Basic earnings per share (pence) | 23.04p | 21.07p |
| Diluted earnings per share (pence) | 21.22p | 20.55p |

* The reconciliation of headline to statutory results above can be found in note 1.

The notes on pages 34 to 79 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| Year ended 31 December | 2017 | 2018 |
|---|----------------|---------------|
| Profit for the year | £000 | £000 |
| | 4,586 | 3,340 |
| Other comprehensive income* | | |
| Exchange differences on translating foreign operations before tax | (1,177) | 6,754 |
| Other comprehensive income for the year net of tax | (1,177) | 6,754 |
| Total comprehensive income for the year | 3,389 | 10,094 |
| Total comprehensive income attributable to: | | |
| Equity shareholders of the Group | 1,486 | 6,898 |
| Non-controlling interests | 1,894 | 3,196 |
| Total comprehensive income for the year | 3,389 | 10,094 |

* All items in consolidated statement of comprehensive income will be reclassified to the income statement.

The notes on pages 34 to 79 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

| At 31 December | Note | 2017 £000 | 2018 £000 |
|--|------|------------------|------------------|
| Non-current assets | | | |
| Intangible assets | 17 | 48,515 | 51,004 |
| Investments in associates | 20 | 19,725 | 19,277 |
| Plant and equipment | 21 | 12,269 | 10,619 |
| Deferred tax assets | 15 | 4,797 | 3,112 |
| Other non-current assets | 22 | 9,325 | 7,455 |
| | | 94,631 | 91,467 |
| Current assets | | | |
| Trade and other receivables | 23 | 120,096 | 109,824 |
| Current tax assets | | 945 | 1,057 |
| Cash and cash equivalents | | 48,957 | 32,222 |
| | | 169,998 | 143,103 |
| Current liabilities | | | |
| Trade and other payables | 24 | (128,256) | (115,886) |
| Current tax liabilities | | (1,221) | (1,186) |
| Borrowings | 25 | (3,731) | (3,670) |
| Deferred and contingent consideration | 26 | (377) | - |
| Minority shareholder put option liabilities | 27 | (14,813) | (20,216) |
| | | (148,398) | (140,958) |
| Net current assets | | 21,600 | 2,145 |
| Total assets less current liabilities | | 116,231 | 93,612 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 15 | (761) | (380) |
| Borrowings | 25 | (37,764) | (28,277) |
| Contingent consideration | | (633) | - |
| Minority shareholder put option liabilities | 27 | (10,316) | (12,950) |
| Other non-current liabilities | 28 | (2,487) | (2,608) |
| | | (52,161) | (44,215) |
| Total net assets | | 64,070 | 49,397 |

The notes on pages 34 to 79 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

Continued

| At 31 December | Note | 2017 £000 | 2016 £000 |
|---|------|---------------|---------------|
| Equity | | | |
| Share capital | 29 | 813 | 749 |
| Share premium | | 32,085 | 24,099 |
| Merger reserve | | 31,592 | 31,592 |
| Treasury reserve | | (792) | (792) |
| Minority interest put option reserve | | (13,958) | (20,598) |
| Non-controlling interest acquired | | (21,040) | (13,122) |
| Foreign exchange reserve | | 3,593 | 4,770 |
| Retained earnings | | 25,235 | 15,871 |
| Equity attributable to shareholders of the Group | | 57,538 | 42,569 |
| Non-controlling interest | | 6,532 | 6,828 |
| Total equity | | 64,070 | 49,397 |

These consolidated financial statements were approved and authorised for issue by the Board on 21 March 2018 and signed on its behalf by:

Jamie Hewitt
Finance Director
M&C Saatchi plc
Company Number 05114893

The notes on pages 34 to 79 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Share capital £000 | Share premium £000 | Mergers reserve £000 | Treasury reserve £000 | Mit put option reserve £000 | Non- controlling interest acquired £000 | Foreign exchange reserves £000 | Retained earnings £000 | Subtotal £000 | Non- controlling interest in equity £000 | Total £000 |
|---|------|-----------------------|-----------------------|----------------------------|-----------------------------|--------------------------------------|---|---|------------------------------|------------------|--|---------------|
| At 1 January 2016 | | 727 | 17,338 | 31,592 | (792) | (12,595) | (9,233) | (1,984) | 12,673 | 37,726 | 4,296 | 42,021 |
| Acquisitions | 18 | - | - | - | - | (10,249) | - | - | - | (10,249) | 1,919 | (8,330) |
| Acquisitions of minority interest | | 4 | 1,364 | - | - | - | (1,222) | - | - | 146 | - | 146 |
| Exercise of put options | 27 | 18 | 5,397 | - | - | 2,366 | (2,366) | - | - | 5,415 | (47) | 5,368 |
| Disposals | | - | - | - | - | - | - | - | - | - | (10) | (10) |
| Exchange rate movements | | - | - | - | - | (120) | (301) | - | - | (421) | 627 | 206 |
| Issue of shares to minorities | | - | - | - | - | - | - | - | - | - | 14 | 14 |
| Issue of options | 30 | - | - | - | - | - | - | - | 515 | 515 | - | 515 |
| Share option charge | 30 | - | - | - | - | - | - | - | 7,997 | 7,997 | - | 7,997 |
| Dividends | 16 | - | - | - | - | - | - | - | (5,458) | (5,458) | (3,166) | (8,624) |
| Total transactions with owners | | 22 | 6,761 | - | - | (8,003) | (3,889) | - | 3,054 | (2,055) | (663) | (2,718) |
| Total comprehensive income for the year | | - | - | - | - | - | - | 6,754 | 144 | 6,898 | 3,196 | 10,094 |
| At 31 December 2016 | | 749 | 24,099 | 31,592 | (792) | (20,598) | (13,122) | 4,770 | 15,871 | 42,569 | 6,828 | 49,397 |
| Acquisitions | 18 | 4 | 1,498 | - | - | - | - | - | - | 1,502 | 235 | 1,737 |
| Acquisitions of minority interest | | 5 | 1,587 | - | - | - | (1,390) | - | - | 202 | 310 | 512 |
| Exercise of put options | 27 | 55 | 4,911 | - | - | 6,640 | (6,640) | - | (61) | 4,905 | - | 4,905 |
| Exchange rate movements | | - | - | - | - | - | 112 | - | - | 112 | (252) | (140) |
| Share option charge | 30 | - | - | - | - | - | - | - | 13,501 | 13,501 | - | 13,501 |
| Dividends | 16 | - | - | - | - | - | - | - | (6,748) | (6,748) | (2,483) | (9,231) |
| Total transactions with owners | | 64 | 7,996 | - | - | 6,640 | (7,918) | - | 6,892 | 13,474 | (2,180) | 11,284 |
| Total comprehensive income for the year | | - | - | - | - | - | - | (1,177) | 2,672 | 1,495 | 1,894 | 3,389 |
| At 31 December 2017 | | 813 | 32,095 | 31,592 | (792) | (13,958) | (21,040) | 3,593 | 25,235 | 57,538 | 6,532 | 64,070 |

The definitions of the reserves reported in the above can be found in note 5.

The notes on pages 34 to 79 form part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT AND ANALYSIS OF NET DEBT

| Year ended 31 December | 2017 £000 | 2016 £000 | |
|---|----------------|-----------------|----------|
| Revenue | 251,481 | 225,387 | |
| Operating expenses | (246,146) | (218,738) | |
| Operating profit | 5,335 | 6,649 | |
| Adjustments for: | | | |
| Depreciation of plant and equipment | 21 | 2,668 | |
| Loss on sale of plant and equipment | 57 | 542 | |
| Loss on sale of software intangibles | 4 | 10 | |
| Fair value revaluation of associate on step acquisition | 20 | 859 | |
| Impairment and amortisation of acquired intangible assets | 17 | 2,324 | |
| Impairment of associate and investments | 20,22 | 4,389 | |
| Impairment of goodwill | 17 | 5,214 | |
| Amortisation of capitalised software intangible assets | 17 | 211 | |
| Equity settled share based payment expenses | 30 | 13,501 | |
| Operating cash before movements in working capital | 29,422 | 25,792 | |
| Increase in trade and other receivables | (10,806) | (22,334) | |
| Increases in trade and other payables | 11,665 | 19,342 | |
| Cash generated from operations | 30,281 | 22,800 | |
| Tax paid | (6,727) | (4,073) | |
| Net cash from operating activities | 23,554 | 18,727 | |
| Investing activities | | | |
| Acquisitions of subsidiaries net of cash acquired | 19 | (951) | (12,822) |
| Disposal of subsidiaries net of cash divested | — | — | (263) |
| Acquisitions of investments | 22 | (2,024) | (1,056) |
| Proceeds from sale of plant and equipment | 77 | 32 | 32 |
| Purchase of plant and equipment | 21 | (3,451) | (3,873) |
| Purchase of capitalised software | — | (386) | (34) |
| Dividends received from associates | 20 | 1,806 | 177 |
| Interest received | 288 | 440 | 440 |
| Net cash consumed investing activities | (4,640) | (17,399) | |
| Net cash from operating and investing activities | 18,914 | 1,328 | |

| Year ended 31 December | 2017 £000 | 2016 £000 | |
|---|----------------|----------------|----------|
| Net cash from operating and investing activities | 18,914 | 1,328 | |
| Financing activities | | | |
| Dividends paid to equity holders of the Company | 16 | (6,748) | (5,458) |
| Dividends paid to non-controlling interest | — | (2,484) | (3,166) |
| Issue of shares to minorities | — | — | 514 |
| Repayment of finance leases | (28) | — | (36) |
| Inception of invoice discounting | — | — | 4,455 |
| Repayment of invoice discounting | (730) | — | (3,943) |
| Inception of bank loans | 10,240 | — | 11,433 |
| Repayment of bank loans | (359) | — | (7,191) |
| Interest paid | (1,275) | — | (1,230) |
| Net cash consumed by financing activities | (1,384) | (4,622) | |
| Net (decrease)/increase in cash and cash equivalents | 17,530 | (3,294) | |
| Effect of exchange rate fluctuations on cash held | (795) | — | 3,270 |
| Cash and cash equivalents at the beginning of the year | 32,222 | — | 32,246 |
| Cash and cash equivalents at the end of the year | 48,957 | 32,222 | |
| Bank loans and borrowings* | 25 | (38,675) | (28,582) |
| Net cash | 10,282 | 3,640 | |

* Bank loans and borrowings excludes £2,915k (2016: £3,645k) of invoice discounting.

The notes on pages 34 to 79 form part of these consolidated financial statements.

NOTES

1.Headline results and earnings per share

The analysis below provides a reconciliation between the Group's statutory results and the headline results.

| | Note | 2017 £000 | Amortisation of acquired intangibles (note 17) £000 | Impairment of acquired intangibles (note 17) £000 | Deferred tax on acquired intangible US tax rate change (note 14) £000 | Deferred tax on put options US tax rate change (note 14) £000 | Revaluation of contingent consideration (note 28) £000 | Acquisition related remuneration* (note 8) £000 | Put option accounting** (note 30 & note 27) £000 | Headline results £000 |
|--|------|--------------|---|---|---|--|--|---|--|-----------------------------|
| Year ended 31 December 2017 | | | | | | | | | | |
| Billings | | | | | | | | | | 535,964 |
| Revenue | 2 | 535,964 | - | - | - | - | - | - | - | 251,481 |
| Operating profit | | | | | | | | | | 26,725 |
| Share of results of associates and JV | 7 | 5,335 | 2,021 | 5,214 | - | - | 40 | 614 | 13,501 | 1,987 |
| Finance income | 10 | 1,987 | - | - | - | - | - | - | - | 289 |
| Finance cost | 11 | 3,328 | - | - | - | - | - | - | (3,037) | (1,346) |
| | 12 | (1,346) | - | - | - | - | - | - | - | |
| Profit before taxation | | | | | | | | | | 27,655 |
| Taxation | 2 | 9,302 | 2,021 | 5,214 | - | - | 40 | 614 | 10,464 | (8,834) |
| | 14 | (4,738) | (671) | (1,804) | 981 | 392 | - | - | (986) | 20,821 |
| Profit for the year | | | | | | | | | | (2,650) |
| Non-controlling interests | | 4,568 | 1,350 | 3,410 | 981 | 392 | 40 | 614 | 9,468 | |
| | | (1,894) | (365) | - | - | - | - | (591) | - | |
| Profit attributable to equity holders of the Group*** | | | | | | | | | | 17,871 |
| | | 2,672 | 985 | 3,410 | 981 | 392 | 40 | 23 | 9,468 | |

* Details of this breakdown can be found in note 8. The non-controlling interest charge is moved to operating profit due to underlying equity being defined as a conditional share award.

** These values represent put options accounted for as conditional share awards (£13,501k) (note 30) and fair value adjustments to minority put option liabilities (£3,037k) (note 27).

*** Headline earnings are profit attributable to equity holders of the Group after adding back the adjustments noted above. The increase is calculated as the difference between 2016 and 2017 measures. Headline operating margin is calculated as: Headline operating profit divided by revenue. Headline operating margin excluding new businesses is calculated as: Headline operating profit after adding back the cost of businesses started divided by revenue. This cost of business started during the year has been calculated as \$1.6m (2016: \$0.1m).

The Directors believe that the headline results and headline earnings per share provide additional useful information on the underlying performance. The headline result is used for internal performance management, calculating the value of subsidiary convertible shares and minority interest put options. The term headline is not a defined term in IFRS.

The items that are excluded from headline results are the amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investment in associates and investments; profit and loss on disposal of associates; and the income statement impact of put option accounting and share based payment charges.

NOTES

Continued

1. Headline results and earnings per share continued

The analysis below provides a reconciliation between the Group's statutory results and the headline results.

| Year ended 31 December 2018 | Note | 2018 £000 | Amortisation of acquired intangibles (note 17) £000 | Impairment of associate (note 20) £000 | Provision against Investments (note 22) £000 | Revaluation of an associate on acquisition (note 20) £000 | Acquisition related remuneration* (note 8) £000 | Put option accounting (note 27) £000 | Headline results £000 |
|---|------|--------------|---|---|--|---|---|---|-----------------------------|
| Billings | 2 | 458,180 | - | - | - | - | - | - | 458,180 |
| Revenue | 2 | 225,387 | - | - | - | - | - | - | 225,387 |
| Operating profit | 7 | 6,649 | 2,324 | 3,738 | 651 | 859 | 819 | 7,997 | 23,037 |
| Share of results of associates and JV | 10 | 1,530 | - | - | - | - | - | - | 1,530 |
| Finance income | 11 | 440 | - | - | - | - | - | - | 440 |
| Finance cost | 12 | (1,828) | - | - | - | - | - | 597 | (1,231) |
| Profit before taxation | 2 | 6,791 | 2,324 | 3,738 | 651 | 859 | 819 | 8,594 | 23,776 |
| Taxation | 14 | (3,451) | (659) | - | - | - | - | - | (4,110) |
| Profit for the year | | 3,340 | 1,665 | 3,738 | 651 | 859 | 819 | 8,594 | 19,666 |
| Non-controlling interests | | (3,196) | (256) | - | - | - | (540) | (251) | (4,243) |
| Profit attributable to equity holders of the Group | | 144 | 1,409 | 3,738 | 651 | 859 | 279 | 8,343 | 15,423 |

* Details of this breakdown can be found in note 8. The non-controlling interest charge is moved to operating profit due to underlying equity being defined as a conditional share award.

NOTES

Continued

1. Headline results and earnings per share continued

Basic and diluted earnings per share are calculated by dividing profit attributable to equity holders of the Group by the weighted average number of shares in issue during the year.

| Year ended 31 December 2017 | 2017 £000 | Headline 2017 £000 |
|--|---------------|--------------------------|
| Profit attributable to equity shareholders of the Group | 2,872 | 17,971 |
| Basic earnings per share | | |
| Weighted average number of shares (thousands) | 77,999 | 77,999 |
| Basic EPS | 3.43p | 23.04p |
| Diluted earnings per share* | | |
| Weighted average number of shares (thousands) as above | 77,999 | 77,999 |
| Add | | |
| – Conditional shares without dividend rights | 2,763 | 2,763 |
| – Conditional shares with dividend rights** | 3,829 | 3,829 |
| – Contingent consideration | 108 | 108 |
| Total | 84,699 | 84,699 |
| Diluted earnings per share | 3.16p | 21.22p |

* All the put options detailed in note 27 are non-dilutive as the exercise price approximates fair value of the underlying non-controlling interest.

** Conditional share with dividend rights are excluded from any calculation of conditional share awards that uses diluted EPS growth as a measure.

| Year ended 31 December 2018 | 2018 £000 | Headline 2018 £000 |
|--|---------------|--------------------------|
| Profit attributable to equity shareholders of the Group | 144 | 15,423 |
| Basic earnings per share | | |
| Weighted average number of shares (thousands) | 73,193 | 73,193 |
| Basic EPS | 0.20p | 21.07p |
| Diluted earnings per share* | | |
| Weighted average number of shares (thousands) as above | 73,193 | 73,193 |
| Add | | |
| – Conditional shares | 1,867 | 1,867 |
| Total | 75,060 | 75,060 |
| Diluted earnings per share | 0.19p | 20.55p |

* All the put options detailed in note 27 are non-dilutive as the exercise price approximates fair value of the underlying non-controlling interest.

NOTES

Continued

2. Segmental Information Segmental and headline income statement

| Year ended 31 December 2017 | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | Total £000 |
|--|------------|---|---|--|---|---------------|
| Billings | 188,299 | 59,037 | 27,207 | 132,007 | 148,414 | 535,964 |
| Revenue | 94,013 | 33,492 | 14,850 | 64,703 | 44,823 | 251,481 |
| Operating profit excluding Group costs | 15,149 | 5,187 | 1,568 | 7,733 | 3,385 | 33,022 |
| Group costs | (5,821) | (71) | - | (339) | (86) | (6,297) |
| Operating profit | 9,328 | 5,116 | 1,568 | 7,394 | 3,319 | 26,725 |
| Share of results of associates and JV | 1,633 | 3 | - | 351 | - | 1,987 |
| Financial income and cost | (437) | (89) | 11 | 48 | (610) | (1,057) |
| Profit before taxation | 10,524 | 5,050 | 1,579 | 7,793 | 2,709 | 27,655 |
| Taxation | (1,478) | (1,604) | (421) | (2,110) | (1,221) | (6,834) |
| Profit for the year | 9,046 | 3,446 | 1,158 | 5,683 | 1,488 | 20,821 |
| Non-controlling interests | (813) | (721) | (534) | (1,189) | 407 | (2,850) |
| Profit attributable to equity shareholders of the Group | 8,233 | 2,725 | 624 | 4,494 | 1,895 | 17,971 |
| Headline basic EPS | | | | | | 23.04p |
| Non-cash costs included in headline operating profit: | | | | | | |
| Depreciation | 1,386 | 357 | 371 | 576 | 389 | 3,079 |
| Amortisation of software | 70 | 37 | 11 | 93 | - | 211 |
| Share option charges | - | - | - | - | - | - |
| Office locations | London | Paris Milan Berlin Madrid Geneva Stockholm Moscow Istanbul | Johannesburg Cape Town Abu Dhabi Dubai Beirut Tel Aviv | Sydney Melbourne New Delhi Bangalore Islamabad Hong Kong Shanghai Tokyo Kuala Lumpur Bangkok Singapore | New York Chicago Los Angeles San Francisco Mexico City São Paulo | |

Segmental results are reconciled to the income statement in note 1. Our segmental and headline results are one and the same. The above segments reflect the fact that our business is run on an operating unit basis. In accordance with IFRS8 paragraph 12, we have aggregated our operating units into regional segments. Financial information provided to the Chief Operating and Decision maker, which is the Board, is compiled based on geographical regions with trading operations in each country aggregated into that region. This is on the basis that each country included in that region has similar economic and operating characteristics and that the products and services provided by entities in geographic region are all related to marketing communication services.

NOTES

Continued

2. Segmental information continued

| Year ended 31 December 2018 | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | Total £000 |
|--|------------|---|---|--|--|---------------|
| Billings | 154,844 | 38,504 | 22,810 | 88,665 | 153,357 | 458,180 |
| Revenue | 88,504 | 26,685 | 11,673 | 52,531 | 45,994 | 225,387 |
| Operating profit excluding Group costs | 10,398 | 4,028 | 1,085 | 5,754 | 7,119 | 28,384 |
| Group costs | (4,879) | (87) | – | (343) | (38) | (5,347) |
| Operating profit | 5,519 | 3,941 | 1,085 | 5,411 | 7,081 | 23,037 |
| Share of results of associates and JV | 1,323 | (3) | – | 290 | (80) | 1,530 |
| Financial income and cost | (343) | (43) | 43 | 124 | (572) | (791) |
| Profit before taxation | 6,499 | 3,895 | 1,128 | 5,825 | 6,429 | 23,776 |
| Taxation | (811) | (1,350) | (362) | (1,458) | (129) | (4,110) |
| Profit for the year | 5,688 | 2,545 | 766 | 4,367 | 6,300 | 19,666 |
| Non-controlling interests | (1,320) | (494) | (326) | (844) | (1,259) | (4,243) |
| Profit attributable to equity shareholders of the Group | 4,368 | 2,051 | 440 | 3,523 | 5,041 | 15,423 |
| Headline basic EPS | | | | | | 21.07p |
| Non-cash costs included in headline operating profit: | | | | | | |
| Depreciation | (1,364) | (242) | (185) | (329) | (548) | (2,668) |
| Amortisation of software | (268) | (62) | (9) | (13) | (2) | (354) |
| Share option charges | – | – | – | – | – | – |
| Office locations | London | Paris Milan Berlin Madrid Geneva Stockholm Moscow Istanbul | Johannesburg Cape Town Abu Dhabi Dubai Beirut Tel Aviv | Sydney Melbourne New Delhi Bangalore Islamabad Hong Kong Shanghai Tokyo Kuala Lumpur Bangkok Singapore | New York Chicago Los Angeles San Francisco São Paulo | |

NOTES

Continued

2. Segmental information continued Segmental balance sheet

This note includes balance sheet information required by IFRS8 and other information required by IFRS12.

| Year ended 31 December 2017 | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | Total £000 |
|--|-----------------|-----------------|-----------------------------------|-------------------------------|------------------|------------------|
| Non-current assets | 53,307 | 4,856 | 1,389 | 7,983 | 22,499 | 89,834 |
| Current assets | 70,426 | 25,848 | 12,485 | 36,409 | 24,105 | 168,053 |
| Total assets | 123,733 | 30,304 | 13,854 | 44,392 | 46,604 | 258,887 |
| Current liabilities | (13,383) | (27,702) | (10,714) | (33,035) | (43,787) | (128,631) |
| Non-current liabilities | (1,282) | (425) | (5) | (894) | (934) | (3,320) |
| Total liabilities | (14,645) | (28,127) | (10,719) | (33,729) | (44,731) | (131,951) |
| Non-controlling interest in equity at year end | 2,148 | 115 | 635 | 1,886 | 1,838 | 6,532 |
| Dividends paid to non-controlling interests during year | (474) | (228) | (427) | (1,113) | (241) | (2,483) |
| Non-headline amortisation | 81 | - | 354 | 420 | 1,166 | 2,021 |
| Non-headline impairment | - | - | - | 631 | 4,583 | 5,214 |
| Capital expenditure | 2,339 | 423 | 439 | 513 | 117 | 3,831 |
| Depreciation | 1,386 | 357 | 371 | 576 | 389 | 3,079 |

NOTES

Continued

2. Segmental information continued

| Year ended 31 December 2016 | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | Total £000 |
|--|-----------------|-----------------|-----------------------------------|-------------------------------|----------------------|----------------------|
| Non-current assets | | | | | | |
| Current assets | 47,912 | 3,861 | 1,619 | 4,182 | 30,781 | 88,355 |
| Current assets | 56,562 | 19,493 | 7,912 | 24,974 | 33,105 | 142,046 |
| Total assets | 104,474 | 23,354 | 9,531 | 29,156 | 63,886 | 230,401 |
| Current liabilities | | | | | | |
| Non-current liabilities | (18,241) | (20,879) | (6,910) | (20,704) | (49,152) | (115,886) |
| Non-current liabilities | (404) | (439) | (39) | (631) | (1,095) | (2,608) |
| Total liabilities | (18,645) | (21,318) | (6,949) | (21,335) | (50,247) | (118,494) |
| Non-controlling interest in equity at year end | 2,063 | 281 | 486 | 1,111 | 2,887 | 6,828 |
| Dividends paid to non-controlling interests during year | 991 | 678 | 129 | 797 | 571 | 3,166 |
| Non-headline amortisation | 1,000 | 41 | 267 | 77 | 939 | 2,324 |
| Non-headline impairment | 651 | - | - | - | 3,738 | 4,389 |
| Capital expenditure | 2,307 | 297 | 524 | 543 | 309 | 3,980 |
| Depreciation | 1,364 | 242 | 185 | 329 | 548 | 2,668 |
| Reportable segment assets are reconciled to total assets as follows: | | | | | | |
| Segment assets | | | | | 2017 £000 | 2016 £000 |
| Current tax asset | | | | | 258,887 | 230,401 |
| Deferred tax asset | | | | | 945 | 1,057 |
| Total assets per balance sheet | | | | | 4,797 | 3,112 |
| | | | | | 264,829 | 234,570 |

NOTES

Continued

2. Segmental information continued

Reportable segment liabilities are reconciled to total liabilities as follows:

| | 2017 £000 | 2018 £000 |
|---|------------------|------------------|
| Segment liabilities | (131,951) | (118,494) |
| Deferred tax liabilities | (761) | (380) |
| Current tax liabilities | (1,221) | (1,186) |
| Invoice discounting and short-term bank loans | (3,743) | (3,645) |
| Other financial liabilities | (37,764) | (28,302) |
| Minority shareholder put option liabilities | (25,129) | (33,166) |
| Total liabilities per balance sheet | (200,569) | (185,173) |

Additional regional splits required for IFRS8 by origin

| | UK £000 | Europe £000 | Middle East and Africa £000 | Australia £000 | Asia £000 | Americas £000 | Total £000 |
|-----------------------------|------------|----------------|-----------------------------------|-------------------|--------------|------------------|---------------|
| Year ended 31 December 2017 | | | | | | | |
| Revenue | 94,013 | 33,482 | 14,650 | 56,052 | 8,651 | 44,623 | 251,481 |
| Non-current assets | 53,305 | 4,856 | 1,369 | 2,325 | 5,660 | 22,499 | 88,834 |

| | UK £000 | Europe £000 | Middle East and Africa £000 | Australia £000 | Asia £000 | Americas £000 | Total £000 |
|-----------------------------|------------|----------------|-----------------------------------|-------------------|--------------|------------------|---------------|
| Year ended 31 December 2018 | | | | | | | |
| Revenue | 88,504 | 26,685 | 11,673 | 42,311 | 10,220 | 45,994 | 225,387 |
| Non-current assets | 47,912 | 3,861 | 1,619 | 2,940 | 1,242 | 30,781 | 88,355 |

NOTES

Continued

2. Segmental information continued 2017 Segmental income statement translated at 2016 average exchange rates

It is normal practice in our industry to provide constant currency results.

Had our 2017 results been translated at 2016 average exchange rates then our constant currency results would have been:

| Year ended 31 December 2017 | UK 2000 | Europe 2000 | Middle East and Africa 2000 | Asia and Australia 2000 | Americas 2000 | Total 2000 |
|---|------------|----------------|-----------------------------------|-------------------------------|------------------|---------------|
| Revenue | 94,013 | 31,307 | 12,649 | 60,306 | 42,582 | 240,859 |
| Operating profit excluding Group costs | 15,150 | 4,833 | 1,258 | 7,335 | 3,381 | 31,957 |
| Group costs | (5,819) | (86) | - | (315) | (85) | (6,265) |
| Operating profit | 9,331 | 4,767 | 1,258 | 7,020 | 3,316 | 25,682 |
| Share of results of associates and JV | 1,833 | 4 | - | 340 | - | 1,977 |
| Financial income and cost | (458) | (88) | 8 | 46 | (578) | (1,051) |
| Profit before taxation | 10,506 | 4,703 | 1,266 | 7,406 | 2,737 | 26,618 |
| Taxation | (1,474) | (1,484) | (322) | (1,987) | (1,182) | (6,439) |
| Profit for the year | 9,032 | 3,209 | 944 | 5,419 | 1,575 | 20,179 |
| Increase/(decrease) in 2017 results caused by translation differences | (14) | (237) | (214) | (284) | 87 | (842) |

The key currencies that affect us and the average exchange rates used were:

| | 2017 | 2016 |
|--------------------|---------|---------|
| US dollar | 1.2884 | 1.3558 |
| Malaysian ringgit | 5.5370 | 5.6104 |
| Australian dollar | 1.8808 | 1.8247 |
| South African rand | 17.1503 | 19.9843 |
| Brazilian real | 4.1129 | 4.7442 |
| Euro | 1.1417 | 1.2244 |

NOTES

Continued

3. Group subsidiaries

The Group believes that local entrepreneurs should own a local stake in their destiny. This is reflected in the list below and the accounting effects in notes 20, 27 and 30.

The principal Group subsidiaries and associated companies are:

| As at 31 December 2017 | Country | Effective % ownership | Activities |
|--|----------------|-----------------------|-------------------|
| UK | | | |
| Audience Communications Ltd** | United Kingdom | 100 | Marketing |
| Clear Ideas Consultancy LLP** | United Kingdom | 80 | Marketing |
| Clear Ideas Ltd** | United Kingdom | 80 | Marketing |
| FYND Media Ltd | United Kingdom | 100 | Media Buying |
| Horizon PR Ltd** | United Kingdom | 80 | PR Agency |
| Human Digital Ltd** | United Kingdom | 60 | Research |
| Influence Communications Ltd | United Kingdom | 95 | Dormant |
| Lean Mean Fighting Machine Ltd** | United Kingdom | 100 | Advertising |
| LIDA (UK) LLP** | United Kingdom | 99 | Direct Marketing |
| LIDA Ltd** & *** | United Kingdom | 100 | Direct Marketing |
| M&C Saatchi (UK) Ltd** & *** | United Kingdom | 100 | Advertising |
| M&C Saatchi Accelerator Ltd** | United Kingdom | 80 | Advertising |
| M&C Saatchi European Holdings Ltd** | United Kingdom | 96 | Holding Company |
| M&C Saatchi Export Ltd** & *** | United Kingdom | 100 | Advertising |
| M&C Saatchi German Holdings Ltd** | United Kingdom | 100 | Holding Company |
| M&C Saatchi Global Advisory Services Ltd** | United Kingdom | 100 | Advertising |
| M&C Saatchi International Ltd** | United Kingdom | 100 | Holding Company |
| M&C Saatchi Marketing Arts Ltd** | United Kingdom | 50 | Advertising |
| M&C Saatchi Merlin Ltd** | United Kingdom | 55 | Talent Management |
| M&C Saatchi Middle East Holdco Ltd** | United Kingdom | 80 | Holding Company |
| M&C Saatchi Mobile Ltd** | United Kingdom | 90 | Mobile Marketing |

NOTES

Continued

3. Group subsidiaries continued

| As at 31 December 2017 | Country | Effective % ownership | Activities |
|---|----------------|-----------------------|---|
| UK continued | | | |
| M&C Saatchi Network Ltd** & *** | United Kingdom | 100 | Holding Company |
| M&C Saatchi PR International Ltd** | United Kingdom | 60 | PR Agency |
| M&C Saatchi PR Ltd** | United Kingdom | 100 | PR Agency |
| M&C Saatchi PR UK LLP** | United Kingdom | 60 | PR Agency |
| M&C Saatchi Shop Ltd** | United Kingdom | 93 | Marketing |
| M&C Saatchi Sport & Entertainment Ltd** & *** | United Kingdom | 70 | Sport Sponsorship & Entertainment PR Agency |
| M&C Saatchi WMH Ltd** | United Kingdom | 100 | Holding Company |
| M&C Saatchi World Services LLP** | United Kingdom | 80 | Marketing |
| M&C Saatchi Worldwide Ltd** & *** | United Kingdom | 100 | Holding Company |
| M&C Saatchi WS .ORG Ltd** | United Kingdom | 80 | Not for profit marketing |
| Re Worldwide Ltd** | United Kingdom | 100 | Branding |
| SaatchiInvest Ltd** | United Kingdom | 100 | Holding Company |
| SGA London Ltd** | United Kingdom | 100 | Marketing |
| Talk PR Ltd** & *** | United Kingdom | 51 | PR Agency |
| The Source (London) Ltd** | United Kingdom | 88 | Research Agency |
| The Source (W1) LLP** | United Kingdom | 76 | Research Agency |
| Tricycle Communications Ltd** | United Kingdom | 80 | Holding Company |
| Walker Media Ltd | United Kingdom | 25 | Media Agency (Associate) |

NOTES

Continued

3. Group subsidiaries continued

| As at 31 December 2017 | Country | Effective % ownership | Activities |
|---|----------------------|-----------------------|---|
| Europe | | | |
| Cometis | France | 51 | Advertising |
| FCINQ SAS | France | 88 | Website Construction |
| M&C Saatchi Gad SAS | France | 100 | Advertising |
| M&C Saatchi Little Stories SAS | France | 79 | PR Agency |
| M&C Saatchi One SARL | France | 100 | Digital Marketing |
| Paris Gad Holding SAS | France | 60 | Holding Company |
| Tataprod | France | 30 | Production and publishing |
| M&C Saatchi Advertising GmbH | Germany | 78 | Advertising |
| M&C Saatchi Sports & Entertainment GmbH | Germany | 67 | Sport Sponsorship & Entertainment PR Agency |
| M&C Saatchi Digital GmbH | Germany | 75 | Marketing |
| M&C Saatchi PR Unternehmensgesellschaft | Germany | 100 | Marketing |
| M&C Saatchi SpA | Italy | 80 | Dormant |
| M&C Saatchi PR srl | Italy | 80 | Advertising |
| M&C Saatchi International Holdings BV | Netherlands | 100 | PR Agency |
| Clear Netherlands BV | Netherlands | 100 | Holding Company |
| M&C Saatchi Madrid SL | Spain | 51 | Dormant |
| M&C Saatchi Sponsorship S.L. | Spain | 51 | Advertising |
| M&C Saatchi AB | Sweden | 60 | Advertising |
| M&C Saatchi Go! AB | Sweden | 100 | Advertising and Marketing |
| M&C Saatchi PR AB | Sweden | 100 | Advertising |
| M&C Saatchi (Switzerland) SA | Switzerland | 88 | Dormant |
| Middle East and Africa | | | |
| M&C Saatchi Bahrain WLL | Bahrain | 100 | Dormant |
| M&C Saatchi Tel Aviv Ltd | Israel | 80 | Advertising |
| M&C Saatchi SAL | Lebanon | 10 | Advertising (Associate) |
| Creative Spark Interactive (Pty) Ltd*** | South Africa | 50 | Advertising |
| Dalmation Communications (Pty) Ltd*** | South Africa | 50 | Advertising |
| M&C Saatchi Abel (Pty) Ltd | South Africa | 50 | Advertising |
| M&C Saatchi Africa (Pty) Ltd*** | South Africa | 50 | Advertising |
| M&C Saatchi Connect (Pty) Ltd*** | South Africa | 50 | Advertising |
| Levergy Marketing Agency (PTY) Ltd*** | South Africa | 50 | Sport Sponsorship & Entertainment PR Agency |
| M&C Saatchi Istanbul | Turkey | 25 | Advertising (Associate) |
| M&C Saatchi Middle East Fz LLC | United Arab Emirates | 80 | Advertising |
| M&C Saatchi Fz LLC | United Arab Emirates | 100 | Advertising |

NOTES

Continued

3. Group subsidiaries continued

| As at 31 December 2017 | Country | Effective % ownership | Activities |
|---|-----------|-----------------------|---|
| Asia and Australia | | | |
| 1440 Agency Pty Ltd | Australia | 80 | Design |
| Bellwether Global Pty Ltd | Australia | 80 | PR Agency |
| Bohemia Group Pty Ltd | Australia | 46 | Media Agency |
| Brands In Space Pty Ltd | Australia | 80 | Design |
| Clear Australia Pty Ltd | Australia | 80 | Marketing Strategy |
| Go Studios Pty Ltd | Australia | 80 | Finished Art & Production Management Studio |
| Hidden Characters Pty Ltd | Australia | 76 | Branding and Digital Marketing |
| LIDA Australia Pty Ltd | Australia | 80 | Digital Marketing |
| M&C Saatchi Agency Pty Ltd | Australia | 80 | Advertising |
| M&C Saatchi Asia Pac Holdings Pty Ltd | Australia | 100 | Holding Company |
| M&C Saatchi Direct Pty Ltd | Australia | 80 | Direct Marketing |
| M&C Saatchi Sport & Entertainment Pty Ltd | Australia | 48 | Sport Sponsorship & Entertainment PR Agency |
| M&C Saatchi Melbourne Pty Ltd | Australia | 48 | Advertising |
| Park Avenue PR Pty Ltd | Australia | 80 | PR & Marketing |
| Re Team Pty Ltd | Australia | 76 | Marketing |
| Saatchi Ventures Pty Ltd | Australia | 60 | Holding Company |
| Tricky Jigsaw Pty Ltd | Australia | 68 | Marketing |
| eMCSaatchi Pty Ltd | Australia | 80 | Dormant |
| M&C Saatchi Advertising (Shanghai) Ltd | China | 40 | Consultancy (Associate) |
| Clear Asia Ltd | Hong Kong | 80 | Dormant |
| M&C Saatchi Asia Ltd | Hong Kong | 100 | Advertising |
| M&C Saatchi (HK) Ltd | Hong Kong | 40 | Advertising (Associate) |
| M&C Saatchi Communications Pvt Ltd | India | 95 | Advertising |
| February Communications Pvt Ltd | India | 20 | Advertising (Associate) |
| M&C Saatchi Ltd | Japan | 10 | Advertising (Associate) |
| M&C Saatchi (M) Sdn Bhd | Malaysia | 49 | Advertising |
| Design Factory Sdn Bhd | Malaysia | 49 | Advertising |
| Intelligence Factory Sdn Bhd | Malaysia | 49 | Advertising |
| M&C Saatchi World Services Pakistan (Pvt) Ltd | Pakistan | 41 | Marketing (joint venture) |
| Clear Ideas (Singapore) Pte Ltd | Singapore | 95 | Marketing |
| M&C Saatchi Holdings Asia Pte Ltd | Singapore | 100 | Holding Company |
| M&C Saatchi (S) Pte Ltd | Singapore | 80 | Advertising |
| M&C Saatchi Mobile Asia Pacific Pte Ltd | Singapore | 95 | Mobile Marketing |
| Love Frankie Ltd | Thailand | 20 | Marketing (Associate) |

NOTES

Continued

3. Group subsidiaries continued

| As at 31 December 2017 | Country | Effective % ownership | Activities |
|--|---------|-----------------------|---|
| Ameritas | | | |
| Lily Participacoes Ltda | Brazil | 100 | Holding Company |
| M&C Saatchi Brasil Comunicaçao Ltda | Brazil | 60 | Advertising |
| M&C Saatchi Brasil Participacoes Ltda | Brazil | 100 | Holding Company |
| Santa Clara Participacoes Ltda | Brazil | 25 | Advertising (Associate) |
| M&C Saatchi/Insight Pesquisa & Planejamento Ltda | Brazil | 100 | Dormant |
| M&C Saatchi, S.A. DE. C.V | Mexico | 59 | Advertising |
| Clear USA LLC | USA | 88 | Marketing |
| LIDA NY LLP | USA | 75 | Direct Marketing |
| M&C Saatchi Agency Inc. | USA | 100 | Holding Company |
| M&C Saatchi LA Inc. | USA | 90 | Advertising |
| M&C Saatchi Mobile LLP | USA | 99 | Mobile Marketing |
| M&C Saatchi PR LLP | USA | 100 | PR |
| M&C Saatchi Share Inc. | USA | 75 | Marketing |
| M&C Saatchi Sports + Entertainment NY LLP | USA | 93 | Sport Sponsorship & Entertainment PR Agency |
| Shepardson Stern + Kaminsky LLP | USA | 66 | Marketing Consultant |
| M&C Saatchi NY LLP | USA | 100 | Dormant |
| World Services US Inc. | USA | 80 | Dormant |
| Clear NY LLP | USA | 100 | Holding Company |

** This subsidiary undertaking is exempt from the Companies Act 2006 requirements relating to the audit of their individual accounts by virtue of Section 479A of the Act as M&C Saatchi plc has guaranteed the subsidiary company under Section 479C of the Act.

*** With the exception of M&C Saatchi Network Ltd and our South African subsidiaries where all our equity is directly held by M&C Saatchi plc, all other subsidiary companies' equity is either in part or wholly held indirectly via subsidiaries of M&C Saatchi plc.

Most of our subsidiaries, associates and joint ventures (entities) have different classes of equity so that board representation reflects parties equity splits, and minorities can be protected from right changes, in all other regards our entities equity ranks pari passu.

List of the entities local registered address can be found in note 43.

M&C Saatchi plc exists as a holding company with all direct client relationships performed by its indirect subsidiaries. The results of the entities reflect the result of the Group less the results of M&C Saatchi plc.

NOTES

Continued

4. Summary of accounting policies

Basis of preparation

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

Going concern

Given the strength of the Group's balance sheet, its net cash, its bank covenants, the risks the Group faces (note 6), the expected trading performance and the two-year cash flow projections, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Directors review the Group's profit forecasts and review monthly its balance sheet and cash flow forecasts. Annually, or earlier if needed, the long term (greater than one year) cash flow projections for the Group are reviewed based on anticipated scenarios and acquisitions. If additional funding is required, it is secured before expenditure is committed (note 25).

Based on this the Directors believe the Group will continue as a going concern for the foreseeable future.

Headline results

The Directors believe that the headline results and headline earnings per share provide additional useful information on the underlying performance of the business. The headline results reflect the underlying profitability of the business units by excluding all effects of buying and selling equity by the Group, and the accounting effects of the entrepreneurs holding equity in the businesses they run. This results in accounting charges and credits to the income statement for the Group's fair value liability of its local entrepreneurs' equity conversion rights, but does not account for the increase in the value of the businesses.

In addition, the headline results are used for internal performance management and to calculate minority shareholder put option liabilities. The term 'headline' is not a defined term in IFRS. Note 1 reconciles reported to headline results.

Our segmental reporting (note 2) reflects our headline results in accordance with IFRS8.

The items that are excluded from headline results are the amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investment in associates and investments; profit and loss on disposal of associates; and the income statement impact of put option accounting and share based payment charges. See note 1 for a reconciliation between the Group's statutory results and the headline results.

Accounting developments and changes

There were no significant accounting developments or changes during 2017 that affect these accounts. There are significant future developments to revenue recognition and lease accounting that are described at the end of note 34.

IFRS elections

IFRS provides certain options available within accounting standards. Material judgements we have made, and continue to make, include goodwill and intangible asset acquisitions where the Group does not recognise the non-controlling interests share of goodwill.

Critical accounting policies

Revenue recognition

Billings comprise the gross amounts billed to clients in respect of commission based and fee based income together with the total of other fees earned. Revenue comprises commission and fees earned in respect of amounts billed. Revenue and billings are stated exclusive of VAT, sales taxes and trade discounts.

Each type of revenue is recognised on the following basis:

- Project fees are recognised over the period of the relevant assignments or agreements, in line with incurred costs. The primary input of all work performed under these arrangements is labour. As a result of the relationship between labour and cost, there is normally a direct relationship between costs incurred and the proportion of the contract performed to date.
- Retainer fees are spread over the period of the contract on a straight-line basis.
- Commission on media spend is recognised when the advertisements appear in the media.
- Where we receive volume rebates from certain suppliers for transactions entered into on behalf of clients that, based on the terms of the relevant contracts and local law, they are either remitted to clients or retained by the Group. If amounts are passed on to clients they are recorded as liabilities until settled or, if retained by the Group, are recorded as revenue when earned.

Subsidiary acquisitions

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values of the assets given, liabilities incurred or assumed, contingent consideration and the equity instruments issued by the Group in exchange for control. The identifiable assets and liabilities (including contingent liabilities) acquired that meet the conditions for recognition under IFRS3 are recognised at their fair values at the date of acquisition.

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

All acquisition costs are expensed to the income statement in the period that they occur.

NOTES

Continued

4. Summary accounting policies continued

Goodwill
Goodwill arising on the acquisition of a subsidiary is recognised as an asset, being the excess of consideration paid over the interest in the fair value of the identifiable net assets acquired. Cost comprises the fair value of assets given, liabilities assumed (contingent and deferred consideration) and equity instruments issued.

In 2009 and before, where the Group increased its stake in a subsidiary, goodwill equals the difference between the consideration paid and the fair value of the minority interest acquired. In 2010 and beyond, such balances are taken to reserves in accordance with IAS27. The amendment to the standard did not require retrospective restatement.

Goodwill relating to associates is included within the carrying value of the investment in associates.

Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at net book value as at that date.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication of impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

The impairment test is based on management's projections for the next five years and regional growth rates thereafter.

Goodwill arising from foreign investments is retranslated at the year end rate.

Minority shareholder put option liabilities

The equity partners in the Group's subsidiaries hold put options that allow them to require the Group to purchase their non-controlling interest on exercise. The put options can be exchanged for either a variable number of shares or cash. The Group has elected to account for these as put option liabilities under IAS32 and measures them at the present value of the amounts expected to be payable on exercise; this is deemed a proxy for fair value. The fair value is remeasured at each period end with the movements being recognised in the income statement in finance income or cost.

On inception of a put option, the liability is recognised on the balance sheet and a corresponding debit is included in the minority interest put option reserve (note 5).

On exercise, the liability is extinguished, and its related minority interest put option reserve is moved to the non-controlling interest acquired reserve (note 5).

Employee benefits – equity settled share based payments

In addition to the put option liabilities, some entities have issued put options which are forfeited on termination of employment of the minorities. As such, these arrangements are treated as share based payments and accounted for under IFRS2, as opposed to IFRS9. The cost of such equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted, including assumptions over non-market vesting conditions such as, profitability and sales growth targets. Subsequent changes in the likelihood of achieving such non-market conditions are reflected as adjustments to the share option charge over the vesting period. Where awards depend on future events, we assess the likelihood of these conditions being met and make an appropriate charge at the end of each reporting period. The credit for equity settled transactions is taken to retained earnings.

Assets and liabilities in respect of put options held by shareholders in associates are accounted for as derivatives and not recognised until the Group gains control and fully consolidates the entity.

The remaining accounting policies, details of IFRS13 hierarchy and additional details on the above are set out in note 34.

Put option conditional shares awards

The cost of awards to employees of subsidiary undertakings classified as conditional shares awards is accounted for as a share option under IFRS2 and is charged to the income statement over the period of the award.

On exercise, the share for share exchange is treated at nominal value or initial acquired value.

Dividends paid to employees of subsidiaries who have conditional share awards are expensed as employee remuneration.

5. Definition of terms

Foreign exchange reserve

For overseas operations, results are translated at the annual average rate of exchange and balance sheets are translated at the closing rate of exchange. The annual average rate of exchange approximates to the rate on the date that the transactions occurred. Exchange differences arising from the translation of foreign subsidiaries are taken to a separate component of equity. Such translation differences will be recognised as income or expense in the period in which the operation is disposed of.

Gearing ratio

Gearing ratio is equal to net debt divided by market capitalisation at the balance sheet date.

Key management

Key management has been defined as the persons discharging managerial responsibilities (PDMRs) of the Group.

NOTES

Continued

5. Definition of terms continued

Net cash (Net Debt)

Cash and cash equivalents at the end of the year less external borrowings (excluding any capitalised finance cost, finance leases and debt factoring).

Merger reserve

Premium paid for shares above the nominal value of share capital, caused by the acquisition of more than 90% of subsidiaries' shares. The merger reserve is released to retained earnings when there is a disposal or impairment charge or amortisation charge posted in respect of the investment that created it.

Minority interest put option reserve

Corresponds to the initial fair value of the liability in respect of the put options at creation. When the put option is exercised, the related amount in this reserve is taken to the non-controlling interest acquired reserve. All revaluations of put options are expensed through the income statement to the profit and loss reserve.

Non-controlling interest

Contains the non-controlling interests' share of equity reserves of our subsidiaries.

Non-controlling interest acquired reserve

From 1 January 2010, a non-controlling interest acquired reserve is used when the Group acquires an increased stake in a subsidiary. If the stepped acquisition is due to a put option then the non-controlling interest acquired reserve is equal to the minority interest put option reserve transferred less the book value of the minority interest acquired. Otherwise the non-controlling interest acquired reserve is equal to the consideration paid the less book value of the minority interest acquired. If the equity stake in the subsidiary is subsequently sold, then balances from this reserve will be taken to retained earnings.

Retained earnings

Cumulative gains and losses recognised.

Share premium

Premium paid for shares above the nominal value of share capital, where that premium was not taken to merger reserve.

Treasury reserve

Amount paid for own shares acquired.

6. Risk and risk management

The Group has identified specific categories of business risk and developed policies for their management and control, as detailed in the Finance Directors Report (Page 14). These policies are kept under constant review as risk and risk perceptions change.

The risks are identified in the Director's Report:

- Client risk (see below)
- Staff risk
- Location risk
- Associated risk
- Finance risk (see below)
- Cyber risk
- Internal control risk
- Regulatory risk
- Economic and political risk
- Investment risk (note 17, 20 and 22)

Finance risks and their effect are as follows:

- Currency risk
- Interest rate risk
- Credit risk
- Share price risk
- (see below, and note 23 and 24)
- (note 13)
- (note 23)
- (note 27)

Income statement currency exposure

The Group's results are presented in sterling and are subject to fluctuation as a result of exchange rate movements. The Group continues to review its exposure to exchange rate movements and considers methods to reduce the exchange rate risk.

2017 profits would have changed as follows, had average exchange rates been changed by:

| Exchange rate | Increase/(decrease) in profit before tax £000 | Increase/(decrease) in profit after tax £000 |
|---------------|---|--|
| +10% | (1,104) | (665) |
| (10)% | 1,349 | 800 |

See note 2 for the income statement translated at prior year exchange rates.

Client risk

The Group does not have a substantial market share in any market. The key risk the Group is exposed to is the loss of clients. The Group has policies to monitor client feedback and act where there are issues.

| Largest clients as a % of total revenue | 2017 % | 2016 % |
|---|-----------|-----------|
| Top client | 5.4 | 4.9 |
| Top 10 | 31.9 | 30.5 |
| Top 15 | 39.8 | 39.5 |
| Top 30 | 52.8 | 54.2 |

NOTES

Continued

6. Risk and risk management continued

Liquidity risk

Centrally the Group ensures that bank facilities are available to meet the Group's liquidity needs. Liquidity is monitored centrally and managed locally. Spare local cash is released to the centre by way of dividends and loan repayments. In managing its liquidity risk, management considers its net cash and minimises its gearing ratio, and where working capital is utilised to fund the business, management makes sure that the Group has sufficient bank facilities to cope with an unwinding of positive working capital flows and to fund the negative working capital effect of revenue growth. Our bank debt maturity analysis can be seen in note 25 and financial liability maturity analysis can be seen in note 24.

Capital risk

The Group's capital reserves consist of all its equity reserves with the exclusion of the minority interest put option reserve. Capital reserves safeguard the Group's going concern, as well as providing adequate return to its shareholders. The capital reserves total £78,028k (2016: £69,956k). The Group minimises the amount of debt it uses to finance its activities, to reduce the risk to the shareholders. Excess working capital, where legally possible, is used to reduce debt. Excess cash is used to invest or is returned to shareholders by way of dividend or through buying shares into treasury. Our key process for managing capital is regular Board reviews of our capital structure and needs.

Key estimates

Management's estimates of the future profitability of the Group can be significantly affected by single account wins or losses, and to a lesser extent by the estimated phase of a project, exchange rates and underlying economic growth rates. We have therefore based our estimates on the budgets for the coming year and estimated growth rates and margins thereafter.

Changes in these underlying assumptions could give rise to material adjustments as set out in the following notes: note 17 – Intangible assets – goodwill estimation of value in use, note 27 – Minority shareholder put options liabilities; and note 30 – Share based payments – initial measurement of Conditional share awards.

Sensitivities to accounting estimates

Our results and financial position are sensitive to assumptions made in determining accounting estimates, in particular the recoverable amount of a CGU (goodwill estimation note 17); valuation and recoverability of our investments in associates (note 20); valuation and recoverability of our corporate venturing investments (note 22); and minority shareholder put options liabilities (note 27).

Key judgements

The most significant areas where such judgements apply are goodwill and other intangibles, liabilities in respect of put option agreement with non-controlling interests, acquisition reserves, and taxation. The key judgements made are:

- deciding which of the Group's agreements with minority shareholders are share options and which are put options (whether created by way of acquisition or organically). This requires a detailed assessment of the terms of the acquisition to determine whether any of the arrangements are linked to continued employment or whether there are any features that might suggest a portion of future payments are linked to continued employment;

- deciding to what extent tax losses are recognised as an asset in the balance sheet. This requires an assessment of whether there is sufficient certainty that taxable profits will be made in future periods; and
- useful lives of assets – intangible: The judgement here is over what period to amortise acquisition intangibles. Due to the strength of the M&C Saatchi Brand, and that a number of the acquisitions adopt this over time, the periods are typically short.

Projections

Projections take account of management's view of the local operations future profitability given expected market growth, inflation, exchange rates and rapidly growing or shrinking markets. They are based on our budgets for 2018.

They are used in calculating the fair value of minority put options, management's assessment of value in use calculations, to identify goodwill impairment indicators and in calculating the value of conditional share awards.

IFRS13 disclosures with respect of fair value have been detailed in note 34 and relevant notes.

7. Operating costs

| Year ended 31 December | Note | 2017 £'000 | 2016 £'000 |
|--|------|---------------|---------------|
| Total staff costs | 8 | 187,319 | 157,481 |
| Other costs | | 58,827 | 61,257 |
| Operating costs | | 246,146 | 218,738 |
| Other costs include: | | | |
| Loss/(Profit) on exchange | | 580 | (659) |
| Amortisation of intangibles | | | |
| – Acquired intangibles | 17 | 2,021 | 2,324 |
| – Capitalised software | 17 | 211 | 354 |
| Goodwill impairment | 17 | 5,214 | – |
| Associate impairment | | – | 3,738 |
| Fair value revaluation of associate on acquisition | | – | 859 |
| Provision against investments | | – | 651 |
| Depreciation of plant and equipment | 21 | 3,079 | 2,668 |
| Loss on disposal of fixed assets | | 28 | 542 |

NOTES

Continued

7. Operating costs continued

| Year ended 31 December | 2017 £000 | 2016 £000 |
|--|----------------------|----------------------|
| Operating lease rentals | | |
| Plant | 718 | 514 |
| Property | 8,390 | 7,556 |
| Property sublease receipts | 9,108 | 8,070 |
| | (199) | (180) |
| | 8,909 | 7,890 |
| Year ended 31 December | 2017 £000 | 2016 £000 |
| Total commitments | | |
| Plant and equipment | | |
| Commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows: | | |
| – Within one year | 1,026 | 913 |
| – Between one and five years | 906 | 1,134 |
| – Between two and five years | 1,932 | 2,047 |
| Property | | |
| Commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows: | | |
| – Within one year | 9,754 | 9,059 |
| – Between one and five years | 28,909 | 31,993 |
| – Greater than five years | 3,954 | 11,033 |
| | 42,617 | 52,085 |
| Sublease receipts | | |
| Commitments for future minimum lease receipts under non-cancellable operating leases, which fall due as follows: | | |
| – Within one year | (539) | (432) |
| – Between one and five years | (2,237) | (1,554) |
| – Greater than five years | (592) | (384) |
| | (3,368) | (2,370) |

For further details of finance leases, see in note 25.

8. Staff costs

Staff costs (including Directors') comprise:

| Year ended 31 December | 2017 £000 | 2016 £000 |
|---|----------------|----------------|
| Wages and salaries | 148,546 | 127,233 |
| Social security costs | 17,498 | 15,085 |
| Defined contribution pension scheme costs | 2,012 | 1,697 |
| Other staff benefits | 5,149 | 4,650 |
| | 173,204 | 148,665 |
| Acquisition related remuneration | | |
| Allocations and dividends paid to conditional share award holders | 389 | 540 |
| Contingent acquisition cost with leaver provision (note 18) | 225 | 279 |
| | 614 | 819 |
| Share based incentive plans | | |
| Equity settled | 13,501 | 7,997 |
| Total staff costs | 187,319 | 157,481 |
| Staff numbers | | |
| UK | 783 | 743 |
| Europe | 368 | 326 |
| Middle East and Africa | 314 | 277 |
| Asia and Australia | 708 | 611 |
| America | 310 | 361 |
| | 2,483 | 2,318 |

NOTES

Continued

8. Staff costs continued

Pensions

The Group does not operate any defined benefit pension schemes. The Group makes payments, on behalf of certain individuals, to personal pension schemes.

Payments of £1,902k (2016: £1,697) were made in the year and charged to the income statement in the period they relate to. At the year end there were unpaid amounts included within accruals totalling £268k (2016: £156k).

Key management remuneration

| | 2017 £000 | 2016 £000 |
|-----------------------------|--------------|--------------|
| Short term employee benefit | 3,077 | 3,062 |
| Post-employment benefit | 17 | 17 |
| Share based payments | 1,182 | 1,366 |
| Total | 4,286 | 4,445 |

9. Auditors' remuneration

Services provided by the Group's Auditors and network firms.

| Year ended 31 December | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Audit services | | |
| Audit of the Company and its consolidated accounts | 268 | 239 |
| Audit of the Company's subsidiaries pursuant to legislation | 281 | 201 |
| | 549 | 440 |
| Other services provided by the Auditors | | |
| Taxation compliance services | 26 | 20 |
| Finance due diligence | 84 | - |
| Other advice | 3 | 1 |
| | 123 | 21 |
| Total | 672 | 461 |

10. Share of associates and joint ventures

| Year ended 31 December | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Share of associates' profit before taxation | 2,598 | 1,981 |
| Share of associates' taxation | (611) | (451) |
| | 1,987 | 1,530 |

For further details of associates, see note 20.

11. Finance income

| Year ended 31 December | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Bank interest receivable | 200 | 338 |
| Other interest receivable | 89 | 102 |
| Total interest receivable | 289 | 440 |
| Fair value adjustments to minority shareholder put option liabilities (note 27) | 3,037 | - |
| Total finance income | 3,326 | 440 |

12. Finance costs

| Year ended 31 December | 2017 £000 | 2016 £000 |
|---|----------------|----------------|
| Bank interest payable | (1,544) | (1,227) |
| Interest payable on finance leases | (2) | (4) |
| Total interest payable | (1,546) | (1,231) |
| Fair value adjustments to minority shareholder put option liabilities (note 27) | - | (597) |
| Total finance costs | (1,546) | (1,828) |

NOTES

Continued

13. Interest rate risk

The Group is exposed to interest rate risk on both interest-bearing assets and liabilities. The majority of interest paying and earning assets are exposed to UK interbank rates (non-sterling denominated loans are at local interbank rates). An analysis of net interest by our segmented geographic regions is provided in note 2.

At the year end, the Group had a \$40.0m bank facility, which expires in April 2020. On 29 November 2017 it was agreed that this facility would only reduce to \$38.0m on 31 December 2019 and \$36.0m on 31 December 2019. The facility can borrow in sterling, US dollars or euros. At 31 December 2017, \$37.7m (2016: \$28.6m) of this loan was drawn down.

The Group regularly reviews its treasury structures to minimise commercial interest rate margins.

For further details of Group borrowings, see note 25.

14. Taxation

| Year ended 31 December | 2017 £000 | 2018 £000 |
|---|----------------|--------------|
| Current taxation | | |
| Taxation in the year | | |
| – UK | 1,889 | 891 |
| – Overseas | 5,286 | 3,700 |
| Withholding taxes payable | 21 | (49) |
| Utilisation of previously unrecognised tax losses* | (817) | – |
| Adjustment for Under (over) provision in prior periods* | 825 | (104) |
| Total | 6,804 | 4,438 |
| Deferred taxation | | |
| Origination and reversal of temporary differences | (3,612) | 106 |
| Recognition of previously unrecognised tax losses** | (121) | (1,093) |
| Effect of changes in tax rates | 1,885 | – |
| Total | (2,086) | (987) |
| Total taxation | 4,736 | 3,451 |

* In the most part, this relates to our US offices.

** Recognised to reflect the probable future corporation tax that we can reclaim.

The differences between the actual tax and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

| Year ended 31 December | 2017 £000 | 2017 % | 2018 £000 | 2018 % |
|---|----------------|--------------|----------------|--------------|
| Profit before taxation | 9,302 | | 6,791 | |
| Taxation at UK corporation tax rate of 19.25% (2016: 20.00%) | (1,791) | 19.3% | (1,358) | 20.0% |
| Tax effect of associates | 373 | -4.0% | 306 | -4.5% |
| Non-controlling interest share of partnership income | 327 | -3.5% | 467 | -6.9% |
| Expenses not deductible for tax | (287) | +3.1% | (484) | +7.1% |
| Option charges not deductible for tax | (1,820) | +20.6% | (1,698) | +25.0% |
| Different tax rates applicable in overseas jurisdictions | (806) | +6.5% | (826) | +12.2% |
| Effect of changes in tax rates on deferred tax | (1,885) | +17.9% | – | – |
| Withholding taxes payable | (21) | +0.2% | 49 | -0.7% |
| Utilisation of previously unrecognised tax losses | 817 | -8.8% | – | – |
| Recognition of previously unrecognised tax losses | 121 | -1.3% | 1,093 | -16.1% |
| Adjustment for current tax over provision in prior periods | (825) | +6.7% | 104 | -1.5% |
| Tax losses for which no deferred tax asset was recognised | (43) | +0.5% | (107) | +1.6% |
| Fair value adjustments on minority shareholder put options | 584 | -6.3% | (119) | +1.7% |
| Impairment of goodwill and investment in associates | – | – | (878) | +12.9% |
| Total taxation | (4,736) | 50.9% | (3,451) | 50.8% |
| Statutory tax rate | 50.9% | | 50.8% | |

We expect large variation in future statutory tax rates due to share based payments (option charges), put options and investment in subsidiaries being capital in nature a non-deductible to corporation tax.

NOTES

Continued

14. Taxation continued

| Year ended 31 December | 2017 £200 | 2017 % | 2018 £200 | 2018 % |
|---|----------------|---------------|----------------|---------------|
| Headline profit before taxation (note 1) | 27,655 | | 23,776 | |
| Taxation at UK corporation tax rate of 19.25% (2016: 20.00%) | (5,324) | +19.3% | (4,755) | +20.0% |
| Tax effect of associates | 373 | -1.4% | 306 | -1.3% |
| Non-controlling interest share of partnership income | 327 | -1.2% | 467 | -2.0% |
| Expenses not deductible for tax | (287) | +1.0% | (484) | +2.0% |
| Different tax rates applicable in overseas jurisdictions | (1,880) | +6.7% | (1,055) | +4.5% |
| Effect of changes in tax rates on deferred tax | (292) | +1.1% | - | - |
| Withholding taxes payable | (21) | +0.1% | 49 | -0.2% |
| Utilisation of previously unrecognised tax losses | 817 | -3.0% | - | - |
| Recognition of previously unrecognised tax losses | 121 | -0.4% | 1,193 | -5.0% |
| Adjustment for current tax under provision in prior periods | (825) | +2.3% | 104 | -0.4% |
| Tax losses for which no deferred tax asset was recognised | (43) | +0.2% | 65 | -0.3% |
| Headline taxation (note 3) | (6,834) | 24.7% | (4,110) | 17.3% |
| Headline effective tax rate | 24.7% | | 17.3% | |

As can be seen above, the largest driver of headline tax charge is our local entities profitability, local tax rates, and recognition of previously unrecognised tax losses.

In December 2017 legislation was passed that reduced US federal tax rate from 35% to 21% from 1 January 2018, this has caused a revaluation of all deferred tax at the year end. This has resulted in a short term effect of increasing the tax charge by £292k, and by a further £1,373k due to the remeasurement of deferred tax on intangibles and shares awards.

In previous periods, there was volatility in US earnings. However, due to the continued strength of the US business, notably the operations of M&C Saatchi Mobile and certain acquisitions, the previously unrecognised US deferred tax assets have now been recognised in full.

The adjustments made for current tax under provisions in prior periods reflects amendments made to the 2016 tax provisions following completion of the related returns to the Authorities. The largest portion of the adjustment relates to the treatment of profits in the US, where the Alternative Minimum Tax applies.

While there remains some uncertainty over how Brexit may impact tax legislation, the combination of a reduction in the UK and US Corporation tax rates are likely to mean that our tax rate (both headline and statutory measures) are likely to reduce slightly in future periods.

15. Deferred taxation

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the Group intends to settle its current tax assets and liabilities on a net basis.

As well as the reduction in US rates mentioned above, a reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2017 have been calculated based on these rates.

| At 31 December | 2017 £200 | 2018 £200 |
|--------------------------|--------------|--------------|
| Deferred tax assets | 4,797 | 3,112 |
| Deferred tax liabilities | (761) | (380) |
| Net deferred tax | 4,036 | 2,732 |

The following is the deferred tax asset (liability) recognised by the Group and movements in 2017 and 2016:

| | Intangibles £200 | Capital allowances £200 | Tax losses £200 | Working capital differences £200 | Total £200 |
|----------------------------------|---------------------|-------------------------------|-----------------------|---|---------------|
| At 31 December 2015 | (353) | 83 | 532 | 1,184 | 1,446 |
| Exchange differences | (63) | 7 | 173 | 186 | 303 |
| Income statement credit/(charge) | 729 | (46) | 222 | 82 | 987 |
| Acquisitions | (4) | - | - | - | (4) |
| At 31 December 2016 | 309 | 44 | 927 | 1,452 | 2,732 |
| Exchange differences | (35) | 2 | (39) | 43 | (29) |
| Income statement credit/(charge) | 1,438 | 15 | 575 | 40 | 2,068 |
| Acquisitions* | (735) | - | - | - | (735) |
| At 31 December 2017 | 977 | 61 | 1,483 | 1,535 | 4,036 |

* Acquisitions are included in deferred tax liabilities.

NOTES

Continued

15. Deferred taxation continued Unrecognised deferred tax asset in respect of carried forward tax losses:

| | Deferred Loss tax impact £000 | Deferred tax impact £000 |
|------------------------------|--|--------------------------------|
| At 31 December 2016 | 5,296 | 1,573 |
| Exchange differences | (195) | (51) |
| Disposal of dormant entities | (441) | (131) |
| Losses utilised in year | (2,334) | (817) |
| Losses in year | - | - |
| At 31 December 2017 | 2,325 | 574 |

Expiry date of losses:

| | 2017 £000 | 2016 £000 |
|-------------------|--------------|--------------|
| One to five years | 387 | 26 |
| Five to ten years | - | 1,211 |
| Ten years or more | 187 | 336 |
| Total | 574 | 1,573 |

A deferred tax asset in respect of certain losses in overseas territories has not been recognised as there is insufficient certainty of future taxable profits against which these would reverse.

16. Dividends

| Year ended 31 December | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| 2016 final dividend paid 6.44p on 7 July 2017 (2015: 5.60p)* | 5,032 | 4,084 |
| 2017 interim dividend paid 2.13p on 10 November 2017 (2016: 1.85p) | 1,718 | 1,374 |
| | 6,748 | 5,458 |

* 2016 dividend has been restated to reflect the number of shares in issue when the dividend was paid, as opposed to the number of shares in existence at 31 December 2016.

The 2017 proposed final dividend of 7.40p, totalling £5,996,827k. The dividends relate to the profit of the following years:

| Year ended 31 December | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Interim dividend paid 2.13p on 10 November 2017 (2016: 1.85p) | 1,718 | 1,374 |
| Final dividends payable 7.40p on 6 July 2018 (2016: 6.44p) | 5,997 | 4,876 |
| | 7,713 | 6,250 |
| Headline dividend cover | 2.3 | 2.5 |

Headline dividend cover is calculated by taking headline profit after tax attributable to equity shareholders and dividing it by the total dividends that relate to that year's profits. The Group seeks to maintain a long-term headline dividend cover of between 2 and 3. Retained profits are used to reinvest in the long-term growth of the Group through funding working capital and investing activities; and to repay bank debt.

NOTES

Continued

17. Intangible assets

| | Goodwill £'000 | Brand name relationships £'000 | Customer relationships £'000 | Software £'000 | Total £'000 |
|---------------------------------------|-------------------|---|------------------------------------|-------------------|----------------|
| Cost | | | | | |
| At 31 December 2015 | 33,771 | 4,163 | 6,556 | 1,685 | 46,175 |
| Exchange differences | 804 | 264 | 328 | 131 | 1,527 |
| Acquired | - | - | - | 38 | 38 |
| Acquired through business combination | 17,392 | 2,284 | 4,757 | - | 24,433 |
| Disposal | - | - | - | (134) | (134) |
| Disposal of subsidiary | - | (65) | - | - | (65) |
| At 31 December 2016 | 51,967 | 6,646 | 11,641 | 1,720 | 71,974 |
| Exchange differences | (1,502) | (241) | (367) | (20) | (2,130) |
| Acquired | - | - | - | 382 | 382 |
| Acquired through business combination | 3,451 | 1,990 | 601 | 474 | 6,516 |
| Disposal | - | - | - | (693) | (693) |
| At 31 December 2017 | 53,916 | 8,395 | 11,875 | 1,863 | 76,049 |

| | Goodwill £'000 | Brand name relationships £'000 | Customer relationships £'000 | Software £'000 | Total £'000 |
|--|-------------------|---|------------------------------------|-------------------|----------------|
| Accumulated amortisation and impairment | | | | | |
| At 31 December 2015 | 8,040 | 3,038 | 5,968 | 853 | 17,899 |
| Exchange differences | 1 | 200 | 278 | 113 | 592 |
| Amortisation charge* | - | 1,237 | 1,087 | 354 | 2,678 |
| Disposal | - | - | - | (124) | (124) |
| Disposal of subsidiary | - | (65) | - | - | (65) |
| At 31 December 2016 | 8,041 | 4,410 | 7,323 | 1,196 | 20,970 |
| Exchange differences | (142) | (12) | (45) | 6 | (193) |
| Amortisation charge* | - | 819 | 1,202 | 211 | 2,232 |
| Impairment* | 5,214 | - | - | - | 5,214 |
| Disposal | - | - | - | (689) | (689) |
| At 31 December 2017 | 13,113 | 5,217 | 8,480 | 724 | 27,534 |

| | | | | | |
|-----------------------|--------|-------|-------|-------|--------|
| Net book value | | | | | |
| At 31 December 2015 | 25,731 | 1,125 | 598 | 832 | 28,286 |
| At 31 December 2016 | 43,926 | 2,236 | 4,318 | 524 | 51,004 |
| At 31 December 2017 | 40,803 | 3,178 | 3,395 | 1,139 | 48,515 |

* Charged to income statement.

Goodwill's accumulated amortisation and impairment all relate to impairments, brand name and customer relationships relate to amortisation and impairments, and software relates to amortisations.

NOTES

Continued

17. Intangible assets continued

Goodwill is allocated to the Group's cash generating units (CGU). Goodwill is made up of:

| Cash generating units (CGUs) | Goodwill 31 December 2017 | Goodwill 31 December 2018 | Segment |
|---|---------------------------------|---------------------------------|------------------------|
| M&C Saatchi UK Group | 5,977 | 5,977 | UK |
| LIDA Ltd | 1,462 | 1,462 | UK |
| M&C Saatchi Sport & Entertainment Ltd | 890 | 690 | UK |
| M&C Saatchi Export Ltd | 600 | 600 | UK |
| M&C Saatchi Mobile Ltd | 1,814 | 1,814 | UK |
| M&C Saatchi Merlin Ltd | 539 | 539 | UK |
| Clear Ideas Ltd | 9,508 | 9,508 | UK |
| M&C Saatchi Berlin GmbH | 1,379 | 1,326 | Europe |
| M&C Saatchi Madrid S.L.* | 439 | – | Europe |
| M&C Saatchi Middle East Fz LLC (Dubai) | 685 | 749 | Middle East and Africa |
| Creative Spark Interactive (PTY) Ltd (South Africa) | 250 | 248 | Middle East and Africa |
| Levergy Marketing Agency (PTY) Ltd (South Africa)* | 1,057 | – | Middle East and Africa |
| M&C Saatchi Agency Pty Ltd (Australia) | 2,870 | 2,759 | Asia and Australia |
| Bang Pty Ltd (Australia)* | – | 621 | Asia and Australia |
| Bohemia Group Pty Ltd (Australia)* | 1,953 | – | Asia and Australia |
| Shepardson Stern + Kaminsky LLP* | 5,376 | 10,951 | Americas |
| LIDA NY LLP | 5,189 | 5,692 | Americas |
| Total of the four CGUs with goodwill less than £0.5m | 1,005 | 990 | Various |
| Total | 40,803 | 43,928 | |

* Apart from these CGUs, whose movements are described in this note, all other movements are due to exchange (note 18).

Goodwill and other intangibles are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the assets may be impaired. All recoverable amounts are from future trading and not from the sale of unrecognised assets or other intangibles i.e. the value in use. The 2017 review was undertaken in the last quarter of the year in conjunction with our annual business planning process; due to continuous poor trading resulting in management changes it was decided to fully impair Bang Pty Ltd; in addition as a result of reduced client spend and some client losses it was decided to fully impair customer relationships, with a partial impairment of the brand name and goodwill of Shepardson Stern + Kaminsky LLP (SS+K). This resulted in goodwill impairments of £5,214k (2016: nil).

Management have approved the forecasts for 2018 and have prepared additional projections based on the 2018 numbers for the next four years. These were used as the basis for determining the recoverable amount of each CGU. In making the forecasts management has reflected on past performance and the present business and economic prospect. Details of uncertainties in our forecasts are described in note 6.

In conducting the review, we used a year five onward residual growth rate of 3% for all countries with the exception of South Africa where due to inflation we have used 10% and a market beta of 1.0 for UK, 1.0 for Europe, 1.0 for USA and 1.2 for rest of world.

The pre-tax discount rates are based on the Group's weighted average cost of capital adjusted for specific risks relating to the country and market in which the CGU operates.

| Key assumptions | Residual growth rates 2018 and 2017 | Pre-tax discount rates 2017 | Pre-tax discount rates 2018 |
|------------------------|---|--------------------------------------|--------------------------------------|
| UK | 3 | 11–13 | 11–13 |
| Asia and Australia | 3 | 13–16 | 12–17 |
| Middle East and Africa | 3–10 | 10–24 | 10–14 |
| Europe | 3 | 12–16 | 12–16 |
| Americas | 3 | 12–14 | 13–14 |

We do expect the residual growth rates to exceed the long-term growth rates for these types of business in each location and the growth rates above due to the CGUs' small market share and the ability of our entrepreneurs to create new offerings. However, reflecting on the rapidly changing nature of the marketing communications industry, for prudent testing purposes we have used conservative residual growth rates.

Management are satisfied, with the exception of the companies acquired or impaired in the year, M&C Saatchi Middle East Fz LLC (Dubai) which was acquired in 2016 and Clear Ideas Limited that was impaired in 2014, that no possible changes in key assumptions, apart from a significant loss of clients by a CGU, would cause the recoverable amount of any of our CGUs to be below their carrying amount. In relation to SS+K an increase of 1% in the discount rate would give additional impairment of £748k, a reduction of 10% in the forecasted profitability would result in an additional impairment of £625k.

Excluding SS+K which was impaired in the year, the following adjustments to key assumptions results in the following impairments:

| Discount rates increased by | Annual profit forecast reduced by | | |
|-----------------------------|-----------------------------------|------|-------|
| | 0% | (5)% | (30)% |
| 0% | – | – | 258 |
| 1% | – | – | 131 |
| 3% | – | 64 | 548 |
| 5% | 291 | 429 | 1,893 |
| | | | 3,473 |

NOTES

Continued

17. Intangible assets continued

Brand name

This is made up of the brands that the Group gained by way of acquisition.

| Brand name | CGU | Year acquired | Cost 2017 £'000 | Cost 2018 £'000 | Amortisation period |
|----------------------------|---|---------------|--------------------|--------------------|---------------------|
| Clear | Chear Ideas Ltd | 2007 | 2,640 | 2,640 | 3 years* |
| Inside Mobile | M&C Saatchi Mobile Ltd | 2010 | 103 | 103 | Immediately* |
| Direct One | M&C Saatchi GAD SAS | 2010 | 89 | 89 | Impaired* |
| Bang | Bang Pty Ltd (Australia) | 2012 | 276 | 280 | 3 years* |
| ST&P | Samuelson Talbot & Partners Pty Ltd (Australia) | 2013 | 49 | 50 | Immediately* |
| Merlin Elite | M&C Saatchi Merlin Ltd | 2013 | 186 | 186 | Immediately* |
| Lean Mean Fighting Machine | M&C Saatchi (UK) Ltd | 2014 | 82 | 82 | Immediately* |
| HeavenSpot | M&C Saatchi LA Inc | 2015 | 82 | 64 | Immediately* |
| Ben Natan Golani | M&C Saatchi Tel Aviv | 2015 | 595 | 590 | Immediately* |
| Creative Spark | Creative Spark Interactive (PTY) Ltd | 2015 | 281 | 278 | 3 years |
| Expression | M&C Saatchi Middle East Fz LLC | 2016 | 23 | 25 | Immediately* |
| SS+K | Shepardson Stern + Kaminsky LLP | 2016 | 1,526 | 1,670 | 3 years** |
| MCD | LUDA NY LLP | 2016 | 540 | 589 | 5 years |
| Bohemia | Bohemia Group Pty Ltd | 2017 | 1,469 | - | 3 years |
| Levergy | Levergy Marketing Agency (PTY) Ltd | 2017 | 474 | - | 3 years |
| | | | 8,395 | 6,646 | |

* Fully amortised at year end.

** Useful life changed from 5 years to 3 years 31 December 2017.

18. Acquisitions

During the year, the Group made acquisitions in Australia (Bohemia Group Pty Ltd), Spain (M&C Saatchi Madrid S.L.) and South Africa (Levergy Marketing Agency (PTY) Ltd) to enhance its service and offering.

The acquisition of 25.1% of M&C Saatchi Madrid S.L. was for contingent consideration and was valued at acquisition at nil, and in return for the Group lending the company €497k and buying £3k of new shares. The transaction converted an associate (note 20) to a subsidiary, with the fair value of our associate interest at acquisition estimated at nil.

Goodwill relates to the value of the business's staff and synergies with the Group's combined client portfolios. There is no local tax deduction for goodwill.

Income statement effects of 2017 acquisitions

The results of these three acquisitions included in the consolidation and their full year results:

| 2017 | Note | Bohemia Group Pty Ltd | M&C Saatchi Madrid S.L. | Levergy Marketing Agency (PTY) Ltd | Total £'000 |
|------------------------------------|------|-----------------------|-------------------------|------------------------------------|----------------|
| Date of acquisition | | 28 February | 2 March | 31 October | |
| % Voting interest acquired | | 51.0% | 50.1% | 100% | |
| Revenue in consolidation | | 4,724 | 2,435 | 292 | 7,451 |
| Profit before tax in consolidation | | 731 | 369 | 81 | 1,181 |
| Full year revenue | | 5,476 | 2,672 | 2,030 | 10,178 |
| Full year profit before tax | | 709 | 200 | 160 | 1,069 |

Goodwill at date of 2017 acquisition

| 2017 | Note | Bohemia Group Pty Ltd | M&C Saatchi Madrid S.L. | Levergy Marketing Agency (PTY) Ltd* | Total £'000 |
|---|------|-----------------------|-------------------------|-------------------------------------|----------------|
| Consideration, satisfied by: | | | | | |
| Cash | 19 | 1,285 | 2 | 983 | 2,280 |
| Equity | | 1,502 | - | - | 1,502 |
| Contingent consideration | 26 | - | - | 1,056 | 1,056 |
| Exchange rate adjustment | | (15) | - | 29 | 14 |
| Total consideration | | 2,772 | 2 | 2,078 | 4,852 |
| Less – Fair value of net assets made up of: | | | | | |
| Brand name intangible | | 1,561 | - | 428 | 1,989 |
| Customer relationship intangible | | - | - | 601 | 601 |
| Software | | 474 | - | - | 474 |
| Plant and equipment | | 822 | 255 | 67 | 1,144 |
| Deferred tax asset | | 38 | - | 6 | 44 |
| Other non-current assets | | - | 18 | 21 | 39 |
| Cash | 19 | 803 | 462 | 263 | 1,528 |
| Other current (liabilities)/assets | | (1,382) | (1,226) | 62 | (2,546) |
| Deferred tax liability | | (468) | - | (309) | (777) |
| Other non-current liabilities | | (435) | (346) | (16) | (797) |
| Non-controlling interests share | | (715) | 417 | - | (298) |
| – Total fair value of net assets | | 698 | (420) | 1,123 | 1,401 |
| Goodwill arising | 17 | 2,074 | 422 | 955 | 3,451 |

* The Non-controlling interest share of Levergy Marketing Agency (PTY) Ltd goodwill has been capitalised.

NOTES

Continued

18. Acquisitions continued Income statement effects of 2016 acquisitions

| | Shepardson Stern + Kaminsky LLP | LIDA NY LLP | M&C Saatchi Middle East F2 LLC | Total \$'000 |
|------------------------------------|--|----------------|---|-----------------|
| 2016 | | | | |
| Date of acquisition | 1 March | 1 March | 1 March | |
| Revenue in consolidation | 10,977 | 8,015 | 901 | 19,893 |
| Profit before tax in consolidation | 1,691 | 678 | (94) | 2,275 |
| Full year revenue | 12,599 | 9,751 | 974 | 23,324 |
| Full year profit before tax | 1,545 | 770 | (103) | 2,212 |

Goodwill on 2016 acquisition

| | Shepardson Stern + Kaminsky LLP* | LIDA NY LLP* | M&C Saatchi Middle East F2 LLC | Total \$'000 |
|--|---|-----------------|---|-----------------|
| 2016 | Note | | | |
| Consideration, satisfied by: | | | | |
| Cash | 4,568 | 7,818 | 1,021 | 13,407 |
| Fair value of associate | 7,700 | - | - | 7,700 |
| Exchange rate adjustment | 1,192 | 760 | 143 | 2,095 |
| Total consideration | 13,460 | 8,578 | 1,164 | 23,202 |
| Less | | | | |
| - Fair value of net assets made up of: | | | | |
| Brand name intangible | 1,670 | 589 | 25 | 2,284 |
| Customer relationship intangible | 2,176 | 2,298 | 284 | 4,758 |
| Plant and equipment | 970 | 222 | 7 | 1,199 |
| Deferred tax asset | 15 | - | - | 15 |
| Other non-current assets | 146 | - | - | 146 |
| Cash | 1,610 | 1,254 | 31 | 2,895 |
| Other current (liabilities)/assets | (2,159) | (1,477) | 68 | (3,568) |
| Non-controlling interests share | (1,919) | - | - | (1,919) |
| - Total fair value of net assets | 2,509 | 2,886 | 415 | 5,810 |

* An external independent valuation was carried out on Shepardson Stern + Kaminsky LLP and LIDA NY LLP intangibles.

Goodwill relates to the value of the business's staff. There is local tax deduction for goodwill (with the exception of UAE where there is no tax).

As part of the Shepardson Stern + Kaminsky LLP acquisition, put options were negotiated over remaining capital rights (note 27).

LIDA NY LLP shareholders have put options that have been defined as a share based payment (note 30) as payments are redistributed amongst remaining employees on termination of employment (collective or individual) and therefore have been accounted for within staff costs (note 8) in accordance with IFRS3. As a consequence, the non-controlling interest charge is taken as a staff cost in statutory accounts (for headline numbers, to allow comparability to rest of the Group, the non-controlling interest charge is included in non-controlling interest).

NOTES

Continued

19. Cash consumed by acquisitions

| | 2017 £000 | 2016 £000 |
|--|----------------|-----------------|
| Cash consideration | | |
| – Bohemia Group Pty Ltd | (1,285) | – |
| – Leverby Marketing Agency (PTY) Ltd | (983) | – |
| – Sheppardson Stern + Kaminsky LLP | (170) | (4,568) |
| – M&C Saatchi Madrid S.L. | (2) | – |
| – LIDA NY LLP | – | (7,818) |
| – M&C Saatchi Middle East Fz LLC | – | (1,021) |
| – Small purchases of non-controlling interest's equity | (29) | (344) |
| – Deferred and contingent consideration paid (note 26) | – | (1,966) |
| | (2,479) | (15,717) |
| Less cash and cash equivalents acquired | 1,528 | 2,895 |
| | (951) | (12,822) |

20. Associates and joint venture

The Group invests in associates and joint ventures, either to deliver its services to a strategic market place or to gain strategic mass by being part of a larger local or functional entity.

The following associates and joint ventures are included in the consolidated financial statements:

| Region & Name | Nature of business | Country of incorporation or registration | Investment in associate 2017 £000 | 2016 £000 | Proportion of voting rights and ordinary share capital held at 2017 | 2016 |
|---|----------------------------|--|---|---------------|--|------|
| UK | | | | | | |
| Walker Media Limited | Media buying | UK | 10,748 | 10,897 | 25% | 25% |
| Europe | | | | | | |
| M&C Saatchi Russia Limited | Advertising | UK | – | – | 50% | 50% |
| M&C Saatchi Madrid S.L.* | Advertising | Spain | – | – | 51% | 25% |
| M&C Saatchi Istanbul | Advertising | Turkey | 449 | 460 | 25% | 25% |
| Middle East and Africa | | | | | | |
| M&C Saatchi SAL** | Advertising | Lebanon | – | – | 10% | 10% |
| Asia and Australia | | | | | | |
| M&C Saatchi (Hong Kong) Limited | Advertising | China | 8,118 | 7,529 | 40% | 40% |
| February Communications Private Limited | Advertising | India | 280 | 277 | 20% | 20% |
| M&C Saatchi Ltd | Advertising | Japan | 15 | – | 10% | 10% |
| M&C Saatchi World Services Pakistan (PVT) Ltd (joint venture) | Development communications | Pakistan | – | – | 50% | 50% |
| Love Frankie Ltd | Advertising | Thailand | 115 | 114 | 25% | 25% |
| Americas | | | | | | |
| Santa Clara Participacoes Ltda | Advertising | Brazil | – | – | 25% | 25% |
| Total | | | 18,726 | 18,277 | | |

* In March 2017 a controlling stake was acquired (note 18).

** Influence exerted through our board membership and contractual relationship, this entity services other countries in the region.

NOTES

Continued

20. Associates and joint venture continued

All shares in associates are held by subsidiary companies, and have no special rights. Where the associate has a right to use our brand name we have a right to withdraw the brand name to stop it being lost, or protect it from damage. In the case of joint ventures, all key decisions have to be jointly agreed. The risk the Group is exposed to from its associates and joint ventures is our investment, our brand name and undistributed dividend flows.

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| At 1 January | 18,277 | 24,811 |
| Exchange movements | 287 | 2,521 |
| Acquisition of associates | - | 3,605 |
| Transferred to subsidiary following acquisition* | - | (9,275) |
| Impairment of associate | - | (3,738) |
| Dividends | (1,806) | (177) |
| Share of profit after taxation | 1,987 | 1,530 |
| At 31 December | 18,725 | 19,277 |

* A controlling stake in M&C Saatchi Madrid S.L. was acquired in the year, which was held at a nil book value.

Summarised financial information

| | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | 2017 £000 | 2016 £000 |
|--|------------|----------------|--------------------------------------|-------------------------------|------------------|--------------|--------------|
| Income statement | | | | | | | |
| Revenue | 22,948 | 812 | 3,197 | 6,881 | 4,330 | 38,168 | 39,583 |
| Operating profit | 8,480 | (5) | (893) | 1,243 | 262 | 9,087 | 6,441 |
| Profit before taxation | 8,505 | 23 | (1,139) | 1,258 | 88 | 8,736 | 5,996 |
| Profit after taxation | 6,559 | 13 | (1,139) | 989 | 25 | 6,447 | 4,234 |
| The Group's share of the results of associates | 1,833 | 3 | - | 351 | - | 1,987 | 1,530 |
| Dividends received from associates in the year | 1,782 | 24 | - | - | - | 1,806 | 177 |

| | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | 2017 £000 | 2016 £000 |
|----------------------------------|------------|----------------|--------------------------------------|-------------------------------|------------------|--------------|--------------|
| Balance sheet | | | | | | | |
| Total assets | 87,582 | 374 | 2,065 | 7,782 | 2,185 | 99,988 | 86,852 |
| Total liabilities | (77,841) | (271) | (8,848) | (4,026) | (3,415) | (94,399) | (78,083) |
| Net current assets/(liabilities) | 9,741 | 103 | (6,781) | 3,756 | (1,230) | 5,589 | 8,769 |
| Our share | 2,426 | 26 | (678) | 1,458 | (307) | 2,925 | 3,817 |
| Losses not recognised | - | - | 878 | - | 307 | 985 | 886 |
| Goodwill | 8,322 | 424 | - | 7,069 | - | 15,815 | 14,574 |
| Investment in associates | 10,748 | 450 | - | 8,527 | - | 18,725 | 19,277 |

The UK is represented by Blue 449 (Walker Media Limited), which contributed all the profit during the period. As such, the summary financial information has not been disaggregated further as, in the view of the Directors, this would produce a note of disproportionate length given the materiality of the investments held.

NOTES

Continued

21. Plant and equipment

| | Leasehold improvements £'000 | Furniture, fittings and other equipment £'000 | Computer equipment* £'000 | Motor vehicles £'000 | Total £'000 |
|-----------------------------|---------------------------------|--|------------------------------|-------------------------|----------------|
| Cost | | | | | |
| At 31 December 2015 | 7,288 | 6,826 | 5,493 | 140 | 19,747 |
| Exchange differences | 487 | 436 | 448 | 32 | 1,403 |
| Additions | 2,088 | 1,806 | 266 | 20 | 3,980 |
| Acquisition of subsidiaries | 751 | 259 | 191 | 0 | 1,201 |
| Disposals | (670) | (483) | (483) | (36) | (1,672) |
| Disposal of subsidiary | - | (89) | (44) | - | (113) |
| At 31 December 2016 | 9,944 | 8,575 | 5,871 | 156 | 24,546 |
| Exchange differences | (155) | (50) | (76) | 1 | (280) |
| Additions | 1,713 | 398 | 1,717 | 3 | 3,831 |
| Reclassifications | - | (1,060) | 1,060 | - | - |
| Acquisition of subsidiaries | 821 | 170 | 78 | 75 | 1,144 |
| Disposals | (58) | (85) | (405) | (37) | (885) |
| At 31 December 2017 | 12,265 | 7,948 | 8,245 | 188 | 28,656 |
| Depreciation | | | | | |
| At 31 December 2015 | 3,323 | 4,069 | 4,105 | 53 | 11,550 |
| Exchange differences | 301 | 273 | 333 | 16 | 923 |
| Depreciation charge | 967 | 410 | 1,265 | 26 | 2,668 |
| Disposals | (333) | (295) | (471) | (31) | (1,130) |
| Disposal of subsidiary | - | (46) | (38) | - | (84) |
| At 31 December 2016 | 4,258 | 4,411 | 5,194 | 64 | 13,927 |
| Exchange differences | (40) | (34) | (56) | 1 | (129) |
| Depreciation charge | 1,347 | 1,039 | 654 | 39 | 3,079 |
| Reclassifications | - | (310) | 310 | - | - |
| Disposals | (8) | (72) | (404) | (6) | (490) |
| At 31 December 2017 | 5,557 | 5,034 | 5,688 | 98 | 16,387 |
| Net book value | | | | | |
| At 31 December 2015 | 3,965 | 2,757 | 1,388 | 87 | 8,197 |
| At 31 December 2016 | 5,686 | 4,164 | 677 | 92 | 10,619 |
| At 31 December 2017 | 6,708 | 2,914 | 2,547 | 100 | 12,269 |

* Within computer equipment is £166k of capitalised set up cost relating to systems upgrades.

Net book value of assets, included in the above balances which have been purchased through finance lease arrangements are:

| | Leasehold improvements £'000 | Furniture, fittings and other equipment £'000 | Computer equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---------------------|---------------------------------|--|-----------------------------|-------------------------|----------------|
| At 31 December 2015 | - | 12 | 119 | 78 | 209 |
| At 31 December 2016 | - | 5 | 89 | 95 | 189 |
| At 31 December 2017 | - | - | 47 | 112 | 159 |

22. Other non-current assets

| | 2017 £'000 | 2016 £'000 |
|---------------------------------------|---------------|---------------|
| Investments* | 5,760 | 3,758 |
| Other debtors including rent deposits | 1,223 | 1,380 |
| Loans to employees** | 2,288 | 2,263 |
| Call option provision | 54 | 54 |
| Total other non-current assets | 9,325 | 7,455 |

* The Group engages in corporate venturing by investing in start-up companies that have technologies that relate to or could enhance the services the Group provides, or could become users of the Group's services. Under IFRS13, these items are valued as level 3 financial instruments and have been recorded at cost, which was deemed fair value on the date of acquisition. Given the start-up nature of these investments, these are not remeasured to fair value at each reporting date, as fair value cannot be reliably measured. However, the values of these investments are regularly reviewed and considered for impairment, which would be recorded in the income statement immediately. Three entities have been impaired, being scaled down operations, and no alternative value to their assets. The Group intends to realise its investments over a three to ten-year period either through sale of the equity or receipt of dividends.

** This relates to Australian and South African Loans.

The Australian Loans relate to AUD3.5m (balance at 31 December 2016, AUD3.1m) loans that the Group lent local management of M&C Saatchi Agency Pty Ltd, in 2015, to enable them to acquire 20% of that business. The full recourse loan is repayable in full if the purchasers no longer have a beneficial interest in the shares of the Australian Group, or are no longer employed (through the equity can be held when not employed). The loan is unsecured and charged interest at 0.1% above the five-year Australian interbank rate at the date the loan was advanced. The carrying value of the loan approximated to fair value.

The South African Loans relate to \$455k (balance at 31 December 2016, \$435k) loans that the Group lent local management of its South African companies to enable them to acquire equity in the South African Group business. The full recourse loans are repayable in full if the purchasers no longer have a beneficial interest in the shares of the South African Group, or are no longer employed. The loan is unsecured and charged interest at 2% above LIBOR. The carrying value of the loan approximated to fair value.

NOTES

Continued

22. Other non-current assets continued

The movement in investments during the year is as follows:

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| At 1 January | 3,758 | 3,353 |
| Acquisition of corporate venturing investments | 2,024 | 1,056 |
| Reanalysed | (22) | – |
| Provision against investments | – | (551) |
| At 31 December | 5,760 | 3,758 |

23. Trade and other receivables

| | 2017 £000 | 2016 £000 |
|-----------------------------------|--------------|--------------|
| Trade receivables | 86,280 | 80,943 |
| Provision for bad debts* | (2,741) | (2,107) |
| Net trade receivables | 83,539 | 78,836 |
| Prepayments and accrued income | 23,987 | 23,401 |
| Amounts due from associates | 1,717 | 920 |
| VAT and sales tax recoverable | 2,026 | 1,554 |
| Other debtors | 8,817 | 5,113 |
| Total trade and other receivables | 120,086 | 109,824 |

The carrying amount of trade and other receivables approximates to their fair value.

Movement in the bad debt provision

| | 2017 £000 | 2016 £000 |
|---------------------------------|--------------|--------------|
| As at 1 January* | (2,107) | (232) |
| Exchange movements | 11 | (43) |
| Charged to the income statement | (859) | (2,070) |
| Acquired | – | (59) |
| Released to income statement | – | 9 |
| Utilisation of provision | 214 | 298 |
| As at 31 December | (2,741) | (2,107) |

* £1,890k of this provision relates to the billing to one client, where the work was completed in the 1st quarter of 2016. At that point we recognised the remaining revenue on the job as local management believed, at the time, that the entire amount would be paid into our sterling UK bank account. Local management still believe that the debt will be paid and the client has the cash, however due to local currency controls the client is unable to remit payment out of the country. There is no indication when the currency controls will be lifted. Given this situation we believe it prudent still to fully provide for the amount while we continue to work for the repatriation of the cash.

As at 31 December, the following trade receivables were past their due date (or zero to three months) but not impaired. It is management's belief that these debts will be fully repaid.

| | 2017 £000 | 2017 % | 2016 £000 | 2016 % |
|-----------------------------|--------------|-----------|--------------|-----------|
| Three to six months | 2,569 | 3% | 3,245 | 4% |
| Over six months | 461 | 1% | 758 | 1% |
| Total net trade receivables | 83,539 | 100% | 78,836 | 100% |

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

| | 2017 £000 | 2017 % | 2016 £000 | 2016 % |
|--------------------|--------------|-----------|--------------|-----------|
| Sterling | 35,031 | 28% | 35,715 | 33% |
| US dollars | 32,546 | 27% | 34,498 | 31% |
| Australian dollars | 16,624 | 14% | 13,022 | 12% |
| Malaysian ringgit | 1,794 | 2% | 3,682 | 3% |
| Euros | 18,975 | 17% | 13,784 | 13% |
| South African rand | 5,693 | 5% | 1,965 | 2% |
| Brazilian real | 1,956 | 2% | 1,234 | 1% |
| Other | 6,477 | 5% | 5,934 | 5% |
| | 120,086 | 100% | 109,824 | 100% |

Credit risk

The Group monitors credit risk at both a local and Group level. Credit terms are set and monitored at a local level according to local business practices and commercial trading conditions. The age of debt, and the level of accrued and deferred income is reported regularly. Age profiling is monitored both at local customer level and at consolidated entity level. Bad debt provisions are determined locally. There is only local exposure to debt from our significant global clients. The Group continues to review its debt exposure to foreign currency movements and will review efficient strategies to mitigate risk as the Group's overseas debt increases.

There are no significant concentrations of credit risk in the Group.

NOTES

Continued

24. Trade and other payables

Amounts falling due within one year

| | 2017 £'000 | 2016 £'000 |
|---|------------------|------------------|
| Trade creditors | (51,883) | (45,700) |
| Sales taxation and social security payables | (8,602) | (7,258) |
| Employment benefit accruals | (1,798) | (1,130) |
| Amounts due to associates | – | (2,155) |
| Accruals | (38,250) | (33,495) |
| Deferred income | (20,694) | (17,819) |
| Other payables | (6,019) | (8,329) |
| | (128,256) | (115,886) |

The carrying amount of trade and other payables approximates to their fair value.

Settlement of trade and other payables is in accordance with our terms of trade established with our local suppliers.

The carrying amount of the Group's trade and other payables are denominated in the following currencies:

Amounts falling due within one year

| | 2017 £'000 | 2017 % | 2016 £'000 | 2016 % |
|--------------------|------------------|-------------|------------------|-------------|
| Sterling | (25,819) | 20% | (34,357) | 29% |
| US dollars | (44,626) | 34% | (39,391) | 34% |
| Australian dollars | (22,737) | 18% | (13,836) | 12% |
| Malaysian Ringgit | (2,720) | 2% | (4,258) | 4% |
| Euros | (18,550) | 15% | (14,084) | 12% |
| South African rand | (4,050) | 3% | (1,135) | 2% |
| Brazilian real | (2,236) | 2% | (2,271) | 2% |
| Other | (7,518) | 6% | (6,453) | 5% |
| | (128,256) | 100% | (115,886) | 100% |

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the period remaining until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), and therefore will not reconcile with amounts disclosed on the consolidated balance sheet:

| | 2017 £'000 | 2016 £'000 |
|---|------------------|------------------|
| Non-derivatives | | |
| Up to six months | (88,156) | (87,669) |
| Six to twelve months | (13) | (13) |
| Later than one year and not later than five years | (40,585) | (30,445) |
| | (138,754) | (118,127) |
| Put options | | |
| Up to six months | (14,813) | (20,216) |
| Later than one year and not later than five years | (10,318) | (12,852) |
| | (25,131) | (33,168) |
| Total derivatives and non-derivatives | (163,885) | (151,295) |

The value of put options represents the minority shareholder put option liability excluding any discount for time. The majority of these financial instruments will be fulfilled by the issue of equity (note 27).

The above table is an indicator of our liquidity risk. The risk is mitigated by the receipt of cash from trade and other receivables, and in the case of put options, the majority of the liability will be fulfilled by the issue of equity (note 29)

25. Borrowings

Amounts falling due within one year

| | 2017 £'000 | 2016 £'000 |
|----------------------------------|----------------|----------------|
| Obligations under finance leases | (27) | (25) |
| Local bank loans* | (789) | – |
| Invoice discounting** | (2,915) | (3,645) |
| | (3,731) | (3,670) |

* £290k of local bank loans relate to facilities that Bohemia Group Pty Ltd (Australia), used to fund pre acquisition fixed assets, and £499k M&C Saatchi Madrid S.L (Spain) used to fund historic losses.

** Invoice discounting relates to borrowings secured against trade receivables in the UK. The amounts borrowed represent 60% of the receivable balance pledged. As at the balance sheet date, £1.9m was not drawn under this facility. Interest is accrued at 1.75% per annum on amounts drawn.

NOTES

Continued

25. Borrowings continued Amounts falling due after one year

| | 2017 £000 | 2018 £000 |
|----------------------------------|-----------------|-----------------|
| Obligations under finance leases | (106) | (18) |
| Local bank loans* | (228) | – |
| Secured bank loans | (37,430) | (28,259) |
| | (37,764) | (28,277) |

* £120k of local bank loans relate to facilities that Bohemia Group Pty Ltd (Australia) uses to fund fixed assets and £108k M&C Satchi Madrid S.L (Spain) uses to fund historic losses. The respective bank has security over the assets respective company.

The carrying value of bank loans approximates to their fair value.

Secured bank loans

At the year end, the Group had a banking facility of up to £40.0m (2016: £40.0m) plus a one year £0.3m (2016: £0.3m) overdraft facility. On 29 November 2017 it was agreed that this facility would only reduce to £38.0m on 31 December 2019 and £36.0m on 31 December 2019 (2016: reduces by £2.0m annually). The facilities have floating rates of interest set at 1.75% above LIBOR and the overdraft has floating rates of interest set at 1.75% above the Bank of England base rate. The banking facility matures on 30 April 2020. In return for the facility Group gives the bank guarantees over key UK, Dutch and Australian companies.

| | 2017 £000 | 2018 £000 |
|---|-----------------|-----------------|
| Gross secured bank loans | (37,658) | (28,582) |
| Capitalised finance costs | 228 | 323 |
| Net secured bank loans | (37,430) | (28,259) |
| Future interest payable on secured bank loans at balance sheet date | (2,215) | (2,406) |
| Total secured bank loans and future interest | (39,645) | (30,665) |

Total secured bank loans and future interest are due as follows:

| | 2017 £000 | 2018 £000 |
|--|-----------------|-----------------|
| In one year or less, or on demand | (950) | (722) |
| In more than one year but not more than five years | (38,695) | (29,943) |
| | (39,645) | (30,665) |

Obligations under finance leases and hire purchase contracts are due as follows:

| | 2017 £000 | 2018 £000 |
|---|--------------|--------------|
| In one year or less, or on demand | (27) | (25) |
| In more than one year but not more than two years | (106) | (18) |
| | (133) | (43) |

Total bank loans and borrowings used to calculate net cash are as follows:

| | Gross secured bank loans £000 | Local bank loans £000 | Total secured loans* £000 | Invoice discounting £000 | Obligations under finance lease £000 | Total |
|----------------------------|--|-----------------------------|---------------------------------|--------------------------------|--|----------|
| At 1 January 2016 | (23,800) | – | (23,800) | (3,130) | (64) | (26,994) |
| Cash movements | (4,242) | – | (4,242) | (512) | 36 | (4,718) |
| Non-cash movements | | | | | | – |
| – Foreign exchange changes | (540) | – | (540) | (3) | (15) | (558) |
| At 31 December 2016 | (28,582) | – | (28,582) | (3,645) | (43) | (32,270) |
| Cash movements | (10,097) | 216 | (9,881) | 730** | 28 | (9,123) |
| Non-cash movements | | | | | | – |
| – Foreign exchange changes | 1,021 | (33) | 988 | – | (8) | 980 |
| – Fixed asset additions | – | – | – | – | (110) | (110) |
| – Acquisitions | – | (1,200) | (1,200) | – | – | (1,200) |
| At 31 December 2017 | (37,658) | (1,017) | (38,675) | (2,915) | (133) | (41,723) |

* The borrowing used to calculate net cash.

** The net movement of £730k is inclusive of total drawdowns completed during the year of £58.1m and repayments of £57.4m

NOTES

Continued

26. Deferred and contingent consideration

| | 2017 £000 | 2018 £000 |
|---|--------------|--------------|
| Amounts falling due within one year | | |
| – Contingent (note 18)** | (377) | – |
| Amounts falling due more than one year but not more than five years | | |
| – Contingent (note 18)** | (833) | – |
| | (1,210) | – |
| At 1 January | – | (1,792) |
| Exchange difference | (114) | (131) |
| Associate increase in contingency* | – | (43) |
| Charged to income statement | (40) | – |
| Acquisition (note 18)** | (1,056) | – |
| Consideration paid (note 19) | – | 1,966 |
| At 31 December | (1,210) | – |

* This all relates to payments to Shepardon Stern + Kaminsky LLP, before we gained a controlling interest.

** This relates to contingent consideration due for Leverage Marketing Agency (PTY) Ltd, the obligation will be paid in M&C Saatchi plc shares. The contingent consideration is payable over the next four years, and is dependent on profitability and profitability growth rates of Leverage Marketing Agency (PTY) Ltd. The amount payable is uncapped. The fair value of contingent consideration is measured using some inputs that are not based on observable market data (i.e. IFRS13, level 3 fair value measurement).

27. Minority shareholder put option liabilities

Some of our subsidiaries' local entrepreneurs (minorities) have the right to a put option. The put options give the minorities a right to exchange their minority holdings in the subsidiary into shares in M&C Saatchi plc or cash (as per the agreement).

| | 2017 £000 | 2018 £000 |
|---|--------------|--------------|
| Amounts falling due within one year | | |
| – Cash | (1,319) | (1,300) |
| – Equity | (13,494) | (18,916) |
| | (14,813) | (20,216) |
| Amounts falling due after one year, but less than three years | | |
| – Cash | (2,014) | (1,999) |
| – Equity | (8,302) | (10,951) |
| | (10,316) | (12,950) |
| | (25,129) | (33,166) |

| | 2017 £000 | 2018 £000 |
|--------------------------------|--------------|--------------|
| At 1 January | (33,186) | (24,364) |
| Exchange difference | 75 | (82) |
| Additions | – | (10,249) |
| Exercises | 4,925 | 2,126 |
| Income statement charge due to | | |
| – Change in estimates | 2,613 | 2,978 |
| – Change in share price | 401 | (3,279) |
| – Time | 23 | (296) |
| Total income statement charge | 3,037 | (697) |
| At 31 December | (25,129) | (33,166) |

The movements in the year relating to the minority interest put options that are payable in cash and in equity are as follows:

| | 2017 £000 | 2018 £000 |
|------------------------------------|--------------|--------------|
| Cash based | | |
| At 1 January | (3,298) | (2,941) |
| Exchange difference | 75 | (82) |
| Reclassified to/(from) share based | 23 | (319) |
| Income statement charge due to | | |
| – Change in estimates | (175) | 280 |
| – Change in share price | 33 | (235) |
| – Time | 10 | (2) |
| At 31 December | (3,333) | (3,299) |

| | 2017 equity* | 2017 £000 | 2018 £000 |
|-----------------------------------|-----------------|--------------|--------------|
| Equity based | | | |
| At 1 January | (7,860) | (28,867) | (21,423) |
| Additions | – | – | (10,249) |
| Exercises | 1,388 | 4,925 | 2,126 |
| Reclassified (from)/to cash based | (6) | (23) | 319 |
| Income statement charge due to | | | |
| – Change in estimates | 508 | 2,798 | 2,698 |
| – Change in share price | 99 | 368 | (3,044) |
| – Time | 4 | 13 | (294) |
| At 31 December | (5,867) | (21,796) | (29,867) |

* The estimated number of M&C Saatchi plc shares that will be issued, in thousands, to fulfil.

NOTES

Continued

27. Minority shareholder put option liabilities continued

Put options are exercisable from:

| Subsidiary | Year | % of subsidiaries' shares exchangeable |
|--|------|--|
| M&C Saatchi Marketing Arts Ltd | 2018 | 50.0 |
| M&C Saatchi (M) SDN BHD | 2018 | 20.0 |
| Influence Communications Ltd | 2018 | 5.0 |
| M&C Saatchi Europe Holdings Ltd | 2018 | 4.0 |
| M&C Saatchi Communications Pty Ltd | 2018 | 13.0 |
| M&C Saatchi Berlin GmbH | 2018 | 10.0 |
| FCINO SAS | 2018 | 15.0 |
| M&C Saatchi Sport & Entertainment LLP (US) | 2018 | 27.5 |
| M&C Saatchi Sport & Entertainment Pvt Ltd | 2018 | 34.0 |
| Talk PR Ltd | 2018 | 39.0 |
| M&C Saatchi UK PR LLP | 2018 | 27.5 |
| M&C Saatchi Corporate SAS | 2018 | 29.8 |
| M&C Saatchi (Switzerland) SA | 2018 | 20.0 |
| M&C Saatchi Merlin Ltd | 2018 | 45.0 |
| The Source (London) Ltd | 2018 | 10.0 |
| M&C Saatchi Brazil Comunicação LTDA | 2018 | 40.0 |
| Samuelson Talbot & Partners Pty Ltd | 2018 | 8.8 |
| Shepardson Stern + Kaminsky LLP | 2019 | 33.3 |
| M&C Saatchi Agency Pty Ltd | 2020 | 20.0 |
| Creative Spark Interactive (PTY) Ltd | 2020 | 10.0 |

At each period end, the fair value of the put option liability is calculated in accordance with the shareholders' agreement, and any movement is charged to the income statement. Where the agreement gives a right to convert to a variable number of shares (rather than a value), the number of shares is converted to a value by using the period end share price (2017: 371.5p, 2016: 380.0p).

The liability will vary with our share price and with the results of the subsidiary companies. Current liabilities are determined by our year end share price and the 2017 results of the companies who can exercise in 2018. Non-current liabilities are determined by our year end share price and the projected results of the companies who can exercise after 2018. The projected results show management's best estimate of the growth rates and margin of the companies who can exercise after 2018. Given that these companies are small, single account wins/losses can have a significant effect on their results. Such account wins are far more significant than changes to exchange rates and underlying economic growth rates.

The fair value of minority shareholder put option liabilities is measured using some inputs that are not based on observable market data (i.e. IFRS13, level 3 fair value measurement).

Share price risk

Changes in our year end share price will impact the fair value adjustment to minority shareholder put options. The year end share price was 371.5p (2016: 380.0p). The 2017 charges would have changed as follows, had the share price been:

| Share price | Movement % | Increase/(decrease) in profit before and after tax £'000 |
|-------------|------------|--|
| 443.0p | +19% | (1,308) |
| 400.0p | +8% | (1,013) |
| 371.5p | - | - |
| 340.0p | (8)% | 1,170 |
| 300.0p | (19)% | 3,386 |

Forecast accuracy

Difference in actual and projected results of the companies could have an impact on the fair value adjustments as follows (assuming no change in the Group's forecast):

| Result | Increase/(decrease) in profit before and after tax £'000 |
|--------|--|
| +10% | (546) |
| (10)% | 1,301 |

28. Other non-current liabilities

| | 2017 £'000 | 2016 £'000 |
|--------------------------------|---------------|---------------|
| Employment benefit provisions* | (489) | (446) |
| Other | (1,988) | (2,182) |
| | (2,487) | (2,628) |

* This relates to long term service leave in some locations.

NOTES

Continued

29. Issued share capital Allotted, called up and fully paid

| | Number of shares | Ordinary shares £200 | 1p |
|--|---------------------|----------------------------|----|
| At 31 December 2015 | 72,715,019 | 727 | |
| Acquisition 10% M&C Saatchi Berlin GmbH | 155,812 | 1 | |
| Acquisition 20% M&C Saatchi (Hong Kong) Limited | 1,269,458 | 13 | |
| Acquisition of 20% M&C Saatchi SpA (Italy) | 419,970 | 4 | |
| Acquisition small percentages of a UK and a US subsidiary | 389,937 | 4 | |
| At 31 December 2016 | 74,950,196 | 749 | |
| Acquisition 16.566% of Shepardon Stern + Kaminsky LLP | 687,280 | 7 | |
| Acquisition 10% Talk PR Ltd | 132,572 | 1 | |
| Acquisition 10% M&C Saatchi Mobile Ltd | 2,476,017 | 25 | |
| Acquisition 24.5% LIDA NY LLP | 390,271 | 4 | |
| Acquisition 0.1% of M&C Saatchi Network Ltd | 300,000 | 3 | |
| Acquisition 32.9% of Bohemia Group Pty Ltd | 524,775 | 5 | |
| Exercise of Mobile USA share options | 945,801 | 10 | |
| Acquisition of small percentages of UK and Australian subsidiaries | 925,890 | 9 | |
| At 31 December 2017 | 81,332,802 | 813 | |

The Group holds 700,000 of the above M&C Saatchi plc shares in treasury.

Capital management

The Group aims to use cash generated from our operations to fund growth. Debt is used to fund short term investment and working capital cycles.

Long term and major investment obligations are fulfilled by issuing equity (e.g. put options (note 27)). In this way, we reduce the financial risk of debt markets being closed or rationed. The Group will minimise the amount of equity issues when long term and major investment obligations vest by using any available cash instead of equity.

Our long term targets are to be debt free and to minimise the dilution to our shareholders and maximise our organic growth.

30. Share based payments

Some of our subsidiaries' local entrepreneurs ("minorities") have the right to a put option. The put options give the minorities a right to exchange their minority holdings in the subsidiary into shares in M&C Saatchi plc, in the event that they are no longer employed by the Group either the Group buys back the local equity at a price reflecting the value on their departure or other local entrepreneurs receive the local equity (as per the agreement). Due to the changing right of the local equity, the local minority has been accounted as a share based payment under IFRS2.

Share based payments include vested share options and conditional share awards.

Expense recognised in year:

| | 2017 £200 | 2016 £200 |
|----------------|---------------|--------------|
| Equity settled | 13,501 | 7,997 |
| Cash settled | – | – |
| Total | 13,501 | 7,997 |

Vested share options:

| | Conditional share awards | Total number |
|----------------------------|--------------------------------|-----------------|
| At 1 January 2016 | – | – |
| Vested | 2,107,224 | 2,107,224 |
| At 31 December 2016 | 2,107,224 | 2,107,224 |
| Vested | 3,197,220 | 3,197,220 |
| Exercised* | (4,112,089) | (4,112,089) |
| At 31 December 2017 | 1,192,355 | 1,192,355 |

* The average price when these options were exercised was 328.75p (2016: n/a).

The conditional share awards are conditional that the employee remains employed by the Group on the day of exercise.

Conditional share awards

Minority interest put options with leaver provisions

In addition to the put option liabilities described in note 27, the following entities have issued put options which are forfeited on termination of employment of the minorities. As such, these arrangements are treated as share based payment and accounted for under IFRS2, as opposed to IFRS9.

The fair value of these options is determined on the date of grant based on the value of the underlying subsidiary and the number of shares in M&C Saatchi plc expected to be issued on exercise. The fair value of the subsidiary shares is established by means of a Monte Carlo model and the number of shares to be issued are determined in line with the formula prescribed in the respective shareholder agreements.

The fair value is charged to the income statement over the vesting period on a straight-line basis.

NOTES

Continued

30. Share based payments continued

| | Grant date | Share price at grant date | Vesting period years | Dividend yield | Volatility | Risk free rate | Fair value of option (per M&C Saatchi plc share issued)* | Company dividend rights | PE Cap | Vesting date*** |
|------------------------------------|------------|---------------------------|----------------------|----------------|------------|----------------|--|-------------------------|--------|-----------------|
| M&C Saatchi Network Ltd** | 05/05/15 | £3.23 | 2 | 1.94% | 28% | 0.70% | £3.10 | No | No | 15/04/17 |
| M&C Saatchi Network Ltd | 05/05/15 | £3.23 | 4 | 1.94% | 43% | 1.20% | £2.93 | No | No | 15/04/19 |
| M&C Saatchi LA Inc | 16/12/04 | £1.30 | 15 | 1.78% | 45% | 1.64% | £1.00 | Yes | No | 15/04/20 |
| M&C Saatchi LA Inc | 15/01/15 | £3.15 | 5 | 1.99% | 54% | 1.04% | £2.85 | Yes | No | 15/04/20 |
| M&C Saatchi Shop Ltd | 03/12/15 | £3.32 | 4 | 0.70% | 27% | 1.17% | £3.21 | Yes | No | 15/04/20 |
| M&C Saatchi Shop Ltd | 03/12/15 | £3.32 | 5 | 1.89% | 42% | 1.35% | £3.19 | Yes | No | 15/04/21 |
| M&C Saatchi Shop Ltd | 03/12/15 | £3.32 | 6 | 1.87% | 54% | 1.48% | £3.06 | Yes | No | 15/04/22 |
| M&C Saatchi Accelerator Ltd | 26/11/15 | £3.27 | 4 | 1.91% | 26% | 1.16% | £3.00 | Yes | No | 15/04/20 |
| M&C Saatchi Accelerator Ltd | 26/11/15 | £3.27 | 5 | 1.91% | 42% | 1.32% | £2.94 | Yes | No | 15/04/21 |
| M&C Saatchi Accelerator Ltd | 26/11/15 | £3.27 | 6 | 1.91% | 54% | 1.47% | £2.84 | Yes | No | 15/04/22 |
| M&C Saatchi Mobile Singapore | 24/06/15 | £3.16 | 4 | 1.98% | 43% | 1.54% | £1.53 | Yes | 12 | 15/04/20 |
| M&C Saatchi (S) Pre Ltd | 01/09/13 | £2.68 | 6 | 1.85% | 63% | 1.84% | £0.96 | Yes | 12 | 15/04/19 |
| M&C Saatchi Tel Aviv Ltd | 21/04/15 | £3.28 | 5 | 1.91% | 44% | 1.20% | £3.26 | Yes | No | 15/04/20 |
| LIDA NY LLP | 15/03/16 | £3.14 | 1 | 2.30% | 25% | 0.57% | £3.09 | Yes | 8 | 30/11/16 |
| LIDA NY LLP | 15/03/16 | £3.14 | 3 | 2.30% | 25% | 0.57% | £2.95 | Yes | 8 | 30/11/18 |
| M&C Saatchi SPA | 09/12/15 | £3.33 | 3 | 1.88% | 28% | 1.23% | £3.11 | Yes | No | 15/04/19 |
| Paris GAD Holding SAS | 24/02/16 | £2.98 | 4 | 2.42% | 27% | 1.23% | £2.72 | Yes | No | 01/05/20 |
| M&C Saatchi Share Inc | 12/06/15 | £3.30 | 5 | 2.19% | 41% | 0.81% | £2.78 | Yes | No | 15/04/20 |
| M&C Saatchi AB | 11/02/14 | £3.03 | 4 | 1.80% | 48% | 1.22% | £2.61 | Yes | No | 01/12/17 |
| M&C Saatchi Middle East Holdco Ltd | 23/03/16 | £3.23 | 3 | 2.23% | 27% | 0.57% | £3.02 | Yes | No | 15/04/19 |
| M&C Saatchi Worldwide Ltd | 01/06/16 | £3.38 | 3 | 2.13% | 28% | 0.81% | £0.77 | No | No | 01/01/19 |
| M&C Saatchi Worldwide Ltd | 18/07/16 | £2.95 | 2 | 2.44% | 29% | 0.81% | £0.45 | No | No | 01/01/19 |
| M&C Saatchi Mobile Ltd** | 23/08/16 | £3.67 | 1 | 2.03% | 33% | 0.11% | £3.60 | No | No | 27/08/17 |
| M&C Saatchi Mobile Ltd** | 23/08/16 | £3.67 | 2 | 2.03% | 31% | 0.11% | £3.51 | No | No | 09/08/17 |
| M&C Saatchi Mobile Ltd**** | 23/08/16 | £3.67 | 4 | 2.03% | 31% | 0.12% | £3.38 | No | No | 15/04/18 |
| M&C Saatchi Mobile USA** | 28/10/16 | £3.29 | 1 | 2.27% | 41% | 0.11% | £3.23 | No | No | 27/08/17 |
| M&C Saatchi Mobile USA** | 28/10/16 | £3.29 | 2 | 2.27% | 33% | 0.11% | £3.15 | No | No | 14/10/18 |
| M&C Saatchi Mobile USA | 28/10/16 | £3.29 | 3 | 2.27% | 30% | 0.12% | £3.04 | No | No | 15/04/20 |
| M&C Saatchi Berlin GMBH | 14/12/16 | £3.29 | 4 | 2.25% | 31% | 0.56% | £2.98 | No | No | 15/04/21 |

- * The valuation was made using a Monte Carlo model.
- ** Vested and exercised.
- *** The vesting date is set in the agreements on the date that the Group's Annual Report is published. These dates are estimates based on our historic timetable.
- **** The vesting date was amended in the year due to targets being met.

NOTES

Continued

30. Share based payments continued

| Conditional shares issued in 2017 | Grant date | Share price at grant date | Vesting period years | Dividend yield | Volatility | Risk free rate | Fair value of option (per M&C Saatchi plc share issued)* | Company dividend rights | PF Cap | Vesting date** |
|--|------------|---------------------------|----------------------|----------------|------------|----------------|--|-------------------------|--------|----------------|
| M&C Saatchi Digital GmbH | 14/02/17 | £3.55 | 5 | 2.33% | 30% | 0.68% | £3.14 | Yes | No | 15/04/2022 |
| Clear Ideas Ltd – B shares (Group) | 03/03/17 | £3.47 | 5 | 2.39% | 31% | 0.34% | £3.06 | Yes | No | 15/04/2022 |
| Clear Ideas Ltd – C shares (UK) | 03/03/17 | £3.47 | 5 | 2.39% | 31% | 0.34% | £3.06 | Yes | No | 15/04/2022 |
| Clear LA LLC | 28/03/17 | £3.51 | 5 | 2.36% | 31% | 0.50% | £2.24 | Yes | 12 | 15/04/2022 |
| Human Digital Ltd | 12/04/17 | £3.46 | 4 | 2.48% | 30% | 0.28% | £2.13 | Yes | 10 | 15/04/2021 |
| Human Digital Ltd | 12/04/17 | £3.46 | 5 | 2.48% | 30% | 0.43% | £2.03 | Yes | 10 | 15/04/2022 |
| Human Digital Ltd | 12/04/17 | £3.46 | 6 | 2.48% | 29% | 0.58% | £1.96 | Yes | 10 | 15/04/2023 |
| M&C Saatchi, S.A. DE. C.V | 01/07/17 | £3.32 | 6 | 2.50% | 30% | 0.79% | £2.86 | Yes | No | 15/04/2023 |
| M&C Saatchi Sports & Entertainment Ltd | 31/10/17 | £3.34 | 4 | 2.57% | 31% | 0.79% | £2.97 | Yes | No | 15/04/2022 |
| Levergy Marketing Agency Pty Ltd | 15/11/17 | £3.30 | 3 | 2.60% | 32% | 0.75% | £3.02 | Yes | No | 15/04/2021 |
| M&C Saatchi PR International Ltd | 29/11/17 | £3.34 | 4 | 2.57% | 31% | 0.79% | £2.97 | Yes | No | 15/04/2022 |
| M&C Saatchi PR International Ltd | 29/11/17 | £3.34 | 5 | 2.57% | 31% | 0.97% | £2.90 | Yes | No | 15/04/2023 |
| M&C Saatchi PR International Ltd | 29/11/17 | £3.34 | 6 | 2.57% | 31% | 1.05% | £2.82 | Yes | No | 15/04/2024 |

* The valuation was made using a Monte Carlo model.

** The vesting date is set in the agreements on the date that the Group's Annual Report is published. These dates are estimates based on our historic timetable.

NOTES

Continued

30. Share based payments continued

| | % shareholding in entity | Vesting date | Fair value of option (Per M&C Saatchi pic share issued) | Estimated number of shares at vesting '000 | Total accounting charge at vesting £'000 | Accounting charge 2017 £'000 | Accounting charge 2018 £'000 |
|------------------------------------|-----------------------------|-----------------|---|--|--|------------------------------------|------------------------------------|
| M&C Saatchi Network Ltd | 0.0% | 15/04/17 | £3.10 | 300 | £931 | £137 | £479 |
| M&C Saatchi Network Ltd | 5.0% | 15/04/19 | £2.93 | 881 | £2,581 | £654 | £656 |
| M&C Saatchi LA Inc | 6.0% | 15/04/20 | £1.00 | 184 | £184 | £12 | £12 |
| M&C Saatchi LA Inc | 4.0% | 15/04/20 | £2.85 | 123 | £350 | £67 | £67 |
| M&C Saatchi Shop Ltd* | 2.5% | 15/04/20 | £3.21 | 7 | £23 | £(10) | £19 |
| M&C Saatchi Shop Ltd* | 2.5% | 15/04/21 | £3.19 | 7 | £21 | £(8) | £14 |
| M&C Saatchi Shop Ltd* | 2.5% | 15/04/22 | £3.06 | 6 | £20 | £(6) | £11 |
| M&C Saatchi Accelerator Ltd | 6.7% | 15/04/20 | £3.00 | 47 | £141 | £32 | £32 |
| M&C Saatchi Accelerator Ltd | 6.7% | 15/04/21 | £2.94 | 54 | £158 | £29 | £29 |
| M&C Saatchi Accelerator Ltd | 6.7% | 15/04/22 | £2.84 | 51 | £145 | £23 | £23 |
| M&C Saatchi Mobile Singapore | 5.0% | 15/04/20 | £1.53 | 66 | £101 | £21 | £21 |
| M&C Saatchi (S) Pte Ltd | 20.0% | 15/04/19 | £0.96 | 360 | £347 | £62 | £62 |
| M&C Saatchi Tel Aviv Ltd | 20.0% | 15/04/20 | £3.26 | 32 | £104 | £21 | £14 |
| LIDA NY LLP | 24.5% | 30/11/16 | £3.09 | 631 | £1,950 | - | £1,950 |
| LIDA NY LLP | 24.5% | 30/11/18 | £2.95 | 648 | £1,911 | £705 | £562 |
| M&C Saatchi SPA | 20.0% | 15/04/19 | £3.11 | 428 | £1,332 | £397 | £422 |
| Paris GAD Holding SAS | 40.0% | 01/05/20 | £2.72 | - | - | - | - |
| M&C Saatchi Share Inc | 20.0% | 15/04/20 | £2.78 | - | - | - | - |
| M&C Saatchi AB | 40.0% | 01/12/17 | £2.61 | 301 | £787 | £190 | £597 |
| M&C Saatchi Middle East Holdco Ltd | 20.0% | 15/04/19 | £3.02 | 7 | £22 | £7 | £6 |
| M&C Saatchi Worldwide Ltd | 0.0% | 01/01/19 | £0.77 | 1,271 | £977 | £378 | £220 |
| M&C Saatchi Worldwide Ltd | 0.0% | 01/01/19 | £0.45 | 127 | £57 | £23 | £11 |
| M&C Saatchi Mobile Ltd | 5.0% | 02/05/17 | £3.60 | 834 | £3,000 | £1,943 | £1,057 |
| M&C Saatchi Mobile Ltd | 5.0% | 27/08/17 | £3.60 | 278 | £1,000 | £848 | £352 |
| M&C Saatchi Mobile Ltd | 10.0% | 09/08/17 | £3.51 | 1,139 | £4,000 | £3,335 | £665 |
| M&C Saatchi Mobile Ltd** | 10.0% | 15/04/18 | £3.38 | 622 | £2,106 | £1,532 | £206 |
| M&C Saatchi Mobile USA | 0.0% | 09/01/17 | £3.23 | 476 | £1,537 | £1,212 | £335 |
| M&C Saatchi Mobile USA | 0.0% | 09/08/17 | £3.15 | 488 | £1,537 | £1,400 | £137 |
| M&C Saatchi Mobile USA | 0.0% | 15/04/20 | £3.04 | 265 | £806 | £233 | £41 |
| M&C Saatchi Berlin GMBH | 13.3% | 15/04/21 | £2.98 | 250 | £746 | £172 | £7 |

* Shareholder left Group in the year and the shares were bought back by the Group.

** Scheme amended allowing for accelerated vesting with no increase in underlying value.

In creating the accounting charge, we have assumed that all shareholders will be employed at the time of vesting.

NOTES

Continued

30. Share based payments continued

| Conditional shares issued in 2017 | % shareholding in entity | Vesting date | Fair value of option (Per M&C Saatchi plc share issued) | Estimated number of shares at vesting '000 | Total accounting charge at vesting £'000 | Accounting charge 2017 £'000 | Accounting charge 2016 £'000 |
|---|--------------------------|--------------|---|--|--|------------------------------|------------------------------|
| M&C Saatchi Digital GmbH | 25.0% | 15/04/22 | \$3.14 | 49 | \$154 | \$26 | - |
| Clear Ideas Ltd – B shares (Group) | 5.0% | 15/04/22 | \$3.06 | 92 | \$282 | \$46 | - |
| Clear Ideas Ltd – C shares (UK) | 15.0% | 15/04/22 | \$3.06 | 204 | \$616 | \$98 | - |
| Clear LA LLC | 12.0% | 15/04/22 | \$2.24 | 35 | \$78 | \$12 | - |
| Human Digital Ltd | 11.5% | 15/04/21 | \$2.13 | 56 | \$120 | \$22 | - |
| Human Digital Ltd | 11.5% | 15/04/22 | \$2.03 | 44 | \$89 | \$13 | - |
| Human Digital Ltd | 17.0% | 15/04/23 | \$1.96 | 50 | \$99 | \$12 | - |
| M&C Saatchi, S.A. DE. C.V | 41.0% | 15/04/22 | \$2.86 | 108 | \$309 | \$27 | - |
| M&C Saatchi Sports & Entertainment Ltd | 30.0% | 15/04/22 | \$2.97 | 200 | \$596 | \$22 | - |
| Levergy Marketing Agency Pty Ltd | 11.9% | 15/04/21 | \$3.02 | 79 | \$238 | \$9 | - |
| M&C Saatchi PR International Ltd | 13.3% | 15/04/22 | \$2.97 | 35 | \$105 | \$2 | - |
| M&C Saatchi PR International Ltd | 13.3% | 15/04/23 | \$2.90 | 32 | \$93 | \$2 | - |
| M&C Saatchi PR International Ltd | 13.3% | 15/04/24 | \$2.82 | 29 | \$82 | \$1 | - |
| Total for all conditional shares | | | | 10,895 | \$29,735 | \$13,501 | \$7,997 |

In creating the accounting charge, we have assumed that all shareholders will be employed at time of vesting.

We plan, in accordance with our business model to develop new businesses in 2018 with local entrepreneurs holding puttable equity in those businesses (new conditional shares). If no new conditional shares were to be issued in 2018 then the option charge will be \$3,741k.

NOTES

Continued

31. Post balance sheet events

There have been no significant events since year end.

32. Commitments

Capital commitments

There are no other significant capital commitments contracted for but not provided.

Operating leases

Commitments under operating leases are reported within note 7.

33. Related party transactions

Key management remuneration

Key management remuneration is disclosed in note 8.

Unaudited detail on Directors' remuneration is disclosed in the Remuneration Report on pages 25 to 27.

Other related parties

During the year, the Group entered into the following transactions with related parties:

Tom Dery is a director of Australian Cancer. During the year the Group passed on £40k of third party costs to Australian Cancer (2016: nil), and charged them nil (2016: £9k) in fees, of which nil (2016: nil) was outstanding at the year end.

Lara Hussein has an equity interest in Brand Energy. During the year, the Group was charged, on an arm's-length basis, by Brand Energy \$577k (2016: £713k), of which nil (2016: \$512k) was unpaid at the year end.

To assist the local directors to acquire 20% of M&C Saatchi Agency Pty Ltd in 2015, loans of AUD3.6m were issued. At the year end, the balance of the loan was AUD3.2m (2016: AUD3.1m) (see note 22 for further details).

In 2015 the Group lent Antoine Barthuel, an arm's-length interest-bearing Euro 150k loan, a further an arm's-length interest-bearing Euro 300k loan was issued in 2017, the balance of the loan was Euro 300k (2016: Euro 150k) at the year end.

During the year, the Group made purchases of £2,356k (2016: £3,138k) from its associates. At

31 December 2017, there was nil due to associates in respect of these transactions (2016: £2,801k), a further £1,367k was paid in advance and owed to the Group for these transactions. During the year, £160k (2016: £150k) of fees were charged by Group companies to associates. At 31 December 2017, associates owed Group companies £254k (2016: \$409k).

During the year, the Company recharged its subsidiaries and indirect subsidiaries with £818k (2016: £818k) of its costs, £288k (2016: £558k) of interest. The balance outstanding can be seen in notes 37, 38 and 39.

34. Accounting policies

Critical accounting policies are set out in note 4.

Additional accounting policies followed by the Group are:

Cost convention

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments.

Basis of consolidation

The M&C Saatchi plc consolidated financial statements incorporate the financial statements of M&C Saatchi plc and entities (including special purpose entities) controlled by M&C Saatchi plc (and its subsidiaries). Control is achieved where M&C Saatchi plc has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where subsidiaries are acquired in the year, their results and cash flows are included from the date that we gain control up to the balance sheet date.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra Group transactions, balances, income and expenses are eliminated on consolidation.

Where a consolidated company is less than 100% owned by the Group, the non-controlling interest share of the results and net assets is recognised at each reporting date.

NOTES

Continued

34. Accounting policies continued

Disposals of subsidiaries' equity that do not affect control

The difference between the consideration received and the credit to the non-controlling interest reserve is credited directly to retained earnings. In the event that equity had previously been acquired under this revised standard then such a disposal will result in a release from the non-controlling interest acquired reserve to retained earnings.

Acquisitions of subsidiaries' equity that do not affect control

From 1 January 2012, acquisitions of subsidiaries' equity that do not affect control have been accounted for using non-controlling interest acquired reserve. How the non-controlling interest acquired reserve is used is described in note 5.

Corporate venturing investments

Investments in debt and equity securities held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity (in the fair value reserve), except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

Associates and joint ventures

Associates and joint ventures are all entities over which the Group has significant influence but not control. They generally accompany a shareholding of between 10% and 50% of the voting rights, *minority or equal board representation and, in case of shareholdings of between 10% and 20%, the Group treats the entity as an associate where there are significant minority and contractual protections that allow us to influence dividend and investment flows.* Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' and joint ventures' post acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements is recognised in other comprehensive income. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intangible assets

Separately acquired intangible assets are capitalised at cost. Intangible assets acquired as part of a business combination are capitalised at fair value at the date of acquisition if they arise from contractual or other legal rights, and sufficient information exists to measure the fair value of the asset. Intangible assets that relate to associates are included within the carrying value of the investment in associates. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

Intangible assets are stated at historical cost less accumulated amortisation and impairment.

Amortisation is provided to write off the cost of all intangible assets, less estimated residual values, evenly over their expected useful lives.

The charge in the income statement is included in operating costs. Intangible assets are amortised to residual values over the useful economic life of the asset as follows:

| | |
|------------------------|---|
| Software | – three years |
| Customer relationships | – one to five years |
| Brand name | – zero to five (reduced to three years from 31 December 2017) |

The need for any intangible asset impairment write down is assessed by comparison of the carrying value of the asset against the higher of value in use and fair value less cost to sell.

NOTES

Continued

34. Accounting policies continued

Plant and equipment

Tangible fixed assets are stated at historical cost less accumulated depreciation.

Depreciation is provided to write off the cost of all fixed assets, less estimated residual values, evenly over their expected useful lives.

Depreciation is calculated at the following annual rates:

| | |
|------------------------|---|
| Leasehold improvements | – lower of useful life and over the period of the lease |
| Furniture and fittings | – 10% in equal instalments |
| Computer equipment | – 33% in equal instalments |
| Other equipment | – 25% in equal instalments |
| Motor vehicles | – 25% in equal instalments |

The need for any fixed asset impairment write down is assessed by comparison of the carrying value of the asset against the higher of fair value less cost to sell and the value in use.

Cash and cash equivalents

Cash and cash equivalents include, for the purposes of the balance sheet and cash flow statement, cash at bank and in hand and deposits with an original maturity of three months or less, net of legally offsettable overdraft, which are managed as part of cash balances.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance lease agreements are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Where operating lease agreements include a fixed uplift for rental payments, the expense is straight-lined, except in cases where another systematic basis better represents the benefit to us. Reverse premiums and similar incentives to enter into operating lease agreements are initially recorded as deferred income and released to profit or loss on a straight-line basis over the lease term.

Segmental reporting

Segmental reporting reflects how management controls the business. Sales between business units are on an arm's-length basis. The assets and liabilities of the segments reflect the assets and liabilities of the underlying companies involved.

Our business is run on an operating unit basis. In accordance with IFRS8 paragraph 12, we have aggregated our operating units into regional segments.

Employee benefits – pensions

Contributions to personal pension plans are charged to the income statement in the period in which they are due.

Employee benefits – cash share based compensation

For cash settled share based payments, a liability is recognised for the amount payable at the balance sheet date with a corresponding charge being made to the profit and loss account. Where payments depend on future events, an assessment is made of the likelihood of these conditions being met in determining the amounts to be recorded. Where cash settled share options are only part of the way through their vesting period, the liability and profit and loss account charge are adjusted to reflect the proportion of the vesting period that has been covered up to the balance sheet date.

Taxation

Current tax, including UK and foreign tax, is provided for using the tax rates and laws that have been substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not provided for temporary differences that arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profits or loss; and on the initial recognition of goodwill.

NOTES

Continued

34. Accounting policies continued

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the Group intends to settle its current tax assets and liabilities on a net basis.

Dividends

Interim dividends are recorded when they are paid and the final dividends are recorded when they become legally payable.

Earnings per share

The dilutive effect of unvested outstanding options is calculated based on the number that would vest had the balance sheet date been the vesting date. This dilution is reflected in the computation of diluted earnings per share.

Foreign currency

Foreign currency transactions arising from normal trading activities are recorded in functional currency at the rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the year end exchange rate. Where they form part of the net investment in foreign operations, the gain or loss is charged directly to the foreign exchange reserve.

Foreign currency gains and losses are credited or charged to the income statement as they arise.

For overseas operations, results are translated at the average rate of exchange and balance sheets are translated at the closing rate of exchange. The average rate of exchange approximates to the rate on the date that the transactions occurred. Exchange differences arising from the translation of foreign subsidiary results are taken to a separate component of equity. Such translation differences will be recognised as income or expense in the period of disposal.

Financial instruments

Financial assets and financial liabilities principally include the following:

Trade receivables

Trade receivables do not carry any interest and are stated at amortised cost. Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms receivable.

Trade and other liabilities

Trade and other liabilities are not interest-bearing and are stated at their amortised cost.

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in accordance with IFRS9 financial instruments:

Loans and receivable

Measured at amortised cost, separately disclosed as cash and cash equivalents; current tax assets; trade and other receivables (with the exclusion of prepayments); and loans to employees within other non-current assets.

Financial liabilities at fair value through profit or loss

Separately disclosed as minority shareholder put option liabilities.

Financial liabilities measured at amortised cost

Separately disclosed as trade and other payables; current tax liabilities; other financial liabilities; deferred and contingent consideration; and other non-current liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially recorded as the proceeds received, net of direct issue costs. Direct issue costs are amortised over the period of the loans and overdrafts to which they relate. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

NOTES

Continued

34. Accounting policies continued

Equity instruments

Equity instruments issued by the Company are recorded as the proceeds are received, net of direct issue costs.

Treasury shares

When the Group reacquires its own equity instruments, those instruments (treasury shares) are debited to treasury reserve. No gain or loss is recognised in profit or loss 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.

IFRS13 hierarchy – Capital structure and finance cost

Level 1

Fair values measured using quoted (unadjusted) prices in active markets for assets and liabilities (e.g. cash, debtors and creditors).

Level 2

Fair values using inputs, other than quoted prices including within Level 1, that are observable for assets or liability either directly or indirectly. The Group does not hold such items at year end, though may hold such items during the year. These items include forward foreign exchange contracts.

Level 3

Fair values measured using inputs for assets or liabilities that are not based on observable market data. Such items include the Group's put option liability, contingent consideration, investments, and some inputs to profit based share options.

Standards effective for the first time this year

There are no significant new and amended standards that became effective for periods beginning on or after 1 January 2017. The Directors consider the impact of the minor changes in the year on the Group and conclude that none are material to the Group's results and financial position.

Standards not yet effective

There are new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting periods beginning after 1 January 2018 and which the Group has decided not to adopt early. Those that are relevant to the Group are:

- Amendment to IFRS2 Classification and Measurement of Share-based Payment Transactions, that allows an award to fully remain an equity-settled award if due to local tax legislation part of the award is withheld to pay tax. (Effective for accounting periods beginning on or after 1 January 2018).*
- IFRS9 Financial Instruments will eventually replace IAS39 in its entirety. With exception of its impact on the carrying value of investments in unquoted equity instruments, which will be required to be recorded at fair value with any increase in value being recognised through the consolidated statement of other consolidated income, it is not expected to have any significant impact on the reported results of the Group. (Effective for accounting periods beginning on or after 1 January 2018).
- IFRS16 Leases will replace IAS17. (Effective for accounting periods beginning on or after 1 January 2019). On transition the standard can be applied fully or partially retrospectively. The Group is reviewing if it will transition to this standard from 1 January 2018, as adopting early will enhance the Group's profitability over period 2018 to 2022 if done fully retrospectively. However, currently a number of the Group's tax authorities have not specified how they will treat the transition and future accounting flows, given the values involved may create a material uncertainty. The Group will continue its preparation for the change and monitor legislative changes to determine if it will use 1 January 2018 or 1 January 2019 as its transition date.
- This standard has not yet been endorsed by the EU.

NOTES

Continued

34. Accounting policies continued

Standards not yet effective continued

IFRS15 Revenue from Contracts with Customers

IFRS15 Revenue from Contracts with Customers, replaces IAS18 Revenue and all other revenue related standards and is effective for accounting periods beginning on or after 1 January 2018. We will be transitioning in 2018 restating 2018 opening balances using the cumulative effect method applying certain practical expedients. This new standard has a more prescriptive method to analyse when revenue should be recognised. Based on the work we have done to date and the short-term nature of most of our projects, the standard is not expected to make a material difference to operating profit, however our analysis of the Groups contracts are ongoing at 31 December 2017.

| The annual report's revenue recognition policy (note 4) | Expected annual report's revenue recognition policy |
|--|--|
| Revenue comprises commission and fees earned in respect of amounts billed. Revenue and billings are stated exclusive of VAT, sales taxes and trade discounts. | Revenue comprises commission and fees earned in respect of amounts billed or billable. Revenue and billings are stated exclusive of VAT and sales taxes. Gross profit comprises recognised revenue less the direct cost associated with it. |
| Each type of revenue is recognised on the following basis: | |
| a) Project fees are recognised over the period of the relevant assignments or agreements, in line with incurred costs. The primary input of all work performed under these arrangements is labour. As a result of the relationship between labour and cost, there is normally a direct relationship between costs incurred and the proportion of the contract performed to date. | Each type of revenue is recognised on the following basis: <ol style="list-style-type: none"> Project fees and production income (Project fees) – Project fees typically relate to assignments under which a customer specific asset that has no alternate use is created. <ol style="list-style-type: none"> Where such assignments are carried out under contracts the terms of which entitle M&C Saatchi to payment for its performance to date in the event of contract termination, fees are recognised over the period of the relevant assignments or agreements, typically in line with incurred costs. The primary input of all work performed under these arrangements is labour. As a result of the relationship between labour and cost, there is normally a direct relationship between costs incurred and the proportion of the contract performed to date. Where such assignments are carried out under contracts the terms of which entitle M&C Saatchi to payment for its performance only when control passes at a delivery date or a mile stone, fees are recognised, along with their related incurred costs, at the time that payment entitlement occurs. Retainer fees – Retainer fees relate to arrangements whereby the nature of M&C Saatchi's obligation under the contract is to agree to "stand-ready" to deliver services to the customer for a period of time rather than to deliver the goods or services underlying that promise. Retainer fees are recognised over the period of the relevant assignments or agreements, typically in line with "stand-ready" incurred costs. The primary input of all work performed under these arrangements is labour. As a result of the relationship between labour and cost, there is normally a direct relationship between costs incurred and the proportion of the contract performed to date. |
| b) Retainer fees are spread over the period of the contract on a straight-line basis. | b) Retainer fees – Retainer fees relate to arrangements whereby the nature of M&C Saatchi's obligation under the contract is to agree to "stand-ready" to deliver services to the customer for a period of time rather than to deliver the goods or services underlying that promise. Retainer fees are recognised over the period of the relevant assignments or agreements, typically in line with "stand-ready" incurred costs. The primary input of all work performed under these arrangements is labour. As a result of the relationship between labour and cost, there is normally a direct relationship between costs incurred and the proportion of the contract performed to date. |
| c) Commission on media spend is recognised when the advertisements appear in the media. | c) Commission income – <ol style="list-style-type: none"> In relation to client media spend, M&C Saatchi arranges for a third party to provide the related goods and services, without holding stock or developing the media (where it does it is classified as production income), and in so doing acts in the capacity of agent. Accordingly, revenue in relation to media spend is recognised as the amount of commission to which M&C Saatchi is entitled, such entitlement normally occurs when the advertisements appear in the media. In relation to talent performance, M&C Saatchi arranges, in the capacity of agent, for talent or other third parties to provide their time in return for a booking fee. Accordingly, revenue in relation to the booking fee is recognised as the amount of commission to which M&C Saatchi is entitled, such entitlement normally when the booking or obligation is performed. Where we act as an agent on behalf of and under the direction of a client or supplier without performing quality control or adapting the goods and services or holding stock in any way, then an agency relationship exists. Accordingly, revenue in relation to this agent spend is recognised as the amount of commission to which M&C Saatchi is entitled. Commission on this agent spend is recognised at the time that payment entitlement occurs. |
| | d) Cost to directly acquire revenue shall be included in cost of sales and released to the income statement as related revenue is recognised. |

COMPANY BALANCE SHEET

| At 31 December | Note | 2017 £000 | 2016 £000 |
|--|------|--------------|--------------|
| Non-current assets | | | |
| Investments | 36 | 101,914 | 91,225 |
| Intangible assets | 10 | 10 | 40 |
| Other non-current assets | 37 | 2,288 | 2,250 |
| | | 104,212 | 93,515 |
| Current assets | | | |
| Trade and other receivables | 38 | 73,814 | 55,800 |
| Cash at bank | | 1,983 | 258 |
| | | 75,497 | 56,058 |
| Current liabilities | | | |
| Trade and other payables | 39 | (24,498) | (29,069) |
| Contingent consideration | | (376) | - |
| | | (24,874) | (29,069) |
| Net current assets | | 50,623 | 26,989 |
| Total assets less current liabilities | | 154,835 | 120,504 |
| Non-current liabilities | | | |
| Contingent consideration | | (833) | - |
| Other financial liabilities | 40 | (27,672) | (17,577) |
| | | (28,505) | (17,577) |
| Total net assets | | 126,330 | 102,927 |
| Capital and reserves | | | |
| Share capital | | 813 | 749 |
| Share premium | | 32,085 | 24,089 |
| Merger reserve | | 63,197 | 63,197 |
| Treasury reserve | | (782) | (782) |
| Share based payment reserve | | 17,531 | 8,881 |
| Profit and loss account | | 13,486 | 6,783 |
| Shareholders' funds | | 126,330 | 102,927 |

These financial statements were approved and authorised for issue by the Board on 21 March 2018 and signed on its behalf by:

Jamie Hewitt
Finance Director
M&C Satchell plc
Company Number 05114893

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. Included within the consolidated income statement for the year ended 31 December 2017 is a profit after tax of £8,641k (2016: loss £6,435k).

The notes on pages 82 to 85 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Treasury reserve £'000 | Share based payment reserve £'000 | Profit and loss account £'000 | Total £'000 |
|-----------------------------------|------------------------|------------------------|-------------------------|------------------------------|--|-------------------------------------|----------------|
| At 31 December 2015 | 727 | 17,338 | 63,197 | (792) | 1,125 | 5,575 | 87,170 |
| Share option charge | - | - | - | - | 7,766 | 231 | 7,997 |
| Put options exercised | 22 | 6,761 | - | - | - | - | 6,783 |
| Dividends paid | - | - | - | - | - | (5,458) | (5,458) |
| Profit for the year | - | - | - | - | - | 6,435 | 6,435 |
| At 31 December 2016 | 749 | 24,099 | 63,197 | (792) | 8,891 | 6,783 | 102,927 |
| Acquisitions | 4 | 1,488 | - | - | - | - | 1,502 |
| Acquisitions of minority interest | 5 | 1,587 | - | - | - | - | 1,592 |
| Exercise of put options | 55 | 4,911 | - | - | - | (51) | 4,915 |
| Share option charge | - | - | - | - | 13,100 | 401 | 13,501 |
| Recharged share option charges | - | - | - | - | (4,480) | 4,480 | - |
| Dividends paid | - | - | - | - | - | (8,748) | (8,748) |
| Profit for the year | - | - | - | - | - | 8,841 | 8,841 |
| At 31 December 2017 | 813 | 32,095 | 63,197 | (792) | 17,531 | 13,488 | 126,330 |

The notes on pages 82 to 85 form part of these financial statements.

NOTES

Continued

35. Accounting policies

The financial statements have been prepared under the historical cost convention in accordance with the reduced disclosure framework of FRS101.

In adopting the reduced disclosure framework of FRS101, the Company has made the following exemptions from disclosure:

- the cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management; and
- the effects of new but not yet effective IFRSs.

Accounting policies applied

The following principal accounting policies have been applied:

- Valuation of investments**
Investments held as fixed assets are stated at cost, less any provision for impairment.
- Pensions**
Contributions to personal pension plans are charged to the profit and loss account in the period in which they are due.
- Group policies (note 34 and note 4)**
See Group policy for current tax, deferred tax, share based payments and borrowings.
- Share based payments in Company**
The cost of awards to employees of subsidiary undertakings classified as conditional shares awards is accounted for as an additional investment in the employing subsidiary. When such awards are recharged to employing or acquiring entity the investment in the Company's books is reduced by the value of equity awarded.
- Dividends**
Interim dividends are recorded when they are paid and the final dividends are recorded when they become legally payable.
- Treasury shares**
When the Company reacquires its own equity instruments, those instruments (treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's treasury shares. Such treasury shares may be acquired and held by the Company or by other members of the Group. Consideration paid or received is recognised directly in equity.

36. Investments in subsidiary undertakings

| | 2017 £000 | 2016 £000 |
|---|----------------|---------------|
| At 1 January | | |
| Acquisition of a subsidiary* | 91,225 | 83,459 |
| Conditional consideration** | 993 | - |
| Conditional share awards*** | 1,056 | - |
| Conditional share awards brought forward balance*** | (4,480) | - |
| Conditional share awards*** | 13,100 | 7,766 |
| At 31 December | 101,814 | 91,225 |

- * Acquisition of 50.1% of Levergy Marketing Agency (Pty) Ltd (note 18).
- ** Conditional Consideration for 38.0% of Levergy Marketing Agency (Pty) Ltd (note 18).
- *** Conditional share awards (Minority interest put options with leverage provisions) (note 30).

| | 2017 £000 | 2016 £000 |
|-------------------------------|----------------|---------------|
| Subsidiary investments | | |
| Conditional share awards | 84,363 | 82,334 |
| Total | 17,531 | 8,891 |
| | 101,914 | 91,225 |

The direct and indirect subsidiary undertakings are listed in note 3 to the consolidated financial statements.

37. Other non-current assets

| | 2017 £000 | 2016 £000 |
|---------------------------------------|--------------|--------------|
| Loans to subsidiary employees* | | |
| Loan to assist equity purchase** | 1,853 | 1,815 |
| Total | 435 | 435 |
| | 2,288 | 2,250 |

- * This related to the AUD3.6m (current balance AUD3.2m) loans that the Group lent local management of M&C Saatchi Agency Pty Ltd, in 2015, to enable them to acquire 20% of that business. The full recourse loan is repayable in full if the purchasers no longer have a beneficial interest in the shares of the Australian Group, or are no longer employed. The loan is unsecured and charged interest at 0.1% above the five-year Australian interbank rate at date loan advanced. The carrying value of the loan approximated to fair value.
- ** Loan to South African indigenous equity holders to enable them to acquire equity in South African subsidiaries in accordance with local laws.

NOTES

Continued

38. Trade and other receivables

| Amounts due less than one year | 2017 £000 | 2016 £000 |
|--|---------------|---------------|
| Amounts from subsidiary undertakings* | 71,403 | 54,334 |
| Prepayments and accrued income | 22 | 85 |
| Corporation tax debtor | 2,087 | 1,049 |
| Other debtors | 322 | 332 |
| Total trade debtors and other receivables | 73,814 | 55,800 |

* Repayable on demand. Amounts receivable from subsidiary undertakings include receivables relating to exercised put options. As detailed in notes 4 and 27, the Group has a number of put option arrangements in place. On exercise of these put options, the Company is required to issue shares in exchange for the shares of the minority interests. Where the Company's shareholding of the acquired subsidiary becomes equal to or higher than 90% as a result, amounts are credited to the Merger Reserve on exercise.

The acquired shares are then immediately sold to subsidiaries of the Company, thereby creating an intercompany receivable and eliminating the Company's increase in investments. During the year, put option liabilities of £2.8m were exercised in relation to The Source (London) Ltd, M&C Saatchi PR UK LLP and three smaller international subsidiaries (note 27). These liabilities are not recorded in the books of the Company as these are treated as derivative instruments with a negligible fair value.

39. Creditors falling due within one year

| | 2017 £000 | 2016 £000 |
|------------------------------|-----------------|-----------------|
| Trade creditors | (182) | (174) |
| Amounts due to subsidiaries* | (23,881) | (28,490) |
| Accruals and deferred income | (425) | (405) |
| | (24,488) | (29,069) |

* Repayable on demand.

40. Creditors falling due after more than one year

| | 2017 £000 | 2016 £000 |
|------------|--------------|--------------|
| Bank loans | (27,672) | (17,577) |

See note 25 for more details.

41. Directors' remuneration

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Total for nine Directors: | | |
| Directors' salaries and benefits | 2,050 | 2,058 |
| Bonuses* | 125 | 200 |
| Contribution to money purchase pension schemes | 15 | 16 |
| Total remuneration before accounting charges | 2,190 | 2,274 |
| Share option charges | 401 | 231 |
| | 2,591 | 2,505 |

Highest paid Director:

| | | |
|--|------------|------------|
| Directors' salaries and benefits | 421 | 422 |
| Bonus | - | 50 |
| Contribution to money purchase pension schemes | - | 1 |
| Total remuneration before accounting charges | 421 | 473 |
| Share option charges | 100 | 55 |
| | 521 | 528 |

During the year, no (2016: nil) M&C Saatchi plc shares were issued to Executive Directors, in return for Directors' interest in M&C Saatchi Worldwide Ltd B ordinary shares.

The number of Directors with a money purchase pension scheme was 5 (2016: 5).

The Directors are the key management personnel of the Company.

NOTES

Continued

42. Related parties

During the year, the Company charged a management recharge to subsidiaries totalling \$818k (2016: \$818k), \$325k (2016: \$372k) was due in relation to this management recharge from subsidiaries as at the balance sheet date. Including these amounts the Company also provides short term working capital loans to and borrows funds from certain subsidiaries, disclosed in notes 37, 38 and 39. The amounts due from subsidiary undertakings payable in cash of \$71,403k (2016: \$54,334k) is net of \$5,881k (2016: \$5,881k) provisions for doubtful accounts.

Further details of related parties of the Company are provided in note 33.

43. List of registered addresses

| Country | Entity | Registered Address |
|--------------|--|---|
| Australia | M&C Saatchi Sport & Entertainment Pty Ltd | 89 Macquarie Street, Sydney NSW 2000 |
| | Park Avenue PR Pty Ltd | |
| | Saatchi Ventures Pty Ltd | |
| | Tricky Jigsaw Pty Ltd | |
| | Belwether Global Pty Ltd | Level 12, 131 Macquarie Street, Sydney NSW 2000 |
| | Brands in Space Pty Ltd | |
| | Lida Australia Pty Ltd | |
| | Bright Red Oranges Pty Ltd | Level 6 131 Macquarie Street, Sydney NSW 2000 |
| | Go Studios Pty Ltd | |
| | M&C Saatchi Direct Pty Ltd | |
| | M&C Saatchi Agency Pty Ltd | Unit 6 223-227 O'Sullivan Road, Bellevue Hill NSW 2023 |
| | Re Team Pty Ltd | |
| | EMCSaatchi Pty Ltd | |
| | M&C Saatchi Asia Pac Holdings Pty Ltd | Level 12, 131 Lucanarel Street, Sydney NSW 2000 |
| Bang Pny Ltd | | |
| | Cleair Australia Pty Ltd | Unit 19, 285A Crown Street, Surry Hills NSW 2010 |
| | M&C Saatchi Melbourne Pty Ltd | Level 1, 437 St Kilda Road, Melbourne VIC 3004 |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| Bahrain | M&C Saatchi Bahrain WLL | 51, 122, 1806, 316 Manama Center |
| | Lily Participacoes Ltda | Avenida Brigadeiro Faria Lima, 1355 Jardim Paulistano 16 Andar, Sai São Paulo 01452-919 |
| Brazil | | |
| | M&C Saatchi Brasil Comunicação Ltda | Rua Girassol, 925/927, 1st Floor, Vila |
| | M&C Saatchi Brasil Participacoes Ltda | Madalena, 06453-002 |
| | M+C Saatchi/Insight Pesquisa & Planejamento Ltda | |
| | Santa Clara Participacoes Ltda | Rua Wisard, 306, Vila Madalena, 3 Andar-Con, São Paulo |

| Country | Entity | Registered Address |
|-------------|---|---|
| China | M&C Saatchi Advertising (Shanghai) Ltd | Room 227, Guichang Road, Pudong, Shanghai |
| France | FCINQ SAS | 32 Rue Notre Dame des Victoires, 75002, Paris |
| | M&C Saatchi Gad SAS | |
| | M&C Saatchi Little Stories SAS | |
| | M&C Saatchi One SARL | |
| | Paris Gad Holding SAS | |
| | Cometis | 14 Rue Meslay, 75003, Paris |
| Germany | Tataprod | |
| | M&C Saatchi Advertising GmbH | Munzstrasse 21-23, 10178, Berlin |
| | M&C Saatchi Sports & Entertainment GmbH | |
| | M&C Saatchi Sun GmbH | |
| Hong Kong | M&C Saatchi PR Unternehmer gesellschaft | |
| | Cleair Asia Ltd | 29/F Cambridge House, Takoo Place 879 |
| | M&C Saatchi (HK) Ltd | King's Road, Quarry Bay |
| | M&C Saatchi Asia Ltd | 6/F Alexandra House, 18 Chater Road, Central |
| India | M&C Saatchi Communications Pvt Ltd | 2 Palam Mang, Vasant Vihar New Delhi, 110057 |
| Italy | February Communications Pvt Ltd | 141B Shahpur Jat New Delhi |
| | M&C Saatchi SPA | Viale Monte Nero, 27 20135, Milan |
| Israel | M&C Saatchi PR srl | |
| | M&C Saatchi Tel Aviv Ltd | 1 Abba Even, Boulevard, Herzlia 4672519 |
| Japan | M&C Saatchi Ltd | 26-1 Ebisy-Nishi 1-Chome, Shibuya-Ku, Tokyo |
| Malaysia | | |
| | M&C Saatchi (M) Sdn Bhd | Unit 10-2, 10th Floor, Bangunan Malaysia RE, 17 Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur |
| | Design Factory Sdn Bhd | |
| Netherlands | Intelligence Factory Sdn Bhd | |
| | M&C Saatchi International Holdings BV | 36 Golden Square, London W1F 9EF, UK |
| Pakistan | Cleair Netherlands BV | Keizersgracht 203 Amsterdam |
| | M&C Saatchi World Services Pakistan (Pvt) Ltd | 49M, Block 6 P.E.C.H.S, Karachi |
| Singapore | | |
| | Cleair Ideas (Singapore) Pte Ltd | 21 Media Circle #05-09/10, Infinte Studios, 138562 |
| | M&C Saatchi Mobile Asia Pacific Pte Ltd | |
| | M&C Saatchi (S) Pte Ltd | |
| | M&C Saatchi Holdings Asia Pte Ltd | 80 Robinson Road, #02-00, 068898 |

NOTES

Continued

43. List of registered addresses continued

| Country | Entity | Registered Address |
|----------------------|---|--|
| South Africa | Creative Spark Interactive (Pty) Ltd | 152 Ann Crescent, Sandton, Johannesburg, |
| | M&C Saatchi Sports & Entertainment South Africa Pty Ltd | 2196 |
| | Dalmation Communications (Pty) Ltd | Media Quarter, 5th Floor, Corner Somerset and De Smit Street, Deed, Waterkant, Cape Town |
| | M&C Saatchi Abiel (Pty) Ltd | |
| | M&C Saatchi Africa (Pty) Ltd | |
| | M&C Saatchi Connect (Pty) Ltd | |
| Spain | M&C Saatchi Madrid SRL | Calle Gran Via, 27, 28013, Madrid |
| | M&C Saatchi Digital SL | |
| | Media By Design Spain SA | |
| | M&C Saatchi Sponsorship SL | |
| Sweden | M&C Saatchi AB | Skeppstron 16, 11130, Stockholm |
| | M&C Saatchi Go! AB | |
| | M&C Saatchi PR AB | |
| Switzerland | M&C Saatchi (Switzerland) SA | Boulevard Carl-Vogt 83, 1205, Geneva |
| Thailand | Love Frankie Ltd | 571 RSU Tower, 10th Floor, Soi Sukhumvit 31, Sukhumvit Road, Wattana District, Bangkok |
| Turkey | M&C Saatchi Istanbul | Acar Kent Mah. 1 Cadde No 1328 Beykoz, Istanbul |
| United Arab Emirates | M&C Saatchi Middle East Fz LLC | Al Thuraya Tower 1, Floor 14, Office 1404 Dubai Media City, Dubai, 62614 |
| | M&C Saatchi Fz LLC | PO Box: 77932, Abu Dhabi |
| United Kingdom | All UK entities except for the following: | 36 Golden Square, London, W1F 9EE |
| | Clear Ideas Ltd | 2 Golden Square, London, W1F 9HR |
| | Clear Ideas Consultancy LLP | |
| | Talk PR Ltd | 3-5 Rathbone Place, London, W1T 1HU |
| | Walker Media Ltd | Pembroke Building, Kensington Village, Avonmore Road, London, W14 8DG |

| Country | Entity | Registered Address |
|---------|---|--|
| USA | Clear USA LLC | 88 Pine Street, 30th Floor, New York, NY 10005 |
| | Clear NY LLP | |
| | M&C Saatchi PR LLP | |
| | M&C Saatchi Sports & Entertainment NY LLP | |
| | Shepardson Stern + Kaminsky LLP | |
| | M&C Saatchi Agency Inc. | |
| | M&C Saatchi NY LLP | |
| | LPDA NY LLP | 138 W 25th Street, New York, NY 10001 |
| | M&C Saatchi LA Inc. | 2032 Broadway, Santa Monica, CA 90404 |
| | World Services US Inc. | |
| | M&C Saatchi Mobile LLP | 625 Broadway, 6th Floor, New York, NY 10012 |

INDEPENDENT AUDITOR'S REPORT

To the members of M&C Saatchi plc

1. Our opinion is unmodified

We have audited the financial statements of M&C Saatchi plc for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of changes in equity, comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, the consolidated cash flow statement, the parent company balance sheet, the parent company statement changes in equity and the related notes. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview

| | | |
|--|--|---------------------|
| Materiality: group financial statements as a whole | 4.2% of Normalised profit before tax (2016: 0.5% of group revenue) | £0.9m (2016: £1.2m) |
| Coverage | 84% (2016: 80%) of group revenue; 73% (2016: 64%) profit before tax | |
| Risks of material misstatement | | |
| Recurring risks | Timing and accuracy of revenue recognition | ↔ |
| | Valuation of goodwill | ↔ |
| Parent company risks | Recoverability of parent company's investment in subsidiaries | ↔ |

INDEPENDENT AUDITOR'S REPORT

Continued

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2016):

Timing and accuracy of revenue recognition

(£251.5m million; 2016: £225.4m)

Refer to page 19-20 (Audit Committee Report), page 48 (accounting policy) and page 41 (financial disclosures).

The risk

The specific nature of the risk of material misstatement in revenue recognition varies across the Group's operating segments.

Data capture and processing:

Rebates are earned from suppliers based on the level of spend and contractual terms with the media owner.

Assessing the timing of recognition and accuracy of rebate income earned is an area of complexity and judgement is required in determining the value of media rebates recognised.

Assessing the accuracy of rebate income is also an area of complexity with regards to whether such income earned is required to be shared with the customer and on what basis to calculate such passback.

2017/2018 sales:

When assessing revenue recognition for individual projects judgement is required in estimating the percentage of completion. Given the complexity in estimation and judgement involved, timing of recognition and accuracy of project revenue is considered to be a key audit risk.

INDEPENDENT AUDITOR'S REPORT

Continued

2. Key audit matters: our assessment of risks of material misstatement continued

Our response

Our procedures included:

Accounting for Media Income:

- **Tests of detail:** On a sample basis we assessed the directors' interpretation of contractual terms with media owners and clients to determine whether the amount of rebate income recognised during the year was appropriate.
- For a sample of rebate income recognised during the year we obtained evidence of invoices, payments and contracts to determine whether such income was recognised at the appropriate time, in line with the contractual terms agreed with the media owner and applicable accounting standards.
- We also performed substantive sampling of the year end rebate income balance, agreeing accrued balances to supplier confirmations received post year end. Where such confirmations were not received by the client, we verified the calculation of the accrued balance by agreeing supplier expenditure to purchase invoices and verifying contractual terms.

Project revenue:

- **Tests of detail:** We evaluated the revenue recognition policy of the Group and on a sample basis we assessed whether the related revenue had been recognised in conformity with Group's policy and applicable accounting standards.
- For a sample of revenue recognised near the year end, sampled from both revenue and amounts accrued or deferred at period end, we assessed whether the transactions were recognised in the correct accounting period by verifying the transactions to supporting documentation such as: underlying contracts or customer purchase orders or agreed project estimates and, in certain instances, corroborating amounts recognised with project managers.
- We performed inspection of work in progress releases during the period and analysed the ageing of balances recorded within work in progress at period end.

INDEPENDENT AUDITOR'S REPORT

Continued

2. Key audit matters: our assessment of risks of material misstatement continued

Recoverability of goodwill in US components

(\$10.6 million; 2016: \$16.6m)

Refer to page 19–20 (Audit Committee Report), page 49 (accounting policy) and page 57–59 (financial disclosures).

The risk

Forecast based valuation

Market conditions remain challenging and performance has varied compared to the directors' expectation, particularly in the SS+K business that was acquired in 2016.

Determining whether the carrying value of goodwill is recoverable requires the directors to make significant estimates concerning the future cash flows, which are inherently uncertain due to the lack of contractually committed revenues, associated discount rates and growth rates based on their view of future business prospects. Given the relative sensitivity to certain inputs to the impairment models, the valuation of goodwill is considered a key audit risk.

Our response

Our procedures included:

- **Assessing forecasts:** Challenged the assumptions included in the impairment models for goodwill, including operating cash flow projections and long term growth rates. We assessed the historical accuracy of management forecasts by comparing past forecasts to actual results achieved.
- **Our sector experience:** With the assistance of our valuation specialists we formed an independent assessment of the discount rates used and assessed the methodology used in preparing the impairment testing model including verification of the mathematical accuracy of the impairment model.
- **Sensitivity analysis:** Performed sensitivity analysis over changes in the key assumptions.
- **Assessing transparency:** Considered the adequacy of the Group's disclosures in respect of its goodwill impairment testing and whether disclosures about the sensitivity of the outcome of the impairment assessment to reasonably possible changes in key assumptions properly reflected the risks inherent in such assumption.

INDEPENDENT AUDITOR'S REPORT

Continued

2. Key audit matters: our assessment of risks of material misstatement continued

Recoverability of parent company's investment in subsidiaries
(£101.9 million; 2016: £91.2m)

Refer to page 82 (accounting policy) and page 83 (financial disclosures).

The risk

Low risk, high value

The carrying amount of the parent company's investments in subsidiaries represents 57% (2016: 61%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.

Our response

Our procedures included:

- **Tests of detail:** We compared the carrying amount of a sample of the highest value investments, representing 97% (2016: 99%) of the total investment balance, with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.
- **Assessing subsidiary audits:** Assessed the work performed by the subsidiary audit team on that sample of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets.

INDEPENDENT AUDITOR'S REPORT

Continued

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at \$0.9m (2016: \$1.2m represented by 0.5% of group revenue), determined with reference to a benchmark of normalised profit before tax normalised to exclude this year's impairment of goodwill, fair value movements on put option liabilities and specific share based payment charges that have been accelerated this year as disclosed in notes 17, 27 and 30, respectively of \$21.6m (of which it represents 4.2%). Revenue benchmark was applied in previous years due to historical volatility in the Group's profit before tax due to integration of acquisitions, one-off transactions and restructuring costs.

| Benchmark reconciliation | \$'m |
|--|-------------|
| Group profit before tax | 9.3 |
| Fair value movements on put option liabilities | (3) |
| Impairment of goodwill | 5.2 |
| Specific share based payment charges | 10.1 |
| Benchmark | 21.6 |

Materiality for the parent company financial statements as a whole was set at \$0.9m (2016: \$1.2m), by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.5% of the Company's total assets (2016: 1%).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$45,000 (2016: \$60,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 77 (2016: 70) reporting components, we subjected 15 (2016: 14) to full scope audits for group purposes and 2 (2016: None) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for group reporting purposes, but were included in the scope of our group audit work in order to provide further coverage over the identified risks and the Group's results.

The components within the scope of our work accounted for the percentages illustrated on the next page.

The remaining 16% (2016: 20%) of total group revenue, 27% (2016: 36%) of group profit before tax and 18% (2016: 20%) of total group assets is represented by 60 (2016: 56) reporting components, none of which individually represented more than 4% (2016: 4%) of any of total group revenue, group profit before tax or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materials, which ranged from \$0.1m to \$0.7m (2016: \$0.1m to \$0.8m), having regard to the mix of size and risk profile of the Group across the components. The work on 15 of the 17 (2016: 13 of the 14) components was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The group team performed procedures on the items excluded from normalised group profit before tax.

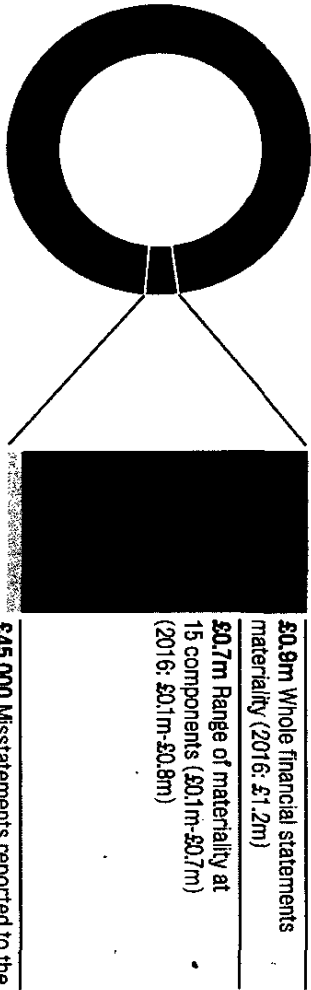
INDEPENDENT AUDITOR'S REPORT

Continued

3. Our application of materiality and an overview of the scope of our audit continued

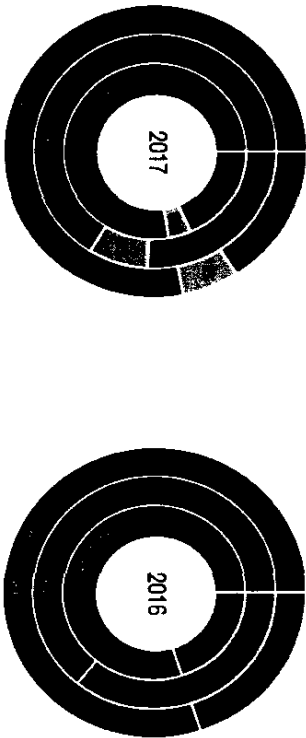
Profit benchmark
\$21.6m (2016: \$225.4m revenue)

Group Materiality
\$0.9m (2016: \$1.2m)



\$45,000 Misstatements reported to the audit committee (2016: \$60,000)

- Profit benchmark
- Group materiality



- Audits for group reporting purposes
- Specified risk-focused audit procedures
- Residual components

INDEPENDENT AUDITOR'S REPORT

Continued

3. Our application of materiality and an overview of the scope of our audit continued

How we work closely with component auditors

The Group team visited 2 (2016: 1) component locations in US, Australia (2016: US) to assess the audit risk and strategy. Video and telephone conference meetings were also held with these component auditors and the majority of the others that were not physically visited. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT

Continued

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 23 to 24, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT

Continued

8. The purpose of our audit work and to whom we owe our responsibilities

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 auditor's 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.

John Bennett

(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London E14 5GL

United Kingdom

21 March 2018

ADDITIONAL INFORMATION

Advisors

Nominated advisor and broker

Numis Securities Ltd
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7L1
www.numiscorp.com

Solicitors

CMS Cameron McKenna Nabarro Olswang LLP
Cannon Place
78 Cannon Street
London EC4N 6AF
www.cms.law

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL
www.kpmg.co.uk

Bankers

National Westminster Bank Plc
1 Princes Street
London EC2R 8BP
www.natwest.com

Registrars

Computershare Investor Services Plc
The Pavilions
Bridgwater Road
Bristol BS13 8AE
www.computershare.com

Secretary and registered office

Andy Blackstone
M&G Saatchi plc
36 Golden Square
London W1F 9EE
www.mcsaatchiplc.com

Country of registration

England and Wales
Company number
06114893
Investor relations website
www.mcsaatchiplc.com

Corporate events

AGM

6 June 2018

Final 2017 dividend paid

6 July 2018

To those on the register on

8 June 2018

Interim 2018 statement

21 September 2018

Interim 2018 dividend paid

9 November 2018

To those on the register on

26 October 2018

Preliminary announcement of 2018 result

Late March 2019

Designed and produced by Superunion (formerly Addison Group)
www.superunion.com