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M&C SAATCHI

ANNUAL REPORT 2018

M&C Saatchi plc

Company Number 05114893

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STRATEGIC REPORT

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CHAIRMAN'S REVIEW

2018 was our 10th year of growth. Growth of profit, earnings and dividends. Whilst it might be too early to say we've cracked it, it does seem that the strategy is proving itself.

We are lucky to live in an era where opportunities grow like never before. This must be how it felt to be pioneers and discoverers of a virgin land. Men and women with ideas, ambition and a vision can strike gold. But the investment isn't in plant or even people, but in brain. Production has moved from brawn to brain.

Technology connects us like never before. Take one of our newest companies, Send Me A Sample. Alexa and Google Assistant users simply request a free sample to be delivered to their homes – and it's on its way. Coca-Cola is an early client.

So, our task is simple, stick to our strategy of making people rich. We insist that every one of our entrepreneurs has a meaningful equity stake in their business. The better they do, the better we do, the better they do.

Of course, as we've written here before, this makes classic accounting confusing. It measures our liability and not our asset, making success into a liability and the greater the success, the bigger the liability – owing to the bigger value of the minority.

Meanwhile, some of our competitors are changing their names to become what they are not, the company is too young to have grown so many barnacles. Our biggest profit sources are just 10 years old and five years old. We keep starting again.

Now, if they rise quicker, there might be a worry that they come down to earth sooner. But tell that to Amazon, Apple and Facebook. And besides, seeds are cheaper to plant than plants are to buy.

On a momentous note, one of our earliest partners, Tom Dery who led our Australian office to great heights is announcing his retirement. We owe him a great deal. He started with a credit card and a room in a hotel. Today, our businesses in Australia rank amongst the best in size, prestige and creativity. We have every confidence in his handpicked successors.

And finally, we must pay tribute to Jamie Hewitt, our outgoing Finance Director. His ability to monetise our strategy has been an important part of our story. We wish him all the best and welcome Mickey Kalifa our new FD. He has the daunting task of matching Jamie's record. (See table)

Jeremy Sinclair

28 May 2019

| | | Net Revenue ex Walker | PBT ex Walker |
|----|------|--------------------------|------------------|
| 1 | 2009 | 89,873 | 4,331 |
| 2 | 2010 | 110,058 | 6,945 |
| 3 | 2011 | 135,998 | 8,316 |
| 4 | 2012 | 154,480 | 11,050 |
| 5 | 2013 | 162,039 | 13,937 |
| 6 | 2014 | 168,373 | 16,167 |
| 7 | 2015 | 178,928 | 19,345 |
| 8 | 2016 | 225,387 | 22,453 |
| 9 | 2017 | 251,481 | 26,022 |
| 10 | 2018 | 255,373 | 29,943 |

A reconciliation of headline profit before tax (PBT) can be found in note 1

RESULTS

| | |
|--------------------|-------------|
| NET REVENUE | +2% |
| PROFIT* | +89% |
| HEADLINE | |
| PROFIT* | +17% |
| EARNINGS | +17% |
| EPS | +9% |

* Profit Before Tax.

A reconciliation of headline measures can be found in note 1

Net revenue is calculated by deducting project cost from revenue and is directly comparable to 2017 revenue. See Income Statement for the calculation

NEW BUSINESSES

**GREENHOUSE
M&C SAATCHI INDONESIA
M&C SAATCHI SOCIAL
MAJORITY
RESOLUTION DESIGNS
SCARECROW COMMUNICATIONS
SEND ME A SAMPLE
SOURCE AUSTRALIA
SPORTS & ENTERTAINMENT LA
TALK PURPOSE
THAT
THE FILM STUDIO
YES AGENCY**

NEW BUSINESS

**APPRENTICESHIPS
BRAC
CAFÉ PAUL
CARLSBERG
CIMB
COMMONWEALTH BANK
CONTINENTAL TYRES
EBAY
EDF
EXPERIAN
FABRIC
FUJI
GAMBLEAWARE
JUMEIRAH INTERNATIONAL
LEVEL FORWARD
NEDBANK**

**NYRVANA
OVS
PHILIPS
REEBOK
ROKIT
SARAS
SEMBCORP
SINGAPORE TURF CLUB
SWISSCOM
TABCORP
TAFEL BEERS
TIKKURILA
TOURISM AUSTRALIA
TWININGS
UNICEF
WHO**

BUSINESS MODEL

We are a global marketing services company built on a strategy of winning new business by starting new businesses.

The conventional model of network creation is by acquisition. This turns entrepreneurs into employees, diluting the imperative that drove their initial growth and success.

Our network growth comes from attracting people who do not want to be wage slaves, who feel they are born to be masters, not servants of their destiny. Our focus is to expand organically, only buying stakes in companies where strategic mass is the only way to enter a market or accelerate growth.

We then back our winners, by using the network to allow them to expand globally.

At the core of the M&C Saatchi business model is the concept of shared ownership, shared objectives and shared ambitions.

This is how it works:

We take a majority share in a business start-up, providing them with cash and the benefit of our reach, brains and reputation. The entrepreneurs have shares in their companies which at some agreed point can be converted into more tradeable M&C Saatchi plc shares. They can only put all their shares when succession criteria have been fulfilled. This aligns their business success with the success of the business as a whole. The better the Group does, the more their shares are worth. Typically, many of our local partners do not exchange their shares at the first opportunity, instead they enjoy their dividends from each pound of profit they make.

Our deals are structured to maximise shareholder value whilst at the same time recognising the worth of the local entrepreneurs' business at acquisition. There is always a risk that some new businesses underperform, but our revenue, profit and dividends growth is testimony to the overall success of our business model.

The drive and knowledge of our local partners, the teams they attract, together with our global reputation, helps us win and retain great clients.

HOW OUR BUSINESS MODEL IMPACTS OUR STATUTORY RESULTS

The Group's business model leads to the IFRS accounts having a number of non-cash movements being included in the income statement, largely as a result of put options awarded and the output of acquisition accounting as mandated by IFRS 3 (see below). Such non-cash movements reflect future estimated performance and movements in the Group's share price. The Board evaluates these non-cash movements based on the potential future share issues and their potential dilutive / accretive effects.

Excluding these non-cash movements, the Board uses Headline measures to assess the underlying profitability of the Group; these alternative performance measures are considered by the Board to provide a more appropriate basis to assess the results 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 between periods.

The Group has a strategy of dividend growth and these Headline measures indicate the annual build-up of both cash and, in the case of put options, reserves available for distribution.

The accounting treatment of the put options depends upon whether the options are forfeited, or not, on leaving the Group. If the put options are forfeited on leaving, then the option is deemed remuneration and accounted for as an equity settled share-based payment such that the fair value of the award is recognised in the income statement. If the put options are not forfeited on leaving, the put option is accounted for as a minority interest put option liability 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'). These awards are remunerated in Company shares, but at our discretion can be paid in cash. The Group excludes minority put option and share based payment charges from Headline profit.

Other adjustments made in deriving the Headline profit include: amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software); changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investments in associates; revaluation of investments and their related costs and profit and loss on disposal of associates. Such exclusions are consistent with our industry peers.

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

The key movements between statutory to headline results

| £'m | 2018 | 2017 | Movement | % |
|--|-------------|-------------|------------|------------|
| Statutory profit before taxation | 17.6 | 9.3 | 8.0 | 89% |
| Conditional share awards | 6.1 | 13.5 | -7.4 | |
| Adjustments to put option liabilities | 0.9 | -3.0 | 3.9 | |
| Impairment charge | 2.9 | 5.2 | -2.3 | |
| Revaluation of investments | -0.9 | - | 0.9 | |
| Amortisation of acquired intangibles | 4.4 | 2.0 | 2.4 | |
| Acquisition related remuneration | 1.3 | 0.7 | 0.6 | |
| Headline profit before taxation | 32.3 | 27.7 | 4.6 | 17% |

A reconciliation can be found in note 1, regional split and constant currencies in note 3. Summary of results can be found on page 10

CHIEF EXECUTIVE'S REVIEW

Summary of results

2018 saw record results in terms of net revenue and earnings. Net revenues grew by 2%, with constant currency net revenues increasing 4%. Excluding the costs of businesses started in the year, we returned a headline operating margin of 12%, up from 11% in 2017, with our newer higher margin businesses building momentum. The headline profit before tax advanced 16% to £32.0m and headline net earnings also rose 16%. Statutory profit before tax was up 89% from £9.3m to £17.6m.

The key driver of these strong results is our unique differentiated model, which is overwhelmingly organic versus the M&A fuelled holding companies. We start new businesses in attractive geographies and in new growth channels with best-in-class entrepreneurs, motivated by significant minority equity holdings. We are not dependent on pressured global consumer goods clients nor media buying, particularly following our Walker Media divestment. Vitally even more now, we have creativity at our core and are therefore less susceptible to automation.

UK

Net revenue in the UK was up 2%, with the major growth drivers Sport & Entertainment and Performance (formerly Mobile) performing particularly positively.

UK new business wins included Apprenticeships, eBay, Experian, GambleAware, Swisscom and Twinings.

World Services, our specialist public sector and social impact division, continues to show strong financial and market sector growth. World Services uses the best of Saatchi talent and technologies to tackle complex social and behavioural issues. In 2018 significant new projects were won from a broad range of existing and new clients, including UNICEF, WHO, the Bill and Melinda Gates Foundation, BRAC, the FCO and USAID.

In June, we invested in a 51% stake in two social influencer agencies, Red Hare and Grey Whippet, who have joined M&C Saatchi Merlin's existing social and talent divisions to form M&C Saatchi Talent Group, which is growing well.

We launched Send Me A Sample in September, the world's first voice-activated product trialling platform, which allows Alexa and Google Assistant voice users to request free product samples to be delivered directly to their homes. They are working on several Coca-Cola projects.

The UK headline operating profit margin increased to 17.8%, compared with 16.0% in 2017. These margins exclude the impact of Group recharges.

NET REVENUE
+2%

CONSTANT CURRENCY
NET REVENUE
+4%

UK NET REVENUE
+2%

Due to the change to IFRS15, Revenue has increased by 58%, given the change in accounting standard net revenue is more appropriate measure to use for these results

CHIEF EXECUTIVE'S REVIEW

Continued

Europe

European like-for-like net revenue increased 2% year on year. Headline operating profit was up 6%, with a headline operating margin of 15.8% (2017: 15.3%).

Our Stockholm office won projects from Tikkurila (paint) and Reebok.

Our Berlin office continues to perform well and Clear opened an office in Frankfurt

Milan had a strong second half winning projects from Carlsberg, OVS (clothing) and Saras (refining).

Paris continued their good new business performance, winning projects from Fuji, Gerlinea (slimming meals) and Cafés Paul as well as retaining EDF.

Middle East and Africa

Like-for-like net revenue in the Middle East and Africa was up 11% with a good new business performance across the region.

South Africa won Tafel Beers (to add to Heineken, Strongbow and Windhoek) and Continental Tyres Sport & Entertainment added Nedbank's sponsorship

Our UAE offices performed strongly, winning Jumeirah International and an anti-obesity project from the Ministry of Health and Prevention.

We are looking to open in Riyadh this year as a result of client demand.

Tel Aviv maintains its good progress and won Philips.

As we expected, the operating profit in the region was down 25% and the headline operating margin decreased to 7.4% from 10.7% in 2018 with investment in new business costs. This investment will be returned in 2019 with enhanced net revenue.

EUROPE LIKE-FOR-LIKE NET REVENUE

+2%

MIDDLE EAST AND AFRICA LIKE-FOR-LIKE NET REVENUE

+11%

CHIEF EXECUTIVE'S REVIEW

Continued

Asia and Australia

In Asia and Australia, like-for-like net revenue was up 6% year on year.

Our Australian offices performed well and they started this year with the wins of Tourism Australia and Tabcorp.

Kuala Lumpur won CIMB and retained Axiata, whilst Singapore won Sembcorp (utilities) and the Singapore Turf Club.

We invested in 51% of Scarecrow in Mumbai and opened offices in Jakarta and Hong Kong. We now have *9 offices in Asia*.

The headline regional operating margin excluding start-up costs was 10.7% (2017: 11.4%), with the headline operating profit down 7% on 2017. This was due to exceptional fourth quarter new business pitch costs in Australia. These secured the 2019 new business wins and consequently we expect an improved margin going forward.

**ASIA AND AUSTRALIA
LIKE-FOR-LIKE
NET REVENUE
+6%**

CHIEF EXECUTIVE'S REVIEW

Continued

Americas

Like-for-like net revenue was up 3% and headline operating profit was up 75% with a headline operating margin of 14.3% excluding start-up costs (2017: 9.9%).

In the US, Performance continues to perform well.

Our New York agency, SS+K has rebounded after a challenging 2017 with much improved profitability in 2018 following the actions taken in 2017. They won communications strategy work from Commonwealth Bank and Level Forward.

In November, we invested in a 30% minority stake in That (Technology, Humans and Taste), a Manhattan creative shop that will serve as a partner to SS+K

Our Los Angeles office continues to develop their client portfolio, winning clients including a blockchain company Fabric, a smart sugar free chocolate Nirvana and a telecoms brand ROKiT. Our LA Sport & Entertainment office has won several Coca-Cola projects. We also launched Majority in LA, a production company with an all-women Director roster, which now has 18 Directors signed up.

Outlook

2018 was another record year for M&C Saatchi in terms of net revenue and earnings. Our unique business model of starting and growing companies with the best entrepreneurial talent continues to flourish.

This year has begun well, and we are confident that we will continue to make good progress in 2019 and beyond.

**AMERICAS
LIKE-FOR-LIKE
NET REVENUE
3%**

FINANCE DIRECTOR'S REVIEW

Key performance indicators

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

- net revenue growth, both regionally and within divisions, up 1.6%;
- continual improvement of headline operating margins, up from 10.6% to 11.9%;
- earnings per share increased 6.4p;
- headline earnings per share growth, up 8.5%, and
- reduction of net cash, down £9.8m year on year.

Summary of results

| £'m | Statutory | | | Headline | | |
|--|-----------|-------|----------|----------|-------|----------|
| | 2018 | 2017 | Movement | 2018 | 2017 | Movement |
| Billings | 609.6 | 536.0 | 13.7% | 609.6 | 536.0 | 13.7% |
| Revenue | 422.4 | 251.5 | | 422.4 | 251.5 | |
| Net revenue | 255.4 | 251.5 | 1.6% | 255.4 | 251.5 | 1.6% |
| Operating profit | 16.8 | 5.3 | 214.2% | 30.3 | 26.7 | 13.5% |
| Profit before taxation | 17.6 | 9.3 | 89.2% | 32.3 | 27.7 | 16.8% |
| Profit for the year | 11.0 | 4.6 | 140.1% | 25.0 | 20.8 | 20.1% |
| Earnings | 8.3 | 2.7 | 208.9% | 21.1 | 18.0 | 17.4% |
| EPS | 9.8p | 3.4p | 185.2% | 25.0p | 23.0p | 8.5% |
| Operating profit margin (on net revenue) | 6.6% | 2.1% | +4.5pts | 11.9% | 10.6% | +1.3pts |
| Tax rate | 37.7% | 50.9% | -13.2pts | 22.6% | 24.7% | -2.1pts |

Effects of accounting standard changes

The introduction of IFRS15 Revenue from Contracts with Customers, whilst adding complexity to the Group's accounting, had a very small effect on operating profits. It has required the redefinition of Revenue to include third party supplies that we pass on to our clients which we either enhance or are responsible for the quality of. The redefinition of Revenue has resulted in the 2017 Revenue KPI being relabelled net revenue, it excludes all third party supplies that we pass directly on to our clients. The adoption of IFRS15 requires more rigour to be applied in our revenue recognition processes. We will continue to improve these processes in 2019.

The Group still reports Billings (i.e. total billed to clients) as this measure drives working capital movements. In IFRS15 terms, Billings comprises total Revenue plus all third party supplies that we pass on to our clients irrespective of whether we enhance or have responsibility for the quality of the supplies.

FINANCE DIRECTOR'S REVIEW

Continued

IFRS9 Financial Instruments introduction has added a general provision for potential bad debts (expected credit loss provisions) and caused us to revalue most of our corporate venturing investments to the latest financing round acquisition values, as a representation of their fair value.

Net revenue and operating profit margin

Group net revenue increased 1.6% (2017: 11.6%). The constant currency net revenue growth was 3.7% (2017: 6.9%) (the like-for-like basis).

Group operating profit margin increased to 6.4% (2017: 2.1%). A large portion of this increase has been caused by the £13.6m (2017: £21.4m) accounting adjustments that we exclude from our headline results. These are described in more detail below.

The Group continues to see a shift in its business from selling time to selling product. This is less labour intensive, uses an increased amount of technology and has higher operating profit margins. This shift has resulted in a small growth in net revenue and in a 13% increase in headline operating profit and a 1.2pts increase in headline operating profit margin.

Headline results

The Group's "headline" measures are used by the Board to assess the underlying profitability of the Group. This is done by excluding all accounting charges related to equity and investments. These headline figures are alternative performance measures that the Board considers provide an 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 unit's performance between periods.

We have described how our business model impacts our statutory results (page 4), explaining the types of accounting charges that are excluded from our Headline results.

**OPERATING MARGIN
+4.4PTS**

**HEADLINE
+1.2PTS**

FINANCE DIRECTOR'S REVIEW

Continued

The key movements between statutory to headline results

Conditional share awards are charged to the income statement on a straight-line basis to the earlier of the expected and actual vesting date. The £7.4m overall reduction in the conditional share awards expense comprises a £9.8m reduction caused by schemes predominantly completing vesting in 2017 and £2.4m in charges relating to new schemes which have arisen as a result of us fulfilling our business model of opening new businesses and revitalising old.

The improvement in fortunes of one of our business units SS+K, which last year saw an impairment of some of the goodwill recognised when it was acquired (and reduced our expected put option liability for that business), has resulted in a £2.9m increase in the put option liability relating to the SS+K shareholders at the end of 2018. This increase has been tempered by a reduction in our share price from 371.5p to 289.0p at the year end, causing a £1.7m reduction in liability. There were other small movements in the liability, resulting in an overall increase in the put option liability of £0.9m (2017: reduction £3.0m).

Three of our smaller businesses have been impaired. This is partly to pave the way for mergers between business units following client losses.

The Group is involved in corporate venturing through SAATCHIINVEST. This is done to enhance our future cash flows and as a mechanism to gain insight into how technology can disrupt and create opportunities for us and our clients. The new accounting standard, IFRS9, requires us to measure such investments at fair value. Following discussions with our advisors, fair value, where no other evidence exists, has been defined as the price or valuation derived from the investment's latest financing round. This definition of fair value is an estimate. The actual future cash flows will be different. Given this is an estimate and not reflective of future cash flows we will continue to exclude gains and losses relating to SAATCHIINVEST's investment values from our headline results. Further discussions of risk with these numbers can be found in note 27.

£1.8m of the increase in amortisation of intangibles is predominantly due to the change in the useful life of SS+K's intangible, which was changed in 2017 as part of the entity's goodwill impairment review. The remaining increase is due to acquisitions made in 2018 and the full year effects of 2017 acquisitions.

Acquisition related remuneration is mostly due to dividends paid by local companies to conditional share award holders.

The key movements between statutory to headline results

| £'m | 2018 | 2017 | Movement | % |
|---------------------------------------|------|------|----------|-----|
| Statutory profit before taxation | 17.6 | 9.3 | 8.0 | 89% |
| Conditional share awards | 6.1 | 13.5 | -7.4 | |
| Adjustments to put option liabilities | 0.9 | 3.0 | -3.9 | |
| Impairment charge | 2.9 | 5.2 | -2.3 | |
| Revaluation of investments | -0.9 | - | -0.9 | |
| Amortisation of acquired intangibles | 4.4 | 2.0 | 2.4 | |
| Acquisition related remuneration | 1.3 | 0.7 | 0.6 | |
| Headline profit before taxation | 32.3 | 27.7 | 4.3 | 17% |

Full reconciliation can be found in note 1

Regional split and constant currencies in note 3.

FINANCE DIRECTOR'S REVIEW

Continued

Associates

The after-tax return from our associates was a profit of £2.8m (2017: £2.0m). The majority of this profit came from our UK associate Walker Media (trading as Blue 449) returning £2.4m (2017: £1.6m), and a contribution from our associate in China, aeiou, of £0.4m (2017: £0.3m). In November we acquired 30% of a New York agency called Technology Humans and Taste LLC (THAT), which made a small £0.1m contribution in the year.

Leaving aside a small increase from the full year effect of THAT, our future associate income will materially reduce due to the disposal of our remaining interest in Blue 449 on 31 January 2019.

Financial income and expense

The Group's net interest payable was £1.1m (2017: £1.3m). Overall borrowings decreased slightly during the year, this reduction has been offset by higher interest rates. The sale of our investment in Blue 449 for £25m in January 2019 will reduce debt and net interest paid.

As mentioned above, the charge for the fair value adjustment to minority put option liabilities of £0.9m (2017: credit £3.0m) arose from an increase in future profitability estimates of one of our business units, SS+K, together with a reduction in our share price. Further details can be seen in note 24.

Tax

Our entrepreneurs and the Group invest in the equity in the subsidiaries, the related income statement charges to these investments, in most cases, receive no tax credit i.e. share-based payments, put option revaluations, revaluations of contingent payments and goodwill impairments. Such charges to the income statement can create large swings in, and variations to, our effective tax rate.

The Group operates globally, mainly in countries whose tax rates are higher than the UK's. The reduction in US federal tax rate from 35% to 21% from 1 January 2018 has helped reduce our overseas tax rate, though the benefit for the Group's headline tax rate was offset by increased trade in higher tax jurisdictions.

We anticipate our tax rate increasing modestly in the future, due to the sale of the Group's associate Blue 449 in January 2019, which in 2018 accounted for 83% of our associate income.

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

| | 2018 | 2017 |
|--|--------------|--------------|
| UK corporation tax rate | 19.0% | 19.3% |
| Headline adjustments | | |
| Higher overseas tax rates | 4.3% | 6.7% |
| Associates tax effect | -1.7% | -1.3% |
| US tax rate change | - | 1.1% |
| US tax losses utilised | - | -3.4% |
| Under provision prior years | -0.3% | 2.2% |
| Other | 1.3% | 0.1% |
| Headline tax rate | 22.6% | 24.7% |
| Statutory adjustments | | |
| Higher overseas tax rates and profit mix | 3.1% | -3.0% |
| US tax rate change | - | 14.8% |
| Put option charges | 8.9% | 14.4% |
| Impairments with no tax credits | 3.1% | - |
| Statutory tax rate | 37.7% | 50.9% |

Full reconciliation can be found in note 10.

FINANCE DIRECTOR'S REVIEW

Continued

Non-controlling interest

The proportion of profits attributable to non-controlling shareholders increased to £2.7m (2017: £1.9m) with headline share of profits increasing to £3.9m (2017: £2.8m). The increase was caused by improvements in the profitability of our minority holding subsidiaries 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 8.51p per share (2017: 7.40p), giving a total dividend of 10.96p compared to 9.53p in 2017. The final dividend will be paid, subject to shareholder approval at the 27 June 2019 AGM, on 5 July 2019 to shareholders on the register at 6 June 2019.

Cash flow and banking arrangements

Cash net of bank borrowings at 31 December 2018 was £(2.5)m (2017: £7.4m). The Group expects to absorb cash into working capital as it grows. We had exceptionally strong cash receipts in the final quarter of 2017 from working capital. The payment of suppliers in early 2018 relating to these 2017 cash receipts, helped absorb in 2018 £16.5m cash into working capital (2017 release £0.9m). Given on average we are billing our clients £47m per month, monthly fluctuations of £16.5m are not abnormal and are reflective of the cash balances local subsidiaries hold.

The Group uses the cash paid up to its holding companies to make small tactical acquisitions and fund new offices. The Group spent £1.9m cash and issued £6.5m of equity for acquisitions in the UK, US and India during the year.

To manage these acquisitions and to fund them going forward, the Group has a £38.0m banking facility with RBS that reduces 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 £10m overdraft of which £8.6m was drawn down at the year end. Following the year end, the Group disposed of 24.9% interest in Walker Media (trading as Blue 449) for £25m cash on 31 January 2019, which reduced the use of these facilities.

During 2019 we will perform a strategic review of our banking facility and other banking requirements and will determine how we can better utilise positive working capital balances in some subsidiaries and currencies against negative working capital balances elsewhere.

**DIVIDEND
+15% PER SHARE**

FINANCE DIRECTOR'S REVIEW

Continued

Key balance sheet movements

Non-current assets increased £0.8m to £95.4m (2017: £94.6m). The £6.4m revaluation uplift under IFRS9 of our corporate venturing investments and £2.9m of associate profit has been offset by £13.1m relating to the Walker Media investment having been taken to current assets, prior to its disposal in 2019. The balance is made up of small acquisitions, impairment and amortisation of intangibles.

Net current assets increased by £20.4m to £42.0m (2017: £21.6m) with an increase from £13.1m of Walker Media investment moved from non-current. A further £4.6m increase from trading and £2.5m from a reduction in minority shareholder put option liability.

Non-current liabilities reduced by £3.7m to £48.5m (2017: £52.2m). Mostly due to a £4.3m reduction in the non-current minority shareholder put option liability offset by a £0.7m increase in deferred tax provision whose major movement was due to IFRS9 corporate venturing revaluation (net of associated costs).

There was a reduction in current minority shareholder put option liabilities of £2.5m and reduction in non-current minority shareholder put option liabilities of £4.3m. This overall reduction of £6.7m is due to £7.7m being exercised and £0.9m charged to the income statement. The £0.9m charge to the income statement is made up of the improvement in SS+K fortunes offset by a lower share price as mentioned above.

The above balance sheet movements enabled net assets to advance to £88.9m (2017: £64.1m).

Capital expenditure

Total capital expenditure (including software acquired) for 2018 increased to £5.7m (2017: £4.2m). The Group has increased software spend in light of European GDPR legislation, with parts of the Group now compliant with BS 275001 as well as enhancing its digital security.

Global accounting function

The increasing size and complexity of the Group now necessitates the Group's accounting systems to be enhanced and standardised. This process began in 2018 with the introduction of a new accounting software platform within the UK group of companies. The same platform will be rolled out across the rest of Group during the course of 2019 and 2020. The new Finance Director will also be performing a comprehensive review of the Group's global accounting organisation with the intention of improving and enhancing internal controls and the quality of financial reporting.

Balance sheet movements

| £'m | 2018 | 2017 | Movements |
|-------------------------|---------|---------|-----------|
| Non-current assets | 95.4 | 94.6 | 0.8 |
| Current assets | 215.1 | 170.0 | 45.1 |
| Current liabilities | (173.0) | (148.4) | -24.6 |
| Net current assets | 42.0 | 21.6 | 20.4 |
| Non-current liabilities | (48.5) | (52.2) | 3.7 |
| Net assets | 88.9 | 64.0 | 24.9 |

RISKS AND UNCERTAINTIES

Risks and uncertainties

We have an ongoing review process of the Group's risks, emerging risks and uncertainties, along with implementing the actions needed to mitigate them. These risks are used to assess the prospects of the Group over a period of up to five years in combination with liquidity and other key elements of the business as described in the Going Concern statement (page 31).

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 expenditure elsewhere. To mitigate this, we continue to develop our offerings to reflect clients' changing marketing mix and cross selling opportunities (new businesses). Providing we get our offerings right, 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. Any restrictions in the movement of highly skilled and motivated staff, can be detrimental to our business, by reducing our ability to export or create new service offerings. 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 too does our cyber risk. The Group continues to monitor this expansion, update its computer systems, introduce training programmes and employ knowledgeable staff. For critical areas under the ISO27001 regime our security is regularly audited, and we strive to increase our ISO27001 coverage. Cyber risk is regularly discussed at Board meetings and we learn from the cyber events of others.

The Board actively reviews potential changes in the risk profile of the business, considering both those risks which require protocols put in place directly and emerging risks.

PRINCIPAL RISKS

1. Client loss
2. Staff retention
3. Cyber

RISKS AND UNCERTAINTIES

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 footprint, 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 (both in the current year and in the future, notes 2 and 34) and the 2017 changes to US tax regulations and their future interpretations both at a federal and state level, that as we grow, 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 other event devalues our brand or restricts our ability to trade. We have policies and training programmes to 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 (which have been exacerbated by the Brexit debate), interest rates or our forecasts and estimates and the Group's share price, can affect our profitability and cash flows. 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

David Kershaw
Chief Executive
28 May 2019



GOVERNANCE REVIEW

The Board encourages a culture of strong governance across the business. To reflect the importance of corporate governance as a central tenet of M&C Saatchi's philosophy, as well as a deliberate response to the Group's continued organic growth, at our 18 September 2018 Board meeting we formally adopted the principles of the 2018 UK Corporate Governance Code as issued by the FRC in July 2018 ("the Code"). We have adopted this revised Code over three months earlier than most other users of the Code. Prior to this date the Group followed the spirit of the QCA code.

The Code is applicable to all companies with a premium listing on the London Stock Exchange, as at 1 January 2019. M&C Saatchi plc is listed on the AIM market of the London Stock Exchange. The Group follows the Principles of the Code, however due to the Group's size, history, structure and life cycle stage, some Provisions of the Code are not relevant and are therefore not followed (these are detailed in this review). As the Group continues to grow and evolve we will revisit these provisions annually and consider whether there are grounds for their adoption. Significant matters requiring explanation are detailed below; other areas of non-compliance, considered by the Board as being of a lower priority, are detailed and explained on the Company website

Culture of the company

In 2016, the Financial Reporting Council ("FRC") issued a report entitled 'Corporate Culture and the Role of Boards'. The Company reflects the recommendations of the report in its governance structures and culture, with engagement of Board members and employees in identifying, documenting and targeting its strategic aims and objectives. In particular, our entrepreneurs and senior management regularly make presentations to the Board in relation to the business units and functions they are responsible for. In taking this action the Company is seeking to reflect the main aims of the FRC report which are to:

- connect purpose and strategy to culture;
- align values and incentives, and
- assess, measure and report on the Company's culture.

Composition of the Board and alignment to corporate strategy

The Code requires the Board and its committees to have an appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their duties and responsibilities effectively and in line with corporate strategy.

GOVERNANCE REVIEW

Continued

The Executive Chairman of M&C Saatchi plc is Jeremy Sinclair who has been Chairman since the Company listed on the AIM market of the London Stock Exchange in 2004. He was re-elected by the Shareholders at the 2017 AGM with 99.2% of votes cast in favour. The Board has ensured that there are safeguards in place to counter any concerns regarding his independent status. He is not a member of the Audit or Remuneration Committees.

Provision 11 of the Code states at least half the Board should be independent Non-Executive Directors. At the end of the year the Board comprises the Chairman, four Executive Directors and three independent Non-Executive Directors. During the year Lorna Tribian replaced the outgoing Jonathan Goldstein as Senior Independent Director. The Board believes that the diversity of skills and experience which the Executive Directors bring to the Board is more valuable at this stage of the business's development than having Non-Executive Directors comprising at least half the Board. Furthermore, the Board considers its Non-Executive Directors to be sufficiently independent, robust, and of such calibre and number that their views may be expected to be of sufficient weight such that no individual or small group can dominate the Board's decision-making processes.

Engagement with Shareholders

The Directors value the views of the Company's shareholders and recognise their interest in the Group's strategy and performance, Board membership and quality of management. They hold regular meetings with, and give presentations to, the Company's institutional shareholders, discussing the Group's results and objectives. These meetings are attended by the Chief Executive and the Finance Director. Feedback from these meetings is shared with the wider Board.

The AGM is used to communicate with all investors and they are encouraged to participate. The Chairman and other members of the Board attend the AGM and are available to answer questions.

Sundry departures from the Code

The following sundry departures are made from the code: other than walking around and talking to people we have no formal mechanism for engagement with workforce; Non-executive directors do not have sole responsibility in terms of executive appointments; and we elect our board on a three year rotation.

GOVERNANCE REVIEW

Continued

Other Board activities

The Board is involved in the active monitoring and review of the internal control systems in place at the business. This process is an ongoing activity to ensure improvements are identified and subsequently actioned as appropriate over time.

Subsequent to the adoption of the Corporate Governance Code in the latter half of 2018, the Board has put in place a mechanism for a formal annual evaluation of Board performance. This has been committed to being completed prior to the end of 2019, the results of which will be reported in the 2019 Annual Report.

Attendance at Board and Committee meetings during the year

Six scheduled meetings of the Board were held during the year ended 31 December 2018. The Nominations Committee met when needed on an unscheduled basis to deal with the matters at hand, in particular the appointment of Lorna Tilbian and replacement of the Finance Director. The Remuneration Committee met on 26 March 2019. The attendance record of the Directors at the scheduled meetings of the Board and of the Board's Committees is shown in the table below.

| | Full Board | Audit committee | Remuneration committee** | Nominations committee |
|--------------------------------|------------|-----------------|--------------------------|-----------------------|
| Chairman | | | | |
| Jeremy Sinclair | 6/6 | – | – | 10/10 |
| Executive directors | | | | |
| David Kershaw | 6/6 | – | – | 10/10 |
| Maurice Saatchi | 6/6 | – | – | – |
| Bill Murrehead | 5/6 | – | – | – |
| Jamie Hewitt | 6/6 | 3/3 | – | – |
| Non-Executive Directors | | | | |
| Jonathon Goldstein | 5/6 | 2/3 | – | – |
| Michael Peat | 6/6 | 3/3 | – | – |
| Michael Dobbs | 6/6 | 2/3 | – | – |
| Lorna Tilbian* | 5/6 | 1/3 | – | – |

* Joined the board 30 January 2018, Remuneration Committee and Audit Committee

** There has been no change in the remuneration of the Board since 2017 and consequently the Remuneration committee has not needed to meet during 2018

GOVERNANCE REVIEW

Continued

Nominations Committee

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

During the year the Committee recommended the appointment of Lorna Tilbian, and with the resignation of the Finance Director Jamie Hewitt, conducted a full search and has recommended Mickey Kalifa to the Board. Both appointments have been accepted by the Board

The Committee continues to work with senior management to develop its talent pool and enable potential future succession (see Employees and Equal opportunities page 33).

Audit Committee

The Audit Committee Chairman is Michael Peat who was a partner at KPMG from 1985 to 1993 before joining the Royal Household. Positions held in the Household included Director of Finance and Property Services, Keeper of the Privy Purse and Treasurer to The Queen. As a result, the Board considers that he has recent and relevant financial experience as required by the Code. The report of the Audit Committee describing the issues considered in the year under review is on page 24.

Remuneration Committee

The Directors' Remuneration Report, which describes the work of the Committee and discloses the Company's Remuneration Policy and Annual Report on Remuneration, is on page 27. Section 172 of the UK Companies Act

In our 2019 Annual report we will be required to report on how the board applies Section 172 of the UK's Companies Act. The section requires a director to act in a manner, in good faith, that promotes the success of the company for the benefit of its shareholders. In doing this, directors must have regard, amongst other matters, to the:

- likely consequence of any decisions in the long term;
- interests of the company's employees,
- need to foster the company's business relationships with suppliers, customers and others,
- impact of the company's operations on the community and environment;
- company's reputation for high standards of business conduct, and
- need to act fairly as between members of the company.

Section 172 is printed on all our board meeting agendas, so that directors can reflect on it during the meeting.

By Order of the Board

Andy Blackstone

Company Secretary

28 May 2019

THE BOARD

JEREMY SINCLAIR
CHAIRMAN

DAVID KERSHAW
CHIEF EXECUTIVE

MAURICE SAATCHI
EXECUTIVE DIRECTOR

BILL MUIRHEAD
EXECUTIVE DIRECTOR

JAMIE HEWITT
FINANCE DIRECTOR**

THE BOARD

Continued

LORNA TILBIAN
INDEPENDENT NON-EXECUTIVE DIRECTOR*

MICHAEL PEAT
INDEPENDENT NON-EXECUTIVE DIRECTOR

MICHAEL DOBBS
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

** Jamie Hewitt resigned as a Director on 29 March 2019, at which point Mickey Kalifa was appointed a Director.

AUDIT COMMITTEE REPORT

Audit Committee

The Audit Committee's terms of reference are published at www.mcsaatchiplc.com/#governance. They reflect the requirements of the 2018 UK Corporate Governance Code with, in addition, responsibility for reviewing the Group's internal controls and risk management systems.

The Audit Committee works to a programme aligned to key events in the financial reporting cycle. Agendas also include focus issues and standing items required by the Committee's terms of reference.

The Committee met three times in 2018 and four in 2019 to date (to review the 2018 Annual Report and Accounts, the audit thereof and significant accounting matters and judgements). Meetings are attended by the Group's Finance Director and Company Secretary, and also as required by the external auditors (KPMG LLP) and the internal auditors (BDO LLP).

As the Committee's chairman, I report to the Board after each meeting. I also have periodic meetings with Adrian Wilcox, the KPMG partner with responsibility for the external audit.

The principal matters considered by the Committee at its seven meetings since the start of 2018 are summarised below.

- **Internal and external audits**
Planning for and reviews of the audits undertaken. We focused on whether the internal auditors' reviews, over their three-year cycle, were adequate to provide the level of comfort required. As a result, the number of internal audit hours was increased. They may be again to reflect the increasing size and complexity of the Group's operations. With respect to the external audit, planning and reviews followed the normal course, except for the change in lead audit partner from John Bennett to Adrian Wilcox. John Bennett provided valedictory thoughts on the Group's accounting systems and internal controls. They were useful reference points for the Committee. They have been considered and are being addressed with accounting system and internal control enhancements planned for 2019. The external audit was last tendered in 2012.
- **Global accounting function**
In the context of increasing size and complexity, the Committee considered the capability of the Group's global accounting function and made suggestions in this respect to the Board during the year, which are being taken forward in 2019. The need for action was emphasised by internal control weaknesses and misstatements identified during the external audit of the 2018 accounts.
- **UK Bribery Act**
In view of the Group's global footprint and the work undertaken for national governments, the Committee paid particular attention to compliance with the UK Bribery Act. Further strengthening in this area has been implemented in 2019.

AUDIT COMMITTEE REPORT

Continued

- Working capital management

In line with industry practice, the Group provides significant credit to certain of its clients. The Committee considered working capital management and made suggestions to the Board in this respect. Work in this area will continue in 2019.

- Changes of accounting policy and significant accounting judgements and estimates

In discharging its responsibilities for the 2018 Annual Report and Accounts, the Committee considered the following.

- Going concern – As explained on page 31, the financial statements have been prepared on the going concern basis. In this context the Audit Committee considered the Group's ability to meet its obligations as they fall due for the foreseeable future, with particular reference to the significant credit which it extends to some of its clients. Management prepared a cash flow forecast for a period of 24 months as a basis for the going concern assessment. The Committee reviewed this forecast and the key assumptions on which it is based and is satisfied that they are appropriate. This, together with the Group's strong balance sheet and the sale of the Group's interest in Walker Media for cash in January 2019, support the continuing adoption of the going concern basis of accounting.
- Revenue recognition – Revenue recognition is a key accounting and risk area for the Group. As referred to above, the Board is taking forward the development of the Group's accounting systems so that they keep pace with the increasing size and complexity of its business. The adoption of IFRS 15 added to the complexity and resulted in significant additional work for management and the external auditors. The Committee has devoted considerable time to reviewing these matters. It is satisfied that the Group's revenue is not materially misstated. The Committee has requested that revenue accounting should be a particular area of focus for the on-going enhancements to the Group's accounting systems.
- Put option accounting – as discussed in the Business Model section on page 4, entrepreneurialism and empowered management (locally and centrally) are key to the Group's success. As part of this, business unit managers may have put options over their minority interest shares. These shares may be exchanged for a variable number of M&C Saatchi plc shares, the value of which reflects the performance of the particular business unit. In addition, the Company has call options which can be exercised in defined circumstances. The accounting for these put and call options is complicated. The Committee reviewed the key judgements made by management in this respect. This included considering whether the put options are remuneration for the managers concerned, with their fair value determined at inception and subsequently taken to the income statement on a straight line basis (IFRS 2), or whether they are more akin to shareholder rights with estimated fair value at inception taken directly to equity and subsequent movements in fair value taken to the income statement (IFRS 9). The Committee concluded that the presentation and valuation of the options are appropriate.

AUDIT COMMITTEE REPORT

Continued

- 'Headline' earnings – the Committee paid particular attention to the “alternative performance measures” included in the Annual Report and Accounts. It reviewed the Group's policy for the exclusion of certain items when presenting Headline earnings and confirmed the consistent application of this policy from year to year. The only change in the 2018 accounts has been to reflect the effect of IFRS 9 on corporate venturing investments held by the Group (note 19b)
- Goodwill – the Committee assessed management's determination of the carrying value of goodwill, as well as their review of impairment triggers and consideration of impairment charges and reversals over the course of the year. The Committee also reviewed disclosures related to impairment in notes 16 and 17. The Committee is satisfied with the impairment conclusions reached and the presentation in the accounts.
- Acquisition accounting – There were two corporate acquisitions by the Group during the year. Scarecrow Communications Limited and Red Hare Limited (along with its sister company Grey Whippet Ltd) Judgements and estimates were made, in particular, when allocating the purchase consideration to intangible assets (goodwill, customer relationships and brand name) acquired. These customer relationships and brand names are written off through the income statement over a three year period, while goodwill remains on the balance sheet unless impaired. Due to the way the Scarecrow Communications Limited acquisition was structured the accounting led to an impairment equal to the contingent consideration.
- Auditor independence
The external auditor, KPMG LLP, was first appointed for the financial year ended 31 December 2012.
The Committee is satisfied that the Company has adequate policies and safeguards in place to ensure that KPMG maintains its objectivity and independence. The fees paid to KPMG in respect of non-audit services are shown in note 8. This work is not considered to affect the independence or objectivity of the auditor.

Michael Peat
Chairman of the Audit Committee
28 May 2019

REMUNERATION COMMITTEE REPORT

Remuneration Committee

The Board established a remuneration committee composed of the three Non-Executive Directors and is chaired by Lorna Tilbian. The Committee meets on an ad hoc basis, when there is a need to review Executive Directors' pay and rewards. Due to the LTIP in place and the reliance of Executive Directors on Group dividends to reward performance, the committee met for the first time in March 2019, there were no meetings during the year.

It is the belief of the Committee that the remuneration of the Executive Board by way of salary, LTIP and dividend flow, aligns the interest of the Executive with that of the shareholders. The Executive Board members' salaries are on average 6 (2017: 6) times the average Group salary, which is commensurate with their experience, contacts and responsibilities.

The Remuneration Committee has the delegated responsibility for determining policy for Executive Director remuneration.

REMUNERATION COMMITTEE REPORT

Continued

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, through LTIPs and a share in the Group's dividends.

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, Jamie Hewitt participant paid (by way of a combination of subscription price and deferred payment) £51,267 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 COMMITTEE REPORT

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 (2017: £401k).

Based on the results in these accounts and providing the Company's share price is above £5.00 per share at a point during the period between 1 January 2019 and 31 December 2022, Jeremy Sinclair, David Kershaw, Bill Muirhead and Maurice Saatchi (four participants) will each receive 160,562 M&C Saatchi plc shares.

In the case of Jamie Hewitt, his equity was acquired from him in March 2019, for an amount equal to the deferred payment.

The board holds no other options in the Group or shares in subsidiary companies.

Non-Executive Directors

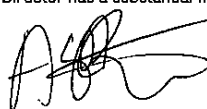
The remuneration of the Non-Executive Directors is determined by the Board. Fees paid to Non-Executive Directors are reflective of skills and experience and the time required to undertake the role. No element of pay is performance related.

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
28 May 2019



REMUNERATION COMMITTEE REPORT

| 2018 | Basic salary £000 | Bonus £000 | Benefits in kind ² £000 | Pension £000 | Total £000 |
|---------------------------------|----------------------|---------------|---------------------------------------|-----------------|---------------|
| Directors | | | | | |
| David Kershaw | 374 | – | 47 | – | 421 |
| Bill Muirhead | 374 | – | 47 | – | 421 |
| Maurice Saatchi | 374 | – | 42 | – | 416 |
| Jeremy Sinclair | 374 | – | 46 | – | 420 |
| Jamie Hewitt | 250 | 125 | 5 | 15 | 385 |
| Total | 1,746 | 125 | 107 | 15 | 2,073 |
| Non-Executive Directors | | | | | |
| Jonathan Goldstein ¹ | 40 | – | – | – | 40 |
| Michael Dobbs | 40 | – | – | – | 40 |
| Michael Peat | 40 | – | – | – | 40 |
| Lorna Tibbitt ² | 39 | – | – | – | 39 |
| Total | 159 | – | – | – | 159 |
| Total Rewards | 1,905 | 125 | 107 | 15 | 2,232 |

| 2017 | Basic salary £000 | Bonus ¹ £000 | Benefits in kind ² £000 | Pension £000 | Total £000 |
|--------------------------------|----------------------|----------------------------|---------------------------------------|-----------------|---------------|
| Directors | | | | | |
| David Kershaw | 374 | – | 46 | – | 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 | 104 | 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 | 104 | 15 | 2,190 |

¹ Announced as resigning on 31 December 2018

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

³ Served on Board for only part of the year

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Group and Company for the year ended 31 December 2018

Strategic Report

A review of the Company's business during the year, the principal risks and uncertainties facing the Group and future prospects and developments are included in Strategic Report on pages 2 to 17 which should be read in conjunction with this report.

Results and dividends

The consolidated income statement on page 44 shows the results for the year. The Directors approved an interim dividend of 2.45p totalling £2,116,521 (2017: £1,715,562) and recommend a final dividend of 8.51p totalling £7,566,099 (2017: £6,261,033).

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 can be found in the Strategic Report

Going concern

Given the strength of the Group's balance sheet, its forecast compliance with bank covenants, the risks the Group faces (note 28 and page 96) and the steps it is taking to address those risks, its January 2019 sale of 24.9% stake in Walker Media for £25m cash, the expected trading performance and cash flow projections for a period of two years, 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 (two 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.

Given the risks the Group faces, and the need to continuously change and invest in our client offerings, a two year time horizon is the maximum length of time the Directors can foresee, however the Directors have a longer term vision and estimates (5 years), these though are at too high level for detailed financial planning and risk assessment.

DIVIDEND
+15% PER SHARE
£9.7M (2017: £8.1M)

DIRECTORS' REPORT

Continued

The Directors note that the £36m banking facility expires 30 April 2020, the Directors at the date of signing are conducting a strategic review of our banking facility and how we can utilise positive working capital balances in some subsidiaries and currencies against negative working capital balances elsewhere as well as increasing central control automation and reporting. It is clear from credit approved offers we have received that the banks have appetite for our debt, and the renewal of the facility does not change the Directors view of going concern, the accounts do not include any adjustments in the event the going concern assumption is not appropriate.

Based on this, the Groups risks and uncertainties and the description of the Groups financial position in the Finance Director's review, the Directors believe the Group will continue as a going concern for the foreseeable future.

Financial instruments

Details of the use of financial instruments by the Group are contained in notes 24 to 26 of the financial statements.

Political contributions

During the year, the Group made no political donations (2017: nil).

Directors

The names of the Directors are given on pages 22 and 23, biographies can be found on our website (www.mcsaatchiplc.com). Details relating to Board meeting attendance and composition of the ancillary committees is held in the Governance Review on pages 18 to 21.

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

Anti-bribery and corruption

The Group has well-established anti-bribery and anti-corruption policies (including management of conflicts of interest) aimed at ensuring adherence to associated legal and regulatory requirements.

Whistle-blowing

Employees are encouraged to report any potential, or apparent, malpractice or misconduct in confidence in accordance with the Group's internal whistle-blowing policy.

DIRECTORS' REPORT

Continued

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.mcsaatchipic.com/#governance)

Directors' conflict of interest

Under the Companies Act 2006 (the 'Act'), Directors are subject to a statutory duty to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or may conflict, with the interests of the Company. Directors are required to notify the Company of any conflict or potential conflict of interest under an established procedure and any conflicts or potential conflicts are noted at each Board meeting.

Directors' liability insurance and indemnity

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 22 May 2019, the Company has been notified by shareholders representing 3% or more of issued share capital of the following interests.

| | Shares held | % |
|---------------------------------|-------------|-------|
| Octopus Investments | 12,208,224 | 11.9% |
| Paradice Investment Management | 9,465,470 | 11.3% |
| Aviva plc and its subsidiaries | 4,692,384 | 5.3% |
| Oppenheimer Funds | 4,635,004 | 5.2% |
| Herald Investment Trust | 4,136,433 | 4.7% |
| David Kershaw* | 4,127,060 | 4.6% |
| Bill Muirhead* | 4,127,060 | 4.6% |
| Maurice Saatchi* | 4,127,060 | 4.6% |
| Jeremy Sinclair* | 4,127,060 | 4.6% |
| Investec Wealth & Investment | 4,002,248 | 4.5% |
| Invesco Perpetua† | 3,892,004 | 4.4% |
| Polar Capital | 3,870,416 | 4.4% |
| Canaccord Genuity | 3,550,000 | 4.0% |
| Close Brothers Asset Management | 3,031,212 | 3.4% |

* The above directors' shares have not changed during the year. Jamie Hewitt held 54,451 shares till all were sold on 25 September 2018

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

On the 31 January 2019 the Group sold its 24.9% associate Walker Media (trading as Blue 449) to the Publicis Group for £25m cash. Walker Media comprised 83% of the Group's associate income, so its sale will reduce the Group's future associate income by £2.4m, reduce the Group's interest payments and increase our effective tax rate by 1.3%.

Prior to the year end the Group agreed to the terms to extend the lease on its head office, at 36 Golden Square, London, W1F 9EE, by 15 years. The lease extension will be entered into following the signing of these accounts and will have the effect of delaying the benefit on transition to IFRS16 from this material tail end lease for some years.

The Directors are not aware of any other 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.

**MORE THAN 20%
SHARES HELD BY LESS
THAN 3% HOLDERS**

DIRECTORS' REPORT

Continued

Treasury shares

At the Annual General Meeting (AGM) in 2018, the Directors were given the authority to purchase up to 8,270,000 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.

Directors' power to issue shares

At the AGM in 2018, the Directors were given the authority to issue up to 55,000,000 of its ordinary shares of which 8,270,000 were approved to be issued for cash. During the year, the Company issued 6,270,751 shares to fulfil options and to acquire equity (note 25). The Company did not issue any shares for cash.

Change of control

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

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.

**SHARES ISSUED
IN YEAR 6.3M**

STATEMENT OF 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 (and UK Law), 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. For a full Group accounting year following BREXIT, IFRSs as adopted by the EU will be replaced by UK adopted IFRS. The first such accounting period that could be affected by this change is the year ended 31 December 2020.

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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 comply with that law and those regulations.

In accordance with the principles of the UK Corporate Governance Code, the Board has established arrangements to evaluate whether the information presented in the Annual Report is fair, balanced and understandable.

The Board considers the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

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.

By order of the Board

Andy Blackstone
Company Secretary
24 May 2019



REGULAR UPDATES
WWW.MCSAATCHIPLC.COM

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PREPARATION

Preparation

Basis of preparation

The Group's consolidated financial statements have been prepared on a going concern basis, as discussed in the Director's report on page 31, and in accordance with EU-endorsed International Financial Reporting Standards (IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand. They have been prepared under the historical cost convention, except for the revaluation of certain financial instruments.

Transactions in foreign currencies are translated at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date, with the resulting exchange differences recognised in the income statement.

Consolidation

The financial statements of the Group consolidate the results of the Company and its subsidiary entities, and includes its share of its joint ventures' and associates' results accounted for under the equity method.

A subsidiary is an entity controlled by the Group. The Group controls a subsidiary when it is exposed, or has the rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

The results of subsidiaries are included from the date of acquisition. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group. 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 in equity separately from the equity attributable to the shareholders of the company.

The assets and liabilities of overseas subsidiaries (which comprise the Group's net investment in foreign operations) are translated at the exchange rate ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated in equity within the foreign exchange reserve.

Significant accounting policies

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

Critical accounting policies

Certain of the Group's significant accounting policies are considered by the Directors to be critical due to the level of complexity, judgement, or estimation involved in their application and potential impact on the consolidated financial statements. The critical accounting policies are listed below and explained in more detail in the relevant notes to the Group financial statements.

Revenue recognition

The Group applied IFRS 15 Revenue from customers at the start of the year. The nature and effect of the changes in terms of how the Group recognised revenue as a result of adoption is described in note 2.

The Group is in the business of the provision of advertising and marketing services. Revenue comprises commission and fees earned and is stated exclusive of VAT. Revenue from contracts with customers is recognised as, or when, the performance obligations present within the contractual agreements are satisfied. The type of fees arising from the contractual agreements entered into with clients include:

- project fees
- retainer fees
- commission on media spend and other activities where we act as agent arranging for a third party (such as talent) to provide services to a client

See note 4 for full Revenue accounting policy.

Accounting for subsidiary acquisitions

The acquisition of subsidiary enterprises is accounted for as a business combination by application of the acquisition method. Under the acquisition method the fair value of the consideration provided is compared to the identifiable assets acquired and liabilities subsumed. Such identification may result in the identification of intangible assets which would otherwise not be recognised, such as customer lists. The difference between the fair value of consideration provided and the fair value of the net assets acquired is recognised as either goodwill or a gain from a bargain purchase.

Goodwill and other intangible assets

Intangible assets comprise goodwill, certain intangible assets arising as a result of a business combination (such as brand names or customer relationships) and capitalised computer software. Other than Goodwill, no intangible assets held by the Group are considered to have an indefinite life and are amortised over their useful life. Goodwill is not amortised and held at cost less accumulated impairment losses. Impairment reviews are undertaken annually in the absence of any indication of impairment. If goodwill, or any other intangible asset, has an indication of impairment then reviews for potential impairment are performed as required.

PREPARATION

Continued

Put option accounting (IFRS 2 and IFRS 9)

It is common for equity partners in the Group's subsidiaries ('minority interests', 'MI') to hold put options over their equity such that they can require the Group to purchase their non-controlling interest for either a variable number of shares or cash. Dependent on the terms of the underlying agreement these options are either recognised as a liability under IFRS 9 (note 24) or as a conditional share awards in the scope of IFRS 2 (note 26).

Under IFRS 9 the associated liability is recognised at fair value at inception of the agreement and then remeasured at the end of each reporting period, with the change in the fair value of the instruments being recognised in the income statement as profit or loss.

Typically, the terms of instruments accounted for under IFRS 2 are such that they have the cost of the transaction measured at fair value on the grant date. This cost is then recognised over the life of the award and accumulated within equity.

Headline results

As reflected in our business model (page 4) the Directors believe that the headline results and headline earnings per share (see note 1) 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 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 3) reflects our headline results in accordance with IFRS 8.

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; profit or loss on disposal of associates; revaluation of investments and their related costs; and the income statement impact of put option accounting and share based payment charges. Note 1 shows a reconciliation between the Group's statutory results and the headline results.

Significant accounting judgements and key sources of estimation uncertainty

In the course of preparing financial statements, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. Estimates and judgements made are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing a material adjustment to the financial statements in future periods are outlined below.

Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect in terms of the amounts recognised, and their presentation, in the consolidated financial statements.

With the adoption of IFRS 15 the Group has recognised three categories of critical judgements in terms of revenue which relate to (i) agent versus principal considerations (ii) the impact on the number of performance obligations in a contract which has integrated services and (iii) media volume income recognition as revenue from contracts with customers.

Agent versus principal considerations

The Group enters into contracts with customers which include arrangements where it purchases services or goods from third parties on behalf of the client. In these instances, the Group considers the substance of the overall contract in order to assess whether such arrangements constitute the Group acting as either an Agent or as Principal. The adoption of IFRS 15 Revenue from contracts with customers' has significantly changed this assessment (compared to legacy IFRS) and, as disclosed in note 2, led to an increase in revenue recognised as Principal and an identical reduction in revenue which would otherwise have been recognised as Agency. This change is the most significant effect of the adoption of IFRS 15 Revenue from contracts with customers.

The key judgement the Group make when assessing whether they are acting as an Agent in a contractual relationship relates to whether they control either the good or the service prior to transfer to the customer. This assessment includes consideration of the following indicators of control:

- Is the Group responsible for fulfilling the promise to provide the goods or services in an acceptable format or to a satisfactory quality to meet the customer requirements?
- Does the Group direct the activity of the other party performing the service?
- Does the Group provide a service of integrating or combining the third-party goods or services with other goods or services?

In addition, certain of the Group's contractual arrangements where the Group is acting as Agent (specifically for Talent – see Note 4d) have a significant time lag between the Group's involvement in arranging for services to be provided by a third party to a client, and the actual point at which these services are provided by the third party. In these instances, it has been concluded that the performance obligation related to arranging the services to be provided is completed once the services have been performed (as opposed to when they have been arranged to perform).

PREPARATION

Continued

Multiple contractual terms

We build our services around our client's needs, and often use client's standard terms with negotiated modification, this results in many different contractual arrangements.

Judgment is needed to interpretation of contractual terms under IFRS15 to work out when revenue is recognised. Small changes in the contractual terms and implied contractual terms can change the period in which revenue is recognised.

Identification of performance obligations for integrated services and their recognition as revenue

The Group often enters into contracts with customers which include the provision of an array of services which are judged as representing a single performance obligation. Such instances arise where the over-arching objective of the contract is comprised of a number of discrete activities which are integrated into the provision of a wider overall service. An example would be where the Group has been engaged to produce a client's media strategy. The formulation and delivery of this strategy is comprised of a number of individual services, but the delivery of the strategy is assessed as being the only performance obligation resident in the contract as the discrete services being supplied are not distinct in the context of the contract as a whole.

Management consider the following features of contractual arrangements entered into with customers when assessing whether a contract has a number of services which are not distinct and is thus comprised of a combined performance obligation:

- Can the client benefit from the individual goods or services promised in the contract on their own (or in combination with resources readily available to the client).
- Can a single method of measuring progress of satisfaction of the combined performance obligation be applied which faithfully depicts the economics of the arrangement.
- Is there a single payment mechanism for the combined performance obligation.
- Does the Group perform a significant service of integrating the services provided and are these promised services highly interdependent.

Certain of the Group's contractual relationships which are represented by a combined performance obligation are solely remunerated in terms of commissions earned on media purchases made on behalf of the client. In the majority of instances media buying represents an agency relationship. The combined performance obligation however may include elements of services which, if they comprised a performance obligation in their own right, would be principal in nature. In these instances, as the aggregate of services provided are not separable, management have concluded that fees should be recognised entirely as agent or entirely as principal in nature. The most appropriate basis as to whether the revenue recognised by these types of arrangements should be as agent or as principal has been concluded as being that represented by the manner in which the fees are calculated.

Media volume income

As disclosed in note 4, the Group receives volume rebates from certain suppliers for transactions entered into on behalf of clients, which the clients have agreed we can retain. Based on the contractual terms of the agreements entered into being such that the Group acts as Agent in these instances, such rebates are, in the judgement of management, recognised as revenue from contracts with customers where terms are such that the rebates are retained by the Group.

Certain of the Group's clients, however, have contractual terms such that the pricing of their contracts are structured with the volume rebate being passed through to them. As such, the timing of recognition and valuation of media volume income is subject to judgement in terms of the amounts which are to be retained by the Group and amounts which are to be provided for in lieu of their pass through to clients.

Minority interest put option accounting – IFRS 2 or IFRS 9

As noted on page 42 accounting for Minority Interest (MI) put options comprises a critical accounting policy. Ascertaining whether such put options should be accounted for under IFRS 9 (which results in the recognition of liabilities) or whether the awards are in scope of IFRS 2 (which does not result in liabilities) is a key management judgement.

The key feature of the awards made to MI (who hold an equity share in subsidiary enterprises) is whether the awards are linked to their employment by the Group. Where the terms of the awards are such that the holders are able to redeem the option in exchange for a variable number of shares in the parent of the Group conditional on their employment then the awards are accounted for as an equity-settled share-based payment in exchange for employment services. Where the holder is entitled to exchange the option in the future for a variable number of shares in the parent of the Group with no requirement to be an employee, or other associated indicators of employment, then the award is recognised as a liability.

The valuation of these awards represent sources of estimation uncertainty which are discussed below.

Impairment – assessment of CGUs and assessment of indicators of impairment

Where possible, impairment is assessed at the level of individual assets. When, however, this is not possible, then the Cash Generating Unit ('CGU') level is used. A CGU is the smallest identifiable asset or group of assets that generates independent cash flows. Judgement is applied to identify the Group's CGUs; however, they are typically comprised of the underlying entities (both trading subsidiaries and associates) which comprise the Group. This is on the basis that each of these entities represents a stand-alone operating business, none of which holds a cluster of assets which could constitute a CGU in their own right. Goodwill is always allocated to a CGU and never considered in isolation.

External and internal factors are monitored for indicators of impairment. In terms of such indicators, management typically consider adverse changes in the economy or political situation of the geographic locale in which the underlying entity operates in addition to risk of client loss or gain and internal reporting being indicative that an entity's future economic performance is better or worse than expected.

PREPARATION

Continued

Where management have concluded that such an indication of impairment exists then the recoverable amount of the asset is assessed (see significant estimates)

Estimates and assumptions

Those areas of the Group's financial statements subject to key assumptions and other significant sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group has based its assumptions and estimates on parameters available when the financial statements were prepared.

Impairment

Management's approach for determining the recoverable amount of an individual asset or CGU is based on their value in use. Generally, discounted cash flow models are used to determine the recoverable amount of CGUs. The appropriate estimates and assumptions used require judgement and there is significant estimation uncertainty. The results of impairment reviews conducted at the end of the year are held in note 16. The key variables used in the assessment of the recoverable amount include:

- Five-year forecasts of CGU performance
- Discount rate used to calculate present value of future cashflows.

In the year there have been total impairments relating to goodwill of £2,121k (2017: £5,214k) and the value of goodwill held at year end was £42,957k (2017: 40,803k)

Acquired intangibles

On acquisition specific intangible assets are identified, recognised separately from goodwill, measured at fair value and amortised over their estimated useful lives. Typically, these include items such as brand names and customer lists. The valuation at which these assets are recognised are calculated using an appropriate valuation model. Valuation models used by management include royalty relief method and direct cash flow approaches.

Details surrounding the intangible assets recognised in the year are held at note 15. The value of intangible assets acquired as part of a business combination, excluding goodwill, at 31 December 2018 is £2,859k (2017, £2,591k).

Fair value measurement of financial instruments

The Group holds certain financial instruments which are recorded on the balance sheet at fair value. At the year-end these relate to (i) Equity investments at FVTPL in non-listed limited companies (note 19) and (ii) Put option liabilities (note 24). No active market exists for either of these financial instruments and their fair value is measured by the most appropriate valuation techniques available, which vary based on the nature of the instruments. The inputs to the valuation models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

The basis of calculation of the estimated fair value of these financial instruments in addition to sensitivity analyses on the estimates salient inputs are detailed in note 27.

Share based incentive arrangements

Share based incentive arrangements are (and have been in the year) provided to certain employees. These are valued at the date of the grant using stochastic Monte Carlo pricing models with non-market vesting conditions. Typically, the value of these awards is directly related to performance of a particular entity of the Group in which the employee holds a minority interest of the equity. The key inputs to the pricing model therefore involve management judgement, being in terms of interest rates, share price volatility and expected future performance of the entity to which the award relates. Management used various sources of information, including the Group's own share price information, historical experience of past performance and published data on risk-free interest rates (government gilts).

Details of awards made in the year are held at note 26. The charge recognised in the current year in respect of these arrangements is £6,104k (2017: £13,501k).

CONSOLIDATED INCOME STATEMENT

| Year ended 31 December | Note | 2018 £000 | 2018 £000 | 2017 £000 | 2017 £000 |
|---|------|--------------|--------------|--------------|--------------|
| Bilings | 1 | | 609,610 | | 535,964 |
| Revenue | 1 | | 422,404 | | 251,481 |
| Project cost | | (167,031) | | | |
| House cost | 6 | (57,653) | | (58,827) | |
| Operating costs | | (224,684) | (224,684) | (58,827) | |
| Staff cost | 7 | | (182,538) | | (187,319) |
| Other gains | 19b | | 1,584 | | - |
| Operating profit | 1 | | 16,766 | | 5,335 |
| Share of results of associates and joint ventures | 17 | | 2,825 | | 1,987 |
| Finance income | 9 | | 273 | | 3,326 |
| Finance costs | 9 | | (2,266) | | (1,346) |
| Profit before taxation | 1 | | 17,598 | | 9,302 |
| Taxation | 10 | | (6,835) | | (4,736) |
| Profit for the year | | | 10,963 | | 4,566 |
| Attributable to: | | | | | |
| Equity shareholders of the Group | 1 | | 8,255 | | 2,672 |
| Non-controlling interests | 1 | | 2,708 | | 1,894 |
| Profit for the year | 1 | | 10,963 | | 4,566 |
| Earnings per share | | | | | |
| Basic (pence) | 1 | | 9.79p | | 3.43p |
| Diluted (pence) | 1 | | 9.15p | | 3.16p |
| Headline results* | | | | | |
| Operating profit | | | 30,327 | | 26,725 |
| Profit before tax | | | 32,297 | | 27,655 |
| Profit after tax attributable to equity shareholders of the Group | | | 21,086 | | 17,971 |
| Basic earnings per share (pence) | | | 25.01p | | 23.04p |
| Diluted earnings per share (pence) | | | 23.38p | | 21.22p |
| Revenue | | | 422,404 | | 251,481 |
| Project cost | | | (167,031) | | - |
| Net revenue | | | 255,373 | | 251,481 |

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

The notes on pages 40 to 43 and 50 to 103 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| Year ended 31 December | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| Profit for the year | 10,963 | 4,565 |
| Other comprehensive income* | | |
| Exchange differences on translating foreign operations before tax | 1,000 | (1,177) |
| Other comprehensive income for the year net of tax | 1,000 | (1,177) |
| Total comprehensive income for the year | 11,963 | 3,389 |
| Total comprehensive income attributable to: | | |
| Equity shareholders of the Group | 9,255 | 1,495 |
| Non-controlling interests | 2,708 | 1,894 |
| Total comprehensive income for the year | 11,963 | 3,389 |

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

The notes on pages 40 to 43 and 50 to 103 form part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET

| At 31 December | Note | 2018 £000 | 2017 £000 |
|---|------|------------------|------------------|
| Non-current assets | | | |
| Intangible assets | 16 | 49,780 | 48,515 |
| Investments in associates and JV | 17 | 9,483 | 19,725 |
| Plant and equipment | 18 | 13,274 | 12,269 |
| Other non-current assets | 19 | 4,248 | 9,325 |
| Deferred tax assets | 11 | 5,887 | 4,797 |
| Financial assets at fair value through profit or loss | 19b | 12,958 | - |
| | | 95,430 | 94,631 |
| Current assets | | | |
| Trade and other receivables | 20 | 150,941 | 120,096 |
| Current tax assets | | 988 | 945 |
| Cash and cash equivalents | | 50,065 | 48,957 |
| Non-current assets classified as Held-for-sale | 31 | 13,106 | - |
| | | 215,080 | 169,998 |
| Current liabilities | | | |
| Trade and other payables | 21 | (142,827) | (128,256) |
| Current tax liabilities | | (3,318) | (1,221) |
| Borrowings | 22 | (14,080) | (3,731) |
| Deferred and contingent consideration | 15 | (752) | (377) |
| Minority shareholder put option liabilities | 24 | (12,327) | (14,813) |
| | | (173,084) | (148,398) |
| Net current assets | | 41,996 | 21,600 |
| Total assets less current liabilities | | 137,426 | 116,231 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 11 | (1,444) | (761) |
| Borrowings | 22 | (38,541) | (37,764) |
| Contingent consideration | 15 | (514) | (833) |
| Minority shareholder put option liabilities | 24 | (6,063) | (10,316) |
| Other non-current liabilities | 23 | (1,944) | (2,487) |
| | | (48,506) | (52,161) |
| Total net assets | | 88,920 | 64,070 |

The notes on pages 40 to 43 and 50 to 103 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

Continued

| At 31 December | Note | 2018 £000 | 2017 £000 |
|---|------|---------------|---------------|
| Equity | | | |
| Share capital | 29 | 876 | 813 |
| Share premium | | 46,667 | 32,095 |
| Merger reserve | | 31,592 | 31,592 |
| Treasury reserve | | (792) | (792) |
| Minority interest put option reserve | | (12,954) | (13,958) |
| Non-controlling interest acquired | | (22,464) | (21,040) |
| Foreign exchange reserve | | 4,593 | 3,593 |
| Retained earnings | | 34,195 | 25,235 |
| Equity attributable to shareholders of the Group | | 81,713 | 57,538 |
| Non-controlling interest | | 7,207 | 6,532 |
| Total equity | | 88,920 | 64,070 |

These consolidated financial statements were approved and authorised for issue by the Board on 24 May 2019 and signed on its behalf by:

David Kershaw
Chief Executive
M&C Saatchi plc
Company Number 05114893



The notes on pages 40 to 43 and 50 to 103 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Share capital £000 | Share premium £000 | Merger reserve £000 | Treasury reserve £000 | MI 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 2017 | | 749 | 24,099 | 31,592 | (792) | (20,598) | (13,122) | 4,770 | 15,871 | 42,569 | 6,828 | 49,397 |
| Acquisitions | 4 | 1,498 | – | – | – | – | – | – | – | 1,502 | 235 | 1,737 |
| Acquisitions of minority interest | 5 | 1,587 | – | – | – | – | (1,390) | – | – | 202 | 310 | 512 |
| Exercise of put options | 55 | 4,911 | – | – | – | 6,640 | (8,640) | – | (61) | 4,905 | – | 4,905 |
| Exchange rate movements | – | – | – | – | – | – | 112 | – | – | 112 | (252) | (140) |
| Share option charge | 26 | – | – | – | – | – | – | – | 13,501 | 13,501 | – | 13,501 |
| Dividends | 12 | – | – | – | – | – | – | – | (6,748) | (6,748) | (2,483) | (9,231) |
| Total transactions with owners | 64 | 7,996 | – | – | – | 6,640 | (7,918) | – | 6,692 | 13,474 | (2,190) | 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 |
| Adjustment on initial application of IFRS 15 | – | – | – | – | – | – | – | – | 28 | 28 | – | 28 |
| Adjustment on initial application of IFRS 9 | – | – | – | – | – | – | – | – | 2,971 | 2,971 | – | 2,971 |
| Adjusted balance at 1 January 2018 | 813 | 32,095 | 31,592 | (792) | (13,958) | (21,040) | 3,593 | 28,234 | 60,537 | 6,532 | – | 67,069 |
| Acquisitions | 13 | 18 | 6,484 | – | – | – | – | – | – | 6,502 | – | 6,502 |
| Acquisitions of minority interest | 14 | – | – | – | – | – | (318) | – | – | (318) | – | (318) |
| Exercise of put options | 44 | 7,630 | – | – | – | 973 | (973) | – | (20) | 7,654 | – | 7,654 |
| Exchange rate movements | – | – | – | – | – | 31 | (132) | – | – | (101) | 24 | (77) |
| Deferred consideration | 15 | 1 | 458 | – | – | – | – | – | – | 459 | – | 459 |
| Issue of shares to minorities | – | – | – | – | – | – | – | – | – | – | 551 | 551 |
| Share option charge | 26 | – | – | – | – | – | – | – | 6,104 | 6,104 | – | 6,104 |
| Dividends | 12 | – | – | – | – | – | – | – | (8,378) | (8,378) | (2,808) | (10,988) |
| Total transactions with owners | 63 | 14,572 | – | – | – | 1,004 | (1,424) | – | (2,294) | 11,921 | (2,033) | 9,888 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | 1,000 | 8,255 | 9,255 | 2,708 | 11,963 |
| At 31 December 2018 | 876 | 46,667 | 31,592 | (792) | (12,954) | (22,464) | 4,593 | 34,195 | 81,713 | 7,207 | – | 88,920 |

The definitions of the Reserves reported above can be found in note 33

The notes on pages 40 to 43 and 50 to 103 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT AND ANALYSIS OF NET DEBT

| Year ended 31 December | Note | 2018 £000 | 2017 £000 |
|---|------|----------------|----------------|
| Net revenue | | 255,373 | 251,481 |
| House cost | 6 | (57,653) | (58,827) |
| Staff cost | 7 | (182,536) | (187,319) |
| Other gains | | 1,584 | - |
| Operating profit | | 16,768 | 5,335 |
| Adjustments for: | | | |
| Depreciation of plant and equipment | 18 | 3,558 | 3,079 |
| Loss on sale of plant and equipment | | 75 | 57 |
| Loss on sale of software intangibles | | 9 | 4 |
| Increase in financial assets at FVTPL | 19b | (1,584) | - |
| Impairment and amortisation of acquired intangible assets | 16 | 4,427 | 2,021 |
| Impairment of associate and investments | 17 | 674 | - |
| Impairment of goodwill and other intangibles | 16 | 2,195 | 5,214 |
| Amortisation of capitalised software intangible assets | 16 | 303 | 211 |
| Equity settled share-based payment expenses | 26 | 8,104 | 13,501 |
| Operating cash before movements in working capital | | 32,528 | 29,422 |
| Increase in trade and other receivables | | (25,231) | (10,806) |
| Increase in contract assets | | (878) | - |
| Increase in trade and other payables | | 153 | 11,665 |
| Increase in contract liabilities | 19b | 8,240 | - |
| Cash generated from operations | | 15,012 | 30,281 |
| Tax paid | | (6,018) | (6,727) |
| Net cash from operating activities | | 8,994 | 23,554 |
| Investing activities | | | |
| Acquisitions of subsidiaries net of cash acquired | 14 | 441 | (951) |
| Acquisitions of associates | | (904) | - |
| Acquisitions of unlisted investments | 19 | (780) | (2,024) |
| Proceeds from sale of plant and equipment | | 77 | 77 |
| Purchase of plant and equipment | 18 | (4,597) | (3,451) |
| Purchase of capitalised software | | (1,046) | (385) |
| Dividends received from associates | 17 | 428 | 1,806 |
| Interest received | | 273 | 288 |
| Net cash consumed investing activities | | (6,106) | (4,640) |
| Net cash from operating and investing activities | | 2,888 | 18,914 |

| Year ended 31 December | Note | 2018 £000 | 2017 £000 |
|---|------|-----------------|----------------|
| Net cash from operating and investing activities | | 2,888 | 18,914 |
| Financing activities | | | |
| Dividends paid to equity holders of the Company | 12 | (8,378) | (6,748) |
| Dividends paid to non-controlling interest | | (2,608) | (2,484) |
| Proceeds from issue of shares to non-controlling interests | | 85 | - |
| Repayment of finance leases | | (45) | (28) |
| Repayment of invoice discounting | | (914) | (730) |
| Proceeds from bank loans | | 9,100 | 10,240 |
| Repayment of bank loans | | (9,482) | (359) |
| Interest paid | | (1,355) | (1,275) |
| Net cash consumed by financing activities | | (13,577) | (1,384) |
| Net (decrease) / increase in cash and cash equivalents | | (10,689) | 17,530 |
| Effect of exchange rate fluctuations on cash held | | 45 | (795) |
| Cash and cash equivalents at the beginning of the year | | 48,957 | 32,222 |
| Total cash and cash equivalents at the end of the year | | 38,311 | 48,957 |
| Cash and cash equivalents | | 50,065 | 48,957 |
| Bank overdrafts* | 22 | (11,754) | - |
| Total cash and cash equivalents at the end of the year | | 38,311 | 48,957 |
| Bank loans and borrowings* | 22 | (40,818) | (41,580) |
| Net cash | | (2,507) | 7,367 |

* These overdrafts are legally offsettable against balances in held in the UK, however they have not been netted off in accordance with the requirements of IAS32 42

The notes on pages 40 to 43 and 50 to 103 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. This is described further in our basis of preparation note on page 41.

| Year ended 31 December 2018 | Note | 2018 £000 | Amortisation of acquired intangibles (note 16) £000 | Impairment of acquired intangibles (note 16) £000 | Impairment of associates (note 17) £000 | FVTPL investments under IFRS 9 £000 | Revaluation of contingent consideration (note 15) £000 | Capital gain tax on issue of put options **** £000 | Acquisition related remuneration** £000 | Put option accounting (note 24 and 28)** £000 | Headline results £000 |
|---|------|--------------|---|---|---|---|--|--|--|---|-----------------------------|
| Billings | | 609,610 | - | - | - | - | - | - | - | - | 609,610 |
| Revenue | | 422,404 | - | - | - | - | - | - | - | - | 422,404 |
| Net revenue | | 255,373 | - | - | - | - | - | - | - | - | 255,373 |
| Operating profit | | 16,768 | 4,427 | 2,195 | 674 | (1,177) | 37 | - | 1,299 | 6,104 | 30,327 |
| Share of results of associates and JV | 17 | 2,825 | - | - | - | - | - | - | - | - | 2,825 |
| Finance income | 9 | 273 | - | - | - | - | - | - | - | - | 273 |
| Finance cost | 9 | (2,268) | - | - | - | 228 | - | - | - | 911 | (1,128) |
| Profit before taxation | | 17,598 | 4,427 | 2,195 | 674 | (948) | 37 | - | 1,299 | 7,015 | 32,287 |
| Taxation | 10 | (6,635) | (1,021) | - | - | 179 | - | 517 | - | (342) | (7,302) |
| Profit for the year | | 10,963 | 3,406 | 2,195 | 674 | (769) | 37 | 517 | 1,299 | 6,673 | 24,985 |
| Non-controlling interests | | (2,708) | (937) | - | - | - | - | 149 | (403) | - | (3,899) |
| Profit attributable to equity holders of the Group*** | | 8,255 | 2,469 | 2,195 | 674 | (769) | 37 | 666 | 896 | 6,673 | 21,086 |

* Details of this breakdown can be found in note 7. 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 (£5,104k) (note 26) and fair value adjustments to minority put option liabilities (£911k) (note 24).

*** 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 2017 and 2018 measures. Headline operating margin is calculated as: Headline operating profit divided by net revenue.

**** As part of setting up equity schemes in Australia, subsidiary equity was disposed of which created a local profit on disposal. On consolidation the profit on disposal has been eliminated (IFRS10 23), however, the capital gains tax and non-controlling interest effect has not been so removed.

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, profit or loss on disposal of associates; revaluation of investments and their related costs, 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 2017 | Note | 2017 £000 | Amortisation of acquired Intangibles (note 16) £000 | Impairment of acquired Intangibles (note 16) £000 | Deferred tax on acquired Intangible US tax rate change (note 11) £000 | Deferred tax on put options US tax rate change (note 11) £000 | Revaluation of contingent consideration (note 15) £000 | Acquisition related remuneration (note 7)* £000 | Put option accounting (note 24 and 25)** £000 | Headline results £000 |
|--|------|--------------|---|---|---|---|--|---|---|-----------------------------|
| Billings | | 535,984 | - | - | - | - | - | - | - | 535,984 |
| Revenue | | 251,481 | - | - | - | - | - | - | - | 251,481 |
| Net revenue | | 251,481 | - | - | - | - | - | - | - | 251,481 |
| Operating profit | 6 | 5,335 | 2,021 | 5,214 | - | - | 40 | 614 | 13,501 | 26,725 |
| Share of results of associates and JV | 17 | 1,987 | - | - | - | - | - | - | - | 1,987 |
| Finance income | 9 | 3,326 | - | - | - | - | - | - | (3,037) | 289 |
| Finance cost | 9 | (1,346) | - | - | - | - | - | - | - | (1,346) |
| Profit before taxation | | 8,302 | 2,021 | 5,214 | - | - | 40 | 614 | 10,464 | 27,855 |
| Taxation | 10 | (4,736) | (871) | (1,804) | 981 | 392 | - | - | (996) | (6,834) |
| Profit for the year | | 4,566 | 1,350 | 3,410 | 981 | 392 | 40 | 614 | 9,468 | 20,821 |
| Non-controlling interests | | (1,894) | (385) | - | - | - | - | (581) | - | (2,850) |
| Profit attributable to equity holders of the Group*** | | 2,672 | 965 | 3,410 | 981 | 392 | 40 | 23 | 9,468 | 17,971 |

* Details of this breakdown can be found in note 7. 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 26) and fair value adjustments to minority put option liabilities (£3,037k) (note 24)

NOTES

Continued

1. Headline results and earnings per share continued

Policy

Basic and diluted earnings per share are calculated by dividing appropriate earnings metrics of the Group by the weighted average number of shares in issue during the year

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares. Anti-dilutive potential ordinary shares are excluded. 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

| | 2018 £000 | Headline 2018 £000 |
|---|---------------|--------------------------|
| Year ended 31 December 2018 | | |
| Profit attributable to equity shareholders of the Group | 8,255 | 21,086 |
| Basic earnings per share | | |
| Weighted average number of shares (thousands) | 84,360 | 84,360 |
| Basic EPS | 9.79p | 25.01p |
| Diluted earnings per share* | | |
| Weighted average number of shares (thousands) as above | 84,360 | 84,360 |
| Add | | |
| – Conditional shares without dividend rights | 4,038 | 4,038 |
| – Conditional shares with dividend rights** | 1,500 | 1,500 |
| – Contingent consideration | 350 | 350 |
| Total | 90,248 | 90,248 |
| Diluted earnings per share | 9.15p | 23.38p |

* All the put options detailed in note 24 are non-dilutive as the exercise price approximates fair value of the underlying non-controlling interest.

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

NOTES

Continued

1. Headline results and earnings per share continued

| | 2017 £000 | Headline 2017 £000 |
|---|--------------|--------------------------|
| Year ended 31 December 2017 | | |
| Profit attributable to equity shareholders of the Group | 2,672 | 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*** | 3.18p | 21.22p |

* All the put options detailed in note 24 are non-dilutive as the exercise price approximates fair value of the underlying non controlling interest

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

*** Excludes put options attached to loss making entities in note 26 and all entities note 24, as items are anti-dilutive for the purposes of this calculation in line with IAS33

NOTES

Continued

2. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

New standards and interpretations not yet adopted, including a preliminary assessment of the impact of the new leasing standard (IFRS 16) are detailed in note 34.

IFRS 15 Revenue from contracts with customers

IFRS 15 supersedes IAS 11 Construction contracts, IAS 18 Revenue and related interpretations (Legacy IFRS). It applies to all revenue arising from contracts with customers. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue and the related cash flows is to be recognised. A five-step model is used whereby consideration received or expected to be received is recognised as revenue when contractual performance obligations are satisfied by the transfer of control and of the relevant goods or services to the customer.

IFRS 15 requires entities to exercise judgement (see pages 41 and 42 for significant judgements relating to the recognition of revenue), taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard specifies how variation in revenue should be accounted for, amends the criteria to establish whether a business is acting as principal or agent in addition to requiring extensive disclosure.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application being 1 January 2018. Under this method, the standard can be applied to all contracts at the date of initial application or only to contracts that are not completed at this date (i.e. ongoing as at the end of the previous year). The Group elected to apply the standard to contracts ongoing as at 1 January 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information has not been restated and continues to be as reported under Legacy IFRS.

The effect of adopting IFRS 15 as at 1 January 2018 is shown below.

| | Increase / (decrease) |
|--------------------------------|-----------------------|
| As at 1 January 2018 | £000 |
| Assets | |
| Contract assets | 10,820 |
| Other receivables | 4,725 |
| Accrued income | (15,545) |
| Trade receivables | 37 |
| Total assets | 37 |
| Liabilities | |
| Current tax | 9 |
| Contract liabilities (current) | 20,694 |
| Deferred income | (20,694) |
| Total liabilities | 9 |
| Equity | |
| Retained earnings | 28 |
| | 28 |

NOTES

Continued

2. Changes in accounting policies and disclosures continued

Adopting IFRS 15 has not had a significant impact on the timing of the Group's recognition of revenue, on OCI; on the Group's operating, investing and financing cash flows; or on the Group's equity. The key drivers of the changes noted in the tables accompanying this note are as described below.

The income statement has been affected significantly in two ways

1) Agency vs principal relationships

Certain of the activities undertaken by the Group involve the entity acting as agent for their customer. In these instances, third party costs are excluded from revenue (note 4) IFRS 15 has altered the criteria used for the principal versus agent evaluation (see page 41 within the significant judgements). As a consequent result of the adoption of IFRS 15 there has been an increase in third party costs included in revenue and cost of sales during the year of £167.0m due to a reduction in the number of Agency relationships identified (and a corresponding increase in the number of transactions where the Group is acting as Principal).

2) Different timings of revenue recognition

Small timing differences caused by adoption of IFRS 15 caused a 1 January 2018 adjustment and a reduction in 2018 revenue of £37k.

| | Legacy IFRS £000 | Third party cost £000 | Timing adjustments £000 | IFRS 15 £000 |
|--------------------|------------------------|-----------------------------|-------------------------------|-----------------|
| Billings | 809,610 | – | (37) | 809,610 |
| Revenue | 255,410 | 167,031 | (37) | 422,404 |
| Project cost | – | (167,031) | – | (167,031) |
| Net revenue | 255,410 | – | (37) | 255,373 |

Consolidated Income Statement for the year ended 31 December 2018

| | IFRS 15 £000 | Legacy IFRS £000 | Increase / (decrease) £000 |
|--|-----------------|---------------------|----------------------------------|
| Billings | 809,610 | 809,610 | (37) |
| Revenue | 422,404 | 255,410 | 166,994 |
| Project costs | (167,031) | – | 167,031 |
| Net revenue | 255,373 | 255,410 | (37) |
| Staff and House costs | (238,605) | (238,605) | – |
| Operating profit | 16,768 | 16,805 | (37) |
| Share of results of associates and JVs | 2,825 | 2,825 | – |
| Finance income | 273 | 273 | – |
| Finance costs | (2,268) | (2,268) | – |
| Profit before taxation | 17,598 | 17,635 | (37) |
| Taxation | (6,530) | (6,539) | (9) |
| Profit for the year | 11,068 | 11,096 | (28) |
| Attributable to | | | |
| Equity holders of the parent | 8,255 | 8,283 | (28) |
| Non-controlling interests | 2,708 | 2,708 | – |
| | 10,963 | 10,991 | (28) |

The balance sheet has been affected as follows.

Prepaid customer expenses

Under certain contractual relationships the Group makes payments to suppliers on behalf of customers prior to billing. As these amounts do not relate to services provided by the Group under IFRS 15 these are recognised separately to trade receivables and contract assets. An amount totalling £5.5m has therefore been recognised as at 31 December 2018 as an 'other receivable' and is included within the consolidated balance sheet position of 'Trade and other receivables' of £154.8m. This amount was included within accrued income under Legacy IFRS

NOTES

Continued

2. Changes in accounting policies and disclosures continued

Consolidated Balance Sheet as at 31 December 2018

| Assets | IFRS 15 £000 | Legacy IFRS £000 | Increase / (decrease) £000 |
|--------------------------------------|------------------|------------------------|----------------------------------|
| Total non-current assets | 95,430 | 95,430 | – |
| Contract assets | 10,943 | – | 10,943 |
| Other receivables | 15,381 | 9,875 | 5,506 |
| Prepayments and accrued income* | 7,332 | 23,781 | (16,449) |
| Trade receivables | 114,541 | 114,678 | (37) |
| Other current assets | 66,783 | 66,783 | – |
| Total current assets | 215,080 | 215,117 | (37) |
| Total assets | 310,510 | 310,510 | (37) |
| Liabilities | | | |
| Current tax | (3,318) | (3,327) | (9) |
| Contract liabilities | (32,865) | – | 32,865 |
| Deferred revenue | – | (32,865) | (32,865) |
| Other current liabilities | (136,901) | (136,901) | – |
| Total current liabilities | (173,084) | (173,093) | (9) |
| Total non-current liabilities | (48,506) | (48,506) | – |
| Total liabilities | (221,590) | (221,599) | (9) |
| Equity | | | |
| Retained earnings | (34,195) | (34,231) | (28) |
| Non-controlling interest | (7,207) | (7,207) | – |
| Other equity accounts | (47,518) | (47,507) | – |
| Total equity | (88,920) | (88,948) | (28) |
| Total equity and liabilities | (310,510) | (310,547) | (37) |

* Under Legacy IFRS this category included amounts relating to prepayments and accrued income. Under IFRS 15 this category is exclusively comprised of prepayments.

IFRS 9 Financial Instruments

IFRS 9 Financial instruments replaces IAS 39 Financial instruments: Recognition and measurement for annual periods beginning on or after 1 January 2018. The Group has applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be as reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings and other components of equity.

The effect of adopting IFRS 9 as at 1 January 2018 was as follows.

| | Ref | Increase / (decrease) £000 |
|------------------------------------|-----|----------------------------------|
| Assets | | |
| Equity investments at FVTPL | 19b | 10,596 |
| Equity investments at cost | | (5,760) |
| Trade receivables | 20 | (276) |
| Total assets | | 4,560 |
| Liabilities | | |
| Accrued transaction fees* | | 898 |
| Deferred tax | | 691 |
| Total liabilities | | 1,589 |
| Total adjustment to equity: | | |
| Retained earnings | | 2,971 |
| | | 2,971 |

* Costs which will be incurred in the future with regards the equity investments at FVTPL. When these instruments are disposed the advisers who arranged the purchases are due to a percentage of the profit on disposal.

The nature of these adjustments is described below.

(a) Classification and measurement

Under IFRS 9 financial assets are classified as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification is based on two criteria: (i) the Group's business model for managing the assets and (ii) whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

NOTES

Continued

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The only significant impact to the Group in terms of the classification and measurement requirements of IFRS 9 relates to certain equity investments previously held at cost less any provision for impairment. Refer to 2(c) for a summary of the measurement categories of the financial assets held by the Group under Legacy IFRS and IFRS 15.

(i) Equity investments at FVTPL The Group holds equity investments in non-listed companies. These investments were previously measured at cost less any provision for impairment. Under IFRS 9, as at the date of initial application the Group intends to hold these investments for the foreseeable future. In line with the requirements of IFRS 9 these unlisted equity investments are accounted for as financial assets at FVTPL. As at 1 January 2018 these instruments had a combined fair value of £10.6m compared to their cost of £5.8m.

(b) Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all receivables not held at fair value through profit or loss.

Upon adoption of IFRS 9 the Group recognised an additional impairment of Trade receivables of £276k, which resulted in a decrease in retained earnings of an equivalent amount as at 1 January 2018, less any deferred tax effect. The movement in the year subsequent to adoption is disclosed in note 20.

(c) Classification of financial assets on adoption of IFRS 9

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted.

| Non-current financial assets | Measurement category | |
|-------------------------------|----------------------|----------------|
| | IAS 39 | IFRS 9 |
| Non-listed equity investments | Amortised cost | FVTPL |
| Other receivables | Amortised cost | Amortised cost |
| Current financial assets | | |
| Trade and other receivables | Amortised cost | Amortised cost |
| Other receivables | Amortised cost | Amortised cost |
| Cash and cash equivalents | Amortised cost | Amortised cost |
| Financial liabilities | | |
| MI put option liabilities | FVTPL | FVTPL |
| Finance lease liabilities | Amortised cost | Amortised cost |
| Secured bank loans | Amortised cost | Amortised cost |
| Invoice discounting facility | Amortised cost | Amortised cost |
| Trade payables | Amortised cost | Amortised cost |
| Contingent consideration | FVTPL | FVTPL |

| Non-current financial assets | Carrying amount (£000s) | | |
|-------------------------------|-------------------------|--------|------------|
| | Legacy | New | Difference |
| Non-listed equity investments | 5,760 | 10,596 | 4,836 |
| Other receivables | 3,511 | 3,511 | - |
| Current financial assets | | | |
| Trade and other receivables | 92,356 | 92,080 | (276) |
| Cash and cash equivalents | 48,957 | 48,957 | - |
| Financial liabilities | | | |
| MI put option liabilities | 25,129 | 25,129 | - |
| Finance lease liabilities | 133 | 133 | - |
| Secured bank loans | 38,675 | 38,675 | - |
| Invoice discounting facility | 2,915 | 2,915 | - |
| Trade payables | 51,893 | 51,893 | - |
| Contingent consideration | 1,210 | 1,210 | - |

NOTES

Continued

3. Segmental information

Segmental and headline income statement

The Group's segments are aligned to those business units that are evaluated regularly by the chief operating decision maker (the Board) in deciding how to allocate resources and in assessing performance. The financial information provided to the Board as management accounts is compiled on geographical regions with trading operations in each country aggregated into that region, only on a headline basis. 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 a geographic region are all related to marketing communication services.

Segmental results are reconciled to the income statement in note 1

| Year ended 31 December 2018 | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | Total £000 |
|---|------------|---|---|--|---|---------------|
| Billings* | 213,689 | 60,190 | 38,878 | 170,466 | 126,415 | 609,610 |
| Revenue* | 169,279 | 60,190 | 31,567 | 98,057 | 63,311 | 422,404 |
| Net revenue | 95,826 | 34,165 | 15,790 | 65,412 | 44,180 | 255,373 |
| Operating profit excluding Group costs | 17,388 | 5,487 | 1,167 | 6,462 | 5,924 | 36,438 |
| Group costs | (5,618) | (71) | - | (333) | (89) | (6,111) |
| Operating profit | 11,770 | 5,426 | 1,167 | 6,129 | 5,835 | 30,327 |
| Share of results of associates and JV | 2,354 | (13) | - | 433 | 51 | 2,825 |
| Financial income and cost | (486) | (31) | 83 | 90 | (511) | (855) |
| Profit before taxation | 13,638 | 5,382 | 1,250 | 6,652 | 5,375 | 32,297 |
| Taxation | (2,107) | (1,879) | (260) | (1,924) | (1,132) | (7,302) |
| Profit for the year | 11,531 | 3,503 | 990 | 4,728 | 4,243 | 24,995 |
| Non-controlling interests | (1,331) | (452) | (389) | (1,189) | (538) | (3,899) |
| Profit attributable to equity shareholders of the Group | 10,200 | 3,051 | 601 | 3,539 | 3,705 | 21,096 |
| Headline basic EPS | | | | | | 25.01p |
| Office locations | London | Paris Milan Berlin Madrid Geneva Stockholm Istanbul | Johannesburg Cape Town Abu Dhabi Dubai Beirut Tel Aviv | Sydney Melbourne New Delhi Bangalore Bangalore Islamabad Hong Kong Shanghai Tokyo Bangkok Singapore Jakarta | New York Chicago Los Angeles San Francisco Mexico City São Paulo | |

* These items were not regularly reviewed by the chief operating decision maker in the year

NOTES

Continued

| Year ended 31 December 2017 | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | Total £000 |
|---|------------|---|---|--|---|---------------|
| Billings* | 189,299 | 59,037 | 27,207 | 132,007 | 148,414 | 535,964 |
| Revenue* | 94,013 | 33,492 | 14,650 | 64,703 | 44,823 | 251,481 |
| Net Revenue | 94,013 | 33,492 | 14,650 | 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) | (66) | (6,297) |
| Operating profit | 9,328 | 5,116 | 1,568 | 7,394 | 3,319 | 28,725 |
| Share of results of associates and JV | 1,633 | 3 | – | 351 | – | 1,987 |
| Financial income and cost | (437) | (69) | 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 |
| 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 | |

* These items were not regularly reviewed by the chief operating decision maker in the year.

NOTES

Continued

Segmental balance sheet

This note includes balance sheet information required by IFRS 8 and other information required by IFRS 12. These items were not regularly reviewed on a segmented basis by the chief operating decision make in the year.

| Year ended 31 December 2018 | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | Total £000 |
|---|----------------|-----------------|-----------------------------------|-------------------------------|------------------|------------------|
| Non-current assets | 52,862 | 6,450 | 765 | 7,927 | 21,739 | 89,743 |
| Current assets | 93,318 | 25,937 | 13,257 | 48,322 | 33,280 | 214,112 |
| Total assets | 146,178 | 32,387 | 14,022 | 56,249 | 55,019 | 303,855 |
| Current liabilities | (8,123) | (28,095) | (11,014) | (44,920) | (51,228) | (143,380) |
| Non-current liabilities | (775) | (470) | – | (718) | (945) | (2,908) |
| Total liabilities | (8,898) | (28,565) | (11,014) | (45,638) | (52,173) | (146,286) |
| Non-controlling interest in equity at year end | 2,613 | 47 | 681 | 1,569 | 2,297 | 7,207 |
| Dividends paid to non-controlling interests during year | (674) | (110) | (27) | (1,763) | (34) | (2,608) |
| Non-headline amortisation | 316 | – | 570 | 718 | 2,823 | 4,427 |
| Non-headline impairment | 1,526 | – | 228 | 367 | – | 2,121 |
| Capital expenditure | 2,680 | 291 | 231 | 1,239 | 196 | 4,637 |
| Depreciation | 1,686 | 314 | 318 | 770 | 470 | 3,558 |

NOTES

Continued

| 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 | 4,656 | 1,389 | 7,983 | 22,499 | 89,834 |
| Current assets | 70,426 | 25,648 | 12,465 | 36,409 | 24,105 | 169,053 |
| Total assets | 123,733 | 30,304 | 13,854 | 44,392 | 46,604 | 258,887 |
| Current liabilities | (13,383) | (27,702) | (10,714) | (33,035) | (43,797) | (128,631) |
| Non-current liabilities | (1,262) | (425) | (5) | (694) | (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 | 1,696 | 1,938 | 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 | 369 | 3,079 |

Reportable segment assets are reconciled to total assets as follows:

| | 2018 £000 | 2017 £000 |
|---------------------------------------|----------------|----------------|
| Segment assets | 303,855 | 258,887 |
| Current tax asset | 968 | 945 |
| Deferred tax asset | 5,887 | 4,797 |
| Total assets per balance sheet | 310,510 | 264,629 |

NOTES

Continued

Reportable segment liabilities are reconciled to total liabilities as follows

| | 2018 £000 | 2017 £000 |
|---|------------------|------------------|
| Segment liabilities | (146,286) | (131,951) |
| Deferred tax liabilities | (1,444) | (761) |
| Current tax liabilities | (3,318) | (1,221) |
| Short term borrowings | (14,060) | (3,743) |
| Long term borrowings | (38,092) | (37,764) |
| Minority shareholder put option liabilities | (18,390) | (25,129) |
| Total liabilities per balance sheet | (221,590) | (200,569) |

Additional regional splits required for IFRS 8 by origin

| Year ended 31 December 2018 | UK £000 | Europe £000 | Middle East and Africa £000 | Australia £000 | Asia £000 | Americas £000 | Total £000 |
|-----------------------------|------------|----------------|-----------------------------------|-------------------|--------------|------------------|---------------|
| Revenue | 169,279 | 60,190 | 31,567 | 75,232 | 22,826 | 83,311 | 422,404 |
| Net revenue | 95,826 | 34,165 | 15,790 | 50,798 | 14,814 | 44,180 | 255,373 |
| Non-current assets | 52,882 | 6,450 | 785 | 6,350 | 1,577 | 21,739 | 89,743 |

| Year ended 31 December 2017 | UK £000 | Europe £000 | Middle East and Africa £000 | Australia £000 | Asia £000 | Americas £000 | Total £000 |
|-----------------------------|------------|----------------|-----------------------------------|-------------------|--------------|------------------|---------------|
| Revenue | 94,013 | 33,492 | 14,650 | 56,052 | 8,651 | 44,623 | 251,481 |
| Net revenue | 94,013 | 33,492 | 14,650 | 56,052 | 8,651 | 44,623 | 251,481 |
| Non-current assets | 53,305 | 4,656 | 1,389 | 2,325 | 5,660 | 22,499 | 89,834 |

NOTES

Continued

2018 Segmental Income Statement translated at 2017 average exchange rates
It is normal practice in our industry to provide constant currency results.

Had our 2018 results been translated at 2017 average exchange rates then our constant currency results would have been.

| Year ended 31 December 2018 | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | Total £000 |
|--|------------|----------------|-----------------------------------|-------------------------------|------------------|---------------|
| Billings | 213,669 | 59,899 | 40,058 | 178,282 | 130,728 | 622,635 |
| Revenue | 169,279 | 59,899 | 32,525 | 102,677 | 65,762 | 430,141 |
| Net revenue | 95,826 | 34,055 | 16,273 | 68,569 | 46,012 | 260,735 |
| Operating profit excluding Group costs | 17,388 | 5,433 | 1,203 | 6,674 | 6,027 | 36,725 |
| Group costs | (5,618) | (70) | - | (351) | (89) | (6,128) |
| Operating profit | 11,770 | 5,363 | 1,203 | 6,323 | 5,938 | 30,597 |
| Share of results of associates and JV | 2,354 | (18) | - | 438 | 53 | 2,827 |
| Financial income and cost | (487) | (31) | 86 | 90 | (530) | (872) |
| Profit before taxation | 13,588 | 5,314 | 1,289 | 6,851 | 5,461 | 32,501 |
| Taxation | (1,995) | (1,862) | (267) | (1,995) | (1,154) | (7,273) |
| Profit for the year | 11,498 | 3,452 | 1,022 | 4,856 | 4,307 | 25,123 |
| Increase/(decrease) in 2018 results caused by translation differences | 45 | 51 | (32) | (128) | (64) | (128) |

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

| | 2018 | 2017 |
|--------------------|---------|---------|
| US dollar | 1.3359 | 1.2884 |
| Malaysian ringgit | 5.3840 | 5.5370 |
| Australian dollar | 1.7860 | 1.6808 |
| South African rand | 17.6326 | 17.1503 |
| Brazilian real | 4.8669 | 4.1129 |
| Euro | 1.1305 | 1.1417 |

To get a sensible comparative when reviewing regional headline operating margin, we exclude start-up costs of our organically launched business. In the year Asia and Australia had net revenue of £664k and operating loss of £448k; and Americas had net revenue of £109k and operating loss of £363k from such organically launched business.

NOTES

Continued

4. Revenue from contracts with customers

Policy

4(a) Revenue recognition policies

Billings comprise the gross amounts billed, or billable to clients in respect of commission-based and fee-based income, together with the total of other fees earned, in addition to those instances where the Group has made payments on behalf of customers to third parties and is stated exclusive of VAT and sales taxes. Billings is a non GAAP measure and is included within revenue for understanding.

Revenue comprises commission and fees earned and is stated exclusive of VAT and sales taxes.

Performance obligations

At the inception of a new contractual arrangement with a customer the Group identifies the performance obligations inherent in the agreement. Typically, the terms of the contracts are such that the services to be rendered are considered to be either integrated (see significant judgement on page 42) or to represent a series of services that are substantially the same with the same pattern of transfer to the customer. Accordingly, this amalgam of services is accounted for as a single performance obligation.

Where there are contracts with services capable of being distinct and are distinct within the context of the contract then they are accounted for as separate obligations. In these instances, the consideration due to be earned from the contract is allocated to each of the performance obligations in proportion to their stand-alone selling price.

Further discussion of performance obligations arising in terms of the main types of services provided by the group in addition to their typical pattern of satisfaction is provided in note 4(d).

Measurement of revenue

Based on the terms of the contractual arrangements entered into with customers, revenue is typically recognised over time. This is based on either the fact that (i) the assets generated under the terms of the contracts have no alternative use to the Group and there being an enforceable right to payment or (ii) that the client exerts editorial oversight during the course of the assignment such that they control the service as it is provided.

We build our services around our client's needs, and often use client's standard terms with negotiated modification, this results in many different contractual arrangements. Revenue is recognised monthly based on the underlying systems and processes in each business unit. Given the many different contractual arrangements, and judgements on agency vs principal relationships, each business unit, on a periodic basis, reviews contracts and separate obligations to make sure revenue is recognised in the correct accounting period, posting adjustments to the monthly revenue recognised if necessary.

Principal vs agent

When a third-party supplier is involved in fulfilling the terms of a contract then, for each performance obligation identified, the Group assesses whether they are acting as principal or agent. Where the Group is judged to control the specified services prior to the transfer of those services to the customer then the Group is concluded as acting as principal. Details surrounding this significant judgement can be found on page 41.

When we act as an agent, the revenue recorded is the net amount retained. Costs incurred with external suppliers are excluded from revenue and recorded as other receivables payable by the customer. When the Group acts as principal the revenue recorded is the gross amount billed. When allowable by the terms of the contract out-of-pocket costs, such as travel, are also recognised as the gross amount billed with a corresponding amount recorded as an expense.

Treatment of costs

Costs incurred in relation to the fulfilment of a contract are either recognised as an asset or treated as an expense. Costs are capitalised when they represent incremental costs of winning a contract and are recognised over the life of the contract arising.

Supplier rebates

The Group receives volume rebates from certain suppliers for transactions entered into on behalf of clients. As noted on page 42 management judgement is involved in how these rebates are accounted for. Based on the terms of the relevant contracts and local law, these rebates are either remitted to clients or retained by the Group.

Further detail in terms of the revenue recognition policies applied by the Group in terms of the different categories of contractual arrangements entered into with clients can be found at note 4d.

4(b) Disaggregation of revenue

The Group derives revenue from the transfer of goods and services from both long (>1 year) and short term (<1 year) contractual arrangements with customers in the following geographical regions

| | UK | Europe | Middle East and Africa | Asia and Australia | Americas | Total |
|------------------|---------|--------|------------------------|--------------------|----------|---------|
| Contractual term | £000 | £000 | £000 | £000 | £000 | £000 |
| Long term | 4,888 | — | 910 | — | 6,905 | 12,713 |
| Short term | 164,340 | 60,190 | 30,657 | 98,057 | 56,406 | 409,650 |
| Total | 169,228 | 60,190 | 31,567 | 98,057 | 63,311 | 422,353 |

NOTES

Continued

4(c) Assets and liabilities related to contracts with customers

Contract assets and liabilities arise when there is a difference (generally due to timing) in the amount of revenue which can be recognised and the amount which can be invoiced under the terms of the contractual arrangement or has been remitted (prepaid) by the customer.

Where revenue earned from customers is recognised over time, many of the Group's contractual arrangements have terms which permit the Group to remit invoices for the amount of work performed to date on a specific contract (described in our accounting policies as 'Right-to-invoice'). Where the terms of a contractual arrangement do not carry such right to invoice then a contract asset is recognised over time as work is performed until such point that an invoice is allowable to be remitted. Generally, invoices are able to be raised monthly for arrangements where revenue is recognised over time.

Where revenue earned from customers is recognised at a point in time then this will be dependent on satisfaction of a specific performance obligation. At such point it is usual that there are no other conditions required to be met for receipt of consideration and as such a trade receivable is recognised at this point.

Contract liabilities comprise instances where a customer has made payments relating to services due to be provided prior to their provision. Where payments are received in advance IFRS 15 requires assessment of whether these cash transfers contain any financing component. Under the terms of the contractual arrangements entered into by the Group there are no instances where such financing elements arise. This is the case even for those arrangements where the Group receive monies more than a year in advance by virtue of the terms of the contractual agreement so entered into.

The acquisition of Scarecrow Communications Limited and M&C Social Limited (note 13) resulted in an increase in trade receivables of \$911k in 2018 and contract assets of £200k.

In 2018 £204k was recognised as a provision for expected losses on trade receivables in line with the requirements of IFRS 9 (notes 2 and 20).

Set out below is the amount of revenue recognised from

| | 2018 £000 |
|--|--------------|
| Amounts included in contract liabilities at the beginning of the year* | 16,585 |
| Performance obligations partially satisfied in previous years | – |

* As at the start of the year a total amount of £20,694k contract liabilities were recognised at the point of transition to IFRS 9

4(d) Revenue recognition policies and performance obligation satisfaction by category of services performed

Further details regarding revenue recognition and performance obligations of the Group's main service offerings are summarised below.

Commission based income in relation to talent performance

Revenue in relation to talent performance involves the Group acting as agent. Typically, such arrangements have a single, or a sequence, of specific performance obligations relating to the talent (or other third party) providing services. The performance obligations are generally satisfied at a point in time once the service has been provided. In these instances, revenue is recognised at the point in time which the performance obligation is satisfied. A trade receivable is recognised at this point as the right to payment is now unconditional other than the passage of time. The consideration for the services is normally for a fixed amount (as a percentage of the Talent's fee) with no degree of variability.

Certain of our contractual arrangements in terms of talent performance relate to a longer-term arrangement (several months or longer) whereby the talent is engaged to provide a sequence of services that are substantially the same – and thereby represent a single performance obligation. An example would be arranging for talent to write weekly columns for a website. In such instances as the third party is responsible for control of the asset(s) created (by means of editorial oversight) the revenue in relation to the single performance obligation is recognised over time. These contractual arrangements generally have payment terms such that a fixed fee (with no degree of variability) is remunerated each month over the life of the agreement.

In the event that services to be rendered by talent are cancelled then the treatment of such cancellation depends on the root cause of the trigger for the cancellation and the terms of the contractual agreement.

Retainer fees

Retainer fees relate to arrangements whereby the nature of the Group's contractual promise 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. Revenue relating to retainer fees is recognised over the period of the relevant assignments or arrangements, typically in line with the 'stand-ready' incurred costs. The primary input of all work performed under these arrangements is labour. As a result of the direct relationship between labour and cost there is normally a direct correlation between costs incurred and the proportion of the contract performed to date.

As retainer fees relate to 'stand-ready' obligations for a period of time synchronous with the time period at the end of which an invoice is raised the Group consider there is a single performance obligation for each time period. The revenue relating to each performance obligation is recognised over time as a contract asset and a trade receivable recognised at the end of each time period.

Consideration relating to retainer fees is fixed with no degree of variability.

NOTES

Continued

From time to time there may be changes in the client service requirements during the term of the contract and the changes could be significant. These changes are typically negotiated as new contracts covering the additional requirements and the associated costs, as well as additional fees for the incremental work to be performed

Project fees and production income

Project fees typically meet the criteria identified on page 64 of note 4a which IFRS 15 states as permissible to recognise revenue over time. The quantum of revenue to be recognised over the period of the assignments is either based on the 'right-to-invoice' expedient or by means of a stage of completion model. The primary input of all work performed under these arrangements is labour. As a result of the direct relationship between labour and cost there is normally a direct correlation between costs incurred and the proportion of the contract performed to date. Where projects are carried out under contracts, the terms of which entitle the Group to payment for its performance only when control passes at a delivery date or a milestone, then fees are recognised at the time that payment entitlement occurs.

Project fees and production income relate to the provision of services which can encompass a range of media deliverables in addition to development and deployment of a media strategy. Regular assessment of the effectiveness of the project with regards to the objective of the contractual arrangement may also be included. Often the range of services provided within these arrangements are considered to be integrated to an extent that no separable performance obligations can be identified other than a single over-arching combined performance obligation relating to the delivery of the project – this involves management judgement as detailed on page 42. In these instances, revenue is recognised over time as the combined performance obligation is being satisfied.

When services provided are considered separable, and not integrated, then multiple performance obligations are recognised. It is typical that the terms of the customer agreements in these instances again permit revenue to be recognised over time as each performance obligation is being satisfied.

Whilst it is uncommon for projects to be such that revenue is not allowable to be recognised over time, examples can occur. In these instances, the element of the transaction price assigned to each performance obligation (in proportion to stand-alone selling prices) is recognised as revenue once an obligation has been fully satisfied.

Projects typically allow monthly invoices to be raised on standard payment terms ensuring consideration is paid to the agency as performance obligations are being satisfied regardless of whether revenue can be recognised over, or at a point in, time.

Where fees are remunerated to the agency in excess of the services rendered then a contract liability is recognised. Conversely where the services rendered are in excess of the actual fees paid then a contract asset is recognised.

Certain of these arrangements have contractual terms relating to the agency meeting specific customer identified KPIs. Such KPIs can relate to qualitative factors (such as the client's perception of delivery and relationship performance) or to quantitative KPIs

(examples include overall increase in website traffic or conversion rate of website visits)

The overall level of consideration can vary by increasing or decreasing as a result of performance against these metrics. To reflect this variability in the overall level of consideration, management estimate the most likely outcome and then reflect that outcome in the revenue recognised as the performance obligation(s) of the contract are satisfied. The estimated portion of the variable element is recalculated at the earlier of the completion of the contract or the next reporting period and revenue is adjusted accordingly. These estimates are based on historical award experience, anticipated performance and best judgement at the time.

Commission based income in relation to media spend

The Group arranges for a third party to provide the related goods and services in the capacity of an agent. Revenue is recognised in relation to the amount of commission the Group is entitled to. Often additional integrated services are provided at the same time with regards to the development and deployment of an overarching media strategy. Due to the integration of the services provided under the terms of the contract, management judgement (as explained on page 42) is applied to assess whether there is a single combined performance obligation.

Although there may be variability in the total quantum of media spend (on which the Group earns commission) as the Group is entitled to invoice as spend is made, and as this drives the recognition of revenue arising from the contract, there is no need to estimate the amount of variable revenue due to be earned over the life of the contract. Often the commission earned is reflective of the value to the customer and in those instances therefore the Group measures revenue to be recognised as the amount to which they hold the 'right-to-invoice'. As further explained on page 42, although there may be a blend of services provided, some of which are akin to the Group acting as principal, as there is a single combined performance obligation with a single payment mechanism, all such revenue is recognised net of costs incurred in line with the Group acting as an agent.

The performance obligation for media buys are considered to have been satisfied when the associated advert has appeared in the public domain. Where a contract is comprised of a large number of separate media purchases then, as the contract is for the provision of a number of services which are substantially the same, fewer performance obligations are recognised. Dependent on the precise terms of the contract as noted above, this can result in a single combined performance obligation being identified.

In the majority of instances where the Group purchases media for clients, the transactions are considered tripartite with the Group acting as agent. One business unit of the Group speculatively purchases media slots and then processes this media into categories of 'quality'. Subsequent to the processing this media is then sold on to clients – with the higher 'quality' media yielding a higher price. In this instance the Group is considered to be acting as principal.

Projects are invoiced in line with the terms of the contracts entered into, this is normally monthly but can be more or less often.

NOTES

Continued

5. Group companies

| As at 31 December 2018 | Country | Effective % ownership | Activities |
|---|----------------|-----------------------|-------------------|
| UK | | | |
| Alive & Kicking Global Ltd Alive & Kicking Global Ltd** | United Kingdom | 100 | Marketing |
| 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 |
| Grey Whippet Ltd** | United Kingdom | 51 | Dormant |
| 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 | 95 | 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 | 75 | 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

| As at 31 December 2018 | 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 | 99 | PR Agency |
| M&C Saatchi Social Ltd** & *** | United Kingdom | 51 | Marketing |
| 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 |
| Send Me A Sample Ltd** | United Kingdom | 60 | Marketing |
| SGA London Ltd** | United Kingdom | 100 | Marketing |
| Talk PR Ltd** & *** | United Kingdom | 51 | PR Agency |
| Talk Purpose Ltd** | United Kingdom | 41 | PR Agency |
| The Source (London) Ltd** | United Kingdom | 88 | Research Agency |
| The Source (WI) LLP** | United Kingdom | 76 | Research Agency |
| Tricycle Communications Ltd** | United Kingdom | 80 | Holding Company |

NOTES

Continued

| As at 31 December 2018 | 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 | 83 | 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 Unternehmersgesellschaft | Germany | 100 | Dormant |
| M&C Saatchi SpA | Italy | 80 | Advertising |
| M&C Saatchi PR srl | Italy | 80 | PR Agency |
| M&C Saatchi International Holdings BV | Netherlands | 100 | Holding Company |
| Clear Netherlands BV | Netherlands | 100 | Dormant |
| M&C Saatchi Madrid SL | Spain | 51 | Advertising |
| M&C Saatchi Sponsorship S.L. | Spain | 51 | Advertising |
| M&C Saatchi AB | Sweden | 60 | Advertising and Marketing |
| M&C Saatchi Go! AB | Sweden | 100 | Advertising |
| M&C Saatchi PR AB | Sweden | 100 | Dormant |
| M&C Saatchi (Switzerland) SA | Switzerland | 88 | Advertising |
| 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

| As at 31 December 2018 | Country | Effective % ownership | Activities |
|---|-----------|-----------------------|---|
| Asia and Australia | | | |
| Bellwether Global Pty Ltd | Australia | 80 | PR Agency |
| Bohemia Group Pty Ltd | Australia | 46 | Media Agency |
| Brands in Space Pty Ltd | Australia | 80 | Design |
| Go Studios Pty Ltd | Australia | 80 | Finished Art & Production Management Studio |
| Greenhouse Australia Pty Ltd | Australia | 64 | Advertising |
| 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 |
| Resolution Design Pty Ltd | Australia | 68 | Dormant |
| Saatchi Ventures Pty Ltd | Australia | 48 | Holding Company |
| The Source Insight Australia Pty Ltd | Australia | 80 | Dormant |
| Tricky Jigsaw Pty Ltd | Australia | 68 | Marketing |
| This Film Studio Pty Ltd | Australia | 56 | Production |
| UGLY Sydney Pty Ltd | Australia | 60 | Dormant |
| Yes Agency Pty Ltd | Australia | 80 | Dormant |
| EMC Saatchi Pty Ltd | Australia | 80 | Dormant |
| 1440 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 Asia Hong Kong Ltd | Hong Kong | 70 | Advertising |
| February Communications Pvt Ltd | India | 20 | Advertising (Associate) |
| M&C Saatchi Communications Pvt Ltd | India | 95 | Advertising |
| M&C Saatchi Mobile LLP | India | 100 | Marketing |
| Scarecrow Communications Limited | India | 51 | Advertising |
| M&C Saatchi Ltd | Japan | 10 | Advertising (Associate) |
| M&C Saatchi (M) Sdn Bhd | Malaysia | 49 | Advertising |
| Design Factory Sdn Bhd | Malaysia | 49 | Advertising |

NOTES

Continued

| As at 31 December 2018 | Country | Effective % ownership | Activities |
|--|-----------|-----------------------|---|
| Asia and Australia continued | | | |
| 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) |
| Americas | | | |
| Uly Participacoes Ltda | Brazil | 100 | Holding Company |
| M&C Saatchi Brasil Comunicação 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 | 100 | Marketing |
| Clear NY LLP | USA | 100 | Holding Company |
| LIDA NY LLP (MCD) | USA | 75 | Direct Marketing |
| LIDA USA LLP | USA | 100 | 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 | 85 | Sport Sponsorship & Entertainment PR Agency |
| M&C Saatchi Sports + Entertainment LA LLC | USA | 50 | Sport Sponsorship & Entertainment PR Agency |
| M&C Saatchi NY LLP | USA | 100 | Dormant |
| Majority LLC | USA | 100 | Production |
| Shepardson Stern + Kamensky LLP | USA | 66 | Marketing Consultant |
| Technology Humans and Taste LLC | USA | 30 | Marketing (associate) |
| World Services US Inc. | USA | 80 | Dormant |

All subsidiary companies which the Group control in line with the requirements of FRS 10 have been included in the consolidated accounts

** This subsidiary undertaking is exempt from Companies Act 2006 requirement relating to audit of their individual accounts by virtue of Section 478A 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, our South African subsidiaries, Scarecrow Communication Ltd, M&C Saatchi Social Ltd where all our equity is directly held by M&C Saatchi plc, all other subsidiary companies' equity is either in part or wholly held via subsidiaries of M&C Saatchi plc.

NOTES

Continued

6. Operating costs

Policy

Leases

Lease payments under operating leases, including any incentives granted, are recognised in the income statement on a straight-line basis over the lease term

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. Reverse premiums and similar incentives to enter into operating lease agreements are initially recorded as deferred income and released to profit and loss on a straight-line basis over the lease term

| Year ended 31 December | Note | 2018 £000 | 2017 £000 |
|--|------|----------------------|----------------------|
| Project cost | | 187,031 | — |
| House cost | | 57,653 | 58,827 |
| Operating costs | | 224,684 | 58,827 |
| Other costs include | | | |
| Loss/(Profit) on exchange | | (637) | 590 |
| Amortisation of intangibles | | | |
| – Acquired intangibles | 15 | 4,427 | 2,021 |
| – Capitalised software | 16 | 303 | 211 |
| Impairment of Goodwill and other intangibles | 16 | 2,195 | 5,214 |
| Depreciation of plant and equipment | 18 | 3,558 | 3,079 |
| Loss on disposal of fixed assets | | 75 | 28 |
| Year ended 31 December | | 2018 £000 | 2017 £000 |
| Operating lease rentals | | | |
| Plant | | 845 | 718 |
| Property | | 10,401 | 8,390 |
| | | 11,346 | 9,108 |
| Property sublease receipts | | (176) | (199) |
| | | 11,170 | 8,909 |

* Project costs relate to third-party costs incurred during the provision of services to customers which are passed back to the Group under the terms of the contract by the customer. These costs are recognised in 2018, but not in 2017, as a result of the transition to IFRS 15. As discussed in Note 2 this is due to the Group being considered as acting as principal for the majority of transactions where third party costs are incurred to satisfy our obligations to customers. Under Legacy IFRS the Group was considered to be acting as Agent (as opposed to Principal)

| Year ended 31 December | 2018 £000 | 2017 £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 | 906 | 1,026 |
| – Between two and five years | 362 | 906 |
| | 1,268 | 1,932 |
| Property | | |
| Commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows: | | |
| – Within one year | 11,328 | 9,754 |
| – Between one and five years | 28,217 | 28,909 |
| – Greater than five years | 3,193 | 3,954 |
| | 40,738 | 42,617 |
| Sublease receipts | | |
| Commitments for future minimum lease receipts under non-cancellable operating leases, which fall due as follows: | | |
| – Within one year | 65 | 539 |
| – Between one and five years | 338 | 2,237 |
| – Greater than five years | — | 592 |
| | 403 | 3,368 |

NOTES

Continued

7. Staff costs

Policy

Pensions

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

Staff costs (including Directors) comprise.

| | 2018 £000 | 2017 £000 |
|---|----------------|----------------|
| Year ended 31 December | | |
| Wages and salaries | 150,659 | 148,546 |
| Social security costs | 17,744 | 17,498 |
| Defined contribution pension scheme costs | 2,088 | 2,011 |
| Other staff benefits | 4,541 | 5,149 |
| Total | 175,132 | 173,204 |
| Acquisition related remuneration | | |
| Allocations and dividends paid to conditional share award holders | 1,219 | 389 |
| Contingent acquisition cost with leaver provision | - | 225 |
| Total | 1,219 | 614 |
| Share based incentive plans | | |
| Cash settled | 81 | - |
| Equity settled | 8,104 | 13,501 |
| Total staff costs | 182,536 | 187,319 |
| Staff numbers | | |
| UK | 837 | 783 |
| Europe | 364 | 368 |
| Middle East and Africa | 288 | 314 |
| Asia and Australia | 834 | 708 |
| America | 273 | 310 |
| Total | 2,597 | 2,483 |

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 £2,371k (2017: £1,902k) 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 £17k (2017: £266k).

Key management remuneration

| | 2018 £000 | 2017 £000 |
|-------------------------------|--------------|--------------|
| Year ended 31 December | | |
| Short term employee benefit | 2,878 | 3,077 |
| Post-employment benefit | 17 | 17 |
| Share based payments | 1,055 | 1,192 |
| Total | 3,950 | 4,286 |

8. Auditors' remuneration

The Group paid the following amounts to its auditor(s) in respect of the audit of the financial statements and for other services provided to the Group:

Group auditor's remuneration

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| Year ended 31 December | | |
| Audit services | | |
| Audit of the Company and its consolidated accounts | 478 | 288 |
| Audit of the Company's subsidiaries pursuant to legislation | 290 | 281 |
| Total | 768 | 569 |
| Other services provided by the Auditors | | |
| Taxation compliance services | 29 | 26 |
| Corporate finance services | 38 | 94 |
| Other services | 3 | 3 |
| Total | 70 | 123 |
| Total | 838 | 672 |

NOTES

Continued

9. Net finance income / (costs)

| Policy | 2018 | 2017 |
|---|----------------|----------------|
| £000 | £000 | £000 |
| Financial income and borrowing costs | | |
| Interest income and borrowing costs are recognised in the income statement in the period in which they are incurred | | |
| Year ended 31 December | | |
| Bank interest receivable | 272 | 200 |
| Other interest receivable | 1 | 89 |
| Fair value adjustment to minority shareholder put option liabilities (Note 24) | - | 3,037 |
| Financial income | 273 | 3,326 |
| Bank interest payable | (1,175) | (1,344) |
| Other interest payable | (182) | (2) |
| Fair value adjustment to minority shareholder put option liabilities (Note 24) | (911) | - |
| Financial expense | (2,268) | (1,346) |
| Net finance (costs) / income | (1,995) | 1,980 |

10. Taxation

| Policy | 2018 | 2017 |
|--|-------------|----------------|
| £000 | £000 | £000 |
| Current tax | | |
| 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 | | |
| Year ended 31 December | Note | |
| Taxation in the year | | |
| - UK | | 2,150 |
| - Overseas | | 6,475 |
| Withholding taxes payable | | - |
| Utilisation of previously unrecognised tax losses* | | (25) |
| Adjustment for under / (over) provision in prior periods* | | (482) |
| Total | | 8,118 |
| Deferred taxation | | |
| Origination and reversal of temporary differences | 11 | (1,483) |
| Recognition of previously unrecognised tax losses** | 11 | - |
| Effect of changes in tax rates | 11 | - |
| Total | | (1,483) |
| Total taxation | | 6,635 |

* In 2017 mostly this related to our US offices

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

NOTES

Continued

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 | 2018 £000 | 2018 % | 2017 £000 | 2017 % |
|--|--------------|-----------|--------------|-----------|
| Profit before taxation | 17,598 | | 9,302 | |
| Taxation at UK corporation tax rate of 19.00% (2017: 19.25%) | (3,344) | 19.0% | (1,791) | 19.3% |
| Tax effect of associates | 537 | -3.1% | 373 | -4.0% |
| Non-controlling interest share of partnership income | 284 | -1.8% | 327 | -3.5% |
| Expenses not deductible for tax | (446) | 2.5% | (287) | 3.1% |
| Option charges not deductible for tax | (1,400) | 8.0% | (1,920) | 20.6% |
| Different tax rates applicable in overseas jurisdictions | (1,408) | 8.0% | (606) | 6.5% |
| Effect of changes in tax rates on deferred tax | - | - | (1,666) | 17.9% |
| Withholding taxes payable | - | - | (21) | 0.2% |
| Utilisation of previously unrecognised tax losses | 25 | -0.1% | 817 | -8.8% |
| Recognition of previously unrecognised tax losses | - | - | 121 | -1.3% |
| Adjustment for current tax over provision in prior periods | 447 | -2.5% | (625) | 6.7% |
| Adjustment for deferred tax (under) provision in prior periods | (389) | 2.3% | - | - |
| Tax losses for which no deferred tax asset was recognised | (214) | 1.2% | (43) | 0.5% |
| Fair value adjustments on minority shareholder put options | (173) | 1.0% | 584 | -6.3% |
| Impairment with no tax credit | (544) | 3.0% | - | - |
| Total taxation | (8,835) | 37.7% | (4,736) | 50.9% |
| Statutory tax rate | 37.7% | | 50.9% | |

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 and non-deductible for corporation tax. Over the last five years the statutory tax rate has been in between 27% and 68%

| Year ended 31 December | 2018 £000 | 2018 % | 2017 £000 | 2017 % |
|--|--------------|-----------|--------------|-----------|
| Headline profit before taxation (note 1) | 32,287 | | 27,655 | |
| Taxation at UK corporation tax rate of 19.00% (2017: 19.25%) | (6,136) | 19.0% | (5,324) | 19.3% |
| Tax effect of associates | 537 | -1.7% | 373 | -1.4% |
| Non-controlling interest share of partnership income | 284 | -0.9% | 327 | -1.2% |
| Expenses not deductible for tax | (446) | 1.4% | (287) | 1.0% |
| Different tax rates applicable in overseas jurisdictions | (1,400) | 4.3% | (1,880) | 6.7% |
| Effect of changes in tax rates on deferred tax | - | - | (292) | 1.1% |
| Withholding taxes payable | - | - | (21) | 0.1% |
| Utilisation of previously unrecognised tax losses | 25 | -0.1% | 817 | -3.0% |
| Recognition of previously unrecognised tax losses | - | - | 121 | -0.4% |
| Adjustment for current tax under provision in prior periods | 447 | -1.4% | (625) | 2.3% |
| Adjustment for deferred tax (under) provision in prior periods | (389) | 1.3% | - | - |
| Tax losses for which no deferred tax asset was recognised | (214) | 0.7% | (43) | 0.2% |
| Headline taxation (note 1) | (7,302) | 22.6% | (6,834) | 24.7% |
| Headline effective tax rate | 22.6% | | 24.7% | |

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

Our 2017 result was heavily affected by the passing in December 2017 US tax legislation that reduced US federal tax rate from 35% to 21% from 1 January 2018. This resulted in a revaluation of all deferred tax at the 2017 year end causing a short-term increase in the tax charge in 2017 of \$292k, and by a further \$1,373k due to the remeasurement of deferred tax on intangibles and shares awards. In 2018 this tax rate change has helped reduce our tax charge.

There remains some uncertainty over how Brexit may impact tax legislation, along with the likelihood that future reductions in the UK Corporation tax rates occur. Ignoring these factors, we anticipate our tax rate to increase slightly in the future, due to the sale of the Group's associate Blue 449 in January 2019, which in 2018 accounted for 83% of our associate income.

NOTES

Continued

11. Deferred taxation

Policy

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. Deferred tax is not, however, provided for temporary differences that arise from: (i) 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, (ii) on the initial recognition of Goodwill.

Deferred tax assets are recognised 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 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 current tax liabilities on a net basis.

| | 2018 £000 | 2017 £000 |
|--------------------------|--------------|--------------|
| At 31 December | | |
| Deferred tax assets | 5,687 | 4,797 |
| Deferred tax liabilities | (1,444) | (761) |
| Net deferred tax | 4,243 | 4,036 |

The following is the deferred tax asset (liability) recognised by Group and movements in 2018 and 2017:

| | Intangibles £000 | Capital allowances £000 | Tax losses £000 | Working capital differences £000 | Total £000 |
|---------------------------------------|---------------------|-------------------------------|-----------------------|---|---------------|
| 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 | 1,463 | 1,535 | 4,036 |
| 1 January 2018 | | | | | |
| - IFRS 9 adjustment | - | - | - | (691) | (691) |
| Exchange differences | 132 | - | 22 | (47) | 107 |
| Income statement credit / (charge) | 996 | 22 | 177 | 288 | 1,483 |
| Acquisitions* | | (692) | - | - | (692) |
| At 31 December 2018 | 1,413 | 83 | 1,662 | 1,085 | 4,243 |

* Acquisitions are included in deferred tax liabilities

Within the local entities \$723k (2017: \$186k) of deferred tax has been naturally offset, ignoring such an offset the split of deferred tax is as follows

| | Intangibles £000 | Capital allowances £000 | Tax losses £000 | Working capital differences £000 | Total £000 |
|--------------------------|---------------------|-------------------------------|-----------------------|---|---------------|
| At 31 December 2017 | | | | | |
| Deferred tax assets | 1,679 | 98 | 1,463 | 1,742 | 4,982 |
| Deferred tax liabilities | (702) | (37) | - | (207) | (946) |
| Net deferred tax | 977 | 61 | 1,463 | 1,535 | 4,036 |
| At 31 December 2018 | | | | | |
| Deferred tax assets | 2,353 | 117 | 1,662 | 2,278 | 6,410 |
| Deferred tax liabilities | (940) | (34) | - | (1,193) | (2,167) |
| Net deferred tax | 1,413 | 83 | 1,662 | 1,085 | 4,243 |

NOTES

Continued

Unrecognised deferred tax asset in respect of carried forward tax losses:

| | Loss £000 | Deferred tax impact £000 |
|-------------------------|--------------|--------------------------------|
| At 31 December 2017 | 2,325 | 574 |
| Exchange differences | 26 | (1) |
| Expired losses in year | (292) | (99) |
| Losses utilised in year | (74) | (25) |
| Losses in year | – | – |
| At 31 December 2018 | 1,985 | 449 |
| Expiry date of losses: | | |
| | 2018 £000 | 2017 £000 |
| One to five years | 253 | 387 |
| Five to ten years | – | – |
| Ten years or more | 196 | 187 |
| Total | 449 | 574 |

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.

12. Dividends

Policy

Equity dividends

Equity dividends on ordinary share capital are recognised as a liability in the period in which they are declared. The interim dividend is recognised when it has been approved by the Board and the final dividend is recognised when it has been approved by the shareholders at the Annual General Meeting.

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| Year ended 31 December | | |
| 2017 final dividend paid 7.40p on 6 July 2018 (2016: 6.44p) | 6,261 | 5,032 |
| 2018 interim dividend paid 2.45p on 9 November 2018 (2017: 2.13p) | 2,117 | 1,716 |
| | 8,378 | 6,748 |

The 2017 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 2017.

The 2018 proposed final dividend of 8.51p, totalling £7,566,099. The dividends relate to the profit of the following years:

| | 2018 £000 | 2017 £000 |
|--|--------------|--------------|
| Year ended 31 December | | |
| Interim dividend paid 2.13p on 9 November 2018 (2017: 2.13p) | 2,117 | 1,716 |
| Final dividend payable 8.51p on 5 July 2019 (2017: 7.40p) | 7,586 | 6,261 |
| | 9,883 | 7,977 |
| Headline dividend cover | 2.2 | 2.3 |

Headline dividend cover is calculated by taking headline profit after tax attributable to equity shareholders and dividing it by the total dividend that relates 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

13. Acquisitions

Policy – See below but also the basis of preparation note on page 40

Subsidiary acquisitions

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of acquisition is measured at the aggregate of the fair values of the assets given, liabilities incurred, or subsumed, contingent consideration and equity instruments issued by the Group in exchange for control. The identifiable assets and liabilities (including contingent liabilities) acquired which meet the conditions for recognition under IFRS 3 are recognised at their fair values at the date of acquisition.

The interest of minority shareholders in the acquire 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

During the year, the Group made acquisitions in India (Scarecrow Communications Limited, 'SCL') and the United Kingdom (Red Hare Limited, renamed to M&C Saatchi Social Limited) to enhance its service offering. There have been no adjustments recognised in the current period in terms of the 2017 acquisitions comprised of Bohemia Group Pty Ltd, M&C Saatchi Madrid Srl and Leverage Marketing Agency (PTY) Ltd

As detailed in note 16, the terms of the SCL acquisition are such that a balance of £367k is included when calculating goodwill arising as contingent consideration under IFRS 3. The goodwill so recognised was impaired at year end subsequent to the Group's Goodwill impairment reviews.

Goodwill relates to the value of the acquired entities staff and synergies with the Group's combined client portfolios. There are no local tax deductions for goodwill.

The contribution of the financial performance of the acquisitions made to the Group's result for the year is as follows:

| 2018 | Scarecrow Communications Limited | Red Hare Limited* | Total |
|------------------------------------|--|-------------------------|-------|
| Date of acquisition | 05-Apr | 29-Jun | |
| % Voting interest acquired | 51.0% | 53.7% | |
| Revenue in consolidation | 995 | 3,350 | 4,345 |
| Profit before tax in consolidation | 244 | 472 | 716 |
| Full year revenue | 1,159 | 4,776 | 5,935 |
| Full year profit before tax | 225 | 1,184 | 1,409 |

* This acquisition included a company called Grey Whippet Ltd, both companies had common control, and the trade and assets were merged as part of the acquisition so have been treated as one CGU. Subsequent to acquisition the trading entity has been renamed M&C Saatchi Social Limited

Policy

Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset, being the excess of the cost of consideration over the interest in the fair value of the identifiable net assets acquired

Following initial recognition, goodwill is carried at cost less any accumulated impairment losses (see note 16)

Goodwill at date of acquisition

| 2018 | Note | Scarecrow Communications Limited £000 | Red Hare Limited* £000 | Total £000 |
|---|------|--|---------------------------------|---------------|
| Consideration, satisfied by: | | | | |
| Cash | 14 | 193 | 422 | 615 |
| Equity*** | | 1,758 | 4,744 | 6,502 |
| Deferred consideration | 15 | 367 | 112 | 479 |
| Total consideration | | 2,318 | 5,278 | 7,596 |
| Less – Fair value of net assets made up of: | | | | |
| Brand name intangible | | 552 | – | 552 |
| Customer relationship intangible | | 438 | 1,969 | 2,307 |
| Software | | 28 | – | 28 |
| Plant and equipment | | 135 | – | 135 |
| Trade and other receivables | | 431 | 480 | 911 |
| Cash | | 221 | 1,154 | 1,375 |
| Current (liabilities) | | (258) | (476) | (734) |
| Deferred tax liability | | (336) | (360) | (696) |
| Non-controlling interests share | | – | – | – |
| –Total fair value of net assets | | 1,211 | 2,667 | 3,878 |
| Goodwill arising | 16 | 1,107 | 2,611 | 3,718 |

* 53.7% of the share capital was acquired. Due to the terms of certain equity settled share based payment awards provided to the prior owners of the business who have been retained as employees, under IFRS 3 there is no non-controlling interest to recognise as the Group are considered to have acquired 100% of the equity at acquisition.

** 51.0% of the share capital was acquired. As with the Red Hare transaction, due to the terms of certain equity settled share based payment awards, under IFRS 3 the Group are considered to have acquired 100% of the equity such that there is no non-controlling interest to be recognised.

*** The numbers of shares issued can be found in note 25.

NOTES

Continued

14. Cash consumed by acquisitions

During the period the Group has spent cash in terms of the following acquisitions:

| | Note | 2018 £000 | 2017 £000 |
|--|------|--------------|--------------|
| Subsidiary cash consideration | | | |
| – Bohemia Group Pty Ltd | | – | (1,285) |
| – Levergy Marketing Agency (PTY) Ltd | | – | (993) |
| – Shepardson Stern + Kaminsky LLP | | – | (170) |
| – M&C Saatchi Madrid S.L. | | – | (2) |
| – Scarecrow Communications Limited | 13 | (193) | – |
| – M&C Saatchi Social Limited | 13 | (422) | – |
| – Small purchases of non-controlling interest's equity | | (120) | (29) |
| – Clear Ideas USA LLC | | (198) | – |
| | | (934) | (2,479) |
| Associate cash consideration | | | |
| – Technology Humans and Taste LLC | 17 | (904) | – |
| Less cash and cash equivalents acquired | 13 | 1,375 | 1,528 |
| | | (463) | (951) |

15. Deferred and contingent consideration

Policy

Certain acquisitions made by the Group include contingent consideration, the quantum of which is dependent on the future performance of the acquired entity. Such contingent consideration is recognised as a liability and recorded at fair value in line with IFRS 13 (note 27)

The liability arising is remeasured at the earlier of the end of each reporting period or crystallisation of the consideration payment. The movements in the fair value are recognised in profit or loss.

| | 2017 £000 | 2018 £000 |
|---|--------------|--------------|
| Amounts falling due within one year | | |
| – Contingent** | (273) | (377) |
| – Contingent*** | (367) | – |
| – Deferred consideration* | (112) | – |
| Amounts falling due more than one year but not more than five years | | |
| – Contingent** | (514) | (833) |
| | (1,266) | (1,210) |
| | | |
| | 2018 £000 | 2017 £000 |
| At 1 January | (1,210) | – |
| Exchange difference** | 1 | (114) |
| Acquisition | (478) | (1,056) |
| Charged to income statement** | (37) | (40) |
| Consideration paid in equity** | 459 | – |
| At 31 December | (1,268) | (1,210) |

* This relates to a net asset true up payment on M&C Saatchi Social Limited which will be paid once the 2018 audit is complete

** This relates to contingent consideration for Levergy Marketing Agency (PTY) Ltd, which 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 Levergy Marketing Agency (PTY) Ltd. The amount payable is uncapped. The fair value of contingent consideration is measured in line with IFRS 13 (see note 27)

*** Relates to acquisition of Scarecrow Communications Limited (note 13).

Detail surrounding the fair value measurement of the contingent consideration recognised at year end is provided in note 27.

NOTES

Continued

18. Intangible assets

Policy – See below but also basis of preparation note on page 40

Intangible assets are carried at cost less accumulated amortisation and impairment losses

Cost

Goodwill

Under the acquisition method of accounting for business combinations, goodwill is the fair value of consideration transferred, less the net of the fair values of the identifiable assets acquired and the liabilities subsumed.

Other intangibles acquired as part of a business combination

Intangible assets acquired as part of a business combination (which includes brand names and customer relationships) are capitalised at fair value if they are either separable or arise from contractual or other legal rights and their fair value is able to be reliably measured

Software

Purchased software is recorded at cost

Amortisation

Goodwill is not amortised. Amortisation of other classes of intangible assets is charged to the income statement on a straight-line basis over their estimated useful lives as follows

| | |
|------------------------|----------------------|
| Software | - three years |
| Customer relationships | - one to five years |
| Brand name | - one to three years |

The Group has no indefinite-life intangibles other than goodwill.

Impairment

Impairment reviews are performed as needed and as detailed on page 43. Impairment losses arise when the carrying amount of an asset or CGU is in excess of the recoverable amount and are recognised in the 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.

Intangible assets relating to Brand name and Customer relationships recognised in relation to the acquisition of Shephardson, Stern + Kaminsky LLP in 2016 had their expected lives reduced from 5 years to 3 years from 1 January 2018. At the end of 2018 the remaining net book value of these assets was £200k.

| | Goodwill £000 | Brand name £000 | Customer relationships £000 | Software £000 | Total £000 |
|--|------------------|-----------------------|-----------------------------------|------------------|---------------|
| Cost | | | | | |
| 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 |
| Exchange differences | 814 | – | 189 | (37) | 966 |
| Acquired | – | – | – | 1,046 | 1,046 |
| Acquired through business combination | 3,718 | 552 | 2,307 | 28 | 6,805 |
| Disposal | – | – | – | (23) | (23) |
| At 31 December 2018 | 58,448 | 8,947 | 14,371 | 2,877 | 84,643 |
| Accumulated amortisation and impairment | | | | | |
| At 31 December 2016 | 6,041 | 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 |
| Exchange differences | 257 | 19 | 153 | (11) | 418 |
| Amortisation charge | – | 2,057 | 2,370 | 303 | 4,730 |
| Impairment | 2,121 | – | – | 74 | 2,195 |
| Disposal | – | – | – | (14) | (14) |
| At 31 December 2018 | 15,491 | 7,293 | 11,003 | 1,076 | 34,863 |
| Net book value | | | | | |
| 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 |
| At 31 December 2018 | 42,957 | 1,654 | 3,368 | 1,801 | 49,780 |

NOTES

Continued

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

| Cash generating units (CGUs) | Goodwill 31 December 2018 | Goodwill 31 December 2017 | Segment |
|--|---------------------------|---------------------------|------------------------|
| M&C Saatchi UK Group | 5,977 | 5,977 | UK |
| LIDA Ltd* | 540 | 1,462 | UK |
| M&C Saatchi Sport & Entertainment Ltd | 690 | 690 | UK |
| M&C Saatchi Export Ltd* | - | 600 | UK |
| M&C Saatchi Mobile Ltd | 1,614 | 1,614 | UK |
| M&C Saatchi Merlin Ltd | 539 | 539 | UK |
| Clear Ideas Ltd | 9,508 | 9,508 | UK |
| M&C Saatchi Advertising GmbH | 1,395 | 1,379 | Europe |
| M&C Saatchi Madrid S L | 444 | 439 | Europe |
| M&C Saatchi Middle East Fz LLC (Dubai) | 727 | 685 | Middle East and Africa |
| Creative Spark Interactive (PTY) Ltd (South Africa)* | - | 250 | Middle East and Africa |
| Leveragy Marketing Agency (PTY) Ltd (South Africa) | 986 | 1,057 | Middle East and Africa |
| M&C Saatchi Agency Pty Ltd (Australia) | 2,902 | 2,870 | Asia and Australia |
| Bang Pty Ltd (Australia) | - | - | Asia and Australia |
| Bohemia Group Pty Ltd (Australia) | 1,867 | 1,953 | Asia and Australia |
| Shepardson Stern + Kaminsky LLP | 5,711 | 5,376 | Americas |
| LIDA NY LLP (MCD) | 5,522 | 5,199 | Americas |
| Scarecrow Communications Ltd*** | 744 | - | Asia and Australia |
| M&C Saatchi Social Limited**** | 2,812 | - | UK |
| Total of the four CGUs with goodwill less than £0.5m | 989 | 1,005 | Various |
| Total | 42,957 | 40,803 | |

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

** Named change post-acquisition, previously called Red Hare Ltd

*** New acquisitions in the year, see note 13

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. their value in use).

The 2018 review was undertaken in the last quarter of the year in conjunction with our annual business planning process, due to client losses resulting in management changes and reorganisations it was decided to fully impair M&C Saatchi Export Limited and Creative Spark Interactive (PTY) Ltd. In addition, Goodwill and some internally generated software relating to the UK based LIDA operations (LIDA Ltd) have been partially impaired by £1.0million. Finally, during the year the acquisition of Scarecrow Communications Limited was accounted for such that a total Goodwill of £1.1million was recognised on the date of purchase. Subsequent to this acquisition the Goodwill has been impaired by £367k with a residual position of £744k held at the year end. Cumulatively this has resulted in total goodwill impairments during the year of £2,121k (2017: £5,214k).

With the exception of those entities for which a partial impairment of Goodwill has been recognised and LIDA NY LLP (discussed below) management are satisfied that no possible changes in key assumptions (other than a significant loss of clients by a CGU), would cause the recoverable amount of a CGU to be below their carrying amount. With regards to LIDA NY LLP, although the carrying amount of the net assets of that CGU is below the recoverable amount identified during the impairment review, management note that the headroom for this CGU to avoid impairment is limited. The exposure will, however, significantly reduce over the following two financial years (i.e. to 31 December 2020) as a result of the residual carrying amount of intangible assets attached to the business (as a result of acquisition accounting) being fully amortised by that point (at the end of 2018 the net book value of these intangible assets totalled £1.4million). As a result of the recoverable amount being in excess of the carrying amount in combination with the reduction in net assets in the short term due to the amortisation of the significant intangible assets held by LIDA NY LLP, management have therefore concluded that as at 31 December 2018 there is no requirement for the Goodwill to be impaired. Management intend to closely monitor the performance of this CGU moving forwards. This matter is highlighted below in the sensitivity analyses presented.

All CGU impairment reviews have been performed such that the recoverable amounts have been calculated based on value in use calculations. The value in use calculations have been based on future forecast profitability of each CGU for a period of five years, with residual growth rates applied thereafter to form the basis of discounted future cash flows (DFCs). Where the DCF of a CGU is in excess of its carrying amount then an impairment loss is recognised. It should be highlighted that the CGUs represented by the M&C Saatchi UK Group and the M&C Saatchi Agency Pty Ltd Group are comprised of a number of distinct trading operations. These Groups include an amalgam of entities acquired before 2011. As this was prior to the adoption of IFRS as the Group's accounting framework, there is no requirement to disclose the historic reallocations of Goodwill which would have been required if IFRS had been applied at the point they occurred.

Management have approved the forecasts for 2019 and have prepared additional projections based on the 2019 numbers for the next four years using a 3% expected growth rate. These were used as the basis for determining the recoverable amount of each CGU. In making the forecasts, management have reflected on past performance and present business and economic prospects.

In conducting the review, a year five onward residual growth rate of 3% has been used for all countries with the exception of South Africa where, due to inflation, we have used 10%. Market betas of 1.0 for UK, 1.09 for Europe, 1.0 for Americas and 1.2 for rest of the world have been utilised.

NOTES

Continued

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

| Key assumptions | Residual growth rates 2017 and 2018 % | Pre-tax discount rates 2018 % | Pre-tax discount rates 2017 % |
|--------------------|---------------------------------------|-------------------------------|-------------------------------|
| UK | 3 | 11–12 | 11–13 |
| Asia and Australia | 3 | 13–17 | 13–16 |
| Middle East | 3 | 10–13 | 10–13 |
| India | 3 | 20 | – |
| South Africa | 3 | 23–24 | 24 |
| Europe | 3 | 12–16 | 12–16 |
| Americas | 3 | 12–13 | 12–14 |

The key inputs to the Goodwill impairment reviews are the annual profit forecasts and the discount rates applied to measure the present value of the future forecast cash flows. The sensitivity of the CGUs held as at 31 December 2018 subsequent to the impairments described above are presented below. As noted previously, one CGU, LIDA NY LLP, has a recoverable amount with a limited headroom when compared to the CGUs' carrying amount. In order to present the impact this particular CGU has on the sensitivity analyses two tables are presented – the first including the LIDA NY LLP CGU and the second excluding this CGU

Sensitivity analysis including all CGUs of the Group which have not been impaired in 2018

| Discount rates increased by | Annual profit forecast reduced by | | | |
|-----------------------------|-----------------------------------|---------|---------|---------|
| | 0% | 5% | 10% | 20% |
| 0% | – | (253) | (505) | (1,010) |
| 1% | (593) | (814) | (1,036) | (1,479) |
| 3% | (1,429) | (1,606) | (1,784) | (2,311) |
| 5% | (2,009) | (2,211) | (2,473) | (3,885) |

Sensitivity analysis including all CGUs of the Group which not been impaired in 2018 but excluding LIDA NY LLP

| Discount rates increased by | Annual profit forecast reduced by | | | |
|-----------------------------|-----------------------------------|------|-------|---------|
| | 0% | 5% | 10% | 20% |
| 0% | – | – | – | – |
| 1% | – | – | – | (7) |
| 3% | – | – | – | (171) |
| 5% | – | (74) | (187) | (1,302) |

17. Investments in associates and joint ventures

Policy

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but has neither control nor joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Carrying value

The carrying value of an equity accounted investment comprises the Group's share of net assets and purchased goodwill and is assessed for impairment as a single asset. The carrying amounts of the Group's equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment.

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

As described in note 31, towards the end of the year the Board of Directors finalised plans to dispose of Blue 449. This investment was sold at the start of 2019 and is therefore held as a current asset.

| | 2018 £000 | 2017 £000 |
|--|--------------|--------------|
| At 31 December | | |
| Investments intended to be held in the long term | 9,493 | 19,725 |
| Investments categorised as held-for-sale | 13,106 | – |
| Total equity accounted investments | 22,599 | 19,725 |

NOTES

Continued

The following equity accounted investments are included in the consolidated financial statements:

| Region & Name | Nature of business | Country of incorporation or registration | Investment in associate | | Proportion of voting rights | |
|---|------------------------------|--|-------------------------|---------------|-----------------------------|-----------|
| | | | 2018 £000 | 2017 £000 | 2018 % | 2017 % |
| UK | | | | | | |
| Walker Media Limited | Media buying | UK | 13,108 | 10,748 | 25% | 25% |
| Europe | | | | | | |
| M&C Saatchi Istanbul | Advertising | Turkey | 3 | 449 | 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 | 8,234 | 8,118 | 40% | 40% |
| February Communications Private Limited | Advertising | India | 32 | 280 | 20% | 20% |
| M&C Saatchi Ltd | Advertising | Japan | 23 | 15 | 10% | 10% |
| M&C Saatchi World Services Pakistan (PVT) Ltd | Advertising and Media buying | Pakistan | - | - | 50% | 50% |
| Love Frankie Ltd | Advertising | Thailand | 138 | 115 | 25% | 25% |
| Americas | | | | | | |
| Technology Humans and Taste LLC | Advertising | USA | 1,053 | - | 30% | - |
| Santa Clara Participacoes Ltda | Advertising | Brazil | - | - | 25% | 25% |
| Total | | | 22,588 | 19,725 | | |

All shares in associates are held by subsidiary companies and have no special rights. Where an associate has the right to use our brand name we hold the right to withdraw such use to prevent it being lost and protect it from damage

| | 2018 £000 | 2017 £000 |
|--------------------------------|---------------|---------------|
| At 1 January | 19,725 | 19,277 |
| Exchange movements | 237 | 267 |
| Acquisition of associates | 904 | - |
| Impairment of associates | (874) | - |
| Dividends | (428) | (1,806) |
| Share of profit after taxation | 2,825 | 1,987 |
| At 31 December | 22,589 | 19,725 |

Summarised financial information

| | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | 2018 £000 | 2017 £000 |
|---------------------------|------------|----------------|--------------------------------|----------------------------|------------------|--------------|--------------|
| Income statement | | | | | | | |
| Net revenue | 31,580 | 434 | 2,772 | 8,303 | 4,713 | 47,812 | 38,168 |
| Operating profit | 11,688 | (83) | (612) | 1,586 | 197 | 12,788 | 9,087 |
| Profit before taxation | 11,709 | (68) | (870) | 1,412 | (33) | 12,149 | 8,735 |
| Profit after taxation | 9,455 | (54) | (913) | 1,031 | (127) | 9,392 | 6,447 |
| Group's share | 2,354 | (13) | - | 433 | 51 | 2,825 | 1,987 |
| Dividends received | - | - | - | (428) | - | (428) | 1,806 |

NOTES

Continued

| | UK £000 | Europe £000 | Middle East and Africa £000 | Asia and Australia £000 | Americas £000 | 2018 £000 | 2017 £000 |
|------------------------------------|------------|----------------|---|-------------------------------|------------------|--------------|--------------|
| Balance sheet | | | | | | | |
| Total assets | 108,938 | 261 | 1,748 | 10,352 | 3,812 | 124,911 | 99,988 |
| Total liabilities | (91,798) | (206) | (9,779) | (6,403) | (5,582) | (113,748) | (94,399) |
| Net current assets / (liabilities) | 17,140 | 55 | (8,031) | 3,949 | (1,950) | 11,163 | 5,589 |
| Our share | 4,268 | 14 | (803) | 1,468 | (487) | 4,460 | 2,925 |
| Losses not recognised | - | - | 803 | 180 | 487 | 1,470 | 985 |
| Goodwill | 8,838 | (10) | - | 6,778 | 1,053 | 16,859 | 15,815 |
| Total investments | 13,106 | 4 | - | 8,426 | 1,053 | 22,589 | 19,725 |

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 further disaggregated as, in the view of the Directors, this would produce a note of disproportionate length given the materiality of the investments held.

18. Plant and equipment

Policy

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% straight line basis |
| Computer equipment | - 33% straight line basis |
| Other equipment | - 25% straight line basis |
| Motor vehicles | - 25% straight line basis |

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 costs to sell and the value in use.

| | Leasehold improvements £000 | Furniture, fittings and other equipment £000 | Computer equipment* £000 | Motor vehicles £000 | Total £000 |
|-----------------------------|-----------------------------------|--|--------------------------------|---------------------------|---------------|
| Cost | | | | | |
| 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) | (585) |
| At 31 December 2017 | 12,265 | 7,948 | 8,245 | 198 | 28,656 |
| Exchange differences | (14) | 22 | 50 | (11) | 47 |
| Additions | 1,556 | 853 | 2,155 | 73 | 4,637 |
| Acquisition of subsidiaries | 50 | 77 | 8 | - | 135 |
| Disposals | (253) | (62) | (232) | (152) | (699) |
| At 31 December 2018 | 13,804 | 8,838 | 10,226 | 108 | 32,776 |
| Depreciation | | | | | |
| 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 | 5,698 | 98 | 16,387 |
| Exchange differences | 10 | 38 | 43 | (5) | 86 |
| Depreciation charge | 1,329 | 845 | 1,353 | 31 | 3,558 |
| Reclassifications | - | - | - | - | - |
| Disposals | (187) | (18) | (210) | (114) | (529) |
| At 31 December 2018 | 6,709 | 5,899 | 6,884 | 10 | 19,502 |
| Net book value | | | | | |
| 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 |
| At 31 December 2018 | 6,895 | 2,939 | 3,342 | 98 | 13,274 |

NOTES

Continued

Finance leases

Policy

Leases are classified as finance leases when 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 future lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor (note 22). 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.

The net book value of assets held under finance lease are as follows

| | Leasehold improvements £000 | Furniture, fittings and other equipment £000 | Computer equipment* £000 | Motor vehicles £000 | Total £000 |
|---------------------|-----------------------------------|--|--------------------------------|---------------------------|---------------|
| At 31 December 2016 | - | 5 | 89 | 95 | 189 |
| At 31 December 2017 | - | - | 47 | 112 | 159 |
| At 31 December 2018 | - | - | 82 | 71 | 163 |

19. Other non-current assets

Policy

Loans to employees

Represent financial assets at amortised cost and subsequently measured using the effective interest rate method.

| | 2018 £000 | 2017 £000 |
|---------------------------------------|--------------|--------------|
| At 31 December | | |
| Other debtors including rent deposits | 1,958 | 1,223 |
| Corporate venturing investments* | - | 5,760 |
| Loans to employees** | 2,238 | 2,288 |
| Call option provision | 54 | 54 |
| Total other non-current assets | 4,248 | 9,325 |

* Due to the Adoption of IFRS 9 (note 2) these financial assets are recognised separately. See note 19b below.

** Relates to Australian and South African loans held at amortised cost. The Australian loans relate to AUD3.3m (2017 AUD3.3m) 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 (though 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 approximately equates fair value. The South African loan relate to £435k (2017 £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 loans approximately equate to fair value.

19b. Financial assets at fair value through profit and loss (FVTPL)

Policy

The Group holds certain unlisted equity investments which are classified as financial assets at FVTPL. These investments are initially recognised at their fair value. At the end of each reporting period the fair value is reassessed with gains or losses being recognised in the income statement.

| At 31 December | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| 1 January adoption IFRS9. | | |
| Transferred from other non-current assets | 5,759 | - |
| Revaluation | 4,835 | - |
| 1 January 2018 total | 10,594 | - |
| Additions | 780 | - |
| Revaluation | 1,584 | - |
| Corporate venturing investments | 12,958 | - |

As at 31 December 2017 these financial assets were previously held at cost less any impairment. Subsequent to the adoption of IFRS 9 these assets are now held at fair value. Due to the Group having adopted IFRS 9 prospectively there has been no restatement of the comparatives. At 31 December 2017 the investments in question were included in the financial statements as 'Other non-current assets' as shown above. During the year there was an increase in the fair value of £1,584k which has been taken to other gains in the income statement.

For detail regarding the adoption of IFRS 9 see note 2 and disclosure surrounding the basis of the estimation of the value of the unlisted equity investments is held at note 27.

NOTES

Continued

The unlisted equity investments are in 20 (2017: 19) early stage companies. The most we have invested in any one company over time is £0.6m and the least £0.1m. The Group invests in these entrepreneurs for long term return and to gain knowledge and insight. We are not sector specific however we will only invest in offerings that we can understand.

20. Trade and other receivables

Policy

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. These financial assets give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding. They are generally due for settlement within 30 - 90 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional. The Group holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Impairment - Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance ('ECL') for all trade receivables and contract assets. To calculate the lifetime ECL the Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environments in which the Group operates.

| | 2018 £000 | 2017 £000 |
|--|----------------|----------------|
| Trade receivables | 115,200 | 86,280 |
| Loss allowance | (873) | (2,741) |
| Net trade receivables | 114,327 | 83,539 |
| Prepayments* | 7,646 | 23,997 |
| Amounts due from associates | 579 | 1,717 |
| VAT and sales tax recoverable | 2,065 | 2,026 |
| Contract assets** | 10,943 | - |
| Other receivables*** | 15,381 | 8,817 |
| Total trade and other receivables | 150,941 | 120,096 |

* In 2017 this balance related to prepayments and accrued income, with accrued income totalling £10,820k.

** The movement in the contract asset position from 1 January 2018 (at adoption of IFRS 15) to 31 December 2018 solely relates to changes in the recognition of accrued income at the start and end of the period.

*** Included within the 2018 Other receivables balance is an amount of £5,387k relating to outlays incurred on behalf of clients not yet charged. In 2017 this amount was included within the prepayment balance of £24.0milion as accrued income.

Set out below is the movement in the loss allowance (which includes provision for expected credit losses) of trade receivables and contract assets

| | 2018 £000 | 2017 £000 |
|--|--------------|----------------|
| As at 1 January | (2,741) | (2,107) |
| Adoption of IFRS 9 (expected credit loss)* | (276) | - |
| Provision for expected credit losses during the year | 72 | - |
| Forward looking provision for specific bad debts** | | |
| - Charge during the year | (509) | (859) |
| - Released during the year | 2,492 | - |
| - Utilisation of provision | 91 | 214 |
| Foreign exchange movement | (2) | 11 |
| Total loss allowance | (873) | (2,741) |

* Upon transition to IFRS 9 the Group has recognised a loss allowance under the forward looking ECL approach. The Group has elected to apply IFRS 9 prospectively, and as such has not restated the prior year comparatives (Note 2).

** Included within the specific bad debt loss allowance at the end of the prior year was one item relating to a specific debt with one customer totalling £1,890k. This amount has been subsequently paid and as such has been released from the specific bad debt provision after the year end.

The information about credit exposures are disclosed in note 28.

NOTES

Continued

21. Trade and other payables

Policy

Trade and other liabilities are non-interest bearing and are stated at their amortised cost subsequent to initial recognition at their fair value, which is considered to be equivalent to their carrying amount due to their short-term nature.

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| Trade creditors | (71,076) | (51,893) |
| Contract liabilities* | (32,865) | - |
| Sales taxation and social security payables | (9,247) | (8,602) |
| Employment benefit accruals | (1,550) | (1,798) |
| Accruals | (23,940) | (39,250) |
| Deferred income* | - | (20,694) |
| Other payables | (3,949) | (6,019) |
| | (142,827) | (128,256) |

* Under IFRS15 Deferred income is now termed contract liabilities and is shown separately on the Balance Sheet

Settlement of trade and other payables is in accordance with the terms of trade established with the Group's local suppliers.

Interest payable related to borrowings of £147k (2017: £148k) is included within Accruals.

The movement in the contract liability position from 1 January 2018 (at adoption of IFRS 15) to 31 December 2018 solely relates to changes in the recognition of deferred income at the start and end of the period.

22. Borrowings

Policy

Loans and overdrafts are recognised initially at fair value, less attributable transaction costs. Subsequently loans and overdrafts are recorded at amortised cost with interest charged to the income statement under the Effective Interest Rate (EIR) method. Where there is a significant change to the future cash flows the EIR is reassessed with an according change in the carrying amount of the amortised cost. The change in the carrying amount is recognised in profit or loss as income or expense.

Interest payable is included within accruals as a current liability.

The Group uses an invoice discounting facility secured against pledged trade receivables. As the Group retains the risk and rewards of the trade receivables pledged in terms of the business model of 'hold to collect' the Group continues to recognise these trade receivables with amounts drawn on the facility treated as a current liability at amortised cost.

| Amounts due within one year | 2018 £000 | 2017 £000 |
|----------------------------------|--------------|--------------|
| At 31 December | | |
| Obligations under finance leases | (7) | (27) |
| Overdrafts* | (11,754) | - |
| Local bank loans | (208) | (789) |
| Invoice discounting* | (2,001) | (2,915) |
| | (14,060) | (3,731) |

* These overdrafts are offsettable, however they have not been netted off in accordance with IAS32.42.

** The amounts borrowed under the invoice discounting facility represent 60% of the receivables balance pledged. As at the balance sheet date, £3.0m (2017: £1.9m) was not drawn under this facility. Interest is charged at 1.75% per annum on amounts drawn.

| Amounts due after one year | 2018 £000 | 2017 £000 |
|----------------------------------|--------------|--------------|
| At 31 December | | |
| Obligations under finance leases | (151) | (106) |
| Local bank loans | (18) | (228) |
| Secured bank loans | (38,372) | (37,430) |
| | (38,541) | (37,764) |

NOTES

Continued

Secured bank loans

At the year end, the Group had a banking facility of up to £38m (2017, £40m) plus a one year £10.0m (2017: £0.3m) overdraft facility. On 29 November 2017 it was agreed that this facility would reduce to £36m on 31 December 2019. The facility has a floating rate 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 is set to mature on 30 April 2020. In return for the facility the Group gives the bank guarantee over key UK, Dutch and Australian companies

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| At 31 December | | |
| Gross secured bank loans | (38,502) | (37,658) |
| Capitalised finance costs | 130 | 228 |
| Net secured bank loans | (38,372) | (37,430) |
| Future interest payable on secured bank loans at balance sheet date | (1,588) | (2,215) |
| Total secured bank loans and future interest | (39,960) | (39,645) |

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

| | 2018 £000 | 2017 £000 |
|--|--------------|--------------|
| At 31 December | | |
| In one year or less, or on demand | (1,185) | (950) |
| In more than one year but not more than five years | (38,775) | (38,695) |
| | (39,960) | (39,645) |

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

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| At 31 December | | |
| In one year or less, or on demand | (7) | (27) |
| In more than one year but not more than two years | (151) | (106) |
| | (158) | (133) |

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

| | Gross secured bank loans £000 | Local bank loans £000 | Invoice discounting £000 | Total secured loans* £000 | Obligations under finance lease £000 | Total £000 |
|----------------------------|--|--------------------------------|--------------------------------|------------------------------------|--|---------------|
| At 1 January 2017 | (28,582) | — | (3,645) | (32,227) | (43) | (32,270) |
| Cash movements | (10,097) | 216 | 730 | (9,151) | 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) | (2,915) | (41,590) | (133) | (41,723) |
| Cash movements | (329) | 690 | 914** | 1,275 | 45 | 1,320 |
| Non-cash movements | | | | | | |
| – Foreign exchange changes | (515) | 11 | — | (503) | (5) | (509) |
| – Fixed asset additions | — | — | — | — | (65) | (65) |
| – Acquisitions | — | — | — | — | — | — |
| At 31 December 2018 | (38,502) | (316) | (2,001) | (40,819) | (158) | (40,977) |

* The borrowing used to calculate net cash.

** The net movement of £914k (2017: £730k) is inclusive of total drawdowns during the year of £44.4m (2017: £58.1m) and repayments of £45.3m (2017: £57.4m).

23. Other non-current liabilities

| | 2018 £000 | 2017 £000 |
|--------------------------------|--------------|--------------|
| 31 December | | |
| Employment benefit provisions* | (548) | (499) |
| Other | (1,398) | (1,988) |
| | (1,946) | (2,487) |

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

NOTES

Continued

24. Minority shareholder put option liabilities

Policy – See below but also Basis of Preparation note on page 42

Put option liabilities are recognised at the fair value of the underlying award on the date of inception both as a liability on the balance sheet and a corresponding amount being recognised in the minority interest put option reserve. Subsequently, at each reporting date, the fair value of the liability is reassessed with the gain or loss being recognised in the income statement.

Upon exercise of an award by a holder the liability is extinguished and the associated minority interest put option reserve is transferred to the non-controlling interest acquired reserve.

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).

| | 2018 £000 | 2017 £000 |
|---|-----------------|-----------------|
| As at 31 December | | |
| Amounts falling due within one year | | |
| – Cash | – | (1,319) |
| – Equity | (12,327) | (13,494) |
| | (12,327) | (14,813) |
| Amounts falling due after one year, but less than three years | | |
| – Cash | (1,713) | (2,014) |
| – Equity | (4,350) | (8,302) |
| | (6,063) | (10,316) |
| | (18,390) | (25,129) |

| | 2018 £000 | 2017 £000 |
|--|-----------------|-----------------|
| At 1 January | (25,129) | (33,166) |
| Exchange difference | (13) | 75 |
| Exercises | 7,663 | 4,925 |
| Income statement gain / (charge) due to: | | |
| – Change in estimates | (2,664) | 2,613 |
| – Change in share price | 1,742 | 401 |
| – Time | 11 | 23 |
| Total income statement charge | (911) | 3,037 |
| At 31 December | (18,380) | (25,129) |

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

| | 2018 £000 | 2017 £000 |
|--|----------------|----------------|
| Cash based | | |
| At 1 January | (3,333) | (3,299) |
| Exchange difference | (11) | 75 |
| Reclassified to equity based | 1,446 | 23 |
| Income statement gain / (charge) due to: | | |
| – Change in estimates | 141 | (175) |
| – Change in share price | 44 | 33 |
| – Time | – | 10 |
| At 31 December | (1,713) | (3,333) |

NOTES

Continued

| Equity based | 2018 shares* '000 | 2018 £000 | 2017 £000 |
|-----------------------------------|-------------------------|--------------|--------------|
| At 1 January | (5,867) | (21,796) | (29,867) |
| Exercises | 2,014 | 7,663 | 4,925 |
| Reclassified (from)/to cash based | (500) | (1,446) | (23) |
| Income statement charge due to | | | |
| – Change in estimates | (2,008) | (2,806) | 2,788 |
| – Change in share price | 587 | 1,697 | 369 |
| – Time | 4 | 11 | 13 |
| At 31 December | (5,770) | (16,677) | (21,796) |

* The estimated number of M&C Saatchi plc shares that will be issued to fulfil at 289 Op (2017: 371.5p)

At each period end, the fair value of the put option liability is calculated in accordance with the shareholders' agreement, and any movements 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 (2018: 289 Op; 2017: 371.5p).

The liability value will vary with both our share price and the subsidiary enterprises' performance. Current liabilities are determined by our year end share price and the 2018 results of the companies who can exercise in 2019. Non-current liabilities are determined by our year end share price and the projected results of the companies who can exercise after 2019. 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 margins. Such accounts changes are far more significant than changes to exchange rates and underlying economic growth rates.

The Group's approach relating to the valuation of the minority interest put options is detailed in note 27.

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 |
| FCINQ SAS | 2018 | 18.0 |
| M&C Saatchi Sport & Entertainment LLP (US) | 2018 | 23.0 |
| M&C Saatchi Sport & Entertainment Pvt Ltd | 2018 | 34.0 |
| Talk PR Ltd | 2018 | 39.0 |
| M&C Saatchi UK PR LLP | 2018 | 0.3 |
| M&C Saatchi Corporate SAS | 2018 | 29.8 |
| M&C Saatchi (Switzerland) SA | 2018 | 20.0 |
| M&C Saatchi Merlin Ltd | 2018 | 25.0 |
| The Source (London) Ltd | 2018 | 10.0 |
| M&C Saatchi Brazil Comunicação LTDA | 2018 | 40.0 |
| Shepardson Stern + Kaminsky LLP | 2019 | 33.3 |
| M&C Saatchi Agency Pty Ltd | 2020 | 20.0 |
| Creative Spark Interactive (PTY) Ltd | 2020 | 10.0 |

NOTES

Continued

25. Issued share capital

Allotted, called up and fully paid

Policy

Ordinary shares are classified as equity. Incremental costs attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from proceeds.

Where the Group reacquires its own equity instruments (treasury shares), the consideration paid is deducted from equity attributable to owners of the Group and recognised within the treasury reserve.

| | Number of shares | 1p Ordinary shares £000 |
|--|---------------------|-------------------------------|
| At 31 December 2016 | 74,950,196 | 749 |
| Acquisition 16.566% of Shepardson 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% UDA 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 |
| Exercise of Mobile USA share options | 1,979,782 | 20 |
| Acquisition of 51% of Scarecrow Communications Ltd | 450,639 | 5 |
| Acquisition of 20% M&C Saatchi Merlin Ltd | 250,760 | 3 |
| Acquisition of 40.3% M&C Saatchi PR UK LLP | 1,221,979 | 12 |
| Acquisition 53% of Red Hare Ltd | 1,320,324 | 13 |
| Contingent consideration Leverage Marketing Agency Pty Ltd | 117,733 | 1 |
| Acquisition 24.5% LIDA NY LLP | 315,681 | 3 |
| Acquisition 10% M&C Saatchi Advertising GmbH | 514,947 | 5 |
| Acquisition of small percentages of US and Swedish subsidiaries | 98,906 | 1 |
| At 31 December 2018 | 87,603,553 | 876 |

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

NOTES

Continued

26. Share based payments

Policy

Certain of the Group's subsidiaries' local entrepreneurs (who are Minority Interests of the Group) have the right to a put option over the equity they hold in the relevant subsidiary. This put option is dependent upon the holders continued employment by the group and is only redeemable in shares of M&C Saatchi plc. As such these schemes are accounted for under IFRS 2 as equity-settled share-based payments to employees.

The fair value of the awards are calculated at the grant date of each scheme based on the Group's estimate of shares that will ultimately vest, which includes assumptions over conditions such as profitability of the subsidiary to which the awards relate. This value is recognised as an expense in the income statement over the vesting period of the award on a straight-line basis with a corresponding increase in equity.

The fair value of the awards is calculated by means of a Monte Carlo model with inputs made in terms the plc share price at date of grant, risk free rate, historic volatility of share price, dividend yield and time to vest.

Upon exercise of the awards the nominal value of the shares issued is credited to share capital with the balance of the fair value award credited to share premium. The minority interest to which the awards was attached is concomitantly extinguished.

Inputs to Monte Carlos used to calculate the fair value of share awards made during the year are as follows:

| | 2018 | 2017 |
|-------------------------------|---------------|---------------|
| Share price at grant | £2.88 - £3.90 | £3.30 - £3.55 |
| Expected volatility | 29% - 34% | 29% - 32% |
| Risk free rate | 0.72% - 1.11% | 0.28% - 1.05% |
| Dividend yield | 2.44% - 3.31% | 2.33% - 2.60% |
| Fair value of award per share | £1.54 - £3.73 | £1.96 - £3.14 |

The total fair value of each award, expense recognised in the year plus grant and vesting dates can be seen on pages 93 to 95.

Expense recognised in the year

| | 2018 £000 | 2017 £000 |
|----------------|--------------|---------------|
| Equity settled | 6,104 | 13,501 |
| Cash settled | - | - |
| Total | 6,104 | 13,501 |

Vested and exercised award activity

| | Conditional share awards | Total number |
|---------------------|-----------------------------|-----------------|
| At 1 January 2017 | 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 |
| Vested | 2,901,331 | 2,644,544 |
| Exercised* | (2,368,053) | (2,052,372) |
| At 31 December 2018 | 1,725,633 | 1,784,527 |

* The average price when these options were exercised was 393.18p (2017: 328.75p).

The conditional share awards are conditional that the employee remains employed by the Group on the day of exercise. Vesting relates to those shares that can be exercised at the year end.

Share option activity included LTIP awards made to the Directors of the Group are discussed in terms of the work of the remuneration committee (see page 27).

NOTES

Continued

28. Share based payments continued

Share option schemes outstanding at the end of the year are shown as follows:

| | Grant date | MI shareholding by voting right | Total charge to vesting £000 | Vesting date*** | Charge for 2018 £000 | Charge for 2017 £000 |
|------------------------------------|------------|--|------------------------------------|--------------------|----------------------------|----------------------------|
| M&C Saatchi Network Ltd** & *** | 05/05/2015 | 0.00% | £931 | 15/04/2017 | - | £137 |
| M&C Saatchi Network Ltd | 05/05/2015 | 5.00% | £2,581 | 15/04/2019 | £654 | £654 |
| M&C Saatchi LA Inc | 16/12/2004 | 5.00% | £184 | 15/04/2020 | £12 | £12 |
| M&C Saatchi LA Inc | 15/01/2015 | 4.00% | £350 | 15/04/2020 | £67 | £67 |
| M&C Saatchi Shop Ltd | 03/12/2015 | 2.50% | £23 | 15/04/2020 | £5 | £(10) |
| M&C Saatchi Shop Ltd | 03/12/2015 | 2.50% | £21 | 15/04/2021 | £4 | £(8) |
| M&C Saatchi Shop Ltd | 03/12/2015 | 2.50% | £20 | 15/04/2022 | £3 | £(6) |
| M&C Saatchi Accelerator Ltd | 26/11/2015 | 6.70% | £141 | 15/04/2020 | £32 | £32 |
| M&C Saatchi Accelerator Ltd | 26/11/2015 | 6.70% | £158 | 15/04/2021 | £29 | £29 |
| M&C Saatchi Accelerator Ltd | 26/11/2015 | 6.70% | £145 | 15/04/2022 | £23 | £23 |
| M&C Saatchi Mobile Singapore | 24/06/2015 | 5.00% | £101 | 15/04/2020 | £21 | £21 |
| M&C Saatchi (S) Pte Ltd | 01/09/2013 | 20.00% | £347 | 15/04/2019 | £62 | £62 |
| M&C Saatchi Tel Aviv Ltd | 21/04/2015 | 20.00% | £104 | 15/04/2020 | £21 | £21 |
| LIDA NY LLP | 15/03/2016 | 24.50% | £1,911 | 30/11/2018 | £645 | £705 |
| M&C Saatchi SpA | 09/12/2015 | 20.00% | £1,332 | 15/04/2019 | £397 | £397 |
| Paris GAD Holding SAS | 24/02/2016 | 40.00% | - | 01/05/2020 | - | - |
| M&C Saatchi Share Inc | 12/06/2015 | 20.00% | - | 15/04/2020 | - | - |
| M&C Saatchi AB | 11/02/2014 | 40.00% | £787 | 01/12/2017 | - | £180 |
| M&C Saatchi Middle East Holdco Ltd | 23/03/2016 | 20.00% | £22 | 15/04/2019 | £7 | £7 |
| M&C Saatchi Worldwide Ltd | 01/06/2016 | 0.00% | £977 | 01/01/2019 | £378 | £378 |
| M&C Saatchi Worldwide Ltd | 18/07/2016 | 0.00% | £57 | 01/01/2019 | £23 | £23 |
| M&C Saatchi Mobile Ltd*** | 23/08/2016 | 5.00% | £3,000 | 02/05/2017 | - | £1,943 |
| M&C Saatchi Mobile Ltd*** | 23/08/2016 | 5.00% | £1,000 | 27/08/2017 | - | £648 |
| M&C Saatchi Mobile Ltd*** | 23/08/2016 | 10.00% | £4,000 | 09/08/2017 | - | £3,335 |
| M&C Saatchi Mobile Ltd | 15/04/2018 | 10.00% | £2,106 | 15/04/2018 | £369 | £1,532 |
| M&C Saatchi Mobile USA** & *** | 28/10/2016 | 0.00% | £1,537 | 27/08/2017 | - | £1,212 |
| M&C Saatchi Mobile USA** & *** | 28/10/2016 | 0.00% | £1,537 | 14/10/2018 | - | £1,400 |
| M&C Saatchi Mobile USA** | 28/10/2016 | 0.00% | £806 | 15/04/2020 | £233 | £233 |
| M&C Saatchi Berlin GMBH | 14/12/2016 | 13.30% | £497 | 15/04/2021 | £115 | £172 |

NOTES

Continued

| | Grant date | Mt shareholding by voting right | Total charge to vesting £000 | Vesting date*** | Charge for 2018 £000 | Charge for 2017 £000 |
|--|------------|--|------------------------------------|--------------------|----------------------------|----------------------------|
| M&C Saatchi Digital GmbH | 14/02/2017 | 25.00% | £154 | 15/04/2022 | £30 | £26 |
| Clear Ideas Ltd – B shares (Group) | 03/03/2017 | 5.00% | £282 | 15/04/2022 | £55 | £46 |
| Clear Ideas Ltd – C shares (UK) | 03/03/2017 | 15.00% | £617 | 15/04/2022 | £121 | £98 |
| Clear LA LLC | 28/03/2017 | 12.00% | £78 | 15/04/2022 | £16 | £12 |
| Human Digital Ltd | 12/04/2017 | 11.50% | £120 | 15/04/2021 | £30 | £22 |
| Human Digital Ltd | 12/04/2017 | 11.50% | £89 | 15/04/2022 | £18 | £13 |
| Human Digital Ltd | 12/04/2017 | 17.00% | £89 | 15/04/2023 | £16 | £12 |
| M&C Saatchi, S A DE, C.V | 01/07/2017 | 41.00% | £309 | 15/04/2023 | £53 | £27 |
| M&C Saatchi Sports & Entertainment Ltd | 31/10/2017 | 30.00% | £596 | 15/04/2022 | £134 | £22 |
| Levergy Marketing Agency Pty Ltd | 15/11/2017 | 11.90% | £238 | 15/04/2021 | £70 | £9 |
| M&C Saatchi PR International Ltd | 29/11/2017 | 13.30% | £105 | 15/04/2022 | £24 | £2 |
| M&C Saatchi PR International Ltd | 29/11/2017 | 13.30% | £93 | 15/04/2023 | £17 | £2 |
| M&C Saatchi PR International Ltd | 29/11/2017 | 13.30% | £82 | 15/04/2024 | £13 | £1 |
| Re Worldwide Ltd – B shares | 01/01/2018 | 27.50% | £513 | 31/12/2022 | £102 | – |
| Re Worldwide Ltd – C shares | 01/01/2018 | 22.40% | £418 | 31/12/2022 | £83 | – |
| M&C Saatchi Sports & Entertainment LA LLC – B units | 01/01/2018 | 25.00% | £202 | 24/04/2022 | £47 | – |
| M&C Saatchi Sports & Entertainment LA LLC – C units | 01/01/2018 | 25.00% | £202 | 24/04/2022 | £47 | – |
| Greenhouse Pty Ltd – 4 year | 01/01/2018 | 11.00% | £0 | 15/01/2022 | – | – |
| Greenhouse Pty Ltd – 5 year | 01/01/2018 | 1.80% | £0 | 15/01/2023 | – | – |
| Greenhouse Pty Ltd – 6 year | 01/01/2018 | 7.20% | £10 | 15/01/2024 | – | – |
| The Source Insight Australia Pty Ltd – First tranche | 15/02/2018 | 14.00% | £123 | 15/01/2022 | £28 | – |
| The Source Insight Australia Pty Ltd – Second tranche | 15/02/2018 | 21.00% | £158 | 25/01/2025 | £20 | – |
| M&C Saatchi Holdings Asia Pte Ltd – tranche 1 | 20/03/2018 | 27.40% | £58 | 02/09/2024 | £10 | – |
| M&C Saatchi Holdings Asia Pte Ltd – tranche 2 | 20/03/2018 | 22.50% | £57 | 07/09/2024 | £7 | – |
| Scarecrow Communications Ltd – First option | 01/05/2018 | 24.50% | £339 | 20/01/2020 | £132 | – |
| Scarecrow Communications Ltd – Second option | 01/05/2018 | 24.50% | £359 | 20/01/2022 | £64 | – |
| M&C Saatchi Social Ltd – First tranche | 29/06/2018 | 24.50% | £1,642 | 30/06/2021 | £277 | – |
| M&C Saatchi Social Ltd – Second tranche | 29/06/2018 | 24.50% | £1,341 | 30/06/2023 | £136 | – |
| M&C Saatchi Sponsorship SL | 01/02/2018 | 49.00% | – | 01/02/2023 | – | – |

NOTES

Continued

| | Grant date | M1 shareholding by voting right | Total charge to vesting, £000 | Vesting date*** | Charge for 2018 £000 | Charge for 2017 £000 |
|---|------------|------------------------------------|-------------------------------------|--------------------|----------------------------|----------------------------|
| M&C Saatchi Send Me A Sample Ltd – B1 shares | 02/07/2018 | 10.00% | £148 | 15/04/2023 | £15 | – |
| M&C Saatchi Send Me A Sample Ltd – B2 shares | 02/07/2018 | 10.00% | £190 | 15/04/2024 | £16 | – |
| M&C Saatchi Send Me A Sample Ltd – B3 shares | 02/07/2018 | 10.00% | £197 | 15/04/2025 | £14 | – |
| M&C Saatchi UK Ltd | 06/07/2018 | 30.00% | £662 | 15/04/2023 | £88 | – |
| M&C Saatchi Advertising GmbH | 12/07/2018 | 4.10% | £18 | 15/04/2023 | £2 | – |
| M&C Saatchi Mobile Ltd* | 10/08/2018 | n/a | £1,340 | per annum* | £1,330 | – |
| M&C Saatchi Advertising GmbH | 01/10/2018 | 10.00% | £5 | 15/04/2024 | £0 | – |
| M&C Saatchi Sports & Entertainment NY LLP | 01/11/2018 | 15.50% | – | 15/04/2024 | – | – |
| M&C Saatchi Asia Hong Kong Ltd – B shares | 23/11/2018 | 30.00% | £211 | 15/04/2024 | £4 | – |
| Talk PR Ltd | 23/11/2018 | 10.00% | – | 15/04/2023 | – | – |
| Majority LLC | 30/11/2018 | 50.00% | £104 | 15/04/2024 | £2 | – |
| Talk Purpose Ltd – B1 shares | 07/12/2018 | 6.00% | £82 | 15/05/2024 | £1 | – |
| Talk Purpose Ltd – B2 shares | 07/12/2018 | 6.00% | £56 | 15/04/2025 | £1 | – |
| Talk Purpose Ltd – B3 shares | 07/12/2018 | 8.00% | £68 | 15/04/2026 | £1 | – |
| Total | | | | | £6,104 | £13,501 |

* Award relates to a scheme provided to one employee of the Company. Scheme is remunerated exclusively in shares of the Group in reward dependent on future employment status of the employee. The terms of the award are such that it is in place for perpetuity as long the individual remains an employee with rewards remunerated on a per annum basis dependent on the performance of the business to which it is attached on a calendar year basis. As the value of the award is solely dependent on the future performance of the subsidiary enterprise with no inputs related to the overall performance of the Group in terms of market capitalisation or profitability, there is no requirement for an option pricing model to be used when determining future fair value of this equity settled share-based payment award.

** Entities which have provided put option awards to employees attached to classes of share which are capital in nature but have neither voting rights nor rights to distribution.

*** Fully exercised.

NOTES

Continued

27. Fair value measurement

Policy – See basis of preparation note on page 43

Certain of the Group's financial assets and liabilities, in addition to certain non-financial assets and liabilities are held at fair value

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date.

Financial and non-financial assets and liabilities measured at fair value in the Balance Sheet are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3: unobservable inputs for the asset or liability.

The Group holds both assets and liabilities which are measured at fair value on a recurring basis and those which are measured at fair value on a non-recurring basis. Items measured at fair value on a non-recurring basis typically relate to non-financial assets arising as a result of business combinations as accounted for under the acquisition method. In this regard, during the year the Group has recognised additions to intangible assets (brand names and customer lists) totalling £2,859k (2017: £2,591k). These assets fall within Level 3 of the IFRS 13 hierarchy and are described in note 16.

In addition, the Group also calculates the fair value of certain non-financial assets when there is the need to conduct an impairment review. These calculations also fall within Level 3 of the IFRS 13 hierarchy and where applicable are described in note 16.

Assets and liabilities measured at fair value on a recurring basis

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at 31 December 2018 and 31 December 2017

| At 31 December 2018 | Level 1 £000 | Level 2 £000 | Level 3 £000 |
|------------------------------|-----------------|-----------------|-----------------|
| Financial assets | | | |
| Equity investments at FVTPL* | - | - | 12,958 |
| Financial liabilities | | | |
| Contingent consideration | - | - | (1,154) |
| MI put option liabilities | - | - | (18,390) |
| At 31 December 2017 | | | |
| Financial assets | | | |
| Equity investments at FVTPL* | - | - | 10,596 |
| Financial liabilities | | | |
| Contingent consideration | - | - | (1,210) |
| MI put option liabilities | - | - | (25,129) |

* Prior to the adoption of IFRS 9 these items were held at cost. As part of transition to IFRS 9 the fair value of these items as at 1 January 2018 has been calculated

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

NOTES

Continued

The movements in the fair value of the level 3 recurring financial assets and liabilities are shown as follows

| | Equity instruments at FVTPL £000 | Contingent consideration £000 | Put option liabilities £000 |
|--|---|-------------------------------------|-----------------------------------|
| At 1 January | 10,595 | (1,210) | (25,129) |
| Net (loss) / gain in the income statement | 1,584 | (37) | (911) |
| Net profit / (loss) in other comprehensive income | – | – | – |
| Additions | 780 | (367) | – |
| Settlement | – | 459 | 7,663 |
| Currency movements | (2) | 1 | (13) |
| At 31 December | 12,958 | (1,154) | (18,390) |

Movements in the contingent consideration and put option liabilities are recognised as finance (costs) / gains whilst the Equity instruments at FVTPL are recognised as other income and comprise part of operating profit.

Valuation and sensitivity to valuation

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values. Where appropriate such valuations are performed in consultation with third-party valuation specialists for complex calculations

The valuation approaches adopted for each category of financial instrument held at fair value detailed above, in addition to the calculation's sensitivity to salient inputs, are as detailed below.

(i) Equity instruments at FVTPL – These assets relate to corporate venturing unlisted equity investments as detailed in note 19b. Management use the most recent market prices as the basis for establishing the fair value of the equity investments as at year end. Fluctuations in these purchase prices would therefore change the fair value of the investments recognised at year end, as follows assuming a 10% uplift or downwards movement in the price.

| Adjusted purchase price | Increase / (decrease) in fair value of asset £000 |
|-------------------------|---|
| +10% | 1,296 |
| -10% | (1,296) |

In addition, management consider there to be a risk that the most recent purchase prices are sensitive to a decision to sell the investments to an unwilling market. If such a market existed, then discounting the investments to reflect such risk could impact the value as shown below:

| Risk adjusted sales price | Increase / (decrease) in fair value of asset £000 |
|---|---|
| -30% sales discount due to illiquid nature | (3,877) |
| -12% risk discount for unwilling market place | (1,555) |
| Total | (5,432) |

* If these illiquid securities were to be sold then such a sale is expected to yield between a 10% and 50% discount, so sensitivity based on 30%

** Risk that if cash supply dries up some of the investments with future growth prospects will run out of cash requiring a fire sale, reflected by additional risk discount of 12%

(ii) Contingent consideration – Contingent consideration relates to one acquisition made in 2017 (Levergy) and the 2018 acquisition of Scarecrow Communications Limited.

The Levergy consideration is payable in a variable number of M&C Saatchi plc shares which is dependent on the future profitability and growth of profit of the acquired entity. The fair value of the contingent consideration outstanding at year end is calculated based on forward looking forecasts of the business applied to the terms of the acquisition (which defines the number of plc shares to be earned into). The resultant cash equivalent amount of the shares which would have been issued is discounted to present value using a discount rate based on a country specific WACC.

NOTES

Continued

The key inputs for calculation of the fair value of the deferred consideration at year end relate to (i) the risk adjusted discount rates used, and (ii) the future forecast profitability of the acquired business over the period of the deferred consideration. Differences in either of these inputs would change the fair value of the liability

| | Increase / (decrease) in fair value of liability £000 |
|---------------|---|
| Forecast PBT | |
| 10% | 113 |
| -10% | (113) |
| | |
| | Increase / (decrease) in fair value of liability £000 |
| Adjusted WACC | |
| +5% | (37) |
| -5% | 42 |

The Scarecrow Communication Limited contingent consideration is payable in a variable number of plc shares. The formula used to derive the number of plc shares is based on historic results of the company. As such the calculation does not involve any estimates and no disclosures regarding the sensitivity of the inputs made are relevant.

(iii) MI put option liabilities – As explained in the significant judgement section and note 24 the Group has issued put option agreements to certain minority interests (MI) of the Group which are accounted for as liabilities. The liability arising in each instance is based on future profitability of the entity in which the MI holds equity. The fair value of each put liability is calculated based on management's best estimate of forecast growth rates and margin of the companies applied to the terms of the shareholders agreement.

The key inputs to the fair value calculation for the put option liabilities, the forecast future profitability of the entities to which the put options are attached and the prevailing plc share price (which drives the profit multiple to be applied). Differences between the actual and the projected results of the entities could therefore have an impact on the fair value as follows:

| | Increase / (decrease) in fair value of liability £000 |
|--------------|---|
| Forecast PBT | |
| +10% | 1,307 |
| -10% | (1,394) |

Forecasts of future profitability create significant estimation uncertainty to valuation of the minority put option liabilities.

With regards the sensitivity of the put liabilities in terms of the M&C Saatchi plc share price, the year-end share price was 289.0p (2017: 371.5p). The 2018 charges (and thus year end liability recognised) would have changed as follows had the share price been

| Share price | Movement | Increase / (decrease) in fair value of liability £000 |
|-------------|----------|---|
| 231.0p | -20.0% | (2,310) |
| 260.0p | -10.0% | (1,155) |
| 289.0p | 0.0% | - |
| 318.0p | 10.0% | 613 |
| 347.0p | 20.0% | 1,639 |

28. Financial risk management

Principal financial instruments

The principal financial instruments held by the Group, from which financial instrument risk arises, include contract assets, trade and other receivables, cash and cash equivalents, contract liabilities, trade and other payables, loans and borrowings, MI put options accounted under IFRS 9 as liabilities and equity instruments representing long term investments in non-listed entities.

The Group does not typically use derivative financial instruments to hedge its exposure to foreign exchange or interest rate risks arising from operational, financing and investment activities.

The following financial instruments are measured at fair value and details regarding the valuations undertaken are disclosed in note 27.

| Group | 2018 £000 | 2017 £000 |
|-----------------------------|--------------|--------------|
| Financial assets | | |
| Equity investments at FVTPL | 12,958 | 10,596 |
| Financial liabilities | | |
| MI put option liabilities | (18,390) | (25,129) |
| Contingent consideration | (1,154) | (1,210) |

Company

M&C Saatchi plc company does not directly hold any financial instruments recognised at fair value.

NOTES

Continued

28.1 General objective, policies and processes

The Board of Directors has overall responsibility for the determination of the Group's and Company's risk management objectives and policies. Whilst retaining ultimate responsibility for them, the Board has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's senior management of each core business unit. The Board receives monthly reports from management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility of the global businesses of which it is comprised. Further details regarding these policies are set out below.

28.2 Market risk

Market risk arises from the Group's use of interest bearing financial instruments and foreign currency cash holdings. It is the risk that the fair value of future cashflows on its debt finance and cash investments will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) and other price risk such as equity price risk and share price risk. Financial instruments affected by market risk include loans and borrowings, deposits, debt, equity investments and minority interest (MI) put options.

Exposure to market risk arises in the normal course of the Group's business.

28.3 Foreign exchange risk

Foreign exchange risk arises from transactions and recognised assets and liabilities and net investments in foreign operations. The Group's general operating policy historically has been to conduct business in the currency of the local area in which businesses of the Group are geographically located, thereby naturally hedging the consideration resulting from client work. Businesses of the Group maintain bank accounts in the currency of these transactions solely for working capital purposes. As the Group has grown there has been an increase in services rendered being exported from the UK businesses to clients who transact in non-GBP currencies. The transactional risk arising from such exports is mitigated in terms of the structuring of the billing arrangements and agreement to regular invoices being remitted and promptly paid (<30 days).

The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. The Group does not hedge the translation effect of exchange rate movements on the income statements or balance sheets of foreign subsidiaries and equity accounted investments as it regards these as long-term investments.

The estimated impact on foreign exchange gains and losses of a +/- ten percent movement in the closing GBP sterling exchange rate on the retranslation of non-GBP-denominated currencies held by businesses of the Group is as follows:

| Exchange rate | Increase / (decrease) in profit before tax £000 | Increase / (decrease) in profit after tax £000 |
|---------------|---|--|
| +0% | (1,369) | (967) |
| -10% | 1,560 | 1,085 |

28.4 Interest rate risk

The Group is exposed to interest rate risk because it holds a banking facility of up to £38m and an overdraft facility of up to £10million, both based on floating interest risks. The Group does not consider this risk to be significant.

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments held at the balance sheet date. The analysis is prepared assuming the amount of borrowings outstanding at the balance sheet date were outstanding for the whole year. A 50-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable possible changes in interest rates.

If interest rates had been 50 basis points higher / lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would (decrease) / increase by £(204)k / £204k (2017: £(207)k / £207k). This is principally attributable to the Group's exposure to interest rates on its floating rate loan.

28.5 Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and, when appropriate, principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as and when they fall due. The Group's debt instruments carry interest at LIBOR + 1.75%.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they come due. To achieve this aim, the Group has a planning and budgeting process in place to determine the funds required to meet its normal operating requirements on an ongoing basis. The Group and Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash and cash equivalent and proposed strategic investments.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances. At the end of the financial period, these projections indicated that the Group had sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

NOTES

Continued

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

| Group | Up to 3 months £000 | 3 to 12 months £000 | 1 to 2 years £000 | 2 to 5 years £000 | Over 5 years £000 |
|--------------------------|------------------------|------------------------|----------------------|----------------------|----------------------|
| At 31 December 2018 | | | | | |
| Trade and other payables | (118,687) | (23,941) | (2,392) | – | – |
| Loans and borrowings | (2,008) | (298) | (38,092) | – | – |
| Overdrafts | (11,754) | – | – | – | – |
| Total | (132,449) | (24,239) | (40,484) | – | – |
| Company | Up to 3 months £000 | 3 to 12 months £000 | 1 to 2 years £000 | 2 to 5 years £000 | Over 5 years £000 |
| At 31 December 2018 | | | | | |
| Trade and other payables | (324) | (22,000) | – | – | – |
| Loans and borrowings | – | (29,970) | – | – | – |
| Total | (324) | (51,970) | – | – | – |

28.6 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

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. 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.

Management determines concentrations of credit risk by reviewing amounts due from customers monthly. The only significant concentrations of credit risk which are accepted are with multinational blue chip (or their equivalent) organisations where credit risk is not considered an issue.

Impairment

The group has two types of financial asset that are subject to the expected credit loss model.

- Trade receivables
- Contract assets

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates for each business, is based on the payment profiles of sales at least over a period of 24 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for both trade receivables and contract assets:

| 31 December 2018 | Trade receivables | | | |
|--------------------------|-------------------|-----------------------|-------------------------|----------------------|
| | Not past due | 1 – 120 days past due | 121 – 270 days past due | > 270 days past due* |
| Expected loss rate (%) | 0.01% | 0.44% | 50.21% | 0.00% |
| Trade receivables (£000) | 107,708 | 4,312 | 343 | 1,964 |
| Loss allowance | 12 | 19 | 173 | 0 |

| 1 January 2018 | Trade receivables | | | |
|--------------------------|-------------------|-----------------------|-------------------------|----------------------|
| | Not past due | 1 – 120 days past due | 121 – 270 days past due | > 270 days past due* |
| Expected loss rate (%) | 0.01% | 1.74% | 56.87% | 0.00% |
| Trade receivables (£000) | 83,250 | 2,559 | 395 | 66 |
| Loss allowance | 7 | 45 | 224 | 0 |

* Trade debtors > 270 days past due relates solely to one business unit which has not, to date, had to impair trade debtor positions held.

** An immaterial loss was calculated for contract assets and has not been included in the annual report.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period greater than 90 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit (note 20). Subsequent recoveries of amounts previously written off are credited against the same line item.

NOTES

Continued

28.7 Share price risk

As detailed on page 4 the Group uses put option awards to incentivise certain local key management (who are NCI). The value of these awards is in part dependent upon the Group's share price. The fair valuation of these schemes and the potential impact of movements in the share price are discussed in note 27.

28.8 Equity price risk

The Group's non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages equity price risk through diversification and by placing limits on individual and total equity investment securities. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions. The basis of the fair value calculations and the sensitivity of these calculations to the key inputs is detailed in note 27.

28.9 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. Strong financial capital management is an integral element of the Directors' strategy to achieve the Group's stated objectives. The Directors review financial capital reports on a regular basis and the Group finance function do so on a daily basis ensuring that the Group has adequate liquidity. The Directors' consideration of going concern is detailed in the Directors Report.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 22, cash and cash equivalents and equity attributable to equity holders of the parent as disclosed in the Statement of Changes in Equity.

29. 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 page 30.

Other related parties

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

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 \$756k (2017: \$577k), of which nil (2017: nil) 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: AUD3.2m) (see note 19 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 150k loan was issued in 2017, the balance of the loan was Euro 300k (2017: Euro 300k) at the year end.

During the year, the Group made purchases of \$3,193k (2017: \$2,356k) from its associates. At 31 December 2018, there was nil due to associates in respect of these transactions (2017: nil), a further nil (2017: \$1,367k) was paid in advance and owed to the Group for these transactions. During the year, \$164k (2017: \$160k) of fees were charged by Group companies to associates. At 31 December 2018, associates owed Group companies \$831k (2016: \$254k).

During the year, the Company recharged its subsidiaries and indirect subsidiaries with \$818k (2017: \$818k) of its costs, \$316k (2017: \$268k) of interest. The balance outstanding can be seen in notes 38 and 39.

30. Commitments

The only substantive commitment the Group had at year end, was to extend the lease on its head office by 15 years. The lease extension will be entered into following the signing of these accounts and will have the effect of delaying the benefit on transition to IFRS16 from this material tail end lease for some years

31. Assets held for sale

Policy

Assets that meet the criteria to be classified as held for sale are measured at the lower of their carrying value and fair value less costs to sell. Any reduction in the value of the asset is recognised as an impairment. Assets meeting the criteria are presented separately as current assets on the balance sheet.

The Group classifies non-current assets as held for sale when the carrying amount will be principally recovered through its disposal as opposed to continued use. For this to be the case the asset must be available for immediate sale and the sale must be highly probable.

An asset classified as held for sale will have its contribution to the income statement shown separately where such an asset meets the definition of a discontinued operation.

| | 2018 £000 | 2017 £000 |
|--|---------------|--------------|
| Cost | | |
| As at 1 January | - | - |
| Non-current assets classified as held for sale | 13,108 | - |
| At 31 December | 13,108 | - |

NOTES

Continued

During the course of the year the Group decided to commence a plan for the disposal of the 24.9% equity investment held in Walker Media Limited

On 1 February 2019 the Company announced that it had agreed terms for Publicis Groupe to acquire the equity investment held in Walker Media Limited (trading as Blue 449) for £25m. The consideration was payable in cash on 31 January 2019.

As the equity investment represented neither a separate major line of business, nor a subsidiary acquired with a view to resale the contribution of the investment to the Group's result for the year (note 17) has not been presented as a discontinued operation.

32. Post balance sheet events

As detailed in note 31, on 31 January 2019 the Group sold its remaining 25% stake held in Blue 449 for total proceeds of £25m

Prior to the year end the Group agreed to the terms to extend the lease on its head office by 11 years. The lease extension will be entered into following the signing of these accounts and will have the effect of delaying the benefit on transition to IFRS16 from this material tail end lease for some years

33. Other accounting policies

Reserves

Equity comprises the following

Share capital

Represents the nominal value of equity shares in issue

Share premium

Represents the excess over nominal value of the fair value of consideration received for equity shares, net of issuance costs

Other reserves

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, impairment charge or amortisation charge posted in respect of the investment that created it.

Treasury reserve

Amount paid for own shares acquired.

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 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 less the book value of the minority interest acquired. If the equity stake in the subsidiary is subsequently sold, then balances from this reserve will be transferred to retained earnings.

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.

Share based payment reserve

Represents equity-settled share-based employee remuneration until such share options are exercised

Retained earnings

Cumulative gains and losses recognised

NOTES

Continued

34. New and revised standards issued but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and, in some cases, had not yet been adopted by the EU:

| | |
|---|--|
| IFRS 16 | Leases |
| IFRS 17 | Insurance Contracts |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |
| Annual Improvements to IFRS Standards 2015 - 2017 Cycle | Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income taxes and IAS 23 Borrowing costs |
| Amendments to IAS 19 Employee Benefits | Plan Amendment, Curtailment or Settlement |
| IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| IFRIC 23 | Uncertainty over Income Tax Treatments |

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below

IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is, or contains, a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into, or modified, prior to 1 January 2019.

The change in definition of a lease mainly related to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee

in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Accounting impact for M&C Seatch plc

IFRS 16 changes how the Group will account for leases previously classified as operating leases under Legacy IFRS, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

- Recognise 'Right-of-Use' assets and lease liabilities in the consolidated Balance sheet, initially measured at the present value of the future lease payments,
- Recognise depreciation of 'Right-of-Use' assets and interest on lease liabilities in the consolidated income statement; and
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated Cash flow statement

Lease incentives will be recognised as part of the measurement of the 'Right-of-Use' assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, 'Right-of-Use' assets will be tested for impairment in accordance with IAS 36 Impairment of assets. This will replace the previous requirement to recognise a provision for onerous lease contracts. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018 the Group has expected non-cancellable operating lease commitments of £78,318k (differs to commitments disclosed in note 6 due to main lease for UK offices being renegotiated).

A preliminary assessment indicates that majority of these arrangements relate to leases other than short-term and low value leases. The NPV of the remaining lease payments (discounted at incremental borrowing rate of the holder) will be recognised as 'Right-of-Use' assets and a corresponding lease liability as at the date of transition. The impact on profit or loss for the year ending 31 December 2019 is estimated to be a decrease in Other expenses, increase Depreciation and to increase Interest expense. Our analysis of the impact is ongoing at 31 December 2018.

Two subleases entered into by an American operation will be reclassified to finance leases. At the date of transition, a finance lease receivable of £373k is expected to be recognised.

COMPANY BALANCE SHEET

| At 31 December | | 2018 £000 | 2017 £000 |
|--|----|-----------------|-----------------|
| Non-current assets | | | |
| Investments | 36 | 111,509 | 101,914 |
| Intangible assets | | – | 10 |
| Other non-current assets | 37 | 2,238 | 2,288 |
| | | 113,837 | 104,212 |
| Current assets | | | |
| Trade and other receivables | 38 | 78,869 | 73,814 |
| Cash at bank | | 2,438 | 1,683 |
| | | 81,307 | 75,497 |
| Current liabilities | | | |
| Trade and other payables | 39 | (22,324) | (24,498) |
| Contingent consideration | | (752) | (376) |
| | | (23,076) | (24,874) |
| Net current assets | | 58,231 | 50,623 |
| Total assets less current liabilities | | 172,068 | 154,835 |
| Non-current Liabilities | | | |
| Contingent consideration | | (514) | (833) |
| Other financial liabilities | 40 | (29,870) | (27,672) |
| | | (30,484) | (28,505) |
| Total net assets | | 141,584 | 126,330 |
| Capital and reserves | | | |
| Share capital | | 876 | 813 |
| Share premium | | 48,687 | 32,095 |
| Merger reserve | | 63,197 | 63,197 |
| Treasury reserve | | (792) | (792) |
| Share based payment reserve | | 20,983 | 17,531 |
| Profit and loss account | | 10,653 | 13,486 |
| Shareholders' funds | | 141,584 | 126,330 |

These financial statements were approved and authorised for issue by the Board on 27 May 2019 and signed on its behalf by

David Kershaw
Chief Executive
M&C Saatchi 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 2018 is a profit after tax of £2,913k (2016: £8,641k).

The notes on pages 106 to 109 form part of these financial statements



NOTES

Continued

| | 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 2016 | 749 | 24,099 | 63,197 | (792) | 8,691 | 6,783 | 102,927 |
| Acquisitions | 4 | 1,498 | - | - | - | - | 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 | - | - | - | - | (4,460) | 4,460 | - |
| Dividends paid | - | - | - | - | - | (6,748) | (6,748) |
| Profit for the year | - | - | - | - | - | 8,641 | 8,641 |
| At 31 December 2017 | 813 | 32,095 | 63,197 | (792) | 17,531 | 13,486 | 126,330 |
| Acquisitions | 18 | 6,484 | - | - | - | - | 6,502 |
| Deferred consideration | 1 | 458 | - | - | - | - | 459 |
| Exercise of put options | 44 | 7,630 | - | - | - | (20) | 7,654 |
| Share option charge | - | - | - | - | 5,703 | 401 | 6,104 |
| Realisation of reserve | - | - | - | - | (2,251) | 2,251 | - |
| Dividends paid | - | - | - | - | - | (8,378) | (8,378) |
| Profit for the year | - | - | - | - | - | 2,913 | 2,913 |
| At 31 December 2018 | 876 | 46,667 | 63,197 | (792) | 20,983 | 10,653 | 141,584 |

The notes on pages 106 to 108 form part of these financial statements

COMPANY NOTES

Continued

35. Accounting policies

The financial statements have been prepared on a going concern basis 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

a) Valuation of investments

Investments held as fixed assets are stated at cost, less any provision for impairment

b) Pensions

Contributions to personal pension plans are charged to the profit and loss account in the period in which they are due.

c) Group policies (preparation page 40, and the following policies)

For current tax (note 10), deferred tax (note 11), share based payments (note 26) and borrowings (note 22).

d) 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.

e) Dividends

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

f) 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

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| At 1 January | 101,914 | 91,225 |
| Acquisition of a subsidiaries | 6,600 | 993 |
| Provision against acquired subsidiary | (367) | |
| Conditional consideration | - | 1,056 |
| Conditional share awards recharge of brought forward balance* | (1,228) | (4,460) |
| Provision against conditional share awards | (1,023) | - |
| Conditional share awards* | 5,703 | 13,100 |
| At 31 December | 111,599 | 101,914 |

* Conditional share awards (Minority interest put options with leaver provisions) (note 26)

| | 2018 £000 | 2017 £000 |
|--------------------------|--------------|--------------|
| Subsidiary investments | 90,616 | 84,383 |
| Conditional share awards | 20,983 | 17,531 |
| Total | 111,599 | 101,914 |

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

37. Other non-current assets

| | 2018 £000 | 2017 £000 |
|----------------------------------|--------------|--------------|
| Loans to subsidiary employees* | 1,803 | 1,853 |
| Loan to assist equity purchase** | 435 | 435 |
| Total | 2,238 | 2,288 |

* This related to the AUD3.6m (current balance AUD3.3m) loans that the Group lent local management of M&C Satchi 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

COMPANY NOTES

Continued

38. Trade and other receivables

| | 2018 £000 | 2017 £000 |
|--|---------------|---------------|
| <i>Amounts due less than one year</i> | | |
| Amounts from subsidiary undertakings* | 75,467 | 71,403 |
| Prepayments and accrued income | 90 | 22 |
| Corporation tax debtor | 2,970 | 2,067 |
| Other receivables | 342 | 322 |
| Total trade and other receivables | 78,869 | 73,814 |

* Repayable on demand. Amounts receivable from subsidiary undertakings include receivables relating to exercised put options. As detailed in notes 1 and 24, 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 50% 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 facilities of £2.9m were exercised in relation to The Source (London) Ltd, M&C Saatchi PR UK LLP and three smaller international subsidiaries (note 24). 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

| | 2018 £000 | 2017 £000 |
|------------------------------|-----------------|-----------------|
| Trade creditors | (324) | (182) |
| Amounts due to subsidiaries* | (21,573) | (23,891) |
| Accruals and deferred income | (427) | (425) |
| | (22,324) | (24,498) |

* Repayable on demand

40. Creditors falling due after more than one year

| | 2018 £000 | 2017 £000 |
|------------|--------------|--------------|
| Bank loans | (29,970) | (27,672) |

See note 22 for more details.

41. Directors' remuneration

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| Total for nine Directors: | | |
| Directors' salaries and benefits | 2,092 | 2,050 |
| Bonuses* | 125 | 125 |
| Contribution to money purchase pension schemes | 15 | 15 |
| Total remuneration before accounting charges | 2,232 | 2,190 |
| Share option charges | 401 | 401 |
| | 2,633 | 2,591 |

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| Highest paid Director: | | |
| Directors' salaries and benefits | 421 | 421 |
| Bonus | — | — |
| Contribution to money purchase pension schemes | — | — |
| Total remuneration before accounting charges | 421 | 421 |
| Share option charges | 94 | 100 |
| | 515 | 521 |

During the year, no (2017: 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 (2017: 5).

The Directors are the key management personnel of the Company.

Additional details with regards Directors' remuneration as required by Rule 19 of the AIM rules can be found in the remuneration report on pages 27 to 30. There has been neither grant to, nor exercise by, the Directors with regards share options during either 2017 or 2018.

COMPANY NOTES

Continued

42. Related parties

During the year, the Company charged a management recharge to subsidiaries totalling £818k (2017: £818k). £745k (2016: £325k) 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 38 and 39. The amounts due from subsidiary undertakings payable in cash of £75,467k (2017: £71,403k) is net of £7,118k (2017: £5,881k) provisions for doubtful accounts.

Further details of related parties of the Company are provided in note 29

43. List of registered addresses

| Country | Entity | Registered Address |
|-----------|--|---|
| Australia | M&C Saatchi Sport & Entertainment Pty Ltd | 99 Macquarie Street, Sydney NSW 2000 |
| | Park Avenue PR Pty Ltd | |
| | Saatchi Ventures Pty Ltd | |
| | Tricky Jigsaw Pty Ltd | |
| | Bellwether 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 | |
| Bahrain | M&C Saatchi Agency Pty Ltd | Unit 6 223-227 O'Sullivan Road, Bellevue Hill NSW 2023 |
| | Re Team Pty Ltd | |
| | EMC Saatchi Pty Ltd | |
| | M&C Saatchi Asia Pac Holdings Pty Ltd | Level 12, 131 Luocquarel Street, Sydney NSW 2000 |
| Brazil | Bang Pty Ltd | Unit 19, 285A Crown Street, Surry Hills, NSW 2010 |
| | Clear Australia Pty Ltd | |
| | M&C Saatchi Melbourne Pty Ltd | Level 1, 437 St Kilda Road, Melbourne, VIC 3004 |
| | Lily Participacoes Ltda | Avenida Brigadeiro Faria Lima, 1355 Jardim Paulistano 16 Andar, São Paulo 01452-918 |
| Brazil | M&C Saatchi Brasil Comunicação Ltda | Rua Girassol, 625/927, 1st Floor, Vila Madalena, 05433-002 |
| | M&C Saatchi Brasil Participacoes Ltda | |
| | M+C Saatchi/Insight Pesquisa & Planejamento Ltda | |
| | Santa Clara Participacoes Ltda | Rua Wisard, 305, 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 | |
| France | Paris Gad Holding SAS | |
| | Cometis Tataprod | 14 Rue Meslay, 75003, Paris |
| Germany | M&C Saatchi Advertising GmbH | Munzstrasse 21-23, 10178, Berlin |
| | M&C Saatchi Sports & Entertainment GmbH | |
| | M&C Saatchi Sun GmbH | |
| | M&C Saatchi PR Unternehmersgesellschaft | |
| Hong Kong | Clear Asia Ltd | 29/F Cambridge House, Taikoo Place 979 King's Road, Quarry Bay |
| | M&C Saatchi (HK) Ltd | |
| Hong Kong | M&C Saatchi Asia Ltd | 6/F Alexandra House, 18 Chater Road, Central |
| | M&C Saatchi Communications Pvt Ltd | 2 Palam Mang, Vasant Vihar New Delhi, 110057 |
| India | February Communications Pvt Ltd | 141B Shahpur Jat New Delhi |
| | M&C Saatchi Scarecrow Ltd | 32 Ramjibhai Kaman Marg, Mumbai |
| Italy | M&C Saatchi SpA | Viale Monte Nero, 27 20135, Milan |
| | M&C Saatchi PR srl | |
| Israel | M&C Saatchi Tel Aviv Ltd | 1 Abba Even, Boulevard, Herzlia 4672519 |
| Japan | M&C Saatchi Ltd | 26-1 Ebisu-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 | |
| Malaysia | Intelligence Factory Sdn Bhd | |
| | M&C Saatchi International Holdings BV | 36 Golden Square, London W1F 9EE, UK |
| Netherlands | Clear Netherlands BV | Keizersgracht 203 Amsterdam |
| Pakistan | M&C Saatchi World Services Pakistan (Pvt) Ltd | 48M, Block 6 P.E.C.H.S, Karachi |

COMPANY NOTES

Continued

43. List of registered addresses continued

| Country | Entity | Registered Address |
|--------------|---|--|
| Singapore | <i>Clear Ideas (Singapore) Pte Ltd</i> | 21 Media Circle |
| | M&C Saatchi Mobile Asia Pacific Pte Ltd | #05-09/10, |
| | M&C Saatchi (S) Pte Ltd | Infinite Studios, 138562 |
| | M&C Saatchi Holdings Asia Pte Ltd | 80 Robinson Road, #02-00, 068898 |
| South Africa | Creative Spark Interactive (Pty) Ltd | 152 Ann Crescent, |
| | M&C Saatchi Sports & Entertainment South Africa Pty Ltd | Sandton, Johannesburg, 2196 |
| | <i>Dalmation Communications (Pty) Ltd</i> | Media Quarter, |
| | M&C Saatchi Abel (Pty) Ltd | 5th Floor, Corner |
| | M&C Saatchi Africa (Pty) Ltd | Somerset and De Smit Street, Ded, Waterkant, Cape Town |
| Spain | M&C Saatchi Madrid SRL | |
| | M&C Saatchi Digital SL | Calle Gran Via, |
| | Media By Design Spain SA | 27, 28013, Madrid |
| | M&C Saatchi Sponsorship S.L | |
| Sweden | M&C Saatchi AB | |
| | M&C Saatchi Go! AB | Skeppsbron 16, |
| | M&C Saatchi PR AB | 11130, Stockholm |
| Switzerland | M&C Saatchi (Switzerland) SA | Boulevard Carl-Vogt 83, 1205, Geneva |
| | Love Frankie Ltd | 571 RSU Tower, 10th Floor, Soi Sukhumvit 31, Sukhumvit Road, Wattana District, Bangkok |
| Thailand | - | - |

44. Post-balance sheet events

Subsequent to the year end there have been no material events specific to the Company requiring disclosure. Those items relevant to the Group are disclosed in Note 32.

INDEPENDENT AUDITOR'S REPORT

1) Our opinion is unmodified

We have audited the financial statements of M&C Saatchi plc ("the Company") for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of other 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 2018 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 (IFRSs as adopted by the EU),
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 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 | | |
|---------------------------------------|--|---------------|
| Materfality: | \$0.9m (2017: \$0.9m) | |
| Group financial statements as a whole | 4.4% of normalised profit before tax (2017: 4.2% of normalised profit before tax) | |
| Coverage | 80% (2017: 84%) of Group revenue; 78% (2017: 73%) profit before tax | |
| Key audit matters | | Risk vs 2017 |
| Event driven | The impact of uncertainties due to the UK exiting the European Union on our audit | New 2018 risk |
| | Going concern assumption | ▲ |
| Recurring risks | Revenue recognition | ▲ |
| | Recoverability of goodwill | ◀▶ |
| | Employee incentive schemes | ▲ |
| Parent Company risks | Recoverability of parent Company's investment in subsidiaries and intercompany receivables | ◀▶ |

INDEPENDENT AUDITOR'S REPORT

Continued

2) Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, 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. We summarise below, the key audit matters, in arriving at our audit opinion above together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members as a body may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

| | | |
|--|--|--|
| <p>The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 17 (principal risks).</p> | <p>The risk Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, in particular as described in "Recoverability of goodwill" below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and to consider the Directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.</p> | <p>Our response We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:</p> <ul style="list-style-type: none"> • Our Brexit knowledge – We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. • Sensitivity analysis – When addressing "Going concern assumption", we compared the Directors' analysis to our assessment of the reasonably possible scenarios resulting from Brexit uncertainty. • Assessing transparency – As well as assessing individual disclosures as part of our procedures on Going concern assumption we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. <p>Our findings As reported under "Going concern assumption", we found the resulting estimates and related disclosures and disclosures in relation to going concern to be light. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.</p> |
| <p>Going concern assumption Refer to page 25 (Audit Committee Report), page 31 (Directors' report), Basis of preparation page 40.</p> | <p>The risk Disclosure quality The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and the parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and the parent Company's business model and how those risks might affect the Group's and the parent Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> | <p>Our response Our procedures included:</p> <p>Funding assessment:</p> <ul style="list-style-type: none"> • Assessed the terms of the Group financing agreements, • Discussed with lender representatives of the facility extension beyond the existing termination date in order to ascertain the attitude of the lender to any required refinancing, and • Assessed the related covenant requirements and the risk of potential covenant breaches. <p>Historical comparisons:</p> <ul style="list-style-type: none"> • Evaluated historical forecasting accuracy of key inputs including financing and operating cash forecasts |

INDEPENDENT AUDITOR'S REPORT

Continued

| | | |
|---------------------|--|--|
| | <p>The current facilities expire in April 2020 and the Group is in discussions with its current lender and other potential lenders to renew or refinance their facilities.</p> <p>The risks most likely to adversely affect the Group's and the parent Company's available financial resources over this period were:</p> <ul style="list-style-type: none"> • Ability to improve its cash position and support the pattern of increased dividend payments; and • Ability to extend or replace debt and loan financing arrangements. <p>There are also less predictable but realistic second order impacts, such as the impact of Brexit, loss of a key client, and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.</p> <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p> | <p>Key dependency assessment</p> <p>As the ability and expectation of extending the finance would be based in part on the expected cash flow forecasts we also:</p> <ul style="list-style-type: none"> • Assessed the Group's cash flow model to identify key inputs for further enquiry. The key inputs included forecast profit before tax, forecast capital expenditure, working capital requirements, dividend flows and forecast financing requirements. • Challenged the underlying assumptions with the Directors on the resultant cash flow projection as an indication of whether the Group would have sufficient resources to continue to operate and repay the required cash amount to settle the financing arrangements. <p>Sensitivity analysis.</p> <ul style="list-style-type: none"> • We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; and • Performed the sensitivity analysis of the forecasts to a number of variable factors, including PBT growth, to identify whether reasonably plausible adverse scenarios could have an impact on liquidity. <p>Benchmarking assumptions</p> <ul style="list-style-type: none"> • Compared the Group's assumptions against externally derived data in relation to key inputs such as industry growth expectations and economic forecasts. <p>Evaluating Directors' intent:</p> <p>As the Group's financial position is reliant on maintaining sufficient liquidity and extending and replacing the existing funding arrangements, we have also:</p> <ul style="list-style-type: none"> • Evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise; and • Evaluated the timeframe of achieving in relation the needs and requirements of the business. <p>Assessing transparency:</p> <ul style="list-style-type: none"> • Assessed the completeness and accuracy of the matters covered in the going concern disclosure. <p>Our findings</p> <p>We found the going concern disclosure without any material uncertainty to be proportionate (2017 proportionate) and the disclosures of the management's actions to manage the funding risk in the Group to be light (2017 light).</p> |
| Revenue recognition | <p>The risk</p> <p>The specific nature of the risk of material misstatement in revenue recognition varies across the Group's businesses.</p> | <p>Our response</p> <p>Our procedures included:</p> |

INDEPENDENT AUDITOR'S REPORT

Continued

| | | |
|---|---|---|
| <p>(£422.4 million; 2017: £251.5 million)</p> <p>Refer to page 25 (Audit Committee Report), page 40 (significant accounting policies), note 4 on page 64 (accounting policy), note 2 on page 54 (changes in accounting policies and disclosures) and note 3 on page 58 (financial disclosures).</p> | <p>Data capture and processing</p> <p>Rebates are earned from suppliers based on the level of spend and contractual terms with the media owner.</p> <p>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. The Group's processes for capturing and processing data to calculate rebate income is reliant upon complex spreadsheet models which are potentially prone to processing and formula error.</p> <p>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.</p> <p>2018 Revenue recognition</p> <p>When assessing revenue recognition for individual projects, judgement is required in identifying the performance obligations, identifying whether the income should be recognised over time or at a point in time.</p> <p>Given the complexity in estimation and judgement involved, timing of recognition and accuracy of project revenue is considered to be a key audit risk</p> <p>IFRS 15: Accounting application</p> <p>The adoption of IFRS 15 has changed how the Group is required to recognise revenue which has resulted in new accounting policies for the Group and new judgements and estimates which are required to be made by the Directors which could lead to a material misstatement in the financial statements. During the year, revenue is recognised monthly based on the underlying systems and processes in each business unit however given the many different contractual arrangements, a full analysis of the judgements in respect of agency vs principal relationships, identification of performance obligations and in which period revenue should be recognised was not performed until after the year end. By only performing this analysis once a year rather than embedding the analysis within their underlying processes, this increases the risk of error in the application of IFRS 15.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that revenue recognition has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount</p> | <p>Accounting for Media income.</p> <ul style="list-style-type: none"> Assessment of control environment: we documented the systems and controls in operation. Our testing identified weaknesses in the design and operation of controls. As a result we expanded the extent of our detailed testing over and above that originally planned. 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 to be 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. Methodology implementation: assistance of KPMG modelling specialists to assess the integrity of the rebates model. We obtained the Directors' calculation of the year end accrued rebate income balance and recalculated the year-end balance. We also performed substantive sampling of the year end accrued rebate income balance, agreeing accrued balances to supplier confirmations received post year end. Where such confirmations were not received by the client, we checked the calculation of the accrued balance by agreeing supplier expenditure to purchase invoices and checking the contractual terms to underlying contracts. <p>Project revenue</p> <ul style="list-style-type: none"> Assessment of control environment: we documented the systems and controls in operation in the year. Our testing identified weaknesses and as a result we significantly expanded the extent of our detailed testing over and above that originally planned for entities in the group which were a first time adopter of IFRS 15 Accounting analysis: 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 Tests of detail: For a sample of revenue recognised near the year end, which included both revenue and amounts accrued or deferred at period end, we assessed whether the transactions were recognised in the appropriate accounting period by checking 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. <p>IFRS 15.</p> <ul style="list-style-type: none"> Accounting analysis: We evaluated the appropriateness of the accounting policies based on the requirements of the new standard, our business understanding and industry practice. Testing application: We have obtained the Group's analysis of the full year impact of IFRS 15 and assessed the judgements made regarding agency vs principal relationships, the identification of |
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INDEPENDENT AUDITOR'S REPORT

Continued

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| | | <p>performance obligations to identify in which period the revenue should be recognised and also whether revenue should be recognised at a point in time or over time. For a sample of revenue contracts on which this analysis was performed, we obtained the contract and determined whether the Group had appropriately recognised revenue in accordance with the Group accounting policies and IFRS 15.</p> <ul style="list-style-type: none"> Assessing transparency: We assessed the completeness, accuracy and relevance of the transition disclosures. <p>Our findings</p> <p>We found that the Group's judgement in respect of and application of IFRS 15 to be slightly optimistic and significant errors which were corrected. We also found that the Group's estimate of the Project and Media income revenue amount in the financial year to be optimistic (2017: proportionate) and significant errors which were corrected and also significant uncorrected errors approaching materiality, for which we have reported an audit difference (2017: corrected and uncorrected errors)</p> |
| <p>Recoverability of goodwill. (£43.0 million, 2017: £40.8 million)</p> <p>Refer to page 26 (Audit Committee Report), page 42 (accounting policy) and note 16 on pages 80-82 (financial disclosures).</p> | <p>The risk</p> <p>Forecast based valuation</p> <p>Market conditions remain challenging and performance has varied compared to the Directors' expectation, particularly in the MCD business in the US, Creative Spark in South Africa, Lida and M&C Saatchi Export businesses in the UK.</p> <p>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 calculation of the recoverable amount of goodwill is considered a key audit risk.</p> | <p>Our response</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> Assessing forecasts: Challenged the assumptions included the value in use models used for goodwill, impairment testing including operating cash flow projections and long term growth rates. We assessed the historical accuracy of Directors' forecasts by comparing past forecasts to actual results achieved. Our sector experience: Assessed the methodology used in preparing the impairment testing models including checking the mathematical accuracy of the impairment model and, with the assistance of our valuation specialists, we formed an independent assessment of the discount rates used. 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 appropriately reflect the risks inherent in such assumption. <p>Our results</p> <p>We found that the Group's estimate of the recoverable amount of Goodwill to be mildly optimistic (2017: mildly optimistic)</p> |
| <p>Employee incentive schemes</p> <p>Share based payment charge:</p> | <p>The risk</p> <p>The Group has entered into 19 new share award schemes with minority shareholders, of which some include a financing element. The total number of schemes in place is 58 (2017: 42). This has increased the complexity and the risk of error.</p> | <p>Our response</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> Assessment of control environment. Our testing identified weaknesses in design and implementation of controls and as a result we have expanded the extent of our detailed testing over and above that originally planned |

INDEPENDENT AUDITOR'S REPORT

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| <p>(£6.1million; 2017: £13.5m)</p> <p>Fair value loss (2017: gain) on minority shareholder put option liabilities (£0.9m; 2017: £3.0m)</p> <p>Minority shareholder put option liabilities: (£18.4m; 2017: £25.1m)</p> <p>Refer to page 25 (Audit Committee Report), pages 42-43 (accounting policy) and note 24 on page 89 and note 28 on page 92 (financial disclosures).</p> | <p>The accounting for share-based payments is complex and the preparation of the estimate of the share-based payment expense and the related disclosures involve subjective judgements or uncertainties, which requires special audit consideration because of the likelihood and potential magnitude of misstatements of the share-based payment expense and related disclosures.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the fair value of both new and existing incentive schemes has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 26) disclose the sensitivity estimated by the Group.</p> | <ul style="list-style-type: none"> • Inspection of supporting documentation to understand the key terms of share awards, including the related loan and option features. • Challenge of the key assumptions underpinning the fair value calculations, including performance forecasts, by comparing to our own expectations based on our knowledge of the entity and entity's historical performance. • Agreeing the terms and conditions of new awards to supporting documentation. • Re-performance of the calculation of the fair value of the employee incentive schemes. • Our sector experience: With the assistance of our valuation specialists we formed an independent assessment of the methodology used in preparing the valuation of schemes using Monte Carlo valuation model. • Assessing transparency: evaluating the Group's disclosures about the sensitivity of the outcome to the changes in key assumptions. <p>Our findings</p> <p>We found significant errors, which were corrected in the Group's estimate of the fair value estimate of the awards value (2017: some errors which were corrected) and the disclosures relating to share awards to be proportionate (2017: proportionate).</p> |
| <p>Recoverability of parent Company's investment in subsidiaries and intercompany receivables</p> <p>(£187.0 million, 2017: £173.3m)</p> <p>Refer to page 106 (accounting policy) and note 36 on page 106 and note 38 on page 107 (financial disclosures).</p> | <p>The risk</p> <p>Low risk, high value</p> <p>The parent Company has a significant investment in subsidiary companies in the Group. In addition the parent company has significant intercompany receivables due from these subsidiaries.</p> <p>The carrying amount of the parent Company's investments in subsidiaries and intercompany receivables represent 96% (2017: 96%) of the parent 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.</p> | <p>Our response</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> • Test of detail: We compared the carrying amount of a sample of the highest value investments and intercompany receivables, with the relevant subsidiaries' draft balance sheets 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. <p>Our findings</p> <p>We found some errors in the Group's estimate of the recoverable amount of shares in subsidiary companies and intercompany receivables (2017: no errors) and the disclosures related to be proportionate (2017: proportionate).</p> |

INDEPENDENT AUDITOR'S REPORT

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In reaching our audit opinion on the financial statements we took into account the findings that we describe above and those for other, lower risk areas. Overall the findings from across the whole audit are that the financial statements use some mildly optimistic estimates, slightly favour current year revenue recognition and are light on disclosure. However, compared with materiality and considering the qualitative aspects of the financial statements as a whole we have not modified our opinion on the financial statements.

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, determined with reference to a benchmark of normalised profit before tax from continuing operations of £20.5 million (of which it represents 4.4%), normalised to exclude this year's impairment of goodwill and associates. The materiality for 2017 of £0.9m was determined with reference to a benchmark of profit before tax normalised to exclude that year's impairment of goodwill, fair value movements on put option liabilities and specific share based payment charges of £21.6m (of which it represented 4.2%).

Materiality for the parent Company financial statements as a whole was set at £0.85m (2017: £0.9m), determined with reference to a benchmark of parent Company total assets of £195.1m (2017: £179.7m), (of which it represents 0.4% (2017: 0.5%)).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £45,000 (2017: £45,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 66 (2017: 77) reporting components, we subjected 17 (2017: 15) to full scope audits for group purposes and 2 (2017: 2) to audits of account balances and specified risk-focused audit procedures over Revenue and related accounts. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the following percentages of the Group's results:

| | Number of components | Group revenue | Group profits and losses before tax | Group total assets |
|--|----------------------|---------------|-------------------------------------|--------------------|
| Audits for group reporting purposes | 17 | 75% | 75% | 79% |
| Audits and Specified risk-focused audit procedures over Revenue and related accounts | 2 | 5% | 5% | 3% |
| Total (2018) | 19 | 80% | 80% | 83% |
| Audits for group reporting purposes | 15 | 78% | 65% | 78% |
| Audits and Specified risk-focused audit procedures over Revenue and related accounts | 2 | 6% | 8% | 4% |
| Total (2017) | 17 | 84% | 73% | 82% |

INDEPENDENT AUDITOR'S REPORT

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The remaining 20% (2017: 16%) of total group revenue, 20% (2017: 27%) of Group profits and losses that made up Group profit before tax and 17% (2017: 18%) of total Group assets is represented by 49 (2017: 60) of reporting components, none of which individually represented more than 3% (2017: 4%) of any of total Group revenue, Group profits and losses 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 materialities, which ranged from \$0.1m to \$0.85m (2017: \$0.1m to \$0.9m), having regard to the mix of size and risk profile of the Group across the components

The Group team visited 3 (2017: 2) component locations in US, Australia and South Africa (2017: US, Australia), to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors and 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.

The work on 8 of the 19 components (2017: 7 of the 17 components) was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team. Our audit of the parent Company was undertaken to the materiality level specified above and was all performed at the parent Company's head office in the UK. The Group team performed procedures on the items excluded from normalised Group profit before tax in both 2018 and 2017

4) We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the parent Company or the Group or to cease their operations, and as they have concluded that the parent Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the parent Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in Preparation to the financial statements on page 40 on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and the parent Company's 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

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Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to

- the Directors' confirmation within the Strategic report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity,
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated, and
- the Directors' explanation in the Risks and uncertainties section of the Strategic report on pages 16 and 17 of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and the parent Company's longer-term viability

Corporate governance disclosures

We are required to report to you if

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We have nothing to report in these respects.

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 36 and 37, 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.

INDEPENDENT AUDITOR'S REPORT

Continued

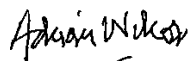
Auditor's responsibilities

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.

B 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 and the terms of our engagement by the Company. 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, 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.



Adrian Wilcox (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
United Kingdom
28 May 2019

ADDITIONAL INFORMATION

Advisors

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Numis Securities Ltd
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London EC4M 7LT
www.numiscorp.com

Solicitors

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Cannon Place
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London EC4N 6AF
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Auditor

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Canary Wharf
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www.kpmg.co.uk

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1 Princess 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&C Saatchi plc
36 Golden Square
London W1F 9EE
www.mcsaatchiplc.com

Country of registration

England and Wales
Company number
05114893
Investor relations website
www.mcsaatchiplc.com

Corporate events

AGM
27 June 2019

Final 2018 dividend paid
5 July 2019

To those on the register on
7 June 2019

Interim 2019 statement
24 September 2019

Interim 2019 dividend paid
8 November 2019

To those on the register on
25 October 2019

Preliminary announcement of 2019 result
Late March 2020

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