

SIMPLICITY

M&C Saatchi plc Annual Report,
Company Number 05114893

WORDS

1

PICTURES

2

NUMBERS

3



REVIEW

This has been a satisfying year

In spite of the departure of BA, the Company saw 2006 revenues and profits rise. Units which have performed particularly well include Walker Media (our UK media buying and planning arm), M&C Saatchi offices in Los Angeles and London and Talk PR in the UK.

Of the new offices we established last year, France continues to shine and India is off to a good start with the win of Jet Airways.

The One Word Equity approach which we launched in 2006 continues to shape our thinking and our new business drive. Amid the ever growing clutter, clients are drawn to the simplicity of One Word Equity. The agency's system takes a strategic statement and cuts it down from a paragraph to a sentence, and from a sentence to a word. Once selected, the right word can direct all of a client's marketing in all directions and in all geographies.

We are not the first to worship at the shrine of simplicity. Winston Churchill said "All the great things are simple, and many can be expressed in a single word. Freedom, Justice, Honour, Duty, Mercy, Hope."

It is also comforting to have Einstein on your side "When the solution is simple, God is answering."

Elsewhere, in an understandable effort to reduce costs, many clients now rely on procurement departments to reduce advertising costs. The Company's response is universal and robust. Advertising is no way to save money. It is there, rather, to make money. A recently acquired client saw their cost per response fall by 66% when they ran an M&C Saatchi campaign. This is how advertising makes money.

One other very welcome change is the increasing number of clients who pay performance related fees.

I believe it was Bill Gates who said people overestimate changes in the next two years but underestimate changes in the next ten. The recently forecast demise of traditional media has not taken place, but digital media is increasingly taking a useful place in the advertiser's armoury. It now accounts for around 6% of all advertising expenditure.

Our most up to date research indicates that these days, clients need both digital and traditional media. Customers who visit a company's website are twice as likely to make

a purchase if they arrive at the site directly i.e. by the brand name, rather than by the category that they wish to search. Traditional media leads to the brand which leads to the site which leads to the sale.

The Company's overseas expansion continues at a pace. We planted the M&C Saatchi flag in Germany and India. Good luck to them both.

Steadily, the Group is appearing on more and more worldwide new business lists. Our position between the global monoliths and the local boutiques is becoming more widely understood.

Indeed it can be argued that the Company is ideally placed in this regard. A recent story in *Ad Age* of America stated that "The big Ad-Agency groups are winning less new business – and losing more. Account wins for (the) five top advertising holding companies fell 5% last year. Account losses jumped 12%, as agencies failed to hold on to existing business."

Today we have local assignments from many global companies. The aim, over the next few years, is to convert some of these to international accounts.

This year we are also launching a new unit, Accelerator. The plan is to build on our recent experiences with MFI and Halfords, two companies acquired by private equity houses. The needs of private equity shareholders differ from the needs of traditional management.

Accelerator will be a change agent for companies for whom speed of return is more important than a comfortable process. It will advise on all stages, from deal assessment, through the investment committee, the 100 day plan and beyond to the exit event. Accelerator will offer painfully fast implementation, where communication will be based on when it is needed, not how long it traditionally takes. The idea is that payment will be largely linked to results. So far, response to this concept has been encouraging.

Finally, it is appropriate to mark Charles Saatchi's retirement and sale of his shares in the business. Charles was the driving force behind the early growth and phenomenal success of the Saatchi brand. He made the name the global keyword for advertising and marketing. We are all honoured to run the business that inherited his vision and passion.

Jeremy Sinclair
Chairman

AT A GLANCE

	UK	Europe	US	Asia/Australia	Group
Offices	London	Berlin, Paris	Los Angeles, New York,	Auckland, Bangkok, Hong Kong, Kuala Lumpur, Melbourne, New Delhi, Shanghai, Singapore, Sydney, Tokyo, Wellington	
Revenue (Gross Profit) (in millions)	£44.3	£2.3	£3.6	£25.7	£75.9
	58%	3%	5%	34%	100%
Revenue compared to 2005	+12.3%	~	+13.1%	+2 2%	+11 6%
Profit Before Tax and goodwill amortisation (in millions)	£7.8	(£1.3)	(£0.3)	£1.6	£7.8
Average Employees	398	29	31	422	880
Disciplines	Advertising, Media, Digital, Direct, Design, Promotion, PR, Sport & Entertainment, Luxury Brands	Advertising, Digital, Direct, Design, Promotion	Advertising, Digital, Direct	Advertising, Digital, Direct, Design, Promotion, PR	

All reference to profit on this page and in management commentary pages 6 to 11 refers to profit excluding the amortisation of goodwill, a reconciliation to statutory profit is on page 12 and 13

OPERATIONS

M&C Saatchi is a global marketing services business working for clients across a wide variety of industry sectors

The Company was founded in 1995. Starting with a strong base in the UK and Australia, we have added new agencies and disciplines in Asia, USA and Europe, employing over 800 staff in 12 countries. The Company was listed on AIM in 2004.

Our strategy has four elements

Market Position

Occupying a position between large conglomerates and single-market 'boutiques' the Group provides both global capabilities and a portfolio of specialist services

Creative Philosophy

The Group has a constant philosophy: Brutal Simplicity. This rigorous discipline drives everything we do, providing consistency across our agencies worldwide.

Entrepreneurial Manager Model

Talent is the prime source of competitive advantage. The ablest people are offered the opportunity to build agencies, with a 20-40% interest but without bearing the full entrepreneurial risks.

Expansion and Diversification

The Group's agencies worldwide have a strong domestic client base, but also serve international mandates, increasing our potential to grow.

Having diversified from a strong base in advertising as markets and technology have evolved, the Group currently offers a number of complementary marketing disciplines. Agencies worldwide can draw on these, choosing either single disciplines or a bespoke mix to suit each client.

By expanding geographically and functionally the capacity to win both regional and global client accounts is enhanced.

2006 was the twelfth successive year of growth in Group revenues, as well as the largest year-on-year increase since 2000. The 11.6% uplift represented a robust response to the loss of the international BA account, which made up some 7% of Group revenue in 2005. New assignments from existing clients, new business and new offices contributed to this result.

The year also marked the end of significant investment in the European network. International Projects GmbH, a new German partner, was acquired in July and that office has now been rebranded as M&C Saatchi Berlin. Since the year end, an agreement has been reached with the Zapping Group in Spain.

UK

Revenue grew by 12.3%, thanks to a mixture of organic growth and new business. Growth was driven by all sectors of the business.

Competitive pressures in the UK advertising industry remain strong, with significant changes to the allocation of clients' communication budgets. In particular, digital media is growing. However, whatever this mix, clients will continue to need skilled people able to plan, develop and deliver creative sales messages forcefully and cost effectively through whatever are the most appropriate media. The Group's entrepreneurial culture gives us important competitive advantages over larger, less flexible groups.

Significant account wins included Kingsmill, Lucozade Energy and the European Commission (advertising), Silverjet (advertising, PR and digital media), Barclays (media and digital media). Kingsmill is an important assignment that extends the role the Group performs for Allied Bakeries. Similarly, the Lucozade assignment extends the Group's work for GSK.

OPERATIONS

CONTINUED

Asia and Australia

2006 was in some ways a disappointing year for the region overall, with revenue only 2% up and operating profit 29% down. This was despite strong performances from Australia and Malaysia, where operating profit rose by 26% and where key account wins included Australia Tourism and Celcom.

New Zealand and Singapore suffered client losses, New Zealand was forced to resign Tourism New Zealand when Australia won its own national tourism account but won Pizza Hut and Police Recruitment while Singapore (a more project-driven business) lost a number of accounts in the first half but made up some ground in the second. The start-up offices in India and Thailand incurred first full-year losses but contributed to revenue growth and 2007 began well with the winning of the Jet Airways account, which has enabled the opening of a new office in Mumbai

Second-half performance improved significantly, and the recovery will continue into 2007.

America

This was a year of good progress, driven by the Los Angeles office, where revenue grew by 47% and operating profit by 95%. The office recorded an excellent new-business performance and in August won Petco, its first national account. Other important wins included City National Bank, Network Omni and the Getty Museum.

New York was hard-hit by the loss of the BA account, which had represented about 80% of its revenues. The office has been scaled back and will now be managed under the aegis of Los Angeles. It will provide a valuable service resource as and when needed by US clients.

Europe

For the Group in Europe, 2006 was a turning point, marking the conclusion of the investment programme financed by the Group's AIM listing, and the last year of central development costs. The region's management has been unified under Moray MacLennan.

The Paris office continued to make excellent progress, achieving its budgeted first full year's revenues and winning La Banque Postale account in December.

In March we signed purchase agreements with the Zapping Group in Spain. The Zapping Group will be able to assist clients in producing advertising, direct and digital work and placing media. M&C Saatchi's clients in Europe now include Pernod Ricard (developing into a pan-European account run from Paris), Ferrero, Yves Rocher, Bordeaux Wines, Coca Cola, Viva and Hypovereinsbank. The region generated £2.3m revenues in 2006, and is expected to move into profit in 2007.

2007 should be a year of significant growth opportunity for the Group. We continue to attract new clients on the basis of our creative excellence, the commitment of our people and our unique portfolio of services.

Conditions in the UK and Australia remain challenging. There is significant room for improvement in our offices in Asia/Pacific and New York, as well as broader opportunities for new business development and earnings growth around the world. In Asia/Pacific, we expect a more satisfactory result in the coming year. We have also taken action to reduce losses in New York and to realise the benefits of success in Los Angeles.

Our European operations should become profitable in 2007, and are well positioned for healthy growth.

Taking all these factors together, the outlook for 2007 remains in line with current market expectations.

David Kershaw
Chief Executive



FINANCE

All references to profit in this section of the report refer to profit excluding the amortisation of goodwill. See pages 12 to 13 for a reconciliation to statutory profit.

Early caution

We started the year with some caution following the loss of the BA account in November 2005. We were also entering the second year of significant European start-up costs. The market consensus at the beginning of 2006 was that profit before tax would reduce by 25%.

A number of key account wins – particularly in the UK – got the year off to a good start. The momentum carried into the second half with further important wins, again in the UK but also in LA, allowing us to give two profit upgrades in September and December.

We believe the final result – revenue growth of 11.6% and profit before tax growth of 4.2% – shows the strength of the Group's strategy, and the ability of management and employees to recover from setbacks and deliver on their promises.

As mentioned elsewhere, 2006 was our twelfth successive year of revenue growth. This growth, with the exception of a small contribution from our acquisition in Berlin, has been totally organic.

European investment phase completed

We opened our first European office in Paris in September 2005. In 2006, we invested a further £1.3m (2005: £1.4m) to continue the expansion of our European presence, a key part of our strategy for future growth. 2006 was the final year of significant investment in start-up costs and we are confident that 2007 will begin to show the value to the Group of the investment we have made over the last three years.

Operating margin

The Group's operating margin declined to 8.2% (2005: 9.1%). The decline was due to the weakness in the Asia and Australia region which as reported above had a difficult first half last year. The operating margin is also being depressed by the investment in Europe and by the losses in New York.

Net interest & cash

The Group's net interest increased by 10% to £1.5m (2005: £1.4m) due to both a strong treasury function and an improvement in the Group's underlying cash position.

The Group cash increased to £31.3m at 31 December 2006 (2005: £20.5m). The net inflow of cash from normal operations was £1.9m used in part to fund the acquisition of our German partner (net £0.6m) and fund the purchase of own shares (£0.8m). The balance of the improvement (£10.3m) is down to working capital timing differences at the year end close.

Tax rate

The Group tax rate in 2006 was 37.1% (2005: 36.1%). The Group's target tax rate is between 32% and 33% (based on the current geographical tax rate mix). The tax rate remains high, due to the trading losses incurred in the start up offices and in Asia. These tax losses will be utilised against future profits.

Minority interest

An important factor in the success of the Group is the equity participation of the senior managers either via a direct equity interest in their local business or via ownership of PLC shares. The profit attributable to the minorities of £1.1m (2005: £0.7m) is the profit attributable to those key managers that hold their equity interest at the local level. The most significant minority is held by the management of the Group's media planning and buying

operation Walker Media. Disclosure of the Group's minorities is set out on page 61.

Profit after tax

The profit after tax for the Group increased by 2.5% to £4.9m (2005: £4.8m). However the increase in the profit attributable to the minorities, principally the Walker Media minority reduces the profit for the financial period (after minorities) to £3.7m (2005: £4.1m).

The headline EPS for 2006 is 6.97p (2005: 7.68p).

Final dividend

The board is recommending a final dividend of 2.43p per share (2005: 1.78p) which together with the interim dividend of 0.77p per share gives a full year dividend of 3.2p (2005: 2.55p) an increase of 25%. The final dividend is payable on the 11th June 2007 to shareholders on the register as at 11th May 2007.

Jerry Wales

Finance Director

CONSOLIDATED P&L RECONCILIATION

Year ended 31 December	Note	2006			2005		
		Before amort- isation £000	Amort- isation £000	Total £000	Before amort- isation £000	Amort- isation £000	Total £000
Revenue (Gross Profit)		75,877		75,877	68,001		68,001
Administrative expenses	– Ordinary	(69,197)	–	(69,197)	(61,639)	–	(61,639)
	– Share based payment	(422)	–	(422)	(185)	–	(185)
	– Amortisation of goodwill	–	(1,735)		–	(1,688)	
Administrative expenses		(69,619)	(1,735)	(71,354)	(61,824)	(1,688)	(63,512)
Operating profit	– Continuing operations	6,190	–	4,455	6,177	–	4,489
	– Acquisitions	68	–	68	–	–	–
Operating profit		6,258	(1,735)	4,523	6,177	(1,688)	4,489
Share of operating profit / (loss) of associates		15	–	15	(75)	–	(75)
Interest receivable	7	1,540	–	1,540	1,384	–	1,384
Interest payable	8	(41)	–	(41)	(29)	–	(29)
Profit before tax on ordinary activities		7,772	(1,735)	6,037	7,457	(1,688)	5,769
Taxation on profit on ordinary activities	9	(2,886)	–	(2,886)	(2,690)	–	(2,690)
Profit on ordinary activities after taxation		4,886	(1,735)	3,151	4,767	(1,688)	3,079
Minority interests		(1,148)	–	(1,148)	(663)	–	(663)
Profit for the financial year		3,738	(1,735)	2,003	4,104	(1,688)	2,416
Earnings per share							
– Basic	11	6.97p	–	3.73p	7.68p	–	4.46p
– Diluted	11	6.89p	–	3.69p	7.61p	–	4.41p

DIRECTORS

EXECUTIVE DIRECTORS

Jeremy Sinclair **Chairman**

Jeremy Sinclair is a founding director of M&C Saatchi. He was one of the founders of Saatchi & Saatchi in 1970, became chairman of the UK agency in 1982 and was appointed chairman of Saatchi and Saatchi International in 1986. He later became executive creative director of Saatchi & Saatchi Advertising Worldwide and Chairman of Saatchi & Saatchi plc.

Bill Muirhead **Executive Director**

Bill Muirhead is a founding director of M&C Saatchi. In 1971 he was one of the first account handlers at Saatchi & Saatchi. He became Group account director and was subsequently appointed chairman of Saatchi & Saatchi Europe with additional responsibility for the London agency. In February 1994 he moved to New York as chief executive and president of Saatchi & Saatchi Advertising Worldwide.

David Kershaw **Chief Executive**

David Kershaw is a founding director of M&C Saatchi. He joined Saatchi & Saatchi in 1982 after obtaining an MBA at London Business School. He became managing director in 1990 and was made chairman and chief executive of the UK agency in 1994.

Maurice Saatchi **Executive Director**

Maurice Saatchi is a founding director of M&C Saatchi. He founded Saatchi & Saatchi in 1970 and became its chairman in 1980. He received a life peerage in 1996.

Jerry Wales **Finance Director**

Jerry Wales is a founder member of the senior management team. He has 20 years' experience in senior finance roles in the advertising industry. Before joining M&C Saatchi in 1995, he was finance director of Chiat-Day New York.

NON-EXECUTIVE DIRECTORS

Lloyd Dorfman

Non-Executive Director

Lloyd Dorfman is the senior independent non-executive director at M&C Saatchi. He is currently chairman of Travelex, which he founded in 1976

Adrian Martin

Non-Executive Director

Adrian Martin is an independent non-executive director at M&C Saatchi. He is currently chief executive of Reynolds Porter Chamberlain Solicitors and a non-executive director of three other organisations. Until 2000 he was managing partner of BDO Stoy Hayward and chairman of BDO's International Policy Board

EXECUTIVE COMMITTEE*

Tom Dery

Chairman, Asia Pacific

Tom Dery joined in 1995 as executive chairman of M&C Saatchi in Asia Pacific. He has experience on both the client side and the agency side of the business, having worked at Qantas Airlines and Ansett. He was a founding partner of Campaign Palace and managing director of DDB Melbourne

Moray MacLennan

Chairman, Europe

Moray MacLennan is a founding member of the senior management team. He joined Saatchi & Saatchi as a trainee in 1983 and was appointed managing director of Saatchi & Saatchi UK in 1994

Christine Walker

Chairman, Walker Media

Christine Walker was a founding director of Ray Morgan and Partners, which was sold to Saatchi & Saatchi in 1988. She later became chief executive of Zenith Media and subsequently set up Walker Media, which started trading in 1998

* The executive committee is made up of the five executive directors and the three divisional chairmen.

COMPLIANCE

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of the Group and Company for the year ended 31 December 2006

Results and dividends

The profit and loss account on pages 42 to 43 shows the result for the year

The directors paid an interim ordinary dividend of £412,000 (2005 – £416,000) and recommend a final dividend of £1,300,000 (2005 – £965,000)

Principal activity, trading review and future developments

The principal activity of the Company and Group during the year was advertising and marketing services

The review of trading and future developments is on pages 2 to 13

The principal risk faced by the Group is the loss of clients. Our top five clients account for 27% of Group revenues, and the top 10 for 39%. However, this business profile is in line with those of our major competitors, and we continue to attract new clients on the basis of our creative excellence, the commitment of our people and our unique portfolio of services

The other risks the Group face are financial (details of which can be seen in note 29 to the accounts), the risk that key staff leave, and the risk that regulatory and legal changes affect our trading or ownership structures

Financial instruments

Details of the use of financial instruments by the Company and the Group are contained in note 29 of the financial statements

Charitable and political contributions

During the year the Group made charitable donations of £52,000 (2005 – £75,000) and paid £5,000 to place a corporate advertisement in a Conservative party publication (a political donation, due to the value not equalling its market value)

SUBSTANTIAL SHAREHOLDINGS

As at 12 April 2007 the Company had been notified by shareholders representing 3% or more of issued share capital of the following interests

	Number of shares	%
David Kershaw	3,799,369	7.1%
Bill Muirhead	3,799,369	7.1%
Maurice Saatchi	3,799,369	7.1%
Jeremy Sinclair	3,799,369	7.1%
Fidelity Investments	5,910,119	11.0%
Aberdeen Asset Management	3,383,000	6.3%
Herald Investment Trust plc	3,150,000	5.9%

Directors

The names and biographical details of the directors are given on page 14 to 15

The directors' interest in the Company's ordinary share capital, all of which were beneficial, were as follows

	31 December 2006		1 January 2006	
David Kershaw	3,799,369	7.1%	3,799,369	7.0%
Bill Muirhead	3,799,369	7.1%	3,799,369	7.0%
Maurice Saatchi	3,799,369	7.1%	3,799,369	7.0%
Jeremy Sinclair	3,799,369	7.1%	3,799,369	7.0%
Jerry Wales ⁽¹⁾	–	–	–	–
Adrian Martin	–	–	–	–
Lloyd Dorfman	115,864	0.2%	98,535	0.2%

⁽¹⁾ On admission (14 July 2004), Jerry Wales was granted options for 282,555 (0.5%) ordinary shares exercisable from 14 July 2006 at 1p each, these options have not been exercised. Jerry Wales also had rights to up to 232,558 shares under the group's LTIP scheme, full details of this scheme can be seen in note 21

Events since the end of the year

The Group acquired a Spanish Group on 8 March 2007 (see note 24). 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

EMPLOYEES

In an attempt to retain and develop our employees, the people we recognise as being key to the Groups's success, we encourage open communication at all levels and endeavour to reward individuals by way of discretionary bonuses and long term incentives plans such as the share save scheme

Equal opportunities

The Company's equal opportunities policy is not discriminate on any grounds other than someone's ability to work effectively. This policy relates to recruitment, training, pay and benefits, promotions and transfers. Specifically in the case of those with a disability we will make reasonable adjustments to working arrangements or to a physical aspect of the work place if the individual is placed at a substantial disadvantage compared to a non disabled person

Insurance

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

Payment of creditors

The Company has no formal code of conduct dealing specifically with the payment of suppliers. However, we try to adhere to agreed payment terms, provided the required goods or services have been delivered. The average number of days of purchases of the company represented by trade creditors at 31 December 2006 is 31 days (2005 – 23 days)

Treasury shares

At the AGM in 2006 the directors were given the authority to purchase up to 5,420,679 of its ordinary shares. The directors will seek to renew this authority at the next AGM

During the year the Company purchased 700,000 of its 1p ordinary shares paying £791,851 ('treasury shares'). The directors have the intention of selling these treasury shares back to the market or using them to fulfil option obligations at a later date

Directors' ongoing responsibilities

The directors prepare annual financial statements which comply with the Companies Act 1985 and United Kingdom Generally Accepted Accounting Practice

The directors ensure that these give a true and fair view of the state of affairs of the Company and Group, and of the profit or loss of the Group for that period. In preparing those financial statements, the directors have

- selected suitable accounting policies and applied them consistently,
- made reasonable and prudent judgements and estimates,
- stated whether applicable accounting standards have been followed. Any material departures are disclosed and explained in the financial statements,
- prepared financial statements on a going concern basis

The directors keep proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group. They are responsible for safeguarding the Group's assets and should therefore take all reasonable steps to prevent and detect fraud and other irregularities

All of 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 auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware

AUDITORS

BDO Stoy Hayward LLP are willing to continue in office

A resolution to reappoint them will be proposed at the Annual General Meeting

By order of the Board

Andy Blackstone
Company Secretary
17 April 2007



COMPLIANCE

CONTINUED

STATEMENT OF COMPLIANCE

The directors seek to comply with the 2003 FRC Combined Code on the Principles of Good Governance and Code of Best Practice to the extent that is practicable for a Group of our size. Any areas of non-compliance will be addressed as the Group develops.

Our code of practice for directors' share dealings takes account of our status as an AIM-listed company. We expect, and take steps to ensure, compliance by directors and employees.

BOARD AND BOARD COMMITTEES

The board members attended the following meetings:

	Board meetings	Audit committee meetings	Remuneration committee meetings
Executive directors			
Jeremy Sinclair (chairman)	8	–	2
David Kershaw (chief executive)	9	–	2
Bill Muirhead	8	–	2
Maurice Saatchi	9	–	2
Jerry Wales (finance director)	9	2	1
Non-executives			
Lloyd Dorfman	9	2	2
Adrian Martin	9	2	2
Total number of meetings 2006	9	2	2
Planned meetings 2007	7	2	2

The board oversees the Group's affairs. It approves financial statements, acquisitions and disposals, authorises expenditure levels and regularly reviews management reports. Day-to-day and business management control is delegated to the executive directors. They are responsible for performance and for the implementation of Group policy. They report to the full board regularly. All formal decisions are communicated throughout the Group.

The directors are assisted in their duties by the Company secretary. They also have access to independent advice, at the Group's expense.

Lloyd Dorfman, the senior independent non-executive director, is chairman of the Travellex Group. The board believes that his independence is unaffected by the Group's trade with Travellex.

The mandate of the Group's audit committee is in line with the Combined Code requirements. Its members are the chairman, Adrian Martin and Lloyd Dorfman.

The finance director, Jerry Wales and the auditors also attend as required. It met twice during 2006. Both meetings were fully attended.

The two non-executive directors sit on the Group's remuneration committee, which is chaired by Lloyd Dorfman. It met twice during 2006. Both meetings were fully attended. Its report is on page 20 to 21.

There is no nominations committee, as we feel it is unnecessary in a Group of our size.

All executive directors have service contracts with the Group, terminable by either side on 12 months' notice.

According to the Articles the following directors will offer themselves for re-election at the next AGM

- Bill Muirhead,
- Adrian Martin,
- Maurice Saatchi

Directors' biographies are on page 14 to 15

Relationship with shareholders

Getting high quality information to shareholders is a high priority for our directors. The chairman and chief executive summarise our trading performance and outlook in their annual reviews. We publish financial results twice a year and hold regular briefings with investment managers and institutional analysts.

ACCOUNTABILITY

The board has overall responsibility for our internal control systems. Executive management is charged with implementing and maintaining them. The audit committee has reviewed the effectiveness of our internal controls this year. However, it should be understood that such systems can provide reasonable but not absolute assurance against material misstatement or loss.

The key features of the Group's internal control framework are described below.

Organisational structure – decision-making authority is always delegated to the appropriate level. To maintain accountability and acceptable levels of risk we focus on employing suitably qualified staff and ensure that everyone in the organisation understands their responsibilities.

Information systems – The Group's systems generate financial and operational reporting based on annual budgets and regular forecasts. The directors use these to monitor actual results and assess key performance indicators. We recognise the continuing need to review and, where appropriate, improve IT systems.

Risk management – We have identified specific categories of business risk and developed policies for their management and control. These policies are kept under constant review as risk and risk perceptions change.

Quality and integrity of personnel – The Group currently employs 880 people in 18 locations. The Group attaches great importance to the honesty and integrity of all its people. It aims to recruit and promote suitably experienced individuals and give them clearly defined roles.

Investment appraisal – Capital investment is not normally a significant part of our total spending, but we do monitor it closely. All major expenditure is included in the annual budget and reported to the board. The board also regularly reviews potential and actual acquisition opportunities in a manner compliant with Group strategy.

Monitoring – At present we do not employ an internal auditor. The board and audit committee will be reassessing this situation in the coming year.

REWARDS

REMUNERATION REPORT

Lloyd Dorfman and Adrian Martin are the remuneration committee

Policy on directors' remuneration

Attracting and retaining high calibre executives is a key Company objective. We seek to reward them in a way that encourages the creation of value for shareholders. The committee annually reviews the remuneration packages of members of the Executive committee. Executive directors are not privy to discussions relating to their own remuneration.

Directors' pension arrangements

The Company contributes to the directors' money purchase pension schemes.

Directors' contracts

All executive directors have service contracts with twelve month notice periods. All non-executive directors have contracts with a nil to 30 day notice period dependant on the circumstances.

Long Term Incentive Plan ('LTIP')

The Group operates an LTIP for senior employees. No director received an LTIP award in 2006. The LTIP scheme is based on compound growth in real EPS (after all accounting charges). The scheme comes into effect if the Group achieves a 3% real annual growth rate. At this level 30% of the award is triggered, with the full award occurring if growth reaches 10%.

Executive directors	Basic salary £000	Bonus £000	LTIP charge £000	Benefits in kind ⁽¹⁾ £000	Other ⁽²⁾ £000	Total £000
Year ended						
31 December 2006						
David Kershaw	250	100	–	48	38	436
Bill Muirhead	250	100	–	50	37	437
Maurice Saatchi	278	100	–	45	13	436
Jeremy Sinclair	278	100	–	46	11	435
Jerry Wales	185	100	68	27	44	424
	1,241	500	68	216	143	2,168

⁽¹⁾ Benefits in kind include car allowances, permanent health insurance benefits and chauffeur services.

⁽²⁾ Other benefits include contributions to money purchase pension schemes.

Executive directors	Basic salary £000	Bonus £000	LTIP charge £000	Benefits in kind ⁽¹⁾ £000	Other ⁽²⁾ £000	Total £000
Year ended						
31 December 2005						
David Kershaw	250	–	–	50	33	333
Bill Muirhead	250	–	–	53	37	340
Maurice Saatchi	250	–	–	50	40	340
Jeremy Sinclair	250	–	–	48	38	336
Jerry Wales	200	50	27	24	26	327
	1,200	50	27	225	174	1,676

Non-executive directors	Basic salary £000	Bonus £000	Benefits in kind ⁽¹⁾ £000	Other ⁽²⁾ £000	Total £000
Year ended					
31 December 2006					
Adrian Martin	35	–	–	–	35
Lloyd Dorfman	35	–	–	–	35
	70	–	–	–	70

Non-executive directors	Basic salary £000	Bonus £000	Benefits in kind ⁽¹⁾ £000	Other ⁽²⁾ £000	Total £000
Year ended					
31 December 2005					
Adrian Martin	35	–	–	–	35
Lloyd Dorfman	35	–	–	–	35
	70	–	–	–	70

Directors' share interests and interests in options can be seen in the directors' report on page 18

With the exception of the open market rent paid to 36 Golden Square LLP (see note 27 of the financial statements), no director of the Company has received or become entitled to receive a benefit (other than a fixed salary as a full-time employee of the Company or of a related corporation, 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 he is a member or with a Company in which he has a substantial financial interest

By order of the Board

Andy Blackstone
Company Secretary
17 April 2007



STATUTORY CONSOLIDATED P&L

	Note	2006 £000	2005 £000
Turnover	– Continuing operations	368,918	298,284
	– Acquisitions	572	–
Turnover	2	369,490	298,284
Cost of sales	3	(293,613)	(230,283)
Gross profit (Revenue)		75,877	68,001
Administrative expenses	– Ordinary	(69,197)	(61,639)
	– Share based payments	(422)	(185)
	– Amortisation of goodwill	(1,735)	(1,688)
Administrative expenses	3	(71,354)	(63,512)
Operating profit	– Continuing operations	4,455	4,489
	– Acquisitions	68	–
Operating profit		4,523	4,489
	Share of operating profit / (loss) of associates	15	(75)
	Interest receivable	7	1,540
	Interest payable	8	(41)
Profit before tax on ordinary activities		6,037	5,769
Taxation on profit on ordinary activities	9	(2,886)	(2,690)
Profit on ordinary activities after taxation		3,151	3,079
Minority interests		(1,148)	(663)
Profit for the financial year		2,003	2,416
Earnings per share			
	– Basic	11	3.73p
	– Diluted	11	3.69p
Headline earnings per share			
	– Basic	11	6.97p
	– Diluted	11	6.89p

All amounts relate to continuing activities

The notes on pages 52 to 73 form part of these financial statements

The reconciliation of movements in shareholders' funds is shown in note 23 to the financial statements

GAINS & LOSSES

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December	2006 £000	2005 £000
Profit for the financial year – Group	1,998	2,497
– Associates	5	(81)
	2,003	2,416
 Exchange differences on retranslation of opening reserves	 (305)	 (50)
 Total recognised gains and losses for the financial year	 1,698	 2,366

The notes on pages 52 to 73 form part of these financial statements

BALANCE SHEET – CONSOLIDATED

At 31 December		Note	2006 £000	2005 £000
Fixed assets	Intangible assets	12	13,555	14,592
	Tangible assets	13	3,618	3,194
	Investments	14	93	100
			17,266	17,886
Current assets	Work in progress	15	2,416	3,277
	Debtors			
	– Due within one year	16	45,988	50,552
	– Due after more than one year	16	1,141	578
	Total debtors		47,129	51,130
	Cash at bank and in hand		31,312	20,486
			80,857	74,893
	– Creditors falling due within one year	17	64,494	58,969
Net current assets			16,363	15,924
	Total assets less current liabilities		33,629	33,810
	– Creditors falling due after more than one year	18	759	868
	Provisions for liabilities and charges	19	350	404
			32,520	32,538
Capital and reserves	Share capital	21	542	542
	Share premium account	22	9,618	9,618
	Merger reserve	22	13,553	14,756
	Treasury shares	22	(792)	–
	Share option reserve	22	812	599
	Profit and loss account	22	7,625	6,101
	Shareholders' funds – equity	22	31,358	31,616
	Minority interests – equity		1,162	922
			32,520	32,538

These financial statements were approved and authorised for issue by the board on 18 April 2007 and signed on its behalf by
David Kershaw, Chief Executive
The notes on pages 52 to 73 form part of these financial statements



BALANCE SHEET – COMPANY

At 31 December	Note	2006 £000	2005 £000
Fixed assets			
Tangible assets	13	–	18
Investments	14	52,585	52,585
		52,585	52,603
Current assets			
Debtors			
– Due within one year	16	11,192	7,985
– Due after more than one year	16	46	15
Total debtors		11,238	8,000
Cash at bank and in hand		9,054	10,650
		20,292	18,650
– Creditors falling due within one year	17	1,406	1,651
Net Current Assets		18,886	16,999
Total assets less current liabilities		71,471	69,602
– Creditors falling due after more than one year	18	75	–
Provisions for liabilities and charges	19	18	26
		71,378	69,576
Capital and reserves			
Share capital	21	542	542
Share premium account	22	9,618	9,618
Merger reserve	22	56,763	56,763
Share option reserve	22	812	599
Treasury shares	22	(792)	–
Profit and loss account	22	4,435	2,054
Shareholders' funds – equity	22	71,378	69,576

These financial statements were approved and authorised for issue by the board on 18 April 2007 and signed on its behalf by David Kershaw, Chief Executive

The notes on pages 52 to 73 form part of these financial statements



CONSOLIDATED CASH FLOW

Year ended 31 December	Note	2006 £000	2005 £000
Cash inflow from operating activities	30	18,506	7,046
Returns on investments and servicing of finance	31	543	933
Taxation	31	(3,275)	(2,544)
Capital expenditure and financial investment	31	(1,670)	(1,252)
Acquisitions and disposals	31	(628)	(182)
Equity dividends paid		(1,377)	(1,045)
Net cash inflow before financing		12,099	2,956
Financing	31	(866)	(18)
Increase in cash in the year	32	11,233	2,938

The notes on pages 52 to 73 form part of these financial statements

NOTES

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards

The following principal accounting policies have been applied

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of M&C Saatchi plc and all of its subsidiary and associated undertakings made up to 31 December 2006. The Group uses the 'acquisition' or 'merger' methods of accounting to consolidate the results of subsidiary undertakings as appropriate

Acquisition accounting

Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition to the date of disposal

Merger accounting

Where merger accounting is used, the investment is recorded in the Company's balance sheet at the fair value of the shares issued, together with the fair value of any additional consideration paid

In the Group financial statements, merged subsidiary undertakings are treated as if they had always been members of the Group. The results of such a subsidiary are included for the whole period in the year it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to reserves

Goodwill

Goodwill arising on acquisition of a subsidiary is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Positive goodwill is capitalised and amortised through the profit and loss account over ten years, being the directors' estimate of its useful economic life. Impairment tests on the carrying value of goodwill are undertaken

- at the end of the first full year following acquisition,
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

Associates

An entity is treated as an associated undertaking where the Group has a participating interest and exercises significant influence over its operating and financial policy decisions

In the Group financial statements, interests in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the operating results, interest, pre tax results and attributable taxation of such undertakings based on audited financial statements for the year. In the consolidated balance sheet, the interests in associated undertakings are shown as the Group's share of the net assets

(b) Turnover

Turnover represents amounts invoiced to clients, excluding sales taxes, for services provided to clients

Turnover for each type of revenue is recognised on the following basis

- (1) Project fees are recognised over the period of the relevant assignments or agreements
- (2) Retainer fees are spread over the period of the contract on a straight-line basis
- (3) Third party production fees are recognised at the point the client accepts delivery of each component of a project. The amount of total project revenue allocated to each component is assessed according to the stage of completion of the project as a whole
- (4) Commission earned on production is recognised when production is complete
- (5) Commission on media spend is recognised when the advertisements appear in the media,

(c) Work in progress

Work in progress comprises all outlays incurred on behalf of clients which have still to be recharged, and is stated at cost, less any provisions for amounts that may not be recovered

(d) Intangible assets and amortisation

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

1. ACCOUNTING POLICIES CONTINUED

(e) Fixed assets and depreciation

Depreciation is provided to write off the cost of all fixed assets except freehold land, less estimated residual values, evenly over their expected useful lives. Depreciation is calculated at the following annual rates

Short leasehold improvements	– over the period of the lease
Furniture, fittings and other equipment	– 10% to 25% in equal instalments
Computer equipment	– 25% to 33% in equal instalments
Motor vehicles	– 25% in equal instalments

(f) Impairment of fixed assets

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of net realisable value and value in use

(g) Valuation of investments

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

(h) Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been bought outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account

Lease payments are divided into capital and interest components. The interest element represents a constant proportion of the balance of capital repayments still outstanding. It is charged to the profit and loss account over the period of the lease. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease

Reverse premiums and similar incentives to enter into operating lease agreements are initially recorded as deferred income and released to the profit and loss account over the period to the date on which the rent is first expected to be adjusted to the prevailing market rate

(i) Pensions

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

(j) Deferred taxation

Deferred tax balances are recognised for all timing differences that have originated but not been reversed by the balance sheet date. The recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences

Deferred tax balances are not discounted

(k) Foreign currency

Foreign currency transactions arising from normal trading activities are recorded in local currency at the current exchange rates

Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the year end exchange rate or, where appropriate, the rate implied in forward contracts

Foreign currency gains and losses are credited or charged to the profit and loss account as they arise

For overseas operations, results are translated at the average rate of exchange and balance sheets are translated at the closing rate of exchange. Exchange differences which arise from translation of foreign subsidiary results are taken to reserves

(l) Share based payments

The Group chose to adopt FRS20 early in 2005

Certain employees receive remuneration in the form of share based payments, including shares or rights over shares. The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted excluding the impact of any non-market vesting conditions (for example profitability and sales growth targets). The non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date the entity revises its estimates of the number of the options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting

NOTES

CONTINUED

1. ACCOUNTING POLICIES CONTINUED

period Where awards depend on future events we assess the likelihood of these conditions being met and make an appropriate charge at the end of each reporting period The credit for equity settled transactions is taken to the share option reserve

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

The charge for equity settled share based payments is recognised, together with a corresponding increase in equity, over the vesting period of the related share options The cumulative expense recognised for equity-settled share based payments at each reporting date reflects the extent to which the directors consider, as at the balance sheet date, that the awards will ultimately vest

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share

Share based payments include options issued to employees, phantom bonuses and other long term equity linked bonuses Payments may be in the form of cash or equity When options are exercised, the cash received for the issued shares is taken to share capital and share premium and the related balance in the share option reserve is taken to the profit and loss reserve

(m) Dividends

In accordance with FRS 21 (events after balance sheet date) the interim dividends are recorded when they are paid and the final dividends are recorded when they become legally payable

(n) Treasury shares

When the Company re-acquires its own equity instruments, those instruments (treasury shares) are deducted from equity No gain or loss is recognised in 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

2. TURNOVER, PROFIT AND NET ASSETS

Turnover and profit before taxation are attributable to the provision of advertising and marketing services

	2006 £000	2005 £000
Turnover		
Analysis by geographical market		
By origin		
UK	306,291	245,926
Asia and Australia	51,995	45,636
America	6,802	6,417
Europe	4,402	305
	369,490	298,284

Gross profit
Analysis by geographical market

75,877

By origin		
UK	44,336	39,470
Asia and Australia	25,638	25,084
America	3,632	3,211
Europe	2,271	236
	75,877	68,001

Operating profit / (loss)
– excluding amortisation of goodwill
Analysis by geographical market

6,258

By origin		
UK	6,307	5,811
Asia and Australia	1,496	2,117
America	(261)	(322)
Europe	(1,284)	(1,429)
	6,258	6,177

Operating profit/(loss)
Analysis by geographical market

By origin		
UK	4,572	4,123
Asia and Australia	1,496	2,117
America	(261)	(322)
Europe	(1,284)	(1,429)
	4,523	4,489

2. TURNOVER, PROFIT AND NET ASSETS CONTINUED**Profit/(loss) before taxation**

Analysis by geographical market

By origin

UK	6,034	5,318
Asia and Australia	1,558	2,202
America	(254)	(319)
Europe	(1,301)	(1,432)
	6,037	5,769

Profit/(loss) before taxation
– excluding amortisation of goodwill
 Analysis by geographical market

7,772**By origin**

UK	7,769	7,006
Asia and Australia	1,558	2,202
America	(254)	(319)
Europe	(1,301)	(1,432)
	7,772	7,457

Net assets/(liabilities)

Analysis by geographical market

By origin

UK	34,621	32,008
Asia and Australia	3,095	3,646
America	(3,032)	(1,950)
Europe	(2,164)	(1,166)
	32,520	32,538

3. COST OF SALES AND ADMINISTRATIVE EXPENSES

	2006 £000	2005 £000
Cost of sales		
Continuing operations	293,512	230,283
Acquisitions	101	—
	293,613	230,283
Administrative expenses		
Continuing operations	70,951	63,512
Acquisitions	403	—
	71,354	63,512

4. EMPLOYEES

The average monthly number of employees of the Group during the year, including executive directors, was as follows

Group	2006 number	2005 number
Full time	880	806

Note	2006 £000	2005 £000
------	--------------	--------------

Staff costs for all employees, including executive directors, consist of

Wages and salaries	42,279	36,855
Social security costs	3,974	3,285
Pension costs	26 1,696	1,406
	47,949	41,546

Company	2006 number	2005 number
Full time	16	16

Note	2006 £000	2005 £000
------	--------------	--------------

Staff costs for all employees, including executive directors, consist of

Wages and salaries	2,955	2,064
Social security costs	280	258
Pension costs	184	185
	3,419	2,507

NOTES

CONTINUED

5. DIRECTORS' REMUNERATION

	2006 £000	2005 £000
Total for the seven directors		
Directors' salary and benefits	2,025	1,502
Contributions to money purchase pension schemes	143	174
	2,168	1,676
	2006 £000	2005 £000
Highest paid director		
Salary and benefits	400	303
Contributions to money purchase pension schemes	37	37
	437	340

Unaudited detail on directors' remuneration is disclosed in the remuneration report on pages 20 to 21

The number of directors in the money purchase pension scheme was 5 (2005 – 5)

Included within Directors' salaries and benefits is £68k (2005 – £27k) that relates to charges arising out of the group's LTIP schemes

6. OPERATING PROFIT

	2006 £000	2005 £000
This is arrived at after charging/(crediting)		
Loss/(profit) on disposal of fixed assets	4	59
Charitable donations	52	75
Depreciation of tangible fixed assets ⁽¹⁾	1,212	1,183
Operating leases rentals		
– Plant and machinery	166	96
– Other	3,346	3,172
Amortisation of goodwill	1,735	1,688
Auditors' remuneration		
– Audit services ⁽²⁾	305	270
– Non-audit services (other advice)	25	22
– Non-audit services (tax) ⁽³⁾	92	120
Exchange differences	116	(83)
Defined contribution pensions	1,696	1,406

⁽¹⁾ Depreciation includes £27k (2005 – £160k) charged on assets held under finance leases and hire purchase contracts

⁽²⁾ Audit services includes £70k (2005 – £31k) relating to the Company

⁽³⁾ Non-audit services includes £42k (2005 – £37k) relating to the Company

7. INTEREST RECEIVABLE

1,540

	2006 £000	2005 £000
Group	1,540	1,384
Associates	–	–
	1,540	1,384

8. INTEREST PAYABLE

41

	2006 £000	2005 £000
Bank overdrafts	3	1
Interest on finance leases	13	15
Associates	8	6
Other	17	7
	41	29

2,886

9. TAXATION ON PROFIT FROM ORDINARY ACTIVITIES

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Current tax					
UK corporation tax on profit for the year		2,275		1,991	
Overseas tax payable		916		605	
Adjustment in respect of previous years		(68)		53	
Associates		2		–	
Total current tax			3,125		2,649
Deferred tax					
Origination and reversal of timing differences	20		(239)		41
Taxation on profit on ordinary activities			2,886		2,690

The tax assessed for the year differs from that obtained by using the standard rate of corporation tax in the UK

The differences are explained below

	2006 £000	2005 £000
Profit on ordinary activities before tax	6,037	5,769
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 30%)	1,811	1,731
Effects of		
Expenses not deductible for tax	238	215
Goodwill amortisation	520	506
Unrelieved losses carried forward	292	204
Differences between capital allowances and depreciation	(23)	23
Short term timing differences	188	(113)
Short term timing differences due to provision on options and phantom bonus accruals	112	49
Adjustment to tax charge in respect of previous years	(69)	53
Tax rate differences	56	(19)
Current tax charge for year	3,125	2,649

NOTES

CONTINUED

10. DIVIDENDS

3.20p

	2006 £000	2005 £000
2005 final dividend 1 78p (2004 – 1 16p)	965	629
2006 interim dividend of 0 77p per share (2005 – 0 77p)	412	416
	1,377	1,045
Proposed 2006 final dividend 2 43p	1,300	

11. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing profit after tax and minority interest by the number of shares in issue during the year. Earnings per share are calculated as follows

	2006 £000	2005 £000
Numerator for calculation of basic and diluted EPS profit for financial year	2,003	2,416

Denominator

Weighted average number of ordinary shares used in basic EPS	53,677,484	54,206,799
Share save options	258,682	130,138
Options	411,050	411,050

Weighted average number of ordinary shares used in diluted EPS	54,347,216	54,747,987
--	------------	------------

On 31 December 2006 there were 669,732 (2005 – 670,634) outstanding options

Earnings per share

Basic	3.73p	4 46p
Diluted	3.69p	4 41p

Headline earnings per share

The headline (II MR) earnings per share is based on headline earnings as recommended by Statement of Investment Practice No 1. This is earnings excluding

- amortisation of goodwill,
- profit or loss on disposal of fixed assets,
- profit or losses on the disposal of discontinued operations (of which we have none)

The directors believe that this gives a better view of ongoing maintainable earnings

	2006 £000	2005 £000
Headline earnings per share		
Basic	6.97p	7 68p
Diluted	6.89p	7 61p

Numerator for calculation of basic and diluted headline EPS

Profit for financial year	2,003	2,416
Goodwill amortisation	1,735	1,688
Loss on disposal of fixed assets	4	59

Earnings used for calculation of headline basic and diluted EPS	3,742	4,163
---	-------	-------

Denominator

The number of shares is the same as calculated for statutory EPS

12. INTANGIBLE ASSETS

	Goodwill £000
1 January 2006	14,592
Additions	769
Amortisation	(1,735)
Exchange translation differences	(71)
31 December 2006	13,555

Additions represent the goodwill arising on the acquisition of M&C Saatchi Berlin GmbH

The Company had no intangible fixed assets during the year to 31 December 2006 (2005 Nil)

13. TANGIBLE ASSETS

Group	Leasehold improvements £000	Furniture, fittings & other equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost					
At 1 January 2006	2,059	3,334	3,965	121	9,479
Additions	637	417	640	3	1,697
New acquisitions	–	8	12	–	20
Disposals	–	(23)	(48)	(119)	(190)
Exchange translation differences	(19)	(59)	(118)	–	(196)
At 31 December 2006	2,677	3,877	4,451	5	10,810
Depreciation					
At 1 January 2006	1,537	1,752	2,877	119	6,285
New acquisitions	–	2	4	–	6
Provision for year	280	302	621	1	1,204
Disposals	–	(8)	(42)	(119)	(169)
Exchange translation differences	(2)	(42)	(91)	1	(134)
At 31 December 2006	1,815	2,006	3,389	2	7,192
Net book value					
At 31 December 2006	862	1,671	1,082	3	3,618
At 31 December 2005	522	1,582	1,088	2	3,194

The net book value of tangible fixed assets for the Group includes £62,000 (2005 – £106,000) for assets held under finance leases and hire purchase contracts. The Company held no assets under such leases.

Company	Furniture, fittings and other equipment £000	Computer equipment £000	Total £000
Cost			
At 1 January 2006	13	8	21
Additions	–	–	–
Disposals	(13)	(8)	(21)
At 31 December 2006	–	–	–
Depreciation			
At 1 January 2006	2	1	3
Provision for year	2	1	3
Disposals	(4)	(2)	(6)
At 31 December 2006	–	–	–
Net book value			
At 31 December 2006	–	–	–
At 31 December 2005	11	7	18

NOTES

CONTINUED

14. INVESTMENTS

Group	Total £000
Cost	
At 1 January 2006	100
Amortisation of investment	(3)
Exchange rate movement	(4)
31 December 2006	93
Share of retained profits	
At 1 January 2006	—
Retained profit for the year	5
Transferred to provisions	(5)
At 31 December 2006	—
Total	
At 31 December 2006	93
At 31 December 2005	100
Company	£000
Cost	
At 1 January 2006	52,585
Additions	—
31 December 2006	52,585

14. INVESTMENTS CONTINUED

The following were subsidiary undertakings at the end of the year

Name	Country of Incorporation or registration	Proportion of voting rights and ordinary share capital held at 31 December 2006	Nature of business
M&C Saatchi (UK) Limited	UK	100%	Advertising
M&C Saatchi Sports and Entertainment Ltd	UK	77.2%	Public relations
M&C Saatchi International Limited	UK	100%	Holding Company
M&C Saatchi Marketing Arts Limited	UK	50%	Consultancy
LIDA Limited	UK	100%	Direct marketing
The Immediate Sales Company Limited	UK	86.0%	Marketing
Talk PR Limited	UK	78.1%	Public relations
Influence Communications Limited	UK	85%	Advertising
Provenance Communication Ltd	UK	65%	Advertising
M&C Saatchi Europe Holdings Ltd	UK	96%	Holding Company
Walker Media Holdings Limited	UK	75%	Holding Company
Walker Media Limited	UK	75%	Media buying
M&C Saatchi Worldwide Limited	UK	100%	Holding Company
M&C Saatchi International Holdings BV	UK Branch	100%	Holding Company
M&C Saatchi Agency Pty Limited	Australia	100%	Advertising
M&C Saatchi Direct Pty Limited	Australia	100%	Direct marketing
Go Studios Pty Limited	Australia	100%	Advertising
Bright Red Oranges Pty Limited	Australia	100%	Advertising
M&C Saatchi Asia Pac Holdings Pty Ltd	Australia	100%	Holding Company
Open Dialogue PR Pty Limited	Australia	80%	Public relations
M&C Saatchi (Hong Kong) Limited	Hong Kong	100%	Advertising
M&C Saatchi (Hong Kong) Limited	Taiwan Branch	100%	Advertising
M&C Saatchi Consulting (Shanghai) Limited	China	100%	Consultancy
M&C Saatchi Agency (S) Pte Limited	Singapore	100%	Advertising
M&C Saatchi Limited	New Zealand	100%	Advertising
M&C Saatchi Limited	Japan	64%	Advertising
M&C Saatchi Communications Pvt Ltd	India	67%	Advertising
M&C Saatchi Agency Inc	USA	96%	Advertising
M&C Saatchi LA Inc	USA	84%	Advertising
M&C Saatchi GAD SAS	France	76%	Advertising
M&C Saatchi Berlin GmbH	Germany	80%	Advertising

NOTES

CONTINUED

14. INVESTMENTS CONTINUED

Associates

The amounts included in the consolidated profit and loss account and balance sheet represent the Group's share of the profits and net liabilities of Play London Ltd, a UK incorporated digital marketing company in which the Group owns 50% of the ordinary shares and voting rights, as follows

	2006 £000	2005 £000
Share of turnover	508	229
Share of profit/ (loss) before tax	7	(81)
Share of taxation	(2)	–
Share of profit/ (loss) after tax	5	(81)
Share of fixed assets	8	2
Share of current assets	188	128
Share of current liabilities	(272)	(211)
Share of net liabilities	(76)	(81)

15. WORK IN PROGRESS

	2006 Group £000	2006 Company £000	2005 Group £000	2005 Company £000
Work in progress	2,416	–	3,277	–

16. DEBTORS

	Note	2006 Group £000	2006 Company £000	2005 Group £000	2005 Company £000
Due within one year					
Trade debtors		40,367	–	46,242	–
Amount due from subsidiary undertakings		–	10,360	–	7,621
Amount due from associates		–	–	229	–
Other debtors		1,671	785	1,455	354
Prepayments and accrued income		3,950	47	2,626	10
		45,988	11,192	50,552	7,985
Due after more than one year					
Deferred tax asset	20	693	46	354	15
Other debtors		448	–	224	–
		1,141	46	578	15

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 Group £000	2006 Company £000	2005 Group £000	2005 Company £000
Unsecured bank overdraft	39	–	29	–
Trade creditors	36,699	102	31,345	67
Other creditors	1,285	2	2,909	7
Deferred consideration	67	–	–	–
Amounts due to subsidiary undertakings	–	306	–	1,229
Tax and social security	2,919	–	2,760	–
Corporation tax	1,035	–	1,612	–
Obligations under finance leases and hire purchase contracts	23	–	92	–
Accruals and advanced billings	22,427	996	20,222	348
	64,494	1,406	58,969	1,651

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006 Group £000	2006 Company £000	2005 Group £000	2005 Company £000
Other creditors	730	75	832	–
Obligations under finance leases and hire purchase contracts	8	–	36	–
Bank Loans	21	–	–	–
	759	75	868	–

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

	2006 £000	2005 £000
Group		
in one year or less, or on demand	23	92
in more than one year but not more than two years	3	34
in more than two years but not more than five years	5	2
	31	128

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £000	Share based payments £000	National insurance £000	Other £000	Total £000
Group					
At 1 January 2006	21	220	82	81	404
Transfer to creditors	–	(220)	–	–	(220)
Charge to the profit & loss account	120	–	51	(5)	166
Paid in the year	–	–	–	–	–
At 31 December 2006	141	–	133	76	350

NOTES

CONTINUED

19. PROVISIONS FOR LIABILITIES AND CHARGES CONTINUED

Company	Deferred taxation £000	Share based payments £000	National Insurance £000	Total £000
At 1 January 2006	–	21	5	26
Transfer to creditors	–	(21)	–	(21)
Charge to the profit & loss account	1	–	12	13
Paid in the year	–	–	–	–
At 31 December 2006	1	–	17	18

The transfer to creditors represents the share-based payment provision being moved to creditors in the current year
The provision for national insurance relates to the national insurance payable on share options and other share based payments

20. DEFERRED TAXATION

The amounts of provided deferred taxation are as follows

Group	Note	Deferred taxation £000
At 1 January 2006 in provisions	19	21
At 1 January 2006 in long-term debtors	16	(354)
		(333)
Exchange translation differences		20
Credited to profit and loss account	9	(239)
At 31 December 2006		(552)
At 31 December 2006 in provisions	19	141
At 31 December 2006 in long-term debtors	16	(693)
At 31 December 2006		(552)
	2006 £000	2005 £000
Accelerated capital allowances	25	4
Future relief against tax losses	(58)	–
Provision on options & phantom bonus accruals	(374)	(263)
Sundry timing differences	(145)	(74)
	(552)	(333)

20. DEFERRED TAXATION CONTINUED

The Group has £213,000 of unprovided deferred taxation that relates to tax losses

Company	Note	Deferred taxation £000
At 1 January 2005 in long-term debtors	16	(15)
Credited to profit and loss account	9	(31)
At 31 December 2006		(46)
At 31 December 2006 in long-term debtors	16	(46)
At 31 December 2006		(46)
	2006 £000	2005 £000
Accelerated capital allowances	–	(4)
Provision on options & phantom bonus accruals	(46)	(11)
	(46)	(15)

The Company has no unprovided deferred taxation

21. SHARE CAPITAL AND TREASURY SHARES

	2006 Company £000	2005 Company £000
Authorised 200,000,000 ordinary shares of 1p each	2,000	2,000
	2006 Company £000	2005 Company £000
Allotted, called up and fully paid 54,206,799 ordinary shares of 1p each	542	542
	542	542
	2006 Company £000	2005 Company £000
Held in treasury 3 October 2006 – 700,000 ordinary shares of 1p each for 113p	792	–
	792	–

NOTES

CONTINUED

21. SHARE CAPITAL AND TREASURY SHARES CONTINUED

Potential issues of ordinary shares

Options

Certain employees hold options for 411,050 ordinary shares exercisable (without condition) from 14 July 2006, at 1p. These nominal value options had a value equal to the share price less the exercise price and the expected dividend at the date they were issued (14 July 2004).

Grant and vesting date	14 July 2004
Share price at grant date	£1.25
Exercise price	£0.01
Number of employees	2
Shares under option	411,050
Dividend yield	1.9%
Risk free rate	4.25%

Given the difference between the grant price & exercise price, volatility has an immaterial effect on the calculation and thus has been ignored.

Sharesave

UK based employees have been able to participate in a Sharesave scheme. The scheme has issued 258,682 options exercisable in 2008. The fair value of the options was calculated using the Black-Scholes option-pricing model.

Grant date	1 July 2005
Share price at grant date	£1.255
Exercise price	£1.260
Number of employees	56
Shares under option	258,682
Vesting period (years)	3
Volatility	17.1%
Dividend yield	1.9%
Risk free rate	4.75%
Possibility of ceasing employment	0.00%
Fair value per option	£0.244

The expected volatility is based on the historic volatility of available M&C Saatchi share price data (from flotation on AIM 14 July 2004 to issue date). Risk free rate is the base rate at time of issue.

	Number of options
At 1 January 2005	670,639
Additions	–
Reductions due to staff leaving	(907)
At 31 December 2006	669,732

Year of grant	Description	Exercise price pence	Exercise period	2006	2005
2004	Options	1	2006-2014	411,050	411,050
2005	Sharesave	126	2008	258,682	259,589
				669,732	670,639

21. SHARE CAPITAL AND TREASURY SHARES CONTINUED

LTIP

	18 May 2006	18 May 2005
Grant date		
Share price at grant date	£1 12	£1 29
Exercise price	£0	£0
Maximum shares under option	127,568	1,496,516
Vesting period (years)	3	5
Dividend yield	2.44%	1.9%
Risk free rate	4.72%	4.75%
Fair value per option	£1 04	£1 15

These nil priced options had a value equal to the share price less the exercise price and the expected dividend at the date they were issued, this result is consistent with the results obtained from the Black-Scholes option-pricing model

Given the difference between the grant price & exercise price, volatility has an immaterial effect on the calculation and thus has been ignored

The Group's long term incentive plan (LTIP) for senior employees could result in the issue of up to 1,624,084 ordinary shares between 2010 and 2015. The number of shares under option will vary with the real increase in earnings per share. The maximum award will vest if real earnings per share grows at 10% or more. At a real earning per share growth of 3%, 30% of the options will vest. Below 3% earnings per share growth no options will vest.

Acquisition of minority holdings

When we set up new subsidiary businesses with partners, the minority partners acquire 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. The put options are exercisable from

Company	Year	% of Company shares exchangeable
Walker Media Holdings Ltd	2007	12.5
Walker Media Holdings Ltd	2008	12.5
Talk PR Ltd	2007	21.9
The Immediate Sales Company Ltd	2007	14.0
M&C Saatchi LA Inc	2007	16.0
M&C Saatchi Marketing Arts Ltd	2008	50.0
M&C Saatchi (M) SDN BHD	2008	20.0
M&C Saatchi Sports and Entertainment Ltd	2008	22.8
M&C Saatchi Agency Inc	2008	4.0
M&C Saatchi (Thailand) Co Ltd	2008	48.0
Provenance Communication Ltd	2009	35.0
Influence Communications Limited	2009	15.0
M&C Saatchi Europe Holdings Ltd	2010	4.0
M&C Saatchi GAD SAS	2011	28.0
M&C Saatchi Communications PTY Ltd	2011	23.0
M&C Saatchi Berlin GmbH	2011	20.0

NOTES

CONTINUED

22. RESERVES

Group	Ordinary share capital £000	Share premium account £000	Merger reserve £000	Treasury reserve £000	Share option reserve £000	Profit and loss account £000	Total £000
At 1 January 2006	542	9,618	14,756	–	599	6,101	31,616
Exchange differences	–	–	–	–	–	(305)	(305)
Non cash share based incentive plans (including options)	–	–	–	–	213	–	213
Merger reserve release on goodwill amortisation	–	–	(1,203)	–	–	1,203	–
Dividends	–	–	–	–	–	(1,377)	(1,377)
Purchase of own shares	–	–	–	(792)	–	–	(792)
Profit for the year	–	–	–	–	–	2,003	2,003
At 31 December 2006	542	9,618	13,553	(792)	812	7,625	31,358

Company	Ordinary share capital £000	Share premium account £000	Merger reserve £000	Treasury reserve £000	Share option reserve £000	Profit and loss account £000	Total £000
At 1 January 2006	542	9,618	56,763	–	599	2,054	69,576
Non cash share based incentive plans (including options)	–	–	–	–	213	–	213
Dividends	–	–	–	–	–	(1,377)	(1,377)
Purchase of own shares	–	–	–	(792)	–	–	(792)
Profit for the year	–	–	–	–	–	3,758	3,758
At 31 December 2006	542	9,618	56,763	(792)	812	4,435	71,378

The Company has taken advantage of the dispensation under Section 230(3) of the Companies Act 1985, allowing it not to publish its own profit and loss account. The Group profit for the year includes a profit after tax and before dividend paid of £3,758,000 (2005 – £1,932,000) relating to the Company.

23. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2006 Group £000	2006 Company £000	2005 Group £000	2005 Company £000
Profit for the financial year				
– Group	1,998	3,758	2,497	1,932
– Associates	5	–	(81)	–
Dividend	(1,377)	(1,377)	(1,045)	(1,045)
	626	2,381	1,371	887
Exchange differences	(305)	–	(50)	–
Non cash share based incentive plans (including options)	213	213	85	85
Purchase of shares	(792)	(792)	–	–
Net (reduction) / addition to shareholders' funds	(258)	1,802	1,406	972
Opening shareholders' funds	31,616	69,576	30,210	68,604
Closing shareholders' funds	31,358	71,378	31,616	69,576

24. POST BALANCE SHEET EVENT

On 8 March 2007 we acquired 25% of Zapping Publicidad, S A and its subsidiary companies, a Spanish marketing services group, with a commitment to acquire a further 50% over the next three years. The local shareholders have an option to sell their remaining shares to us between 2013 and 2020. All transactions are based on a multiple of profit. The Group made an initial €2 million payment at acquisition.

25. COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2006, the Group had the following annual commitments under non-cancellable operating leases:

	2006 Land and buildings £000	2006 Other £000	2005 Land and buildings £000	2005 Other £000
Operating leases which expire				
Within one year	119	3	95	33
In two to five years	1,173	32	951	97
More than five years	2,358	–	1,672	–
	3,650	35	2,718	130

As at 31 December 2006, the Company had no annual commitments under non-cancellable operating leases (2005 – Nil)

NOTES

CONTINUED

26. PENSIONS

The Group does not operate any defined benefit pension schemes. The Group makes payments to certain employees to enable them to contribute to their own personal pension plans. Payments of £1,696k (2005 – £1,406k) were made in the year and charged to the profit and loss account in the period they were due. At the year-end, there were unpaid amounts included within accruals totalling £133k (2005 – £67k).

27. RELATED PARTY TRANSACTIONS

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

Jeremy Sinclair, Maurice Saatchi, Bill Muirhead and David Kershaw, who are directors of M&C Saatchi plc, are also directors of 36 Golden Square LLP (the landlord of one of the Group's London properties). These companies therefore have a controlling nucleus of directors in common. The Group paid rent to 36 Golden Square LLP totalling £1,672,000 during the year (2005 – £1,672,000). No amounts remained outstanding between any member of the Group and 36 Golden Square LLP at the year end.

Jeremy Sinclair, Maurice Saatchi, Bill Muirhead and David Kershaw, who are directors of M&C Saatchi plc, are also directors of Complan Limited. During the year, the Group made sales of £Nil (2005 – £77,507) to Complan Limited. At 31 December 2006, the Group owed Complan Ltd £Nil (2005 – the Group owed Complan Ltd £133 relating to these transactions).

During the year the Group made purchases of £12,000 (2005 – £55,101) from Play London Limited, an associate company. At 31 December 2006, there were no amounts due to Play London Limited in respect of these transactions. During the year, £140,000 (2005 – £86,743) of overheads were charged by Group companies to Play London Limited. At 31 December 2006, Play London Limited owed Group companies £413,428 (2005 – £229,000), this balance is primarily made up of working capital loans that the Group has made.

Maurice Saatchi is a director of Centre for Policy Studies Ltd (an independent political think tank). During the year the Group donated £Nil (2005 – £5,000). There were no amounts outstanding at the year end.

Lloyd Dorfman is chairman of Travellex Holdings Limited. During the year the Group charged subsidiaries of Travellex Holdings Limited, on an arm's length basis, £446,059 (2005 – £885,528) for advertising and marketing services and £842,436 (2005 – £2,767,053) to cover third party costs, of which £Nil (2005 – £75,459) was outstanding at the year end. The Group used Travellex foreign currency payment systems to pay £2,826,058 (2005 – £1,909,158) of our bills.

28. ACQUISITION OF BERLIN

On 24 July 2006 the Group acquired 80% of 03 International Projects GmbH (renamed M&C Saatchi Berlin GmbH).

In calculating the goodwill arising on acquisition the fair values of the net assets of 03 International Projects GmbH (renamed M&C Saatchi Berlin GmbH) have been assessed. No adjustment from book value was deemed necessary.

	Book and fair value £000
Fixed assets tangible	14
Current assets	
Work in Progress	87
Debtors	18
Cash at bank and in hand	113
Total assets	218
Creditors	
Due within one year	(183)
Net assets	49
Consideration	
Satisfied by	
Cash consideration	674
Direct cost of acquisition	67
Deferred consideration	67
Less net assets acquired (80%)	(39)
Goodwill arising on acquisition	769

Cash flows

The net outflow of cash arising from the acquisition of 03 International Projects GmbH (renamed M&C Saatchi Berlin GmbH) was as follows

	£000
Cost of acquisition	(674)
Cash acquired	113
Net cash outflow	(561)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Currency exposure

The Group's results are in pounds sterling and are subject to fluctuation as a result of exchange rate movements. In 2006 the Group hedged against the average rate fluctuations of £2m of its Australian dollar exposure at an exchange rate of £1 AUD2 3865, this transaction expired on 29 December 2006. The Group will continue to review its future exposure to exchange rate movements and put in place methods to reduce the exchange rate risk where it sees such methods as beneficial. (In 2005 no hedging mechanism was used to reduce exchange rate risk.)

The monetary assets and liabilities of the Group not denominated in the functional currency of the operating unit concerned are shown below. The fair value of the monetary assets is not materially different from the book value.

	US Dollar £000	Sterling £000	Total £000
Functional currency of Group operations			
2006			
Sterling	225	–	225
Singapore Dollar	10	13	23
Japanese Yen	6	–	6
Total	241	13	254
2005			
Sterling	50	–	50
Singapore Dollar	2	2	4
Japanese Yen	59	–	59
Total	111	2	113

These balances arose from trading with clients who pay in currencies other than the currency of the local office. Exchange rate exposure is minimised by using forward contracts when the amount of future currency exposure on client contracts is material and known. No such forward contract exist at the year end (2005 – Nil).

Credit risk

The Group has no borrowings and holds cash on short term deposit. The credit risk on such deposits is minimal as the money is on deposit with banks with high credit ratings. During the year the Group received an average of 4.4% (2005 – 4.4%) interest on its deposits.

The Group's credit risk is primarily attributable to trade debtors.

The values shown in the balance sheet are net of any allowance for doubtful debt. Doubtful debt is provided by management on a specific case by case basis based on their opinion.

30. NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 £000	2005 £000
Operating profit	4,523	4,489
Amortisation of intangible fixed assets	1,735	1,688
Depreciation	1,212	1,183
Loss on sale of tangible fixed assets	4	59
Decrease/(increase) in work in progress	747	224
Decrease/(Increase) in debtors	3,036	(3,003)
Increase in creditors	6,775	2,213
Increase in provisions	189	186
Option charge	213	85
Exchange differences	72	(78)
	18,506	7,046

NOTES

CONTINUED

31. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	Note	2006 £000	2005 £000
Returns on investments and servicing of finance			
Interest received		1,540	1,384
Interest paid		(20)	(8)
Interest element of finance lease rental payments		(13)	(15)
Minority interest dividend paid		(964)	(428)
		543	933
Taxation			
UK taxation paid		(2,215)	(1,851)
Overseas taxation paid		(1,060)	(693)
		(3,275)	(2,544)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,686)	(1,289)
Sale of tangible fixed assets		16	37
		(1,670)	(1,252)
Acquisitions and disposals			
Investment in subsidiary		(741)	(369)
Cash acquired with subsidiary undertakings	29	113	187
		(628)	(182)
Financing			
Purchase of own shares		(792)	–
Shares issued to minorities by subsidiaries		–	124
Inception of bank loans		34	–
Repayment of bank loans		(2)	–
Capital element of finance lease rental payments		(106)	(142)
		(866)	(18)

32. ANALYSIS OF CHANGES IN NET FUNDS

	Balance at 1 January 2006 £000	Cash inflow £000	Finance leases £000	Exchange movements £000	Balance at 31 December 2006 £000
Cash at bank and in hand	20,486	11,233	—	(407)	31,312
Overdrafts	(29)	—	—	1	(28)
Bank loan	—	(32)	—	—	(32)
Finance leases	(128)	106	(6)	(3)	(31)
Total	20,329	11,307	(6)	(409)	31,221

33. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2006 £000	2005 £000
Increase in cash in the year	11,233	2,938
Cash outflow from decrease in lease financing	106	142
Inception of finance leases	(6)	(14)
Exchange differences	(409)	184
Cash outflow from repayment of bank loan	2	—
Inception of bank loan	(34)	—
Movement in net funds in the year	10,892	3,250
Net funds at start of year	20,329	17,079
Net funds at end of year	31,221	20,329

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF M&C SAATCHI PLC

We have audited the Group and Parent Company financial statements of M&C Saatchi plc for the year ended 31 December 2006 which comprise the Group Profit and Loss account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes on pages 52 to 73. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the information contained on pages 1 to 21. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's affairs as at 31 December 2006 and of the Group's profit for the year then ended,
- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2006,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP

Chartered Accountants and Registered Auditors
London
18 April 2007

ADDITIONAL INFORMATION

ADVISORS

Nominated adviser and broker

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

Solicitors

Olswang
90 High Holborn
London WC1V 6XX
www.olswang.com

Auditors

BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL
www.bdo.co.uk

Bankers

National Westminster Bank plc
21 Lombard Street
London EC3P 3AR
www.natwest.com

Registrars

Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
www.computershare.com

Investor Relations

Hockenhull Investor Relations
24 Willoughby Road
London NW3 1SA
www.hockenhull.com

Secretary and registered office

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

Country of registration

England and Wales

Company number

05114893

CORPORATE EVENTS

AGM

7 June 2007

Final 2006 dividend paid

11 June 2007

To those on the register on

11 May 2007

Interim 2007 statement

September 2007

Interim 2007 dividend paid

24 October 2007

To those on the register on

5 October 2007

Preliminary announcement of 2007 result

Late March 2008