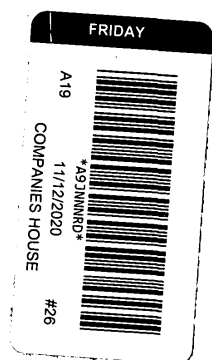


M&C SAATCHI

ANNUAL REPORT 2019



M&C SAATCHI PLC • COMPANY NUMBER 05114893

KEY DEFINITIONS

Annual Report and Accounts

The annual report of M&C Saatchi plc and its consolidated financial statements in relation to the year ended 31 December 2019.

Billings

Billings comprise all gross amounts billed, or billable to clients in respect of commission-based and fee-based income, whether acting as agent or principal, 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. This is a non-statutory number and is unaudited.

Company

M&C Saatchi Plc, a company incorporated in England, listed on the AIM Market of the London Stock Exchange plc.

Headline

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.

Headline results represent the underlying trading profitability of the Group, excluding all accounting charges related to equity and investments. The specific items that are excluded from headline results (note 1 of the financial statements) 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 investments in associates; profit and loss on disposal of associates; revaluation of acquired investments and their related costs; and the income statement impact of put option accounting and share-based payment charges.

Minority interests and non-controlling interest

Within the Group, there are 62 subsidiary companies and partnerships in which employees hold a direct interest in the equity of those companies. These employees are referred to as minority shareholders. Of these 62 subsidiary companies and partnerships, 55 companies account for the shareholding of their minority shareholders as a management incentive (through the award of conditional shares) and are 100% consolidated in the Group's financial statements. The remaining seven subsidiary companies (including one without a put option) account for their minority shareholders as non-controlling interests, a defined IFRS term, with their share of the Group's profits being shown separately on the Income Statement.

Group

The Company and its subsidiaries.

Net revenue

Net revenue is equal to revenue less project cost / direct cost. It is not an IFRS defined term. It is, however, used as a key performance indicator by the Group.

Restatement

2018 profits have been restated for historic accounting errors described in the Annual Report and Accounts and note 2 of the financial statements. The 2017 and 2018 balance sheets have also been restated. The adjustments made in respect of 2017 and 2018 accounting periods are management's best estimates using the available evidence.

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CHAIRMAN'S REVIEW

This has been the worst year since we floated as a public company 15 years ago, or indeed the worst since we created M&C Saatchi in 1995.

The discovery of the 2018 accounting errors threatened the Company's reputation and its standing in the industry. Our aim had always been to be as financially conservative, but as creatively adventurous, as possible.

To all investors, the three founders and Executive Directors, Bill Muirhead, David Kershaw and I profoundly apologise. We feel your pain, having suffered enormously along with all shareholders.

Following the discovery, by our newly appointed Finance Director, Mickey Kalifa, in August 2019, we resolved to carry out the following actions:

- Commission PricewaterhouseCoopers LLP to conduct a forensic independent inquiry.
- Appoint new Company auditors.
- Strengthen the finance department.
- Achieve the highest levels of governance with a newly formed Board.
- Plan for our succession.

All five actions are either completed or well in hand.

We are grateful that four new independent Non-Executive Directors of the calibre of Gareth Davis, Colin Jones, Lisa Gordon and Louise Jackson have shown faith in the Company and can see its future beyond the immediate challenges. Their experience as directors of substantial public companies is already serving the Company well.

After 25 years at the helm, this year's annual general meeting is the last which I will chair. Subject to shareholder approval, the current Non-Executive Director Deputy Chairman, Gareth Davis, will replace me as Chairman. Lisa Gordon will continue as the Senior Independent Non-Executive Director. Colin Jones will continue to chair the Audit Committee. Louise Jackson will continue to chair the Remuneration Committee. I intend to serve until the forthcoming annual general meeting to ensure a smooth handover.

Like every company on the planet the Group is affected by the Covid-19 pandemic. It has made the future harder to see, hence our decision to halt dividend payments and withdraw previous forecasts put out by our brokers.

However, as we announced at the end of July 2020, we are encouraged that our net revenue performance was particularly resilient in the second quarter of 2020, driven by continued growth in the M&C Saatchi World Services division and robust new business performance across many sectors and geographies. Although net revenue declined overall in the first half of 2020 compared to the first half of 2019, swift and decisive actions taken to reduce costs resulted in a relatively stable first half year performance, certainly stronger than was anticipated at the start of the Covid-19 pandemic.

The Board is determined to do everything to ensure that the Company emerges from these challenges, hungrier, leaner and stronger.

In these uncertain times, we are certain that those companies with less debt will be happier and stronger than those which have gone down the debt fuelled expansion route. At the end of the first half of 2020, our total cash was £61.1m, less debt of £38.7m, leaving the Group with net cash of £22.4m.

CHAIRMAN'S REVIEW

Since we began in 1995, we have started 95 new companies. We have closed 29. Our enthusiasm for harnessing the potential of entrepreneurial talent in a creative world is undiminished. The idea is to attract people who want to join in rather than get out; to build rather than maintain.

There will be some good changes coming out of this crisis, companies will need less central office space, child rearing responsibilities will be split more equitably between parents, clients will be less governed by procurement, more by results, and having tasted the freedom of self-discipline, the younger generation will be less keen on returning to the traditional desk chained economic model.

Retail too, will never be the same. In the UK, digital platforms now account for 14% of grocery sales, up from 7% before the Covid-19 pandemic. The Covid-19 pandemic has brought the future closer.

In times like these, winning new business never fails to cheer. In the last few months, the Group has won assignments from the Iceland Government, the UK Government and the Australian State Government of Victoria.

More and more, governments are relying on communications to help govern their countries.

The Board, together with senior managers, recently began a review of the Group's strategy, and, importantly, its implementation. The outline will be presented to investors early next year.

We are encouraging every single Group company, every single M&C Saatchi person round the world to fear no change. Change is the unchanging constant.

Finally, a few words on some outstanding creative work our teams are producing. Two examples spring to mind, both from overseas:

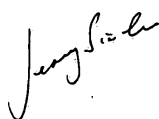
In Australia, the Australian Tourism campaign, usually aimed at persuading foreigners to taste the wonders of Australia became the campaign aimed at persuading Australians to taste the wonders of Australia, with the Holiday Here campaign. I suspect this will be a model followed the world over. Domestic tourism will lead the hospitality sector to recovery.

The South African team won the TikTok business. The world's video sharing social network wanted to expand its audience. Despite the national lockdown restrictions, the agency managed to produce an award-winning film cut entirely from users' short-form mobile videos, all asking one question: What makes you Tic?

Doing work like this makes us Tic.

This is not the 25th M&C Saatchi anniversary we had planned or hoped for, but its lessons will not go unheeded.

Jeremy Sinclair
Chairman
7 December 2020



CHIEF EXECUTIVE'S REVIEW

Summary of results

2019 was the unhappiest year in the Company's 25 year history. It would be a glaring oversight not to mention the accounting misstatements at the outset. These sent a tremendous shockwave throughout the market and the Group itself, impacting the Group's valuation and reputation amongst the investor community. We have left no stone unturned in ensuring that the Group is back on a firm financial footing and never finds itself in this position again. PricewaterhouseCoopers LLP was appointed to conduct a full-scope forensic investigation and has subsequently spent eleven months on the 2019 audit. We have significantly strengthened our governance practices and expertise with the appointment of four new independent Non-Executive Directors who, within the first few months of their arrival, have ably demonstrated the value of having an effective, challenging and independent Board. I would also like to take this opportunity to acknowledge the enormous contribution made by Mickey Kalifa, our new Finance Director, who has managed a superhuman workload over the last 12 months with diligence and professionalism.

The 2018 financial statements have been adjusted to reflect the accounting errors. 2019 highlights (compared to 2018 restated as detailed in the Finance Director's Report on page 9) include:

- Net revenue grew by 2% to £256m.
- Headline profit before tax reduced by 22% to £18m and headline earnings reduced by 28%.
- Loss before tax reduced by 9% to £(12)m.
- Net cash increased by £19m.

In spite of the shock revelation of the accounting misstatements first brought to light in August 2019, there were some good operational performances around the Group, both on a geographical and discipline basis.

M&C Saatchi World Services and M&C Saatchi Performance continued their successful record in terms of both net revenue and margin. M&C Saatchi Sport & Entertainment and M&C Saatchi Talent also made significant contributions.

Following the half year 2020 results, we intend to report not only by geographies, but also by disciplines.

The regions performed as follows (all comparisons are with restated 2018 numbers).

The UK

Net revenue in the UK increased by 12%, with M&C Saatchi World Services showing the largest growth, and M&C Saatchi Performance and M&C Saatchi Sport & Entertainment each also making a significant contribution to revenue. The UK's headline operating profit in 2019 increased by 54%.

M&C Saatchi World Services, our specialist public sector and social impact division, continues to show strong financial and market sector growth. It uses the best of Saatchi talent and technologies to tackle complex social and behavioural issues. In 2019 significant new projects were won from a broad range of existing and new clients, including the World Health Organization, the United Nations, the Foreign & Commonwealth Office, the United States Agency for International Development and the Qatar Investment Authority.

Elsewhere in the UK new business wins included OPPO, Dreams and JD Sports.

The UK headline operating profit margin increased to 14% (2018: 10%).

M&C Saatchi Plc

CHIEF EXECUTIVE'S REVIEW

Europe

Net revenue in Europe decreased by 11% with the largest declines arising in Germany. Headline operating profit was reduced by 44%, with the headline operating profit margin decreasing to 10% (2018: 16%).

Our Berlin office lost Ferrero Rocher as a client, but retained DeLonghi and Lidl. Our Milan office had a successful year having won new client assignments with DeLonghi and OVS.

In a highly competitive market, Paris strengthened its key client accounts. Client wins of Lindt, Club Med and the Agence Française de Développement are the outcome of its strategy of expanding into new digital centric markets.

Our Madrid office won client assignments from Euromillones, Union Pay and Mattel.

Middle East and Africa

Net revenue in the Middle East and Africa was up 5% with good new business performance across the region.

South Africa had great success in winning Standard Bank.

Our UAE office had another strong year, picking up assignments for Pizza Hut and Nespresso. Notable other new business wins included the Saudi Arabian telecoms provider Mobily, the mobile phone manufacturer OPPO, and another PepsiCo brand Poppables.

The headline operating profit in the region was up 29%, with the headline operating profit margin increasing to 9% (2018: 7%).

Asia and Australia

In Asia and Australia, net revenue was flat.

Our Australian offices performed well. The M&C Saatchi Sydney agency was a key performer within the region; strengthening its business with impressive work on new clients TAB, and Tourism Australia, while at the same time consolidating long-established relationships with Commonwealth Bank Australia, Big W, and BWS, amongst others. The Sydney agency saw significant growth in delivering bespoke agency models for Optus in Yes Agency, extending its relationship with the Woolworths Group by opening Greenhouse New Zealand in January 2019, and bringing its media and creative offering even closer together through integrated new business wins in News.com and Plush.

In Asia, the Kuala Lumpur office retained Celcom gained the bank, CIMB, and launched The Source, the UK-based one-stop research agency, in the region. Singapore won Telekom Brunei and Singapore Turf Club, Hong Kong won Smartone, Indonesia won Axiata and Redbus, China retained American Standard and won Jaguar Land Rover, and Mumbai won projects with Reliance and Swisse.

The headline operating profit in the region was up by 9%, with the headline regional operating profit margin increasing to 9% (2018: 8%),

CHIEF EXECUTIVE'S REVIEW

Americas

Net revenue was down 5%. Headline operating profit in the region was down 41% with the headline operating profit margin decreasing to 7% (2018: 12%), due principally to losses in our agency in Los Angeles, which has since been closed in 2020.

Elsewhere in the Americas region, M&C Saatchi Performance continues to perform well, as does M&C Saatchi Sports & Entertainment.

SS+K, our New York agency, grew during 2019, while increasing profitability and margins. Key clients included Commonwealth Bank, WhatsApp, Microsoft, Wells Fargo and Mount Sinai Hospital.

CHIEF EXECUTIVE'S REVIEW

NEW BUSINESS

BEKO

CELIO

CHRISTIE'S

DREAMS

DRIVE SHACK

**DUBAI ASSET
MANAGEMENT**

DURASEIN

EBAY

EUROMILLONES

FRUIT OF THE LOOM

IBIS

JACKSON INSURANCE

JD SPORTS

LIDL GERMANY

LINDT

MASERATI

MATTEL

MTV

NESPRESSO

OPPO

PIZZA HUT

SKADDEN

SOUTHAMPTON FC

STANDARD BANK

SUPERSPORT

THRIFTY CAR HIRE

TOURISM AUSTRALIA

UNIONPAY

WHATSAPP

WORLD HEALTH

ORGANIZATION

ZOUND INDUSTRIES

CHIEF EXECUTIVE'S REVIEW

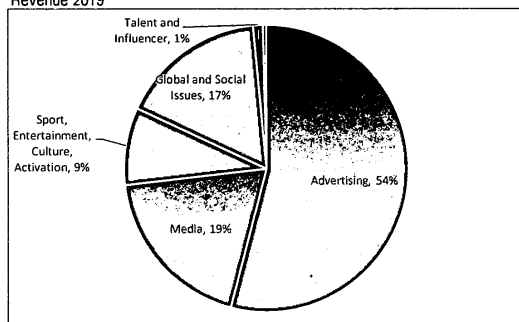
Revenue by discipline

The Group continues to report its results segmentally by geography. The results can also be analysed by discipline – i.e. product/service type. We will adopt a dual (geographic and discipline) approach to analysing the business in the future. The largest and most strategically important disciplines are detailed below, together with charts showing revenue by discipline:

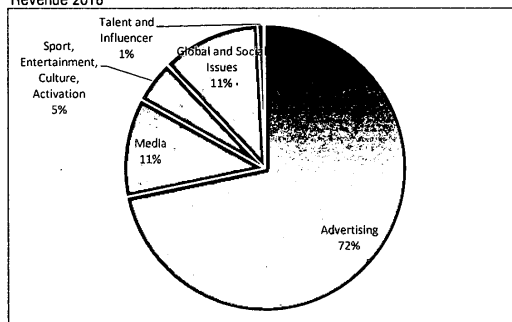
- Advertising
- Media
- Global and Social Issues
- Sports and Entertainment, Culture, Activation
- Talent and Influencer

The charts below identify revenue in each of the financial years 2018 and 2019 by these disciplines.

Revenue 2019



Revenue 2018



Total revenue decreased by 8.7% in 2019, the decrease occurring within the Advertising discipline. Other disciplines have, however, grown in 2019 and we expect this growth in the non-Advertising disciplines to continue in the future.

CHIEF EXECUTIVE'S REVIEW

Outlook

2019 proved to be a very difficult year for the Group as a result of the historical accounting errors. It forced the Company to re-evaluate, rethink and fine-tune many aspects of its business and operations, including its corporate governance and strategic direction.

There has been a wholesale change of Non-Executive Directors and a concerted effort to substantially reduce costs and take painful, yet necessary, action in closing and restructuring loss-making and poorly performing operations. The Board has also undertaken a comprehensive review of the Group's strategy and taken steps to enhance the Company's governance structure.

A major internal project was commissioned in April 2020 by the new Board to review and make recommendations on the future strategy of the Group. This project is well underway and already extensive work has been undertaken in the following areas: firstly, in redefining our corporate vision, business and brand strategy; secondly, in analysing and making recommendations as to where the Group can best focus in terms of both geographies and disciplines. This will be dependent on where we believe client demand is heading and where we are best placed to enjoy competitive advantage. We will then be able to decide which businesses we should invest in, which new business areas we should enter and those areas from which we should divest.

These strategic conclusions naturally dictate an equally fundamental review of the Group's operating structure. The Group originally expanded and was, and still is, managed on a geographical basis. However, the founding and growth of other disciplines has become the driving dynamic and therefore merits the Board's review of how the Group should be structured. We have already decided that we need a much-simplified structure with clarity on what should be done by the operating companies and those support functions which can best be centralised. This will not only result in more consistent controls, but also cost reductions.

The Board will, with the guidance of the newly constituted Remuneration Committee, seek to review and revise the winning principle of establishing businesses with minority-owning founders. We believe this entrepreneurial model remains key to the future success of the Group, but that it must be reconfigured to protect the value to the Company's shareholders.

Trading in 2020 promised to be good. However, the Covid-19 pandemic has affected the entire Group. We have acted very quickly to mitigate the effects of the Covid-19 pandemic. The efforts undertaken to reorganise and restructure the Group's operations during 2019 which have continued into 2020 have meant that when the Covid-19 pandemic struck, we were in a far stronger position to cope with its effects than we would otherwise have been.

Our cost base in 2020 is substantially lower than it was in 2019. Although headline profit before tax will be lower in 2020 than 2019, the balance sheet and, in particular, net cash position remain fundamentally strong. The recent transformation of the Group's cash management systems and processes means we do not anticipate any scenario where we will face a liquidity shortfall. Furthermore, our base case models and performance so far through the Covid-19 pandemic indicate we will be able to manage the business within the existing financial covenants under our third-party financing arrangements.

Looking forward, with a fresh strategy, structure and controls harnessed to the core M&C Saatchi spirit of creativity and entrepreneurial energy, we are very confident of a successful next chapter.

FINANCE DIRECTOR'S REVIEW

Financial key performance indicators

The Group manages its operational performance through a number of financial key performance indicators. These are stated below with the comparative key performance indicators for 2018 adjusted to reflect the prior period accounting errors which were identified in 2019.

- Net revenue, up 2.4%;
- Headline operating margins, down from 8.6% to 8.0%;
- Headline profit before tax was down from £23.5m to £18.3m;
- Statutory loss per share reduced by 2.4p and still remains negative;
- Headline earnings per share decreased by 32.9%; and
- Increase in net cash, up £19.0m year on year.

Summary of results

£m	Statutory			Headline ²		
	2019	2018 ¹	Movement	2019	2018 ¹	Movement
Billings ³	561.4	603.7	-7.0%	561.4	603.7	-7.0%
Revenue ⁴	381.0	417.4	-8.7%	381.0	417.4	-8.7%
Net revenue ⁵	256.4	250.3	2.4%	256.4	250.3	2.4%
Operating (loss)/profit	-11.0	-3.3	227.9%	20.6	21.5	-4.3%
(Loss)/profit before taxation	-8.6	-5.4	59.1%	18.3	23.5	-22.1%
(Loss)/profit for the year	-11.8	-13.0	-8.8%	13.0	15.2	-14.3%
Earnings	-11.8	-13.1	-9.9%	8.1	11.3	-28.3%
(Loss)/earnings per share	(13.1)p	(15.5)p	-15.5%	8.9p	13.3p	-32.9%
Tax rate	-38.0%	-140.8%	+102.8pts	29.0%	35.4%	-6.4pts

¹ Restated see note 2 of the financial statements.

² The items that are excluded from headline results are the amortisation and 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 and loss on disposal of associates; revaluation of acquired investments and their related costs; and the income statement impact of put option accounting and share-based payment charges.

³ Billings comprise the total of all gross amounts billed, or billable to clients in respect of commission-based, fee-based and any other income, whether acting as agent or principal.

⁴ Revenue, comprises the total of all gross amounts billed, or billable to clients in respect of commission-based, fee-based and any other income where we act as principal and our share of income where we act as an agent.

⁵ Net revenue is equal to revenue less project cost / direct cost.

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 acquired equity, put options and passive investments. These headline figures are alternative performance measures that the Board considers provide an appropriate basis to assess the results of each region and provide the basis on which the business is managed and monitored on a day-to-day basis.

FINANCE DIRECTOR'S REVIEW

Historical accounting issues and restatement of prior period financials

Following last year's audit and my appointment, we initiated an internal review of the Group's financial and accounting systems and an assessment of the balance sheet, with particular focus on the Group's UK companies which had undergone a difficult audit in 2018. The initial findings indicated that certain balance sheet items had been very materially misstated. The findings were immediately announced to the market and at the same time the Board initiated an independent accountant's review to be conducted by PricewaterhouseCoopers LLP's forensic group.

The scope of this review comprised:

- i. Understanding how the issues identified through the Group's internal review materialised;
- ii. Undertaking a targeted, risk-based analytical review of the rest of the Group to assess whether these same issues may exist in other areas of the financial statements of the Group; and
- iii. Making recommendations concerning the control environment to prevent similar issues from happening again.

Following the completion of the independent accountant's review in December 2019, the Company announced it had identified £11.6m of adjustments to headline profit before tax, the precise amount of the adjustment to be determined on completion of the audit of 2019. Following the conclusion of the audit of 2019, we can now confirm that the total adjustment to historical (2018 and prior years) headline profit before tax is £14.0m, the adjustment to statutory profit before tax is £28.1m (note 2(c) of the financial statements), with net assets reduced by £20.0m (note 2(d) of the financial statements). Given the scale of the accounting issues identified last year, the Company's new auditors, PricewaterhouseCoopers LLP, have conducted an extensive and detailed audit of 2019. Following the completion of the audit of 2019 and having now identified the material historical accounting errors, the Company is finally able to draw a line underneath these events and move forward with confidence.

We faced a number of difficult challenges in finalising the 2019 financial statements, most of which are directly attributable to the historic accounting misstatements. The delay in publication of the 2019 financial statements is, in part, due to the difficulties we faced fully validating the 2018 closing balance sheet. The combination of relatively poor accounting records coupled with the departure of senior finance personnel has made this exercise and the 2019 audit all the more difficult and time consuming. Based on all the available evidence and accounting records, the Group has now restated its 2018 income statement, opening balance sheet and closing balance sheet.

The adjustments are split between the two following periods, resulting in the restatement of 2018 income statement:

- i. Items which arose in 2018 and which, therefore, require the 2018 closing balance sheet to be adjusted; and
- ii. Items which are considered to have occurred in the period or periods before 2018 and so require the 2018 opening balance sheet to be adjusted.

FINANCE DIRECTOR'S REVIEW

These are categorised in the table below:

	Pre-2018	During 2018	Total
	£000	£000	£000
Trading	(1,799)	(3,859)	(5,658)
Non-trading	(463)	(1,179)	(1,642)
Non-current assets impairment	(2,441)	(2,307)	(4,748)
Financial reporting	(505)	(1,483)	(1,988)
Headline PBT impact	(5,208)	(8,828)	(14,036)
Financial reporting	(2,790)	–	(2,790)
Put options	6,536	(15,084)	(8,548)
Goodwill	(3,696)	926	(2,770)
Statutory PBT impact	(5,158)	(22,986)	(28,144)
Tax	475	(952)	(477)
PAT impact	(4,683)	(23,938)	(28,621)

The nature and description of these adjustments is described in note 2 of the financial statements.

Effects of accounting standard changes

From 1 January 2020, the Group adopted the latest accounting standard for leases, IFRS 16, which in essence aims to recognise the assets and liabilities of virtually all leases on the balance sheet. The impact upon the financial statements of this new accounting standard is presented in notes 4 and 19 of the financial statements. Overall, this change in accounting policy has resulted in an increase in earnings of £0.6m. At the same time, it has a significant effect on the balance sheet, increasing non-current assets by £35.4m, net current assets by £2.8m and non-current liabilities by £43.6m.

Net revenue and operating profit margin

Group net revenue increased by 2.4%. Constant currency net revenue growth was 2.3%.

Group statutory operating loss increased from £(3.3)m to £(11.0)m, largely as a result of £6.2m of exceptional items in 2019 (2018: Nil).

Based on the Group statutory operating profit, the margin has decreased to (4.3)% (2018: (1.7)%). Group headline operating profit margin decreased to 8.0% (2018: 8.6%).

FINANCE DIRECTOR'S REVIEW

The key movements between statutory to headline results

2019 £'m	Statutory			Conditional share awards	Dividends related to conditional shares	Adjustments to put option liabilities	Impairment charges	Revaluations	Amortisation of acquired intangibles	Sale 24.9% of Walker Media	Headline
	After exceptional items	Exceptional items	Before exceptional items								Total
Net revenue	256.4	–	256.4	–	–	–	–	–	–	–	256.4
Operating (loss)/profit	-11.0	6.2	-4.8	10.6	5.8	–	5.9	0.6	2.5	–	20.6
(Loss)/profit before taxation	-8.6	6.2	-2.4	10.6	5.8	2.8	11.1	0.8	2.6	-13.0	18.3
(Loss)/profit for the year	-11.8	5.2	-6.6	10.6	5.8	2.8	11.1	0.7	1.9	-13.3	13.0
(Loss)/earnings	-11.8	5.2	-6.6	10.6	1.1	2.8	11.1	0.8	1.6	-13.3	8.1

2018 restated £'m	Statutory			Conditional share awards	Dividends related to conditional shares	Adjustments to put option liabilities	Impairment charges	Revaluation	Amortisation of acquired intangibles	Capital gains tax on share issue	Headline
	After exceptional items	Exceptional items	Before exceptional items								Total
Net revenue	250.3	–	250.3	–	–	–	–	–	–	–	250.3
Operating (loss)/profit	-3.3	–	-3.3	17.2	3.1	–	1.3	-1.1	4.5	–	21.7
(Loss)/profit before taxation	-5.4	–	-5.4	17.2	3.1	3.1	1.9	-0.9	4.5	–	23.5
(Loss)/profit for the year	-13.0	–	-13.0	16.8	3.1	3.1	1.9	-0.7	3.5	0.5	15.2
(Loss)/earnings	-13.1	–	-13.1	16.8	0.3	3.1	1.9	-0.7	2.5	0.5	11.3

Full reconciliation can be found in note 1 of the financial statements.
Restatement of 2018 numbers can be found in note 2 of the financial statements.
Regional split and constant currencies in note 5 of the financial statements.

Conditional share awards, dividends related to conditional shares and adjustments to put option liabilities all relate to transactions with minority interests. Headline profit shows the minority interest share of profit, rather than these accounting effects. Capital gains tax on share issues relates to a sale of shares in 2018 to minorities that caused a capital gains tax charge in local books. Impairment charges, amortisation of acquired intangibles, revaluation of investment and profit on the sale of 24.9% of Walker Media, all relate to the Group's corporate investing activities, rather than the trading activities reflected in headline results.

FINANCE DIRECTOR'S REVIEW

Exceptional costs, including restructuring

The Group incurred substantial exceptional costs in 2019 of £6.2m before tax (2018: £nil). These comprised costs associated with restructuring the Group, including staff redundancy costs, and professional fees relating to the accounting misstatements identified in 2019.

Redundancies took place globally, predominantly involving companies in the UK, Brazil, Malaysia and Los Angeles. Total restructuring costs were £4.2m. The restructuring of operations continued throughout 2020.

Exceptional professional fees of £2.0m comprise the costs of the independent forensic accounting review of the Group carried out by PricewaterhouseCoopers LLP's forensic group following the discovery of the accounting errors identified in 2019 and the legal advice taken by the Board on the disclosures required and legal consequences of the accounting errors and other costs associated with the accounting errors.

Associates

The Group made an after-tax profit from associates of £0.2m (2018: £2.8m). The material reduction in income from associates arose from the disposal of the investment in Walker Media which was sold in January 2019. It made no contribution to the 2019 profits (2018: £2.4m).

The post-tax profit on the disposal of Walker Media was £13.3m and the net proceeds after costs were £23.3m. The difference represents the book cost of Walker Media, net of dividends received in the year.

Financial income and expense

The Group's finance income and expenses includes bank interest, lease interest and fair value adjustments to minority shareholder put option liabilities (IFRS 9).

Bank interest payable for the year was £1.3m (2018: £1.2m). Overall borrowings increased slightly in 2019 compared to the prior year. A reduction in borrowings in the first half of the year due to the proceeds from the sale of Walker Media was offset by increased borrowings in the second half of the year, as cash was returned to shareholders through dividends.

Interest on leases increased to £1.8m (2018: Nil) with the implementation of IFRS 16.

Fair value of put option liabilities created a charge of £2.8m (2018: £3.1m). The charge arose from an increase in future profitability estimates of our business unit, SS+K, offset by a reduction in the Company's share price. Further details can be found in note 27 of the financial statements.

FINANCE DIRECTOR'S REVIEW

Tax

Headline Tax

The headline tax rate is a function of the Group's tax charges globally. The headline tax rate has reduced from 35.4% in 2018 to 29.0% in 2019. The restated 2018 profits reflect disallowable cost and asset impairments, offset by a reduction in low tax UK profits after exceptional costs, and an increase in income from higher tax locations.

Statutory Tax

There continue to be large swings in the statutory tax rate caused by the significant level of accounting charges which are capital in nature. Such accounting charges relate to put options, contingent payments, goodwill impairments, and un-taxed disposals which are all capital items from a tax point of view. Furthermore, the £13.0m profit on the disposal (before tax) of the Group's 24.9% shareholding in Walker Media received no tax charge (due to utilising exemptions under the UK substantial shareholding exemption (SSE)), which had the effect of reducing the statutory tax rate in 2019.

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

	2019 £m	2019 %	2018 ¹ £m	2018 %
Headline profits at UK corporation tax rate	(3.5)	19.0%	(4.5)	19.0%
Headline adjustments:				
Group tax rate mix	(1.5)	8.1%	(1.6)	6.7%
Expenses not deductible for tax	(0.4)	2.3%	(2.3)	9.8%
Other	0.1	(0.4)%	0.1	(0.1)%
Headline tax and its tax rate	(5.3)	29.0%	(8.3)	35.4%

¹2018 numbers have been restated.

Non-controlling interests (minority interests)

On a headline reporting basis, the share of profits from non-controlling interests increased to £4.9m (2018: £3.9m) as a result of an increase in the share of profits derived from subsidiaries with the highest minority shareholdings.

However, for statutory reporting, certain costs that were charged to non-controlling interests in headline reporting are required (under IFRS 2) to be accounted for as staff costs, as the share option charge is accrued and subsidiary dividend is paid. As part of the extensive audit review, along with a change to accounting practices for limited liability partnerships, most of the minorities' share and rewards from local equity have been redefined as staff costs. The effect of this has been to decrease the non-controlling interest charge from £2.7m in 2018 to £0.1m after adjustment in 2018, with a contribution of £0.1m in 2019.

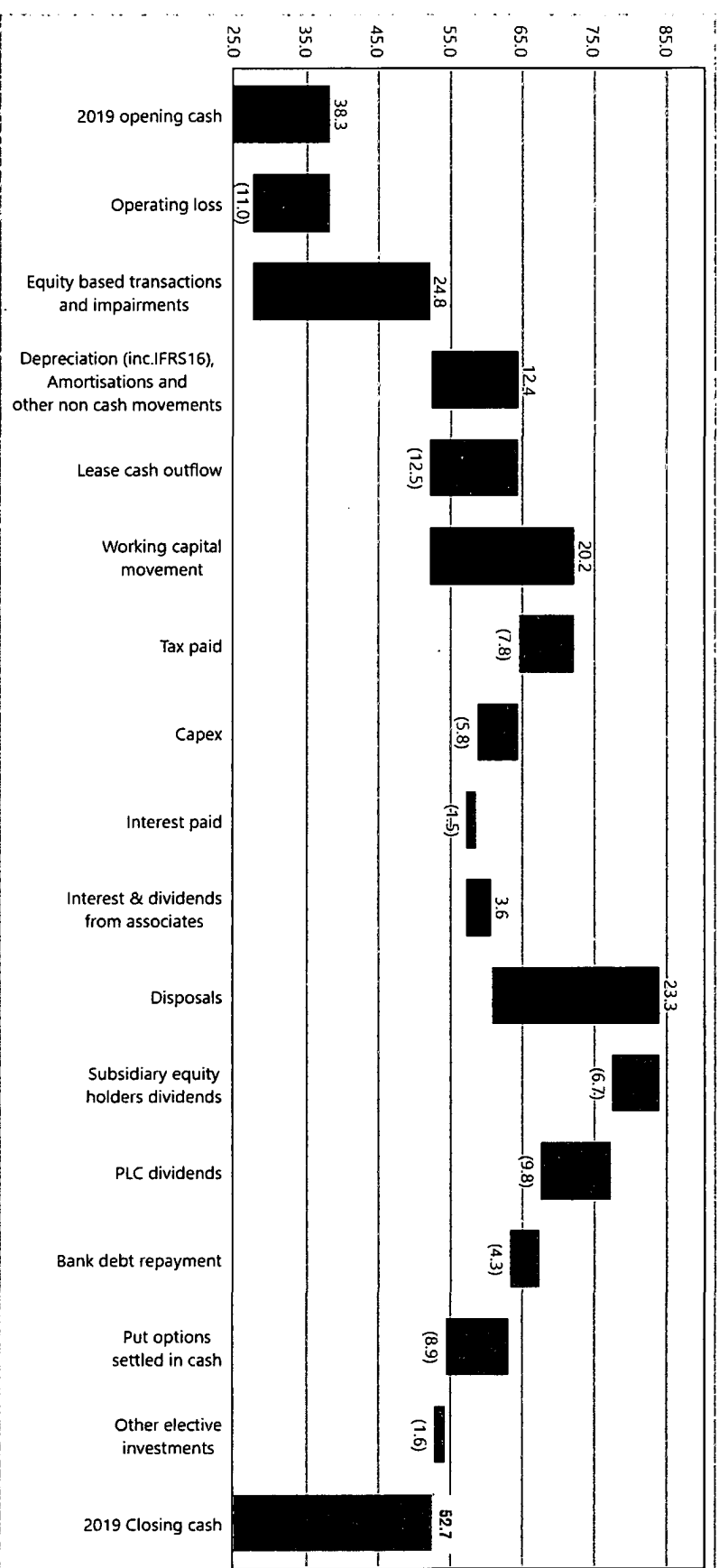
FINANCE DIRECTOR'S REVIEW

Dividend

During 2019, the Company paid £9.8m in dividends to its shareholders (2018: £8.4m). The Board is not proposing to pay a final dividend for the year ended 2019 (2018: 8.51p per share), leaving the total dividend for the year ended 2019 at 2.45p per share (2018: 10.96p).

Cash flow and banking arrangements

The table below outlines the movement in cash during the year.



Total cash as at 31 December 2019 was £52.7m (2018: £38.3m). Cash net of bank borrowings as at 31 December 2019 was a net surplus of £16.6m compared to net deficit of £(2.5m) in 2018.

FINANCE DIRECTOR'S REVIEW

The Group's net cash flow from operating activities was £33.6m. In February 2019, we received £23.3m from the sale of the Group's remaining 24.9% shareholding in Walker Media. Out of these proceeds, £8.9m was used to settle management options which as an exception were paid in cash that would otherwise have been settled through issuing shares in the Company. In addition, part of the proceeds were used to pay Company dividends of £9.8m. The Group's improved cash collection procedures helped drive the improvement to working capital in 2019.

The Group extended its revolving credit facility (RCF) with National Westminster Bank plc (NatWest) in April 2020. The RCF was reduced from £36.0m to £33.0m from 1 December 2020 and matures on 30 June 2021. As at 31 December 2019, the full amount of the RCF was drawn.

In addition to the RCF, the Group has a £5m overdraft facility with NatWest, which remained un-utilised as at 31 December 2019.

The primary purpose of both the RCF and the overdraft facility is to support the Group's working capital requirements which are capable of significant movement within any given month and from one month to the next.

In addition to the RCF and the overdraft facility, the Company recently received approval for £7m of funding through the UK Government's Coronavirus Large Business Interruption Loan Scheme (CLBILS). Given the current cash balance and existing headroom, securing this additional funding is an entirely precautionary measure aimed at ensuring the Company has sufficient cash balances to continue to operate under any plausible trading scenario. The additional headroom from the CLBILS facility is not expected to be drawn.

As a prudent and precautionary measure, in August 2020, the Company amended its financial covenants under the RCF which provide for a relaxation of the financial covenants for the final quarter of 2020 to the maturity of the RCF thereby mitigating potential risks that could arise under an extremely severe scenario. The RCF does provide that where the auditors qualify the audited annual consolidated financial statements of the Company in a material way there is an event of default. However, the bank has confirmed that it has no intention of giving notice to the Company of an event of default nor taking any action as a result of such qualification and therefore the Company does not consider this to be a risk.

The Group has made good progress in improving its cash management function. We appointed a Group Treasurer in January 2020 and are in the process of deploying a global cash management platform to enable global cash pooling with the aim of reducing net borrowings.

Key balance sheet movements

The identification of the historic accounting misstatements and the change in key judgements has resulted in a number of material changes to the way we account for certain key items and the way we now present the balance sheet compared to previous years. Key areas driving the change in presentation include how the Group accounts for subsidiary minority holdings, the Group's accounting policy for revenue recognition and the implementation of the new leasing standard IFRS 16.

FINANCE DIRECTOR'S REVIEW

Summary Balance sheet movements £m	2018	Accounting errors	2018 Restated	1 Jan 19 IFRS16 Adjustment	Bank loan	Other movements	2019
Non-current assets	95.4	-6.2	89.2	35.4	–	-2.6	122.0
Current assets	215.1	0.4	215.5	1.5	–	-28.9	188.1
Current liabilities	-173.1	-16.4	-189.5	1.3	-35.6	13.2	-210.6
Net current assets	42.0	-16.0	26.0	2.8	-35.6	-15.7	-22.5
Non-current liabilities	-48.5	2.2	-46.3	-43.6	35.6	4.4	-49.9
Net assets	88.9	-20.0	68.9	-5.4	–	-13.9	49.6

The accounting errors identified in the income statement total profit after tax £28.6m, but this reduces to £20.0m in the balance sheet with the difference a consequence of a change in the method of calculating put option adjustments (IFRS 2).

Adoption of the new leasing standard, IFRS 16, changes the look of the balance sheet by increasing both non-current assets and liabilities.

As at 31 December 2019, the RCF had a maturity date of 30 April 2020, requiring it to be classified as short term. The RCF has since been extended to 30 June 2021.

The net asset reduction in other movements reflect the following outflows: the distribution of £(9.8)m to shareholders by way of a dividend, £(8.9)m of cash used to settle put option obligations, our loss net of £(11.8)m, and £(0.4)m of other items offset by £10.3m of share option charges, and our issue of £6.7m of equity to fulfil put option liability.

Capital expenditure

Total capital expenditure in 2019 (including software acquired) increased to £5.8m (2018: £5.6m). Capex includes £1.5m on computer equipment and £1.7m on software and film rights. The remaining £2.6m was incurred on leasehold improvements and furniture and fittings, most of which was incurred in the refurbishment of the Group's London headquarters.

FINANCE DIRECTOR'S REVIEW

Share-based payments

The Group's business model is founded on entrepreneurialism. A key component of that has been ownership by senior management in the subsidiary companies they operate, through share-based incentive arrangements. Accounting for share-based payments is a complex area, with different accounting treatments applicable depending on the nature of the share scheme in place. To increase clarity in this area we have indicated the potential dilutive effect in note 26 of the financial statements, providing an estimate of the total number of shares issuable in each of the next five years through the various share-based payments schemes.

This is summarised in the table below:

Shares issued and % dilution at different share prices

	2020	2021	2022	2023	2024
Shares total by year	'000	'000	'000	'000	'000
At 62p (-50%)	26,973	5,580	16,981	6,319	8,263
At 124p (unadjusted)	15,349	3,607	9,870	3,755	4,405
At 186p (+50%)	11,445	2,949	7,505	2,973	3,250

Dilution of 31 December 2019 shareholders	2020	2021	2022	2023	2024
At 62p (-50%)	29%	6%	18%	7%	9%
At 124p (unadjusted)	16%	4%	11%	4%	5%
At 186p (+50%)	12%	3%	8%	3%	3%

This analysis has been calculated using budgets and valuations which were determined before the start of the Covid-19 pandemic. Current valuations may now be lower with the result that the number of shares to be issued and the dilutive impact may be lower than stated above.

The Company has experienced a significant decline in its share price over the last 12 months, from a peak of 394p per share in March 2019. In many of the share schemes, the consideration is calculated at a fixed multiple of the relevant subsidiary company's profits. The consideration is typically paid in shares of the Company, with the result that as the Company's share price has fallen a greater number of shares are needed to be issued as consideration under the schemes. This has a very significant dilutive effect.

A number of share schemes which will shortly fall due to be exercised are now being renegotiated with the intention of reducing the number of shares in the Company to be issued during 2020. The discussion with the share option holders is ongoing, but we anticipate that as a result of these negotiations, dilution will be significantly lower than the 29% referred to in the table above.

FINANCE DIRECTOR'S REVIEW

Global accounting function, controls and systems

The historical accounting issues identified in 2019 brought to light fundamental organisational and control weaknesses within the Group's finance and accounting functions. The Group has historically operated a decentralised accounting function. It has become apparent, however, that the increased size and complexity of the Group now necessitates the Group's accounting systems to be standardised and enhanced. Consequently, all Group companies are moving to a single financial accounting and project management platform, NetSuite, which is to be integrated with a new consolidation, business forecasting and budgeting platform, Adaptive Insights. We will also be deploying a global cash management and cash forecasting platform, Kyriba, providing real-time data and access to all bank accounts across the Group. We expect all three systems to be live across the largest entities in the Group by the end of the first quarter in 2021.

There have been a number of changes in key personnel in the Group's finance function during 2019 and continuing into 2020. We have appointed a Group Commercial Director, new Group Financial Controller, Group Treasurer and new UK Group Finance Director, to create a more integrated and orthodox Group finance organisation structure. During 2020, the Finance Director has introduced and is continuing to introduce a standard set of accounting policies to be applied Group-wide, formalising accounting treatments to be followed by all Group companies. The list of accounting policies will be reviewed annually, at a minimum, and expanded as required.

As we implement the new systems, policies and personnel across the finance organisation, we are at the same time introducing changes to the financial controls which will be mandated and enforced across the Group. All senior management within the Group are aware of the changes and of their responsibility to operate within the framework of the new systems and processes.

Conclusion

The combination of the arrival of the new Finance Director and the magnitude of the accounting misstatements uncovered last year has been a catalyst for wide-ranging changes and improvements in the Group's financial management. It has been a very challenging year for the Group, evidenced by the duration of the audit and the auditor's opinion in the auditor's report. Fundamental structural changes are required. The arrival (and departure) of senior finance personnel, the overhaul in the Group's financial and accounting software platforms, the renewed focus on cash and cash management, the strict adoption of clear finance and accounting policies, the appointment of four new independent Non-Executive Directors and the appointment of PricewaterhouseCoopers LLP as the Company's auditors will ensure the Company can move on from its historical accounting failures and can be confident that it has implemented and will continue to implement strong financial controls and financial management.

RISK REVIEW

Risks and uncertainties

The Board has overall responsibility for the Group's risk management and system of internal controls, and for reviewing their effectiveness. It operates a policy of continuous identification and robust assessment of principal and emerging business risks. This includes identifying principal and other emerging risks, determining risk control strategies and considering how those risks may affect the achievement of business objectives, taking into account risk appetite.

The principal risks are:

Risk

Loss of clients

Loss of clients and reductions in expected revenue from clients. Given the size of the Group, we expect to lose some clients over time. Our aim is always to minimise these losses. We lose clients for a number of reasons, including: negative global or local economic conditions directly impacting clients' businesses; clients running out of funding after they have commissioned with us; clients redirecting their marketing and other budgeted expenditure elsewhere.

Mitigation

We continue to develop our offerings to reflect clients' changing marketing requirements and actively seek cross selling opportunities with those clients. In particular, we are conducting a client-focused strategic review to enable us to deliver what our clients need in the future. Providing we get our offerings right, we will 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.

Change In Risk

No change pre Covid-19: There was a continuous change in client needs.

Increased post Covid-19: The sudden economic impact of the Covid-19 pandemic has meant some of our clients have either delayed, reduced or pulled their marketing spend. The Covid-19 pandemic has also increased the pace of change in service delivery and clients' needs.

RISK REVIEW

Staff

Our staff are critical to our future, which can be categorised as below:

Loss of staff – Staff remain our greatest asset and losing them is one of our principal risks.

Balance between staff and shareholders – The risk exists that our business model, of shared ownership and share option plans has not, in some cases, balanced the reward to local employee shareholders with the benefit to the Group, resulting in a significant dilution of the Group's equity at the expense of the Company's shareholders.

Staff skills and welfare – Highly skilled employees are vital to our success in building and maintaining client relationships and winning new work. Without the continuous development of our staff they will become demotivated, and our clients' service offering will not develop with clients' needs.

System access and security

As our product range expands and becomes more data and technology dependent, so too does the risk of cyber-attacks.

Our business model of shared ownership and share option plans, shared objectives and shared ambitions, empowers, motivates and rewards managers of each of our subsidiary businesses, gives them autonomy to develop the Group's offering, and in turn drives them to nurture local staff working and thus create business continuity, and reduce the risk of losing future stars.

As set out in the Directors' Remuneration Report and Governance Report, a full review of such plans and the model going forward is taking place.

Best practices from each office are shared, via our intranet, bi-annual worldwide meetings and on an ad hoc basis through local and global working groups. Local businesses focus on their staff development to create the leaders of tomorrow.
The Covid-19 pandemic has enhanced inter-office sharing, as the need to social-distance our staff has broken the natural barriers between our offices, and in some cases staff and management. At the same time, it has refocused our efforts and increased the availability to our staff of programmes focused on their mental wellbeing, and work-life balance.

The Group continues to monitor, update and globalise computer systems, uses training programmes to improve data protection and seeks to employ staff with relevant expertise. So that our security is regularly audited, critical areas of our technology infrastructure come under the ISO27001 regime, and we strive to increase its coverage. Cyber risk is regularly discussed at Board meetings and we learn from the cyber events of others.

Increased

The decline in our share price, caused by our accounting errors and misstatements, as well as the post-year end effects of the Covid-19 pandemic has exacerbated the dilutive effect of some of our option plans. In many cases, the reduction in share price has also reduced the motivational value of such incentives.

Following the fall in the Company's share price, there is an increased dilutive impact on the Company's shareholders. This risk will be managed in the future by the Company not putting in place any new plans without the approval of the Board and by renegotiating existing plans.

Social isolation caused by the Covid-19 pandemic, and lack of peer monitoring may affect the mental wellbeing of our staff. However, we have mitigated this risk by offering additional training and hosting virtual socials.

No change

Remote working required as a result of the Covid-19 pandemic has changed the nature of the risk, but not the mitigation nor increased the risk.

RISK REVIEW

Internal controls

The risk that our multiple accounting platforms, lack of common financial control policies, reliance on manual processes, the ability for controls to be overridden without knowledge or review by others, and cultural and historical habits do not reflect the Board's direction.

As set out in the Audit Committee Report and Governance Review, we are reorganising the Group's finance function, creating standard Group accounting policies and procedures, implementing a cloud-based accounting and forecasting system to be deployed across the Group, as well as performing a governance review, improving whistle-blowing systems and identifying any cultural changes needed.

Increased: Accounting errors and misstatements have highlighted this as a key area of concern.

Central control

Due to the large number of businesses in the Group and the relatively decentralised management of those businesses and complexity of the Group structure, the risk exists that significant business decisions that should be decided and/or approved centrally are made locally without central oversight.

As part of the strategy and governance review, the Group is reviewing those areas of the Group that may require greater central control, including finance, legal, HR and IT, as well as simplifying the Group's structure and reinforcing and enhancing existing governance rules.

Increased: Accounting errors and misstatements have highlighted this as a key area of concern and resulted in an acceleration of the mitigating actions.

Reputation risk

Our name has brand value and recognition and helps our pitch and win clients. As our name is well known, our actions are subject to public scrutiny, despite our relatively small size. Many of the risks identified in this risk review section may damage our brand and reputation.

We accept reputation risk management is at the heart of managing all the other risks set out here. We accept its importance and actively engage in due diligence and effective communications to manage this risk.

Increased: The accounting errors identified have increased the scrutiny on the Group.

Funding

The Company could experience a breach of its financial covenants under its revolving credit facility agreement with National Westminster Bank plc leading to cash restrictions, loss of shareholder confidence and less favourable terms when refinancing in the future.

We closely monitor and forward test to ensure compliance with the financial covenants in the facility agreement. We nurture the long-term relationships we have with our current bank and have strong relationships with other banks. We perform forward covenant testing on a monthly basis which applies sensitivity and stress modelling

Increased: We have relaxed our financial covenants under our existing facility agreement to allow for any decrease in revenue.

RISK REVIEW

The Group also faces a number of other risks, including:

Risk

Global footprint

Risks arising from operating in certain geographic regions which potentially endanger our staff or restrict our ability to trade.

Mitigation

We monitor our global footprint, insurances and travel plans, have invested in technology to allow us to work remotely from these regions, and continue to review and update our business contingency plans. Such investments in technology have been used to maintain our cohesion and client delivery despite the difficulties imposed by the social-distancing rules imposed as a result of the Covid-19 pandemic.

Change In Risk

No change pre Covid-19: This risk varied with each of the projects carried out.

No change post Covid-19: This risk has reduced our travel and therefore this risk has decreased, although in some cases, it remains a local risk.

Association risk

The risk that suppliers, clients, or staff transgress our corporate and brand values, with resulting damage to our reputation and credibility. This can potentially impact our ability to win new client business, result in the departure of existing clients, hamper our ability to retain or hire talent or result in fines.

We have policies and training programmes for staff to vet and monitor clients and suppliers at all levels and take any relevant action. We have advisors who help us, and in some cases insurance to allow us to access experts if a situation arises.

No change: The accounting errors have damaged us, and increased scrutiny on us, but there is no change to the risk.

Regulation and legal

Regulatory and legal rule changes can affect our trading, ownership structures or interpretation of our financial data. This risk is illustrated by the changes to accounting standards (as set out in note 2 of the financial statements) and future impact of Brexit. We are exposed to multiple regulators in various countries, covering such things as trading in our shares, health and safety of our staff, data protection, advertising standards, accountancy and tax authorities.

We continuously monitor and plan for proposed and actual regulatory and legislative changes and interpretations. Where we can, we actively and positively engage with regulators.

Increased: The undecided nature of the Brexit negotiations has affected some of our offices' ability to pitch for clients. The accounting errors and misstatements have increased regulators' scrutiny in the UK.

Economic

Our clients' spend varies with local economic situation.

We operate in a range of geographies, helping us to naturally 'hedge' against country specific risks and economic downturns, however, we remain exposed to a global recession. Our larger clients and the range of services we supply reduces such exposure, and in some offerings creates a counter cyclical effect.

Increased: The Covid-19 pandemic created an economic shock that is causing a global recession leading to a reduction in client spend.

RISK REVIEW

Financial

Changes to exchange rates, interest rates and the Company's share price can affect our profitability, cash flows and future liquidity

We monitor and model likely and actual changes. The global implementation of a cloud-based accounting and forecasting system will improve our decision making as well as enabling the better utilisation of locally held cash. We maintain close relationships in the banking sector and the wider capital markets to enable us to access future liquidity.

Increased: Brexit, the Covid-19 pandemic, and our accounting errors and misstatements have increased our volatility in markets and potentially the cost of capital and may impact our cash flows.

Investment

The risk that businesses that the Group acquires or invests in as start-ups fail to deliver their anticipated results.

We monitor our businesses' performance regularly and give them assistance where required. Where acquisitions or start-ups have not performed as well as expected, we act quickly in either fixing the problem, divesting or terminating the business.

Increased: The effects of accounting errors and misstatements, as well as the Covid-19 pandemic have reduced the Group's ability to support underperforming offices, that may under improved market conditions have a long-term future. Conversely these circumstances have also meant that there have been no acquisitions or investments made during the year.

Litigation risk

As a services business that continuously interacts with all its stakeholders and clients, there is a residual risk of litigation.

The Group reviews and updates its quality control process, employs staff with knowledge and expertise and seeks legal advice where necessary. The Group, where it can, insures against this risk, and regularly engages with its insurer via its broker.

No change: The accounting errors, and the potential future consequences of regulatory investigation increases this risk. In other areas this risk has remained the same.

STRATEGIC REPORT

Section 172 of the UK Companies Act 2006

The governance report (including Section 172 of the UK Companies Act 2006 and compliance with the UK Corporate Governance Code 2018) explains our governance arrangements and how we engage with stakeholders and considered them during the year, further information can be found on page 29 and also can also be found at www.mcsaatchiplc.com/governance.

Strategic Report

The Chief Executive's Review (page 3), Finance Director's Review (page 9), Risk Review (page 20) and Business Model (page 55) together form the Strategic Report.

Strategic Report approval

By order of the Board

David Kershaw
Chief Executive
7 December 2020



GOVERNANCE REVIEW

At the Board meeting held on 18 September 2018, the Board formally adopted the principles of the UK Corporate Governance Code 2018 (the Code), with the agreement that we would not comply due to our size and history in those areas set out in the compliance table within this governance review. Previous to this, as a company listed on the AIM Market of the London Stock Exchange, the Quoted Companies Alliance had been the guiding code in respect of the Company's corporate governance standards.

Given the Company's decentralised business model, the journey in adopting the principles of the Code has taken some time and the international spread of the business has provided some problems that are still in the process of being resolved. However, to reassure our stakeholders, the Board fully understands and believes that good corporate governance is an essential element in helping to build a successful business in a sustainable manner. The Board is reviewing the effectiveness of the Company's governance framework and the Board is fully committed to achieving full compliance with the Code during 2020.

The accounting errors and misstatements announced to the market in 2019 were discovered by our own staff after the departure of some key members of the finance team in early 2019. As soon as the errors were discovered, the Company appointed PricewaterhouseCoopers LLP's Forensic Services Group to conduct a full scope forensic investigation. The report ensuing from that investigation produced by PricewaterhouseCoopers LLP set out the steps that the Audit Committee and the newly appointed Finance Director needed to take to eradicate the control risk that led to those errors.

Following the resignations of one Executive Director and three Non-Executive Directors, the remainder of the Board then initiated the process of recruiting new Non-Executive Directors who the Board would consider to be independent and who could assist with the changes required to corporate governance, serving the needs of all stakeholders and thereby allowing the business to grow.

As mentioned in the Chief Executive's Review (page 3) alongside the strategic review, the Group is reviewing its governance standards and remuneration policy, which will result in the evolution of the business model described in the Directors' Report (page 55).

We have set out the steps and measures below that, at the time of writing, have already been taken or are a work in progress with expected completion by the end of 2020, despite the difficulties in working patterns posed by the Covid-19 pandemic. The Board, of course, accepts and believes there is more to do.

The new finance systems and policies introduced across the Group, as mentioned in the Finance Director's Report on page 9, will allow the management and the Board to monitor the effectiveness of internal controls, risk management policies and ensure compliance with statutory and regulatory obligations across the Group.

Further we have set out how we have applied the principles of the Code with additional detail found in the Directors' Report, and elsewhere in the Annual Report and Accounts.

1) Board Leadership and Company Purpose

The Code provides that a Board should establish a company's purpose and values as well as its strategy and that its directors should lead by example and promote the desired culture.

GOVERNANCE REVIEW

The Company is a diversified group of specialist marketing companies with 141 subsidiaries in 29 international markets. It is a creative business with a purpose, that develops ideas and creates solutions that change fortunes of its clients. The culture is highly entrepreneurial and decentralised, with local ownership being highly valued. The Company's principles are "Simplicity of Thought, Diversity of Thought and Ownership" set against its values of "Respect, Responsibility and Freedom".

Given the difficulties of 2019, and the subsequent Covid-19 pandemic in 2020, the Board has commissioned several work groups to review the Company's purpose and values led by our senior management and entrepreneurs to more closely define and refresh our purpose, values and strategy. There have been regular presentations and updates to the Board and we will present this work at a capital markets day in January 2021. This will serve to:

- Connect purpose and strategy to culture.
- Align values and incentives.
- Assess, measure and report on the Company's culture and how it benefits all stakeholders.

The general direction of travel will result in a much simplified Group structure and enhanced governance, where there will still be the entrepreneurial approach to commercial creativity for our clients around the world, but this will be set in a framework of stronger and more prescriptive central control in terms of finance, legal, HR and IT functions. The alignment of values is expected and designed to result in greater cross-business collaboration and revenue synergy.

2) Division of Responsibilities, 3) Board Composition, Succession and Evaluation and 4) Nomination Committee

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 the corporate strategy.

The Executive Chairman of the Company is Jeremy Sinclair, who has been Chairman since the Company listed on the AIM Market of the London Stock Exchange plc in 2004. To strengthen governance, Gareth Davis joined the Board on 3 February 2020 as the Non-Executive Deputy Chairman, with the responsibility of conducting a governance review. It is the intention of the Board that Gareth will be appointed as Non-Executive Chairman, replacing Jeremy, following the close of the Company's annual general meeting to be held in 2020, and the Board considers that Gareth will be independent upon his appointment.

Provision 11 of the Code states that at least half of the Board excluding the chairman, should be non-executive directors who the Board considers to be independent. During the year, up to 10 December 2019, when one Executive Director and three Non-Executive Directors resigned, the Board consisted of the Chairman, four Executive Directors and three Non-Executive Directors who the Board considered to be independent. Until their resignations, the diversity of skills and experience which the Directors brought to the Board was felt to be more valuable at that stage of the business's development than having Non-Executive Directors who the Board considered to be independent comprising at least half of the Board. However, in rebuilding the Board following the resignations, the Company has fulfilled the provisions of the Code with the Board now comprising three Executive Directors and four Non-Executive Directors who the Board considers independent. When the Executive Chairman, Jeremy Sinclair, leaves the Board, the Non-Executive Directors will be in the majority on the Board. It is the intention of the Board to appoint an additional Non-Executive Director, who will also be considered independent with a skill set that the Board believes will enhance the composition of the Board and the need of the reviews it is presently conducting.

GOVERNANCE REVIEW

The Non-Executive Directors now comprise: Gareth Davis, Deputy Chairman; Lisa Gordon, Senior Independent Non-Executive Director; Colin Jones, Chair of the Audit Committee and Louise Jackson, Chair of the Remuneration Committee. Each of these Non-Executive Directors are considered by the Board to be independent, none of whom have any connection or previous relationship with the Company having not been employees or shareholders or had material business relationships with the Company amongst other things. Each Director has the necessary time, skills and resources to discharge their Board responsibilities.

The Board engaged Inzito Partnership Limited (Inzito), an external search consultancy practice, to find the new Non-Executive Directors. The Board informed Inzito of the skills and experience required for each of the positions and instructed them to put forward a range of candidates with a focus on skill set and diversity. Inzito led an extensive search process, with a number of very high quality candidates shortlisted and then interviewed by the Board, resulting in the various appointments.

All Directors have access to the advice and services of the Company Secretary and are able to gain access to external independent professional advice at the Company's expense should they wish to do so in the furtherance of their duties.

It is the intention of the Board to conduct a formal and vigorous evaluation of the performance of the Board and its committees. In 2021, it is the Board's intention to commission an external Board evaluation exercise conducted by a leading board evaluation expert. The 2019 evaluation did not happen due to the resignation of half of the previous Board at the end of 2019.

The Nomination Committee did not meet between January and December 2019. Following the resignation of half of the previous Board on 10 December 2019, the Nomination Committee was reconstituted and consisted of all members of the Board of the Company at the time. The Nomination Committee then consisted of the Chairman, the Chief Executive and all of the Non-Executive Directors. From May 2020, the Nomination Committee has been chaired by the Deputy Independent Non-Executive Chairman and it is responsible for all executive and non-executive appointments and has oversight of the executive committee that reports to the Chief Executive. The Nomination Committee has used and continues to use independent search consultancies for all of its appointments.

5) Audit, Risk and Internal Control

During 2019 (until his resignation on 10 December 2019) the Audit Committee Chair was Sir Michael Peat, who had recent and relevant financial experience as required by the Code.

As of 3 February 2020, Colin Jones was appointed as Audit Committee Chair – see his biography on page 39. With Colin's appointment, the Board was further strengthened with financial and accounting acumen. 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, as well as how the new Audit Committee has educated itself on the issues, is on page 40.

To improve internal controls and financial risk management we are reorganising the Group's finance function, creating standard Group accounting policies and procedures, implementing a cloud-based accounting and forecasting system to be deployed across the Group, as well as performing a governance review, improving whistle-blowing systems and identifying any cultural changes needed.

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6) Remuneration

On 26 March 2019, Lorna Tilbian was appointed Chair of the Remuneration Committee, a role she held until her resignation on 10 December 2019. In May 2020, Louise Jackson was appointed Chair of the Remuneration Committee – see her biography on page 39. The newly constituted Remuneration Committee is made up entirely of Non-Executives Directors with executives invited to attend as appropriate.

The Remuneration Committee has recently engaged the services of a leading independent external remuneration advisor to assist in a comprehensive review of current remuneration practices and to ensure that remuneration, strategy and culture are fully aligned.

The Directors' Remuneration Report which describes the work of the Remuneration Committee and describes the Company's remuneration policy is on page 50.

Engagement with shareholders

The Directors value the views of the Company's shareholders and recognise their interests 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 and the executive committee and taken account of in those committee's decision making. It is also the intention that when appointed, the new Non-Executive Chairman will make himself available to major shareholders to discuss issues of governance and strategy.

The Company has recently retained an investor relations advisory practice to facilitate clear and productive exchanges with its shareholders.

The Company's annual general meeting is used to communicate with all investors and they are encouraged to participate in such meeting. The Chairman and other members of the Board attend the annual general meeting and are available to answer any questions. Unfortunately, due to social distancing requirements, as a result of the Covid-19 pandemic, shareholders will not be able to attend the annual general meeting to be held in 2020.

Engagement with employees

The Group is currently organised on a very decentralised basis. However, within the Group there are various committees (diversity committee, family committee and working groups) which operate as platforms for workforce engagement and help to reinforce our culture and have an impact on our strategic direction. Our employees are key stakeholders and a strategic asset to our business and it is the intention of the Board that, going forward, one of the Non-Executive Directors will become the representative of the employees on the Board and will be charged with ensuring active and regular engagement and understanding of employees' concerns.

Gender balance

It has been the intention of the Board to fulfil the recommendations set out in Lord Davies' report of having at least 33% female representation on the Board by 2020. As at the date of the Annual Report and Accounts, 25% of the Board is female and the Board recognises that this is an area for improvement. All future appointments and re-appointments shall be taken with due regard to the benefits of diversity and the needs of the Board.

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Diversity and employees

The Board is committed to promoting diversity. The Board has a diversity of relevant skill sets with varied and balanced experience, knowledge and skills that are highly relevant to the Company's needs and challenges. The Company is committed to a merit based system for both its Board composition as well as talent recruitment for the Group within a diverse and inclusive culture which seeks outward multiple perspectives and views and is free of conscious or unconscious bias and discrimination.

The diversity and inclusivity of our entire team are important for us to bring out the best in our business and understand and reflect the needs of our clients and other key stakeholders. We are fully committed to respect and deliver fair treatment for everyone whatever their background, race, ethnicity, gender or other protected characteristics (as defined within the Equality Act 2010) and deliver opportunity and development for all of our clients, team members and stakeholders.

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 continually review our application process, make reasonable adjustments to working arrangements and to the physical aspects of the workplaces, as well as offering any necessary training.

The Company has recently developed a new diversity and inclusion strategy incorporating the above aims and commitments with a view to rolling it out Group wide.

Under the strategy, the key aims for diversity and inclusion are:

- To ensure our business is representative of the countries in which we operate.
- To champion representation of under-represented groups at Board and management level (as well as throughout the business).
- To ensure all our people are treated with equity and respect.
- To support all our staff (particularly those from under-represented groups) and to prevent anyone feeling isolated or excluded.
- To connect to and support the communities and networks around us, working with businesses and suppliers led by under-represented groups.
- To be transparent about what we need to do and hold ourselves accountable for change.

Our commitment is to:

- Increase the diversity in our workforce particularly at senior level.
- Challenge our culture, insisting on inclusivity and more equitable leadership identifying and tackling unconscious bias.
- Create an inclusive workspace which includes a safe space for all employees to feel comfortable and valued.
- Open our doors to other cultures and use our power and influence for good.

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. We recognise there is a lot to be done; however, we are committed to take action to ensure we are a fair and equitable organisation, representative of the global societies in which we operate by prioritising our commitment to create a more diverse and inclusive workplace and to be intentional in our actions. From the lived experience of our employees, to the commitments we make to discriminated communities as well as the influence we have on culture through our

GOVERNANCE REVIEW

communications, we must serve as leaders, allies and advocates, driving change through our actions and not just words. Where possible, we actively support events in our community that celebrate diversity and inclusion.

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.

Attendance at Board and committee meetings during the year

Eleven scheduled meetings of the Board were held during the year ended 31 December 2019. The Nomination Committee met on an unscheduled basis to deal with the matters at hand, in particular, the appointment of the new Non-Executive Directors. The Remuneration Committee met twice. The attendance record of the Directors at the meetings of the Board and of the Board's committees is shown in the table below.

	Board Meetings	Audit Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
Chairman				
Jeremy Sinclair	11/11	–	–	as needed
Executive Directors				
David Kershaw	11/11	–	1/2	as needed
Maurice Saatchi***	10/11	–	–	–
Bill Muirhead	11/11	–	–	as needed
Mickey Kalifa	11/11	6/6	1/2	as needed
Jamie Hewitt**	2/2	3/3	–	–
Non-Executive Directors				
Michael Peat***	11/11	6/6	2/2	–
Michael Dobbs***	11/11	6/6	2/2	–
Lorna Tilbian* & ***	11/11	6/6	2/2	–

* Senior Independent Non-Executive Director (On his appointment on 3 February 2020, Gareth Davis became the Senior Independent Non-Executive Director, subsequently Lisa Gordon on her appointment on 17 March 2020 became the Senior Independent Non-Executive Director).

** Left Board on 29 March 2019.

*** Left Board on 10 December 2019.

The Non-Executive Directors are the members of the Audit Committee and the Remuneration Committee, with the Chief Executive and the Finance Director attending as needed.

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Compliance with the UK Corporate Governance Code 2018 (the Code)

The table below sets out those areas of the Code that the Company has not complied with during the relevant period. Items marked with an X demonstrate non-compliance with the Code. This table is reflective of the resignation of all of the Non-Executive Directors on 10 December 2019, the appointment of two new Non-Executive Directors on 3 February 2020, and the appointment of two further Non-Executive Directors on 17 March 2020. On 6 May 2020, the Company's Remuneration Committee and its Nominations Committee were reconstituted with the Non-Executive Directors. Following the annual general meeting to be held in 2020, the Chairman will be a Non-Executive Director and the Non-Executive Directors will form a majority on the Board.

Provision of the Code	1 Jan 2019 – 10 December 2019	10 December 2019 – 3 February 2020	Departure from the Code	Future Compliance with the Code
5) Engagement with workforce using one of the prescribed methods.	X	X	The Company did not have a director appointed from the workforce, a formal workforce advisory panel nor a designated non-executive director. There was no formal mechanism for engagement with the workforce save for non-formal engagement.	The intention is that one of the Non-Executive Directors will represent the employees on the Board. The Company will comply with the Code by 2021.
9) The Chairman should be independent on appointment.	X	X	The Company departs from this provision, the Chairman being an Executive Director and, therefore, not independent. Upon the Company's listing to the AIM market of the London Stock Exchange, the Chairman was appointed for an indefinite term subject to re-election. The Board considered the depth of knowledge that the Chairman brings to the Board to be of significant value for a creative business.	Gareth Davis is a Non-Executive Director and will replace Jeremy Sinclair as Chairman. He will be independent upon his appointment. From Gareth Davis' appointment at the annual general meeting in 2020, the Company will comply with the Code.
11) At least half the Board, excluding the Chairman, should be Non-Executive Directors whom the Board considers to be independent.	X	X	The Company departed from this provision as during the year the Board comprised the Chairman, four Executive Directors and three independent Non-Executive Directors. The Board believed that the diversity of skills and experience which the Executive Directors brought to the Board was more valuable to the business's development than having Non-Executive Directors comprising at least half the Board.	Upon Jeremy Sinclair's departure and excluding the Chairman, the Board will have an equal number of Non-Executive Directors who the Board considers to be independent. Following the annual general meeting in 2020, the Company will comply with the Code.
12) Senior Non-Executive Director to be appointed who acts as an intermediary for other Board members and annually appraises the Chairman's performance.	✓	X	During the period 10 December 2019 to 3 February 2020, there was no Senior Non-Executive Director of the Company.	Gareth Davis became the Senior Independent Non-Executive Director on 3 February 2020 and subsequently Lisa Gordon on her appointment on 17 March 2020 became the Senior Independent Non-Executive Director. The Company now complies with the Code.

GOVERNANCE REVIEW

Provision of the Code	1 Jan 2019 – 10 December 2019	10 December 2019 – 3 February 2020	Departure from the Code	Future Compliance with the Code
17) Nomination committee appointed, with the majority of members being independent Non-Executive Directors.	X	X	The previous Nomination Committee was created on an ad hoc basis and was not formerly constituted and did not have a majority of independent Non-Executive Directors.	From 6 May 2020, the Nomination Committee was properly constituted as required under the Code. The Company now complies with the Code.
18) All Board members subject to annual re-election.	X	X	The Company departed from the Code as the Board members were elected on a three year rotation.	As from the annual general meeting to be held in 2021, each of the Directors will stand for annual re-election. The Company's articles of association will be amended to allow for annual re-elections of the Directors. As from the annual general meeting to be held in 2021, the Company will comply with the Code.
19) Maximum tenure of Chairman is nine years.	X	X	The Company departs from the Code under this provision. Upon the Company's listing to the AIM market of the London Stock Exchange, the Chairman was appointed for an indefinite term subject to re-election. The Board considered the depth of knowledge that the Chairman brings to the Board to be of significant value for a creative business.	The Company will comply with this provision following the appointment of Gareth Davis as Chairman. From Gareth Davis' appointment at the annual general meeting in 2020, the Company will comply with the Code.
21) Formal rigorous annual evaluation of Board performance.	X	X	No Board review occurred during the year due to the departure of half of the previous Board.	A formal and vigorous evaluation of the effectiveness of the Board and its committees will be conducted within the next year. By the annual general meeting to be held in 2021, the Company will comply with the Code.
22) Results of annual evaluation of Board performance should be acted on.	X	X	No Board review occurred during the year due to the departure of half of the previous Board. Following the resignation of all the Non-Executive Directors in December 2019, the Board concluded that a review of the Board would not be a worthwhile exercise until such time as new Directors were appointed.	A formal and vigorous evaluation of the effectiveness of the Board and its committees will be conducted within the next year and the results will be given due consideration and acted upon. By the annual general meeting to be held in 2021, the Company will comply with the Code.
32) Remuneration committee should be properly formed with a Chairman who, prior to appointment, has served on a remuneration committee for at least 12 months.	X	X	The Board did not consider this provision in the formation of the previous Remuneration Committee.	As of 6 May 2020, the Remuneration Committee was properly constituted as required under the Code and chaired by an individual with the requisite skill and who, prior to appointment, had served on a remuneration committee for at least 12 months. The Company now complies with the Code.
36) Share schemes should give awards on a phased basis and have a holding period of five years or more.	X	X	The Company's old share schemes do not comply with the Code.	Future schemes will comply with the Code.

GOVERNANCE REVIEW

Provision of the Code	1 Jan 2019 – 10 December 2019	10 December 2019 – 3 February 2020	Departure from the Code	Future Compliance with the Code
40) and 41) Remuneration policy and disclosures aligned with the Code	X	X	The Company intends to formulate a new remuneration policy for the remuneration of the Executive Directors which will reflect the Code. The policies and practices indicated in Provision 40 of the Code (which underpins the disclosures recommended in Provision 41) were not previously formally considered	The revised policy will be put to shareholders for approval at the annual general meeting to be held in 2021, which will allow more full disclosure in next year's annual report.

Section 172 of the UK Companies Act 2006

In accordance with the Code which incorporates section 172 of the UK Companies Act 2006, and as a matter of good governance, in our decision making, the Board considers the interests of the Group's employees and other stakeholders and understands the importance of taking into account their views. We regularly engage with our employees and shareholders. The Board is accountable to the Company's shareholders. It is important for the Board to appreciate the aspirations of the shareholders and equally that the shareholders understand how the actions of the Board and the short-term financial performance of the Company relate to the achievement of the Company's longer term goals. The Board reports to the shareholders on its stewardship of the Company through the publication of interim and final results each year. Press releases are issued throughout the year and the Company maintains a website (mcsaatchiplc.com) on which press releases and the Annual Report and Accounts are available to view. Additionally, this Annual Report and Accounts contains extensive information about the Company's activities. The annual general meeting provides an opportunity for communication with all shareholders and the Board encourages shareholders to attend and welcomes their participation. Directors attend the annual general meeting and are available to answer questions.

Our key creditor is National Westminster Bank plc with whom we actively engage. Our client needs are at the heart of all our decisions, and they are the centrepiece of our strategic review and commitment to good governance. A large proportion of our work for clients is helping them with their impact of their operations on community and environment; this creates a drive in our own decision making and ways of working in these areas. With regulators, where there is a direct engagement, we aim to work with them in a positive and helpful manner, often allowing our staff to sit on their committees.

Our business model creates a flat, delegated organisation structure that allows its core concept of shared ownership, shared objectives and shared ambitions and enables engagement with stakeholders across the entire Group. The delegated structure has meant that most operational decisions are taken by local management at a local subsidiary level, rather than centrally from head office and has enabled the business to get closer and have greater engagement with its stakeholders. Whilst this delegated structure has the benefit of enabling the business to be more closely engaged with stakeholders, it results in reduced control and oversight from the Group. As part of the ongoing strategic review, we will be examining the balance between local stakeholder management and Group stakeholder management, with the objective of improving controls, becoming more efficient and reducing risk. The strategic review will take account of all stakeholders in accordance with section 172 of the UK Companies Act 2006.

GOVERNANCE REVIEW

It is noted that in making decisions the Board takes account of, amongst other matters, the:

- Likely consequence of any decisions in the long term;
- Interests of the Company's employees;
- Ability of the Company to attract, grow and retain a diverse and inclusive talent pool;
- 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.

By Order of the Board

Andy Blackstone
Company Secretary
7 December 2020



THE BOARD



JEREMY SINCLAIR CHAIRMAN		DAVID KERSHAW CHIEF EXECUTIVE AND EXECUTIVE DIRECTOR
Jeremy Sinclair is a founding director of the Company. 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.		David Kershaw is a founding director of the Company. 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.

THE BOARD



BILL MUIRHEAD EXECUTIVE DIRECTOR		MICKEY KALIFA FINANCE DIRECTOR* AND EXECUTIVE DIRECTOR
Bill Muirhead is a founding director of the Company. 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.		Mickey Kalifa joined the Board on 29 March 2019, he was formerly Chief Financial Officer of Sportech PLC, where he worked from 2008 to 2017 and is currently Non-Executive Director of Zoo Digital Group PLC. He is a chartered accountant, having qualified with PricewaterhouseCoopers LLP and has a strong background in the media, technology and sports industry. Mickey has also held executive roles across a number of leading organisations in the UK and USA, including Liberty Global, Sky and Disney. *Mickey Kalifa was appointed as a Director on 29 March 2019.

THE BOARD



GARETH DAVIS

NON-EXECUTIVE DIRECTOR**

Gareth Davis joined the Board on 3 February 2020. He has been Chairman of DS Smith Plc, a FTSE 100 packaging business, since 2012, having joined the company's board in 2010. Gareth is also a Non-Executive Director of Gresham House Plc, the asset manager. Previously, Gareth sat on the board of Ferguson Plc, the FTSE 100 building materials business, between 2003 and 2019, spending the last nine years as Chairman. He was Chairman of William Hill Plc, the FTSE 250 betting and gaming company, between 2010 and 2018. Gareth was Chief Executive of Imperial Tobacco Group Plc (now Imperial Brands plc), between 1996 and 2010, having joined the business in 1972.

**Gareth Davis was appointed as a Director on 3 February 2020.



LISA GORDON

NON-EXECUTIVE DIRECTOR***

Lisa Gordon joined the Board on 17 March 2020. She has almost 25 years' board experience, in both Executive and Non-Executive roles, with specialisms in TMT and finance. She is currently a Non-Executive Director of Alpha FX Group Plc, a listed foreign exchange specialist, and Magic Light Pictures, a children's film and television production company. She was recently appointed as Chairman of Cenkos Securities Plc, a securities firm focused on growth companies. Until recently, Lisa was Non-Executive Chairman of Albert Technologies Plc, an online advertising software business. She was also a founding Director of Local World Plc, which was acquired by Trinity Mirror in 2015. Prior to this, Lisa was Chief Operating Officer of Yattendon Group, a private conglomerate, for six years and Corporate Development Director at the media group Chrysalis Group Plc for ten years. Previously, Lisa has also served as a Non-Executive Director of Future Plc, the magazine group.

***Lisa Gordon was appointed as a Director on 17 March 2020.

THE BOARD



LOUISE JACKSON
NON-EXECUTIVE DIRECTOR***

Louise Jackson joined the Board on 17 March 2020. She has significant experience of consumer-facing businesses, particularly in human resources, board advisory and change leadership. She is currently Group Director of Talent and Leadership at Selfridges Group Ltd, the global luxury retailer, where she also sits on the Remuneration Board. Previously, Louise was Human Resource Director of the Japanese pharmaceutical company, Kyowa Hakko Kirin Co Ltd and Senior Partner in Leadership and Talent Consulting at Korn Ferry International Ltd. Prior to this, Louise was Chief Executive and co-founder of change consultancy firm 7days Ltd for 10 years. Louise has held a number of Group HRD roles and spent her early career at Coopers & Lybrand LLP and TUI Thomson Travel Group.

***Louise Jackson was appointed as a Director on 17 March 2020.



COLIN JONES
NON-EXECUTIVE DIRECTOR**

Colin Jones joined the Board on 3 February 2020. He is currently Non-Executive Chairman of Centaur Media Plc, the market intelligence company, having joined in 2018 as a Non-Executive Director. Colin is also a Non-Executive Director of The City Literary Institute, the adult education college. Colin previously spent over 20 years as Finance Director of Euromoney Institutional Investor PLC, the FTSE 250-listed media company, until he retired in 2018. Colin began his career at PricewaterhouseCoopers LLP where he qualified as a chartered accountant.

**Colin Jones was appointed as a Director on 3 February 2020.

AUDIT COMMITTEE REPORT

Overview

This report covers the activities of the two Audit Committees which served the Board during the period covering the audit of the 2019 financial statements. The former Audit Committee, which comprised the then three independent Non-Executive Directors, chaired by Sir Michael Peat, served until 10 December 2019 when all members of the committee resigned as directors of the Company. The principal activities of the former Audit Committee were the oversight of the 2018 audit and the initial investigation into the accounting misstatements identified during 2019.

A new Audit Committee was formed on 3 February 2020 when Gareth Davies and I were appointed to the Board as independent Non-Executive Directors. Lisa Gordon and Louise Jackson, who were appointed as independent Non-Executive Directors on 17 March 2020, joined the new Audit Committee on 6 May 2020. The Board asked me to chair the new Audit Committee on the basis of my recent and relevant financial experience. The principal activity of the new Audit Committee has been the oversight of the 2019 audit including the adjustments required to the 2018 financial statements as a result of the prior year accounting misstatements.

The Audit Committee's mandate is to provide effective governance over the appropriateness of the Group's financial reporting and the performance of both the internal and external audit functions. The Audit Committee also oversees the Group's internal control systems, business risks management and related compliance activities. Committee meetings are attended by the Finance Director and the Company Secretary, and by the external auditors, the internal auditors and key members of the Group's UK based central finance team as required. The committee also meets with the external auditor and the internal auditor without the Executive Directors present.

The key responsibilities of the Audit Committee are set out in the 2018 Board Responsibilities document published at: www.mcsaatchiplc.com/governance and reflect the requirements of the UK Corporate Governance Code 2018 (the **Code**).

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

Activities of the former Audit Committee

The former Audit Committee met six times during 2019 and the principal matters considered in these meetings were:

- **Completion of the 2018 audit**
The key considerations in preparing the 2018 financial statements are set out in the 2018 Audit Committee Report and included going concern; revenue recognition; put option accounting; 'headline' earnings; goodwill carrying value; acquisition accounting; and recommendations for improvements in the Group's accounting systems and internal controls. Following completion of the 2018 audit, the committee also reviewed the effectiveness of the external audit and the need for the audit to be put out to tender.
- **Audit tender**
Prior to the discovery of the accounting misstatements, the committee decided to hold an open tender for its audit services. KPMG, as the incumbent auditor, was invited to participate in the tender, but declined and resigned as auditor in September 2019 on the grounds that it had been unable to agree a satisfactory commercial outcome for the additional audit work required to complete the 2018 audit.

AUDIT COMMITTEE REPORT

As part of the audit tender process, each participating firm was given access to a data room and to management. After considering the quality of the submissions from each participating firm and, in particular, the complexities and international spread of the Group, as well as the reasonableness of the proposed fees, the former Audit Committee unanimously agreed to recommend to the Board that PricewaterhouseCoopers LLP be appointed as the Group's auditor for the 2019 financial statements. PricewaterhouseCoopers LLP were duly appointed as auditors on 16 September 2019.

- **Independent accounting review**
PricewaterhouseCoopers LLP's Forensic Services Group completed their independent review in December 2019. The scope of the review and its findings are covered in the Finance Director's Review on page 10.
- **Changes agreed following the independent accounting review**
Led by the new Finance Director and overseen by the Audit Committee (with oversight of the Board), the Company is taking action to prevent the incidents that resulted in the accounting misstatements from re-occurring. These measures include:
 - Reorganising the Group's central finance function to include Group financial control, financial analysis, treasury, company secretarial and legal, and internal audit;
 - Empowering the central finance function with more authority over local finance functions;
 - Creating standard accounting policies and procedures to be applied consistently across all companies in the Group;
 - Introducing tighter control and greater focus on cash management; and
 - Implementing a unified accounting and forecasting platform to be deployed across the Group, replacing the many different accounting systems currently in use across the Group. The platform is operational in the UK and is expected to be live in all major markets by the end of the first quarter of 2021.
- **2019 audit planning**
Following the appointment of PricewaterhouseCoopers LLP as the Company's auditor, the Audit Committee met with PricewaterhouseCoopers LLP and agreed the plan for the 2019 audit.
- **UK Bribery Act 2010**
In view of the Group's global footprint and the work undertaken for national governments, the Audit Committee paid particular attention to compliance with the UK Bribery Act 2010. Further strengthening in this area has been implemented in 2019.
- **Changes of accounting policy**
The implications of adopting *IFRS16 Leases* were considered and are addressed on page 47 of this report.

AUDIT COMMITTEE REPORT

Activities of the new Audit Committee

I was appointed Audit Committee Chair on 3 February 2020. Since then, the newly constituted Audit Committee has held nine meetings to address:

- Significant accounting matters and judgements, including prior year adjustments, going concern, revenue recognition, put option accounting assessment of goodwill, valuation of investments in associates and unlisted equity investments lease accounting, and alternative performance measures (see below);
- The progress of the 2019 audit and amendments to the audit plan; and
- Approval and signing of the Annual Report and Accounts.

These meetings were also attended by the Chief Executive, the Finance Director, the Company Secretary and PricewaterhouseCoopers LLP.

Completion of 2019 audit

The 2019 audit has been conducted against a background of significant accounting misstatements identified by management earlier in 2019 and has taken significantly longer than expected to complete. This reflects a number of factors including:

- Additional audit work to verify the prior year misstatements and determine the period to which they relate;
- Challenges for the auditors with obtaining sufficient appropriate audit evidence for the restated 2019 opening balances because of an absence of, or poor, underlying documentation and an inability to obtain explanations from the former Finance Director and other members of the finance team who are no longer employed by the Group (which has led to a disclaimer of audit opinion on the profit and cash flows for the year and a qualified audit opinion on the comparability of the state of affairs with the 2018 year-end);
- Additional audit work around going concern as a result of the uncertainty over future forecasts created by the Covid-19 pandemic;
- Significant additional audit work on revenue recognition as a result of poor documentation and inconsistent application of the Group's accounting policy under IFRS 15;
- A reassessment of the accounting treatment of the many share-based incentive schemes and deferred consideration arrangements in operation across the Group, and poor documentation of these schemes;
- The need for the Board to address improvements in corporate governance and the disclosure of the many instances of non-compliance with the Code;
- Significant structural, control and reporting issues across the Group's finance function, exacerbated by excessive decentralisation to, and autonomy of, local and overseas finance teams.

All of these issues have been discussed at length with the auditors. All of the issues are in the process of being addressed including significant investment in new people and systems. Monitoring these improvements will continue to be a focus of the Audit Committee through the rest of 2020 and into 2021.

The most significant accounting issues and judgements considered by the new Audit Committee, and discussed with the external auditor, are set out below.

AUDIT COMMITTEE REPORT

Significant accounting issues and judgements

Prior year adjustments

Accounting misstatements relating to 2018 and prior years of £6.4m were first identified by management in August 2019 following an internal review by the new Finance Director. At this point the Board decided to appoint PricewaterhouseCoopers LLP's Forensic Services Group to undertake an independent review to determine, among other things, the full extent of these misstatements. This review was completed in December 2019 and identified £11.6m of reductions in headline profit before tax for 2018 and prior years, with all numbers still subject to audit. During the audit, a further £2.4m of adjustments to prior year headline profits were identified, bringing the total to £14.0m (of which £8.8m relates to 2018 and £5.2m to earlier periods). The discovery of these accounting misstatements has provided a number of challenges for the Audit Committee and the external auditors, including:

- (i) The existence of material accounting misstatements increased the risk and scope of the audit, including the need to carry out additional audit testing in respect of 2018 and prior years. The Audit Committee fully endorsed the additional audit work required in this area;
- (ii) Poor accounting records and changes in finance staff, particularly at a senior level, meant that in many cases it was difficult for management to provide sufficient audit evidence to support the prior year adjustments and identify the precise period to which the adjustments relate;
- (iii) The lack of standard accounting policies and decentralisation of finance responsibilities has meant that the discovery of a misstatement in one entity has required significant and time consuming additional work by management to determine whether the error was replicated in other parts of the business;
- (iv) The fact that IFRS 15 was only adopted at a group level in 2018, combined with the failure of local management to consider the key judgements of IFRS at a detailed level, and poor basic accounting practices in this area, created significant additional challenges to ensuring local accounts correctly reflected the application of IFRS 15 in both 2018 and 2019.

While the Audit Committee is satisfied that management have now undertaken sufficient work to identify all prior period accounting misstatements, it was concluded that it was not in the interests of shareholders to incur the significant additional time and cost required to allocate the misstatements to the correct year and therefore achieve a clean audit opinion on the 2019 opening balance sheet. As a result, the Board has accepted that the auditors must disclaim their opinion on the 2019 opening balance sheet, and therefore also disclaim their opinion on the profit and cash flows for 2019. This in turn leads to a qualified opinion on the comparability of the 2019 closing balance sheet with the opening balance sheet. The adjustments made in these financial statements in respect of the 2018 and 2017 accounting periods are therefore management's best estimates using all available evidence. The Audit Committee endorses this pragmatic approach.

In addition to the accounting misstatements noted above, management have also undertaken a comprehensive review of the many put option agreements in place and the appropriateness of the accounting for these arrangements (see below). This has led to a further prior year adjustment which reduces 2018 statutory profit before tax by £15.0m but has no impact on 2018 headline profit before tax. A further £2.8m prior year adjustment relating to the incorrect accounting of dividends paid to members of the Group's LLP entities from 2017 and earlier has been made to statutory profit before tax. This adjustment has no impact on 2018 headline profit before tax.

AUDIT COMMITTEE REPORT

Going concern

As explained on pages 56 to 57 and page 63, the financial statements have been prepared on the going concern basis. In this context the Board and Audit Committee considered the Group's ability to meet its obligations as they fall due for the foreseeable future, with particular reference to the economic downturn caused by the Covid-19 pandemic, the support of its lenders, and the credit which it extends to some of its clients. Management prepared a set of cash flow forecasts, assessing different scenarios, covering the period to the end of 2021. The Board and Audit Committee reviewed these forecasts under each scenario and the key assumptions on which they were based and are satisfied that they are appropriate.

The Board concluded that under all scenarios the Company will continue to have sufficient liquidity to operate. However, under a severe but plausible scenario there is a risk of breaching the Company's financial covenants under its revolving credit facility agreement with National Westminster Bank plc (NatWest), unless a further waiver agreement is reached within the going concern period. There are also further mitigating actions the Company could take to eliminate any risk of the Company breaching its financial covenants, should these be required. It is also noted that the revolving credit facility is due to expire on 30 June 2021 and, the Company is in discussions with NatWest to extend the term and/or refinance the facility.

Under the terms of the revolving credit facility agreement the bank could give the Company notice of an event of default given that where the auditors qualify the audited annual consolidated financial statements of the Company in a material way an event of default arises. However, the bank has confirmed that it has no intention of giving notice to the Company of an event of default nor taking any action as a result of such qualification and therefore the Board does not consider this to be a risk.

Based on these forecasts and assumptions, the Board and the Audit Committee believe that it remains appropriate to prepare the financial statements on a going concern basis. Only the severe but plausible downside scenario and the two areas mentioned above would indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern without any mitigating action. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Revenue recognition

Revenue recognition is a key accounting and risk area for the Group. The Group adopted IFRS 15 from 1 January 2018, but only at a Group level. Local subsidiaries did not apply IFRS 15 until 2019, and even then, not on a consistent basis. A significant amount of time has therefore been required for management to get all subsidiaries accounting correctly under IFRS 15 for 2019, particularly around the key judgements of:

- (i) The number of performance obligations within a contract;
- (ii) Determining whether the contract was entered as a principal or agent;
- (iii) Calculating the percentage of contract completion at the period end.

The Audit Committee has devoted considerable time to reviewing these matters. It is satisfied that the Group's revenue is not materially misstated. The Audit Committee has requested that revenue accounting should be a particular area of focus for the ongoing developments of the Group's accounting systems and future internal audit work.

AUDIT COMMITTEE REPORT

Share-based payments and put option accounting

The business model section of the Directors' Report sets out the Company's successful strategy for growing organically rather than by acquisition. This has traditionally been achieved by launching new businesses in partnership with local entrepreneurs. These entrepreneurs receive an equity interest in the start-up at launch and have the option to sell their equity to the Company at a future date based on certain performance and valuation criteria as set out in a put option agreement.

The accounting for these put options is a complex area and depends on the substance and detailed terms of the underlying arrangement. There are close to 100 of these agreements, and many have been poorly documented over the years. There is no template or standard terms, so each agreement is different. This complicates the recording of these arrangements and also makes the audit of them challenging.

This year management have undertaken a comprehensive review of every put option agreement. In many cases the underlying documentation was poor and open to interpretation. Working closely with the auditors, management concluded that a number of prior year adjustments were required in respect of these put option schemes to reflect:

- (i) Reclassification of a number of the schemes, previously accounted for under IFRS 9, as management incentives and therefore accountable under IFRS 2;
- (ii) Identification of non-market performance conditions which mean that the IFRS 2 charge under certain equity-settled schemes should have been revalued at the end of each period;
- (iii) Identification of previously unrecorded (and documented) equity-settled schemes;
- (iv) Identification of previously unrecorded (and undocumented) cash-settled schemes;
- (v) A change to guidance relating to the accounting for limited liability partnerships which needed to be applied retrospectively.

The overall effect of these prior period adjustments was £8.5m, comprising an additional charge to the 2018 income statement of £15.0m, mostly as increased staff costs, a credit to earlier periods of £6.5m, and an increase in net assets as at 1 January 2018 of £14.9m.

Many of the put option schemes are satisfied using Company shares and the final number of shares is determined by the share price at the date of vesting. Historically, a rising share price has helped to minimise the dilutive impact of these schemes as they vest. However, the Company's share price fell sharply in 2019, following the announcement of the accounting misstatements, from a peak of 356p in July to 124p at the end of the year. The share price has fallen further since the start of 2020, largely as a result of the impact of the Covid-19 pandemic, broadly trading in the range of 50p-70p since May 2020. This has significantly increased the dilutive impact of put options vesting in 2020 and beyond, although where possible management have been renegotiating these arrangements to reduce or defer the dilution. As a result, additional disclosures have been made in these financial statements to enable users to appreciate the potential future dilution at different share prices.

The new Audit Committee has considered the key judgements made by management in respect of these put options, in particular, the justification for classification under IFRS 2 or IFRS 9 and the assessment of non-market performance conditions. It has also reviewed the nature and calculation of the prior period adjustments with the auditors. In addition, the committee has encouraged fuller disclosure of the liabilities under these schemes and the potential dilutive impact on the Company's shareholders. The committee concluded that the revised presentation and valuation of the put options is appropriate. A further £2.8m prior year adjustment relating to the incorrect

AUDIT COMMITTEE REPORT

accounting of dividends paid to members of the Group's LLP entities from 2017 and earlier has been made to statutory profit before tax. This adjustment has no impact on 2018 headline profit before tax.

Goodwill carrying value and impairment

The carrying value of goodwill as at 31 December 2019 was £33.6m, full details of which are set out in note 16 to the financial statements. The recoverable amount of goodwill is determined by management by reference to a value-in-use calculation for each cash generating unit (CGU), based on the Board's forecasts for 2020 and 2021 and a long-term growth rate of 1.5% for all material CGUs. Management also prepare sensitivity analyses for each CGU, for which the key variables are the forecast profits for 2020 the expected future growth rates, and the discount rate used to measure the present value of the forecast cash flows. This exercise has identified the need for an impairment charge of £5.9m across a number of CGUs as well as a prior year adjustment of £2.7m for goodwill impairment which should have been charged in 2017.

The Audit Committee has reviewed management's assessment of the recoverability of this goodwill and the potential for any impairment, taking into account the key judgements and sensitivity analyses, particularly in view of the uncertainty over net revenue and cash flow forecasts arising from the Covid-19 pandemic. The committee has also reviewed the disclosures relating to goodwill carrying values and impairment in note 16 to the financial statements. The committee is satisfied with the impairment conclusions reached and the presentation in the financial statements.

Investments in associates and unlisted equity investments

The Group has traditionally held a number of investments in entities where it holds significant influence, where an initial interest is taken with a view to serving a strategic market or obtaining critical mass in a larger organisation. These investments are treated as associates and are set out in note 17 to the financial statements.

Management assess the carrying value of these investments at the balance sheet date, including the need for any impairment. During 2019, the largest of these investments, a 24.9% interest in Walker Media Limited in the UK, was sold, generating a pre-tax profit on disposal of £13.0m (see note 35 to the financial statements). The carrying value of the other significant investment, a 40% interest in M&C Saatchi (Hong Kong) Limited, has been impaired by £5.2m to reflect the significant reduction in its activities. As a result, the carrying value of the investments in associates has fallen to £3.8m (2018: £22.6m).

The Audit Committee has reviewed the accounting for the disposal, the impairment calculation for the Hong Kong investment, and management's assessment of the carrying value of the remaining investments in associates, and is satisfied that these have been appropriately treated and disclosed in the financial statements.

The Group also invests in early stage, unlisted businesses for the purposes of gaining access to new technologies and digital media trends. The portfolio of more than 20 investments is managed independently by experienced investment managers who are remunerated based on the performance of the investments. During the year the Group invested a further £1.2m in new and existing businesses and the net revaluation adjustment at the end of the year was a decrease of £0.3m, giving a portfolio value of £15.6m (see note 20(a) to the financial statements). Because most of the investments are small (the biggest accounts for just 11% of the portfolio) and early stage, valuations are inherently judgemental, other than when there have been recent funding rounds.

AUDIT COMMITTEE REPORT

The Board receives regular investment proposals and portfolio valuations from the investment managers. The Audit Committee has reviewed the year end valuation of the portfolio: No single investment provides a material risk and the Audit Committee is satisfied that the judgements made in valuing the portfolio at 31 December 2019 are reasonable.

IFRS 16 Leases

The new accounting standard *IFRS 16 Leases* was adopted from 1 January 2019. The Group's activities are supported from offices around the world, usually in prime central locations, under leases for varying periods. IFRS 16 requires the recognition of a right-of-use asset for these leases, with a corresponding finance lease liability. Adoption of IFRS 16 has had a material impact on the Group's balance sheet, with an increase in total assets of £36.9m and an increase in total liabilities of £42.3m as at 1 January 2019. Full details of the impact of adopting IFRS 16 are set out in notes 4 and 19 to the financial statements.

The Audit Committee has considered management's treatment of these leases, and the related estimates around the interest rate used for discounting future cash flows and the length of the lease term. Additional work has also been undertaken to obtain evidence for each lease and to test management's calculation of the related asset and liability. The committee is satisfied that IFRS 16 has been adopted appropriately.

Alternative performance measures

The Audit Committee has paid particular attention to the alternative performance measures included in the Annual Report and Accounts. The Group uses "headline" numbers to report its underlying results as well as for internal reporting purposes. The headline numbers strip out the accounting impact of equity transactions, including put options, and investments. They also exclude the impact of exceptional items. The Group has this year introduced a new accounting policy for exceptional items after incurring significant one-off costs in respect of the accounting misstatements and strategic restructuring (see note 3 of the financial statements).

The committee has reviewed the Group's policy for the exclusion of certain items when presenting headline earnings and confirmed the consistent application and appropriateness of this policy from year to year. It has also confirmed that the costs treated as exceptional are in accordance with the Group's accounting policy.

Internal audit

The former Audit Committee considered whether the internal auditor's reviews, over their three-year cycle, were sufficient and determined that the number of internal audit hours needed to be increased. The internal audit cycle was due to start following completion of the 2018 audit. However, following the discovery by management of the accounting misstatements in August 2019, the work of the internal auditor was put on hold. As a result, no internal audit work has been undertaken in the period.

The historic control weaknesses, the de-centralised and complex structure of the Group, the significant number of small, overseas operations and an entrepreneurial culture including management ownership of equity in Group companies, are all factors that suggest a more robust internal audit function is required. One of the priorities for the new Audit Committee after completion of the 2019 audit is therefore to re-assess the role and responsibilities of the internal audit, and how this is managed and resourced.

AUDIT COMMITTEE REPORT

External auditor

PricewaterhouseCoopers LLP were appointed auditors of the Group and Company in September 2019, following a competitive tender process. The PricewaterhouseCoopers LLP partner responsible for the audit is Nigel Reynolds (Senior Statutory Auditor).

The Audit Committee is responsible for monitoring the external audit process to ensure high standards of quality and effectiveness. Since its appointment, the new committee has assessed the effectiveness of the external audit process using a number of measures, including:

- Revisiting the audit plan, scope and materiality, approved by the former Audit Committee, in view of the discovery of further accounting misstatements;
- Monitoring the independence and transparency of the audit (see below);
- Obtaining feedback from the Finance Director and his team on the quality of the audit team, their business understanding and audit approach;
- As Chair of the Audit Committee, I have had weekly calls with the PricewaterhouseCoopers LLP audit partner since the audit began, in particular, to discuss the audit challenges arising from poor accounting processes and documentation, and to understand the reasons for delays to the audit completion timetable and the resulting increase in audit fees. Feedback from these calls has been provided to the Audit Committee and the Board as appropriate.

These measures have enabled the committee to be satisfied with the effectiveness of the external audit.

PricewaterhouseCoopers LLP confirmed their independence in accordance with auditing standards at the time of their appointment. PricewaterhouseCoopers LLP's report to the Directors and to the Audit Committee has confirmed that they continue to remain independent throughout the 2019 audit, and the committee concurs with this view.

To help safeguard the external auditor's objectivity and independence, it is excluded from providing any non-audit services that individually, or in aggregate, could impair its independence. Prior approval from the Audit Committee is required for any audit-related or other services permitted in accordance with the auditing regulations.

During the year, the only significant non-audit service provided by PricewaterhouseCoopers LLP was the independent review by its Forensic Services Group of the accounting misstatements and misapplication of accounting policies first identified by management. This forensic work commenced before the audit tender process had been concluded and, as part of the process for engaging PricewaterhouseCoopers LLP, the former Audit Committee confirmed that the forensic work would be undertaken by an entirely separate PricewaterhouseCoopers LLP team, and that the PricewaterhouseCoopers LLP audit team would remain independent for audit tender purposes. This forensic work did not include anything in the nature of an audit and the results of the work have not been relied on for the purposes of the 2019 audit. The fees paid to PricewaterhouseCoopers LLP in respect of non-audit services are shown in note 8 of the financial statements.

The fee for the 2019 audit of the Group and its subsidiaries is £3.2m (2018: £0.8m). The significant increase in the fee from the previous year reflects the complexities of conducting the audit following the identification of the prior year accounting misstatements and the challenges for the auditors in obtaining adequate audit evidence. One of the Audit Committee's objectives for the 2020 audit is a significant reduction in the audit fee as a result of improvements in financial controls, processes and reporting.

AUDIT COMMITTEE REPORT

A resolution for the reappointment of PricewaterhouseCoopers LLP as auditor of the Group and Company will be proposed at the Company's annual general meeting.

Review the effectiveness of the Group's system of internal controls and risks

The Audit Committee is responsible for reviewing the adequacy and effectiveness of the Group's systems and processes for internal financial control and risk management. The discovery by management, during 2019, of material accounting misstatements in respect of previous years, clearly demonstrates that a number of key financial controls had not been operating effectively. As part of the changes agreed by the committee following the forensic review carried out by PricewaterhouseCoopers LLP (as detailed in this report on page 41), there is an ongoing review of the effectiveness of the Company's financial controls and risk management systems. Significant improvements have been made in many areas during 2020, and the new finance systems, policies and changes in personnel introduced across the Group (including those outlined in the Finance Directors' Report on page 19) will be monitored and reviewed by the Audit Committee for effectiveness. The Audit Committee will also review the internal control, process and reporting recommendations made by the external auditors as part of the post audit review, and ensure that remedial action is taken to address any identified weaknesses. As noted above, another priority for the Audit Committee this year is a reassessment of the role and responsibilities of internal audit with a view to improving its effectiveness. The Audit Committee also continues to review and update the principal risks schedule.

Audit Committee effectiveness

Following the resignation of all the Non-Executive Directors in December 2019, the Board concluded that a review of the Audit Committee's effectiveness would not be a worthwhile exercise. The Board recognises that this is contrary to the Code and, following the appointment of the four new independent Non-Executive Directors, it intends to conduct a formal and vigorous evaluation of the effectiveness of the Board and its committees concluding early 2021.



Colin Jones
Chair of the Audit Committee
7 December 2020

DIRECTORS' REMUNERATION REPORT

Remuneration Committee Report

Under its terms of reference, the Remuneration Committee advises the Board on an overall remuneration policy and meets as and when required. The Remuneration Committee also determines, on behalf of the Board, the remuneration packages of the Executive Directors. The Board as a whole determines the remuneration of the Non-Executive Directors.

Throughout the period covered by this report, the overall remuneration policy was to attract and retain high calibre executives whilst seeking to reward them in a way that encourages the creation of value for shareholders, through long term incentive plans and the issue of share awards in the Company thereby aligning executive pay with the strategy and the long-term sustainable success of the Company.

Up and until the resignation of one Executive Director and three Non-Executive Directors on 10 December 2019, the Board had established a Remuneration Committee composed of the three Non-Executive Directors which was chaired by Lorna Tilbian. The Remuneration Committee met twice in the year, once to discuss the departing Finance Director's long-term incentive plan, and once to discuss the new Finance Director's bonus and long-term incentive plan.

At the Board meeting held on 6 May 2020, the Board re-established the Remuneration Committee, consisting of all four of the Non-Executive Directors, with Louise Jackson appointed as Chair.

The Executive Directors' salaries are on average 6 (2018: 6) times the average Group salary, which is commensurate with their experience, contacts and responsibilities. Variable consideration for three (and while Maurice Saatchi was a member of the Board, four) of the Executive Directors is by way of the dividends they receive from their shareholdings in the Company and in the case of the Finance Director, the long term incentive plan, further detailed below.

None of the previous Directors received any payments from the Company and/or the Group as a result of their loss of office.

The newly appointed Remuneration Committee has initiated a full review of the incentive arrangements of the Executive Directors and the share-based incentive arrangements in operation throughout the Group. The Company has appointed Korn Ferry as an independent external remuneration advisor (which has no connection to the Company nor to any Director). The Company intends to formulate a new remuneration policy for the remuneration of the Executive Directors which will integrate the principles of the Code and which will be put to shareholders for approval at the annual general meeting to be held in 2021. The new policy will include equity linkage and performance conditions for the third and fourth years (2021 and 2022) of the long-term incentive plan for the new Finance Director, Mickey Kalifa.

No member of the Remuneration Committee has any personal financial interest in the matters to be decided by the committee or involvement in the day-to-day management of the business of the Company.

Annual Report on Remuneration (unaudited)

Directors' pension arrangements

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

DIRECTORS' REMUNERATION REPORT

Directors' contracts (audited)

All Executive Directors had/have a contract which could/may be terminated on 12-months' notice by the Company or the Executive Director save for Jamie Hewitt who had a six-month notice period.

All of the Non-Executive Directors had/have a contract which could/may be terminated on three months' notice by the Company or the Non-Executive Director save for Gareth Davis who has a six-month notice period.

Directors' options, conditional share awards (unaudited)

In 2016, Jeremy Sinclair, David Kershaw, Bill Muirhead and Maurice Saatchi paid (by way of a combination of payroll taxes and subscription price) £100,727 each for the conditional share awards. This payment amount is not refundable if the vesting conditions are not met.

In addition, the previous Finance Director, Jamie Hewitt, paid £2,055 and was due to pay a further £49,212 for his share award. On his departure, the award was instead purchased by the Group on 29 March 2019 for £49,212 which was believed to be the fair value of the shares at the time of purchase.

Based on the 2018 financial statements 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 were each due to receive 160,562 shares in the Company. However, due to the accounting errors identified in 2019, and the restated 2018 accounts, it has been determined that nothing will vest in this award.

The award caused an accounting charge of £Nil in the year (2018: £401k).

None of the Directors hold any other options in the Company or shares in any companies within the Group. Shares in the Company held by Directors can be found in the Directors' Report on page 61.

Long-term incentive plan awards (audited)

The Remuneration Committee confirmed at a meeting held on 6 November 2019 to issue the new Finance Director, Mickey Kalifa, with a long-term incentive plan (LTIP) as part of his reward package. The LTIP has a maximum amount payable of 200% of salary per annum for each of the four years 2019 to 2022 inclusive. The award will vest on 31 December 2022, or such later date as the Remuneration Committee determines. Providing he remains employed, the award will be payable as follows:

- 1/3 of the vested award as soon as reasonably practicable following 31 December 2022;
- 1/3 of the vested award, as soon as reasonably practicable following 31 December 2023; and
- 1/3 of the vested award, as soon as reasonably practicable following 31 December 2024.

The award caused an accounting charge of £400k in the year (2018: £Nil).

There are no LTIPs in place for any of the other Directors.

DIRECTORS' REMUNERATION REPORT

Non-Executive Directors (unaudited)

The remuneration of the Non-Executive Directors is determined by the Board. Fees paid to the 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 (unaudited)

No Director has received or become entitled to receive a benefit (other than a fixed salary as an employee of the Company, the options indicated in the Annual Report and Accounts, 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.

DIRECTORS' REMUNERATION REPORT

2019 (audited)	Basic salary £000	Bonus £000	Benefits in kind ⁵ £000	Pension £000	Total £000
Directors					
David Kershaw	374	–	46	–	420
Bill Muirhead	374	–	48	–	422
Maurice Saatchi ²	355	–	42	–	397
Jeremy Sinclair	374	–	47	–	421
Mickey Kalifa ⁴	243	225	4	–	472
Jamie Hewitt ³	77	–	7	4	88
Total	1,797	225	194	4	2,220
Non-Executive Directors					
Michael Dobbs ²	40	–	–	–	40
Michael Peat ²	40	–	–	–	40
Lorna Tilbian ²	40	–	–	–	40
Total	120	–	–	–	120
Total Rewards	1,917	225	194	4	2,340

2018 (unaudited)	Basic salary £000	Bonus £000	Benefits in kind ⁵ £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	395
Total	1,746	125	187	15	2,073
Non-Executive Directors					
Jonathan Goldstein ¹	40	–	–	–	40
Michael Dobbs	40	–	–	–	40
Michael Peat	40	–	–	–	40
Lorna Tilbian ⁶	39	–	–	–	39
Total	159	–	–	–	159
Total Rewards	1,905	125	187	15	2,232

¹ Jonathan Goldstein announced as resigning on 31 December 2018.

² Maurice Saatchi, Michael Dobbs, Michael Peat and Lorna Tilbian resigned on 10 December 2019.

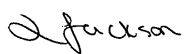
³ Jamie Hewitt announced as resigning on 28 March 2019.

⁴ Mickey Kalifa appointed to the Board on 29 March 2019.

⁵ Benefits in kind include car allowances and permanent health insurance benefit.

⁶ Lorna Tilbian served on the Board for only part of the year.

DIRECTORS' REMUNERATION REPORT



By order of the Board

Louise Jackson
Chair of the Remuneration Committee
7 December 2020

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Group and Company for the year ended 31 December 2019.

Strategic Report

A review of the Group's business during the year, the principal risks and uncertainties facing the Group and future prospects and developments are included in the Strategic Report on pages 3 to 25 which should be read in conjunction with this report.

Results and dividends

The consolidated income statement on page 71 shows the results for the year. The Directors approved an interim dividend of 2.45p totalling £2,246,973 (2018: 2.45p £2,116,521) and in light of the economic effects of the Covid-19 pandemic and a desire to preserve cash, do not recommend a final dividend to be paid (2018: 8.51p £7,565,655). Further information is in note 12 of the financial statements.

Principal activity, trading review and future developments

The principal activity of the Group during the year was the provision of marketing services. The review of trading, future developments and key performance indicators can be found in the Strategic Report.

Business model

We are a global marketing services company built on a strategy of winning new business by starting new businesses. Occasionally we have acquired businesses where critical mass and/or a track record is needed to break into a market place.

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

Our network growth comes from attracting people who can build businesses. Our focus is to expand organically, 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 Group's business model is the concept of shared ownership, shared objectives and shared ambitions.

We take a majority share in a business start-up, providing such business with cash and the benefit of our reach, brains and reputation. The entrepreneurs have shares in their subsidiary companies, which at some agreed point, can be converted into more tradeable shares in the Company. They can only sell (or put) all their shares when succession criteria have been fulfilled. This aligns their business success with the success of the Group as a whole. The better the Group does, the more their shares are worth. Typically, many of our local partners do not exchange their subsidiary company shares at the first opportunity; instead, they benefit from dividends which they continue to receive from their subsidiary company. However, the recent steep drop in the Company's share price caused by the accounting misstatements and the economic shock of the Covid-19 pandemic has resulted in some put options failing to create shareholder value, or delivering the growth intended.

The Remuneration Committee is revisiting the business model as part of the strategic review and increased governance, with a view to protecting the core principles of the model but refining how it is implemented to ensure the Company delivers value for all its shareholders.

DIRECTORS' REPORT

Going Concern

The Directors have adopted the going concern basis in preparing the financial statements after assessing the principal risks and having considered the impact of several different downside scenarios including a severe but plausible downside scenario arising from the Covid-19 pandemic. The Directors have formed their opinion after evaluating these different scenarios for the remaining months of 2020 and for 2021 and have based their opinion on a downside scenario which assumes net revenue falling substantially below 2019 levels.

The major variables are the depth and the duration of the Covid-19 pandemic. The Directors considered the impact of the current Covid-19 pandemic on the Group's business for the period up and until the end of 2021, taking into consideration the Group's forecast cash flows, liquidity, the revolving credit facility agreement (RCF) with National Westminster Bank plc and the recently relaxed financial covenants under it. The models do not factor in the existing £5m overdraft facility as it is a repayable on demand facility or the newly approved additional £7m Coronavirus Large Business Interruption Loan Scheme (CLBILS) given that the Company is in the process of agreeing terms. Both forms of financing would substantially increase the liquidity of the Group. It is also noted that the revolving credit facility is due to expire on 30 June 2021, however, the Company is in discussions to extend the term and/or refinance the facility. The RCF does provide that where the auditors qualify the audited annual consolidated financial statements of the Company in a material way there is an event of default. However, the bank has confirmed that it has no intention of giving notice to the Company of an event of default nor taking any action as a result of such qualification and therefore the Company does not consider this to be a risk.

We have considered numerous impacts on net revenue, profits and cash flows. The models all assume that the Group will continue to operate and service clients, albeit at substantially reduced levels to those forecast at the start of the year. We have assumed in the models that the Covid-19 pandemic will result in reductions in net revenue and so will require us to take action in reducing operational cost in addition to the actions already taken.

Overall, we scenario planned several outturns, modelling three specific scenarios: a base case scenario, downside scenario and a severe but plausible scenario. In all three scenarios, the models indicate the Company will continue to have sufficient cash to continue to operate. It is only in the severe but plausible scenario where there is a risk of breaching the Company's financial covenants under the RCF.

In our downside scenario, net revenue is assumed to fall by 19% against the previous year, with the impact lasting the entirety of 2020, with a partial recovery in 2021 (but net revenue still being 12% down against 2019). The net revenue and operational leverage impact of such a net revenue drop would have a major negative impact on the Group's profitability and cash. However, the scenario modelling would indicate that despite this, the Group would remain profitable and cash generative over the next 18 months and we would anticipate a recovery in the following years.

Throughout this downside scenario, the Group continues to have headroom on its RCF and continues to operate within the boundaries of its financial covenants under the RCF. To the extent, there is further downside beyond this scenario, the Group can continue to manage its financing and other business risks satisfactorily, but in a severe but plausible scenario would need to take mitigating action to remain within the boundaries of its financial covenants under the RCF.

DIRECTORS' REPORT

During this current period and indeed since the first quarter of 2020, the Group's business has taken extensive action to preserve liquidity. The following mitigating actions have been built into our base case and downside financial models:

- The Group has drawn down fully on its RCF which was reduced from £36m to £33m; £3m was repaid on 30 November 2020 in accordance with the terms of the facility agreement. The overdraft facility of £5m has not been used and remains available. Net cash as at 30 November 2020 was approximately £28m.
- A very significant proportion of the Group's cost base relates to salaries. The Group has substantially reduced its staff costs through furlough programmes across the world (including the UK, US and Australia), by voluntary pay reductions, particularly amongst senior employees and also, unfortunately, from staff redundancies in virtually all our markets worldwide.
- The Group has reduced, suspended or delayed capital expenditure including building works at its London headquarters, as well as some IT expenditure globally.
- The Company has agreed rent deferrals and rent-free periods with its landlords in the UK.
- The Group is taking advantage of concessions and deferrals of tax payments (including PAYE and VAT) as well as availing ourselves of government grants in various countries.
- Other variable expenditure has also been reduced where possible.
- We secured a relaxation of the Company's financial covenants under the RCF for the final quarter of 2020 up and until the RCF's maturity on 30 June 2021.
- We received approval for £7m in funding through the UK Government's Coronavirus Large Business Interruption Loan Scheme ('CLBILS') and the Company is in the process of agreeing the legal documentation.

Severe but plausible scenario

It is currently very difficult to assess how the Covid-19 pandemic will evolve and, in particular, the speed and scale of the expected recovery in 2021. Although most of our offices around the world have now re-opened (and even before the re-opening our staff have continued to work productively on a remote basis), it is conceivable the economic downturn may continue for a longer period, and/or that the recovery profile is slower than in the downside case. The Directors have, therefore, prepared a severe but plausible scenario that models a material reduction in net revenue and consequently a greater net revenue deterioration in 2021 than modelled in the downside scenario. In this scenario, there is no recovery in 2021, with net revenue remaining 20% below the 2019 level.

Based on the most current information and our recent performance, the impact of the Covid-19 pandemic is somewhat less severe than we had originally expected at the commencement of the Covid-19 pandemic, and therefore, this severe but plausible scenario is considered unlikely. However, even in this severe but plausible scenario, the Company will continue to have sufficient cash to operate. However, under this same scenario there is a risk of breaching the Company's financial covenants under the RCF, unless a further relaxation of the financial covenants or a waiver of any such breach is agreed within the going concern period. There are further mitigating actions the Company could take to eliminate any risk of the Company breaching its financial covenants under the RCF, should these be required.

Based on these forecasts the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. Only the severe but plausible downside scenario, the refinancing of the RCF and the event of default (as detailed above) would indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern without any mitigating action. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

DIRECTORS' REPORT

Viability

The Directors assess the prospects of the Group and appropriateness of the period used for the assessment by taking into account various factors, including the Group's current position, the nature of its business, its business model and strategy, its principal risks, its liquidity and its expected performance all of which have been considered in the going concern review.

Time horizon

The Directors have reviewed the period used for the assessment and determined in light of the Covid-19 pandemic that a two-year period (from 31 December 2019) remained suitable and such two year period was also adopted in the going concern review. Given the risks that the Group faces and the need for continuous change and investment in our client offerings, a two-year time horizon is the maximum length of time the Directors can reasonably be expected to assess the Group's viability at the present time. The specific risks in this time horizon are economic impacts of the Covid-19 pandemic; regulatory risk, including Brexit; the historic accounting misstatements reducing the validity of historic trend analysis; and the Group's ongoing governance and strategic reviews.

The Group is currently in the process of developing a new long-term strategic plan, the output of which will include a five-year financial plan. The financial plan will be used to manage and assess the Group's business and its risks into the future.

Stress test

As per the going concern statement set out on pages 56 and 57, we scenario planned several outturns, including a severe but plausible case where net revenue drops significantly (in the range of 20%) and the impact lasts the whole of 2020 and into 2021. We have assumed that we will be able to refinance the revolving credit facility along with the overdraft facility prior to their expiry on 30 June 2021.

Statement

Based on the assessment explained above, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, until at least 31 December 2021.

However, the impacts of a new or recurring pandemic; regulatory risk, including Brexit; the historic accounting misstatements, any additional unforeseen risks, such as policies on data handling or staff welfare not being followed; a banking crisis; or a major client suddenly and unexpectedly failing, which results in additional financial burdens on the Group, may change the Board's expectation of the Group's viability.

Principal risks and uncertainties

On pages 20 and 22 we describe the Group's principal risks and uncertainties. We provide information on the nature of the risk, actions to mitigate risk exposure and an indication of the significance of the risk by reference to its potential impact on the Group's business, financial condition and results of operation and/or the likelihood of the risk materialising. Not all potential risks are listed on pages 20 to 24. Some risks are excluded because the Board considers them not to be material to the Group as a whole. Additionally, there may be risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, that may also have an adverse effect upon the Group.

Financial instruments

Details of the use of financial instruments by the Group and their risks are contained in the financial risk management note 31 of the financial statements.

DIRECTORS' REPORT

Political contributions

During the year, the Group made no political donations (2018: nil).

Directors

The names of the Directors and their biographies are set out on pages 36 to 39. Details relating to Board meeting attendance and composition of the Board committees are shown in the Governance Review on pages 26 to 35.

The following have been directors since start of 2019:

Executive Directors	Joined board	Left board
David Kershaw	–	–
Bill Muirhead	–	–
Maurice Saatchi	–	10 December 2019
Jeremy Sinclair	–	–
Jamie Hewitt	–	29 March 2019
Mickey Kalifa	29 March 2019	–
Non-Executive Directors		
Michael Dobbs	–	10 December 2019
Michael Peat	–	10 December 2019
Lorna Tilbian	–	10 December 2019
Gareth Davis	3 February 2020	–
Lisa Gordon	17 March 2020	–
Louise Jackson	17 March 2020	–
Colin Jones	3 February 2020	–

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.

In addition, 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.

DIRECTORS' REPORT

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. We continue to look at innovative ways to allow our employees to report any potential, or apparent, malpractice or misconduct in confidence. We have introduced a new mobile app, Vault Platform, that gives employees a safe space to report any form of misconduct in the workplace, including but not limited to harassment, bullying, discrimination, and racism, through to fraud and corruption. This has been launched in the UK during 2020 and we are monitoring its usage and effectiveness and will make any necessary amendments prior to rolling it out to the Group. This is one of the new system enhancements and will aid with the overhaul of governance.

Engagement with employees and other stakeholder engagement

Ensuring that we create close collaborative and mutually beneficial relationships with suppliers who adopt standards consistent with our own helps us to streamline processes, increase savings and protect our reputation. Information about our engagement with our employees can be found at pages 29, 30, 31, 34 and 35 whilst the consideration of other stakeholders' views by the Company can be found at page 29 and pages 34 to 35.

Governance

The governance review (including Section 172 of the UK Companies Act 2006 and compliance with the UK Corporate Governance Code 2018) explains our governance arrangements further details can be found www.mcsaatchiplc.com/governance.

Slavery and human trafficking statement

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

Directors' conflict of interest

Under the UK Companies Act 2006, 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.

Change of control

Depending on the circumstance, some of the put option agreements with subsidiary companies vest on change of control.

DIRECTORS' REPORT

Directors and substantial shareholdings

As at 4 December 2020, the Company has been notified by shareholders representing 3% or more of issued share capital of the following interests:

	Shares held	%
Vinodka (Vin) Murria and family	15,245,267	13.2%
Invesco Perpetual	13,957,945	12.1%
Octopus Investments	10,194,941	8.8%
Paradice Investment Management	9,284,810	8.0%
Fidelity International	8,622,673	7.5%
Herald Investment Management	5,336,433	4.6%
David Kershaw*	4,579,697	4.0%
Bill Muirhead*	4,579,697	4.0%
Jeremy Sinclair*	4,579,697	4.0%
Maurice Saatchi	4,124,882	3.6%
Aviva Investors	4,094,159	3.6%
Stonehage Fleming	4,080,215	3.5%

* During the year the above Directors purchased 415,323 shares each. Mickey Kalifa, the new Finance Director acquired 27,985 shares during the year.

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

Events since the end of the financial year

On 30 April 2020, the term of the £36m revolving credit facility agreement and the £5m overdraft facility agreement with National Westminster Bank plc was extended to 30 June 2021. The interest margin on the revolving facility agreement was increased to 3.00% above LIBOR from 1.75% above LIBOR. The overdraft facility has a floating rate of interest set at 3.25% above the Bank of England base rate. Additional Group companies in the US and Australia were brought into the facility as guarantors.

Following the announcement of the accounting misstatements, the Financial Conduct Authority opened an investigation with which the Company is assisting.

In part due to the accounting misstatements and the Covid-19 pandemic, the Company's annual audit lasted longer than originally planned and went over budget.

Following the year end, the Board appointed four Non-Executive Directors who the Board considered independent and reconstituted its committees.

The economic downturn caused by the Covid-19 pandemic has affected the revenue of most Group companies. However, the Group's business continuity plans worked and we continue to service clients and win clients: The Group has cut costs to reduce the long-term economic effects of the Covid-19 pandemic; however, the effects on associates and cash generating units are different. This along with our strategic plan and other

DIRECTORS' REPORT

local opportunities and threats will result in the carrying values of our investments and goodwill potentially being different as at the year ended 31 December 2020 from those as at the year ended 31 December 2019.

We have undertaken a restructuring programme across the entire Group which will result in the closure of a number of businesses in 2020.

As part of our restructuring programme in the second quarter of 2020 the Group closed its Los Angeles subsidiary due to a deterioration in that subsidiary's business in 2019 which worsened in 2020. The estimated Group revenue deriving from the Los Angeles subsidiary declined from 2.8% in 2018 to 1.9% in 2019 whilst the share of Group net revenue deriving from the Los Angeles subsidiary declined from 2.4% in 2018 to 1.4% in 2019. During this same period, there was substantial turnover of finance staff based in such subsidiary which resulted in poor record keeping and a lack of financial information for 2019. The Group finance team has adequate information to confirm the 2019 closing balance sheet for the Los Angeles subsidiary, including revenue cut-off between 2019 and 2020, but is unable to confirm the opening balance sheet for 2019 given the lack of financial records.

The Company's shares were temporarily suspended from trading at 7.30am on 1 October 2020 as the Company did not publish the Annual Report and Accounts by 30 September 2020 which was the last day permitted for publication of the audited results under the AIM Rules (as modified by the three month extension granted in connection with the Covid-19 pandemic pursuant to the Inside AIM Guidance of 26 March 2020). Upon publication of the Annual Report and Accounts, the Company expects the suspension to be lifted, and the Company's shares to be reinstated to trading.

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.

Treasury shares

At the annual general meeting held in 2019, the Directors were given the authority to purchase up to 8,930,000 of the Company's ordinary shares. At the date of signing of this report this authority had expired and the Directors will seek to renew this authority at the next annual general meeting. At the year end, the Company held 485,970 of its ordinary shares as treasury shares. The Directors will use them to fulfil option obligations.

Directors' power to issue shares

At the annual general meeting held in 2019, the Directors were given the authority to issue up to 59,400,000 of the Company's ordinary shares of which 4,480,000 were approved to be issued for cash. During the year, the Company issued 5,993,207 shares to fulfil options and to acquire equity (see note 29 of the financial statements). The Company did not issue any shares for cash. At the date of signing of this report this authority had expired and the Directors will seek to renew this authority at the next annual general meeting.

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.

A resolution proposing re-appointment PricewaterhouseCoopers LLP as auditor of the Company will be put to the shareholders at the annual general meeting to be held in 2020.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Accounts 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 plc (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 (IFRS as adopted by the EU) and applicable law and have elected to prepare the Company's 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, IFRS 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 UK 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 the Company and of their profit or loss for that period. In preparing each of the Group and the 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 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 the 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 Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the UK Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of the 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 2018, the Board has established arrangements to evaluate whether the information presented in the Annual Report and Accounts is fair, balanced and understandable.

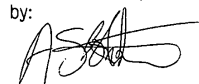
The Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

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.

DIRECTORS' REPORT AND DIRECTORS' RESPONSIBILITIES

The directors' report and directors' responsibility statement has been signed by order of the Board
by:



Andy Blackstone
Company Secretary
7 December 2020

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PREPARATION Continued

Preparation

Basis of preparation

The Group's consolidated financial statements have been prepared on a going concern basis, as discussed in the Directors' report on page 56, and in accordance with EU-endorsed International Financial Reporting Standards (IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS.

Going concern

These financial statements have been prepared on the going concern basis.

The Board have concluded that under the most likely going concern scenarios which have been modelled and they have reviewed, the Company will have sufficient liquidity to continue to operate.

Given the uncertainty over the duration and economic consequences of the Covid-19 pandemic and the risk that the economic downturn may continue for a longer period, and/or that the recovery profile is slower than is considered likely, the Directors have prepared a severe but plausible scenario that models a material reduction in revenue. In this scenario, there is no recovery in 2021, with revenue remaining 20% below the 2019 level.

Under this severe but plausible scenario, there is a risk of breaching the Company's financial covenants under its revolving credit facility (RCF) agreement with National Westminster Bank plc (NatWest), unless the terms of the RCF are amended or a further waiver agreement is reached within the going concern period. There are further mitigating actions the Company could take to eliminate any risk of the Company breaching its financial covenants, should these be required. Furthermore, the RCF provides that where the auditors qualify the audited annual consolidated financial statements of the Company in a material way, there is an event of default. However, NatWest has confirmed that it has no intention of giving notice to the Company of an event of default nor taking any action as a result of such qualification and, therefore, the Company does not consider this to be a risk. It is also noted that the RCF is due to expire on 30 June 2021 and, the Company is in discussions with NatWest to extend the term and/or refinance the facility.

Based on the above, the Board, therefore, believes that it remains appropriate to prepare the financial statements on a going concern basis. The Board acknowledges that there is a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern without any mitigating action being taken. This material uncertainty arises in a severe but plausible downside scenario where the covenants could be breached within 12 months of the date signing this report, due to the refinancing requirement of the RCF prior to 30 June 2021 and a qualification leading to an event of default albeit that the Company is in discussions with NatWest to extend the term and/or refinance the facility and NatWest has confirmed that it has no intention of giving notice to the Company of an event of default nor taking any action as a result of such qualification.

The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Further details are discussed in the Finance Directors review (page 15,16), Audit Committee Report (page 44) and Directors Report (page 56,57)

Foreign exchange

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.

Change in presentation of the consolidated income statement

In this year's Annual Report the presentation of the income statement has been amended such that, in the mind of the Directors, it more appropriately reflects the manner in which the business operates. This revised format has been applied to both the current year result and the comparative outturn for 2018. This new format in no way changes the Group's result for either the current or prior year when compared to the previous form of presentation.

Consolidation

The financial statements of the Group consolidates the results of the Company and its subsidiary entities, and includes the 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 treatment of the non-controlling interest share of the results and net assets is dependent on how the equity award is accounted for. Where the equity is accounted for as a share-based payment award under IFRS 2, all dividend outflow is taken to staff cost, and there is no non-controlling interest charge. In all other cases, 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.

PREPARATION

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.

A fundamental change in our accounting policies for the year ended 31 December 2019 is the adoption of IFRS 16 Leases. Details surrounding the transition accounting applied to this adoption is included in note 4 and details surrounding recurring disclosures with regards to leases are provided in note 19. The adoption of IFRS 16 has also led to the identification of two further significant estimates (below).

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 contracts with customers from the start of 2018.

The Group's revenue is earned from the provision of advertising and marketing services. Revenue from contracts with customers is recognised as, or when, the performance obligations present within the contractual agreements are satisfied. Dependent on the arrangement with the client, the Group may act as principal or as agent in the provision of these services.

See note 6 for a full listing of the Group's revenue accounting policies.

Put option accounting (IFRS 2 and IFRS 9)

It is common for equity partners in the Group's subsidiaries 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 M&C Saatchi plc shares or cash. Dependent on the terms and substance of the underlying agreement, these options are either recognised as a put option liability under IFRS 9 (note 27) or as a conditional share award in the scope of IFRS 2 (note 28).

Under the IFRS 9 approach, a put option liability is recognised in terms of the expected future issue of a variable number of shares. This liability is held at amortised cost at inception of the agreement and remeasured at the end of each reporting period. Both the amortisation of these instruments and any change in the underlying valuation of the amortised cost (driven by changes in either Company's quoted share price or underlying business performance) is 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. The majority of these instruments have non-market conditions and have the fair value of the award re measured annually. The cost is recognised over the vesting period of the award and accumulated within equity.

Headline results

As reflected in our business model (page 55), 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.

The segmental reporting (note 5) reflects 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 investments 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.

PREPARATION Continued

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 next financial year are outlined below.

Significant accounting judgements

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.

Leasing judgements

There are no significant judgements made relating to leases. This is reflective of the straight forward nature of the leasing arrangements entered into by the Group, being principally leasehold property rentals for a fixed period of time.

Revenue recognition judgements

The Group recognises three 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) recognition of supplier discounts and rebates 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 key judgement the Group makes when assessing whether it is acting as an Agent in a contractual relationship relates to whether it controls either the goods 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) 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 be performed).

Where the Group does not treat the income as an Agent it is treated as a Principal.

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 overarching objective of the contract comprises 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?

PREPARATION

Recognition of supplier discounts and rebates as revenue from contracts with customers

The Group receives discounts and rebates from certain suppliers for transactions entered into on behalf of clients, which the clients have agreed we can retain. When the contractual terms of the agreements entered into are such that the Group acts as Agent in these instances, then such rebates are recognised as revenue from contracts with customers. By contrast, when the contractual terms of the agreements are such that the Group is acting as principal then such rebates are recognised as a reduction in direct costs. Certain of the Group's clients, however, have contractual terms such that the pricing of their contracts is structured with the rebate being passed through to them. As such, the timing of recognition, the categorisation within the income statement and the valuation of this 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.

Certain of the Group's clients, however, have contractual terms such that the pricing of their contracts is structured with the rebate being passed through to them. As such, the timing of recognition, the categorisation within the income statement and the valuation of the discount and rebates 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.

Other significant judgements

Minority interest put option accounting – IFRS 2 or IFRS 9

As noted on page 67 accounting for Minority Interest (MI) put options is a critical accounting policy. Ascertaining whether such put options should be accounted for under IFRS 9 or whether the awards fall within the scope of IFRS 2 is a key management judgement. We have revised our judgements in 2019 compared to prior years and per note 2 we have restated our historic financial statements in accordance with the new judgement.

The key feature of the awards made to MI (who hold an equity share in subsidiary enterprises) is whether the awards are given beneficially as a result of employment. Where there is an explicit service condition, if the award is given to an existing employee, or, if the employee is being paid below market value or other indicators that the award is a reward for employment, then the awards are accounted for as an equity-settled share-based payment in exchange for employment services under IFRS 2 if these schemes are to be settled in equity. If the scheme is intended to be settled in cash, then the award is accounted for as a cash-settled share based payment and a liability is recognised to reflect the future cash efflux from the business. Otherwise, where the holder held shares prior to us acquiring the subsidiary or gained the equity to start a subsidiary using their unique skills, and there is no indicators it should be accounted for under IFRS 2, then the award is recognised as a liability held at amortised cost under IFRS 9.

The valuation of these awards represents 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.

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

Significant 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. Value in use calculations are compared with the carrying value of the CGU assets. The carrying value of the CGU's also include the Right of Use Assets under IFRS 16 (note 4). Generally, discounted cash flow models, based on 2020 budgets and a growth rate, 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 for those relating to Goodwill and note 17 for those relating to Associates. The variables used in the assessment of the recoverable amount include:

- budgets and estimated growth rate;
- discount rate used to calculate present value of future cash flows.

PREPARATION Continued

Fair value measurement of financial instruments

The Group holds certain financial instruments which are recorded on the balance sheet at fair value at point of recognition and remeasured at the end of each reporting period. At the year end these relate to:

- (i) Equity investments at FVTPL in non-listed limited companies (note 20); and
- (ii) and certain contingent consideration (note 15).

The equity investments include, but are not restricted to, small equity holdings in particular clients in exchange for services rendered in lieu of monetary based remuneration.

No formal market exists to trade these financial instruments and, therefore, 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, 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 30.

Share-based incentive arrangements

Share-based incentives 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 in the equity. The key inputs to the pricing model are interest rates, share price volatility and expected future performance of the entity to which the award relates. Management apply judgement to these inputs used various sources of information, including the Group's share price, 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 28.

Leasing estimates

The adoption of IFRS 16 Leases creates a significant change to our balance sheet. Within IFRS 16 there are two estimates with regards to leases, such items are significant this year as it is the first time these estimates have been made. These relate to (i) determining the interest rate used for discounting of future cash flows, and (ii) the length of lease term.

Derivation of the interest rate used for discounting future cash flows

The discount rate used in the calculation of the lease liability involves estimation. Discount rates are calculated on a lease by lease basis. This involves estimate of incremental borrowing costs. These will depend on the territory of the relevant lease and hence territory risk (which comprises both the currency used and the risk free rates of that country); the date of lease inception; and the lease term. The spread of interest rates used to derive the appropriate quantum of asset and liability to be recognised at the inception of each lease is reflective of the diversity of the Group's lease portfolios.

Anticipated length of lease term

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee is reasonably certain to exercise that option. Where a lease includes the option for the Group to extend the lease term, the Group takes a view at inception as to whether it is reasonably certain that the option will be taken. This will take into account the length of time remaining before the option is exercisable; current trading; future trading forecasts as to the ongoing profitability of that aspect of the business; and the level and type of any planned capital investment. This view of if the option will be taken is reassessed at each reporting period. A reassessment of the remaining life of the lease could result in a recalculation of the lease liability and a material adjustment to the associated balances.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Note	Year ended 31 December 2019			31 December 2018#
		Before exceptional items £000	Exceptional items (note 3) £000	Total £000	Total £000
Billings (unaudited)	1	561,428	–	561,428	603,652
Revenue	1, 6	381,025	–	381,025	417,366
Project cost / direct cost		(124,590)	–	(124,590)	(167,062)
Net revenue		256,435	–	256,435	250,304
Staff costs	7	(189,783)	(4,211)	(193,994)	(196,068)
Depreciation	18	(12,449)	–	(12,449)	(3,037)
Amortisation	16	(2,865)	–	(2,865)	(4,730)
Impairment charges	16	(5,874)	–	(5,874)	(4,167)
Other operating charges		(50,155)	(1,955)	(52,110)	(47,226)
Other gains / losses		(96)	–	(96)	1,584
Operating profit / (loss)	1	(4,787)	(6,166)	(10,953)	(3,340)
Share of result of and gain on disposal of Associates and Joint Ventures	17	13,210	–	13,210	2,825
Impairment of associate investment	17	(5,210)	–	(5,210)	(674)
Finance income	9	613	–	613	273
Finance expense	9	(6,233)	–	(6,233)	(4,472)
Loss before taxation	1	(2,407)	(6,166)	(8,573)	(5,388)
Taxation	10	(4,268)	1,012	(3,256)	(7,587)
Loss for the year		(6,675)	(5,154)	(11,829)	(12,975)
Attributable to:					
Equity shareholders of the Group	1	(6,842)	(5,154)	(11,798)	(13,086)
Non-controlling interests	1	(33)	–	(33)	121
Loss for the year	1	(6,675)	(5,154)	(11,829)	(12,975)
Earnings per share					
Basic (pence)	1	(7.36)p		(13.08)p	(15.52)p
Diluted (pence)	1	(7.36)p		(13.08)p	(15.52)p
Headline results					
Operating profit	1			20,572	21,500
Profit before taxation	1			18,282	23,470
Profit after tax attributable to equity shareholders of the Group	1			8,073	11,256
Basic earnings per share (pence)	1			8.95p	13.34p
Diluted earnings per share (pence)	1			8.37p	12.37p

Restated see note 2.

The notes on pages 66 to 70 and 78 to 143 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	2019	2018#
Year ended 31 December	£000	£000
Loss for the year	(11,829)	(12,975)
Other comprehensive income*		
Exchange differences on translating foreign operations	(3,281)	869
Other comprehensive (loss) / income for the year net of tax	(3,281)	869
Total comprehensive loss for the year	(15,110)	(12,106)
Total comprehensive income attributable to:		
Equity shareholders of the Group	(15,077)	(12,227)
Non-controlling interests	(33)	121
Total comprehensive loss for the year	(15,110)	(12,106)

Result for the year ended 31 December 2018 has been restated, see note 2.

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

The notes on pages 66 to 70 and 78 to 143 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December	Note	2018 £000	2018# £000	2017# £000
Non-current assets				
Intangible assets	16	38,207	46,472	44,819
Investments in associates and JV	17	3,780	9,483	19,725
Plant and equipment	18	9,455	9,064	9,828
Right-of-use assets	19	46,542	–	–
Other non-current assets	20	3,823	4,248	9,325
Deferred tax assets	11	5,285	5,868	5,040
Financial assets at fair value through profit or loss	20a	14,851	14,041	–
		122,043	89,176	88,737
Current assets				
Trade and other receivables	21	113,183	151,987	114,630
Current tax assets		5,958	313	945
Cash and cash equivalents		68,981	50,065	48,957
Non-current assets classified as held-for-sale	35	–	13,106	–
		188,100	215,471	164,532
Current liabilities				
Trade and other payables	22	(140,035)	(161,267)	(131,996)
Provisions	23	(2,989)	–	–
Current tax liabilities		(1,014)	(3,444)	(989)
Borrowings	24	(52,212)	(14,060)	(3,731)
Lease liabilities	19	(10,770)	–	–
Deferred and contingent consideration	15	(445)	(782)	(377)
Minority shareholder put option liabilities	27	(3,183)	(9,947)	(5,979)
		(210,648)	(189,470)	(143,072)
Net current (liabilities) / assets		(22,548)	26,001	21,460
Total assets less current liabilities		99,495	115,177	110,197
Non-current liabilities				
Deferred tax liabilities	11	(371)	(1,444)	(761)
Borrowings	24	(162)	(38,541)	(37,764)
Lease liabilities	19	(44,000)	–	–
Contingent consideration	15	(313)	(514)	(833)
Minority shareholder put option liabilities	27	(3,818)	(3,817)	(7,202)
Other non-current liabilities	25	(1,130)	(1,944)	(2,487)
		(49,894)	(46,260)	(49,047)
Total net assets		49,601	68,917	61,150

Restated, see note 2.

The notes on pages 66 to 70 and 78 to 143 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December	Note	2019 £000	2018# £000	2017# £000
Equity				
Share capital	29	936	876	813
Share premium		44,607	41,734	32,095
Merger reserve		33,400	30,150	30,150
Treasury reserve		(550)	(792)	(792)
Minority interest put option reserve		(4,953)	(15,082)	(15,661)
Non-controlling interest acquired		(32,239)	(22,081)	(21,040)
Foreign exchange reserve		1,181	4,462	3,593
Retained earnings		6,854	28,718	30,383
Equity attributable to shareholders of the Group		49,236	67,985	59,541
Non-controlling interest		365	932	1,609
Total equity		49,601	68,917	61,150

Restated, see note 2.

Reserves are defined in note 37.

These consolidated financial statements pages 66 to 143 were approved and authorised for issue by the Board of Directors on 7 December 2020 and signed on its behalf by:



Mickey Kalifa
Finance Director
M&C Saatchi plc
Company Number 05114893

The notes on pages 66 to 70 and 78 to 143 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Continued

	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 31 December 2018		876	46,667	31,592	(792)	(12,954)	(22,464)	4,593	34,195	81,713	7,207	88,920
Restated	2	–	(4,933)	(1,442)	–	(2,128)	383	(131)	(5,477)	(13,728)	(6,275)	(20,003)
At 31 December 2018#		876	41,734	30,150	(792)	(15,082)	(22,081)	4,462	28,718	67,985	932	68,917
Adjustment on initial application of IFRS 16	4	–	–	–	–	–	–	–	(5,364)	(5,364)	–	(5,364)
Adjusted balance at 1 January 2019		876	41,734	30,150	(792)	(15,082)	(22,081)	4,462	23,354	62,621	932	63,553
Acquisitions of minority interest		–	–	–	–	–	(44)	–	–	(44)	–	(44)
Exercise of minority interest put options	27	26	2,873	3,766	–	10,114	(10,114)	–	–	6,665	–	6,665
Exercise of share-based payment schemes	28	34	–	–	242	–	–	–	(5,881)	(5,605)	–	(5,605)
Exchange rate movements		–	–	–	–	15	–	–	–	15	(5)	10
Issue of shares to minorities		–	–	–	–	–	–	–	–	–	309	309
Tax credit on fully charged options		–	–	–	–	–	–	–	208	208	–	208
Reserve transfer following impairment of goodwill		–	–	(516)	–	–	–	–	516	–	–	–
Share option charge	28	–	–	–	–	–	–	–	10,266	10,266	–	10,266
Dividends	12	–	–	–	–	–	–	–	(9,813)	(9,813)	(838)	(10,651)
Total transactions with owners		60	2,873	3,250	242	10,129	(10,158)	–	(4,704)	1,692	(534)	1,158
Total comprehensive loss for the year		–	–	–	–	–	–	(3,281)	(11,796)	(15,077)	(33)	(15,110)
At 31 December 2019		936	44,607	33,400	(550)	(4,953)	(32,239)	1,181	6,854	49,236	365	49,601

Restated, see note 2.

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 31 December 2017		813	32,095	31,592	(792)	(13,958)	(21,040)	3,593	25,235	57,538	6,532	64,070
Restatement	2	–	–	(1,442)	–	(1,703)	–	–	5,148	2,003	(4,923)	(2,920)
At 31 December 2017#		813	32,095	30,150	(792)	(15,661)	(21,040)	3,593	30,383	59,541	1,609	61,150
Adjustment on initial application of IFRS 15		–	–	–	–	–	–	–	28	28	–	28
Adjustment on initial application of IFRS 9		–	–	–	–	–	–	–	2,971	2,971	–	2,971
At 1 January 2018#		813	32,095	30,150	(792)	(15,661)	(21,040)	3,593	33,382	62,540	1,609	64,149
Acquisitions		18	6,484	–	–	–	–	–	–	6,502	–	6,502
Acquisitions of minority interest		–	–	–	–	–	(319)	–	–	(319)	–	(319)
Exercise of minority interest put options	27	11	2,697	–	–	722	(722)	–	–	2,708	–	2,708
Exercise of share-based payment schemes	28	33	–	–	–	–	–	–	(141)	(108)	–	(108)
Exchange rate movements		–	–	–	–	31	–	–	–	31	24	55
Deferred consideration	1	–	458	–	–	–	–	–	–	458	–	458
Issue of shares to minorities		–	–	–	–	(174)	–	–	87	(87)	5	(82)
Share option charge	28	–	–	–	–	–	–	–	16,864	16,864	–	16,864
Dividends	12	–	–	–	–	–	–	–	(8,378)	(8,378)	(827)	(9,205)
Total transactions with owners		63	9,639	–	–	579	(1,041)	–	8,432	17,672	(798)	16,874
Total comprehensive loss for the year		–	–	–	–	–	–	869	(13,096)	(12,227)	121	(12,106)
At 31 December 2018#		876	41,734	30,150	(792)	(15,082)	(22,081)	4,462	28,718	67,985	932	68,917

Restated, see note 2.

The notes on pages 66 to 70 and 78 to 143 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT AND ANALYSIS OF NET DEBT

Year ended 31 December	Note	2019 £000	2018# £000
Operating loss		(10,953)	(3,340)
Adjustments for:			
Non-cash consideration for services rendered			
Depreciation of plant and equipment	18	3,390	3,037
Depreciation of right-of-use assets	19	9,059	–
Loss on sale of plant and equipment		122	81
Impairment of plant and equipment		–	2,289
Loss on sale of software intangibles	16	266	9
Increase in financial assets at FVTPL	20a	346	(1,584)
Amortisation of acquired intangible assets	16	2,471	4,427
Impairment of goodwill and other intangibles	16	5,874	1,878
Amortisation of capitalised software intangible assets	16	394	303
Exercise of share-based payment schemes with cash		(5,605)	(108)
Equity settled share-based payment expenses	28	10,266	16,864
Operating cash before movements in working capital		15,630	23,856
Decrease / (Increase) in trade and other receivables		45,434	(48,386)
(Increase) / Decrease in contract assets		(5,560)	13,471
(Decrease) / Increase in trade and other payables		(18,514)	25,340
Increase in provisions		2,989	–
Decrease in contract liabilities		(4,219)	(1,158)
Cash generated from operations		35,760	13,123
Tax paid		(7,767)	(6,018)
Net cash from operating activities		27,993	7,105
Investing activities			
Acquisitions of subsidiaries net of cash acquired	14	(635)	953
Disposal of associate (net of costs)	35	23,264	–
Acquisitions of associates	17	–	(904)
Acquisitions of unlisted investments	20a	(964)	(780)
Proceeds from sale of plant and equipment		30	77
Purchase of plant and equipment	18	(4,091)	(4,597)
Purchase of capitalised software	16	(1,710)	(1,046)
Dividends received from associates	17	2,928	428
Interest received		632	273
Net cash consumed investing activities		19,454	(5,596)
Net cash from operating and investing activities		47,447	1,509

Year ended 31 December	Note	2019 £000	2018# £000
Net cash from operating and investing activities		47,447	1,509
Financing activities			
Dividends paid to equity holders of the Company	12	(9,813)	(8,378)
Dividends paid to non-controlling interest		(838)	(827)
Proceeds from issue of shares to non-controlling interests		9	85
Cash consideration for non-controlling interest acquired	14	(3,269)	(404)
Repayment of finance leases		–	(45)
Payment of lease liabilities	19	(10,638)	–
Repayment of invoice discounting (net)		(2,001)	(914)
Proceeds from bank loans		15,038	9,100
Repayment of bank loans		(17,318)	(9,462)
Interest paid	9	(1,485)	(1,355)
Interest paid on leases	19	(1,837)	–
Net cash consumed by financing activities		(32,152)	(12,200)
Net increase / (decrease) in cash and cash equivalents		15,295	(10,691)
Effect of exchange rate fluctuations on cash held		(857)	45
Cash and cash equivalents at the beginning of the year		38,311	48,957
Total cash and cash equivalents at the end of the year		52,749	38,311
Cash and cash equivalents**		68,981	50,065
Bank overdrafts*	24	(16,232)	(11,754)
Total cash and cash equivalents at the end of the year		52,749	38,311
Bank loans and borrowings***	24	(36,179)	(40,819)
Net cash / (debt)		16,570	(2,508)

Restated, see note 2.

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

** Cash and cash equivalents of £1,657k is held in a country with restrictions on remittances, but where the balances could be used to repay subsidiaries' expected future third party liabilities.

*** Bank loans and borrowings are defined in note 24, they exclude our lease liability of £54,770k (1 January 2019 £43,739k) (note 19)

The notes on pages 66 to 70 and 78 to 143 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.

		Statutory 2019	Exceptional items (note 3)	Amortisation of acquired intangibles (note 16)	Impairment of non- current assets (note 18 and 17)	Gain on disposal of associates (note 35)	FVTPL investments under IFRS 9 (note 20a)	Revaluation of contingent consideration (note 15)	Dividends paid to IFRS2 put holders (note 7)**	Put option accounting (note 27 and 28)	Headline results
Year ended 31 December 2019	Note	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Billings (unaudited)		561,426	–	–	–	–	–	–	–	–	561,426
Revenue		381,025	–	–	–	–	–	–	–	–	381,025
Net revenue		256,435	–	–	–	–	–	–	–	–	256,435
Staff costs	7	(193,994)	4,211	–	–	–	–	–	5,841	10,608	(173,334)
Depreciation - non lease**	18	(3,390)	–	–	–	–	–	–	–	–	(3,390)
Depreciation - lease**	19	(9,059)	–	–	–	–	–	–	–	–	(9,059)
Amortisation	16	(2,865)	–	2,471	–	–	–	–	–	–	(394)
Impairments	16	(5,874)	–	–	5,874	–	–	–	–	–	–
Other operating charges		(52,110)	1,955	–	–	–	92	127	–	–	(49,936)
Other gains/losses		(96)	–	–	–	–	346	–	–	–	250
Operating (loss) / profit		(10,953)	6,166	2,471	5,874	–	438	127	5,841	10,608	20,572
Share of results of associates and JV	17	13,210	–	–	–	(12,980)	–	–	–	–	230
Impairment of associate investment	17	(5,210)	–	–	5,210	–	–	–	–	–	–
Finance income - non lease**	9	522	–	–	–	–	–	–	–	–	522
Finance income - lease**	9	91	–	–	–	–	–	–	–	–	91
Finance expense - non lease**	9	(4,396)	–	–	–	–	279	–	–	2,821	(1,296)
Finance expense - lease**	9	(1,837)	–	–	–	–	–	–	–	–	(1,837)
(Loss) / profit before taxation		(8,573)	6,166	2,471	11,084	(12,980)	717	127	5,841	13,429	18,282
Taxation	10	(3,256)	(1,012)	(620)	–	(281)	(139)	–	–	6	(5,302)
(Loss) / profit for the year		(11,829)	5,154	1,851	11,084	(13,261)	578	127	5,841	13,435	12,980
Non-controlling interests		33	–	(247)	–	–	–	–	(4,693)	–	(4,807)
(Loss) / profit attributable to equity holders of the Group***		(11,796)	5,154	1,604	11,084	(13,261)	578	127	1,148	13,435	8,073

* Details of this breakdown can be found in note 7, Staff costs. The non-controlling interest charge is moved to operating profit due to underlying equity being defined as a conditional share award.

** The impact of the adoption of IFRS 16 (note 4) with regards to additional depreciation and interest charges relating to leases is shown by separate line items in order to improve comparability to the 2018 result presented overleaf.

*** 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 2019 and 2018 measures. Headline operating margin is calculated as: Headline operating profit divided by net revenue.

NOTES Continued

1. Headline results and earnings per share continued

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

Year ended 31 December 2018#	Note	Statutory 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 (note 20a) £000	Revaluation of contingent consideration (note 15) £000	Capital gain tax on issue of put options* £000	Dividends paid to IFRS2 put holders (note 7)** £000	Put option accounting (note 27 and 28)*** £000	Headline results £000
Billings (unaudited)		603,652	–	–	–	–	–	–	–	–	603,652
Revenue		417,366	–	–	–	–	–	–	–	–	417,366
Net revenue		250,304	–	–	–	–	–	–	–	–	250,304
Staff costs	7	(196,068)	–	–	–	–	–	–	3,106	17,178	(175,784)
Depreciation	18	(3,037)	–	–	–	–	–	–	–	–	(3,037)
Amortisation	16	(4,730)	4,427	–	–	–	–	–	–	–	(303)
Impairments	16	(4,167)	–	1,269	–	–	–	–	–	–	(2,898)
Other operating charges		(47,226)	–	–	–	–	–	–	–	–	(47,226)
Other gains/losses		1,584	–	–	–	(1,177)	37	–	–	–	444
Operating (loss) / profit		(3,340)	4,427	1,269	–	(1,177)	37	0	3,106	17,178	21,500
Share of results of associates and JV	17	2,825	–	–	–	–	–	–	–	–	2,825
Impairment of associate investment	17	(674)	–	–	674	–	–	–	–	–	–
Finance income	9	273	–	–	–	–	–	–	–	–	273
Finance cost	9	(4,472)	–	–	–	229	–	–	–	3,115	(1,128)
(Loss) / profit before taxation		(5,388)	4,427	1,269	674	(948)	37	–	3,106	20,293	23,470
Taxation	10	(7,587)	(1,021)	–	–	179	–	517	–	(403)	(8,315)
(Loss) / profit for the year		(12,975)	3,406	1,269	674	(769)	37	517	3,106	19,890	15,155
Non-controlling interests		(121)	(937)	–	–	–	–	–	(2,841)	–	(3,899)
(Loss) / profit attributable to equity holders of the Group****		(13,096)	2,469	1,269	674	(769)	37	517	265	19,890	11,256

The statutory result for year ended 31 December 2018 has been restated in addition to the add back of intangible impairments reducing by £0.9million from £2.2million to £1.3million. Detailed in note 2.

* 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 (IFRS 10.23); however, the capital gains tax and non-controlling interest effect has not been so removed.

** 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 (£17,097k) (note 28) and fair value adjustments to minority put option liabilities (£3,115k) (note 27).

**** Headline earnings are profit attributable to equity holders of the Group after adding back the adjustments noted above. The increase is calculated as the difference between 2019 and 2018 measures. Headline operating margin is calculated as: Headline operating profit divided by net revenue.

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.

	Before exceptionals	2019	Headline 2019
Year ended 31 December 2019	2019 £000	£000	£000
(Loss) / profit attributable to equity shareholders of the Group	(6,642)	(11,796)	8,073
Basic earnings per share			
Weighted average number of shares (thousands)	90,253	90,253	90,253
Basic EPS	(7.36)p	(13.06)p	8.95p
Diluted earnings per share			
Weighted average number of shares (thousands) as above	90,253	90,253	90,253
Add			
– Conditional shares	–	–	3,650
– Put option	–	–	2,316
– Contingent consideration	–	–	281
Total	90,253	95,253	96,500
Diluted earnings per share	(7.36)p	(13.06)p	8.37p

NOTES Continued

1. Headline results and earnings per share continued

	2018#	Headline 2018#
Year ended 31 December 2018	£000	£000
(Loss) / profit attributable to equity shareholders of the Group	(13,096)	11,256
Basic earnings per share		
Weighted average number of shares (thousands)	84,360	84,360
Basic EPS	(15.52)p	13.34p
Diluted earnings per share		
Weighted average number of shares (thousands) as above	84,360	84,360
Add		
– Conditional shares	–	6,361
– Put option	–	–
– Contingent consideration	–	308
Total	84,360	91,029
Diluted earnings per share	(15.52)p	12.37p

Statutory profit and diluted number of shares for the year ended 31 December 2018 has been restated, see note 2.

NOTES Continued

2. Prior year misstatements

As explained in the Finance Director's Review, the Company experienced significant difficulty in validating some of its accounting records for periods prior to 2019. The combination of relatively poor accounting records for the period prior to 2019, coupled with the departure of senior finance personnel made this exercise and the audit all the more difficult and time consuming. As such, the adjustments made in respect of earlier accounting periods must be taken as management's best estimates using the available evidence.

As detailed on page 10 of the Strategic Report, the Group has identified accounting errors relating to transactions recognised in periods prior to 2019. Subsequent to an independent forensic review carried out by PwC and a further internal review performed during the last quarter of 2019, we have identified £14.0m of adjustments impacting the headline profit before tax for the year ended 31 December 2018 and earlier periods. Had such headline contributions to specific businesses performance been known at the time there would also have been £2.8m impairment of goodwill at the end of 2017. Accordingly, this has been adjusted for as at 1 January 2018 (note 2a) to reflect the actual state of these businesses in contrast to their inflated profitability. Separately, a review of put option accounting, and a change to accounting practice relating to LLPs resulted in a further total profit reduction of £8.5m. An important distinction which requires highlighting is that these additional adjustments to put option accounting are as a result of a review of significant judgements to be made regarding accounting as opposed to the erroneous accounting which triggered the £14.0million headline profitability overstatement.

The misstatements have been corrected in accordance with the requirements of IAS 8 as follows:

- Where a misstatement has been attributed to the financial year ended 31 December 2018, the comparative amounts related to the error have been restated in the 2019 Annual Report.
- Where a misstatement is known to relate to periods prior to 2018 it has been recognised by adjusting the most recent comparative position presented – being the balance sheet as at 1 January 2018.
- Where it has been impracticable to accurately attribute a misstatement to a specific accounting period then the earliest comparative period presented has been adjusted – being by adjustments to the assets, liabilities and equity as at 1 January 2018 (i.e. the identical balance sheet to that described in the second bullet point above). We provide commentary on these items below.

The accounting misstatements have been classified by separation into the following categories:

- Trading adjustments – Adjustments principally arising from misstatements of accrued income and amounts receivable which would have arisen as a result of services provided to our clients but for which no provision of such service is believed to have been performed. Thus such receivables required elimination from the financial statements.
- Non-trading adjustments – Adjustments arising from misstatements in terms of not recognising certain staff and operating costs which are not directly related to the servicing of our clients.
- Non-current asset adjustments – Adjustments arising from overstatement in the value of plant and equipment or intangible assets (both Goodwill and capitalised software costs). For example, fixed assets which ceased to exist following office refurbishment

works of previous years but which were continued to be held on the fixed asset register and instances where intangible assets had been capitalised inappropriately due to the absence of their having future economic benefit to the Group.

- Put option accounting adjustments – Adjustments arising from a full internal review by management as to the appropriateness of management judgements required when determining the requisite accounting for put option incentive schemes. Such review facilitated by the latest interpretations of IFRS and events having occurred which were not previously available, such as the views of the new Audit Committee.
- Financial reporting adjustments – Adjustments arising from incorrect and unsubstantiated journal entries made in the 2018 year-end consolidation process or in relation to misclassification of balances (such as holding an investment as an other receivable).

Commentary relating to those adjustments which were impracticable to identify to the specific accounting period to which they relate

All adjustments relating to put options and financial reporting adjustments were able to be accurately attributed to the correct financial period.

Adjustments relating to non-current assets (fixed assets, software and Goodwill) were able to be attributed to the correct reporting period, with the exception of certain of the fixed assets. This was as a result of a material number of fixed assets having inadequate descriptions to be able to identify what they relate to.

There are also a material number of items relating to trading and non-trading activities which were unable to be attributed to a specific reporting period. This was as a result of a lack of records, inadequate descriptions and the departure from the business of management who were involved in the accounting across a number of years.

Index of misstatement tables

The effect of these misstatements on the statements previously presented in the 2018 Annual Report are presented separately in the following tables:

- Note 2(a) – Effect on Balance sheet and reserves as at 1 January 2018.
- Note 2(b) – Impact on income statement for year ended 31 December 2018.
- Note 2(c) – Tabular presentation of Income statement adjustments to clarify overall impact upon profit before and after tax with explanations as to component elements.
- Note 2(d) – Effect on Balance sheet and reserves as at 31 December 2018.
- Note 2(e) – Explanatory note of the composition of the put option accounting adjustments.
- Note 2(f) – Sundry other relevant matters required to be mentioned as a result of the identified accounting misstatements.

NOTES Continued

2(a) Impact of misstatements on consolidated balance sheet as at 1 January 2018

Consolidated balance sheet - as at 1 January 2018								
	As previously reported	Trading adjustments	Non-trading adjustments	Non- current asset adjustments	Put option adjustments	Financial reporting adjustments	Total adjustments	As restated
	£000	£000	£000	£000	£000	£000	£000	£000
Non-current assets								
Intangible assets	48,515	-	-	(3,696)	-	-	(3,696)	44,819
Investments in associates	19,725	-	-	-	-	-	-	19,725
Plant and equipment	12,269	-	-	(2,441)	-	-	(2,441)	9,828
Other non-current assets	9,325	-	-	-	-	-	-	9,325
Deferred tax assets	4,797	-	-	-	243	-	243	5,040
Financial assets at FVTPL	-	-	-	-	-	-	-	-
	94,631	-	-	(6,137)	243	-	(5,894)	88,737
Current assets								
Trade and other receivables	120,096	(1,799)	(372)	-	-	(3,295)	(5,466)	114,630
Current tax assets	945	-	-	-	-	-	-	945
Cash and cash equivalents	48,957	-	-	-	-	-	-	48,957
Non-current assets Held-for-sale	-	-	-	-	-	-	-	-
	169,998	(1,799)	(372)	-	-	(3,295)	(5,466)	164,532
Current liabilities								
Trade and other payables	(128,256)	-	(350)	-	(3,390)	-	(3,740)	(131,996)
Current tax liabilities	(1,221)	335	82	(185)	-	-	232	(989)
Minority shareholder put option liabilities	(14,813)	-	-	-	11,312	(2,478)	8,834	(5,979)
Other current liabilities	(4,108)	-	-	-	-	-	-	(4,108)
	(148,398)	335	(268)	(185)	7,922	(2,478)	5,326	(143,072)
Net current assets	21,600	(1,464)	(640)	(185)	7,922	(5,773)	(140)	21,460
Total assets less current liabilities	116,231	(1,464)	(640)	(6,322)	8,165	(5,773)	(6,034)	110,197
Non-current liabilities								
Minority shareholder put option liabilities	(10,316)	-	-	-	6,758	(3,644)	3,114	(7,202)
Other non-current liabilities	(41,845)	-	-	-	-	-	-	(41,845)
Total non-current liabilities	(52,161)	-	-	-	6,758	(3,644)	3,114	(49,047)
Total net assets	64,070	(1,464)	(640)	(6,322)	14,923	(9,417)	(2,920)	61,150

NOTES Continued

Total adjustment to equity:

Consolidated balance sheet – as at 1 January 2018								
	As previously reported	Trading adjustments	Non-trading adjustments	Non- current asset adjustments	Put option adjustments	Financial reporting adjustments	Total adjustments	As restated
	£000	£000	£000	£000	£000	£000	£000	£000
Minority interest put option reserve	(13,958)	-	-	-	4,419	(6,122)	(1,703)	(15,661)
Non-controlling interest acquired	(21,040)	-	-	-	-	-	-	(21,040)
Non-controlling interest	6,532	-	-	-	(4,923)	-	(4,923)	1,609
Retained earnings	25,235	(1,464)	(640)	(4,880)	15,427	(3,295)	5,148	30,383
Merger reserve	31,582	-	-	(1,442)	-	-	(1,442)	30,150
Other reserves	35,709	-	-	-	-	-	-	35,709
	64,070	(1,464)	(640)	(6,322)	14,923	(9,417)	(2,920)	61,150

NOTES Continued

2(b) Impact of misstatements on consolidated income statement for year ended 31 December 2018

	As previously reported £000	Trading adjustments £000	Non-trading adjustments £000	Non-current asset adjustments £000	Put option adjustments £000	Financial reporting adjustments £000	Total adjustments £000	As restated £000
Billings (unaudited)	609,610	(4,789)	–	–	–	(1,169)	(5,958)	603,652
Revenue	422,404	(3,869)	–	–	–	(1,169)	(5,038)	417,366
Project cost / direct cost	(167,031)	10	–	–	–	(41)	(31)	(167,062)
Net revenue	255,373	(3,859)	–	–	–	(1,210)	(5,069)	250,304
Staff costs	(182,536)	–	(379)	–	(12,880)	(273)	(13,532)	(196,068)
Depreciation	(3,558)	–	–	521	–	–	521	(3,037)
Amortisation	(4,730)	–	–	–	–	–	–	(4,730)
Impairment charges	(2,869)	(70)	–	(1,902)	–	674	(1,298)	(4,167)
Other operating charges	(46,496)	70	(800)	–	–	–	(730)	(47,226)
Other gains / losses	1,584	–	–	–	–	–	–	1,584
Operating profit	16,768	(3,859)	(1,179)	(1,381)	(12,880)	(809)	(20,108)	(3,340)
Share of results of associates	2,825	–	–	–	–	(674)	(674)	2,151
Finance income	273	–	–	–	–	–	–	273
Finance costs	(2,268)	–	–	–	(2,204)	–	(2,204)	(4,472)
Profit before taxation	17,598	(3,859)	(1,179)	(1,381)	(15,084)	(1,483)	(22,986)	(5,388)
Taxation	(6,635)	(127)	158	(1,149)	61	105	(952)	(7,587)
Profit for the year	10,963	(3,986)	(1,021)	(2,530)	(15,023)	(1,378)	(23,938)	(12,975)
Attributable to:								
Equity shareholders of the Group	8,255	(3,986)	(1,021)	(2,530)	(12,436)	(1,378)	(21,351)	(13,096)
Non-controlling interests	2,708	–	–	–	(2,587)	–	(2,587)	121
Profit for the year	10,963	(3,986)	(1,021)	(2,530)	(15,023)	(1,378)	(23,938)	(12,975)
Earnings per share								
Basic (pence)	9.79p							(15.52)p
Diluted (pence)	9.15p							(15.52)p

The nature and composition of the categories of misstatements presented above is explained below in section 2(c).

NOTES Continued

2(c) – All Income statement adjustments to clarify overall impact upon Profit before tax

In aggregate the prior years' adjustments identified as being required are split between 2018 and prior to 2018 as follows:

Total	PBT £'000	Tax £'000	PAT £'000
Pre 2018 Adjustments	(5,158)	475	(4,683)
In year 2018 Adjustments	(22,986)	(952)	(23,938)
Total profit impact	(28,144)	(477)	(28,621)

The aggregate of the prior year adjustments in terms of categories presented are as follows:

	Pre-2018 £000	During 2018 £000	Total £000
Trading	(1,799)	(3,859)	(5,658)
Non-trading	(463)	(1,179)	(1,642)
Non-current assets impairment	(2,441)	(2,307)	(4,748)
Financial reporting	(505)	(1,483)	(1,988)
Headline PBT impact	(5,208)	(8,828)	(14,036)
Financial reporting	(2,790)	–	(2,790)
Put options	6,536	(15,084)	(8,548)
Goodwill and intangible	(3,696)	926	(2,770)
Statutory PBT impact	(5,158)	(22,986)	(28,144)
Tax	475	(952)	(477)
PAT impact	(4,683)	(23,938)	(28,621)

Pre-2018 adjustments

Pre 2018 Adjustments	£'000	Description
Item	(1,989)	Revenue recognised with no support
Revenue	(313)	Costs not recognised
Project cost	305	Add back of 2017 staff bonus expense
Staff costs	(2,790)	Incorrect accounting of LLP dividends
Other operating charges	(770)	Operating costs not recognised
Impairments - tangible fixed assets	(2,441)	Impairment of non-current assets identified as not existing
Impairments - intangible assets	(3,696)	Goodwill impairments and other intangibles
Put option adjustments	6,536	Judgement change relating to put options accounting
PBT effect	(5,158)	
Tax - add back	475	
PAT effect	(4,683)	

The difference between the pre 2018 profit adjustments above and the increase in retained earnings of £5,148k is largely due to put option adjustments i.e. the release of share option charges to retained earnings.

Profit impacting adjustments

Revenue adjustments relate to instances where a number of UK businesses had recognised revenue which had no support as to its validity to be so recognised. Project cost and operating charge adjustments relate to expenses and their corresponding liabilities which had not been recognised during the course of normal business which should have been so recognised.

The add back of staff costs arises as a result of a timing issue relating to the recognition of a 2017 bonus expense in 2018 (and consequently requires reversal).

The incorrect accounting of LLP dividends relates to the incorrect accounting of dividends paid to members of the Group's LLP entities from 2017 and earlier has been made to statutory profit before tax. This adjustment has no impact on 2018 headline profit before tax.

The additional impairments (exclusive of goodwill) relate to both plant and equipment and intangible assets. A total net book value of £2.4m plant and equipment was identified as not existing as at 1 January 2018 and £0.1m of intangibles was identified as having been inappropriately capitalised due to the lack of future economic benefits arising at the point of capitalisation.

The Goodwill impairments relate to write downs of goodwill attached to the PR and LIDA UK businesses. A CGU reallocation was not performed when the UK business was reorganised in 2016. If this had been carried out at the time these impairments would have been recognised at the end of 2017. Note, £926k impairment of Goodwill ascribed to LIDA was originally recognised during 2018. As this has now been taken as a pre-2018 charge it is consequently added back to the 2018 Income Statement (described below).

The add back of put option charges relates to changes in the interpretation of judgements originally made at the point of inception of the awards.

Balance sheet only adjustment

One significant non-profit impacting adjustment is also relevant to the understanding of a user of the financial statements. This item relates to a put option award made to senior management of an Australian subsidiary. This is considered a financial reporting adjustment due to its manifestation as not relating to judgements around put option accounting and in fact being a result of it never having been previously accounted for.

The adjustment requires recognition of a minority shareholder put options liability of £6.1m, with the corresponding entry being taken to reserves. This has been recognised due to a significant management incentive scheme awarded in 2017 having not been previously included within the Annual Report.

NOTES Continued

2018 Adjustments

The adjustments relating to the year ended 31 December 2018 are as described below.

Trading adjustments

Item	£000	Description
Revenue	(3,869)	Inappropriate recognition of revenue
Project cost	10	Inappropriate recognition of costs
PBT effect	(3,859)	
Tax - add back	(127)	
PAT effect	(3,986)	

An overstatement of revenue by £3.7million was identified, with a corresponding overstatement of accrued income, across a number of businesses. One UK business accounted for £1.6million of this error, the LA business contributed £0.5million and the balance of £1.6million related a number of smaller errors amongst a number of other UK businesses. In addition, another UK business had not appropriately applied IFRS 15 on transition, with the result that revenue had been understated by approximately £1.0million. This was, however, offset by £1.2million of inter-company trading costs incurred during 2018, but which had not been accounted for.

Non-trading adjustments

Item	£000	Description
Staff costs	(379)	Staff bonuses not accrued in correct period
Other operating charges	(800)	Operating costs not recognised
PBT effect	(1,179)	
Tax - add back	158	
PAT effect	(1,021)	

Adjustments made to staff costs were comprised of two principal items:

- Failure to accrue for Australian staff bonuses at the end of 2018 totalling £0.2m; and
- No accounting entries made for freelance staff employed at one UK business from September 2018 until the end of the year.

The increase in other operating charges of £0.8m relates to a number of instances where known and predictable costs (such as rates) had not been accrued in the period to which such expense related.

Non-current asset adjustments

Item	£'000	Description
Impairment	(2,828)	Non-current assets identified as not existing
Reversal of impairment	926	
Depreciation (add back)	521	Resultant reduction in depreciation charge
PBT effect	(1,381)	
Tax - additional	(1,149)	
PAT effect	(2,530)	

Non-current assets which should have been impaired during 2018 include both tangible fixed assets and intangible assets (software).

Fixed assets were concluded as not existing. In total a net book value of £2.3m of fixed assets required elimination. The specific categories of fixed asset to which these items relate is detailed in note 18.

Further, as a result of the fixed asset impairments described above for 2018 and 2017 the depreciation charge for 2018 reduced by £0.5m.

Adjustments required to be made to software intangible assets total £0.5m. These relate to an instance at one UK business unit where, based on the reviews conducted during 2019, intangible assets had been recognised during 2018 which were not capital in nature (as there was no future economic benefits due to be generated from the related cost) and should have been treated as an expense in their year of occurrence.

There were no adjustments relating to impairment of Goodwill identified for 2018 other than the LIDA impairment of £0.9million now recognised during 2017, as opposed to 2018, described above in the pre-2018 adjustment commentary.

Put option adjustments

Item	£000	Description
Staff costs	(12,880)	Change in judgement affecting the fundamental basis for the accounting of put options awarded by the Group
Finance costs	(2,204)	
PBT effect	(15,084)	
Tax - additional	61	
PAT effect	(15,023)	

Adjustments arising through put options are explained in detail at note 2(e). These adjustments principally arise as a result of a reassessment of judgements surrounding the Company's share schemes, such as the South African items. This updated view of the judgments has changed the fundamental basis of the accounting of put options and the application of the relevant elements of IFRS.

NOTES Continued

Financial reporting adjustments

Item	£000	Description
Revenue	(1,169)	UK sub-group consolidation journals with no support
Project cost	(41)	Prior year audit unadjusted error
Staff costs	(273)	Prior year audit unadjusted error
PBT effect	(1,483)	
Tax - add back	105	
PAT effect	(1,378)	

These items principally relate to two types of profit-impacting identified accounting errors:

- Those relating to a number of adjustments which were posted to a subsidiary consolidation of a number of UK corporate entities. Due to the poor quality of accounting records available for subsequent review in the latter part of 2019 these consolidation adjusting journals have been concluded as incorrect and thus eliminated. This correction has resulted in a £1.2m charge to the income statement for the year ended 31 December 2018.
- Also included are the prior year unadjusted audit misstatements identified by the previous auditors which were concluded as not being material to the 2018 Annual Report, and accordingly not adjusted for as permitted under International Standards of Auditing. These unadjusted items represented a \$0.3m charge to the income statement and was not previously recognised subsequent to discussions between the then incumbent auditors and the then Audit Committee. These items have now been adjusted due to the material nature of the other adjustments described within this note.

Finally, £1.1m of trade and other receivables have been redefined on balance sheet as financial assets at FVTPL, as these relate to equity received in return for services supplied and \$0.7m of impairments relating to the Group's Asian Associates have been reanalysed to share of results of associates. The balance sheet has been grossed up to reconcile other debtors and accruals of £12.9m in relation to third party media spend where the Group is an agent. These adjustments are not profit impacting.

NOTES Continued

2(d) Impact of misstatements on consolidated balance sheet as 31 December 2018

Consolidated balance sheet – for the year ended 31 December 2018									
	As previously reported	Pre 2018 adjustments (Note 2a)	Trading adjustments	Non-trading adjustments	Non-current asset adjustments	Put option adjustments (note 2e)	Financial reporting adjustments	Total adjustments	As restated
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Non-current assets									
Intangible assets	49,780	(3,696)	–	–	388	–	–	(3,308)	46,472
Investments in associates	9,483	–	–	–	–	–	–	–	9,483
Plant and equipment	13,274	(2,441)	–	–	(1,769)	–	–	(4,210)	9,064
Other non-current assets	4,248	–	–	–	–	–	–	–	4,248
Deferred tax assets	5,687	243	–	–	–	(62)	–	181	5,868
Financial assets at FVTPL	12,958	–	–	–	–	–	1,083	1,083	14,041
	95,430	(5,894)	–	–	(1,381)	(62)	1,083	(6,254)	89,176
Current assets									
Trade and other receivables	150,941	(5,466)	(3,714)	(239)	–	(459)	10,924	1,046	151,987
Current tax assets	968	–	(105)	–	(550)	–	–	(655)	313
Cash and cash equivalents	50,065	–	–	–	–	–	–	–	50,065
Non-current assets Held-for-sale	13,106	–	–	–	–	–	–	–	13,106
	215,080	(5,466)	(3,819)	(239)	(550)	(459)	10,924	391	215,471
Current liabilities									
Trade and other payables	(142,627)	(3,740)	(145)	(940)	–	(325)	(13,490)	(18,640)	(161,267)
Current tax liabilities	(3,318)	232	(22)	158	(599)	–	105	(126)	(3,444)
Minority shareholder put option liabilities	(12,327)	8,834	–	–	–	(6,454)	–	2,380	(9,947)
Other current liabilities	(14,812)	–	–	–	–	–	–	–	(14,812)
	(173,084)	5,326	(167)	(782)	(599)	(6,779)	(13,385)	(16,386)	(189,470)
Net current assets	41,996	(140)	(3,986)	(1,021)	(1,149)	(7,238)	(2,461)	(15,995)	26,001
Total assets less current liabilities	137,426	(6,034)	(3,986)	(1,021)	(2,530)	(7,300)	(1,378)	(22,249)	115,177
Non-current liabilities									
Minority shareholder put option liabilities	(6,063)	3,114	–	–	–	(695)	(173)	2,246	(3,817)
Other non-current liabilities	(42,443)	–	–	–	–	–	–	–	(42,443)
Total non-current liabilities	(48,506)	3,114	–	–	–	(695)	(173)	2,246	(46,260)
Total net assets	88,920	(2,920)	(3,986)	(1,021)	(2,530)	(7,995)	(1,551)	(20,003)	68,917

NOTES *Continued*

Consolidated balance sheet - for the year ended 31 December 2018

	As previously reported	Pre 2018 adjustments (Note 2a)	Trading adjustments	Non-trading adjustments	Non- current asset adjustments	Put option adjustments (Note 2e)	Financial reporting adjustments	Total adjustments	As restated
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Total adjustment to equity:									
Share Premium	46,667	—	—	—	—	(4,933)	—	(4,933)	41,734
Minority interest put option reserve	(12,954)	(1,703)	—	—	—	(252)	(173)	(2,128)	(15,082)
Non-controlling interest acquired	(22,464)	—	—	—	—	252	131	383	(22,081)
Non-controlling interest	7,207	(4,923)	—	—	—	(1,352)	—	(6,275)	932
Retained earnings	34,195	5,148	(3,986)	(1,021)	(2,530)	(1,710)	(1,378)	(5,477)	28,718
Other reserves	36,269	(1,442)	—	—	—	—	(131)	(1,573)	34,696
	88,920	(2,920)	(3,986)	(1,021)	(2,530)	(7,995)	(1,551)	(20,003)	68,917

The greater impact of the prior year adjustments on the income statement than on the balance sheet is due in most part to the change in valuation of variable share-based payment charges (IFRS 2), that have no effect on the balance sheet.

NOTES Continued

2(e) Put option accounting adjustments
The accounting for put options is set out on page 67 and the significant judgements on page 68. We have fully reassessed the judgement as to whether the put options constitute conditional shares (IFRS 2) or minority interest put options (IFRS 9); at the same time we have examined the judgements surrounding market and non-market conditions embedded in conditional shares (IFRS 2). The impact of these adjustments relating to the reporting period ended 31 December 2018 is presented below and the nature of the adjustments explained overleaf.

Income statement adjustments for the year ended 31 December 2018									
Change in category (IFRS 9 or IFRS 2)	Variable share based payments (SA)	Cash-settled share based payments (SA)	Change in accounting practice (note 2b)	Total adjustment (note 2b)	Relating to 1 January 2018 (note 2a)	Relating to year ended 31 December 2018			
£000	£000	£000	£000	£000	£000	£000			
Staff costs	(114)	(10,760)	(233)	(1,773)	(12,880)	61	(12,880)		
Tax expense	–	–	61	–	61	–	–		
Finance income	–	–	–	–	–	–	–		
Finance costs	(2,204)	–	–	–	(2,204)	–	–		
Total income statement effect	(2,318)	(10,760)	(172)	(1,773)	(15,023)	–	(15,023)		
Attributable to equity shareholders	(1,504)	(10,760)	(172)	(1,773)	(12,436)	–	(12,436)		
Attributable to Non-controlling interest	(814)	–	–	(1,773)	(2,587)	–	(2,587)		
	(2,318)	(10,760)	(172)	(1,773)	(15,023)	–	(15,023)		
Balance sheet adjustments as at 31 December 2018									
£000	£000	£000	£000	£000	£000	£000			
Non-current assets	–	–	181	–	181	243	(62)		
Deferred tax assets	–	–	–	–	–	–	–		
Current assets	(459)	–	–	–	(459)	–	(459)		
Trade and other receivables	–	–	–	–	–	–	–		
Current liabilities	–	(1,086)	(2,629)	(3,715)	(3,390)	(325)			
Trade and other payables	4,858	–	–	–	4,858	11,312	(6,454)		
Non-current liabilities	6,063	–	–	–	6,063	6,758	(695)		
Minority shareholder put option liabilities	10,462	–	(905)	(2,629)	6,928	14,923	(7,995)		
Total net asset effect	–	–	–	–	–	–	–		
Equity adjustments as at 31 December 2018									
£000	£000	£000	£000	£000	£000	£000			
Share premium	(4,933)	–	–	–	(4,933)	–	(4,933)		
Minority interest put option reserve	4,167	–	–	–	4,167	–	(252)		
Non-controlling interest acquired	252	–	–	–	252	–	252		
Non-controlling interest	(3,646)	–	–	–	(6,275)	(4,923)	(1,352)		
Retained earnings	14,622	–	(905)	(2,629)	13,717	15,427	(1,710)		
Total reserves effect	10,462	–	(905)	(2,629)	6,928	14,923	(7,995)		

NOTES Continued

The adjustments required to be made to the Group's put option accounting can be categorised as follows:

- Change in classification of the schemes as representing from as future obligations held on the Balance sheet as liabilities (IFRS 9) to share-based payments recognised in the Income statement (IFRS 2).
- Identification of certain share-based payment schemes as requiring revaluation at the end of each reporting period due to the presence of non-market performance conditions.
- Identification of certain put option schemes as being in substance cash-settled share-based payments.
- Mandatory change to the approach for accounting for LLPs share of profits.

The Group's put option accounting is dependent on each award.

Reclassification from change in category (IFRS 2 or to IFRS 9) – As noted above, schemes may be accounted for under either IFRS 2 (recognition of an expense each period) or as a liability held at the fair value of the future expected reward in line with IFRS 9.

We have reviewed the method of application of our significant judgements in categorising between IFRS 2 and IFRS9. This new method of application of the judgement has resulted in many of the awards that had been classified historically as IFRS 9 being re-classified as IFRS 2. The change to IFRS 2 has had a positive impact on reserves, however, it has also had the impact on additional finance costs (IFRS 9) of £2.2m in the 2018 income statement.

In some cases where there was an IFRS 9 scheme directly funded by loans to equity holders, with the equal investment value in NCI reserve, on reclassification to IFRS 2 the two values have been netted off removing the debit, disclosed in trade and other receivables, from our consolidated accounts.

Additional charge for non-market conditions – Each scheme has performance conditions attached to it. The final outcome of these performance conditions impacts the final value of a scheme at the point of exercise. Where a scheme is accounted for as a share-based payment (IFRS 2), management are required to identify whether these performance conditions are market based or no market based conditions.

Where a scheme is comprised of only market-based performance conditions then the fair value of the award is defined at inception of the agreement and not revisited. Where, however, a scheme is considered to have performance conditions which are not market based then there is a requirement for the quantum of the share-based payment to be revisited each period end. We have now concluded that the correct application of IFRS 2 means that certain of the Group's schemes have performance conditions which are not market based. We had previously concluded that application of IFRS 2 meant that these performance conditions were market based.

As a result, the Group has identified put option schemes accounted for as share-based payments which require reassessment of the expected future award value at the end of each reporting period.

Unrecorded cash-settled share-based payments – The Group's South African operations have in the past acquired the shares from its departing employee's, despite there being no agreement to do so. On review, this practice has now been interpreted as an unwritten put option (IFRS 2).

The accounting for such schemes requires that the future expected reward value is held as a liability at the end of each reporting period. Any movement in the fair value of these awards is recognised within staff costs.

Change in accounting practice – The accounting for certain dividend payments made in line with the terms of members agreements of some of the Group's Limited Liability Partnerships (LLPs) has been changed. This change in accounting resulted from a change in judgement that arose subsequent to recent discussions at the Consultative Committee for Accountancy Bodies. In past unallocated profits has been treated as non-controlling interests. The new judgement states that were where there is no discretion the profits on consolidation are treated as allocated in the year they are made otherwise they are treated as non controlling interests. All our LLP's are affected by this change.

2(f) Other restatement matters

The prior year Annual Report for the year ended 31 December 2018 stated that total operating lease commitments were \$42.0m as at 31 December 2018. During the course of the Group's application of IFRS 16 (note 4) it was identified that in fact these commitments totalled £50.2m. This incorrect disclosure arose as a result of weaknesses in the financial controls in the reporting of certain overseas Group entities.

In the prior year put option liabilities which pay a variable number of equity instruments or a variable amount of cash at a point in time in the future (note 27) were considered to be derivative instruments and consequently described as being held at fair value through profit or loss. These items have now been identified as representing financial liabilities held at amortised cost. Whilst this has no impact upon the quantum of liabilities due to be held at the end of each reporting period the notes to the accounts have had the 2018 comparative descriptions amended to reflect this fact. This is in contrast to the IFRS 2 schemes whose recognition within the financial statements continues to be based on the fair value of the award at the date of inception, and, for a subset of schemes, reassessed at the end of each reporting period.

NOTES Continued

The changes required to be made to the 2018 Cash-flow statement are as presented below:

	Change £000
Operating loss	(20,108)
Adjustments for:	
Depreciation of plant and equipment	(521)
Loss on sale of plant and equipment	6
Impairment of plant and equipment	2,289
Impairment of associates	(674)
Impairment of goodwill and other intangibles	(317)
Exercise of share-based payment schemes with cash	(108)
Equity settled share based payment expenses	10,760
Operating cash before movements in working capital	(8,673)
Decrease / (increase) in trade and other receivables	(23,155)
(Increase) / decrease in contract assets	14,150
(Decrease) / increase in trade and other payables	25,187
(Decrease) / increase in contract liabilities	(9,398)
Cash generated from operations	(1,889)
Net cash from operating activities	(1,889)
Investing activities	
Acquisitions of subsidiaries net of cash acquired	512
Net cash consumed investing activities	512
Financing activities	
Dividends paid to non-controlling interest	1,781
Cash consideration for non-controlling interest acquired	(404)
Net cash consumed by financing activities	1,377
Net increase / (decrease) in cash and cash equivalents	-

3. Exceptional items

Policy

Exceptional items relate to the strategic review and restructuring and costs relating to the accounting misstatements. These are shown separately and added back from headline profit to give a better understanding as to the underlying results of the group.

Exceptional items for the year ended 31 December 2019 comprise the following:

	Operating costs £000	Staff cost £000	Taxation £000	After tax total £000
Strategic review and restructuring	-	4,211	(783)	3,428
PwC forensic fees	710	-	(135)	575
Legal fees	147	-	-	147
Professional fees	798	-	(94)	704
Other costs relating to misstatements	300	-	-	300
Total exceptional items	1,955	4,211	(1,012)	5,154

No exceptional costs were included within the results for the year ended 31 December 2018.

Strategic review and restructuring

As explained on page 8 and 13 of the Strategic Report during 2019 the Board commenced a strategic realignment of the Group to improve the long-term profitability of the business.

The year ended 31 December 2019 is the Group's first year of conducting the strategic review and associated restructuring. The restructuring of operations has continued into the current year, the cost of which, at the time of signing of the Annual Report, is expected to be approximately £2.0m. The costs incurred principally relate to those of staff redundancy.

PwC forensic fees

As announced on 12 August 2019 and as explained on page 13 of the Strategic Report the Group engaged PwC to perform a forensic review to provide assistance in terms of attempting to swiftly resolve the prior period accounting errors described in note 2 which management had identified in 2019. This process has continued into 2020 and further costs incurred as a result are described below.

Legal fees and other costs relating to misstatements

Legal advice and other professional costs relating to misstatements have been incurred. Costs include assistance provided in terms of public disclosure, the legal consequences of the accounting errors and increases in fees payable to the Group's Auditor during 2019 (disclosed in note 8).

NOTES Continued

4. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group has applied IFRS 16 Leases for the first time. The nature and effect of the changes arising through the adoption of this new accounting standard are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not impact preparation of the consolidated financial statements of the Group. The Group has not early adopted any accounting standards, interpretations or amendments which have been issued, but are not yet effective.

The new and revised standards effective 1 January 2019 with no impact on the Annual Report are as follows:

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

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Adoption method

The Group has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application being 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised within equity at the date of initial application. Accordingly, there is no restatement of the comparative period financial information. On adoption of IFRS 16 the Group has elected to grandfather the assessment of which arrangements are leases. Contracts not identified as leases under Legacy IFRS were not reassessed for whether there is a lease under IFRS 16. The Group also elected to use the recognition exemptions for lease contracts that, at the application date of IFRS 16, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Approach to transition

As a lessee, the Group previously classified leases as operating or finance leases based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for all leases (unless exempt from applying IFRS 16) on its balance sheet. The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases:

- applied the exemption not to recognise right-of-use assets and liabilities for leases of low value or for which the lease term ends within 12 months of the date of initial application, on a lease-by-lease basis;
- relied on previous assessments on whether leases are onerous for impairment of right-of-use assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease;
- applied the exemption not to separate non-lease components such as service charges from lease rental charges;
- used a single discount rate to a portfolio of leases with reasonably similar characteristics.

Leases previously accounted for as operating leases

Under the transition rules for leases classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the relevant (i.e. specific to each member of the Group) incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at cost. In the majority of instances this comprised the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date and less any lease incentives received at or before the adoption date. For a selection of material long-term leases, the Group has, however, assessed the cost of the Right-of-use asset as if IFRS 16 had always been applied from the original inception date of the lease using the incremental borrowing rate at the date of initial application. Under this method, the difference between the right-of-use asset and lease liability is taken to retained earnings as at 1 January 2019.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. The requirements of IFRS 16 were applied to the leases from 1 January 2019.

Subleases

Where a head lease has been sublet such that the Group acts as an intermediate lessor then the two legal contracts are accounted for separately. The liability relating to the head lease is retained whilst the portion of the Right-of-use asset sublet is derecognised and replaced with a lease receivable where the sublease is considered to be a finance lease. Upon transition to IFRS 16 the difference in the carrying amounts of the Right-of-use asset relating to a sublease and the corresponding finance lease receivable is recognised within reserves.

The accounting for recognition of a sublease at transition is the same as that described in note 19.

NOTES Continued

As a result of subleases held by the Group at the start of 2019 a finance lease receivable of £2.1million has been duly recognised as shown below in the tabular presentation of the impact of adoption.

Impact of adoption of IFRS 16

As stated in the Finance Director's Report on page 11, adopting IFRS 16 has resulted in an increase in earnings for the year ended 31 December 2019 of £0.6m compared to that which would have been recognised under Legacy IFRS.

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) upon the balance sheet is as follows:

	Increase / (decrease) £000
Assets	
Right-of-use assets	33,952
Deferred tax assets	1,495
Prepayments	(585)
Finance lease receivable	2,069
Total assets	36,931
Liabilities	
Lease liabilities	43,739
Trade and other payables	(1,286)
Borrowings	(158)
Total liabilities	42,295
Total adjustment to equity	
Retained earnings	(5,364)
Non-controlling interests	-
	(5,364)

The following table reconciles the opening balance for the lease liabilities as at 1 January 2019 based upon the operating lease commitments as at 31 December 2018:

	£000
Operating lease commitments as at 1 January 2019	42,006
Short term / low value leases not included in lease liabilities	(1,567)
Leases not previously reported as operating lease commitments*	8,269
Gross lease liabilities at 1 January 2019	48,708
Effect of discounting	(5,127)
Additional lease liabilities at 1 January 2019	43,581
HP included in borrowings at 1 January 2019	158
Lease liabilities 1 January 2019	43,739

* These items had been included for the purposes of recognition of expense in the 2018 income statement but were omitted for the purposes of disclosure of future operating lease commitments within the 2018 Annual Report. See note 2 for detail.

The weighted average incremental borrowing rate as at 1 January 2019 was 4.2%.

5. Segmental information

Headline segmental income statement

Segmental results are reconciled to the income statement in note 1. The Board review headline results.

The Group's operating segments are aligned to those business units that are evaluated regularly by the chief operating decision maker ("CODM"), namely, the Board, in making strategic decisions, assessing performance and allocating resources. The operating segments comprise individual country entities, the financial information of which is provided to the CODM and is aggregated into specific geographic regions on a headline basis, with each geographic region considered a reportable segment. Each country included in that region has similar economic and operating characteristics and those products and services provided by entities in a geographic region are all related to marketing communication services and which generally offer complementary products and services to their customers

From 2020, as part of the Group's ongoing strategic review, we are evaluating alternative ways of analysing and presenting financial information to the CODM, over and above the geographic segmentation.

NOTES Continued

	UK	Europe	Middle East and Africa	Asia and Australia	Americas	Head office	Total
Year ended 31 December 2019	£000	£000	£000	£000	£000	£000	£000
Billings (unaudited)*	266,488	52,714	36,126	144,980	61,118	–	561,426
Revenue*	158,786	45,924	33,906	90,160	52,249	–	381,025
Net revenue	103,221	30,510	16,563	64,533	41,608	–	256,435
Staff costs	(61,376)	(22,273)	(11,337)	(45,093)	(28,752)	(4,503)	(173,334)
Depreciation – non lease**	(1,357)	(334)	(349)	(811)	(539)	–	(3,390)
Depreciation – lease**	(2,705)	(1,087)	(601)	(2,606)	(2,060)	–	(9,059)
Amortisation	(201)	(22)	(52)	(119)	–	–	(394)
Other operating charges	(22,928)	(3,776)	(2,718)	(10,244)	(7,402)	(2,868)	(49,936)
Other gains/losses	–	–	–	–	250	–	250
Operating profit / (loss)	14,654	3,018	1,506	5,660	3,105	(7,371)	20,572
Share of results of associates and JV	–	(3)	–	(124)	357	–	230
Financial income and cost (excluding leases)**	(89)	(72)	17	186	(695)	(121)	(774)
Financial income and cost (relating to leases)**	(595)	(146)	(459)	(363)	(163)	–	(1,746)
Profit / (loss) before taxation	13,970	2,797	1,064	5,339	2,604	(7,492)	18,282
Taxation	(2,576)	(1,135)	(219)	(1,655)	(1,099)	1,382	(5,302)
Profit / (loss) for the year	11,394	1,662	845	3,684	1,505	(6,110)	12,980
Non-controlling interests	(2,821)	(259)	(338)	(1,284)	(205)	–	(4,907)
Profit / (loss) attributable to equity shareholders of the Group	8,573	1,403	507	2,400	1,300	(6,110)	8,073
Headline basic EPS							8.95p

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

** The adoption of IFRS 16 has led to the recognition of depreciation and finance charges in 2019 which have no 2018 comparative. In the current year Annual Report these amounts have consequently been shown separately. Full details of the Group's transition to IFRS 16 can be found at note 4.

No Revenues were derived from an individual customer with a Net revenue contribution of greater than 10% of the total recognised during either 2019 or 2018.

NOTES Continued

	UK	Europe	Middle East and Africa	Asia and Australia	Americas	Head office	Total
Year ended 31 December 2018	£000***	£000	£000	£000***	£000***	£000	£000 #
Billings (unaudited)*	265,157	64,339	34,727	168,537	70,892	-	603,652
Revenue*	166,706	60,190	31,567	96,134	62,769	-	417,366
Net revenue	92,022	34,165	15,790	64,689	43,638	-	250,304
Staff costs	(62,429)	(22,932)	(10,660)	(46,257)	(29,798)	(3,708)	(175,784)
Depreciation – non lease**	(1,154)	(314)	(308)	(786)	(475)	-	(3,037)
Depreciation – lease**	-	-	-	-	-	-	-
Amortisation of software intangibles	(154)	(20)	(21)	(98)	-	(10)	(303)
Impairment	(2,898)	-	-	-	-	-	(2,898)
Other operating charges	(15,897)	(5,917)	(3,634)	(12,356)	(8,094)	(1,328)	(47,226)
Other gains/losses	-	444	-	-	-	-	444
Operating profit / (loss)	9,490	5,426	1,167	5,192	5,271	(5,046)	21,500
Share of results of associates and JV	2,354	(13)	-	433	51	-	2,825
Financial income and cost (excluding leases)**	(101)	(31)	83	90	(511)	(385)	(855)
Financial income and cost (relating to leases)**	-	-	-	-	-	-	-
Profit / (loss) before taxation	11,743	5,382	1,250	5,715	4,811	(5,431)	23,470
Taxation	(4,085)	(1,879)	(260)	(1,997)	(1,126)	1,032	(8,315)
Profit / (loss) for the year	7,658	3,503	990	3,718	3,685	(4,399)	15,155
Non-controlling interests	(1,331)	(452)	(389)	(1,189)	(538)	-	(3,899)
Profit / (loss) attributable to equity shareholders of the Group	6,327	3,051	601	2,529	3,147	(4,399)	11,256
Headline basic EPS							13.34p

Restated, see note 2.

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

** The adoption of IFRS 16 has led to the recognition of depreciation and finance charges in 2019 which have no 2018 comparative. In the current year Annual Report these amounts have consequently been shown separately. Full details of the Group's transition to IFRS 16 can be found at note 4.

*** The component elements of the restatement required are as detailed and explained in note 2. All restatements relate to the UK operating segment except for the following: (i) recognition of \$0.2m staff expense relating to unaccrued bonuses in the Australian business; (ii) write off of \$134k other debtors incorrectly recognised in the NY business; (iii) impairment of \$920k of trade and other receivables recognised by the LA business which was inappropriate to be so recognised; and (iv) \$385k of corporation tax in India.

NOTES Continued

2019 Segmental Income Statement translated at 2018 average exchange rates
It is normal practice in our industry to provide constant currency results.

Had our 2019 results been translated at 2018 average exchange rates then our constant currency results would have been:

	UK	Europe	Middle East and Africa	Asia and Australia	Americas	Head office	Total
Year ended 31 December 2019	£000	£000	£000	£000	£000	£000	£000
Billings (unaudited)	266,488	52,161	35,472	142,289	62,749	–	559,159
Revenue	158,786	45,386	33,252	88,420	54,109	–	379,953
Net revenue	103,221	30,197	16,269	63,385	42,976	–	256,048
Staff costs	(61,376)	(22,044)	(11,197)	(44,316)	(29,690)	(4,503)	(173,126)
Depreciation – non lease	(1,357)	(331)	(337)	(804)	(557)	–	(3,386)
Depreciation – lease	(2,705)	(1,076)	(574)	(2,560)	(2,129)	–	(9,044)
Amortisation of software intangibles	(201)	(21)	(50)	(117)	–	–	(389)
Other operating charges	(22,928)	(3,729)	(2,649)	(10,107)	(7,628)	(2,867)	(49,908)
Other gains/losses	–	–	–	2	239	–	241
Operating profit	14,654	2,996	1,462	5,483	3,211	(7,370)	20,436
Share of results of associates and JV	–	(3)	–	(125)	355	–	227
Financial income and cost (excluding leases)	(89)	(72)	15	185	(721)	(123)	(805)
Financial income and cost (relating to leases)	(595)	(145)	(438)	(376)	(173)	–	(1,727)
Profit before taxation	13,970	2,776	1,039	5,167	2,672	(7,493)	18,131
Taxation	(2,576)	(1,127)	(208)	(1,608)	(1,117)	1,382	(5,254)
Profit for the year	11,394	1,649	831	3,559	1,555	(6,111)	12,877
Decrease in 2019 results caused by translation differences	–	(13)	(14)	(125)	50	(1)	(103)

The key currencies that affect the Group and the average exchange rates used were:	2019	2018
US dollar	1.277	1.3359
Malaysian ringgit	5.2891	5.384
Australian dollar	1.8365	1.786
South African rand	18.4403	17.6326
Brazilian real	5.0331	4.8669
Euro	1.1406	1.1305

NOTES Continued

Non-current assets other than excluded items

	2019	2018
Year ended 31 December	£000	£000
United Kingdom	51,542	25,284
United States of America	17,018	14,884
Australia	11,370	7,484
Asia	3,633	10,692
South Africa	1,212	2,271
Middle East	699	969
France	–	810
Europe (excluding France and UK)	6,446	2,484
Other countries	6,064	142
Total non-current assets other than excluded items	97,984	65,020

Non-current assets excluded from analysis above:

Deferred tax assets	5,285	5,868
Trade and other receivables	–	–
Tax recoverable	–	–
Other financial assets	18,774	18,288
Total non-current assets per balance sheet#	122,043	89,176

restated, see note 2

Allocation of non-current assets by country is based on the location of the business units. Items included comprise fixed assets, intangible assets, IFRS 16 assets and equity accounted investments.

The large increase in non-current assets in the year is caused by the adoption of IFRS 16 Leasing (note 4).

	2019	2018
Capital expenditure	£000	£000
UK	2,462	2,680
Europe	360	291
Middle East and Africa	513	231
Asia and Australia	518	1,239
Americas	240	196
	4,091	4,637

Non-controlling interests material to the Group

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the group. The amounts disclosed for each subsidiary are before inter-company eliminations

Summarised balance sheet

	Bohemia	
	2019	2018
	£000	£000
Current assets	8,561	10,541
Current liabilities	(10,174)	(11,232)
Current net assets	(1,613)	(691)
Non-current assets	1,503	927
Non-current liabilities	(528)	(45)
Non-current net assets	975	882
Net (liabilities) / assets	(638)	191
Accumulated NCI	(536)	(145)

Summarised statement of comprehensive income

	Bohemia	
	2019	2018
	£000	£000
Revenue	5,508	6,041
Profit for the period	667	1,058
Other comprehensive income	–	–
Total comprehensive income	667	1,058
Profit allocated to NCI	271	576
Dividends paid to NCI	678	724

NOTES Continued

Summarised cash flows

	Bohemia	
	2019	2018
	£000s	£000s
From operating activities	2,239	(1,339)
From investing activities	–	–
From financing activities	(1,687)	(1,960)
Net increase / (decrease) in cash and cash equivalents	552	(3,299)

6. Revenue from contracts with customers

Billings comprise all gross amounts billed, or billable to clients and is stated exclusive of VAT and sales taxes. Billings is a non-GAAP measure and is included as it influences the quantum of trade and other receivables due to be recognised at a point in time. The balancing figure between Billings and Revenue is represented by costs incurred on behalf of clients with whom we operate as an agent.

Net revenue is a non-GAAP measure and is reviewed by the CODM and other stakeholders as a key metric of business performance (note 5).

Policy

6(a) Revenue recognition policies

Revenue is stated exclusive of VAT and sales taxes. Net revenue is exclusive of third-party costs recharged to our clients where we are acting as principal.

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 68) 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 which are distinct within 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 6(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) the client exerts editorial oversight during the course of the assignment such that they control the service as it is provided.

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 the Group is acting as principal or agent. The primary indicator used in this assessment is whether the Group is judged to control the specified services prior to the transfer of those services to the customer. In this instance it is typically concluded the Group is acting as principal. Details surrounding this significant judgement can be found on page 67.

When we act as an agent, the revenue recorded is the net amount retained. Costs incurred with external suppliers are excluded from revenue. When the Group acts as principal the revenue recorded is the gross amount billed and 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 generally expensed as incurred.

NOTES Continued

Supplier discounts and rebates

The Group receives supplier discounts and rebates from certain suppliers for transactions entered into on behalf of clients. As explained in detail on page 69, management judgement is involved in how these rebates are accounted for.

Further detail 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 6(d).

6(b) Disaggregation of revenue

The Group monitors the composition of revenue earned by the Group on a geographic basis. The disaggregation of this revenue is as follows:

	UK	Europe	Middle East and Africa	Asia and Australia	Americas	Total
	£000	£000	£000	£000	£000	£000
Year ended						
31 December 2018#	166,706	60,190	31,567	96,134	62,769	417,366
31 December 2019	158,786	45,924	33,906	90,160	52,249	381,025

Restated, see notes 2 and 5.

6(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.

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.

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 upon raising of invoice, otherwise it is recognised as a contract asset.

Contract liabilities comprise instances where a customer has made payments relating to services 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 receives

monies more than a year in advance by virtue of the terms of the contractual agreement so entered into.

There have been no acquisitions in the year and consequently no effect on our Client receivable positions. The prior year acquisition of Scarecrow Communications Ltd and M&C Social Ltd (note 13) resulted in an increase in trade receivables of £911k and contract assets of £200k in 2018.

In 2019 £106k (2018, £204k) was recognised as a provision for expected losses on trade receivables in line with the requirements of IFRS 9 (note 21).

Set out below is the amount of revenue recognised from:

	2019 £000	2018 £000
Amounts included in contract liabilities at the beginning of the year	32,284	16,585
Performance obligations satisfied in previous years	–	–

All contract assets recognised at 31 December 2018 were invoiced in the year.

6(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.

Provision of advertising and marketing services

Our provision of advertising and marketing services to our clients typically meets the criteria identified on page 100 of note 6(a) 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 when the milestone deliverable is complete, depending on the contractual terms. 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.

The provision of advertising and marketing services can encompass provision of 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 is 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 68. In these instances, revenue is recognised over time as the performance obligation is being satisfied.

NOTES Continued

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.

Multiple performance obligations are most common in projects where there are clearly separable conceptual preparatory obligations culminating in a customer deliverable, such as an event. In these scenarios the conceptual preparation element and the deliverable are concluded as forming separate performance obligations with the revenue and corresponding cost of sales (typically third party pass through costs) assigned to the obligation to which they relate.

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.

The Group enters into Retainer fees relate to "retainer" 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.

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 when there is a right to consideration.

Certain of these arrangements have contractual terms relating to the agency meeting specific customer identified KPIs. Such KPIs are considered a separate performance obligation of the contract and 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. When determining the likely outcome position the estimated consideration is such that it is highly probable there will be significant reversal of the revenue in the future. 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 third parties to provide the related goods and services to its customers 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 68) 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'.

The performance obligation for media buys is considered to have been satisfied when the associated advert has been purchased. 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 Group is acting as agent.

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. The consideration for the services is normally for a fixed amount (as a percentage of the talent's fee) with no degree of variability.

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.

Bonuses

Bonuses are given on an ad hoc basis or as otherwise agreed and are accrued in the year to which the services performed relate when there is an expectation these will be awarded.

Staff costs (including Directors) comprise:

	2019 £000	2018# £000
Year ended 31 December		
Wages and salaries	152,608	151,273
Social security costs	18,216	17,782
Defined contribution pension scheme costs	2,217	2,088
Other staff benefits	4,504	4,641
	177,545	175,784

	2019 £000	2018# £000
Dividends paid to holders of IFRS 2 put options		
Allocations and dividends paid to conditional share award holders	5,841	3,106
	5,841	3,106

Share-based incentive plans

Cash settled	342	314
Equity settled	10,266	16,864
Total staff costs	193,994	196,068

Restated, see Note 2

Staff numbers

UK	702	837
Europe	335	364
Middle East and Africa	346	289
Asia and Australia	807	834
America	302	273
	2,492	2,597

These staff numbers are based on our monthly average staff number.

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 £2,217k (2018: £2,371k) were made in the year and charged to the income statement in the period they relate to pensions. At the year end there were unpaid amounts included within accruals totalling £48k (2018: £17k).

	2019 £000	2018# £000
Key management remuneration		
Short-term employee benefit	3,399	2,878
Post-employment benefit	4	17
Share-based payments	384	3,552
Total	3,787	6,447

Restated due to change in option charge

NOTES Continued

8. Auditors' remuneration

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

	2019	2018
Year ended 31 December	£000	£000
Audit services		
Audit of the Company and its consolidated accounts	2,978	478
Audit of the Company's subsidiaries pursuant to legislation	181	290
	3,159	768
Other services provided by the Auditors		
Taxation compliance services	32	29
Finance due diligence	–	38
Remuneration report services	29	–
Forensics services	710	–
Other advice	–	3
	771	70
Total	3,930	838

Other advice provided by the auditors for the year ended 31 December 2019 related principally to the forensic review which is detailed on page 11 of the Finance Director's review.

9. Net finance income / (expense)

Policy

Financial income and borrowing costs

Interest income and borrowing costs are recognised in the income statement in the period in which they are incurred.

	2019	2018
Year ended 31 December	£000	£000
Bank interest receivable	285	272
Other interest receivable	237	1
Sublease finance income	91	–
Financial income	613	273
Bank interest payable	(1,325)	(1,175)
Other interest payable	(250)	(182)
Interest on lease liabilities	(1,837)	–
Adjustment to minority shareholder put option liabilities (Note 27, #)	(2,821)	(3,115)
Financial expense	(6,233)	(4,472)
Net finance expense	(5,620)	(4,199)

2018 restated by increasing expense by £2.2million, note 2(e).

NOTES Continued

10. Taxation

Policy

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	2019 £000	2018# £000
Taxation in the year			
– UK		(330)	2,974
– Overseas		3,280	6,507
Withholding taxes payable		38	–
Utilisation of previously unrecognised tax losses		–	(25)
Adjustment for over provision in prior periods		(538)	(447)
Total		2,450	9,009
Deferred taxation			
Origination and reversal of temporary differences	11	431	(1,821)
Adjustment for under provision prior periods	11	370	399
Effect of changes in tax rates	11	5	–
Total		806	(1,422)
Total taxation		3,256	7,587

restated note 2.

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

Year ended 31 December	2019 £000	2019 %	2018# £000	2018# %
Loss before taxation	(8,573)		(5,388)	
Taxation at UK corporation tax rate of 19.00% (2018: 19.00%)	1,629	19.0%	1,024	19.0%
Tax effect of associates	1	0.0%	537	10.0%
Non-controlling interest share of partnership income	377	4.4%	284	5.3%
Expenses not deductible for tax	(442)	-5.2%	(2,291)	-42.5%
Option charges not deductible for tax*	(3,129)	-36.4%	(3,803)	-70.7%
Different tax rates applicable in overseas jurisdictions*	(1,469)	-17.1%	(1,421)	-26.4%
Effect of changes in tax rates on deferred tax	(5)	-0.1%	–	–
Withholding taxes payable	(39)	-0.5%	–	–
Utilisation of previously unrecognised tax losses	–	–	25	0.5%
Adjustment for current tax over provision in prior periods	538	6.3%	447	8.3%
Adjustment for deferred tax (under) provision in prior periods	(370)	-4.3%	(399)	-7.4%
Tax losses for which no deferred tax asset was recognised	(451)	-5.3%	(317)	-5.9%
Fair value adjustments on minority shareholder put options	(536)	-6.3%	(592)	-11.0%
Nil tax on disposal of associates*	2,749	32.1%	–	–
Impairment with no tax credit*	(2,109)	-24.6%	(1,081)	-20.0%
Total taxation	(3,256)	-38.0%	(7,587)	-140.8%
Effective tax rate	-38.0%		-140.8%	

restated note 2.

* Described below

We expect large variations 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 to corporation tax. Over the last five years the statutory tax rate has been between -96% and 93%.

NOTES Continued

Looking forward, there remains some uncertainty over how Brexit may impact tax legislation, and there is a likelihood that Governments may raise taxes to recover their expenditures spent dealing with the social and economic effects of Covid-19 pandemic.

The key differences between actual and standard tax rates:

- Option charges not deductible for tax, our share-based payment schemes mostly relate to equity held in subsidiary companies. The Group receives in most part no tax benefit on exercise of such put options.
- Different tax rates applicable in overseas jurisdictions, the Group operates in multiple locations round the world where tax rates are higher than the UK, e.g. Australia 30% and USA 21% to 28%.
- Nil tax on disposal of associates, in the year we disposed of our remaining 24.9% interest in Walker Media, we expect to receive substantial shareholding exemption on this disposal.
- Impairment with no tax credit, on most of our acquisitions we received no tax benefit from the acquisition of Goodwill. During the periods some of our Goodwill was impaired with no future tax benefit of such impairments.

Tax on headline profits

As can be seen in our headline tax reconciliation, the largest drivers of headline tax charge are our local entities' profitability with central costs being in lower tax UK, and profits being made in higher tax countries such as Australia and USA.

Our headline tax rate has reduced from 35.4% (prior to restatements, 31.7%) to 29.0% due to our restated 2018 profits having a large proportion of disallowable expenditure items which included significant impairments. This has been somewhat offset by a reduction in low tax UK profits, and an increase in income from higher tax locations.

Year ended 31 December	2019	2019	2018	2018
	£000	%	£000	%
Headline profit before taxation (note 1)	18,282		23,470	
Taxation at UK corporation tax rate of 19.00% (2018: 19.00%)	(3,474)	19.0%	(4,459)	19.0%
Tax effect of associates	1	–	537	-2.3%
Non-controlling interest share of partnership income	377	-2.1%	284	-1.2%
Expenses not deductible for tax	(424)	2.3%	(2,291)	9.8%
Different tax rates applicable in overseas jurisdictions	(1,455)	8.1%	(1,605)	6.7%
Effect of changes in tax rates on deferred tax	(5)	–	–	–
Withholding taxes payable	(39)	0.2%	–	–
Utilisation of previously unrecognised tax losses	–	–	25	-0.1%
Adjustment for current tax under provision in prior periods	538	-3.0%	447	-1.9%
Adjustment for deferred tax (under) provision in prior periods	(370)	2.0%	(399)	1.7%
Impairment with no tax credit	–	–	(537)	2.3%
Tax losses for which no deferred tax asset was recognised	(451)	2.5%	(317)	1.4%
Headline taxation (note 1)	(5,302)	29.0%	(8,315)	35.4%
Headline effective tax rate	29.0%		35.4%	

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

Deferred tax assets are recognised to the extent that it is probable 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.

At 31 December	2019 £000	2018# £000
Deferred tax assets	5,285	5,868
Deferred tax liabilities	(371)	(1,444)
Net deferred tax	4,914	4,424

restated see note 2.

The following is the deferred tax asset (liability) recognised by Group and movements in 2019 and 2018.

	Intangibles £000	Capital allowances £000	Tax losses £000	Working capital differences# £000	Total £000
At 31 December 2017	977	61	1,463	1,778	4,279
1 January 2018 - IFRS 9 adjustment	–	–	–	(691)	(691)
Exchange differences	132	–	22	(48)	106
Income statement credit/(charge)	996	22	177	227	1,422
Acquisitions	(692)	–	–	–	(692)
At 31 December 2018	1,413	83	1,662	1,266	4,424
1 January 2019 - IFRS 16 adjustment	–	–	–	1,495	1,495
Exchange differences	(56)	(1)	(70)	(72)	(199)
Income statement credit/(charge)	(1,059)	(33)	(69)	355	(806)
At 31 December 2019	298	49	1,523	3,044	4,914

restated note 2.

NOTES Continued

Within the local entities £2,382k (2018: £723k) of deferred tax has been naturally offset; ignoring such an offset the split of deferred tax is as follows:

	Intangibles	Capital allowances	Tax losses	Working capital differences	Total
	£000	£000	£000	£000	£000
At 31 December 2018					
Deferred tax assets	2,353	117	1,662	2,459	6,591
Deferred tax liabilities	(940)	(34)	–	(1,193)	(2,167)
Net deferred tax	1,413	83	1,662	1,266	4,424
At 31 December 2019					
Deferred tax assets	2,091	68	1,539	4,139	7,837
Deferred tax liabilities	(1,793)	(19)	(16)	(1,095)	(2,923)
Net deferred tax	298	49	1,523	3,044	4,914

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

	Loss	Deferred tax impact
	£000	£000
At 31 December 2018	1,985	449
Exchange differences	(59)	(22)
Expired losses	(61)	(21)
Losses in year	2,294	476
At 31 December 2019	4,159	882
Expiry date of losses:		
	2019	2018
	£000	£000
One to five years	191	253
Five to ten years	98	–
Ten years or more	593	196
Total	882	449

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.

Year ended 31 December	2019	2018
	£000	£000
2018 final dividend paid 8.51p on 5 July 2019 (2017: 7.40p)	7,566	6,261
2019 interim dividend paid 2.45p on 8 November 2019 (2018: 2.45p)	2,247	2,117
	9,813	8,378

The 2018 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 2018.

The Board is not proposing to pay a final 2019 dividend.

The dividends relate to the profit of the following years:

Year ended 31 December	2019	2018
	£000	£000
Interim dividend paid 2.45p on 8 November 2019 (2018: 2.45p)	2,247	2,117
No Final dividends payable (2018: 8.51p)	–	7,566
	2,247	9,683
Statutory dividend cover	loss	loss
Headline dividend cover	3.6	1.2

Dividend cover is calculated by taking profit after tax attributable to equity shareholders and dividing it by the total dividend that relates to that year's profits. The Group in the past has aimed to maintain a long-term headline dividend cover of between 2 and 3. This policy will be reviewed depending on the needs of our Strategic Review, and the outcome to Covid-19 pandemic. 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

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

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

There have been no acquisitions during the year.

During the prior year the Group obtained a controlling interest in both M&C Saatchi Social Ltd (located in the UK) and Scarecrow Communications Ltd (situated in India). Other than changes in the value of deferred consideration relating to Scarecrow Communications Ltd (see note 15) there have been no adjustments recognised in the current period relating to these 2018 transactions.

14. Cash consumed by acquisitions

During the period the Group has spent the following amounts of cash to acquire equity in subsidiary companies and associates:

	2019 £000	2018 £000
Exercise of share-based payment schemes with cash		
– M&C Saatchi Network Ltd	(3,475)	–
– M&C Saatchi GAD Holdings SAS	(1,989)	–
– Small purchases of non-controlling interest's equity	(141)	(108)
Total exercise of share-based payment schemes with cash	(5,605)	(108)
Cash consideration for non-controlling interest acquired		
– SS+K LLP*	(3,066)	(193)
– M&C Saatchi Berlin GmbH	(199)	–
– Small purchases of non-controlling interest's equity	(4)	(12)
– Clear USA LLC	–	(199)
Total paid to acquire additional shares in subsidiaries	(3,269)	(404)
Acquisitions of subsidiaries net of cash acquired		
– M&C Saatchi Social Ltd	–	(422)
– Deferred and contingent consideration paid (note 15)	(635)	–
Less cash and cash equivalents acquired	–	1,375
Acquisitions of subsidiaries net of cash acquired	(635)	953
Associate cash consideration		
– Technology, Humans and Taste LLC	–	(904)

* In the year equity was acquired in two companies with NCI for cash and equity. Due to one of the companies having net liabilities the movement in non-controlling interest reserve was immaterial.

NOTES Continued

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.

	2019	2018
	£000	£000
Amounts falling due within one year		
– Contingent consideration**	(366)	(273)
– Contingent consideration***	(79)	(367)
– Deferred consideration*	–	(112)
Total due in < 1 year	(445)	(752)
Amounts falling due more than one year but not more than five years		
– Contingent**	(313)	(514)
	(758)	(1,266)

* This relates to a net asset true up payment on M&C Saatchi Social Ltd which was paid subsequent to the completion of the 2018 audit.

** This relates to contingent consideration for Leverage Marketing Agency (Pty) Ltd, which will be paid in M&C Saatchi plc shares. The contingent consideration is payable over the next three years, and is dependent on profitability and profitability growth rates of Leverage Marketing Agency (Pty) Ltd. The amount payable is uncapped. The fair value of contingent consideration is measured in line with IFRS 13 (see note 30).

*** Relates to the 2018 acquisition of Scarecrow Communications Ltd call option valuation that is payable in the event of shareholder departure.

	2019	2018
	£000	£000
At 1 January	(1,266)	(1,210)
Exchange difference	–	1
Acquisition	–	(479)
Charged to income statement	(127)	(37)
Consideration paid in equity	–	459
Consideration paid in cash	635	–
At 31 December	(758)	(1,266)

All contingent consideration is payable from the parent company and held as a liability in the company's own balance sheet.

Detail surrounding the fair value measurement of the contingent consideration recognised at year end is provided in note 30.

16. Intangible assets

Policy

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 & film

Purchased software is recorded at cost, internally created software as well as film rights are recorded at cost. In case of internally created software and film rights these are created so that they can be directly used to generate future client income.

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 within this note (for Goodwill) and note 17 (for associates). 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 entirely relate to impairments; brand name and customer relationships and software relate to amortisation and impairments.

NOTES Continued

	Goodwill#	Brand name	Customer relationships	Software & film#	Total
	£000	£000	£000	£000	£000
Cost					
At 31 December 2017#	53,916	8,394	11,875	1,863	76,048
Exchange differences	814	—	189	(37)	966
Acquired	—	—	—	1,046	1,046
Acquired through business combination	3,718	552	2,307	28	6,605
Disposal	—	—	—	(23)	(23)
Eliminations due to restatement#	—	—	—	(652)	(652)
At 31 December 2018	58,448	8,946	14,371	2,225	83,990
Exchange differences	(1,343)	(177)	(281)	(51)	(1,852)
Acquired	—	—	—	1,710	1,710
Disposals	—	—	—	(286)	(286)
At 31 December 2019	57,105	8,769	14,090	3,598	83,562
Accumulated amortisation and impairment					
At 31 December 2017	16,694	5,217	8,480	838	31,229
Exchange differences	183	19	153	(8)	347
Amortisation charge	—	2,057	2,370	303	4,730
Impairment#	1,269	—	—	609	1,878
Disposal	—	—	—	(14)	(14)
Eliminations due to restatement#	—	—	—	(652)	(652)
At 31 December 2018	18,146	7,293	11,003	1,076	37,518
Exchange differences	(481)	(126)	(242)	(33)	(882)
Amortisation charge	—	924	1,547	394	2,865
Impairment	5,874	—	—	—	5,874
Disposal	—	—	—	(20)	(20)
At 31 December 2019	23,539	8,091	12,308	1,417	45,355
Net book value					
At 31 December 2017	37,222	3,177	3,395	1,025	44,819
At 31 December 2018	40,302	1,653	3,368	1,149	46,472
At 31 December 2019	33,566	678	1,782	2,181	38,207

#Restated, see note 2.

	Goodwill 31 December 2019	Goodwill 31 December 2018	
	£000	£000	
Cash generating units (CGUs)			Segment
M&C Saatchi (UK) Ltd* & **	—	514	UK
LIDA Ltd* & **	—	—	UK
M&C Saatchi Sport & Entertainment Ltd*	1,184	1,184	UK
M&C Saatchi Mobile Ltd*	4,283	4,283	UK
M&C Saatchi Merlin Ltd*	765	765	UK
Talk PR Ltd*	625	625	UK
M&C Saatchi PR Ltd* & **	—	—	UK
Clear Ideas Ltd**	5,008	9,508	UK
M&C Saatchi Advertising GmbH	1,317	1,395	Europe
M&C Saatchi Madrid S.L.**	—	444	Europe
M&C Saatchi Middle East Fz LLC (Dubai)	699	727	Middle East and Africa
Levergy Marketing Agency (Pty) Ltd (South Africa)*	956	966	Middle East and Africa
M&C Saatchi Agency Pty Ltd (Australia)	2,740	2,902	Asia and Australia
Bohemia Group Pty Ltd (Australia)*	1,792	1,867	Asia and Australia
Shepardson Stern + Kaminsky LLP*	5,491	5,711	Americas
LIDA NY LLP (MCD)	5,309	5,522	Americas
Scarecrow Communications Ltd	700	744	Asia and Australia
M&C Saatchi Social Ltd	2,612	2,612	UK
Total of other CGUs with goodwill less than £0.5m* & **	85	533	Various
Total	33,566	40,302	

* As a prior year adjustment M&C Saatchi UK Group CGU has been split into its component parts. The CGU split was based on the 2017 budget that was set at the time of the 2016 business reorganisation occurring that caused the CGU to split.

** Impaired, in the case of LIDA Ltd and M&C Saatchi PR Ltd, if we had knowledge of the prior year adjustment during the 2017 audit, and UK Group CGU has been split into its component parts (as was proposed) then a £2,655k impairment would have occurred in relation to these CGUs. This impairment has consequently been posted as a prior year adjustment (note 2).

Apart from these CGUs, whose movements are described in this note, all other movements in the table above are due to foreign exchange differences.

NOTES Continued

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 Group has recognised a total impairment charge of £5,874k in the year (2018: £4,167k). Of this amount £5,874k relates to Intangibles (2018: £1,878k) and £Nil (2018: £2,289k) relates to plant and equipment (note 18).

The 2019 review of Goodwill was undertaken in the last quarter of the year in conjunction with our annual business planning process, the reviews were repeated during the audit, and all assumptions checked and reflected in light of subsequent performance. Due to client losses resulting in management changes and reorganisations Clear Ideas Ltd was partially impaired and the following were fully impaired M&C Saatchi Madrid S.L., M&C Saatchi (UK) Ltd and M&C Saatchi GAD SAS. Cumulatively this has resulted in total Goodwill impairments during the year of £5,874k (2018: £1,269k).

With the exception of Clear Ideas Ltd for which a partial impairment of Goodwill has been recognised management have analysed in the table on the right the impact of a reduction in profit and /or an increase in discount rates.

All CGU impairment reviews have been performed such that the recoverable amounts have been calculated based on Value in use calculations that, this year, included the effect of IFRS 16. The Value in use calculations have been based on future forecast profitability of each CGU for a period of one year, with residual growth rates applied thereafter to form the basis of discounted future cash flows (DCF). Where the DCF of a CGU is not in excess of its carrying amount (that includes the value of its fixed assets (note 18) and ROU Assets (note 19)) then an impairment loss is recognised.

Management have approved the forecasts for 2020 and have prepared additional projections based on the 2020 numbers for the next four years using a 1.5% expected growth rate and anticipated replacement costs net of depreciation for fixed assets and ROU Assets. 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 residual growth rate of 1.5% has been used for all countries. 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.

Pre-tax discount rates are based on the Group's nominal 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 2019	Residual growth rates 2018	Pre-tax discount rates 2019	Pre-tax discount rates 2018
	%	%	%	%
UK	1.5	3	12-15	11-12
Asia and Australia	1.5	3	14-17	13-17
Middle East	1.5	3	12	10-13
India	1.5	3	17	20
South Africa	1.5	3	23-24	23-24
Europe	1.5	3	11-13	12-16
Americas	1.5	3	12-13	12-13

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 2019 subsequent to the impairments described above are presented below.

Discount rates increased by	Annual profit forecast reduced by			
	0%	10%	20%	30%
0%	-	-	-	87
1%	-	-	-	777
3%	-	442	1,186	2,196
5%	764	1,529	2,392	3,920

CGUs showing the above sensitivity, due to theoretical significant long-term client losses, are Bohemia Group Pty Ltd, LIDA NY LLP (MCD), Leverage Marketing Agency (Pty) Ltd, M&C Saatchi Social Ltd, M&C Saatchi Advertising GmbH and Scarecrow Communications Ltd.

Discount rates increased by	2020 revenue reduced by			
	0%	10%	20%	30%
-%	-	-	-	-

NOTES Continued

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 35, towards the end of 2018 the Board finalised plans to dispose of Blue 449. This investment was sold at the start of 2019 and was therefore held as a current asset as at 31 December 2018.

	2019	2018
December 31	£000	£000
Investments intended to be held in the long term	3,780	9,483
Investments categorised as held-for-sale	–	13,106
Total equity accounted investments	3,780	22,589

Region & Name	Nature of business	Country of incorporation or registration	Investment in associate		Proportion of voting rights	
			2019	2018	2019	2018
			£000	£000	2019	2018
UK						
Walker Media Ltd	Media buying	UK	–	13,106	–	25%
Europe						
M&C Saatchi Istanbul	Advertising	Turkey	14	3	25%	25%
Asia and Australia						
M&C Saatchi (Hong Kong) Ltd	Advertising	China	2,258	8,234	40%	40%
February Communications Private Ltd	Advertising	India	24	32	20%	20%
M&C Saatchi Ltd	Advertising	Japan	24	23	10%	10%
Love Frankie Ltd	Advertising	Thailand	157	138	25%	25%
Americas						
Technology, Humans and Taste LLC	Advertising	USA	1,089	1,053	30%	30%
Santa Clara Participacoes Ltda	Advertising	Brazil	214	–	25%	25%
Total			3,780	22,589		

The Group also holds a 10% equity stake in a Lebanese branch and a 50% equity in a Pakistan joint venture. As at the end of the year this has a carrying value of both entities was £NIL (2018; £NIL).

NOTES Continued

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.

Split of income statement		2019	2018
	Note	£000	£000
Profit net of cost of disposal	35	12,980	–
Share of profit after taxation		230	2,825
At 31 December		13,210	2,825
		2019	2018
		£000	£000
At 1 January		22,589	19,725
Exchange movements		(617)	237
Acquisition of associates*		–	904
Impairment of associate**		(5,210)	(674)
Dividends		(2,928)	(428)
Disposal		(10,284)	–
Share of profit after taxation		230	2,825
At 31 December		3,780	22,589

* Acquisition of Technology, Humans and Taste LLC.

** In 2019, due to a significant reduction in economic activity in China, an impairment review was carried out and \$5,210k of the carrying value of M&C Saatchi (Hong Kong) Ltd (trading in China as AEIOU).

	UK	Europe	Asia and Australia*	Americas	2019	2018
	£000	£000	£000	£000	£000	£000
Income statement						
Revenue	–	316	7,898	8,704	16,918	47,812
Operating (loss) / profit	–	(130)	(238)	2,378	2,010	12,786
(Loss) / profit before taxation	–	(108)	(273)	2,125	1,744	12,149
(Loss) / profit after taxation	–	(84)	(223)	1,933	1,626	9,392
Group's share	–	(3)	(124)	357	230	2,825
Dividends received	(2,822)	–	(106)	–	(2,928)	(428)

* Comprised principally of a single associate, being AEIOU.

The Group holds neither associates nor joint ventures in the Middle East & Africa.

	UK	Europe	Middle East and Africa	Asia and Australia	Americas	2019	2018
	£000	£000	£000	£000	£000	£000	£000
Balance sheet							
Total assets	–	136	–	6,719	4,421	11,276	124,911
Total liabilities	–	(62)	–	(2,725)	(5,363)	(8,150)	(113,748)
Net current assets / (liabilities)	–	74	–	3,994	(942)	3,126	11,163
Our share	–	3	–	1,486	(235)	1,254	4,460
Losses not recognised	–	–	–	–	235	235	1,470
Goodwill	–	11	–	978	1,302	2,291	16,659
Total investments	–	14	–	2,464	1,302	3,780	22,589

NOTES Continued

Additional disclosure relating to the single material associate held by the Group (AEIOU) is as follows:

Summarised balance sheet	AEIOU	
	2019 £000s	2018 £000s
Current assets	5,175	6,782
Current liabilities	(2,523)	(3,545)
Current net assets	2,652	3,237
Non-current assets	388	157
Non-current liabilities	(62)	–
Non-current net assets	326	157
Net assets	2,978	3,394

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 -own 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.

Assets under construction are recognised at cost and only commence depreciation once the assets are completed and ready for use.

	Leasehold improvements £000	Furniture, fittings and other equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost					
At 31 December 2017#	9,185	7,339	7,722	198	24,444
Reclassifications	(641)	425	(990)	–	(1,206)
Exchange differences	(14)	22	37	(11)	34
Additions	1,556	853	2,155	73	4,637
Acquisition of subsidiaries	50	77	8	–	135
Disposals	(253)	(62)	(232)	(152)	(699)
Restatement eliminations#	(1,061)	(3,127)	(3,079)	–	(7,267)
At 31 December 2018#	8,822	5,527	5,621	108	20,078
Exchange differences	(215)	(170)	(149)	(4)	(538)
Additions*	2,166	409	1,489	27	4,091
Disposals	(474)	(379)	(852)	(65)	(1,770)
At 31 December 2019	10,298	5,387	6,109	66	21,861
Depreciation					
At 31 December 2017#	4,065	4,908	5,545	98	14,616
Reclassifications	(534)	236	(924)	4	(1,218)
Exchange differences	10	38	43	(5)	86
Depreciation charge	1,060	784	1,162	31	3,037
Disposals	(187)	(18)	(210)	(114)	(529)
Impairments#	929	680	680	–	2,289
Restatement eliminations#	(1,061)	(3,127)	(3,079)	–	(7,267)
At 31 December 2018#	4,282	3,501	3,217	14	11,014
Exchange differences	(119)	(133)	(127)	(1)	(380)
Depreciation charge	1,265	850	1,245	30	3,390
Disposals	(598)	(241)	(739)	(40)	(1,618)
At 31 December 2019	4,830	3,977	3,596	3	12,406
Net book value					
At 31 December 2017	5,120	2,431	2,177	100	9,828
At 31 December 2018	4,540	2,026	2,404	94	9,064
At 31 December 2019	5,469	1,410	2,513	63	9,455

Restated, see note 2 and narrative within this note

* Included within fixed asset additions during 2019 are amounts relating to ongoing refurbishment of the Group's UK offices. These items represent assets under construction and have the following carrying amount as at the point of addition and as at 31 December 2019: Leasehold improvements £570k, Furniture and fittings £40k and Computer equipment £20k.

NOTES Continued

As described in note 2, during the course of 2019, senior management of the Group identified a number of accounting errors relating to financial years prior to the year ended 31 December 2019. Remedial action required has included the restatement of fixed assets held both as at 1 January 2018 and those held as at 31 December 2018. The specific line items and fixed asset categories effected have been separated out in the tables above for the purposes of providing clarity to the adjustments required.

With the adoption of the new leasing standard, IFRS 16, the Group's depreciation expense has increased significantly when compared to the previous period. The effect of the new accounting standard on depreciation is as shown below.

Depreciation is broken down as follows:

	Note	2019 \$000	2018 \$000
From plant and equipment		3,380	3,037
From right-of-use assets	19	9,059	–
		12,449	3,037

19. Leases

The Group leases various assets, comprising properties, equipment and motor vehicles. The determination whether an arrangement is, or contains, a lease is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

Policy

The following sets out the Group's lease accounting policy for all leases with the exception of leases with a term of 12 months or less and those of low value assets. In both these instances the Group applies the exemptions permissible by IFRS 16 Leases. These are typically expensed to the income statement as incurred.

Right-of-use assets and lease liabilities

At the inception of a lease, the Group recognises a right-of-use asset and a lease liability. The value of the lease liability is determined by reference to the present value of the future lease payments as determined at the inception of the lease. A corresponding right-of-use fixed asset is also recognised at an equivalent amount adjusted for any initial direct costs, payments made before the commencement date (net of lease incentives) and the estimated cost for any restoration costs the Group is obligated to at lease inception. Right-of-use assets are subsequently depreciated on a straight-line basis over the shorter of the lease term or the assets' estimated life.

Under IFRS 16 right-of-use assets are tested for impairment in accordance with IAS 36 'Impairment of Assets' when there is an indication of impairment. This replaces the previous requirements relating to onerous leases.

Lease liabilities are disclosed separately on the Balance Sheet. These are measured at amortised cost using the effective interest rate method. Lease payments are apportioned between a finance charge and a reduction of the lease liability based on a constant interest rate applied to the remaining balance of the liability. Interest expense is included within the line item net finance costs in the consolidated income statement.

The interest rate applied to a lease is typically the incremental borrowing rate of the entity entering into the lease. This is as a result of the interest rates implicit in our leases not being readily determined. The incremental borrowing rate applied by each relevant entity is determined based on the interest rate adjudged to be required to be paid by that entity to borrow a similar amount over a similar term for a similar asset in a similar economic environment.

Lease term

The lease term determined comprises the non-cancellable period of the lease contract. Periods covered by an option to extend the lease are included if the Group has reasonable certainty that the option will be exercised and periods covered by the option to terminate are included if it is reasonably certain that this will not be exercised.

NOTES Continued

Lease payments

Lease payments comprise fixed payments and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at inception date. Payments include any lease incentives and any penalty payments for terminating the lease, if the lease term reflects the lessee exercising that option. The lease liability is subsequently remeasured (with a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments due to a renegotiation or market rent review, a change of an index or rate or a reassessment of the lease term.

Lease modifications

Where there are significant changes in the scope of the lease then the arrangement is reassessed to determine whether a lease modification has occurred and, if there is such a modification, what form it takes. This may result in a modification of the original lease or, alternatively, recognition of a separate new lease.

Subleases

At times entities of the Group will sublet certain of their properties when underlying business requirements change. Under IFRS 16, the Group assesses the classification of these subleases with reference to the right-of-use asset, not the underlying asset. This results in certain leases being classified as finance leases under IFRS 16 and recognition of a finance lease receivable (recorded as a financial asset within Trade and other receivables on the consolidated balance sheet).

When the Group acts as an intermediate lessor it accounts for its interests in the head lease and the sublease separately. At lease commencement a determination is made whether the lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership in relation to the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. The Group recognises lessor payments under operating leases as income on a straight-line basis over the lease term. The Group accounts for finance leases as finance lease receivables, using the effective interest rate method. It is typically the case that subleases into which the Group enters are determined to be finance leases in nature.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (defined by the Group as being below £3,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Significant estimates relating to leases

The Group has made significant estimates in adopting IFRS 16, which are considered to be: determining the interest rate used for discounting of future cash flows, and the lease term. Details relating to these significant estimates can be found on page 69.

Set out below are the carrying amounts of right-of-use assets and lease liabilities recognised and the movements during the period:

Right-of-use assets	Land & Buildings £000s	Computer equipment £000s	Motor vehicles £000s	Total £000s
At 1 January 2019	33,121	831	–	33,952
Additions	22,234	118	122	22,474
Eliminated on sublease inception	(165)	–	–	(165)
Depreciation	(8,721)	(315)	(23)	(9,059)
Foreign exchange	(630)	(27)	(3)	(660)
At 31 December 2019	45,839	607	96	46,542

Lease liabilities	Land & Buildings £000s	Computer equipment £000s	Motor vehicles £000s	Total £000s
At 1 January 2019	42,752	987	–	43,739
Additions	22,234	118	122	22,474
Accretion of interest	1,798	37	2	1,837
Payments	(11,996)	(455)	(24)	(12,475)
Foreign exchange	(774)	(28)	(3)	(805)
At 31 December 2019	54,014	659	97	54,770

Of lease payments made in the year of £12.5m, £10.7m related to payment of principal on the corresponding lease liabilities and the balance to payment of interest £1.8m due on the lease liabilities.

Lease liabilities	Land & Buildings £000s	Computer equipment £000s	Motor vehicles £000s	Total £000s
At 31 December 2019	54,014	659	97	54,770
Amounts due within one year	10,466	259	45	10,770
Amounts due after one year	43,548	400	52	44,000
At 31 December 2019	54,014	659	97	54,770

NOTES Continued

Following are the amounts recognised in profit or loss:

£000	31 December 2019
Depreciation of right of use assets	(9,059)
Short-term lease expense	(134)
Low-value lease expense	(537)
Short-term sublease income	70
Charge to operating profit	(9,660)
Sublease finance income	91
Lease liability interest expense	(1,837)
Lease charge to profit before tax	(11,406)

The Group does not face a significant liquidity risk with regard to its lease liabilities and manages them in line with its approach to other month-to-month liquidity matters as described in note 31. The cash payment maturity of the lease liabilities held as at 31 December 2019 net of sublease receipts is as follows:

£000s	31 December 2019
Period ending 31 December:	
2020	10,770
2021	7,971
2022	6,090
2023	6,181
2024	5,054
Later years	33,997
Gross future liability before discounting	70,063

Of future lease payments post 2024 £31m relates to a single office lease which expires in 2034. This lease agreement was entered into during December 2019.

20. Other non-current assets

Policy		
Loans to employees		
Represent financial assets at amortised cost and subsequently measured using the effective interest rate method.		
	2019	2018
At 31 December	£000	£000
Other debtors including rent deposits	1,422	1,956
Loans to employees*	2,501	2,238
Call option provision	–	54
Total other non-current assets	3,923	4,248

* Relates to Australian and South African loans held at amortised cost. The Australian loans relate to AUD3.3m (2018: AUD3.2m) loans (£1,788k, 2018: £1,803k) 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 to fair value. The South African loans relate to £713k (2018: £435k) loans that the Group lent local management and black equity trust 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.

NOTES Continued

20a. 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.

The unlisted equity investments held by the Group principally relate to 22 (2018: 20) early stage companies. In addition, investments are held by two of the overseas businesses. These latter investments relate to client equity stakes provided as consideration for services rendered to those clients.

With regards to the early stage non-client investments the most we have invested in any one company over time is £0.7m and the least £0.1m. The Group invests in these entrepreneurs for long-term return and to gain knowledge and insight. Whilst the investment decisions are not sector specific, investments are only made in offerings that we can understand.

The activity in the year relating to our equity investments held at FVTPL is presented below:

	2019	2018
	£000	£000
1 January total	14,041	10,594
Additions#	1,160	1,863
Revaluations	(346)	1,584
Foreign exchange	(4)	–
At 31 December	14,851	14,041

2018 additions restated by increase of £1.1m due to a financial reporting error in the Group's 2018 Annual Report, see note 2.

Additions include £964k (2018: £780k) paid in cash, with the residual as consideration for services provided to early stage companies.

21. 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.

NOTES Continued

	2019 £000	2018# £000
Trade receivables	78,030	114,594
Loss allowance	(1,621)	(873)
Net trade receivables	76,409	113,721
Prepayments	4,396	7,182
Amounts due from associates	740	579
VAT and sales tax recoverable	1,900	2,065
Contract assets	10,148	4,364
Other receivables	19,570	24,076
Total trade and other receivables	113,163	151,987

Restated, see note 2 and the following commentary. As a result of the misstatements identified in 2019 (see note 2) the following financial statement line items relating to trade and other receivables have been adjusted as follows: Contract assets (commonly referred to as accrued income) decreased by £6.6m, Other receivables increased by £8.7m, Prepayments reduced by £0.5m and Trade receivables reduced by £0.6m.

* Included within Other receivables are transactions relating to outlays incurred on behalf of clients not yet invoiced for services not yet rendered to the client. As the underlying service is yet to be performed by the third-party supplier these amounts cannot be held as contract assets.

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

	2019 £000	2018 £000
As at 1 January	(873)	(2,741)
Adoption of IFRS 9 (expected credit loss)	–	(276)
(Provision) / Release for expected credit losses during the year	98	72
Movement in forward looking provision for specific bad debts: *		
– Charge during the year	(1,444)	(509)
– Released during the year	632	2,492
– Utilisation of provision	30	91
Foreign exchange movement	(64)	(2)
Year-end provision	(1,621)	(873)

* Included within the specific bad debt loss allowance at the start of 2018 was one item relating to a specific debt with one customer totalling £1,880k. This amount was subsequently remitted during 2018 and as such was released from the specific bad debt provision in 2018.

The information about credit exposures is disclosed in note 31.

22. 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.

	2019 £000	2018# £000
Trade creditors	(51,198)	(71,076)
Contract liabilities	(20,960)	(25,129)
Sales taxation and social security payables	(6,648)	(9,247)
Employment benefit accruals	(2,124)	(2,636)
Accruals	(49,957)	(45,410)
Other payables	(9,148)	(7,769)
	(140,035)	(161,267)

Restated, see note 2 in addition to the following commentary. As a result of the circumstances identified during the course of 2019 (cross refer to note 2 in the first instance) the following financial statement line items relating to trade and other payables have been adjusted upwards (i.e. increased liability); Accruals by £21.5m and Other payables by £3.8m. £7.7m of contract liabilities have been adjusted downwards. In addition, £1.1m of share option liabilities relating to cash-settled share-based payments have been included within Employee benefit accruals as at 31 December 2018 (note 2) which were not previously required to be included.

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 £106k (2018: £147k) is included within Accruals.

NOTES Continued

23. Provisions

Policy

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date.

As explained on page 13 of the Strategic Report, during 2019 the Board commenced a strategic realignment of the Group to improve the long-term profitability of the business. During the year £4.2m has been recognised as exceptional charges relating to this restructuring (note 3). As at the end of 2019 £2.5m of this expenditure was committed but is yet to be incurred and is recognised as a current provision on the balance sheet. In addition, a provision of £0.3m has been recognised for future expected costs relating to the accounting misstatements which have required the Group's result for the year ended 31 December 2018 to be restated (note 2).

	2019 £000	2018 £000
At 1 January	–	–
Charged to the income statement:		
- Restructuring costs	(4,211)	–
- Costs associated with accounting misstatements	(1,955)	–
Utilised in the year		
- Restructuring costs	1,522	–
- Costs associated with accounting misstatements	1,655	–
At 31 December	(2,989)	–

As at the end of 2019 all amounts recognised as provisions were expected to be utilised within 12 months and are held as current liabilities.

24. 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 a corresponding 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.

From 1 January 2019 leases are shown on balance sheet and in notes separately and re not shown within this note. Details of our lease liability and its movements can be found in note 19.

Amounts due within one year			
	2019 £000	2018 £000	
At 31 December			
Obligations under finance leases	–	(7)	
Overdrafts*	(16,232)	(11,754)	
Local bank loans	(340)	(298)	
Secured bank loans	(35,640)	–	
Invoice discounting**	–	(2,001)	
	(52,212)	(14,060)	

* These overdrafts are legally offsettable with a net balance of £NIL (2018: £NIL, however, they have not been netted off in accordance with IAS32.42).

** During 2019 the Group elected to cease utilisation of the invoice discounting facility. As at the prior year balance sheet date, £3.0m was not drawn under this facility. Interest was charged at 1.75% per annum on amounts drawn.

NOTES Continued

Amounts due after one year

	2019	2018
At 31 December	£000	£000
Obligations under finance leases	-	(151)
Local bank loans	(162)	(18)
Secured bank loans	-	(38,372)
	(162)	(38,541)

Secured bank loans

At the year end, the Group had a banking facility of up to £36m (2018: £38m) plus a £5.0m (2018: £5.0m) overdraft facility. 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 facilities were set to mature on 30 April 2020; it has subsequently been extended to 30 June 2021, with the interest margins increasing to 3.00% above LIBOR for banking facility and the overdraft interest margin set at 3.25% above the Bank of England base rate. In return for the facility the Group gave the bank guarantees over key UK, US, Dutch and Australian companies.

	2019	2018
At 31 December	£000	£000
Gross secured bank loans	(35,677)	(38,502)
Capitalised finance costs	37	130
Net secured bank loans	(35,640)	(38,372)
Future interest payable on secured bank loans at balance sheet date	(267)	(1,588)
Total secured bank loans and future interest	(35,907)	(39,960)

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

	2019	2018
At 31 December	£000	£000
In one year or less, or on demand	(35,907)	(1,185)
In more than one year but not more than five years	-	(38,775)
	(35,907)	(39,960)

Obligations under finance leases and hire purchase contracts which were due at the end of the prior year (the accounting for these items has changed with the application of IFRS 16, note 4) were as follows:

	2019	2018
At 31 December	£000	£000
In one year or less, or on demand	-	(7)
In more than one year but not more than two years	-	(151)
	-	(158)

Total bank loans and borrowings used to calculate net cash are as follows, IFRS 16 Leases is excluded from the calculation of net cash in accordance with our bank covenants:

	Gross secured bank loans £000	Local bank loans £000	Invoice discounting** £000	Total bank loans* £000	Lease liabilities £000	Total £000
At 1 January 2018	(37,658)	(1,017)	(2,915)	(41,590)	-	(41,590)
Cash movements	(329)	690	914	1,275	-	1,275
Non-cash movements						
- Foreign exchange changes	(515)	11	-	(504)	-	(504)
At 31 December 2018	(38,502)	(316)	(2,001)	(40,819)	-	(40,819)
At 1 January 2019	-	-	-	-	(43,739)	(43,739)
Cash movements	2,501	(313)	2,001	4,189	10,638	14,827
Non-cash movements						
- Lease additions	-	-	-	-	(22,474)	(22,474)
- Foreign exchange changes	324	127	-	451	805	1,256
At 31 December 2019	(35,677)	(502)	-	(36,179)	(54,770)	(90,949)

* The borrowing used to calculate net cash.

** The net movement of £2,001k (2018: \$914k) is inclusive of total drawdowns during the year of £NIL (2018: \$44.4m) and repayments of £2.0m (2018: \$45.3m).

NOTES Continued

25. Other non-current liabilities

	2019	2018
31 December	£000	£000
Employment benefit provisions*	(821)	(983)
Other	(309)	(961)
	(1,130)	(1,944)

* This relates to long-term service leave in some locations, and deferred contributions to pension schemes.

26. Potentially issuable shares

This disclosure note is new in the year and is not a statutory requirement. It summarises information relating to all share schemes disclosed in notes 27 and 28.

In the table below we present the total number of shares expected to be issued in the future for put option schemes based on the 2019 year-end share price of 124p and the 2019 year-end estimated future business performance for each business unit through to the point at which the put option schemes first become exercisable. These forecasts were created before the effects of the Covid-19 pandemic were known or quantified. Such forecasts will be updated as part of our strategic review and the resulting five-year plans:

Total future expected share issues as at 31 December 2019

	Shares to issue
Schemes potentially exercisable in 2020	15,349
Schemes issuable after 2020	21,637
	36,986

Profile of future expected share issues by year

Shares	2020 '000	2021 '000	2022 '000	2023 '000	2024 '000
IFRS 2 schemes	6,381	3,607	7,932	3,611	4,405
IFRS 9 schemes	3,645	–	1,938	144	–
Committed associate acquisitions	5,323	–	–	–	–
Total – by year	15,349	3,607	9,870	3,755	4,405

Total IFRS 2 schemes	25,936
Total IFRS 9 schemes	5,727
Committed associate acquisitions	5,323
Total – all years	36,986

We have also analysed the same information in the table above but based on issuing shares at a range of different share prices. We have also presented the dilutive effect of share issues based on issuing the shares at these different share prices. The information is presented in the table below:

Effect of a change in share price

	2020 '000	2021 '000	2022 '000	2023 '000	2024 '000
Shares total by year					
At 62p (-50%)	26,973	5,580	16,981	6,319	8,263
At 124p (unadjusted)	15,349	3,607	9,870	3,755	4,405
At 186p (+50%)	11,445	2,949	7,505	2,973	3,250
Dilution of 31 December 2019 shareholders					
At 62p (-50%)	29%	6%	18%	7%	9%
At 124p (unadjusted)	16%	4%	11%	4%	5%
At 186p (+50%)	12%	3%	8%	3%	3%

Share issued in 2020

Since 1 January 2020 a total of 22,320k shares have been issued to fulfil IFRS 2 and IFRS 9 put option schemes (put options). These shares were issued at an average share price of 39.6p. Had these put options been issued at the year-end share price of 124p, only 5,952k shares would have been issued, which would result in a further 9,396k shares still required to be issued in the remainder of 2020 (based on an issue price of 124p) to settle all put option obligations for 2020. If all the remaining put option obligations for 2020 were to be settled by issuing shares at 62p, a further 15,246k shares would have to be issued in the remainder of 2020.

We have recently negotiated new terms with certain holders of put options with the result that a very significant proportion of the put options that were due to be issued in the remainder of 2020,

NOTES Continued

will now be deferred to and issued in later years, thereby reducing the immediate requirement to issue further shares in 2020.

27. Minority shareholder put option liabilities

Policy – See below but also Basis of Preparation note on page 69

Put option liabilities provide a variable return of equity or cash to an awardee at a point in time in the future. These instruments are recognised at amortised cost of the underlying award on the date of inception. Both a liability on the balance sheet and a corresponding amount within the minority interest put option reserve are recognised. Subsequent movements in the amortised cost are accounted for as amortisation charges within finance gains/expense.

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).

These derivative instruments were previously accounted for as financial liabilities at fair value with future changes in value being taken through profit or loss. As explained in note 2 these instruments are now accounted for at amortised cost and not fair value. This change is solely classificational, there has been no change in either the valuation methodology nor the value of the instruments, neither at the end of 2019 (if presented as previously) nor the comparative reporting period.

The critical judgement as to when a share award scheme is accounted for as a put option liability is provided in detail on page 69. Such schemes should be considered as rewards for future business performance which are not conditional on the holder being an employee of the business. This judgement was re-examined during this audit, the resulting tables reflect all awards that remain following this restatement. All remaining schemes are payable in equity, the number of future shares to issue is variable and will depend on the share price and future performance of the business. These are accounted for as a liability under IFRS 9 and held on the balance sheet at amortised cost.

	2019 £000	2018# £000
As at 31 December		
Amounts falling due within one year	(3,183)	(9,947)
Amounts falling due after one year, but less than three years	(3,918)	(3,817)
	(7,101)	(13,764)

Restated

	2019 £000	2018# £000
At 1 January (restated)	(13,764)	(13,181)
Exchange difference	(188)	(2)
Additions	–	(174)
Exercises	9,672	2,708
Income statement charge due to:		
– Change in profit estimates	(2,512)	(3,545)
– Change in share price	(237)	419
– Amortisation of discount	(72)	11
Total income statement charge	(2,821)	(3,115)
At 31 December	(7,101)	(13,764)
Put options exercised in year	2019 £000	2018# £000
Paid in equity	6,665	2,708
Paid in cash	3,265	–
Exchange difference	(258)	–
Total	9,672	2,708

Restated

The estimated number of M&C Saatchi plc shares that will be issued to fulfil these options at 124p is 5,727,000 shares (2018: 289.0p is 4,763,000 shares).

At each period end, the amortised cost of the put option liability is calculated in accordance with the put option agreement to determine a best estimate of the future value of the expected award. Resultant movements in the amortised cost of these instruments is charged to the income statement. Where the agreement gives a right to convert to a variable number of shares (rather than a value), the number of shares is converted to a value by using the period end share price (2019: 124.0p; 2018: 289.0p).

The put option liability will vary with both our share price and the subsidiary enterprises' performance. Current liabilities are determined by our year-end share price and the 2019 results of the companies who can exercise in 2020. Non-current liabilities are determined by our year-end share price and the projected results of the companies who can exercise after 2020. The projected results use management's best estimate of the growth rates and margin of the companies who can exercise after 2020.

NOTES Continued

Put options are exercisable from year ended 31 December:

Subsidiary	Year	% of subsidiaries shares exercisable
M&C Saatchi Little Stories SAS	2019	19.9
M&C Saatchi (Switzerland) SA	2019	20.0
M&C Saatchi Merlin Ltd	2019	15.0
Resolution Design Pty Ltd	2019	15.0
Bohemia Group Pty Ltd	2021	25.9
This Film Studio Pty Ltd	2022	30.0

28. 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 or a cash settlement feature. This put option is dependent upon the holders' continued employment by the group or that the holder received the option as a result of employment and is redeemable either in shares of M&C Saatchi plc or by means of a cash payment to the holder. As such these schemes are accounted for under IFRS 2 as equity-settled share-based payments to employees or as cash-settled share-based payment schemes.

Equity-settled share-based payment schemes

Where an award is intended to be settled in equity then the scheme is accounted for as an equity settled share-based payment scheme.

The fair value of the awards is calculated at the grant date of each scheme based on the present Group's share price and its relevant multiple. The Group estimates the shares that will ultimately vest, using 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 shorter of the vesting period or the period of required employment on a straight-line basis with a corresponding increase in equity. In the event of a Business Continuation clause on departure, that element of the award at issue is treated as vested and charged to the income statement at the grant date valuation, and no credit to the income statement is taken for it in the future. All the remaining award is revalued annually for the non-market condition (profitability of the subsidiary) and allocated to the income statement on a straight-line basis.

The fair value of the awards is calculated by means of a Monte Carlo model with inputs made in terms of 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 to retained income.

Cash-settled share-based payment schemes

When a share-based payment scheme is intended to be a cash award then the scheme is accounted for as a cash settled share-based payment scheme. A liability is recognised at inception of the award and each end of each reporting period. The liabilities are held at fair value of the future expected award.

The critical judgement as to when a share award scheme is accounted for as an IFRS 2 Share-based payment is provided in detail on page 69. Such schemes should be considered as rewards for future business performance which are conditional on the holder being an employee of the business.

NOTES Continued

The inputs to Monte Carlo models used to calculate the fair value of share awards granted during the year are as follows:

	2019	2018
Share price at grant	£0.90 – £1.92	£2.88 – £3.90
Expected volatility	53% – 87%	29% – 34%
Risk free rate	0.52% – 0.70%	0.72% – 1.11%
Dividend yield	0% – 3.33%	2.44% – 3.31%
Fair value of award per share	£0.90 – £1.92	£1.54 – £3.73

The total fair value of each award, expense recognised in the year plus grant and vesting dates can be seen on pages 127 to 129. The weighted average share price of options exercised during the period was £3.05 (2018, £3.67).

Expense recognised in the year:

	2019	2018#
	£000	£000
Equity settled*	10,266	16,864
Cash settled	–	81
Cash settled SA**	342	233
Total	10,608	17,178

Restated

* As explained in note 2 these instruments were previously considered to be composed entirely of market-based performance conditions. The recognition that these items have non-market based performance conditions means their cost to the business requires reassessment at each period end. As at the end of 2018 the 2019 expense related to these schemes was expected to be \$4,168k (2018: £6,104k). Reassessment of the cost to the business has consequently resulted in an increase of staff costs of £6,098k (2018: £10,760k prior year adjustment).

** As explained in note 2 some of our South African subsidiaries have unwritten cash-based awards that are paid out on an employee's departure.

Share option activity included LTIP awards made to the Directors of the Group are discussed in terms of the work of the Remuneration Committee (commences on page 50).

Cash settled share-based payments

These schemes relate in their entirety to the South African business. The movement in the liability required to be recognised at the end of each reporting period is as detailed below.

	2019	2018#
	£000	£000
1 January total	(1,086)	(867)
Revaluations	(342)	(233)
Settled	864	14
Foreign exchange	(7)	–
At 31 December	(571)	(1,086)

Fully vested – re-classified put option liability

As part of the re-examination of the judgement if an award is a put option liability (IFRS 9) or a share-based payment (IFRS 2, note 27), the following awards were redefined as share-based payments. All such awards had vested before the comparative period, apart from reversing the put option liability and asset (note 2), no additional charge was incurred as a share-based payment in these accounts.

M&C Saatchi Marketing Arts Ltd
M&C Saatchi (M) SDN BHD
FCINQ SAS
Cometis SARL
M&C Saatchi Sport & Entertainment NY LLP
M&C Saatchi Sport & Entertainment Pty LTD
M&C Saatchi Talk Ltd
M&C Saatchi Brasil Comunicação Ltda
M&C Saatchi European Holdings Ltd
M&C Saatchi PR UK LLP
The Source (W1) LLP
M&C Saatchi Agency Pty Ltd
Influence Communications Ltd
RE Team Pty Ltd

Fully vested – other fully vested schemes

There are no other fully vested, unexercised schemes other than those that have an accounting charge in either of the comparative periods.

NOTES Continued

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

	Grant date	Vesting date	Mi shareholding	Total charge over vesting period £000	Charge for 2019 £000	Charge for 2018 £000
M&C Saatchi Tel Aviv Ltd	21/04/2015	15/04/2020	20.0%	5	(3)	(36)
Clear Ideas (Singapore) Pte Ltd	01/01/2018	15/04/2023	10.0%	16	7	9
Clear Ideas Ltd – B1 shares	03/03/2017	15/04/2022	5.0%	381	(3)	19
Clear Ideas Ltd – B2 shares	03/03/2017	15/04/2022	15.0%	320	(8)	50
Clear LA LLC	28/03/2017	15/04/2022	5.0%	22	7	3
Greenhouse Australia Pty Ltd	01/01/2018	15/01/2022	11.0%	160	160	–
Greenhouse Australia Pty Ltd	01/01/2018	15/01/2023	1.8%	21	21	–
Greenhouse Australia Pty Ltd	01/01/2018	15/01/2024	7.2%	70	68	2
Human Digital Ltd	12/04/2017	15/04/2021	11.5%	107	7	20
Human Digital Ltd	12/04/2017	15/04/2022	11.5%	78	5	15
Human Digital Ltd	12/04/2017	15/04/2023	17.0%	87	5	18
Levergy Marketing Agency (Pty) Ltd	15/11/2017	15/04/2021	11.9%	284	191	85
LIDA NY LLP (MCD)	15/03/2016	30/11/2018	24.5%	1,549	–	10
M&C Saatchi AB	11/02/2014	01/12/2017	30.0%	787	–	–
M&C Saatchi Accelerator Ltd	26/11/2015	15/04/2020	6.7%	141	–	–
M&C Saatchi Accelerator Ltd	26/11/2015	15/04/2021	6.7%	158	–	–
M&C Saatchi Accelerator Ltd	26/11/2015	15/04/2022	6.7%	145	–	–
M&C Saatchi Advertising GmbH	12/07/2018	15/04/2023	4.1%	–	(2)	2
M&C Saatchi Advertising GmbH	01/10/2018	15/04/2023	10.0%	–	–	–
M&C Saatchi Advertising GmbH	14/12/2016	15/04/2021	7.9%	–	–	(24)
M&C Saatchi Asia Hong Kong Ltd	23/11/2018	15/04/2024	30.0%	67	63	4
M&C Saatchi Digital GmbH	14/02/2017	15/04/2022	5.0%	86	30	30
M&C Saatchi Gad SAS	24/02/2016	01/05/2020	40.0%	2,472	640	1,625
M&C Saatchi Holdings Asia Pte Ltd (Indonesia)	20/03/2018	07/09/2022	27.4%	44	33	9
M&C Saatchi Holdings Asia Pte Ltd (Indonesia)	20/03/2018	07/09/2024	22.5%	39	32	6
M&C Saatchi LA Inc	16/12/2004	15/04/2020	6.0%	–	–	(20)
M&C Saatchi LA Inc	15/01/2015	15/04/2020	4.0%	–	–	(25)
M&C Saatchi LA Inc	03/12/2019	15/05/2020	37.2%	–	–	–
M&C Saatchi Middle East Holdco Ltd	23/03/2016	15/04/2019	20.0%	22	22	–
M&C Saatchi Mobile Ltd	23/08/2016	15/04/2020	10.0%	11,044	3,291	3,291
M&C Saatchi Mobile Ltd	01/06/2018	15/05/2024	0.0%	2,349	624	–
M&C Saatchi Mobile Ltd *	10/08/2018	per annum	0.0%	–	497	1,323

NOTES Continued

	Grant date	Vesting date	MI shareholding	Total charge over vesting period £000	Charge for 2019 £000	Charge for 2018 £000
M&C Saatchi Mobile Singapore	24/06/2015	15/04/2020	5.0%	64	(24)	(58)
M&C Saatchi Mobile USA	28/10/2016	15/04/2020	0.0%	4,225	1,330	1,330
M&C Saatchi Network Ltd	05/05/2015	15/04/2019	5.0%	5,275	384	3,151
M&C Saatchi PR International Ltd	29/11/2017	15/04/2022	11.3%	63	(7)	6
M&C Saatchi PR International Ltd	29/11/2017	15/04/2023	11.3%	56	(6)	5
M&C Saatchi PR International Ltd	29/11/2017	15/04/2024	11.3%	49	(5)	4
Send Me A Sample Ltd	02/07/2018	15/04/2023	12.0%	89	(6)	95
Send Me A Sample Ltd	02/07/2018	15/04/2024	14.0%	114	(7)	121
Send Me A Sample Ltd	02/07/2018	15/04/2025	14.0%	118	(6)	124
M&C Saatchi Singapore	01/09/2013	15/04/2019	20.0%	123	(237)	(36)
M&C Saatchi Social Ltd	29/06/2018	30/06/2021	24.5%	1,642	-	1,642
M&C Saatchi Social Ltd	29/06/2018	30/06/2023	24.5%	1,341	-	1,341
M&C Saatchi SpA	09/12/2015	15/04/2019	10.0%	2,590	222	750
M&C Saatchi Sport & Entertainment Ltd	31/10/2017	15/04/2022	25.0%	357	(121)	112
M&C Saatchi Sport & Entertainment LA LLC	01/01/2018	24/04/2022	35.0%	396	303	93
M&C Saatchi Sport & Entertainment NY LLP	01/11/2018	15/04/2019	3.0%	62	37	7
M&C Saatchi Sport & Entertainment NY LLP	01/11/2018	15/04/2024	12.5%	48	38	-
M&C Saatchi Sport & Entertainment NY LLP	01/11/2019	15/05/2025	5.0%	-	-	-
M&C Saatchi (UK) Ltd	06/07/2018	15/04/2023	30.0%	397	(27)	424
M&C Saatchi World Services LLP	05/12/2019	15/05/2020	8.0%	1,117	742	-
M&C Saatchi World Services LLP	05/12/2019	15/05/2021	6.0%	1,256	779	-
M&C Saatchi World Services LLP	05/12/2019	15/05/2022	6.0%	975	787	-
M&C Saatchi Worldwide Ltd	01/06/2016	01/01/2019	0.0%	977	1	378
M&C Saatchi Worldwide Ltd	18/07/2016	01/01/2019	0.0%	57	-	23
M&C Saatchi, S.A. DE. C.V	01/07/2017	15/04/2023	41.0%	97	17	53
Majority LLC	07/11/2018	15/04/2024	50.0%	37	34	3
RE Worldwide UK Ltd	01/01/2018	31/12/2022	49.9%	711	78	633
Scarecrow M&C Saatchi Ltd	01/05/2018	20/01/2020	24.5%	220	89	132

NOTES Continued

	Grant date	Vesting date	MI shareholding	Total charge over vesting period £000	Charge for 2018 £000	Charge for 2018 £000
Scarecrow M&C Saatchi Ltd	01/05/2018	20/01/2022	24.5%	137	74	64
M&C Saatchi Talk Ltd	23/11/2018	15/04/2023	10.0%	85	85	–
Talk Purpose Ltd	07/12/2018	15/04/2024	0.0%	–	(1)	1
Talk Purpose Ltd	07/12/2018	15/04/2025	0.0%	–	(1)	1
Talk Purpose Ltd	07/12/2018	15/04/2026	0.0%	–	(1)	1
The Source Insight Australia Pty Ltd	15/02/2018	15/01/2022	14.0%	41	16	28
The Source Insight Australia Pty Ltd	15/02/2018	15/01/2025	21.0%	31	12	20
TOTALS					10,266	16,864

* 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.

NOTES Continued

29. 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 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 Levergy 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
Exercise of M&C Saatchi Mobile share options	1,785,527	18
Acquisition of 10% of M&C Saatchi SPA	825,755	8
Acquisition of 10% of M&C Saatchi Merlin Ltd	131,501	1
Acquisition of 33% of Shepardson Stern & Kaminsky LLP*	1,048,747	11
Acquisition 10% M&C Saatchi (M) SDN. BHD	408,115	4
Acquisition 17% of Bohemia Group Pty Ltd	1,397,613	14
Acquisition of M&C Saatchi Sports & Entertainment smaller shareholders	395,949	4
At 31 December 2019	93,596,760	936

* Shares were issued by M&C Saatchi plc to enable the acquisition by M&C Saatchi Agency Inc. of this equity.

The Group holds 485,970 (2018: 700,000) of the above M&C Saatchi plc shares in treasury.

30. Fair value measurement

Policy – See also basis of preparation page 70

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 £Nil (2018: £2,859kk).

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.

NOTES Continued

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 2019 and 31 December 2018:

	Level 1 £000	Level 2 £000	Level 3 £000
At 31 December 2019			
Financial assets			
Equity investments at FVTPL	–	–	14,851
Financial liabilities			
Contingent consideration	–	–	(758)
At 31 December 2018			
Financial assets			
Equity investments at FVTPL #	–	–	14,041
Financial liabilities			
Contingent consideration	–	–	(1,154)

restated, see note 2 for detail.

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.

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
At 1 January 2019	14,041	(1,154)
Net (loss) / gain in the income statement	(346)	(127)
Additions	1,160	–
Settlement	–	523
Currency movements	(4)	–
At 31 December 2019	14,851	(758)

restated, see note 2 and commentary immediately above.

* Note 15 includes deferred and contingent consideration. At end of 2018 there was £112k of deferred consideration that was paid in 2019.

NOTES Continued

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 20a. 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%	1,485
-10%	(1,485)

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	Decrease in fair value of asset £000
-30% sales discount due to illiquid nature *	(4,455)
-12% risk discount for unwilling market place **	(1,247)
Value after discounts	9,149

* 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 Ltd

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.

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:

Forecast PBT	Increase / (decrease) in fair value of liability £000
10%	130
-10%	(130)

Adjusted WACC	Increase / (decrease) in fair value of liability £000
+5%	(20)
-5%	22

The Scarecrow Communication Ltd 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.

NOTES Continued

31. 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 30.

Group	2019	2018
Financial assets	£000	£000
Equity investments at FVTPL #	14,851	14,041
Financial liabilities	£000	£000
Contingent consideration	(758)	(1,154)

2018 position restated, see note 2.

Company

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

31.1 – General objective, policies and processes

The Board 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.

31.2 – 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 cash flows 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.

31.3 – 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 +/- 10% movement in the exchange rate of the Group's significant currencies is as follows:

Exchange rate	Increase / (decrease) in profit before tax £000	Increase / (decrease) in profit after tax £000
GBP +10%	(388)	(108)
GBP -10%	481	139
USD +10%	173	108
USD -10%	(142)	(88)
AUD +10%	598	413
AUD -10%	(489)	(338)

The Group assumes that currencies will either be freely convertible or the currency can be used in the local market to pay for goods and services, which we can sell to clients in a freely convertible currency. Within our 2019 year end cash balances we hold £321k in Brazilian Reals; £998k in Indian Rupees; £1,657k in Libyan Dinars; and £1,232k in South African Rands.

31.4 – Interest rate risk

The Group is exposed to interest rate risk because it holds a banking facility of up to £36m and an overdraft facility of up to £5m, both based on floating interest risks. The Group does not consider this risk to be significant.

NOTES Continued

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 reasonably 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 2019 would (decrease)/increase by £(192)k / £192k (2018: £(204)k / £204k). This is principally attributable to the Group's exposure to interest rates on its floating rate loan.

31.5 – 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% (on 30 April 2020 this increased to LIBOR + 3.00%).

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 year, these projections indicated that the Group had sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

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

Group	Up to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	over 5 years
	£000	£000	£000	£000	£000
At 31 December 2019					
Trade and other payables*	(83,340)	(49,957)	(1,130)	-	-
Loans and borrowings	-	(35,979)	(162)	-	-
Overdrafts	(16,232)	-	-	-	-
TOTAL	(99,572)	(85,936)	(1,292)	-	-

* excludes taxes as these are not considered financial instruments

Company	Up to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	over 5 years
	£000	£000	£000	£000	£000
At 31 December 2019					
Trade and other payables	(229)	(43,542)	-	-	-
Loans and borrowings	-	(27,562)	-	-	-
TOTAL	(229)	(71,104)	-	-	-

The maturity profile for leases accounted for under IFRS 16 is disclosed in note 19.

The Group breached no banking covenants during the year.

31.6 – 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 are based on the payment profiles of sales at least over a period of 24 months before 31 December 2019 or 31 December 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates

NOTES Continued

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 2019 and 31 December 2018 was determined as follows for both trade receivables and contract assets.

	Trade receivables				
	Not past due	0 - 30 days past due	31 - 90 days past due	91 - 120 days past due	> 120 days past due
31 December 2019					
Expected loss rate (%)	0.02%	0.01%	0.02%	0.51%	3.55%
Trade receivables	52,871	16,600	5,309	674	2,576
Loss allowance	11	2	1	3	91

	Trade receivables			
	Not past due	1 - 120 days past due	121 - 270 days past due	> 270 days past due
31 December 2018				
Expected loss rate (%)	0.01%	0.44%	50.21%	0.00%
Trade receivables	107,975	4,312	343	1,964
Loss allowance	12	19	173	-

* At the end of 2018 trade debtors > 270 days past due relates solely to one business unit which has not, to date, had to impair trade debtor positions held. This amount has subsequently been receipted and as such the 2019 tabular presentation categories of time past due have been refined to show more discrete time periods.
 ** An immaterial loss was calculated for contract assets and has not been included within the credit risk disclosures above.

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.

31.7 - Share price risk

As detailed on page 69 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 30.

31.8 - 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 Board 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 30.

31.9 - 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 does 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 24, cash and cash equivalents and equity attributable to equity holders of the parent as disclosed in the Statement of Changes in Equity.

NOTES Continued

32. Group companies

Key

*All those entities included in the below list in which the Group holds less than 50% of the share capital are accounted for as Associates (note 17).

All subsidiary companies which the Group control in line with the requirements of IFRS 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 479A of the Act as M&C Saatchi plc has guaranteed the subsidiary company under Section 479C of the Act.

*** With the exception of M&C Saatchi Network Ltd, 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.

As at 31 December 2019	Country	Effective % ownership	Activities
UK			
Alive & Kicking Global Ltd**	United Kingdom	100	Dormant
Audience Communications Ltd**	United Kingdom	100	Marketing
Black & White Strategy Ltd	United Kingdom	100	Dormant
Clear Ideas Consultancy LLP**	United Kingdom	85	Marketing
Clear Ideas Ltd**	United Kingdom	85	Marketing
FYND Media Ltd**	United Kingdom	100	Media Buying
H2R Research Ltd	United Kingdom	80	Research
Human Digital Ltd**	United Kingdom	60	Research
Influence Communications Ltd**	United Kingdom	95	Dormant
Lean Mean Fighting Machine Ltd**	United Kingdom	70	Advertising
LIDA (UK) LLP**	United Kingdom	100	Direct Marketing
LIDA Ltd** & ***	United Kingdom	100	Direct Marketing
M&C Saatchi (UK) Ltd** & ***	United Kingdom	70	Advertising
M&C Saatchi Accelerator Ltd**	United Kingdom	56	Advertising
M&C Saatchi European Holdings Ltd**	United Kingdom	96	Holding Company
M&C Saatchi Export Ltd** & ***	United Kingdom	70	Advertising
M&C Saatchi German Holdings Ltd**	United Kingdom	100	Holding Company
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	85	Talent Management
M&C Saatchi Middle East Holdco Ltd**	United Kingdom	80	Holding Company
M&C Saatchi Mobile Ltd**	United Kingdom	89	Mobile Marketing
M&C Saatchi Network Ltd** & ***	United Kingdom	100	Holding Company
M&C Saatchi PR International Ltd**	United Kingdom	66	PR Agency
M&C Saatchi PR Ltd**	United Kingdom	100	PR Agency

NOTES Continued

As at 31 December 2019	Country	Effective % ownership	Activities
UK continued			
M&C Saatchi PR UK LLP**	United Kingdom	100	PR Agency
M&C Saatchi Social Ltd** & ***	United Kingdom	51	Marketing
M&C Saatchi Shop Ltd**	United Kingdom	100	Marketing
M&C Saatchi Sport & Entertainment Ltd** & ***	United Kingdom	75	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	50	Branding
SaatchiInvest Ltd**	United Kingdom	100	Holding Company
Send Me A Sample Ltd**	United Kingdom	60	Marketing
M&C Saatchi Talk Ltd** & ***	United Kingdom	61	PR Agency
The Source (London) Ltd**	United Kingdom	100	Research Agency
The Source (W1) LLP**	United Kingdom	90	Research Agency
This Is Noticed Ltd	United Kingdom	69	Internet Retailer
Tricycle Communications Ltd**	United Kingdom	80	Holding Company
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	80	PR Agency
M&C Saatchi the Loop SARL	France	80	Advertising
Moonlike M&C Saatchi SARL	France	70	Advertising
Paris Gad Holding SAS	France	98	Holding Company
Tataprod SARL	France	98	Production and publishing
Clear Deutschland GmbH	Germany	59	Marketing
M&C Saatchi Advertising GmbH	Germany	78	Advertising
M&C Saatchi Sports & Entertainment GmbH	Germany	86	Sport Sponsorship & Entertainment PR Agency
M&C Saatchi Digital GmbH	Germany	95	Marketing
M&C Saatchi PR Unternehmungsgesellschaft	Germany	80	Dormant

NOTES Continued

As at 31 December 2019	Country	Effective % ownership	Activities
Europe continued			
M&C Saatchi SpA	Italy	90	Advertising
M&C Saatchi PR srl	Italy	84	Dormant
M&C Saatchi B.V.	Netherlands	50	Advertising
M&C Saatchi International Holdings BV	Netherlands	100	Holding Company
M&C Saatchi Sport & Entertainment Benelux BV	Netherlands	100	Sport Sponsorship & Entertainment PR Agency
M&C Saatchi Madrid SL	Spain	51	Advertising
M&C Saatchi Sponsorship SL	Spain	51	Advertising
M&C Saatchi AB	Sweden	70	Advertising and Marketing
M&C Saatchi Go! AB	Sweden	70	Advertising
M&C Saatchi PR AB	Sweden	84	Dormant
M&C Saatchi (Switzerland) SA	Switzerland	76	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	56	Advertising
Dalmation Communications (Pty) Ltd***	South Africa	50	Advertising
M&C Saatchi Abel (Pty) Ltd	South Africa	51	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
Razor Media (Pty) Ltd	South Africa	50	Dormant
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	80	Advertising
Asia and Australia			
1440 Agency Pty Ltd	Australia	80	Dormant
Bellwether Global Pty Ltd	Australia	80	Dormant
Bohemia Group Pty Ltd	Australia	59	Media Agency
Brands In Space Pty Ltd	Australia	80	Design
Clear Australia Pty Ltd	Australia	15	Marketing Strategy
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

NOTES Continued

As at 31 December 2019	Country	Effective % ownership	Activities
Asia and Australia continued			
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	72	Sport Sponsorship & Entertainment PR Agency
M&C Saatchi Melbourne Pty Ltd	Australia	80	Advertising
Park Avenue PR Pty Ltd	Australia	80	PR & Marketing
Re Team Pty Ltd	Australia	70	Marketing
Resolution Design Pty Ltd	Australia	68	Design
Saatchi Ventures Pty Ltd	Australia	48	Holding Company
Tricky Jigsaw Pty Ltd	Australia	68	Marketing
This Film Studio Pty Ltd	Australia	56	Production
Ugly Sydney Pty Ltd	Australia	60	Dormant
World Services (Australia) Pty Ltd	Australia	80	Marketing
eMCSaatchi Pty Ltd	Australia	80	Dormant
The Source Insight Australia Pty Ltd	Australia	52	Research Agency
M&C Saatchi Advertising (Shanghai) Ltd*	China	40	Consultancy (Associate)
Clear Asia Ltd	Hong Kong	79	Dormant
M&C Saatchi Asia Ltd	Hong Kong	100	Advertising
M&C Saatchi (Hong Kong) Ltd*	Hong Kong	40	Advertising (Associate)
M&C Saatchi Asia Hong Kong Ltd	Hong Kong	70	Advertising
Re HK Limited	Hong Kong	100	Branding
February Communications Pvt Ltd*	India	20	Advertising (Associate)
M&C Saatchi Communications Pvt Ltd	India	95	Dormant
M&C Saatchi Mobile India LLP	India	88	Marketing
Scarecrow M&C Saatchi Ltd	India	51	Advertising
PT. MCS Saatchi Indonesia	Indonesia	50	Advertising
M&C Saatchi Ltd*	Japan	10	Advertising (Associate)
M&C Saatchi World Services Pakistan (Pvt) Ltd	Pakistan	40	Marketing
M&C Saatchi (M) Sdn Bhd	Malaysia	49	Advertising
Design Factory Sdn Bhd	Malaysia	49	Advertising
Watermelon Productions Sdn Bhd	Malaysia	49	Advertising
M&C Saatchi Source (M) SDN BHD	Malaysia	49	Research Agency
Clear Ideas (Singapore) Pte Ltd	Singapore	77	Marketing
M&C Saatchi Holdings Asia Pte Ltd	Singapore	50	Holding Company
M&C Saatchi (S) Pte Ltd	Singapore	80	Advertising

NOTES Continued

As at 31 December 2019	Country	Effective % ownership	Activities
Asia and Australia continued			
M&C Saatchi Mobile Asia Pacific Pte Ltd	Singapore	88	Mobile Marketing
Love Frankie Ltd*	Thailand	20	Marketing (associate)
Americas			
Lily 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 LA LLC	USA	95	Marketing
Clear USA LLC	USA	85	Marketing
Clear NY LLP	USA	85	Holding Company
LIDA NY LLP (MCD)	USA	76	Direct Marketing
LIDA USA LLP	USA	100	Marketing
M&C Saatchi Agency Inc.	USA	100	Holding Company
M&C Saatchi LA Inc.	USA	53	Advertising
M&C Saatchi Mobile LLC	USA	100	Mobile Marketing
M&C Saatchi PR LLP	USA	100	PR
M&C Saatchi Share Inc.	USA	53	Dormant
M&C Saatchi Sport & Entertainment NY LLP	USA	80	Sport Sponsorship & Entertainment PR Agency
M&C Saatchi Sport & Entertainment LA LLC	USA	65	Sport Sponsorship & Entertainment PR Agency
M&C Saatchi NY LLP	USA	90	Dormant
Majority LLC	USA	50	Production
Shepardson Stern + Kaminsky LLP	USA	100	Marketing Consultant
Technology, Humans and Taste LLC*	USA	30	Marketing (associate)
World Services US Inc.	USA	80	Dormant

Within the above list the following companies are associates, Technology, Humans and Taste LLC; Santa Clara Participacoes Ltda; Love Frankie Ltd; M&C Saatchi Ltd; M&C Saatchi (Hong Kong) Ltd; M&C Saatchi Advertising (Shanghai) Ltd; M&C Saatchi Istanbul; and M&C Saatchi SAL.

NOTES Continued

33. Related party transactions

Key management remuneration

Key management remuneration is disclosed in note 7.

Audited detail on Directors' remuneration is disclosed in the Remuneration Report which commences on page 50.

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 £825k (2018: £756k), of which nil (2018: 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 AUD3.3m (2018: AUD3.2m) (see note 20 for further details). Other directors of Australian subsidiaries had shareholder loans to acquire equity in the subsidiaries AUD0.8m (2018: AUD0.8m), a further AUD2.4m (2018: AUD2.4m) has been advanced in shareholder loans but is not accounted for as an asset in these accounts due to its accounting as a conditional share award under IFRS 2.

In 2015 the Group lent Antoine Barthuel (France), an arm's-length interest-bearing Euro 150k loan, a further arm's-length interest-bearing Euro 150k loan was issued in 2017, the loans were paid off in the year (2018: Euro 300k at the year end). Other local directors had advances of over £10k that are outstanding at the year end, James Leggett (Australia) £26k, Katherine Griffith (USA) £19k. Also as part of German subsidiaries put option £413k pf advances have been made.

Our Paris office paid on an arm's length basis a total of £48k to five family members for their services, nothing was outstanding at the year end.

The Directors of our subsidiary M&C Saatchi S.P.A have interests in two companies Be Beef Ltd and Utopia S.r.l. During the year M&C Saatchi S.P.A invoiced £790k to these companies of which £452k was outstanding at the year end, and bought £3,103k of services from these companies of which £410k was outstanding at the year end.

During the year, the Group made purchases of £295k (2018: £3,193k) from its associates. At 31 December 2019, there was nil due to associates in respect of these transactions (2018: nil). During the year, £515k (2018: £164k) of fees were charged by Group companies to associates. At 31 December 2019, associates owed Group companies £1,301k (2018: £1,049k).

During the year, the Company recharged its subsidiaries and indirect subsidiaries with £4,818k (2018: £818k) of its costs, £373k (2018: £316k) of interest. The balance outstanding can be seen in note 44.

34. Commitments

With the introduction of IFRS 16 Leases in the year, most of the Group's commitments are now shown on the balance sheet.

Capital commitments

At the year end we had £550k (2018, \$NIL) to acquire property plant and equipment, this represents the latter part of a major office refurbishment, following a lease extension.

Other commitments

Other than our normal contractual commitments to staff and the commitment to complete profitable projects for our clients, the Group does not have any other material commitments which are not reflected on the balance sheet.

35. Assets held for sale and disposed of in the year

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.

	2019 £000	2018 £000
Cost		
As at 1 January	13,106	–
Non-current assets classified as held for sale	–	13,106
Reduction in carrying value due to dividend declared	(2,822)	–
Disposal of non-current assets held for sale	(10,284)	–
At 31 December	–	13,106

During the course of 2018 the Group decided to commence a plan for the disposal of the 24.9% equity investment held in Walker Media Ltd (trading as Blue 449). Consequently, at the end of 2018 this equity investment was presented as a current asset held for sale.

NOTES Continued

On 1 February 2019 the Company announced that terms had been agreed for Publicis Groupe to acquire this equity investment for £25.0m. The consideration was payable in cash on 31 January 2019. Due to the sale £1.7m was paid in fees.

Prior to completion of the sale of the equity interest held, a dividend was declared to the Group for a total of £2.8m. As a result of this dividend being declared, a gain of £13.0m arose subsequent to completion of the transaction.

The gain arising on the disposal is as detailed below:

	2019 £000	2018 £000
Consideration received in cash	25,000	–
Carrying amount of investments held-for-sale	(10,284)	–
Legal costs	(1,736)	–
Gain on sale before income tax	12,980	–
Income tax credit	281	–
Gain on sale after income tax	13,261	–

36. Post balance sheet events

On 30 April 2020, the term of the £36m revolving credit facility agreement and the £5m overdraft facility agreement with National Westminster Bank plc was extended to 30 June 2021. The interest margin on the revolving facility agreement was increased to 3.00% above LIBOR from 1.75% above LIBOR. The overdraft facility has a floating rate of interest set at 3.25% above the Bank of England base rate. Additional Group companies in the US and Australia were brought into the facility as guarantors.

Following the announcement of the accounting misstatements, the Financial Conduct Authority opened an investigation into the circumstances surrounding how this matter occurred with which the Company is assisting.

Following the year end, the Board appointed four Non-Executive Directors who the Board considered independent and reconstituted its committees (further details are in the Governance and Directors' Report).

In part due to the accounting misstatements and the Covid-19 pandemic, the Company's annual audit lasted seven months longer than originally planned and went over budget.

The Company's shares were temporarily suspended from trading at 7.30am on 1 October 2020 as the Company did not publish the Annual Report and Accounts by 30 September 2020 which was the last day permitted for publication of the audited results under the AIM Rules (as modified by the three month extension granted in connection with the Covid-19 pandemic pursuant to the Inside AIM Guidance of 26 March 2020). Upon publication of the Annual Report and Accounts, we expect the suspension to be lifted and the Company's shares reinstated to trading.

We have undertaken a restructuring programme across the entire Group which will result in the closure of a number of businesses in 2020.

As part of our restructuring programme in the second quarter of 2020 the Group closed its Los Angeles subsidiary due to a deterioration in that subsidiary's business in 2019 which worsened in 2020. The estimated Group revenue deriving from the Los Angeles subsidiary declined from 2.8% in 2018 to 1.9% in 2019 whilst the share of Group net revenue deriving from the Los Angeles subsidiary declined from 2.4% in 2018 to 1.4% in 2019. During this same period, there was substantial turnover of finance staff based in such subsidiary which resulted in poor record keeping and a lack of financial information for 2019. The Group finance team has adequate information to confirm the 2019 closing balance sheet for the Los Angeles subsidiary, including revenue cut-off between 2019 and 2020, but is unable to confirm the opening balance sheet for 2019 given the lack of financial records.

The economic downturn caused by the Covid-19 pandemic has affected the revenue of most Group companies. However, the Group's business continuation plans worked and we continue to service clients and win clients. We have cut costs to reduce the long-term economic effects of Covid-19 pandemic; however, the effects on our associates and cash generating units are different. This along with our strategic plan and other local opportunities and threats will result in the carrying values of our investments and Goodwill potentially being different at 2020 year-end than at 2019. If economic effects of Covid-19 pandemic continue into the long term then most of our Goodwill CGUs (except M&C Saatchi Mobile Ltd and M&C Saatchi Agency Pty Ltd), or investments in associates may be at risk of impairment. We will do a full reassessment at the 2020 year-end.

NOTES Continued

37. 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 has been used when the Group acquires an increased stake in a subsidiary. The purpose of the non-controlling interest reserve is to reflect the unrealised losses relating to underlying investments held by subsidiary companies. This loss is realised on disposal or impairment of the underlying asset. It works as follows: 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. In the event that the underlying investment held by a subsidiary company is impaired or disposed of, then the related value in the non-controlling interest reserve is taken to retained earnings. If, however, a corresponding merger reserve was created at inception, and its related value in non-controlling interest acquired reserve is taken to retained earnings, then the related merger reserve is released 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.

Retained earnings

Cumulative gains and losses recognised.

38. 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 17	Insurance contracts
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 3	Definition of a business
Amendments to IAS 1 and IAS 8	Definition of material
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

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.

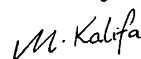
COMPANY BALANCE SHEET

At 31 December	Note	2019 £000	2018# £000
Non-current assets			
Investments*	40	127,994	123,959
Deferred tax		87	–
Amounts due from subsidiary undertakings	44	89,832	70,534
Other non-current assets	41	2,071	2,238
		219,984	196,731
Current assets			
Trade and other receivables	42	2,946	3,402
Cash and cash equivalents		10,679	2,438
		13,625	5,840
Current liabilities			
Trade and other payables	43	(43,771)	(22,324)
Provisions	43	(1,225)	–
Bank loans		(27,562)	–
Contingent consideration	15	(444)	(752)
		(73,002)	(23,076)
Net current liabilities		(59,377)	(17,236)
Total assets less current liabilities		160,607	179,495
Non-current liabilities			
Contingent consideration	15	(313)	(514)
Employment benefit provision		(458)	–
Bank loans		–	(29,970)
		(772)	(30,484)
Total net assets		159,835	149,011
Capital and reserves			
Share capital		936	876
Share premium*		44,607	41,734
Merger reserve		66,962	63,197
Treasury reserve		(550)	(792)
Share based payment reserve*		36,912	33,343
Profit and loss account		10,968	10,653
Shareholders' funds		159,835	149,011

* Due to a change in judgement, that has changed the accounting of many of our IFR9 put options to IFRS2 conditional shares along with a revision to IFRS 2 valuations investments, share premium and share based payment reserve has been restated. Further details in note 2 and note 40.

These financial statements on pages 144 to 151 were approved and authorised for issue by the Board on 7 December 2020 and signed on its behalf by:

Mickey Kalifa
Finance Director
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 2019 is a profit after tax of £3,431k (2018: loss £(1,978)k).

The notes on pages 146 to 151 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Merger reserve £000	Treasury reserve £000	Share based payment reserve £000	Profit and loss account £000	Total £000
At 1 January 2018*	813	32,095	63,197	(792)	24,022	13,486	132,821
Acquisitions	18	6,484	-	-	-	-	6,502
Deferred consideration	1	458	-	-	-	-	459
Exercise of put options	44	2,697	-	-	-	(20)	2,721
Share option charge*	-	-	-	-	16,463	401	16,864
Realisation of reserve*	-	-	-	-	(7,142)	7,142	-
Dividends paid	-	-	-	-	-	(8,378)	(8,378)
Loss for the year*	-	-	-	-	-	(1,978)	(1,978)
At 31 December 2018	876	41,734	63,197	(792)	33,343	10,653	149,011
Exercise of put options	60	2,873	3,765	242	-	-	6,940
Share option charge	-	-	-	-	10,266	-	10,266
Realisation of reserve	-	-	-	-	(6,697)	6,697	-
Dividends paid	-	-	-	-	-	(9,813)	(9,813)
Profit for the year	-	-	-	-	-	3,431	3,431
At 31 December 2019	936	44,607	66,962	(550)	36,912	10,968	159,835

* Due to a change in judgement, that has changed the accounting of many of our IFRS 9 put options to IFRS 2 conditional shares along with a revision to IFRS 2 valuations investments and share based payment reserve has been restated. In addition 2018 share premium reserve has been reduced by £4,933k due to an exercise of a put option originally accounted for under IFRS 9, now being accounted for under IFRS 2. Further details of the reasons for the change in note 2, and details of the Company adjustment in note 40.

The notes on pages 146 to 151 form part of these financial statements.

COMPANY NOTES

39. General information and Accounting policies

M&C Saatchi plc acts as the holding company for of the M&C Saatchi plc group. The Company is publicly domiciled, quoted on London's AIM stock exchange and incorporated in England and Wales (registered number 05114893). The address of its registered office is 36 Golden Square, London, W1F 9EE.

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 66, and the following policies)

For current tax (note 10), deferred tax (note 11), share-based payments (note 28) and borrowings (note 24).

d) Share-based payments in Company

The cost of awards to employees of subsidiary entities 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 entities, the investment in the Company's books is reduced by the value of equity awarded. In the event that the investment in subsidiary created from conditional share awards is impaired then there is an equal and opposite release from share-based payment reserve.

e) Dividends

Interim dividends are recorded when they are paid and the final dividends are recorded when they become legally payable. Disclosure of dividend activity can be found at note 12.

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.

g) Expected credit losses

Amounts owed by subsidiaries are recorded at amortised cost and are reduced by expected credit losses. Under IFRS 9 Financial Instruments, the expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Key judgements & estimates

Judgement on debt with other group companies

a) A judgement has been made if debt with other group companies are quasi investments under IAS 27 or intercompany receivables under IFRS 9. Based on that assessment, which in the most part has treated the debt

b) In the event that debt with other group companies is accounted for under IFRS9 a judgment if such balances are prepayable on demand or if they are payable over one year.

The following judgements on the value are made:

a) Recoverability of intercompany debtors

Judgements are made on the future recoverability of debt and provisions are made where necessary. Such judgements made are based on the substance of the underlying agreements in place which may typically rely on subsequent asset sales held by the debt holder to be used for the clearance of the amounts due to the parent.

b) Valuation of investments

Judgements are made on the future value of investments based on the higher of value in use and net realisable value. This assessment is performed after any debt from entities have been recovered. Impairments are made where necessary.

Reserves

Share-based payment reserve

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

COMPANY NOTES Continued

40. Investments

	2019	2018
	£000	£000
At 1 January	123,959	108,405
Acquisition of subsidiaries	3,524	6,600
Disposal of shares in subsidiary	(309)	–
Provision against acquired subsidiary	(2,749)	(367)
Conditional share awards repayment of capital *	–	(1,228)
Provision against conditional share awards [#]	(6,697)	(5,914)
Conditional share awards ^{*,#}	10,266	16,463
At 31 December	127,994	123,959

* Due to a change in judgement, caused by a different interpretation of the share schemes and IFRS 2 around the accounting of put option adjustments (note 2), these items have been restated below.

[#] Conditional share awards (note 28).

Our annual review of investments took account of the following factors: at the year end date the net asset value of the company was more than our market capitalisation; the trading performance of the subsidiary companies; the Company's ultimate share of the results of the subsidiary companies and the reorganisations taking place. In projecting forward, we assumed a prudent 1.5% growth rate, and discounted by local subsidiaries' cost of capital. As a result of the review an impairment of £9,446k (2018: £6,281k) was made.

The direct and indirect subsidiary undertakings are listed in note 32 to the consolidated financial statements.

Restatement of Investments in subsidiary undertakings:

	As previously reported	Adjustment	Restated
	£000	£000	£000
Year ended 2018			
At 1 January 2018	101,914	6,491	108,405
Acquisition of subsidiaries	6,600	–	6,600
Provision against acquired subsidiary	–	–	–
Conditional consideration	(367)	–	(367)
Conditional share awards recharge of brought forward balance*	(1,228)	–	(1,228)
Provision against conditional share awards	(1,023)	(4,891)	(5,914)
Conditional share awards*	5,703	10,760	16,463
At 31 December	111,599	12,360	123,959

* Conditional share awards (note 28).

The additional provision of £4,891k has reduced 2018 profits and increased the realisation of the share based payment reserve by the same amount. As can be seen below the overall effect on the profit and loss account reserve of this adjustment is £Nil.

Effect on reserves for this restatement:

	As previously reported	Adjustment	Restated
	£000	£000	£000
Share based payment reserve			
At 1 January 2018	17,531	6,491	24,022
Share option charge	5,703	10,760	16,463
Realisation of reserve	(2,251)	(4,891)	(7,142)
At 31 December 2018	20,983	12,360	33,343

	As previously reported	Adjustment	Restated
	£000	£000	£000
Profit and loss account			
At 1 January 2018	13,486	–	13,486
Exercise of put options	(20)	–	(20)
Share option charge	401	–	401
Realisation of reserve	2,251	4,891	7,142
Dividends paid	(8,378)	–	(8,378)
Profit for the year	2,913	(4,891)	(1,978)
At 31 December 2018	10,653	–	10,653

COMPANY NOTES Continued

41. Other non-current assets

	2019	2018
	£000	£000
Loans to subsidiary employees*	1,788	1,803
Loans to assist equity purchase**	283	435
Total	2,071	2,238

* This related to the AUD3.6m (current balance 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. 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.

42. Trade and other receivables

	2019	2018
	£000	£000
Amounts due less than one year		
Prepayments and accrued income	126	90
Corporation tax receivable	2,464	2,970
Other receivables	356	342
Total	2,946	3,402

43. Trade and other payables

	2019	2018
	£000	£000
Trade creditors	(229)	(324)
Amounts due to subsidiaries*	(40,518)	(21,573)
Accruals and deferred income	(3,024)	(427)
Total	(43,771)	(22,324)

* Repayable on demand.
 The increase in accruals is due to higher audit fees and contractual bonus provision.

Provision of £1,225k (2018: £Nil) are made up of £1,033k legal and other fees relating to accounting errors, and £192k of reorganisation costs. Further details are of these costs are in note 3.

COMPANY NOTES Continued

44. Amounts due from subsidiary undertakings

Amounts due from subsidiary undertakings are repayable on demand, however agreements are in place between subsidiary companies, that state that such repayments will not be due until the underlying investments of the subsidiary company are sold or realised. Due to these agreements the amounts due from subsidiary undertakings have been defined as long term.

The 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 90% as a result, amounts are credited to the Merger Reserve on exercise. The acquired shares are then immediately sold to subsidiaries of the Company, thereby creating an intercompany receivable and eliminating the Company's increase in investments.

	2019 £000	2018# £000
Amounts due from subsidiary undertakings	89,832	70,534

* Due to a change in judgement, caused by a different interpretation of the share schemes and IFRS 2 around the accounting of put option adjustments (note 2), these items have been restated.

The amounts due from subsidiary undertakings are net of the expected credit losses of £13,539k (2018: £7,026k) that have been provided against these balances. Our annual review of expected credit loss provision took into account trading performance, the reorganisations taking place and likely future performance. As a result of this review the expected credit loss increased by £6,513k (2018: £1,237k).

45. Staff Cost

Staff costs (including Directors) comprise:

Year ended 31 December	2019 £000	2018 £000
Wages and salaries	3,526	2,712
Social security costs	469	352
Defined contribution pension scheme costs	33	38
Other staff benefits	54	45
	4,082	3,147
Staff numbers	14	12

Staff numbers are based on monthly average staff and exclude Non-Executive Directors.

Directors' remuneration

	2019 £000	2018 £000
Directors' salaries and benefits	2,111	2,092
Bonuses	225	125
Contributions to money purchase pension schemes	4	15
Total remuneration before accounting charges	2,340	2,232
Gain on exercise of share options	–	–
Total	2,340	2,232

	2019 £000	2018 £000
The highest paid Director earned:		
Director's salary and benefits	247	421
Bonuses	225	–
Contribution to money purchase pension scheme	–	–
Total remuneration before accounting charges	472	421
Gain on exercise of share options	–	–
Total	472	421

The number of Directors with a money purchase pension scheme during the year was 5 (2018: 5).

The Directors are the key management personnel of the Company.

Additional details with regards to Directors' remuneration as required by Rule 19 of the AIM rules can be found in the remuneration report commencing on page 50. There has been neither grant to, nor exercise by, the Directors with regards share options during either 2019 or 2018.

46. Related parties

During the year, the Company charged a management recharge to subsidiaries totalling £4,818k (2018: £818k). £347k (2018: £746k) 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 42 and 43. The amounts due from subsidiary undertakings payable in cash of £89,832 (2018: £70,534k) is net of £13,539k (2018: £7,026k) provisions for doubtful accounts.

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

COMPANY NOTES Continued

47. List of registered addresses

Country	Entity	Registered Address
Australia	Bohemia Group Pty Ltd	99 Macquarie Street, Sydney NSW 2000
	Greenhouse Australia Pty Ltd	
	M&C Saatchi Sport & Entertainment Pty Ltd	
	Park Avenue PR Pty Ltd	
	Saatchi Ventures Pty Ltd	
	Tricky Jigsaw Pty Ltd	
	Resolution Design Pty Ltd	
	This Film Studio Pty Ltd	
	Ugly Sydney Pty Ltd	
	Bellwether Global Pty Ltd	Level 12, 131 Macquarie Street, Sydney NSW 2000
	Brands in Space Pty Ltd	
	Lida Australia Pty Ltd	
	1440 Agency Pty Ltd	Level 6 131 Macquarie Street, Sydney NSW 2000
	Go Studios Pty Ltd	
	M&C Saatchi Direct Pty Ltd	
	eMCSaatchi Pty Ltd	Level 19, 2 Market Street, Sydney NSW 2000
	M&C Saatchi Agency Pty Ltd	
	Re Team Pty Ltd	
	M&C Saatchi Asia Pac Holdings Pty Ltd	Level 12, 131 Lucouarel Street, Sydney NSW 2000
	Hidden Characters Pty Ltd	Unit 19, 285A Crown Street, Surry Hills NSW 2010
	M&C Saatchi Melbourne Pty Ltd	Level 1, 129 York Street, South Melbourne VIC 3205
	World Services (Australia) Pty Ltd	Suite 11.01, Level 11, 60 Castlereagh Street, Sydney NSW 2000
	Yes Agency Pty Ltd	Level 17, 383 Kent Street, Sydney NSW 2000
	Bahrain	M&C Saatchi Bahrain WLL
		51,122,1605,316 Manama Center
Brazil	Lily Participacoes Ltda	Avenida Brigadeiro Faria Lima, 1355 Jardim Paulistano 16 Andar, São Paulo 01452-919
	M&C Saatchi Brasil Comunicação Ltda	Rua Girassol, 925/927, 1st Floor, Vila Madalena, 05433-002
	M&C Saatchi Brasil Participacoes Ltda	
	M+C Saatchi/Insight Pesquisa & Planejamento Ltda	

Country	Entity	Registered Address
	Santa Clara Participacoes Ltda	Rua Wisard, 305, Vila Madalena, 3 Andar-Con, São Paulo
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 SAS	
	M&C Saatchi The Loop SARL	
	Moonlike M&C Saatchi SARL	
	Paris Gad Holding SAS	
	Cometis	14 Rue Meslay, 75003, Paris
Germany	Tataprod SARL	
	Clear Deutschland GmbH	Taunusanlage 8, Frankfurt am Main, 60329
	M&C Saatchi Advertising GmbH	Munzstrasse 21-23, 10178, Berlin
	M&C Saatchi Digital GmbH	
	M&C Saatchi PR UG (haftungsbeschränkt)	
	M&C Saatchi Sports & Entertainment GmbH	
Hong Kong	Clear Asia Ltd	29/F Cambridge House, Taikoo Place 979 King's Road, Quarry Bay
	M&C Saatchi (Hong Kong) Ltd	
	Re HK Limited	
	M&C Saatchi Asia Ltd	6/F Alexandra House, 18 Chater Road, Central
	India	M&C Saatchi Communications Pvt Ltd
		2 Palam Mang, Vasant Vihar New Delhi, 110057
	February Communications Pvt Ltd	141B Shahpur Jat New Delhi
	M&C Saatchi Mobile India LLP	
	Scarecrow M&C Saatchi Ltd	32 Ramjibhai Kamani Marg, Mumbai
Indonesia	PT. MCS Saatchi Indonesia	E.V. Hive, Plaza Kungan, Lantai 11, Jakarta Selatan 12920
Israel	M&C Saatchi Tel Aviv Ltd	1 Abba Even, Boulevard, Herzliya 4672519
Italy	M&C Saatchi PR srl	Viale Monte Nero, 27 20135, Milan
	M&C Saatchi SpA	
Japan	M&C Saatchi Ltd	26-1 Ebisu-Nishi 1-Chome, Shibuya- Ku, Tokyo
Lebanon	M&C Saatchi SAL	Quantum Tower, Charles Malek Avenue,

COMPANY NOTES Continued

Country	Entity	Registered Address
		St Nicolas, Beirut
Malaysia	M&C Saatchi (M) Sdn Bhd	Unit 10-2, 10th Floor, Bangunan Malaysia
	Design Factory Sdn Bhd	RE, 17 Jalan Dungun, Damansara Heights,
	Watermelon Production Sdn Bhd	50490 Kuala Lumpur
	M&C Saatchi Source (M) Sdn Bhd	15B, Jalan Tengku Ampuan Zabedah F9/F, Section 9, Shah Alam, Selangor Darul Ehsan 40100
Mexico	M&C Saatchi, S.A. DE C.V.	Darwin 74, Piso 1, Miguel Hidalgo, 11590 Ciudad de México, CDMX, Mexico
Netherlands	M&C Saatchi International Holdings BV	36 Golden Square, London W1F 9EE, UK
	Clear Netherlands BV	Keizersgracht 203 Amsterdam
	M&C Saatchi BV	Overschiestraat 61 F, 1062XD Amsterdam
	M&C Saatchi Sport & Entertainment Benelux BV	Tuinstraat 157 B, 1015PB Amsterdam
Pakistan	M&C Saatchi World Services Pakistan (Pvt) Ltd	48M, Block 6 P.EC.H.S, Karachi
Singapore	M&C Saatchi Holdings Asia Pte Ltd	1 Coleman Street, #05-06A, The Adelphi, Singapore 179803
	Clear Ideas (Singapore) Pte Ltd	59 Mohamed Sultan Road #02-08, Sultan Link, Singapore 238999
	M&C Saatchi (S) Pte Ltd	
	M&C Saatchi Mobile Asia Pacific Pte Ltd	
South Africa	M&C Saatchi Sports & Entertainment South Africa Pty Ltd	3 Constantiaberg Close, Constantia 7806
	Creative Spark Interactive (Pty) Ltd	Media Quarter, 5th Floor, Corner
	Dalmation Communications (Pty) Ltd	Somerset and De Smit Street, Ded, Waterkant, Cape Town
	M&C Saatchi Abel (Pty) Ltd	
	M&C Saatchi Africa (Pty) Ltd	
	M&C Saatchi Connect (Pty) Ltd	
	Levergy Marketing Agency (Pty) Ltd	9 8 th Street, Houghton, Johannesburg, Gauteng 2198
Spain	Razor Media (Pty) Ltd	
	M&C Saatchi Madrid SL	Calle Gran Via, 27, 28013, Madrid
	M&C Saatchi Digital SL	
	Media By Design Spain SA	
	M&C Saatchi Sponsorship SL	
Sweden	M&C Saatchi AB	Skeppsbron 16, 11130, Stockholm
	M&C Saatchi Go! AB	
	M&C Saatchi PR AB	
Switzerland	M&C Saatchi (Switzerland) SA	Boulevard Carl-Vogt 83, 1205, Geneve

Country	Entity	Registered Address
Thailand	Love Frankie Ltd	571 RSU Tower, 10th Floor, Soi Sukhumvit 31, Sukhumvit Road, Wattana District, Bangkok
Turkey	M&C Saatchi Istanbul	Acarkent Mah. 1 Cadde No 132B Beykoz, Istanbul
United Arab Emirates	M&C Saatchi Middle East Fz LLC	Al Thuraya Tower 1, Floor 14, Office 1404 Dubai Media City, Dubai, 62614
	M&C Saatchi Fz LLC	PO Box: 77932, Abu Dhabi
United Kingdom	All UK entities (except for the following):	36 Golden Square, London, W1F 9EE
	Clear Ideas Ltd	2 Golden Square, London, W1F 9HR
	Clear Ideas Consultancy LLP	
	M&C Saatchi Talk Ltd Talk.Purpose Ltd	3-5 Rathbone Place, London, W1T 1HJ
USA	Clear USA LLC	88 Pine Street, 30th Floor, New York, NY 10005
	Clear NY LLP	
	M&C Saatchi PR LLP	
	M&C Saatchi Sports & Entertainment NY LLP	
	Shepardson Stern + Kaminsky LLP	
	M&C Saatchi Agency Inc.	
	M&C Saatchi NY LLP	
	LIDA NY LLP	138 W 25th Street, New York, NY 10001
	M&C Saatchi LA Inc.	2032 Broadway, Santa Monica, CA 90404
	M&C Saatchi Share Inc.	
	M&C Saatchi Sport & Entertainment LA LLC	
	Majority LLC	
	Clear LA LLC	
	World Services US Inc.	
	M&C Saatchi Mobile LLC	625 Broadway, 6th Floor, New York, NY 10012
	LIDA USA LLP	138w 25 th Street, 5 th Floor, New York, NY 10001

48. 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 36.

49. Share capital

Movements in the Company's Share capital can be found at note 29.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF M&C SAATCHI PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Disclaimer of opinion on the loss and cash flows for the year as a result of the inability to obtain sufficient audit evidence over the 2018 year-end balances and qualified opinion in respect of the comparability of the state of affairs with the 2018 year-end

In our opinion, except for the possible effects of the matters described in the "Basis for disclaimer of opinion/qualified opinion" section below:

- M&C Saatchi plc's Group financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2019;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- the Group financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

In our opinion:

- M&C Saatchi plc's Company financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2019;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Because of the significance of the possible impact of our inability to obtain sufficient appropriate audit evidence over the opening balances, as described in the "Basis for disclaimer of opinion/qualified opinion" section below, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Group's loss and cash flows. Accordingly, we do not express an opinion on the Group's loss and cash flows for the year ended 31 December 2019.

We were engaged to audit M&C Saatchi plc's Group financial statements and we have audited the Company financial statements. The Group financial statements and Company financial statements (the "financial statements") included within the Annual Report (the "Annual Report"), which comprise the consolidated and Company balance sheets as at 31 December 2019; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement and analysis of net debt, and the consolidated and Company statements of changes in equity for the year ended 31 December 2019; and the preparation section, which include a description of the significant accounting policies, and the notes to the financial statements.

Basis for disclaimer of opinion/qualified opinion

As explained in note 2 to the financial statements, prior period restatements were identified by the Directors during the year. We were appointed auditors on 4 November 2019 and it was not possible for us to obtain sufficient appropriate audit evidence in a reasonable timeframe regarding the amounts, including the restated amounts, in the statement of financial position as at 31 December 2018, forming the comparative figures and the opening balances for the current year as at 1 January 2019 because of an absence of underlying documentation and an inability to obtain explanations from Group finance team members who are no longer employed by the Group. This impacts on the consolidated income statement for the year ended 31 December 2019, and also impacts the individual line items reported in cash generated from operations in the consolidated cash flow statement and the consolidated statement of changes in equity.

As noted above, the Directors identified a number of prior period restatements. Management subsequently engaged a PwC forensics team to perform a detailed review of these restatements as well as help identify other areas of risk. This resulted in additional restatements being identified and a recommendation for Management to further investigate other out of scope areas.

As a result of these reviews, Management identified £14.4m of prior period restatements prior to the start of the 2019 audit and further areas were identified that required follow up which resulted in an additional £16.1m being identified during the audit.

INDEPENDENT AUDITORS' REPORT Continued

As a result of the quantum and quantity of these restatements and the number of balances affected, we considered there to be a significant risk around the completeness and accuracy of these restatements. We obtained a detailed listing of the adjustments identified by Management and potential issues raised by the forensic investigation to understand the nature of these adjustments and how they had arisen, along with the specific entities within the Group to which they related. We also examined the outcome of Management's further review into the areas that were out of scope for the forensic investigation, but were noted as requiring further investigation, again considering the nature and reasons for adjustments arising.

We planned our audit with the intention of being able to verify the accuracy and completeness of these prior period restatements. However, as explained above, it was not possible to obtain the necessary audit evidence to conclude on the accuracy and completeness of prior period restatements.

A number of the prior period restatements impacted revenue as a result of misstatements in contract liabilities and contract assets in the opening balance sheet. We took this into account in planning our audit work on revenue, by including tests designed to check that similar issues had not recurred in the current year. Consequently, we considered there to be a significant risk of fraud or error, particularly arising from the incorrect application of IFRS 15, "Revenue from contracts with customers", at entities other than those whose principal activity was media buying. This included the application of principal/agent accounting, consideration of the number of performance obligations and application of the correct cost inputs to percentage complete calculations where projects remained open at the period end.

In addition, taking the history and type of business into account, we considered that fraudulent or incorrect entries to revenue could arise where fictitious revenue could be posted with a corresponding false debit on the balance sheet, where contract assets and other current receivables other than trade receivables could make them easier to conceal.

The Group's complex structure with many subsidiaries also gives rise to a risk of material false journals being posted as part of the complex consolidation process or within the entities themselves to boost revenue.

To address the risks relating to revenue, we performed a number of procedures. For a sample of contracts in each in-scope reporting unit, we performed the following procedures to test that revenue transactions existed, and were accurately recorded:

- Obtained and read the underlying contracts to understand the nature of the project/revenue, including understanding the number of performance obligations in line with IFRS 15 and whether these were to be recognised over time or at a point in time;
- Examined Management's assessment of agent versus principal based on the underlying contracts and challenged Management to provide additional support for those contracts that were considered to be most judgemental; and
- Detailed testing from contract, through to invoice, to support the level of work performed and cash received.

In addition to this work performed over the full scope reporting units, we also performed a review of the revenue balance and target testing of specific items at other reporting units with material revenue balances, including obtaining supporting documentation (e.g. contracts) for significant contract revenues and reviewing contract related balance sheet items to ensure these were supportable, as well as considering the judgemental areas as set out above.

We also tested contract related debit balance sheet line items (accrued income) to underlying support including contracts, invoices and post year end cash receipts to obtain a high level of assurance. This was performed through target testing and non-statistical sample testing to obtain evidence over the existence of revenue transactions and whether they were recorded in the correct period.

Additionally, we performed testing of unusual journals impacting revenue, firstly through the use of data analytics to identify journals posted with unusual account combinations, and then obtaining supporting documentation for any identified journals to ensure these were appropriate entries. We searched for material consolidation journals affecting revenue and did not find any.

INDEPENDENT AUDITORS' REPORT Continued

However due to the lack of records and changes in management, set out above, we could not obtain sufficient appropriate audit evidence over the opening balance sheet entries including those relating to revenue and therefore over the revenue for the year. However, we were able to obtain sufficient appropriate audit evidence in relation to the balance sheet entries relating to revenue of contract liabilities (deferred revenue; £21.0million) and contract assets (accrued income - £10.1million) as at 31 December 2019.

We concluded that the impact of our inability to obtain sufficient appropriate audit evidence relating to the amounts, including the completeness and accuracy of prior period restatements and amounts related to revenue, included within the opening statement of financial position at 1 January 2019 had a pervasive impact on the consolidated income statement and individual line items reported in cash generated from operations in the consolidated cash flow statement and the consolidated statement of changes in equity, resulting in our disclaimer of opinion on the Group's loss and cash flows referred to above.

Due to us not being able to obtain sufficient appropriate audit evidence over the 2018 year-end balances, our opinion on the state of affairs of the Group included in the Group financial statements is qualified, only in respect of the possible effect of this matter on the comparability between the statement of financial position as at 31 December 2019 and the comparative statement of financial position as at 31 December 2018.

This matter only impacted the Company's subsidiaries, and therefore our opinion on the Company financial statements is unqualified.

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law except that there was a limitation in respect of our work relating to the consolidated income statement and cash flow statement as explained in our Basis for disclaimer of opinion/qualified opinion section above. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion, but as explained above we were unable to obtain sufficient appropriate audit evidence in respect of the group's loss and cash flows for the year and have issued a disclaimer on those elements of the financial statements.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern – Group and Company

Without further modifying our opinion on the financial statements, we have considered the adequacy of the disclosure made in the Going concern note in the Preparation section to the financial statements concerning the Group's and Company's ability to continue as a going concern.

The Group and Company meet their day-to-day working capital requirements through their bank facilities and available cash resources. The Group's current bank facilities include a secured bank loan of £36.0million, which is committed to 30 June 2021 and an uncommitted overdraft facility of £5.0million. The bank facilities are subject to financial covenants, comprising a total interest cover covenant and a debt to earnings covenant. These covenants are subject to testing on a quarterly basis through to the end of the term of the facility.

Management's cash flow forecast used for its going concern assessment inherently involves a level of uncertainty due to external market conditions and the impact on the demand for the Group's services. Management's forecasts show that the Group and the Company can continue as a going concern but when severe but plausible downside sensitivities are applied these show a potential breach of covenants. These downside sensitivities include a material reduction in revenue from Management's forecast. Should a covenant breach occur, and no mitigating action is taken, the facilities may be cancelled and amounts accrued or outstanding would be immediately due and payable.

The forecast for the Group for the going concern assessment period also includes an assumption that the Group will be able to replace the existing facilities with appropriate new facilities on or before 30 June 2021. Discussions relating to the specific details of this refinancing are ongoing and will involve reaching an agreement on the overall size and term of the facilities and the covenant restrictions to be applied. There is also a default clause in the banking agreement around the filing of financial statements with a qualified auditors' opinion. Although the bank has indicated it does not expect to call on this clause it has reserved its rights in this respect if other matters arise.

INDEPENDENT AUDITORS' REPORT Continued

These conditions, along with the other matters explained in the Going concern note in the Preparation section to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and/or Company were unable to continue as a going concern.

What audit procedures we performed

In concluding there is a material uncertainty, our audit procedures included the following:

- We obtained the Directors' financial forecast used in their going concern assessment and their downside sensitivities and conclusions;
- We tested the mathematical accuracy of the Directors' financial forecasts and the calculations for financial covenant compliance;
- We discussed with Management and the Directors, the critical estimates and judgements applied in their going concern assessment so that we could understand and challenge the key assumptions made;
- We obtained evidence supporting the reasonableness of the significant assumptions, including internal documentation and, where possible, external evidence;
- We assessed the likelihood of the different scenarios and sensitivities considered by the Directors and performed our own independent assessment of other potential downside scenarios;
- We also obtained the Management accounts up to 30 September 2020 and reviewed the trend in operating costs. We compared budgets produced at the start of the COVID-19 in April 2020 to actual trading and note that the cost base has reduced in line with budgets demonstrating that the budgeted cost reductions are achievable and sustainable;
- We examined loan agreements and amendments in respect of the Group's borrowing facilities and the related covenants and discussed these with the Group's bankers. We reviewed the covenant compliance of each forecast model;
- We considered the Directors' assessment of the availability of additional liquidity and government support and the ability of the Directors to successfully implement mitigating actions where required; and
- We considered the appropriateness of the disclosures made in respect of the going concern basis of preparation.

Having performed the above procedures, we determined that there is a severe but plausible downside scenario where the covenants could be breached within the 12 months subsequent to signing this report. The current facilities will also need to be refinanced before 30 June 2021 and the default clause on a qualified audit opinion in the banking agreements will need not to be called in by the bank.

INDEPENDENT AUDITORS' REPORT Continued

Our audit approach

Context

This is our first year as statutory auditors of the Group and the Company, having been appointed in late 2019. At the time of our appointment, Management had identified a number of prior period misstatements requiring adjustments and as such our risk assessment and audit approach took this into account. The scope of our audit, as set out later in this report, included those components that we considered higher risk either due to the significance of the balances, or due to issues identified relating to prior years. The extent of our testing and the resulting sample sizes were also reflective of the associated risk.

Overview



- Overall Group materiality: £1.1 million, based on professional judgement having considered both a loss before tax basis and a revenue basis.
 - Overall Company materiality: £1.6 million, based on 1% of net assets.
-
- Full scope audits across 21 reporting units
 - Specified procedures over large or higher risk balances at certain out of scope components to give appropriate coverage of all material or higher risk balances at the Group level
 - Central procedures performed over unlisted investments, management incentive schemes, goodwill and other intangibles, taxation and going concern
-
- Going concern (Group and Company) - see Material uncertainty related to going concern section above
 - Prior period restatements/Revenue recognition (Group) - see Basis for disclaimer of opinion/qualified opinion section above
 - Carrying value of goodwill and investments in associates and joint ventures (Group) and recoverability of investments in subsidiaries and intercompany receivables (Company)
 - Accounting for management incentive schemes and non-controlling interests in subsidiaries (Group and Company)
 - Valuation of unlisted investments (Group)
 - Consideration of the impacts of COVID-19 (Group and Company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures

INDEPENDENT AUDITORS' REPORT Continued

thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to going concern, described in the Material uncertainty related to going concern section above, and prior period restatements/revenue recognition, described in the Basis for disclaimer of opinion/qualified opinion section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<i>Carrying value of goodwill and investments in associates and joint ventures (Group) and recoverability of investments in subsidiaries and intercompany receivables (Company)</i> Refer to the Accounting policies in notes 16 and 17 (Group) and notes 40 & 44 (Company) of the Financial Statements. The Group holds material balances relating to goodwill (£33.6m) and investments in associates and joint ventures (£3.8m). The testing of these balances for impairment is inherently judgemental as it relies on a number of estimates including cash flow forecasts, discount rates and long-term growth rates. These items are all subjective and susceptible to Management bias and calculation risk and resulting impairment charges could be material. The Company balance sheet includes £128.0m investment in subsidiaries and £89.8m intercompany receivables. Given the factors set out above, this is also an area of heightened risk of impairment given the level of estimation in assessing Group cash flows. This risk is only relevant to the Company.	In order to address the risk relating to the carrying value of goodwill we performed the following procedures: - Obtained Management's identification of cash generating units ('CGUs'), assessed this against the criteria set out in IAS 36, "Impairment of assets" and assessed Management's allocation of goodwill and other non monetary assets across the CGUs. As a result of these procedures Management changed their previous analysis of the CGUs, which resulted in a prior year impairment; - Obtained Management's value in use model as at 31 December 2019 and tested its mathematical integrity, including validating inputs to the model such as the underlying carrying values and discount rates applied. As a result of these procedures, we suggested material amendments to Management, which were accepted and incorporated into the model; - Assessed the appropriateness of the allocation of non monetary assets and costs to CGUs - Agreed the forecast cash flows to Board approved budgets and assessed how these budgets are compiled. We evaluated the key judgements and estimates used in the forecast, including the growth rate through comparisons to external industry projections; - Compared the forecast to the actual performance in H1 2020, whilst appreciating that COVID-19 will have had an impact in the later months; - Engaged PwC valuations experts to assess the perpetuity growth rate and discount rate for each CGU; - Performed an independent sensitivity analysis to understand the impact of reasonably possible changes to key assumptions; - Evaluated the indicators of possible Management bias in the impairment assessment by challenging Management assumptions, which were more subjective. - Reviewed Management's disclosures regarding sensitivities in relation to the impact of the COVID-19 pandemic. More broadly, we considered whether the disclosures complied with IAS 36. Our procedures were focused on the specific CGUs within the UK and outside the UK where headroom is lower or more sensitive to changes in key assumptions.

INDEPENDENT AUDITORS' REPORT Continued

Based on the procedures performed over goodwill and other non monetary assets, adjustments were identified which Management reflected in the financial statements.

To address the risk relating to the carrying value of investments in associates and joint ventures we challenged Management assumptions used in their model for the discount rate and growth rate. Based on our challenge, Management updated their model and recorded further impairment to one of the investments.

To address the risk over recoverability of investments in subsidiaries and intercompany receivables, we performed the following procedures:

- Assessed and evaluated the Management's assessment of classification of intercompany loans within the scope of IFRS 9 or IAS 27.
- Evaluated Management's assessment whether any indicators of impairment existed by comparing the carrying values of investments (including IFRS 2 capital contributions) and intercompany loans in subsidiaries with their recoverable amounts at 31 December 2019.
- Verified the assumptions used to calculate the recoverable values of investments were consistent with those used for goodwill impairment purposes in the Group.
- Assessed Management's calculation of the Expected Credit Losses (ECL) under IFRS 9 in relation to the intercompany loans.
- Evaluated the difference between the investment carrying values and the Group's market capitalisation to understand the key reasons.
- Evaluated whether the classification of these loans is appropriate in the Parent Company balance sheet.

Based on the procedures performed and following adjustments made by Management, we noted no material issues arising from our work on the recoverability of investments in subsidiaries and intercompany receivables.

Accounting for management incentive schemes and non-controlling interests in subsidiaries (Group and Company)

Refer to the Accounting policies on page 67 and notes 27 and 28 of the Financial Statements.

There are various share award schemes across the Group, including minority interest put and call options and equity and cash settled management incentive schemes. There is considerable judgement in

In order to address the identified risk we performed the following procedures:

- Obtained underlying agreements for the put/call options including service agreements and acquisition documents to understand the nature of each of the arrangements;
- Discussed and challenged the Group's accounting policy and judgements previously made in assessing whether the incentive schemes are cash or equity settled share-based payments (IFRS 2) or financial instruments (IFRS 9), including assessing whether there are service conditions or business continuity clauses in the underlying agreements or any other indicators that these awards were issued as compensation for employment; and

INDEPENDENT AUDITORS' REPORT Continued

assessing if each scheme falls in the scope of IFRS 9 "Financial instruments" or IFRS 2 "Share-based payments" and this impacts the balance sheet treatment and the classification within the financial statements. The classification is dependent on whether there is a service condition attached to the award (e.g. continuous service). For those schemes deemed to be within the scope of IFRS 9, there is a further judgement as to whether the risk and rewards associated with non-controlling interest (NCI) shares remain with the owners of the NCI, and therefore whether NCI needs to be recorded in the financial statements.

For those schemes deemed to fall under the scope of IFRS 2, calculating the fair value of incentive schemes and for those deemed to fall under IFRS 9 calculating the fair value of the put options involves a high degree of estimation uncertainty. There is a potential range of reasonable outcomes that may be greater than our materiality for the financial statements as a whole.

- Performed specific procedures over IFRS 2 and IFRS 9 schemes as follows:

IFRS 2:

We engaged our internal share-based payment specialists and performed the following:

- Understood Management's valuation approach and assessed suitability and application for the share based payment schemes;
- Challenged Management on the application of the Monte Carlo simulation used to model the Company multiple (a market condition) and the need for subsequent revaluation of subsidiary profits (a non-market condition);
- Challenged Management over the interpretation of grant documentation supporting specific schemes, which resulted in changes to the charges recognised being made by Management;
- Agreed and reviewed the completeness of the awards, forfeitures and exercises during the year to supporting documentation such as grant letters and equity letters;
- Performed a recalculation of the share-based payment liability at the year end relating to cash-settled schemes;
- Corroborated the expected subsidiary profits used in the fair value calculation to budgets for each subsidiary and assessed the reasonableness of future profit growth; and
- Considered disclosures in the financial statements to ensure it is complete and accurate.

IFRS 9:

We carried out the following procedures:

- Agreed the terms to underlying source documents and recalculated the IFRS 9 put option liability based on latest forecasts prepared by Management. We challenged Management's estimates on future profitability, profit multiples and growth rates; and
- Tested the exercises in the year by agreeing these back to bank statements (where the liability has been settled through cash) or to approved board minutes and/or equity issuance documents (where the liability has been settled through issuance of equity).

These procedures resulted in a number of prior year adjustments being made as detailed in note 2, as well as adjustments being made to 2019 results. This included reclassifying a number of schemes from IFRS 9 to IFRS 2 and amending some of the valuation assumptions.

INDEPENDENT AUDITORS' REPORT Continued

<i>Valuation of unlisted investments (Group)</i>	Our audit procedures included:
Refer to the Accounting policies in note 20a of the Financial Statements.	- Obtaining a full list of investments from Management and testing this for completeness based on review of documentation including board minutes and discussions with Management; - Agreeing the initial cost of investments back to share certificates and cash paid; - Obtaining Management's valuations for these investments, except for those that were immaterial, both individually and in aggregate, and assessing its suitability and reliability (e.g. proximity to latest funding round, class of share issued and whether the issue included third parties) for inclusion in the valuation model; - Verifying the inputs into these valuations to external sources where available, e.g. information on funding rounds, investor calls and other available information (from the Company or other publicly available information), and considered whether there were any circumstances or events that had arisen since the dates of these inputs that would impact the valuations; - Searching for ancillary evidence at Companies House, on the internet and from other sources to corroborate or contradict Management's estimates; - Considering the impact on valuations of different share classes of the investment held compared to any funding round; and - For those that were considered to be highly judgemental, we engaged PwC valuations specialists to assist with the assessment of the valuations;
The Group holds shares in unlisted investments, which are held at fair value, with fair value gains and losses recognised in the income statement. At the balance sheet date, these were valued at £14.9m (2018: £14.0m) The investments are generally for a small minority, equity stake in unlisted early stage businesses. There is judgement applied in the consideration of the valuation of the equity, with most being based on a recent funding round or sale of shares, however, some valuations are made based on the fund manager's expertise with less supporting evidence presented by Management. As such, we included this as a key audit matter due to the high level of judgement applied and the value of the overall investments.	Our work identified a number of judgemental adjustments, which have been reflected by Management in the financial statements.
<i>Consideration of the impact of COVID-19 (Group and Company)</i>	We agree with Management's assessment of COVID-19 as a non-adjusting post balance sheet event.
Refer to the Going Concern note in the Preparation section on page 66 and note 36 of the Financial Statements.	The procedures we have performed over going concern, and our conclusions are set out in the 'Material uncertainty related to going concern – Group and Company' section above and the 'Going concern section' below.
Management and the Board have considered the potential impact of the non-adjusting post balance sheet events that have been caused by the global pandemic of COVID-19 on the current and future operations of the business. In doing so, Management has had particular focus on the Group's and Company's ability to continue as a going concern. As a result of the impact of COVID-19 on the sector and the wider economy, Management and the Board have spent a large amount of time to fully consider the implications for the Group. COVID-19 is a non-adjusting post balance sheet event and as such, we determined that Management's consideration of the potential impact of COVID-19 on going concern was the only key audit matter.	

INDEPENDENT AUDITORS' REPORT Continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate. However, as explained in the 'Basis for disclaimer of opinion/qualified opinion above, there were limitations on the scope of our work.

The Group's consolidation comprises 119 reporting units including trading entities, holding companies and dormant entities. The Group's trading entities vary significantly in size and we identified 21 reporting units that, in our view, required an audit of their complete financial information, due to their size or risk characteristics.

Specific audit procedures over certain balances and transactions were performed at a number of out of scope components, to give appropriate coverage of all material or higher risk balances at the Group level. In doing so we conducted work in eight countries through a combination of use of local PwC network teams, or members of the Group audit team performing visits and testing locally. Further, specific audit procedures over central functions and areas of significant judgement, including unlisted investments, management incentive schemes, goodwill and other intangibles, taxation and going concern were performed by the Group audit team centrally. Due to the complexities we encountered in auditing revenue for the full scope entities, we also performed additional detailed testing over the out of scope entities with significant revenue balances including obtaining supporting documentation for revenue contracts and reviewing the balance sheet accounts for revenue related items.

Together, the reporting units subject to audit procedures and centralised testing accounted for 84% of Group revenues and 79% of absolute Group loss before tax. For all reporting units that were not considered to be in scope for audit procedures, the Group audit team performed desktop review procedures on a reporting unit basis.

Where the work was performed by an overseas reporting unit audit team, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. As a part of our year end procedures, we held numerous discussions with the overseas reporting unit teams to evaluate and review the work performed, update calls on the progress of their fieldwork, discussion of issues arising and judgements taken, and involvement in key meetings with local Management.

Our scoping of the Company was based on the materiality of the Company and covered all material financial statement line items and related disclosure notes. All work was performed by the Group audit team.

INDEPENDENT AUDITORS' REPORT Continued

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£1.1 million.	£1.6 million.
How we determined it	Use of professional judgement having applied 'rule of thumb' percentages to a number of potential benchmarks and considering the overall scale of the business.	1% of net assets
Rationale for benchmark applied	We considered materiality in a number of different ways, including: • application of a 5% statutory loss before tax would result in an indicative overall materiality of £0.4 million; and • our standard rule of thumb of 1% applied to revenue would result in an indicative overall materiality of £3.9 million. In our professional judgement, we concluded that the higher end of the range (£3.9m million) would encompass amounts which, if impacting reported losses, could influence decisions made by the Group's members as a body, and which therefore would be considered material. We also concluded, in our professional judgement, that amounts at the lower end of the range (£0.4 million) would not influence such decisions, given the scale of M&C Saatchi's operations. We therefore determined that an appropriate level of materiality for performing the 2019 audit would be within this range, whilst at neither the upper nor lower end. Based on our professional judgement, we selected an overall materiality of £1.1 million.	We believe that as a non-trading entity, net assets is the key measure used by members in assessing the performance of the Company for the year.

For each reporting unit in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across reporting units was between £39,000 and £728,000. Certain reporting units were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £55,000 (Group audit) and £80,000 (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

INDEPENDENT AUDITORS' REPORT Continued

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to other than the material uncertainty we have described in the material uncertainty related to going concern section above. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Except for the possible effects of the matters referred to in the "Basis for disclaimer of opinion/qualified opinion" section above, we have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

INDEPENDENT AUDITORS' REPORT Continued

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and except for the possible effects of the matters referred to in the "Basis for disclaimer of opinion/qualified opinion" section above, has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, except for the possible effects of the matters referred to in the "Basis for disclaimer of opinion/qualified opinion" section above, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the Directors' reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The Directors' confirmation on page 20 of the Annual 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 or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 58 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider 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.

Other than drawing attention to the material uncertainty we have described in the material uncertainty related to going concern section above, we have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the Directors' reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the Directors, on page 63, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 40 to 49 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 respect of this responsibility.

INDEPENDENT AUDITORS' REPORT Continued

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in Directors' Responsibilities on pages 63 and 64, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also 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.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Arising from the limitation of our work referred to in the "Basis for disclaimer of opinion/qualified opinion" section above we have not obtained all the information and explanations that we consider necessary for the purpose of our audit.

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT Continued

Other voluntary reporting

Going concern

The Directors have requested that we review the statement on pages 56 and 57 in relation to going concern as if the Company were a premium listed Company. Other than drawing attention to the material uncertainty we have described in the material uncertainty related to going concern section above, we have nothing to report having performed our review.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

The Directors have requested that we perform a review of the Directors' statements on page 58 that they have carried out a robust assessment of the principal risks facing the Group and in relation to the longer-term viability of the Group, as if the Company were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. Other than drawing attention to the material uncertainty we have described in the material uncertainty related to going concern section above, we have nothing to report having performed this review.

Other Code provisions

The Directors have prepared a corporate governance statement and requested that we review it as if the Company were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration

The Company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The Directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.



Nigel Reynolds (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 December 2020

ADDITIONAL INFORMATION

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Secretary and registered office

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Country of registration

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Company number
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Investor relations website
www.mcsaatchiplc.com

Corporate events

AGM
31 December 2020

Preliminary announcement of 2020 result
Late April 2021