

M&C SAATCHI

M&C SAATCHI PLC PRELIMINARY RESULTS

**TWELVE MONTHS TO
31 DECEMBER 2006**

22 March 2007

Definition

To give a more meaningful commentary on the underlying performance of the business all references to profit, operating profit, profit before tax and profit for the financial year have been made before the amortisation of goodwill. The charge for the amortisation of goodwill is stated in the preliminary consolidated profit and loss account which follows this commentary.

Overview

2006 has been a successful year for the Group, driven by a strong new business performance which gained momentum throughout the year. Reported revenues grew by 11.6% (12.5% using constant currencies) to £75.9m (2005: £68.0m), the twelfth successive year of revenue growth. The performance has been the strongest in the UK across all the businesses but in particular Walker Media. In America the growth was driven by LA. Our offices in Australia and Malaysia also performed well.

Group profits for 2006 increased by 4.2% to £7.8m (2005: £7.5m), with strong growth in the UK, Australia, LA and Malaysia. There were operating losses in New York, Asia (excluding Malaysia) and New Zealand. Group margin reduced to 10.2% (2005: 11.0%).

Our expansion into Europe remains on track. In July 2006 we acquired Berlin agency International Projects, now re-branded M&C Saatchi to add to our Paris office which opened in September 2005. The Paris office had an excellent first full year. We are delighted to be able to announce that we have acquired 25% of a Spanish marketing services group, with a commitment to acquire a further 50% over the next two years. We will make a further announcement once all the formalities have been completed.

Financial Review

Revenue

	2006 £000's	2006 Contribution	Inc/Dec	
			Reported rates	Constant rates
UK	44,336	58%	12.3%	12.3%
Asia & Australia	25,638	34%	2.2%	4.4%
America	3,632	5%	13.1%	14.6%
Europe	2,271	3%	****	****
Group Total	75,877	100%	11.6%	12.5%

2006 was our strongest year of revenue growth since 2000. Organic growth is still the main driver of the group's success accounting for 11.8% of the underlying growth of 12.5% (using constant exchange rates).

There were good revenue performances from companies across the group, the outstanding performances coming from Walker Media, in the UK, and from Malaysia and LA.

We are now starting to see an important contribution from our European expansion with first full year revenues from our office in Paris and second half contribution from our Berlin office.

Operating Performance

	Operating Profit			Operating Margin (Operating profit : revenue)	
	£'000s	06 V's 05		V's 05	2006
		£000's		%	%
UK	6,307	496	9%	-0.5pts	14.2%
Asia & Australia	1,496	(621)	-29%	-2.6pts	5.8%
America	(261)	61	23%	2.8pts	-7.2%
Europe	(1,284)	145	10%	***	***
Group Total	6,258	81	1%	-0.8pts	8.2%

The headline operating profit increased by 1.3% to £6.3m (2005: £6.2m). The operating margin declined by 0.8pts to 8.2%.

The operating performance was held back by the final year of investment into Europe (£1.3m) and the continued support of the New York office which resulted in the net operating loss of £261k across the two offices in America. The reduction in the Group's operating margin is largely due to the decline in profit in Asia and Australia down 29% or £621k to £1.5m (2005: £2.1m).

The contribution from net interest grew by 10.6% to £1.5m (2005: £1.4m).

Profit before tax increased by 4.2% to £7.8m (2005: £7.5m).

The effective tax rate for the Group increased marginally to 37.1% (2005: 36.1%). The rate remains high due to the Group not being able to utilise trading losses where incurred, against current profits.

The profit for the financial year (after tax and minority interest) declined by 8.9% to £3.7m (2005: 4.1m). This was due to the significant increase in earnings attributable to minorities up 73% to £1.1m (2005: £663k), the principal reason was the increase in profits from Walker Media where there is a 25% minority held by the management.

The Board has recommended a final dividend of 2.43 pence per share (2005: 1.78 pence), which together with the interim dividend of 0.77 pence per share gives a full year dividend of 3.2 pence (2005: 2.55 pence), an increase of 25%. The dividend will be paid on the 11th June 2007 to shareholders on the register as at 11th May 2007.

Review of Operations

UK

The UK had an excellent year with revenues up by 12.3% to £44.3m (2005: £39.5m). There were strong performances from Walker Media (media planning and buying), LIDA (direct & digital marketing), Talk PR and from M&C Saatchi Sports and Entertainment. Around 53% (2005: 45%) of revenues in the UK are now derived from services provided outside the creation of advertising. Account wins across the UK business during 2006 included Kingsmill (Allied Bakeries), Lucozade Energy (GSK), CB Richard Ellis, and Swiss One. Digital and on-line activities are becoming increasingly important and have continued to drive growth in all parts of the Group but specifically in LIDA and Walker-*z*.

Competitive pressures in the Advertising industry remain strong. Clients continue to seek increased service levels at lower fees and a re-pitch is becoming an opportunity to seek fresh ideas and lower fees. This is having its inevitable effect on the operating margin which has declined by 0.5pts to 14.2%.

Asia and Australia

The performance across the region was mixed. Revenues were up by 2.2% (4.4 % at constant currencies) but profit declined by 29% to £1.5m (2005: £2.1m). The operating margin declined by 2.6pts to 5.8%. As already highlighted the offices in Malaysia and Australia both had strong years with the combined profits increasing by £449k or 26% to £2.1m. The picture was less good elsewhere. The start up offices in India and Thailand contributed to the revenue growth but incurred combined first full year losses of £354k, however 2007 has started well with India winning the Jet Airways account.

The rest of the region (Greater China, Singapore and New Zealand) reported a net loss of £299k. The operating performance of these offices improved significantly in the second half and they are in better shape in 2007.

America

The US business has seen good growth with revenues up 13.1% (14.6% at constant currency) to £3.6m (2005: £3.2m). Our highly successful office in Los Angeles is becoming the focus of our US business with revenues up 47% more than compensating for the decline in New York. The most significant new business win in the US was Petco in LA. Other important wins included City National Bank, Network Omni and the Getty museum.

We have recently scaled back our New York overhead by consolidating the US Management into LA in order to restore the region to profit.

Europe

After a good start last autumn, our Paris office has continued its successful progress with first full year revenues on budget. New account wins have included further brands from Pernod Ricard, which is developing into a strong pan-European account run from France, S'Miles, Branly Museum, Bordeaux Wines, and Yves Rocher. The year ended on a high following the win of La Banque Postale. Together with the contribution from our Berlin business which has already built up an impressive array of clients including Ferrero and Coca Cola, the region generated revenues of £2.3m for the year and is expected to move into profit in 2007.

As announced above we have made an initial acquisition of 25% of a Spanish Marketing Services group with a commitment to acquire a further 50% over the next two years. The Spanish group made a PBT of £0.9m in 2006.

Outlook

The investment phase of our European expansion (£1.3m in 2006) is now complete and we expect that the region will move into profit in 2007.

Conditions are fairly tough in the UK and Australia. However, there is significant room for improvement from the offices in Asia Pacific and New York. There remains broader opportunities for new business development and earnings growth around the world.

Taking all of this into account, the outlook for 2007 remains in line with current expectations.

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PRELIMINARY CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Unaudited year ended 31-Dec 2006 £000	Audited year ended 31-Dec 2005 £000
Turnover			
– Continuing operations		368,918	298,284
– Acquisitions		572	–
Turnover	2	369,490	298,284
Cost of sales	3	(293,613)	(230,283)
Gross profit		75,877	68,001
Administrative expenses			
– Ordinary		(69,197)	(61,639)
– Share based payment		(422)	(185)
– Amortisation of goodwill		(1,735)	(1,688)
Administrative expenses	3	(71,354)	(63,512)
Operating profit			
– Continuing operations		4,455	4,480
– Acquisitions		68	9
Operating profit		4,523	4,489
Share of operating profit /(loss) of associates		15	(75)
Interest receivable		1,540	1,384
Interest payable		(41)	(29)
Profit on ordinary activities before taxation		6,037	5,769
Taxation on profit on ordinary activities	4	(2,886)	(2,690)
Profit on ordinary activities after taxation		3,151	3,079
Minority interests		(1,148)	(663)
Profit for the financial year		2,003	2,416
Earnings per share			
– Basic	6	3.73p	4.46p
– Diluted	6	3.69p	4.41p

All amounts relate to continuing activities.

The reconciliation of movements in shareholders' funds is shown in note 8.

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PRELIMINARY CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

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PRELIMINARY CONSOLIDATED BALANCE SHEET

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

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PRELIMINARY CONSOLIDATED CASH FLOW STATEMENT

	Note	Unaudited Year ended 31-Dec 2006 £000	Audited Year ended 31-Dec 2005 £000
Cash inflow from operating activities		18,506	7,046
Returns on investments and servicing of finance	9	543	933
Taxation	9	(3,275)	(2,544)
Capital expenditure and financial investment	9	(1,670)	(1,252)
Acquisitions and disposals	9	(628)	(182)
Equity dividends paid	5	(1,377)	(1,045)
Net cash inflow before financing		12,099	2,956
Financing	9	(866)	(18)
Increase in cash in the year	11	11,233	2,938

NET CASH INFLOW FROM OPERATING ACTIVITIES

	Unaudited Year ended 31-Dec 2006 £000	Audited Year ended 31-Dec 2005 £000
Operating profit	4,523	4,489
Amortisation of intangible fixed assets	1,735	1,688
Depreciation	1,212	1,183
Loss on sale of tangible fixed assets	4	59
Decrease in work in progress	747	224
Decrease / (Increase) in debtors	3,036	(3,003)
Increase in creditors	6,775	2,213
Increase in provision	189	186
Option charge	213	85
Exchange differences	72	(78)
	18,506	7,046

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NOTES TO THE PRELIMINARY STATEMENT

1. STATUTORY INFORMATION

The financial information contained in this announcement, for the years ended 31st December 2006 or 2005, does not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985. The financial information for the year ended 31st December 2005 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors report on those accounts was unqualified. The statutory accounts for the year ended 31st December 2006 will be finalised on the basis of the financial information presented by the directors in this unaudited preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting. The audit report for the year ended 31st December 2006 has yet to be signed.

The preliminary announcement was approved by the board of directors on 21st March 2007.

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NOTES TO THE PRELIMINARY STATEMENT (Continued)

2. TURNOVER, PROFIT AND NET ASSETS

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

	Unaudited	Audited
	2006	2005
	£000	£000

Turnover

Analysis by geographical market:

By origin and destination

UK	306,291	245,926
Asia and Australia	51,995	45,636
America	6,802	6,417
Europe	4,402	305
	<u>369,490</u>	<u>298,284</u>

Gross profit

Analysis by geographical market:

By origin

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

Operating profit / (loss) – excluding amortisation of goodwill

Analysis by geographical market:

By origin

UK	6,307	5,811
Asia and Australia	1,496	2,117
America	(261)	(322)
Europe	(1,284)	(1,429)
	<u>6,258</u>	<u>6,177</u>

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NOTES TO THE PRELIMINARY STATEMENT (Continued)

2. TURNOVER, PROFIT AND NET ASSETS CONTINUED

	Unaudited 2006 £000	Audited 2005 £000
Operating profit/(loss)		
Analysis by geographical market:		
By origin		
UK	4,572	4,123
Asia and Australia	1,496	2,117
America	(261)	(322)
Europe	(1,284)	(1,429)
	<u>4,523</u>	<u>4,489</u>

Profit/(loss) before taxation

Analysis by geographical market:

By origin		
UK	6,034	5,318
Asia and Australia	1,558	2,202
America	(254)	(319)
Europe	(1,301)	(1,432)
	<u>6,037</u>	<u>5,769</u>

Net assets/(liabilities)

Analysis by geographical market:

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

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NOTES TO THE PRELIMINARY STATEMENT (Continued)

3. COST OF SALES AND ADMINISTRATIVE EXPENSES

	Unaudited 2006 £000	Audited 2005 £000
Cost of sales		
Continuing operations	293,512	230,283
Acquisitions	101	–
	<hr/> 293,613	<hr/> 230,283
Administrative expenses		
Continuing operations	70,951	63,512
Acquisitions	403	–
	<hr/> 71,354	<hr/> 63,512

The acquisition in the year relates to 03 International Projects GmbH which was acquired and rebranded as M&C Saatchi Berlin GmbH on 24th July 2007.

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NOTES TO THE PRELIMINARY STATEMENT (Continued)

4. TAXATION ON PROFIT FROM ORDINARY ACTIVITIES

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

The tax assessed for the year differs from that obtained by using the standard rate of corporation tax in the UK. The differences are explained below:

	Unaudited Year ended 2006 £000	Audited Year ended 2005 £000
Profit on ordinary activities before tax	6,037	5,769
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005: 30%)	1,811	1,731
Effects of:		
Expenses not deductible for tax	238	215
Goodwill amortisation	520	506
Unrelieved losses carried forward	292	204
Differences between capital allowances and depreciation	(23)	23
Short term timing differences	188	(113)
Short term timing differences due to provision on options and phantom bonus accruals	112	49
Adjustment to tax charge in respect of previous years	(68)	53
Tax rate differences	55	(19)
Current tax charge for year	3,125	2,649

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NOTES TO THE PRELIMINARY STATEMENT (Continued)

5. DIVIDENDS

	Unaudited Year ended 2006 £000	Audited Year ended 2005 £000
2005 Final dividend 1.78p (2004: 1.16p)	965	629
2006 Interim dividend of 0.77p per share (2005: 0.77p)	412	416
	<hr/> 1,377	<hr/> 1,045
2006 Final dividend 2.43p (£1,300,000)		

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NOTES TO THE PRELIMINARY STATEMENT (Continued)

6. EARNINGS PER SHARE

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

Earnings per share are calculated as follows:

	Unaudited Year ended 2006 £000	Audited Year ended 2005 £000
Numerator for calculation of basic and diluted EPS	2,003	2,416
Denominator		
Weighted average number of ordinary shares used in basic EPS	53,677,484	54,206,799
Sharesave options	258,682	130,138
Options	411,050	411,050
Weighted average number of ordinary shares used in diluted EPS	54,347,216	54,747,987
Earnings per share		
Basic	3.73p	4.46p
Diluted	3.69p	4.41p

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

Headline earnings per share

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

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

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

Headline Earnings per share		
Basic	6.97p	7.68p
Diluted	6.89p	7.61p
Numerator for calculation of basic and diluted headline EPS		
	2006	2005
Profit for financial year	2,003	2,416
Goodwill amortisation	1,735	1,688
Loss on disposal of fixed assets	4	59
Earnings used for calculation of headline basic and diluted EPS	3,742	4,163

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

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NOTES TO THE PRELIMINARY STATEMENT (Continued)

7. RESERVES

	Ordinary share capital £000	Share premium account £000	Merger reserve £000	Treasury reserve £000	Share option reserve £000	Profit and loss account £000	Total £000
At 1 January 2005 (audited)	542	9,618	14,756	–	599	6,101	31,616
Exchange differences	–	–	–	–	–	(305)	(305)
Non cash share based incentive plans	–	–	–	–	213	–	213
Merger reserve release on goodwill amortisation	–	–	(1,203)	–	–	1,203	–
Dividends	–	–	–	–	–	(1,377)	(1,377)
Purchase of own shares	–	–	–	(792)	–	–	(792)
Retained profit for the year	–	–	–	–	–	2,003	2,003
At 31 December 2006 (unaudited)	542	9,618	13,553	(792)	812	7,625	31,358

8. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Unaudited Year ended 2006 £000	Audited Year ended 2005 £000
Profit for the financial year		
– Group	1,998	2,497
– Associates	5	(81)
Dividend	(1,377)	(1,045)
	626	1,371
Exchange differences	(305)	(50)
Non cash share based incentive plans	213	85
Purchase of own shares	(792)	–
Net (reduction) / addition to shareholders' funds	(258)	1,406
Opening shareholders' funds	31,616	30,210
Closing shareholders' funds	31,358	31,616

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NOTES TO THE PRELIMINARY STATEMENT (Continued)

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

	Unaudited Year ended 31-Dec 2006 £000	Audited Year ended 31-Dec 2005 £000
Returns on investments and servicing of finance		
Interest received	1,540	1,384
Interest paid	(20)	(8)
Interest element of finance lease rental payments	(13)	(15)
Minority interest dividend paid	(964)	(428)
	543	933
Taxation		
UK taxation paid	(2,215)	(1,851)
Overseas taxation paid	(1,060)	(693)
	(3,275)	(2,544)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,686)	(1,289)
Sale of tangible fixed assets	16	37
	(1,670)	(1,252)
Acquisitions and disposals		
Investment in subsidiary	(741)	(369)
Cash acquired with subsidiary undertakings	113	187
	(628)	(182)
Financing		
Purchase of own shares	(792)	–
Shares issued to minorities in subsidiaries	–	124
Inception of bank loans	34	–
Repayment of bank loans	(2)	–
Capital element of finance lease rental payments	(106)	(142)
	(866)	(18)

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NOTES TO THE PRELIMINARY STATEMENT (Continued)

10. ANALYSIS OF CHANGES IN NET FUNDS

	Balance at 01-Jan 2006 (Audited) £000	Cash inflow £000	Finance leases £000	Exchange movements £000	Balance at 31-Dec 2006 (Unaudited) £000
Cash at bank and in hand	20,486	11,233	–	(407)	31,312
Overdrafts	(29)	–	–	1	(28)
Bank loan	–	(32)	–	–	(32)
Finance leases	(128)	106	(6)	(3)	(31)
Total	20,329	11,307	(6)	(409)	31,221

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

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