

M&C SAATCHI PLC

PRELIMINARY RESULTS

YEAR ENDED
31 DECEMBER 2018

27 March 2019

M&C Saatchi PLC – Preliminary Statement
Preliminary Results for the year ended 31 December 2018

27 March 2019

Financial Highlights 2018		Growth versus 2017
Net Revenue	£255.3m	+ 2% (2017: £251.5m)
Net Revenue <small>in constant currencies</small>	£260.7m	+ 4%
Operating Profit	£30.3m	+ 13% (2017: £26.7m)
Operating Margin	12.3%	+ 1% (2017: 11.3%)
Profit Before Tax	£32.2m	+ 16% (2017: £27.7m)
Profit After Tax and MI	£21.0m	+ 17% (2017: £18.0m)
EPS	25.01p	+ 9% (2017: 23.04p)
Full-Year Dividend	10.96p	+ 15% (2017: 9.53p)

The highlights are headline results, see note on next page for definition.

Operational Highlights

- Record results in terms of net revenue and earnings
- Global Network performed well:
 - UK: like-for-like net revenue up 2%
 - Europe: like-for-like net revenue up 2%
 - Middle East and Africa: like-for-like net revenue up 11%
 - Asia and Australia: like-for-like net revenue up 6%
 - Americas: like-for-like net revenue up 3%
- Robust balance sheet with net borrowing of £2.2m with seasonal working capital outflow (£10.3m net cash at 31st December 2017). We sold our 24.9% stake in Walker Media since the year-end to Publicis for £25m
- Final dividend increased 15% to 8.51p

David Kershaw, Chief Executive, said:

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

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

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Notes to Editors

Headline results

The term headline is not a defined term in IFRS. The items that are excluded from headline results are the amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investment in associates; profit or loss on disposal of associates; revaluation of investments and their related costs; and the income statement impact of put option accounting and share based payment charges. See note 3 for a reconciliation between the Group's statutory results and the headline results.

Like-for-like

The term like-for-like is not a defined term in IFRS. The like-for-like results are headline results translated at 2017 exchange rates, to give a constant currency result.

SUMMARY OF RESULTS

2018 saw record results in terms of net revenue and earnings. Actual revenues grew by 2%, with constant currency revenues increasing 4%. Excluding the costs of businesses started in the year, we returned a headline operating margin of 12.3%, up from 11.3% in 2017, with our newer higher margin businesses building momentum. The headline profit before tax advanced 16% to £32.2m and headline net earnings rose by 17%. Statutory profit before tax was up 90% from £9.3m to £17.6m.

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

UK

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

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

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

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

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

The UK headline operating profit margin increased to 17.6%, compared with 16.0% in 2017. These margins exclude the impact of Group recharges.

Europe

European like-for-like net revenue increased 2% year on year. Headline operating profit was up 6%, with a headline operating margin of 15.8% (2017: 15.2%).

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

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

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

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

Middle East and Africa

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

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

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

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

Tel Aviv maintains its good progress and won Philips.

As we expected, the operating profit in the region was down 25% and the headline operating margin decreased to 7.6% from 10.9% in 2018 with investment in new business costs. This investment will be returned in 2019 with enhanced net revenue.

Asia and Australia

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

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

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

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

The headline regional operating margin excluding start-up costs was 10.6% (2017: 11.4%), with the headline operating profit down 7% on 2017. This was due to exceptional fourth quarter new business pitch costs in Australia. These secured the 2019 new business wins and consequently we expect an improved margin going forward.

Americas

Like-for-like net revenue was 3% up and headline operating profit was up 43% with a headline operating margin of 14.2% excluding start-up costs (2017: 9.9%).

In the US, Performance continues to perform well.

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

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

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

Outlook

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

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

M&C SAATCHI PLC

UNAUDITED PRELIMINARY CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2018

Year ended 31 December	Note	2018 £000	2017 £000
Billings		607,464	535,964
Revenue	2	431,844	251,481
Cost of sales	2	(176,471)	-
Net revenue	2	255,373	251,481
Operating costs		(240,189)	(246,146)
Other gains		1,584	-
Operating profit		16,768	5,335
Share of results of associates and joint ventures		2,825	1,987
Finance income	5	273	3,326
Finance costs	5	(2,268)	(1,346)
Profit before taxation		17,598	9,302
Taxation	6	(6,635)	(4,736)
Profit for the year		10,963	4,566
Attributable to:			
Equity shareholders of the Group		8,255	2,672
Non-controlling interests		2,708	1,894
Profit for the year		10,963	4,566
Earnings per share			
Basic (pence)		9.79p	3.43p
Diluted (pence)		9.15p	3.31p
Headline results*			
Operating profit		30,327	26,725
Profit before tax		32,297	27,655
Profit after tax attributable to equity shareholders of the Group		21,096	17,971
Basic earnings per share (pence)		25.01p	23.04p
Diluted earnings per share (pence)		23.38p	21.22p

*The reconciliation of headline to statutory results above can be found in Note 3.

M&C SAATCHI PLC

UNAUDITED PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2018

Year ended 31 December	2018 £000	2017 £000
Profit for the year	10,963	4,566
Other comprehensive income*		
Exchange differences on translating foreign operations before tax	(228)	(1,177)
Other comprehensive income for the year net of tax	(228)	(1,177)
Total comprehensive income for the year	10,735	3,389
Total comprehensive income attributable to:		
Equity shareholders of the Group	8,027	1,495
Non-controlling interests	2,708	1,894
Total comprehensive income for the year	10,735	3,389

M&C SAATCHI PLC

UNAUDITED PRELIMINARY CONSOLIDATED BALANCE SHEET

At 31 DECEMBER 2018

At 31 December	2018 £000	2017 £000
Non-current assets		
Plant and equipment	12,866	12,269
Intangible assets	50,031	48,515
Investments in associates and JV	9,483	19,725
Other non-current assets	4,248	9,325
Deferred tax assets	5,681	4,797
Financial assets at fair value through profit or loss	12,958	-
	95,267	94,631
Current assets		
Trade and other receivables	149,588	120,096
Current tax assets	968	945
Cash and cash equivalents	50,065	48,957
Non-current assets classified as Held-for-sale	13,106	-
	213,727	169,998
Current liabilities		
Trade and other payables	(141,453)	(128,256)
Current tax liabilities	(2,976)	(1,221)
Borrowings	(14,060)	(3,731)
Deferred and contingent consideration	(752)	(377)
Minority shareholder put option liabilities	(12,327)	(14,813)
	(171,201)	(148,398)
Net current assets	42,159	21,600
Total assets less current liabilities	137,426	116,231
Non-current liabilities		
Deferred tax liabilities	(1,444)	(761)
Borrowings	(38,092)	(37,764)
Contingent consideration	(514)	(833)
Minority shareholder put option liabilities	(6,063)	(10,316)
Other non-current liabilities	(2,393)	(2,487)
	(48,506)	(52,161)
Total net assets	88,920	64,070
Equity		
Share capital	876	813
Share premium	47,895	32,095
Merger reserve	31,592	31,592
Treasury reserve	(792)	(792)
Minority interest put option reserve	(12,954)	(13,958)
Non-controlling interest acquired	(22,475)	(21,040)
Foreign exchange reserve	3,365	3,593
Retained earnings	34,206	25,235
Equity attributable to shareholders of the Group	81,713	57,538
Non-controlling interest	7,207	6,532
Total equity	88,920	64,070

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UNAUDITED PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2018

	Share capital £000	Share premium £000	Merger reserve £000	Treasury reserve £000	MI put option reserve £000	Non-controlling interest acquired £000	Foreign exchange reserves £000	Retained earnings £000	Subtotal £000	Non-controlling interest in equity £000	Total £000
At 1 January 2017	749	24,099	31,592	(792)	(20,598)	(13,122)	4,770	15,871	42,569	6,828	49,397
Acquisitions	4	1,498	-	-	-	-	-	-	1,502	235	1,737
Acquisitions of minority interest	5	1,587	-	-	-	(1,390)	-	-	202	310	512
Exercise of put options	55	4,911	-	-	6,640	(6,640)	-	(61)	4,905	-	4,905
Exchange rate movements	-	-	-	-	-	112	-	-	112	(252)	(140)
Share option charge	-	-	-	-	-	-	-	13,501	13,501	-	13,501
Dividends	-	-	-	-	-	-	-	(6,748)	(6,748)	(2,483)	(9,231)
Total transactions with owners	64	7,996	-	-	6,640	(7,918)	0	6,692	13,474	(2,190)	11,284
Total comprehensive income for the year	-	-	-	-	0	-	(1,177)	2,672	1,495	1,894	3,389
At 31 December 2017	813	32,095	31,592	(792)	(13,958)	(21,040)	3,593	25,235	57,538	6,532	64,070
Adjustment on initial application of IFRS 15	-	-	-	-	-	-	-	28	28	-	28
Adjustment on initial application of IFRS 9	-	-	-	-	-	-	-	2,971	2,971	-	2,971
Adjusted balance at 1 January 2018	813	32,095	31,592	(792)	(13,958)	(21,040)	3,593	28,234	60,537	6,532	67,069
Acquisitions	18	6,484	-	-	-	-	-	-	6,502	-	6,502
Acquisitions of minority interest	-	-	-	-	-	(372)	-	-	(372)	-	(372)
Exercise of put options	44	8,858	-	-	973	(973)	-	(9)	8,893	-	8,893
Exchange rate movements	-	-	-	-	31	(90)	-	-	(59)	24	(35)
Deferred consideration	1	458	-	-	-	-	-	-	459	-	459
Issue of shares to minorities	-	-	-	-	-	-	-	-	-	551	551
Share option charge	-	-	-	-	-	-	-	6,104	6,104	-	6,104
Dividends	-	-	-	-	-	-	-	(8,378)	(8,378)	(2,608)	(10,986)
Total transactions with owners	63	15,800	-	-	1,004	(1,435)	-	(2,283)	13,149	(2,033)	11,116
Total comprehensive income for the year	-	-	-	-	-	-	(228)	8,255	8,027	2,708	10,735
At 31 December 2018	876	47,895	31,592	(792)	(12,954)	(22,475)	3,365	34,206	81,713	7,207	88,920

M&C SAATCHI PLC

UNAUDITED PRELIMINARY CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2018

Year ended 31 December	2018 £000	2017 £000
Net revenue	255,373	251,481
Operating expenses	(240,189)	(246,146)
Other gains	1,584	–
Operating profit	16,768	5,335
Adjustments for:		
Depreciation of plant and equipment	3,568	3,079
Loss on sale of plant and equipment	98	57
Loss on sale of software intangibles	14	4
Increase in financial assets at FVTPL	(1,584)	–
Fair value revaluation of associate on step acquisition	–	–
Impairment and amortisation of acquired intangible assets	4,427	2,021
Impairment of associate and investments	674	–
Impairment of goodwill	2,195	5,214
Amortisation of capitalised software intangible assets	294	211
Equity settled share based payment expenses	6,104	13,501
Operating cash before movements in working capital	32,558	29,422
Increase in trade and other receivables	(23,365)	(10,806)
Increase in contract assets	(1,281)	–
Increase / (Decrease) in trade and other payables	(1,718)	11,665
Increase in contract liabilities	8,986	–
Cash generated from operations	15,180	30,281
Tax paid	(6,355)	(6,727)
Net cash from operating activities	8,825	23,554
Investing activities		
Acquisitions of subsidiaries net of cash acquired	441	(951)
Acquisitions of associates	(904)	0
Acquisitions of investments	(780)	(2,024)
Proceeds from sale of plant and equipment	77	77
Purchase of plant and equipment	(4,191)	(3,451)
Purchase of capitalised software	(1,292)	(385)
Dividends received from associates	428	1,806
Interest received	273	288
Net cash consumed investing activities	(5,948)	(4,640)
Net cash from operating and investing activities	2,877	18,914

M&C SAATCHI PLC

UNAUDITED PRELIMINARY CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

YEAR ENDED 31 DECEMBER 2018

Year ended 31 December	2018 £000	2017 £000
Net cash from operating and investing activities	2,877	18,914
Financing activities		
Dividends paid to equity holders of the Company	(8,378)	(6,748)
Dividends paid to non-controlling interest	(2,608)	(2,484)
Proceeds from issue of shares to non-controlling interests	85	-
Repayment of finance leases	(45)	(28)
Repayment of invoice discounting	(914)	(730)
Proceeds from bank loans	9,100	10,240
Repayment of bank loans	(9,462)	(359)
Interest paid	(1,355)	(1,275)
Net cash consumed by financing activities	(13,577)	(1,384)
Net (decrease) / increase in cash and cash equivalents	(10,700)	17,530
Effect of exchange rate fluctuations on cash held	54	(795)
Cash and cash equivalents at the beginning of the year	48,957	32,222
Total cash and cash equivalents at the end of the year	38,311	48,957
Cash and cash equivalents	50,065	48,957
Bank Overdrafts*	(11,754)	-
Total cash and cash equivalents at the end of the year	38,311	48,957
Bank loans and borrowings*	(40,818)	(41,590)
Net cash	(2,507)	7,367

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

M&C SAATCHI PLC

NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is a public limited company incorporated and domiciled in the UK. The address of its registered office is 36 Golden Square, London W1F 9EE. The Company is listed on the AIM market of the London Stock Exchange. These 2018 preliminary statements were approved for issue on 26 March 2019. The financial information set out below does not constitute the company's statutory accounts for 2017 or 2018. Statutory accounts for the year ended 31 December 2017 have been reported on by the Independent Auditors. The Independent Auditors' Report on the Annual Report and Financial Statements for 2017 unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. The audit report for the year ended 31 December 2018 has yet to be signed. Statutory accounts for the year ended 31 December 2017 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2018 will be delivered to the Registrar in due course.

Headline results

The Directors believe that the headline results and headline earnings per share provide additional useful information on the underlying performance of the business. The headline 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. Note 3 reconciles reported to headline results.

Our segmental reporting (note 4) reflects our headline results in accordance with IFRS 8.

The items that are excluded from headline results are the amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investment in associates; profit or loss on disposal of associates; revaluation of investments and their related costs; and the income statement impact of put option accounting and share based payment charges. See note 3 for a reconciliation between the Group's statutory results and the headline results.

M&C SAATCHI PLC

NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. ACCOUNTING POLICIES

The unaudited preliminary consolidated financial statements comply with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) as adopted by the European Union and issued by the International Accounting Standards Board (IASB) and with the accounting policies of the Group which were set out in the 2017 Annual Report and Accounts. With the exception of the implementation of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers, which are discussed below, no changes have been made to the Group's accounting policies in the year ended 31 December 2018.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with all IFRS disclosure requirements. The Company's 2018 Annual Report and Accounts will be prepared in compliance with IFRS.

Impact of adoption of IFRS 9: Financial Instruments

The Group has adopted IFRS 9: Financial Instruments from 1 January 2018. This resulted in certain non-listed equity investments previously held at historic cost being designated as fair value through profit or loss. As at 1 January 2018 the fair value of these instruments was £10.6million with a historic cost of £5.8million. The difference between these two balances of £4.8million has been taken to opening reserves as at 1 January 2018.

The requirement under IFRS 9 to use an expected loss method of impairment of financial assets did not have a material effect on the Group due to the short-term nature of the Group's trade and other receivables.

Impact of the Adoption of IFRS 15: Revenue from Contracts with Customers

The Group has adopted IFRS 15: Revenue from Contracts with Customers from 1 January 2018. This resulted in changes in certain aspects of our accounting policies and adjustments to the amounts recognized in the financial statements when compared to if the accounting had been performed under Legacy IFRS. In accordance with the transition provisions of IFRS 15, the Group has adopted the new rules under the modified retrospective method of adoption. Under this method the cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information has not been restated and continues to be as reported under Legacy IFRS.

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The new standard establishes a five-step model whereby consideration received or expected to be received is recognised as revenue when contractual performance obligations are satisfied by the transfer of control and of the relevant goods or services to the customer. Adopting IFRS 15 has not had a significant impact on the timing of the Group's revenue recognition nor on the Group's equity. For certain of our contracts however, the adoption of IFRS 15 has resulted in a change in our accounting for certain third-party costs. Third-party costs are included in revenue when the Group acts as principal with respect to the services provided to the client and are excluded when the Group acts as agent. Under IFRS 15, the principal versus agent assessment is based on whether the Group controls the relevant services before they are transferred to the client. As a result of the adoption of IFRS 15, there was an increase in third-party costs included in revenue and costs of sale. This change increased revenue and costs of services by the same amount and therefore had no impact on net revenues or operating profit.

The following table summarises the impact of adopting IFRS 15 on the Group's consolidated income statement for the year ended 31 December 2018.

	Legacy IFRS £000	Additional third party cost £000	Timing adjustments £000	IFRS 15 £000
Billings	607,501	–	(37)	607,464
Revenue	255,410	176,471	(37)	431,844
Cost of sales	–	(176,471)	–	(176,471)
Net revenue	255,410	–	(37)	255,373

Under certain contractual relationships the Group makes payments to suppliers on behalf of customers prior to billing. Under Legacy IFRS these amounts were recorded as accrued income. As these amounts do not relate to services provided by the Group under IFRS 15 they are recognised separately to trade receivables and contract assets. An amount totaling £5.5m has therefore been recognised as at 31 December 2018 as an 'other receivable' and is included within the consolidated balance sheet position of Trade and other receivables of £149.6m.

Other than these reclassifications, the impact of IFRS 15 on the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and earnings per share was immaterial.

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

IFRS 15 – Revenue recognition policy

Billings comprise the gross amounts billed, or billable, to clients in respect of commission based and fee based income together with the total of other fees earned, in addition to those instances where the Group has made payments on behalf of the customer to third parties.

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

Performance obligations – At the inception of a new contractual arrangement with a customer the Group identifies the performance obligations inherent in the agreement. Typically the terms of the contracts are such that the services to be rendered are considered to be either integrated (as they all drive the output of the contract as a whole) or to represent a series of services that are substantially the same with the same pattern of transfer to the customer. Accordingly, this amalgam of services is accounted for as a single performance obligation.

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

Recognition of revenue – Based on the terms of the contractual arrangements entered into with customers, revenue is typically recognised over time. In the majority of instances this is a result of the assets generated under the terms of a contract having no alternative use to the Group and there being an enforceable right to payment. Exceptions to this are noted below.

Measurement of revenue – Where revenue is recognised over time it is measured based on the proportion of the level of the service performed. Either an output or an input method, depending on the particular arrangement, is used to measure progress for each performance obligation. Where the terms of an agreement are such that the amounts due to be invoiced correspond directly with the value to the customer, then the Group recognises revenue in line with its ‘right-to-invoice’. Where this is not the case then an input method based on costs incurred to date is used to measure performance. The primary input of substantially all work performed is represented by labour. As a result of the relationship between labour and cost there is normally a direct correlation between costs incurred and the proportion of the contract performed to date.

Principal vs Agent – When a third-party supplier is involved in fulfilling the terms of a contract then for each performance obligation identified the Group assesses whether they are acting as principal or agent. Where the Group controls the specified services prior to transferring those services to the customer then the Group is acting as principal. The Group considers that control exists where it is primarily responsible for ensuring the service meet the customers’ specifications, for integrating products and services into the ultimate deliverable or in cases where it has discretion in establishing pricing.

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Treatment of costs – Costs incurred in relation to the fulfilment of a contract are either recognised as an asset or treated as an expense. Costs are capitalised when they relate directly to a contract, are expected to be recovered or enhance resources of the Group, which will be used in satisfying future performance obligations of the contract.

Supplier rebates – The Group receives volume rebates from certain suppliers for transactions entered into on behalf of clients that, based on the terms of the relevant contracts and local law, are either remitted to clients or retained by the Group. If amounts are passed on to clients they are recorded as liabilities until settled or, if retained by the Group, are recorded as revenue when earned.

Further details on revenue recognition in terms of the nature of contractual arrangements are as follows:

- Commission based income in relation to media spend – The Group arranges for a third party to provide the related goods and services in the capacity of an agent. Revenue is recognised in relation to the amount of commission the Group is entitled to. Often additional integrated services are provided at the same time with regards to the development and deployment of an overarching media strategy, due to the integrated nature of the services provided under the terms of the contract this is recognised as a single performance obligation. Where there is variability in the overall level of media spend then the Group estimates the variable consideration to which they will be entitled at inception of the contract. This estimate is revised at the earlier of either the completion of the contract or the end of the financial reporting period. The Group considers the commission earned to be reflective of the value to the customer and measures revenue to be recognised as the amount to which they have the ‘right-to-invoice’. Although there may be a blend of services, some of which are akin to the Group acting as principal, as there is one performance obligation and as the main feature of the arrangements are the Group acting as an agent, all such revenue is recognised net in line with the Group acting as an agent.

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Commission based income in relation to talent performance – The Group arranges, in the capacity of an agent, for talent, or other third parties, to provide their time in return for a booking fee. Accordingly this booking fee is recognised as the amount of commission to which the Group is entitled. The revenue is typically recognised as the booking or obligation is performed. Where contracts do not have an enforceable right to payment, as editorial oversight for the performance of the talent is held by the customer, revenue continues to be recognised over time.

In those instances where performance obligations are recognised at a point in time then the Group adopts a milestone approach and recognises revenue at the point in time at which a performance obligation is fully satisfied.

- Retainer fees – Retainer fees relate to arrangements whereby the nature of the Group's contractual promise is to agree to 'stand-ready' to deliver services to the customer for a period of time rather than to deliver the good or services underlying that promise. Retainer fees are recognised over the period of the relevant assignments or arrangements, typically in line with 'stand-ready' incurred costs. The primary input of all work performed under these arrangements is labour. As a result of the direct relationship between labour and cost there is normally a direct correlation between costs incurred and the proportion of the contract performed to date.
- Project fees and production income – Project fees typically relate to assignments under which a bespoke customer asset is created which has no alternative use to the Group. Where such assignments are carried out under contractual terms which entitle the Group to payment for its performance to date in the event of contract termination, then fees are recognised over the period of the relevant assignments. Revenue is typically recognised in line with the value delivered to the customer which is the amount to which the Group has the 'right-to-invoice'. In instances where amounts eligible for invoice do not correspond directly with the value to the customer then an input method based on costs incurred is used. 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.

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

IFRS 15 – Trade receivables and work in progress policy

Trade receivables are stated net of provisions for bad and doubtful debts. Work in progress includes outlays incurred on behalf of clients, including production costs, and other third-party costs that have not yet been billed and are considered receivables under IFRS 15.

IFRS 15 – Accrued and deferred income policy

Accrued income is a contract asset and is recognized when a performance obligation has been satisfied but not yet been billed. Contract assets are transferred to receivables when the right to consideration is unconditional and billed per the terms of the contractual agreement.

In certain cases, payments are received from customers prior to satisfaction of performance obligations and recognised as deferred income on the Group's balance sheet. These balances are considered contract liabilities and are typically related to prepayments for third party expenses that are incurred shortly after billing.

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

3. Headline results and earnings per share

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

Year ended 31 December 2018	2018 £000	Amortisatio n of acquired intangibles £000	Impairment of acquired intangibles £000	Impairment of associates	FVTPL investments under IFRS 9 £000	Revaluation of contingent consideration £000	Capital gains tax on issue of put options £000	Acquisition related remuneration * £000	Put option accounting ** £000	Headline results
Billings	607,464	–	–	–	–	–	–	–	–	607,464
Revenue	431,844	–	–	–	–	–	–	–	–	431,844
Net revenue	255,373	–	–	–	–	–	–	–	–	255,373
Operating profit	16,768	4,427	2,195	674	(1,177)	37	–	1,299	6,104	30,327
Share of results of associates and JV	2,825	–	–	–	–	–	–	–	–	2,825
Finance income	273	–	–	–	–	–	–	–	–	273
Finance cost	(2,268)	–	–	–	229	–	–	–	911	(1,128)
Profit before taxation	17,598	4,427	2,195	674	(948)	37	–	1,299	7,015	32,297
Taxation	(6,635)	(1,021)	–	–	179	–	517	–	(342)	(7,302)
Profit for the year	10,963	3,406	2,195	674	(769)	37	517	1,299	6,673	24,995
Non-controlling interests	(2,708)	(937)	–	–	–	–	149	(403)	–	(3,899)
Profit attributable to equity holders of the Group***	8,255	2,469	2,195	674	(769)	37	666	896	6,673	21,096

* The non-controlling interest charge is moved to operating profit due to underlying equity being defined as a conditional share award.

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

*** Headline earnings are profit attributable to equity holders of the Group after adding back the adjustments noted above. The increase is calculated as the difference between 2017 and 2018 measures. Headline operating margin is calculated as: Headline operating profit divided by net revenue. Headline operating margin excluding new businesses is calculated as: Headline operating profit after adding back the cost of businesses started divided by net revenue.

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

3. Headline results and earnings per share continued

Year ended 31 December 2017	2017 £000	Amortisation of acquired intangibles £000	Impairment of acquired intangibles £000	Deferred tax on acquired intangible US tax rate change £000	Deferred tax on put options US tax rate change £000	Revaluation of contingent consideration £000	Acquisition related Remuneration £000	Put option Accounting £000	Headline results £000
Billings	535,964	–	–	–	–	–	–	–	535,964
Revenue	251,481	–	–	–	–	–	–	–	251,481
Operating profit	5,335	2,021	5,214	–	–	40	614	13,501	26,725
Share of results of associates and JV	1,987	–	–	–	–	–	–	–	1,987
Finance income	3,326	–	–	–	–	–	–	(3,037)	289
Finance cost	(1,346)	–	–	–	–	–	–	–	(1,346)
Profit before taxation	9,302	2,021	5,214	–	–	40	614	10,464	27,655
Taxation	(4,736)	(671)	(1,804)	981	392	–	–	(996)	(6,834)
Profit for the year	4,566	1,350	3,410	981	392	40	614	9,468	20,821
Non-controlling interests	(1,894)	(365)	–	–	–	–	(591)	–	(2,850)
Profit attributable to equity holders of the Group***	2,672	985	3,410	981	392	40	23	9,468	17,971

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

3. Headline results and earnings per share *continued*

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

Year ended 31 December 2018	2018 £000	Headline 2018 £000
Profit attributable to equity shareholders of the Group	8,255	21,096
Basic earnings per share		
Weighted average number of shares (thousands)	84,360	84,360
Basic EPS	9.79p	25.01p
Diluted earnings per share*		
Weighted average number of shares (thousands) as above	84,360	84,360
Add		
– Conditional shares without dividend rights	4,039	4,039
– Conditional shares with dividend rights**	1,500	1,500
– Contingent consideration	350	350
Total	90,249	90,249
Diluted earnings per share	9.15p	23.38p

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

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

Year ended 31 December 2017	2017 £000	Headline 2017 £000
Profit attributable to equity shareholders of the Group	2,672	17,971
Basic earnings per share		
Weighted average number of shares (thousands)	77,999	77,999
Basic EPS	3.43p	23.04p
Diluted earnings per share*		
Weighted average number of shares (thousands) as above	77,999	77,999
Add		
– Conditional shares without dividend rights	2,763	2,763
– Conditional shares with dividend rights**	3,829	3,829
– Contingent consideration	108	108
Total	84,699	84,699
Diluted earnings per share	3.16p	21.22p

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

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

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

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4. Segmental information

Year ended 31 December 2018	UK £000	Europe £000	Middle East and Africa £000	Asia and Australia £000	Americas £000	Total £000
Billings	211,523	60,190	38,876	170,460	126,415	607,464
Revenue	180,187	60,190	30,099	98,057	63,311	431,844
Net revenue	95,826	34,165	15,790	65,378	44,214	255,373
Operating profit excluding Group costs	17,408	5,497	1,167	6,409	5,957	36,438
Group costs	(5,618)	(71)	-	(333)	(89)	(6,111)
Operating profit	11,790	5,426	1,167	6,076	5,868	30,327
Share of results of associates and JV	2,354	(13)	-	433	51	2,825
Financial income and cost	(486)	(31)	83	90	(511)	(855)
Profit before taxation	13,658	5,382	1,250	6,599	5,408	32,297
Taxation	(2,107)	(1,879)	(260)	(1,909)	(1,147)	(7,302)
Profit for the year	11,551	3,503	990	4,690	4,261	24,995
Non-controlling interests	(1,331)	(452)	(389)	(1,189)	(538)	(3,899)
Profit attributable to equity shareholders of the Group	10,220	3,051	601	3,501	3,723	21,096
Headline basic EPS						25.01p
Non-cash costs included in headline operating profit:						
Depreciation	(1,686)	(314)	(318)	(770)	(470)	(3,558)
Amortisation of software	(154)	(20)	(21)	(99)	-	(294)
Office locations	London	Paris Milan Berlin Madrid Geneva Stockholm Moscow Istanbul	Johannesburg Cape Town Abu Dhabi Dubai Beirut Tel Aviv	Sydney Melbourne New Delhi Bangalore Islamabad Hong Kong Shanghai Tokyo Kuala Lumpur Bangkok Singapore Jakarta	New York Chicago Los Angeles San Francisco Mexico City São Paulo	

Segmental results are reconciled to the income statement in note 3. Our segmental and headline results are one and the same. The above segments reflect the fact that our business is run on an operating unit basis. In accordance with IFRS 8 paragraph 12, we have aggregated our operating units into regional segments.

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

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4. Segmental information *continued*

Segmental and headline income statement 2017

Year ended 31 December 2017	UK £000	Europe £000	Middle East and Africa £000	Asia and Australia £000	Americas £000	Total £000
Billings	169,299	59,037	27,207	132,007	148,414	535,964
Revenue	94,013	33,492	14,650	64,703	44,623	251,481
Operating profit excluding Group costs	15,149	5,187	1,568	7,733	3,385	33,022
Group costs	(5,821)	(71)	-	(339)	(66)	(6,297)
Operating profit	9,328	5,116	1,568	7,394	3,319	26,725
Share of results of associates and JV	1,633	3	-	351	-	1,987
Financial income and cost	(437)	(69)	11	48	(610)	(1,057)
Profit before taxation	10,524	5,050	1,579	7,793	2,709	27,655
Taxation	(1,478)	(1,604)	(421)	(2,110)	(1,221)	(6,834)
Profit for the year	9,046	3,446	1,158	5,683	1,488	20,821
Non-controlling interests	(813)	(721)	(534)	(1,189)	407	(2,850)
Profit attributable to equity shareholders of the Group	8,233	2,725	624	4,494	1,895	17,971
Headline basic EPS						23.04p

Non-cash costs included in headline operating profit:

Depreciation	1,386	357	371	576	389	3,079
Amortisation of software	70	37	11	93	-	211
Office locations	London	Paris Milan Berlin Madrid Geneva Stockholm Moscow Istanbul	Johannesburg Cape Town Abu Dhabi Dubai Beirut Tel Aviv	Sydney Melbourne New Delhi Bangalore Islamabad Hong Kong Shanghai Tokyo Kuala Lumpur Bangkok Singapore	New York Chicago Los Angeles San Francisco Mexico City São Paulo	

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

4. Segmental information continued

Segmental income statement translated at 2017 exchange rates

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

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

Year ended 31 December 2018	UK £000	Europe £000	Middle East and Africa £000	Asia and Australia £000	Americas £000	Total £000
Billings	211,523	59,898	40,058	178,282	130,728	620,489
Revenue	180,187	59,898	31,016	102,677	65,762	439,540
Net revenue	95,826	34,055	16,273	68,534	46,046	260,734
Operating profit excluding Group costs	17,408	5,433	1,203	6,620	6,060	36,724
Group costs	(5,688)	(70)	-	(351)	(89)	(6,198)
Operating profit	11,720	5,363	1,203	6,269	5,971	30,526
Share of results of associates and JV	2,354	(18)	-	438	53	2,827
Financial income and cost	(487)	(31)	86	90	(530)	(872)
Profit before taxation	13,587	5,314	1,289	6,797	5,494	32,481
Taxation	(2,093)	(1,862)	(267)	(1,981)	(1,169)	(7,372)
Profit for the year	11,494	3,452	1,022	4,816	4,325	25,109
Increase/(decrease) in 2018 results caused by translation differences	57	51	(32)	(126)	(64)	(114)

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

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

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

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5. Net finance income / (costs)

Year ended 31 December	2018 £000	2017 £000
Bank interest receivable	272	200
Other interest receivable	1	89
Fair value adjustment to minority shareholder put option liabilities	–	3,037
Financial income	273	3,326
Bank interest payable	(1,175)	(1,344)
Other interest payable	(182)	(2)
Fair value adjustment to minority shareholder put option liabilities	(911)	–
Financial expense	(2,268)	(1,346)
Net finance (costs) / income	(1,995)	1,980

6. Taxation

Year ended 31 December	2018 £000	2017 £000
Taxation in the year		
– UK	2,140	1,689
– Overseas	6,478	5,286
Withholding taxes payable	–	21
Utilisation of previously unrecognised tax losses*	(25)	(817)
Adjustment for under / (over) provision in prior periods*	(482)	625
Total	8,111	6,804
Deferred taxation		
Origination and reversal of temporary differences	(1,476)	(3,612)
Recognition of previously unrecognised tax losses**	–	(121)
Effect of changes in tax rates	–	1,665
Total	(1,476)	(2,068)
Total taxation	6,635	4,736

* In 2017 this mostly this relates to our US offices.

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

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NOTES TO THE UNAUDITED PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Dividends

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

The 2018 proposed final dividend of 8.51p, totalling £7,566,099. The final dividend will be paid, subject to shareholder approval at the 5 June 2019 AGM, on 5 July 2019 to shareholders on the register at 7 June 2019.

The dividends relate to the profit of the following years:

Year ended 31 December	2018 £000	2017 £000
Interim dividend paid 2.13p on 9 November 2018 (2017: 2.13p)	2,117	1,716
Final dividend payable 8.51p on 5 July 2019 (2017: 7.40p)	7,566	6,361
	9,683	8,077
Headline dividend cover	2.2	2.3

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