M&C SAATCHI PLC

IMPACT OF IFRS ON FINANCIAL STATEMENTS

TWELVE MONTHS TO
31 DECEMBER 2006
And
SIX MONTHS TO
30 JUNE 2006

21 September 2007

Reconciliation of 2006 annual and interim statements from UK GAAP to IFRS following the adoption of IFRS on 1 January 2007.

M&C Saatchi plc today restates its consolidated results for the year ended 31 December 2006 and half year ended 30 June 2006. M&C Saatchi plc formally adopted IFRS from 1 January 2007 with its date of transition being 1 January 2006. Future consolidated reporting will be in accordance with IFRS as adopted by the European Union.

This announcement is unaudited.

Key Adjustments

- IAS 12 deferred tax on employee options, reduces 2006 annual tax charge by £0.03m (£0.02m for 2006 half year).
- IAS 19 employee benefits (holiday pay) has no effect on 2006 annual results. It caused 2006 half year statutory and headline profit before tax to be reduced by £0.4m.
- Under IFRS 3 business combinations, goodwill is not amortised and is tested annually for impairment. This increased 2006 annual statutory operating profit by £1.7m (£0.9m for 2006 half year).
- IAS 32 and IAS 39 financial instruments requires us to value put options held by minority shareholders, and this has reduced statutory profit before and after tax by £9.0m in the 2006 annual results (£0.4m for 2006 half year). It has also created a balance sheet liability of £22.3m in the 2006 annual results (£13.6m for 2006 half year).

A reconciliation from statutory profit before tax to headline profit before tax can be seen on the following page.

IFRS 1 Relevant exemptions taken

- We have not restated our business combinations prior to 1 January 2006 (IFRS 3).
- Cumulative translation differences on all foreign operations as at 1 January 2006 are treated as nil (IAS 21)

For further information please call:

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RECONCILIATION HEADLINE TO STATUTORY PROFIT BEFORE TAX

	31 December 2006 annual £000	30 June 2006 half year £000
UK GAAP statutory profit before tax	**6,037**	**2,002**
Add back amortisation of goodwill	1,735	854
Headline UK GAAP profit before tax	**7,772**	**2,856**
IAS 1 - adjustment to associate presentation	(2)	-
IAS19 & IAS 34 holiday pay accrual	-	(436)
Headline IFRS profit before tax	**7,770**	**2,420**
IAS 38 - amortisation of intangible assets	(20)	-
IAS 32 & IAS 39 - fair value adjustments on minority shareholders put option liabilities	(8,970)	(384)
IFRS statutory (loss) / profit before tax	**(1,220)**	**2,036**

Under UK GAAP the difference between headline and statutory profits was that headline profits excluded amortisation of goodwill. Under IFRS the difference between headline and statutory profits is that headline profits excludes the impact of fair value adjustments on minority shareholders put option liabilities and amortisation of intangible assets.

The financial information included in this report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985, and is unaudited. The year ended 31 December 2006 accounts, which were prepared under UK GAAP, have been reported on by the Company's auditors and delivered to the Registrar of Companies. The auditor's report on those statutory accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

YEAR ENDED 31 DECEMBER 2006 – IFRS RECONCILIATION
UNAUDITED CONSOLIDATED INCOME STATEMENT

	Notes	UK GAAP Year ended 31 December 2006	IFRS 3 Business Combinations	IAS 38 Intangible assets	IAS 1 Presentation of financial statements – Associates	IAS 12 Deferred tax on options	IAS 32 & IAS 39 Put options	IFRS Year ended 31 December 2006
			(1)	(2)	(3)	(8)	(9)	
		£000	£000	£000	£000	£000	£000	£000
Turnover (billings)		**369,490**						**369,490**
Revenue		**75,877**						**75,877**
Operating profit before goodwill amortisation		6,258						**6,258**
Goodwill amortisation and impairment		(1,735)	1,735	(20)	-	-	-	**(20)**
Operating profit		**4,523**	**1,735**	**(20)**	**–**	**–**	**–**	**6,238**
Share of results of associate		15	-	-	(10)	-	-	**5**
Financial income		1,540						**1,540**
Financial costs		(41)	-	-	8	-	(8,970)	**(9,003)**
Profit / (loss) before taxation		**6,037**	**1,735**	**(20)**	**(2)**	**–**	**(8,970)**	**(1,220)**
Taxation on profits		(2,886)	-	-	2	32	-	**(2,852)**
Profit / (loss) for the financial period		**3,151**	**1,735**	**(20)**	**–**	32	**(8,970)**	**(4,072)**
Attributable to:								
Equity holders of the Group		**2,003**	**1,735**	**(20)**	**–**	32	**(8,970)**	**(5,220)**
Minority interests		1,148						**1,148**
		3,151	**1,735**	**(20)**	**–**	32	**(8,970)**	**(4,072)**
Earnings / (loss) per share								
- Basic		**3.73p**	**3.23p**	**(0.04)p**	**–**	**0.06p**	**(16.71)p**	**(9.73)p**
- Diluted		**3.69p**	**3.19p**	**(0.04)p**	**–**	**0.06p**	**(16.51)p**	**(9.73)p**
Average number of shares - Basic		53,677,484	53,677,484	53,677,484	53,677,484	53,677,484	53,677,484	53,677,484
Average number of shares - Diluted		54,347,216	54,347,216	54,347,216	54,347,216	54,347,216	54,347,216	53,677,484

Under IAS 33, earnings per share can be diluted by the LTIP and put options. In 2006 this effect is nil, see notes (7a) and (7b) for details. IAS 33 does not allow the diluted EPS to be more than basic EPS due to more shares sharing a loss thus diluted EPS is (9.73)p rather than (9.61)p had our issued options been taken account of.

The numbers in the titles in brackets relate to the explanations in the notes to these reconciliations. These explanations deal with the effects to all the statements.

YEAR ENDED 31 DECEMBER 2006 – IFRS RECONCILIATION

UNAUDITED CONSOLIDATED BALANCE SHEET

	UK GAAP Year ended 31 December 2006	IFRS 3 Business Combinations – Goodwill amortisation	IFRS 3 Business Combinations – Intangible assets	IAS 1 & IAS 39 Presentation of financial statements	IAS 12 Deferred Tax on Options	IAS 32 & IAS 39 Put options	IFRS Year ended 31 December 2006
Notes		(1)	(2)	(4), (5) & (6)	(8)	(9)	
	£000	£000	£000	£000	£000	£000	£000
Non current assets							
Goodwill	13,555	1,735	(20)	-	-	-	15,270
Intangible assets	-	-	-	87	-	-	87
Plant and equipment	3,618	-	-	(87)	-	-	3,531
Deferred tax assets	693	-	-	-	29	-	722
Investments	93	-	-	(93)	-	-	-
Other non current assets	448	-	-	12	-	-	460
	18,407	1,735	(20)	(81)	29		20,070
Current assets							
Work in progress	2,416						2,416
Trade and other receivables	45,987	-	-	5	-	-	45,992
Cash and cash equivalents	31,284						31,284
	79,687	-	-	5	-		79,692
Current liabilities							
Trade and other payables	(63,430)						(63,430)
Current tax liabilities	(1,036)						(1,036)
Provision for put options	-	-	-	-	-	(11,077)	(11,077)
	(64,466)	-	-	-	-	(11,077)	(75,543)
Net current assets	**15,221**	**–**	**–**	**5**	**–**	**(11,077)**	**4,149**
Total assets less current liabilities	**33,628**	**1,735**	**(20)**	**(76)**	**29**	**(11,077)**	**24,219**
Non Current liabilities							
Other non current liabilities	(746)	-	-	76	-	-	(670)
Deferred tax liabilities	(141)						(141)
Employment benefits	(221)						(221)
Provision for put options	-	-	-	-	-	(11,211)	(11,211)
Net assets	**32,520**	**1,735**	**(20)**	-	**29**	**(22,288)**	**11,976**
Capital and reserves							
Share capital	542						542
Share premium account	9,618						9,618
Merger reserve	13,553	1,203	-	-	-	-	14,756
Treasury reserve	(792)						(792)
Put option reserve	-	-	-	-	-	(13,318)	(13,318)
Share option reserve	812	-	-	-	33	-	845
Foreign currency translation reserve	-	-	-	(371)	-	-	(371)
Retained earnings	7,625	532	(20)	371	(4)	(8,970)	(466)
Total shareholders' equity	31,358	1,735	(20)	-	29	(22,288)	10,814
Minority interest in equity	1,162						1,162
Total equity	**32,520**	**1,735**	**(20)**	-	**29**	**(22,288)**	**11,976**

The numbers in the titles in brackets relate to the explanations in the notes to these reconciliations. These explanations deal with the effects to all the statements.

HALF YEAR ENDED 30 JUNE 2006 – IFRS RECONCILIATION

UNAUDITED CONSOLIDATED INCOME STATEMENT

	UK GAAP	IFRS 3	IAS 19	IAS 1	IAS 12	IAS 32 & IAS 39	IFRS
	Half year ended 30 June 2006	Business Combinations	Holiday Pay accrual	Presentation of financial statements – Associates	Deferred tax on options	Put options	Half year ended 30 June 2006
Notes		(1)	(10)	(3)	(8)	(9)	
	£000	£000	£000	£000	£000	£000	£000
Turnover (billings)	**150,256**						**150,256**
Revenue	**34,655**						**34,655**
Operating profit before goodwill amortisation	2,192	-	(436)	-	-	-	**1,756**
Goodwill amortisation and impairment	(854)	854	-	-	-	-	**-**
Operating profit	**1,338**	**854**	**(436)**	**-**	**-**	**-**	**1,756**
Share of results of associate	3	-	-	(1)	-	-	**2**
Financial income	675						**675**
Financial costs	(14)	-	-	1	-	(384)	**(397)**
Profit on ordinary activities before taxation	**2,002**	**854**	**(436)**	**-**	**-**	**(384)**	**2,036**
Taxation on profits from ordinary activities	(1,293)	-	133	-	18	-	**(1,142)**
Profit on ordinary activities after taxation for financial period	**709**	**854**	**(303)**	**-**	**18**	**(384)**	**894**
Attributable to							
Equity holders of the Group	**264**	**854**	**(291)**	**-**	**18**	**(384)**	**461**
Minority interests	445	-	(12)	-	-	-	**433**
Profit for the financial period	**709**	**854**	**(303)**	**-**	**18**	**(384)**	**894**
Earnings per share							
- Basic	**0.49p**	**1.58p**	**(0.54)p**	**-**	**0.03p**	**(0.71)p**	**0.85p**
- Diluted	**0.48p**	**1.56p**	**(0.53)p**	**-**	**0.03p**	**(0.70)p**	**0.84p**
Average number of shares - Basic	54,206,799	54,206,799	54,206,799	54,206,799	54,206,799	54,206,799	54,206,799
Average number of shares - Diluted	54,644,954	54,644,954	54,644,954	54,644,954	54,644,954	54,644,954	54,644,954

Under IAS 33, earnings per share can be diluted by the LTIP and put options. In 2006 this effect is nil, see notes (7a) and (7b) for details.

The numbers in the titles in brackets relate to the explanations in the notes to these reconciliations. These explanations deal with the effects to all the statements.

HALF YEAR ENDED 30 JUNE 2006 – IFRS RECONCILIATION

UNAUDITED CONSOLIDATED BALANCE SHEET

	UK GAAP	IFRS 3	IAS 19	IAS 1 & IAS 39	IAS 12	IAS 32 & IAS 39	IFRS
	Half year ended 30 June 2006	Business Combinations – Goodwill amortisation	Holiday Pay accrual	Presentation of financial statements	Deferred Tax on Options	Put options	Half year ended 30 June 2006
Notes		(1)	(10)	(4), (5) & (6)	(8)	(9)	
	£000	£000	£000	£000	£000	£000	£000
Non current assets							
Goodwill	13,773	854	-	-	-	-	14,627
Intangible assets	-	-	-	88	-	-	88
Plant and equipment	3,363	-	-	(88)	-	-	3,275
Deferred tax assets	426	-	-	-	(18)	-	408
Investments	93	-	-	(93)	-	-	-
Other non current assets	356	-	-	12	-	-	368
	18,011	854	-	(81)	(18)	-	18,766
Current assets							
Work in progress	1,759						1,759
Trade and other receivables	40,653						40,653
Cash and cash equivalents	23,742						23,742
	66,154	-	-	-	-	-	66,154
Current liabilities							
Trade and other payables	(50,379)	-	(436)	-	-	-	(50,815)
Current tax liabilities	(948)	-	133	-	-	-	(815)
Provision for put options	-	-	-	-	-	(6,821)	(6,821)
	(51,327)	-	(303)	-	-	(6,821)	(58,451)
Net current assets	**14,827**	**–**	**(303)**	**–**	**–**	(6,821)	**7,703**
Total assets less current liabilities	**32,838**	**854**	**(303)**	**(81)**	**(18)**	**(6,821)**	**26,469**
Non Current liabilities							
Other non current liabilities	(668)	-	-	81	-	-	(587)
Deferred tax liabilities	(182)						(182)
Employment benefits	(274)						(274)
Provision for put options	-	-	-	-	-	(6,782)	(6,782)
Net assets	**31,714**	**854**	**(303)**	**–**	**(18)**	**(13,603)**	**18,644**
Capital and reserves							
Share capital	542						542
Share premium account	9,618						9,618
Merger reserve	14,144	612	-	-	-	-	14,756
Put option reserve	-	-	-	-	-	(13,219)	(13,219)
Share option reserve	718						718
Foreign currency translation reserve	-	-	-	(264)	-	-	(264)
Retained earnings	5,740	242	(291)	264	(18)	(384)	5,553
Total shareholders' equity	30,762	854	(291)	-	(18)	(13,603)	17,704
Minority interest in equity	952		(12)				940
Total equity	**31,714**	**854**	**(303)**	**–**	**(18)**	**(13,603)**	**18,644**

The numbers in the titles in brackets relate to the explanations in the notes to these reconciliations. These explanations deal with the effects to all the statements.

1 JANUARY 2006 – IFRS RECONCILIATION

UNAUDITED CONSOLIDATED BALANCE SHEET

	Notes	UK GAAP 1 January 2006 £000	IAS 1 Presentation of financial statements (5) £000	IAS 1 & IAS 39 Presentation of financial statements (4) £000	IAS 12 Deferred Tax on Options (8) £000	IAS 32 & IAS 39 Put options (9) £000	IFRS 1 January 2006 £000
Non current assets							
Goodwill		14,592					14,592
Intangible assets		-	87	-	-	-	87
Plant and equipment		3,194	(87)	-	-	-	3,107
Deferred tax assets		354			(36)		318
Investments		100	-	(100)	-	-	-
Other non current assets		224	-	19	-	-	243
		18,464	–	(81)	(36)	-	18,347
Current assets							
Work in progress		3,277					3,277
Trade and other receivables		50,552					50,552
Cash and cash equivalents		20,486					20,486
		74,315					74,315
Current liabilities							
Trade and other payables		(56,209)					(56,209)
Current tax liabilities		(2,760)					(2,760)
Provision for put options		-	-	-	-	(5,540)	(5,540)
		(58,969)	-	-	-	(5,540)	(64,509)
Net current assets		**15,346**	**–**	**–**	**–**	**(5,540)**	**9,806**
Total assets less current liabilities		33,810	–	(81)	(36)	(5,540)	28,153
Non Current liabilities							
Trade and other payables falling due after more than one year		(949)	-	81	-	-	(868)
Deferred tax liabilities		(21)					(21)
Employment benefits		(302)					(302)
Provision for put options		-	-	-	-	(7,679)	(7,679)
Net assets		**32,538**	**–**	**–**	**(36)**	**(13,219)**	**19,283**
Capital and reserves							
Share capital		542					542
Share premium account		9,618					9,618
Merger reserve		14,756					14,756
Put option reserve		-				(13,219)	(13,219)
Share option reserve		599					599
Foreign currency translation reserve		-					-
Retained earnings		6,101	-	-	(36)	-	6,065
Total shareholders' equity		31,616	-	-	(36)	(13,219)	18,361
Minority interest in equity		922					922
Total equity		**32,538**	**–**	**–**	**(36)**	**(13,219)**	**19,283**

The numbers in the titles in brackets relate to the explanations in the notes to these reconciliations. These explanations deal with the effects to all the statements.

Cash flow statements

The IFRS Cash Flow Statement, prepared under IAS 7, presents cash flows in three categories; operating activities, investing activities and financing activities. This is fewer than the previous seven categories under UK GAAP. Other than the reclassification of cash flow items into the new disclosure categories, there are no significant differences between the Group's Cash Flow Statement under UK GAAP and IFRS. Consequently, the revised Cash Flow Statement has not been presented in this document.

Notes to the reconciliations between UK GAAP and IFRS

(1) Business Combinations – Goodwill amortisation

The Group has elected not to apply IFRS 3 retrospectively to business combinations completed prior to 1 January 2006. In accordance with IFRS 1 the 2006 UK GAAP amortisation of goodwill entries have been reversed as follows:-

	December 2006 Annual £000	June 2006 Interim £000
Income statement		
Operating profit increased	1,735	854
Balance sheet		
Goodwill increased	1,735	854
Equity items		
Merger reserve increased	1,203	612
Retained earnings increased	532	242

When we reorganised in 2004 prior to our AiM listing, we increased our holding to greater than 90% in many of our subsidiaries, through an equity swap. The share premium on these acquisitions was credited to merger reserve. The merger reserve was released to retained earnings when the related asset is expensed to the income statement. Under IFRS the 2006 amortisation of goodwill is reversed together with the adjustments to merger reserve.

In 2006 and in future we will not amortise goodwill, however we will continue to conduct an annual impairment review. In 2006 we identified no impairments.

(2) Business Combinations – IAS 38 Intangible assets

On 24 July 2006 the Group acquired 80% of 03 International Projects GmbH (renamed M&C Saatchi Berlin GmbH). At acquisition we acquired customer contracts with a fair value of £20k, these contracts had been completed before the year end and therefore were fully amortised at the year end. The adjustments that relate to M&C Saatchi Berlin GmBH were as follows:-

	December 2006	June 2006
	Annual	Interim
	£000	£000
Income statement		
Operating profit reduced	(20)	-
Balance sheet		
UK GAAP goodwill	769	-
Goodwill reduced	(20)	-
IFRS goodwill	749	-
Intangible assets recognised	20	-
Amortisation of intangible assets	(20)	
	-	-

(3) Presentation of financial statements – associates

Under IAS 1 we show our share of the associate's profit after tax within the Associate line in the income statement.

The effect of this adjustment is as follows:-

	December 2006	June 2006
	Annual	Interim
	£000	£000
Income statement		
Reduction in share of results associate	10	1
Reduction in interest payable	8	1
Reduction in taxation	2	-
Profit on ordinary activities after taxation	-	-

(4) Loans to loss making associates

In 2006 the Group had one associate Play London Limited (Play); which made a £162k start up loss in 2005, funded by a loan from a Group company. Play made a small profit in 2006.

Under IAS1 the loss is presented as a provision against the investment (in accordance with IAS 39). Previously under UK GAAP we have presented the loan as an investment and the provision against it separately within provisions. Within this adjustment we also show a small reclassification from investments to other debtors of £12k. The effect of this adjustment is as follows:-

	December 2006 Annual	June 2006 Interim	1 January 2006
	£000	£000	£000
Balance sheet			
Investments of	93	93	100
Reclassified to:			
Other debtors	12	12	19
Trade and other receivables	5	-	-
Provisions	76	81	81

(5) Software defined as intangibles – IAS 16

IFRS defines software as an intangible asset instead of its UK GAAP treatment as a tangible asset within plant and equipment (fixed assets). The effect of this adjustment is as follows:-

	December 2006 Annual	June 2006 Interim	1 January 2006
	£000	£000	£000
Balance sheet			
Increase in intangible assets	87	88	87
Reduction in plant and equipment	(87)	(88)	(87)

The amortisation of software is included within headline profits.

(6) Reclassification to foreign currency translation reserve – IAS 21

We have taken the exemption in IFRS1 to treat cumulative translation differences on all foreign operations arising pre 1 January 2006 as nil.

The translation differences between 1 January 2006 and period end are:-

	December 2006 Annual	June 2006 Interim	1 January 2006
	£000	£000	£000
Balance sheet			
Decrease in foreign currency translation reserve	(371)	(264)	-
Increase in retained earnings	371	264	-

(7a) LTIP effect on diluted EPS – IAS 33

The M&C Saatchi plc long term incentive scheme (LTIP) issues a varying number of nil priced options in accordance with performance targets. As of 30 June 2006 and 31 December 2006 the performance target had not been met, so no dilution is caused.

IAS 33 looks at the position at the balance sheet date; this is different to IFRS2 share based payments which looks forward to the position at vesting.

(7b) Put option effect on diluted EPS – IAS 33

The minority shareholders in group companies have the right to exchange their minority holdings in the subsidiary into shares in M&C Saatchi plc (put options). The impact of the put options, had they been exercised prior to the start of the year would have been to increase diluted EPS by 0.10p (2006 half year 0.28p). As this effect does not reduce diluted EPS, the effect is ignored.

(8) Deferred tax on employee share options – IAS 12

UK GAAP focuses on the income statement to calculate deferred tax; IFRS focuses on the balance sheet to calculate deferred tax.

The significant difference between these two standards is the accounting for deferred tax on options. In calculating the deferred tax IFRS uses the period end balance sheet share price rather than the option charge in the income statement as UK GAAP does. The IFRS accounting creates further share price based volatility in our numbers, an example of which can be seen in the adjustments below. On 1 January 2006 our share price was £1.00 and below accounting price of the options, causing the deferred tax benefit to be less than 30% of the income statement option charge . By 31 December 2006 our share price was £1.40 and above the accounting value of most of our options causing the deferred tax benefit to be greater than 30% of the income statement option charge, the excess above 30% of the income statement option charge is taken to reserves. The adjustment are as follows:-

	December 2006 Annual £000	June 2006 Interim £000	1 January 2006 £000
Income statement			
Reduction in tax	32	18	N/A
Increase in profit after taxation	32	18	N/A
Balance sheet			
Increase / (decrease) in deferred tax	29	(18)	(36)
Equity			
Increase in the future tax benefit of options	33	-	-
Decrease in retained earnings	(4)	(18)	(36)

(9) Put options – IAS 32 & IAS 39 Financial instruments

The Group companies have minority shareholders which have the right to exchange their minority shareholdings in the subsidiary companies for shares in M&C Saatchi plc (a put option). IAS 32 & IAS 39 requires a valuation of these put options (liability) at their creation (or at the Group's transition to IFRS) and then at each reporting date. The movement in the valuation of the liability is charged to the income statement (there is no revaluation of the reserve). At 31 December 2006 the following put options existed and are exercisable from:

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

(9) Put options (continued)

The impact of accounting for put options are as follows:-

	December 2006 Annual £000	June 2006 Interim £000
Income statement		
Financial costs		
- Implicit interest expense	132	55
- Change in liability caused due to performance and share price	8,838	329
Total charge to financial cost and reduction in profit	8,970	384

	December 2006 Annual £000	June 2006 Interim £000	1 January 2006 £000
Balance sheet			
Non current assets			
- Goodwill / intangibles	-	-	-
Current assets			
- Cash	-	-	-
- Increase in provision for put options	(11,077)	(6,821)	(5,540)
Non current liabilities			
- Increase in provision for put options	(11,211)	(6,782)	(7,679)
Net assets	(22,288)	(13,603)	(13,219)
Equity			
- Share capital / share premium account	-	-	-
- Increase in other non distributable reserve	(13,318)	(13,219)	(13,219)
- reduction in retained earnings	(8,970)	(384)	-
Total Equity	(22,288)	(13,603)	(13,219)

Explanation of the transaction:-

- **Initial valuation of a put option –** An assessment is performed on the expected value of the cash and M&C Saatchi plc shares that will be paid in return for the minority interest, at the later of the date of, the put option agreement and transition to IFRS (1 January 2006). Both the value of the cash and shares are discounted to the present value, based on the date from which the put options can be exercised. The shares to be issued are valued at the market price for the shares at the agreement or transition date before a present value discount is applied. A credit is charged to provisions and a debit is charged to equity on initial recognition.

(9) Put options (continued)

- **The debit in equity** will only change if new put options are issued or the put options are exercised. On exercising the option, the debit in equity becomes the investment in the subsidiary, and this amount less the fair value of tangible net assets and intangible assets acquired becomes Goodwill. If Goodwill is negative a credit is taken to the income statement.
- **Changes in the provision –** Assuming that no new options are issued or put options exercised, any changes to the provision will be charged / credited to the income statement. The provision changes in the following way:-
    - o It will increase due to an imputed interest charge (implicit interest) being charged to income statement. In 2006 this charge was £132k. The charge is effected by share price movements, thus the full year charge is 21% greater than two times the half year charge (the share price increased by 21% in this period).
    - o It will increase / decrease with changes in M&C Saatchi plc share price. As our share price goes up, the value of the shares we issue to fulfil the put option increases. This will have an effect on the imputed interest charge (in the same way that changes in contingent consideration have on its imputed interest charge), as well as the future consideration. Of the £8,970k charge in 2006, £856k was cased by a share price increasing from £1.00 to £1.40.
    - o Increases in the value of companies with minorities holdings, due to trading performance, increases the amount of the provision. In 2006 this charge was £7,982k excluding the effect of share price movements, most of this movement related to Walker Media.
    - o The provision is defined as short term when the minority shareholders can exercise it within one year. The £1.2m increase in the 2006 half year short term creditor is mainly due to Talk PR Ltd, The Immediate Sales Company Ltd and M&C Saatchi LA Inc being able to exercise in less than one year.
- When the put option is exercised the value of the provision should equal the total value of the cash and equity given at the date of the transaction. Any differences will be charged to the income statement.

Comment on the different answers that IFRS gives from similar transactions. The formula we use to calculate the value that we pay minorities for their shares are the same for put and call options. Under IFRS these are similar transactions that produce the same result differently, the only key difference between the transactions is how the date of exercise is determined. As of the date of this announcement we have the following similar transactions that are accounted for differently:-

- Put option have to be accounted for under IAS 32 and IAS 39 as the group has an obligation it cannot avoid (the minority has a right to decide when to exercise).
- If M&C Saatchi plc has a call option then we account also under IAS 32 and 39, however the options value from an accounting perspective is nothing and thus has no effect on the financial statements (M&C Saatchi decides when to exercise).
- When the shareholders or sales purchase agreement determines the date of exercise, then it is a capital commitment and should be disclosed but not accounted for (the minority and M&C Saatchi have agreed the date in advance).

(10) Holiday pay accrual – IAS 19

As a result of further guidance in IAS 19, a £436k increase in the Group's holiday pay accrual has been made at 30 June 2006. No accrual is required at 1 Jan 2006 and 31 Dec 2006 as the countries that this adjustment affects, have a holiday year end of 31 December with an immaterial amount of holiday being carried forward into the following year.

The effect of this adjustment is as follows:-

	December 2006 Annual £000	June 2006 Interim £000
Income statement		
Reduction in operating profit	-	(436)
Reduction in taxation on profits from ordinary activities	-	133
Reduction in profit after taxation	-	(303)

Accounting Policies

These are the IFRS accounting policies that M&C Saatchi plc has adopted to comply with IFRS.

Significant accounting policies

Our financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

Headline results

Headline results are used for internal performance management and the calculation of rewards in the LTIP scheme. M&C Saatchi management focus on these results in explaining the performance of the business. The term headline is not a defined term in IFRS.

The key items that are excluded from headline results are the fair value gains and losses on liabilities caused by our put option agreements, amortisation of intangible assets created in business combinations and charges as a result of goodwill impairment.

Basis of preparation

The financial information presented in this document has been prepared on the basis of the recognition and measurement requirements of adopted IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) at 31 December 2007 or are expected to be endorsed and effective (or available for early adoption) at 31 December 2007, the Group's first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted and unadopted IFRSs, the directors have made assumptions about the accounting policies expected to be applied, the significant effects of which are set out below, when the first annual IFRS financial statements are prepared for the year ending 31 December 2007.

In addition, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 December 2007 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements for the Group are prepared for the year ending 31 December 2007.

The Group's financial results for the six month period ending 30 June 2007 will be prepared on the basis of the principles of adopted IFRS, and will be presented together with details of the accounting policies expected to be applied for the year ending 31 December 2007.

Basis of consolidation

The M&C Saatchi plc consolidated financial statements incorporate the financial statements of M&C Saatchi plc and entities (including special purpose entities) controlled by M&C Saatchi plc (its subsidiaries). Control is achieved where M&C Saatchi plc has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where subsidiaries are acquired in the year, their results and cash flows are included from the date of acquisition up to the balance sheet date.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Where a consolidated company is less than 100% owned by the Group, the minority interest share of the results and net assets is recognised at each reporting date. Where such a company has net liabilities, no asset is recorded within minority interests unless the minority shareholder has an obligation to make good its share of the net liabilities.

Subsidiary acquisition

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values of the assets given, liabilities incurred or assumed and the equity instruments issued by the Group in exchange for control, together with any costs that are directly attributable to the business combination. The identifiable assets and liabilities (including contingent liabilities) acquired that 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.

Goodwill
Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity is recognised as an asset, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable net assets acquired.

Goodwill relating to associates is included within the carrying value of the investment in associates.

Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at net book value as at that date.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication of impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill arising from foreign investments are translated at the year end rate.

Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intangible assets
Separately acquired intangible assets are capitalised at cost. Intangible assets acquired as part of a business combination are capitalised at fair value at the date of acquisition. Intangible assets that relate to associates are included within the carrying value of the investment in associates.

Intangible assets are stated at historical cost less accumulated amortisation.

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

Amortisation is calculated at the following annual rates:

Software	– 33% in equal instalments
Client contract	– length of contract in equal instalments
Brands acquired	– over expected length of time that brand will be in use in equal instalments

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

Property, plant and equipment
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	– over the period of the lease
Furniture, fittings	– 10% in equal instalments
Other equipment	– 25% in equal instalments
Computer equipment	– 33% in equal instalments
Motor vehicles	– 25% in equal instalments

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

Inventory – work in progress
Work in progress comprises all outlays incurred on behalf of clients which have still to be recharged, and is stated at the lower of cost and net realisable value.

Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand and deposits with an original maturity of three months or less, net of overdrafts.

Leased assets
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance lease agreements are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the lease. Reverse premiums and similar incentives to enter into operating lease agreements are initially recorded as deferred income and released to profit or loss account over the lease term.

Revenue recognition
Turnover (billings) represents the gross amounts billed to clients in respect of revenue earned and other client recharges, net of discounts and sales taxes.

Revenue comprises commission and fees earned in respect of turnover.

Revenue for each type of revenue is recognised on the following basis:

(1) Project fees are recognised over the period of the relevant assignments or agreements.

(2) Retainer fees are spread over the period of the contract on a straight-line basis.

(3) Commission on media spend is recognised when the advertisements appear in the media.

Employee benefits

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

Share-based compensation
Certain employees receive remuneration in the form of share based payments, including shares or rights over shares. The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted excluding the impact of any non-market vesting conditions (for example profitability and sales growth targets). The non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date the entity revises its estimates of the number of the options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Where awards depend on future events we assess the likelihood of these conditions being met and make an appropriate charge at the end of each reporting period. The credit for equity settled transactions is taken to the share option reserve.

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

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

The dilutive effect of un-vested outstanding options is calculated based on the number that would vest had the balance sheet date been the vesting date, this dilution is reflected in the computation of diluted earnings per share.

Share based payments include options issued to employees, phantom bonuses and other long term equity linked bonuses. Payments may be in the form of cash or equity. When options are exercised, the cash received for the issued shares is taken to share capital and share premium and the related balance in the share option reserve is taken to the profit and loss reserve. In the event that an option is unexercised at the end of the period when it is exercisable then the related balance in the share option reserve is taken to the profit and loss reserve.

Taxation
Current tax, including UK and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

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. However, the deferred tax is not accounted for, if it arises from 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 profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially 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 that 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.

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

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

Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the year end exchange rate.

Foreign currency gains and losses are credited or charged to the income statement as they arise.

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

Non monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Financial instruments

Financial assets and financial liabilities principally include the following:

Trade receivables
Trade receivables do not carry any interest and are stated at amortised cost. If the trade receivable becomes irrecoverable then a bad specific debt provision is created.

Trade payables
Trade payables are not interest bearing and are stated at their amortised cost.

Bank borrowings
Interest-bearing bank loans and overdrafts are initially recorded as the proceeds received, net of direct issue costs. Direct issue costs are amortised over the period of the loans and overdrafts to which they relate. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement as incurred using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments – put options
Liabilities in respect of put option agreements that allow the Group's equity partners to require the Group to purchase the minority interest are treated as derivatives over equity instruments and are recorded in the balance sheet at fair value. The fair value of such put options is re-measured at each period end. The movement in the fair value is recognised in profit or loss. The Group recognises its best estimate of the amount it is likely to pay, should these put options be exercised by the minority interests, as a liability in the balance sheet.

When the initial fair value of the liability in respect of the put options is created the corresponding debit is included in equity. When the put option is exercised this debit becomes the investment in the subsidiary.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material. The increase in the provision due to passage of time is recognised as interest expense.