

M&CSAATCHI

PENSAMENTO BRUTALMENTE SIMPLES

血腥极简思维

ДЕРЗКАЯ ПРОСТОТА МЫСЛИ

FRÅN BRUTAL ENKELHET TILL TANKE

विचारों का सरल सार.

BRUTAL SIMPLICITY OF THOUGHT

DES IDÉES D'UNE BRUTALE SIMPLICITÉ

GNADENLOS EINFACH DENKEN

LA VERA FORZA È LA SEMPLICITÀ DI PENSIERO

キツくてシンプルな思考

PEMIKIRAN RINGKAS MENAKJUBKAN

البساطة القاطعة في الفكر

2012

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Chairman

2012 was the best year in the Company's trading history.

As David Kershaw and Jamie Hewitt report later, turnover was up, headline profits were up, margins were up and, importantly for all shareholders, the dividend was up.

The Board would like to pay tribute to all our partners round the world for these achievements. They have brought the strategy of New Business and New Businesses to life in the most remarkable way.

The Australian office won the Commonwealth Bank with a powerful and imaginative campaign. Sport & Entertainment opened offices in South Africa and Germany. The network was enlarged with the establishment of offices in Stockholm, Abu Dhabi and Singapore. The New York office was also revitalised with the arrival of a high-profile new management team.

Our Brutal Simplicity of Thought book was published in four more languages, bringing the total to seven.

Few things give the founders of the Company more satisfaction than seeing the strategy laid down at its formation operating so effectively. The idea, in a nutshell, is that men and women work better if they are masters and mistresses of their destiny i.e. where they own meaningful equity in the business, they work harder, work better and enjoy it more.

To keep doing this we have to keep creating companies where they can exercise the entrepreneurial spirit.

So for example, the original founder/managers of the company's highly successful Customer Relationship Marketing division, LIDA, long ago exchanged their 20% of LIDA shares into PLC shares. That was their right and their reward for creating a hugely valuable entity. They now have a tradable asset for their efforts. The new generation of management must be equally driven, so their opportunity comes with the right to own shares in overseas expansion of the LIDA brand and the creation of subsidiaries which will enlarge and enhance the LIDA offering for clients.

It is the Board's ambition that, one day, we will open companies at the rate that our competitors buy them. Rather than seeing joining M&C Saatchi as a way to exit, we want talent to see M&C Saatchi as a way to grow and grow their business.

This puts the Company's emphasis on organic growth.

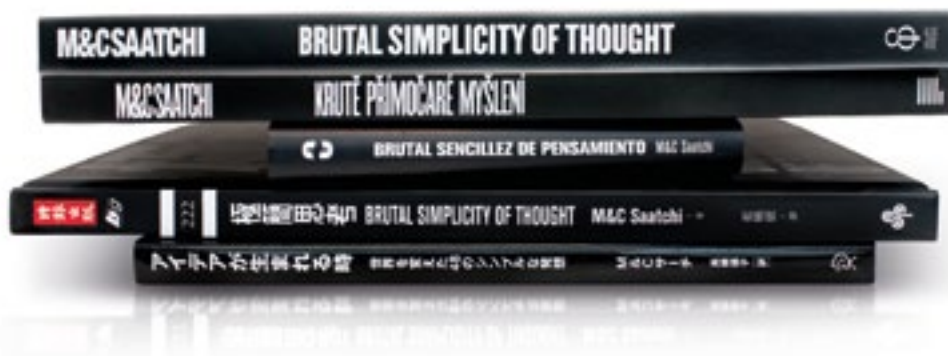
Last year's figure of 11.7% organic growth compares favourably with Omnicom at 4.0%, WPP at 2.9%, Publicis at 2.9%, and Interpublic at 0.7%

The company's rate of organic growth is 4.5 times the average for the big four.

It must be admitted, it is easier for us to grow by 11% than it is for our larger competitors. We start from a much smaller base.

But that leaves our management with a much more rewarding and potentially more exciting future.

JEREMY SINCLAIR



New business

Ballantine's
Broadband Choices
Carnival Cruise Lines
Center Parcs
Commonwealth Bank
CPA
Dick Smith
EE
Edgars Department Stores
Etihad
Google
Harveys
Heineken
Intercontinental Hotels
Loewe
Masters
Minerva
National Trust
Nedbank
Ocado
Nestlé
Novartis
O2
Opal
Pepsico
Peroni
Samsung
Tetra Pak
Unipart
Viking
Virgin Holidays
WWF
Spotify
Twitter

New businesses

M&C Saatchi Abu Dhabi
M&C Saatchi New York
M&C Saatchi Singapore
M&C Saatchi Stockholm

M&C Saatchi Sport & Entertainment Germany
M&C Saatchi Sport & Entertainment South Africa

M&C Saatchi Mobile Australia
M&C Saatchi Mobile South Africa

Clear Singapore

Bang PR Australia

Chief Executive

2012 saw another good performance with further revenue momentum and earnings growth. Revenues increased 11% and we maintained a double digit headline operating margin of 10.1% (post central costs), notwithstanding an investment in the year of just under £1.5m in three offices (Abu Dhabi, Singapore and Stockholm) and the relaunch of our New York office. Excluding this investment, the like-for-like margin increased from 10.1% to 10.9%. These impressive results were despite a previously flagged disappointing performance from Clear whose PBT fell from £2m to £0.3m. We have restructured Clear, redefined their offer and taken out significant cost so that they are trading more buoyantly in 2013. The overall Group headline profit before tax advanced 10% to £17.2m. Headline net earnings rose 7% to £9.6m suppressed by an increased corporation tax rate (32.4% in 2012, compared with 31.0% in 2011), a function of non-deductible losses from the new office investments.

UK

Revenue in the UK was up 13% from £67.0m to £75.4m, with our CRM and Mobile businesses performing strongly. We also had a strong run of wins across all of our businesses, including Ballantine's, Center Parcs, National Trust, Harveys, Peroni, Intercontinental Hotels, Viking and Virgin Holidays. Importantly, we are seeing an increasing number of integrated wins across communication channels. We continue to roll out proven new channel models across the network. We are now exporting CRM and PR to our overseas offices, alongside Sport & Entertainment and Mobile. We are making further investment in new businesses. In January 2013, we acquired 60% of a UK-based talent management agency Merlin Elite. This will become part of the Group's successful Sport & Entertainment division. We maintain a tight control on costs and margins. This resulted in the headline operating margin increasing to 20.2% (2011: 19.5%, both margins exclude the impact of Group recharges). The UK headline operating profit improved a positive 17% on 2011.

Europe

Despite the economic backdrop, positive progress was made in Europe with revenues up 11% and headline operating profit up 14%. Germany, Italy and Switzerland all performed well. Sport & Entertainment, launched in Germany and Switzerland, won some new business from Nestlé. In France, whilst advertising remains slow, we are benefiting from our diversification and were pleased to retain La Banque Postale, a major client. The headline operating margin was up

from 14.1% to 14.4%, with some drag from our investment in Stockholm. Spain continued to underperform in a very difficult market but as an associate, our investment there is just 25%.

Middle East and Africa

We experienced further good growth in Cape Town and Johannesburg. Revenues more than doubled from £3.0m to £6.6m and key wins in the period were Edgars Department Stores and Nedbank's promotional account. Additionally, Sport & Entertainment and Mobile were both launched in Johannesburg in the second half. There was also some infrastructure investment needed in our offices to enhance systems and support for the larger clients we have been winning recently. Elsewhere in the region, we opened an Abu Dhabi office on the back of our Etihad win. With the investment in the new office and the new businesses, the headline operating margin consequently fell from 9.2% to 2.1% but will rebuild as these operations come on tap in profit terms.

Asia and Australasia

In Asia and Australasia, revenue increased 8% year-on-year and headline operating profit was up a very favourable 46%. The key driver for this was Australia. We won Commonwealth Bank early in the year and also retained Optus after a lengthy repitch; both are Group top ten accounts. New Zealand was impacted by two of their main clients suspending media spends for most of the year. There was another excellent performance from Malaysia. China underperformed but we have now agreed heads of terms and are already working with a respected partner, which will provide a more sustainable presence. Japan and India were both profitable, albeit relatively small. We reopened our Singapore office in February 2012 and they have achieved good new business momentum. The regional headline operating margin was 6.4%, compared with 2011's 4.7%.

Americas

In New York, we completed our executive management team line up in September and relaunched the operation in the fourth quarter. The office is now busy pitching and building relationships with new business intermediaries. Revenues were up 19% to £8.0m and the region overall broke even in profit terms, with our offices in Los Angeles and Sao Paulo and our other New York businesses (Mobile and PR), covering the advertising investment in New York.

Chief Executive continued

Clear

Clear had a very tough year, with revenues slowing as nine of their top ten clients cut spending by 50% mainly due to budget cuts or restructuring programmes. Clear's headline operating profit reduced from £2m to £0.3m. We have significantly downsized Clear's New York and Asian operations, as well as undertaking some extensive cost cutting across the board, yielding a 31% cost saving. Clear's offering has been simplified and the new business programme boosted. New business wins came through in the fourth quarter including Bacardi, Novartis, Samsung and Pepsico and subsequently we expect the 2013 first quarter profitability to be much improved.

Outlook

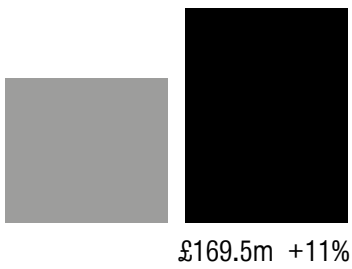
M&C Saatchi has made very good progress in 2012. The Group returned double digit revenue and operating profit growth. This arose from new business success, increasingly international and integrated, the profitable growth of new businesses in the mature markets and the rolling out of proven models across the network. This was whilst continuing to invest in further new offices and businesses.

Looking ahead, we are confident that we will continue to make progress in 2013 and beyond. The strategy continues to deliver.

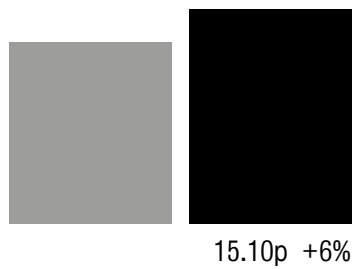
DAVID KERSHAW

Growth versus 2011

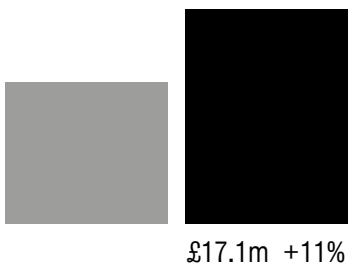
Revenue



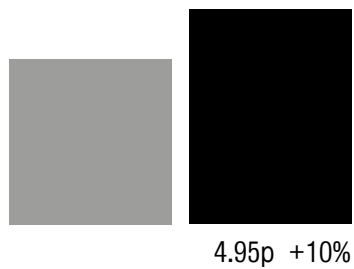
Headline EPS



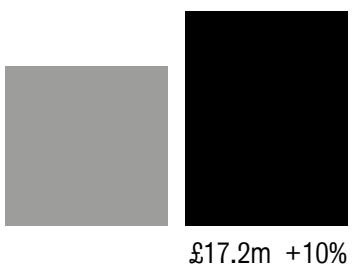
Headline operating profit



Dividend



Headline profit before tax



Finance Director

Operating profit and margin

At a Group level we focus on revenue growth and margin improvement leaving our local CEOs to manage their cost base to their revenues. This local focus on cost has helped maintain 10% operating margins with our headline operating margin being 10.1% (2011: 10.1%). 2012's headline operating margin is after the investment of £1.5m in our three new offices (Abu Dhabi, Singapore and Stockholm) as well as the relaunch of our New York office. Ignoring the impact of these investments, the like-for-like 2012 headline operating margin improved 0.8% to 10.9%.

Revenues increased 10.7% in 2012 to £169.5m (2011: £153.1m). Excluding currency movement, the main influence being the positive effect of a strengthening sterling against the euro and US dollar, the like-for-like revenue increase was 11.7%. This resulted in headline operating profit increasing 11.0% to £17.1m (2011: £15.4m). Non-headline operating profit increased to £15.8m (2011: £14.1m) with a charge of £1.3m (2011: £1.3m) for non-headline items.

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, but excluding software) acquired in business combinations, changes to contingent and deferred consideration taken to the income statement; impairment of investment in associate; and fair value gains and losses on liabilities caused by our put and call option agreements. See note 3 for a reconciliation of non-headline to headline results.

Non-headline results

Leaving our improved trading performance aside, the reduction in profit before tax of 38% to £9,881k and basic earnings per share of 75% to 3.89p was in the most part caused by the increase in our share price from £1.165 to £1.805 that caused a £6.9m accounting charge for minority put options (2011: £2.0m credit) (note 27), and the £1.6m write off of our Spanish associate.

Amortisation and impairment of acquired intangibles

We have reviewed the carrying values for intangible assets at the end of 2012. In New Zealand where two of the key clients suspended their marketing activities resulting in a loss in the period, we have made a non-headline impairment charge of £0.6m. In addition, in Spain where we have an associate company, given the very challenging market conditions we have felt it prudent to make a non-headline impairment charge of £1.6m. As can be seen in note 16, apart from Clear the other carrying values are significantly above the recoverable amounts in all cash generating units (CGU).

Financial income and expense

The Group's headline net interest receivable was £23k (2011: £48k). There was no significant change in the interest expense incurred on the Group debt, although average Group debt rose a little at £4.3m (2011: £3.5m), interest rates remained low.

Minority put option revaluations are excluded from the headline results as the charge can vary significantly each year and does not reflect the business's underlying performance. The accounting of this produces counter-intuitive effects, with increases in our share price and increases in the actual or expected performance of our subsidiaries with put options, creating a charge to our accounts and reducing our profits.

The £4.4m charge non-headline fair value adjustment to minority put option liabilities was caused by our share price in 2012 increasing 55% from £1.165 to £1.805 causing a £6.9m charge and the reduced performance of our businesses, in particular Clear, caused a £2.5m credit. Further details can be seen in note 27.

Tax

The tax rate on headline profit before tax was 32.4% (2011: 31.0%). Our investment in new offices of £1.5m (2011: nil) primarily led to this increase. The Group does not recognise a deferred tax asset on these losses until the future profits of those businesses are probable (note 13). As these offices become profitable, we will see a positive effect on the tax rate, which will be enhanced in New York where we can access the historic losses that we incurred there.

Finance Director continued

Non controlling interest

The proportion of profits attributable to non controlling shareholders marginally increased to 17.9% (2011: 17.2%) of headline profit after tax, being £2.1m (2011: £1.8m). This increase was principally due to strong performances from M&C Saatchi Mobile and our Australian offices.

Dividend

As part of a progressive dividend policy, the Board is proposing to pay a final dividend of 3.85p per share (2011: 3.5p), giving a total dividend of 4.95p compared to 4.5p in 2011, which is an increase of 10% in line with our earnings growth. The final dividend will be paid subject to shareholder approval on 12 June 2013 to shareholders on the register at 7 June 2013.

Cash flow and Banking Arrangements

Cash net of bank borrowings at 31 December 2012 was £17.9m compared to £14.9m at 31 December 2011. The Group continued to generate cash which it used to make small tactical acquisitions and fund new offices.

The Group continues to operate within its banking covenants and has bank facilities comprising a revolving credit facility and a committed overdraft totalling £10.3m. This facility has been agreed to 30 June 2014.

Capital Expenditure

Total capital expenditure for 2012 decreased to £2.8m (2011: £3.5m). The main components of this spend were the refurbishment of some additional office space in the UK and the setting up of our new overseas offices. In addition, there was some IT investment across the Group as well as expenditure to accommodate our 14% increase in staff.

Associates

The return from our established associates was modest at £91k (2011: £115k). Our share of profits from M&C Saatchi SAL, our associate that covers the Middle East and North Africa region (MENA), was £102k (2011: £35k) whilst our share of our European associates based in Russia and Spain was a loss of £88k (2011: profit of £92k). The profit share of our UK associates, Milk Data Strategy and Human Digital, was £77k (2011: loss of £13k).

Long Term Incentive Plan

On 4 February 2013, we announced that the conditional share awards granted to four of the Company's Executive Directors on 14 October 2010 under the Company's Long Term Incentive Plan vested on 31 December 2012, in accordance with the scheme's rules. The awards reflect the achievement of targets for both share price performance and total shareholder return conditions compared with the Company's listed peer group. M&C Saatchi share price has increased 123% from 81p as at 31 December 2009 to £1.805 as at 31 December 2012. In addition, M&C Saatchi was ranked first among the 15 comparator companies for total shareholder return. When the Long Term Incentive Plan was adopted each of the participants paid £97,250 to participate in the scheme. This sum was not refundable in the event that the vesting conditions were not met. As a result of the vesting, a total of 3,546,932 ordinary shares of one penny each in the Company will be awarded to the following M&C Saatchi directors: Jeremy Sinclair, David Kershaw, Maurice Saatchi and Bill Muirhead, with each Director receiving 886,733 shares.

Company's Investments

There was a no change in the year in the Company's investment.

JAMIE HEWITT

Board

EXECUTIVE DIRECTORS



Jeremy Sinclair
Chairman



David Kershaw
Chief Executive

NON EXECUTIVE DIRECTORS



Lloyd Dorfman
Non Executive Director



Adrian Martin
Non Executive Director



Maurice Saatchi
Executive Director



Bill Muirhead
Executive Director



Jamie Hewitt
Finance Director



Jonathan Goldstein
Non Executive Director

Directors' Report

The directors submit their report together with the audited financial statements of the Group and Company for the year ended 31 December 2012.

Results and dividends

The consolidated income statement on page 22 shows the result for the year. The directors approved an interim dividend of £697,000 (2011: £628,000) and recommend a final dividend of 3.85p pence totalling £2,577,000 (2011: £2,213,000).

Principal activity, trading review and future developments

The principal activity of the Group during the year was the provision of advertising and marketing services. The review of trading, future developments and key performance indicators (being revenue growth, headline operating margin, headline profit before tax, headline tax rate, and cash generation) are on pages 2 to 13.

Principal risks and uncertainties

Client losses hurt, although some turnover over time is normal and expected. Losses can happen for a variety of reasons. Our client profile is in line with those of our major competitors, and we continue to attract new clients on the basis of our creative excellence, the commitment of our people and our unique portfolio of services. There is also the risk, as a result of an economic slowdown, that budgets and fees are reduced or clients stop trading or run out of funding after work has been commissioned. Such a situation could be exacerbated by a default by a eurozone country. The recession has also reduced visibility of future income; however, in some cases it has changed our clients' marketing mix and this has led to cross selling opportunities. The other risks the Group faces are financial (details of which can be seen in note 5 of the financial statements), the risk that key staff leave, and the risk that regulatory and legal changes affect our trading or ownership structures.

Financial instruments

Details of the use of financial instruments by the Group are contained in notes 24 to 26 of the financial statements.

Charitable and political contributions

During the year the Group made charitable donations of £111,448 (2011: £89,995) and made a political donation in time and materials of £1,000 to UK Conservative party (2011: nil).

Directors

The names of the directors are given on pages 14 and 15.

Insurance

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

Substantial shareholdings

As at 12 March 2013 the Company had been notified by shareholders representing 3% or more of issued share capital of the following interests:

Number of shares		%
RWC	7,236,968	11.4%
Aviva plc & its subsidiaries	7,186,812	11.3%
Herald Investment Trust plc	5,150,000	8.1%
Hargreave Hale	4,303,651	6.8%
David Kershaw	3,799,369	6.0%
Bill Muirhead	3,799,369	6.0%
Maurice Saatchi	3,799,369	6.0%
Jeremy Sinclair	3,799,369	6.0%
JP Morgan Asset Management	3,008,209	4.8%

Regularly updated details of the directors and substantial shareholders can be found on our corporate website www.mcsaatchiplc.com.

Events since the end of the financial year

The directors are not aware of any events since the end of the financial year that have had, or may have a significant impact on the Group's operations, the results of those operations, or the state of affairs of the Group in future years.

Employees & Equal opportunities

The Group's equal opportunities policy is not to discriminate on any grounds other than someone's ability to work effectively. We will make reasonable adjustments to working arrangements or to a physical aspect of the workplace.

Directors' Report continued

Payment of creditors

The Group has no formal code of conduct dealing specifically with the payment of suppliers. However, we try to adhere to agreed payment terms, provided the required goods or services have been delivered. The average number of days of purchases of the Company represented by trade creditors at 31 December 2012 was 13 days (2011: 14 days). The average number of days of purchases of the Group represented by trade creditors at 31 December 2012 was 44 days (2011: 39 days).

Treasury shares

At the Annual General Meeting (AGM) in 2012 the directors were given the authority to purchase up to 6,352,900 of its ordinary shares. The directors will seek to renew this authority at the next AGM. During the year the Company held 700,000 of its ordinary shares ('treasury shares'). The directors will use them to fulfil option obligations at a later date.

Directors' power to issue shares

At the AGM in 2012 the directors were given the authority to issue up to 42,352,600 of its ordinary shares of which 6,352,900 were approved to be issued for cash. During the year the Company issued 548,385 shares to fulfil options and to acquire equity (note 30). The Company did not issue any shares for cash.

Agreements that vest on change of control

Depending on the circumstance, some of our put option agreements vest on change of control.

Directors' responsibilities

The directors are responsible for preparing the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union; and
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Website publication

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

All the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware. During the year, following a re-pitch, BDO LLP resigned from the Group, Company's and subsidiary Companies audits and KPMG Audit Plc was appointed.

KPMG Audit Plc are willing to continue in office. A resolution to reappoint them will be proposed at the AGM.

By order of the Board

Andy Blackstone
Company Secretary
15 March 2013

Remuneration report

The members of the Remuneration Committee are Lloyd Dorfman, Jonathan Goldstein and Adrian Martin.

Policy on directors' remuneration

Attracting and retaining high calibre executives is a key Company objective. We seek to reward them in a way that encourages the creation of value for shareholders.

Directors' pension arrangements

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

Directors' contracts

All executive directors listed in the remuneration report have service contracts with 12 month notice periods. All non executive directors have contracts with a nil to 30 day notice period dependent on the circumstances.

Directors' options

	Scheme ¹	Maximum M&C Saatchi Plc shares awardable
Jamie Hewitt	LTIP	110,759

Directors' interests in subsidiaries

	Scheme ¹	Shares in M&C Saatchi Worldwide Ltd
David Kershaw	New LTIP	28 A and 55,675 B shares
Bill Muirhead	New LTIP	28 A and 55,675 B shares
Maurice Saatchi	New LTIP	28 A and 55,675 B shares
Jeremy Sinclair	New LTIP	28 A and 55,675 B shares

	Scheme ¹	Shares in M&C Saatchi Network Ltd
Jamie Hewitt	2012 LTIP	153,000 G shares

¹ See note 30

New LTIP

In 2010 each of the four participants paid £97,250 for the award. This would have been not refundable if the share price hurdles and a total shareholder return (TSR) conditions were not met.

The hurdle for 31 December 2012 was that the Company's average ninety day closing mid-market share price as at 31 December 2012 must be greater than or equal to 164.4p. As the Company's average ninety day closing mid-market share price as at 31 December 2012 was 181.4p, and the Company's TSR was in the top quarter of comparator group of companies, then each participant will receive 886,733 of the Company's shares. This award is based on ten percent of the £64.3m increase in Company's market capitalisation since 31 December 2010 when the Company was worth £50.6m.

A further award will be received if the Company's average ninety day closing mid-market share price as at 31 December 2014 is greater than or equal to 198.9p. If this condition is fulfilled then the participants are entitled to receive an award worth, in aggregate, ten percent of the Company's increase in market capitalisation above its present value of £114,935,417 (at 181.4p share price). The award causes an accounting charge of £653,000 (2011: £651,000).

2012 LTIP

The 2012 LTIP was issued on 19 January 2012 when the Company's share price was 123.5p. The participant paid the fair market price for the award of £1,530. The award can be vested once at either 31 December 2014, 31 March 2015 or 30 September 2015. The condition for vesting is that the Company's share price is greater than or equal to 200.0p. The maximum number of the Company's shares awarded is equal to the number of M&C Saatchi Network Ltd G shares issues; this award reduces as the share price increase. The accounting charge per this arrangement is £11,000 (2011: Nil).

Other benefits

With the exception of the rent paid to 36 Golden Square LLP (see note 33) no director of the Company has received or become entitled to receive a benefit (other than a fixed salary as an employee / consultant of the Company, the options indicated in this report, or a benefit included in the aggregate amount of remuneration shown in the financial statements) by reason of a contract made by the Company or a related corporation of which he is a member or with a Company in which he has a substantial financial interest.

By order of the Board

Andy Blackstone
Company Secretary
15 March 2013

2012	Basic salary £000	Bonus £000	Benefits in kind¹ £000	Pension £000	Total £000
Directors					
David Kershaw	374	–	54	1	429
Bill Muirhead	325	–	55	49	429
Maurice Saatchi	374	–	52	–	426
Jeremy Sinclair	374	–	49	–	423
Jamie Hewitt	220	–	80	12	312
Total	1,667	–	290	62	2,019
Non executive directors					
Lloyd Dorfman	40	–	–	–	40
Adrian Martin	40	–	–	–	40
Jonathan Goldstein	40	–	–	–	40
Total	120	–	–	–	120
TOTAL REWARDS	1,787	–	290	62	2,139
2011	Basic salary £000	Bonus £000	Benefits in kind¹ £000	Pension £000	Total £000
Directors					
David Kershaw	362	–	52	13	427
Bill Muirhead	325	–	52	49	426
Maurice Saatchi	374	–	54	2	430
Jeremy Sinclair	374	–	45	–	419
Jamie Hewitt	212	–	34	12	258
Total	1,647	–	237	76	1,960
Non executive directors					
Lloyd Dorfman	38	–	–	–	38
Adrian Martin	38	–	–	–	38
Jonathan Goldstein	38	–	–	–	38
Total	114	–	–	–	114
TOTAL REWARDS	1,761	–	237	76	2,074

¹ Benefits in kind include car allowances and permanent health insurance benefits.

Consolidated income statement

Year ended 31 December	Note	2012 £000	2011 £000
Billings		502,738	520,017
Revenue	3	169,486	153,133
Operating costs	6	(153,731)	(139,040)
Operating profit	3	15,755	14,093
Share of results of associates	9	91	115
Impairment of associate	20	(1,552)	–
Finance income	10	422	2,199
Finance costs	11	(4,835)	(370)
Profit before taxation	3	9,881	16,037
Taxation	13	(5,357)	(4,589)
Profit after taxation		4,524	11,448
Attributable to:			
Equity shareholders of the Group	3	2,463	9,599
Non controlling interests	3	2,061	1,849
Profit for the year	3	4,524	11,448
Earnings per share			
Basic (pence)	3	3.89p	15.39p
Diluted (pence)	3	3.59p	15.07p

Headline results*		
Headline operating profit	17,068	15,399
Headline profit before tax	17,182	15,562
Headline profit after tax attributable to equity shareholders	9,560	8,918
Headline basic earnings per share (pence)	15.10p	14.30p

*Reconciliation of Headline to the results above note 3; segmental headline results used by management to describe the business (note 4).

The notes on pages 30 to 65 form part of these financial statements.

Consolidated statement of comprehensive income

Year ended 31 December	2012 £000	2011 £000
Profit for the year	4,524	11,448
Other comprehensive income:		
Exchange differences on translating foreign operations before tax	(518)	(189)
Tax benefit/(expense)	56	(40)
Other comprehensive income for the year net of tax	(462)	(229)
Total comprehensive income for the year	4,062	11,219
Total comprehensive income attributable to:		
Equity shareholders of the Group	2,001	9,370
Non controlling interests	2,061	1,849
	4,062	11,219

The notes on pages 30 to 65 form part of these financial statements.

Consolidated balance sheet

At 31 December	Note	2012 £000	2011 £000
Non current assets			
Intangible assets	16	60,540	60,229
Investments in associates	20	756	2,226
Plant and equipment	21	7,237	6,941
Deferred tax assets	14	1,612	1,098
Other non current assets	22	5,041	4,987
		75,186	75,481
Current assets			
Trade and other receivables	23	95,248	89,585
Current tax assets		881	322
Cash and cash equivalents		22,332	18,779
		118,461	108,686
Current liabilities			
Bank overdraft		(84)	–
Trade and other payables	24	(106,872)	(103,406)
Current tax liabilities		(3,809)	(2,270)
Other financial liabilities	25	(131)	(126)
Deferred and contingent consideration	26	–	(128)
Minority shareholder put option liabilities	27	(2,549)	(1,682)
		(113,445)	(107,612)
Net current assets		5,016	1,074
Total assets less current liabilities		80,202	76,555
Non current liabilities			
Deferred tax liabilities	14	(669)	(813)
Other financial liabilities	25	(4,322)	(3,890)
Minority shareholder put option liabilities	27	(17,933)	(15,410)
Other non current liabilities	28	(1,092)	(396)
		(24,016)	(20,509)
Total net assets		56,186	56,046

The notes on pages 30 to 65 form part of these financial statements.

Consolidated balance sheet

At 31 December	Note	2012 £000	2011 £000
Equity			
Equity attributable to shareholders of the Group			
Share capital	29	641	635
Share premium		14,625	13,832
Merger reserve		20,669	21,194
Treasury reserve		(792)	(792)
Minority interest put option reserve		(13,675)	(14,305)
Non controlling interest acquired		(1,085)	(297)
Foreign exchange reserve		1,846	2,308
Retained earnings		31,373	30,808
		53,602	53,383
Non controlling interest		2,584	2,663
Total equity		56,186	56,046

These financial statements were approved and authorised for issue by the Board on 15 March 2013 and signed on its behalf by:

Jamie Hewitt
 Finance Director
 M&C Saatchi plc
 Company Number 05114893

The notes on pages 30 to 65 form part of these financial statements.

Consolidated statement of changes in equity

	Note	Share Capital £000	Share premium £000	Merger reserve £000	Treasury reserve £000
At 1 January 2011		625	12,822	21,922	(792)
Acquired non controlling interest		2	262	–	–
Issues of shares to minorities		–	–	–	–
Impairment of M&C Saatchi (Hong Kong) Ltd*	16	–	–	(728)	–
Exchange rate movements		–	–	–	–
Release on company deletion		–	–	–	–
Issue of minority put options	27	–	–	–	–
Cancellation of minority put options		–	–	–	–
Option exercise	30	8	748	–	–
Reclassification of share to cash based option	30	–	–	–	–
Share option charge	30	–	–	–	–
Dividends	15	–	–	–	–
Total transactions with owners		10	1,010	(728)	–
Total comprehensive income for the year		–	–	–	–
At 1 January 2012		635	13,832	21,194	(792)
Acquisitions	17	–	–	–	–
Acquired non controlling interest		1	115	–	–
Issues of shares to minorities	16	–	–	–	–
Impairment of New Zealand*	16	–	–	(525)	–
Subsidiary Share buyback of own equity from a non controlling shareholder	18	–	–	–	–
Exchange rate movements		–	–	–	–
Issue of minority put options	27	–	–	–	–
Cancellation of minority put options		–	–	–	–
Option exercise	30	5	678	–	–
Share option charge	30	–	–	–	–
Dividends	15	–	–	–	–
Total transactions with owners		6	793	(525)	–
Total comprehensive income for the year		–	–	–	–
At 1 December 2012		641	14,625	20,669	(792)

The definitions of the reserves reported in the above can be found in note 2. The reclassification of share to cash based options is due to the Group paying cash equal to the employment tax payable and issuing a reduced number of shares on exercise of its employee share options.

The notes on pages 30 to 65 form part of these financial statements.

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
(10,466)	(130)	2,662	23,053	49,696	1,375	51,071
158	(166)	–	–	256	–	256
–	–	–	–	–	166	166
–	–	–	728	–	–	–
–	(1)	–	–	(1)	87	86
–	–	(125)	125	–	–	–
(4,186)	–	–	–	(4,186)	–	(4,186)
189	–	–	(133)	56	–	56
–	–	–	(756)	–	–	–
–	–	–	(372)	(372)	–	(372)
–	–	–	1,087	1,087	–	1,087
–	–	–	(2,523)	(2,523)	(814)	(3,337)
(3,839)	(167)	(125)	(1,844)	(5,683)	(561)	(6,244)
–	–	(229)	9,599	9,370	1,849	11,219
(14,305)	(297)	2,308	30,808	53,383	2,663	56,046
–	–	–	–	–	71	71
73	(120)	–	–	69	(18)	51
–	–	–	(11)	(11)	26	15
–	–	–	525	–	–	–
–	(668)	–	–	(668)	(632)	(1,300)
–	–	–	–	–	(61)	(61)
(480)	–	–	–	(480)	–	(480)
1,037	–	–	329	1,366	–	1,366
–	–	–	(686)	(3)	–	(3)
–	–	–	855	855	–	855
–	–	–	(2,910)	(2,910)	(1,526)	(4,436)
630	(788)	–	(1,898)	(1,782)	(2,140)	(3,922)
–	–	(462)	2,463	2,001	2,061	4,062
(13,675)	(1,085)	1,846	31,373	53,602	2,584	56,186

* Amounts were released from merger reserve to retained earnings as an impairment charge was posted in respect of the investments that create the related merger reserve. See definition of terms in note 2.

Consolidated cash flow statement and analysis of net debt

Year ended 31 December	Note	2012 £000	2011 £000
Revenue		169,486	153,133
Operating expenses		(153,731)	(139,040)
Operating profit		15,755	14,093
Adjustments for:			
Depreciation of plant and equipment		2,289	1,929
Loss on sale of plant and equipment		99	38
Loss on sale of software intangibles		35	–
Amortisation of acquired intangible assets		705	714
Impairment of goodwill		608	902
Amortisation of capitalised software intangible assets		141	188
Non cash share based incentive plans		855	1,087
Operating cash flow before movements in working capital		20,487	18,951
Increase in debtors		(5,717)	(10,250)
Increases/(decrease) in creditors		4,194	(9,775)
Cash generated/(consumed) from operations		18,964	(1,074)
Tax paid		(5,178)	(4,159)
Net cash flow from operating activities		13,786	(5,233)
Investing activities			
Acquisitions net of cash acquired	18	(3,199)	(1,773)
Proceeds from sale of plant and equipment		28	9
Purchase of plant and equipment		(2,652)	(3,389)
Purchase of capitalised software		(163)	(173)
Interest earned		422	345
Net cash consumed by investing activities		(5,564)	(4,981)
Net cash generated/(consumed) by operating and Investing activities		8,222	(10,214)

The notes on pages 30 to 65 form part of these financial statements.

Year ended 31 December	Note	2012 £000	2011 £000
Net cash consumed by operating and investing activities		8,222	(10,214)
Financing activities			
Dividends paid to equity holders of the Company	15	(2,910)	(2,523)
Dividends paid to non controlling interest		(1,526)	(814)
Subsidiaries sale of own shares to non controlling interest		30	58
Repayment of finance leases		(214)	(62)
Inception of bank loans		5,416	2,117
Repayment of bank loans		(4,755)	(786)
Interest paid		(390)	(297)
Net cash consumed by financing activities		(4,349)	(2,307)
Net increase/(decrease) in cash and cash equivalents		3,873	(12,521)
Cash and cash equivalents at the beginning of the year		18,779	31,388
Effect of exchange rate changes		(404)	(88)
Cash and cash equivalents at the end of the year		22,248	18,779
Client cash	19	(10,235)	(11,297)
Free cash	19	12,013	7,482
Bank loans and borrowings		(4,322)	(3,890)
NET CASH		7,691	3,592
CAPITAL			
TOTAL EQUITY (at 180.5p; 116.5p)		114,396	73,196
TOTAL CAPITAL		114,396	73,196
GEARING RATIO		nil	nil

Free cash, gearing ratio and net debt are not defined under IFRS; see note 2.

Notes

1. Summary accounting policies

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

Going Concern

Given the strength of the Group's balance sheet, its free cash, the risks the Group faces (note 5) and expected trading performance the management believe it is correct to account for the Group as a Going Concern for foreseeable future.

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. In addition, the headline results are used for internal performance management, the calculation of rewards in the Group's Long Term Incentive Plan (LTIP) scheme and minority shareholder put option liabilities. The term headline is not a defined term in IFRS.

Our segmental reporting 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, but excluding software) acquired in business combinations, changes to contingent and deferred consideration taken to the income statement; impairment of investment in associate; and fair value gains and losses on liabilities caused by our put and call option agreements.

Accounting developments and changes

There are no significant accounting developments and changes during 2012. Other future developments are described in note 34.

IFRS Choices

IFRS provides certain options available within accounting standards. Material choices we have made and continue to make, include the following:

- Goodwill and intangible asset acquisition – the Group does not recognise the non controlling interests share of goodwill.
- Timing of goodwill impairment reviews – occur at the end of each year following the conclusion of the budgetary process, or if a significant event occurs to indicate impairment.

Critical accounting policies

Revenue recognition

Billings represent the gross amounts billed to clients in respect of revenue earned and other client recharges, net of discounts and sales taxes.

Each type of revenue is recognised on the following basis:

- a) Project fees are recognised over the period of the relevant assignments or agreements, in line with incurred costs.
- b) Retainer fees are spread over the period of the contract on a straight line basis.
- c) Commission on media spend is recognised when the advertisements appear in the media.

Employee benefits – share based compensation

Certain employees receive remuneration in the form of share based payments, including shares or rights over shares.

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.

Minority shareholder put option liabilities

Liabilities in respect of put option agreements that allow the Group's equity partners to require the Group to purchase the non controlling interest are measured as liabilities on a gross basis at the present value of the exercise price. The fair value of such put option liabilities is remeasured at each period end. The movement in the fair value is recognised in the income statement as part of finance income or cost. The Group recognises its best estimate of the amount it is likely to pay, should these put options be exercised by the non controlling interests, as a liability in the balance sheet.

On inception of a put option, the liability is recognised on the balance sheet and a corresponding debit is included in the minority put option reserve.

On exercise the liability is extinguished, and its related minority interest put option reserve is moved to the non controlling interest acquired reserve.

Assets and liabilities in respect of put options held by shareholders in associates are accounted for as derivatives and not recognised until the Group gains control and fully consolidates the entity. An asset or liability equal to the difference between the exercise price on the option and the fair value of the equity to be acquired is recognised.

Call option assets

Assets in respect of call option agreements that allow the Group to require the equity partners to sell their non controlling interest are treated as derivatives over own equity instruments and are recorded in the balance sheet at fair value. The fair value of such call option assets is remeasured at each period end. When the asset is created and subsequently remeasured the corresponding entry is taken to the income statement.

Sensitivities to accounting estimates

Our results and financial position are sensitive to assumptions made in determining accounting estimates, as set out below:

Management are satisfied that the only possible changes in key assumptions, which would cause the recoverable amount of any of our CGUs to be below their carrying amount, is if Clear Ideas Ltd do not increase their future monthly profitability in line with their forecast, or other CGUs have a significant loss of clients. Management have tested the key assumptions on pre-tax discount rates and management forecasts and projections by adjusting them 50% and 20% respectively, which would not lead to impairment.

The remaining accounting policies and additional details on the above, are set out in note 34.

2. Definition of terms

Free cash

Reflects the amount of cash we have in the Group once short term assets have been turned into cash and short term liabilities paid. Free cash is adjusted for any debt that is being refinanced and is only defined as short term as the refinancing has not been completed before the period end.

Foreign exchange reserve

For overseas operations, results are translated at the average rate of exchange and balance sheets are translated at the closing rate of exchange. The average rate of exchange approximates to the rate on the date that the transactions occurred. Exchange differences arising from the translation of foreign subsidiary results are taken to a separate component of equity. Such translation differences will be recognised as income or expense in the period which the operation is disposed of.

Gearing ratio

Is equal to net debt divided by market capitalisation.

Key management

The Group has defined the key management as the M&C Saatchi plc directors and the Executive Board.

Net cash (debt)

Free cash less external borrowings.

Merger reserve

Premium paid for shares above the nominal value of share capital, caused by the acquisition of more than 90% of subsidiaries' shares. The merger reserve is released to retained earnings when there is a disposal or impairment charge or amortisation charge posted in respect of the investment that created it.

Minority interest put option reserve

Corresponds to the initial fair value of the liability in respect of the put options at creation. When the put option is exercised the related amount in this reserve is taken to non controlling interest acquired reserve.

Non controlling interest

Contains the non controlling interest's share of equity reserves in our subsidiaries.

Non controlling interest acquired reserve

From 1 January 2010 a non controlling interest acquired reserve is used when the Group acquires an increased stake in a subsidiary. If the acquisition is due to a put option then the non controlling interest acquired reserve is equal to the Minority interest put option reserve transferred less book value of the minority interest acquired. Otherwise the non controlling interest acquired reserve is equal to the consideration paid less book value of the minority interest acquired. If the equity stake in the subsidiary is subsequently sold then balances from this reserve will be taken to retained earnings.

Retained earnings

Cumulative gains and losses recognised.

Share premium

Premium paid for shares above the nominal value of share capital, where that premium was not taken to merger reserve.

Treasury reserve

Amount paid for own shares acquired.

Notes

3. Headline results and earnings per share

The analysis below provides a reconciliation between the Group's reported results and the headline results with the associated earnings per share calculations. Basic and diluted earnings per share is 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 2012	Note	Reported results £000	Amortisation of acquired intangibles (note 16) £000	Impairment of goodwill (note 16) £000	Impairment of associate (note 20) £000	Fair value adjustments to minority put option liabilities (note 27) £000	Headline and segmental results £000
Revenue	4	169,486	–	–	–	–	169,486
Operating profit	6	15,755	705	608	–	–	17,068
Share of results of associates	9	91	–	–	–	–	91
Impairment of associate	20	(1,552)	–	–	1,552	–	–
Finance income	10	422	–	–	–	–	422
Finance cost	11	(4,835)	–	–	–	4,436	(399)
Profit before taxation	4	9,881	705	608	1,552	4,436	17,182
Taxation	13	(5,357)	(185)	–	–	–	(5,542)
Profit after taxation		4,524	520	608	1,552	4,436	11,640
Non controlling interests		(2,061)	(19)	–	–	–	(2,080)
Profit attributable to equity holders of the Group		2,463	501	608	1,552	4,436	9,560
Basic earnings per share							
Weighted average number of shares (thousands)		63,317	–	–	–	–	63,317
Basic EPS		3.89p	–	–	–	–	15.10p
Diluted earnings per share							
Weighted average number of shares (thousands) as above		63,317	–	–	–	–	63,317
Add							
– UK growth shares		1,581	–	–	–	–	1,581
– Options		128	–	–	–	–	128
– LTIP		111	–	–	–	–	111
– New LTIP		3,547	–	–	–	–	3,547
Total*		68,684					68,684
Diluted earnings per share		3.59p					13.92p

The directors believe that the headline results and headline earnings per share provide additional useful information on the underlying performance. The headline result is used for internal performance management, calculating the value of subsidiary convertible shares and minority interest put options. The term headline is not a defined term in IFRS.

The items that are excluded from headline results are the amortisation or impairment of intangible assets (including goodwill, but excluding software) acquired in business combinations, changes to contingent and deferred consideration taken to the income statement; impairment of investment in associate; and fair value gains and losses on liabilities caused by our put and call option agreements.

* The put options detailed in note 27 are non dilutive as the exercise price approximates fair value of the underlying non controlling interest.

Year ended 31 December 2011	Note	Reported results £000	Amortisation of acquired intangibles £000	Impairment of goodwill £000	Contingent liability revaluation £000	Fair value adjustments to minority put option liabilities £000	Headline and segmental results £000
Revenue	4	153,133	–	–	–	–	153,133
Operating profit	6	14,093	714	902	(310)	–	15,399
Share of results of associates	9	115	–	–	–	–	115
Impairment of associate	20	–	–	–	–	–	–
Finance income	10	2,199	–	–	–	(1,781)	418
Finance cost	11	(370)	–	–	–	–	(370)
Profit before taxation	4	16,037	714	902	(310)	(1,781)	15,562
Taxation	13	(4,589)	(206)	–	–	–	(4,795)
Profit after taxation		11,448	508	902	(310)	(1,781)	10,767
Non controlling interests		(1,849)	–	–	–	–	(1,849)
Profit attributable to equity holders of the Group		9,599	508	902	(310)	(1,781)	8,918
Basic earnings per share							
Weighted average number of shares (thousands)		62,355	–	–	–	–	62,355
Basic EPS		15.39p	–	–	–	–	14.30p
Diluted earnings per share							
Weighted average number of shares (thousands) as above		62,355	–	–	–	–	62,355
Add							
– UK growth shares		1,102	–	–	–	–	1,102
– Options		128	–	–	–	–	128
– LTIP		111	–	–	–	–	111
– New LTIP		–	–	–	–	–	–
Total*		63,696					63,696
Diluted earnings per share		15.07p					14.00p

Notes

4. Segmental information

Segmental and Headline income statement

Year ended 31 December 2012	UK £000	Europe £000	Middle East and Africa £000	Asia and Australasia £000	Americas £000	Clear £000	Total £000
Revenue	75,401	16,164	6,604	53,798	8,031	9,488	169,486
Operating profit excluding Group costs	15,252	2,331	237	3,443	66	276	21,605
Group costs	4,269	71	–	110	87	–	4,537
Operating profit	10,983	2,260	237	3,333	(21)	276	17,068
Share of results of associates	77	(88)	102	–	–	–	91
Financial income and cost	75	(45)	15	14	(38)	2	23
Profit before taxation	11,135	2,127	354	3,347	(59)	278	17,182
Taxation	(2,956)	(743)	(167)	(1,566)	(52)	(58)	(5,542)
Profit for the year	8,179	1,384	187	1,781	(111)	220	11,640
Non controlling interests	(1,231)	(435)	(98)	(565)	255	(6)	(2,080)
Profit attributable to equity shareholders of the Group	6,948	949	89	1,216	144	214	9,560
Headline basic EPS							15.10p

Non cash costs included in operating profit:

Depreciation	(1,118)	(250)	(144)	(527)	(79)	(171)	(2,289)
Amortisation of software	(1)	(30)	(25)	(61)	(24)	–	(141)
Share option charges	(855)	–	–	–	–	–	(855)
Office location	London	Paris Berlin Madrid Geneva Milan Moscow Stockholm	Beirut Cape Town Johannesburg Abu Dhabi	Sydney Melbourne Auckland Wellington New Delhi Mumbai Kuala Lumpur Hong Kong Beijing Shanghai Tokyo Singapore	Los Angeles São Paulo New York	London Hong Kong New York Sydney Singapore	

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. Clear has a different nature of service, and it is reported to the Board on a consolidated basis rather than on an office basis; as with other operating units, therefore we have disclosed Clear as a separate segment.

Segmental and Headline income statement

Year ended 31 December 2011	UK £000	Europe £000	Middle East and Africa £000	Asia and Australasia £000	Americas £000	Clear £000	Total £000
Revenue	66,974	14,540	2,987	49,700	6,736	12,196	153,133
Operating profit excluding Group costs	13,031	2,053	276	2,358	77	2,016	19,811
Group costs	4,175	70	–	79	88	–	4,412
Operating profit	8,856	1,983	276	2,279	(11)	2,016	15,399
Share of results of associates	(13)	93	35	–	–	–	115
Financial income and cost	(31)	(46)	1	124	(4)	4	48
Profit before taxation	8,812	2,030	312	2,403	(15)	2,020	15,562
Taxation	(2,768)	(706)	118	(883)	29	(585)	(4,795)
Profit for the year	6,044	1,324	430	1,520	14	1,435	10,767
Non controlling interests	(618)	(443)	(113)	(541)	(4)	(130)	(1,849)
Profit attributable to equity shareholders of the Group	5,426	881	317	979	10	1,305	8,918

Headline basic EPS

14.30p

Non cash costs included in operating profit:

Depreciation	(882)	(215)	(69)	(584)	(57)	(122)	(1,929)
Amortisation of software	(56)	(48)	(8)	(56)	(20)	–	(188)
Share option charges	(1,048)	–	–	(37)	(2)	–	(1,087)

Office location	London	Paris Berlin Madrid Geneva Milan Moscow	Beirut Cape Town Johannesburg	Sydney Melbourne Auckland Wellington New Delhi Mumbai Kuala Lumpur Hong Kong Beijing Shanghai Tokyo	Los Angeles São Paulo New York	London Hong Kong New York Amsterdam Sydney Singapore
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Notes

4. Segmental information continued

Segmental Balance sheet

Year ended 31 December 2012	Note	UK £000	Europe £000	Middle East and Africa £000	Asia and Australasia £000	Americas £000	Clear £000	Total £000
Total assets		129,453	12,102	5,316	29,403	5,484	9,396	191,154
Total liabilities		(58,139)	(11,780)	(4,601)	(23,283)	(6,287)	(3,874)	(107,964)
Associates included in total assets	20	569	41	146	–	–	–	756
Non-headline amortisation	16	(76)	(65)	–	(220)	(303)	(41)	(705)
Capital expenditure	21	1,733	262	340	207	91	133	2,766
Depreciation	21	(1,117)	(250)	(144)	(527)	(79)	(172)	(2,289)

Year ended 31 December 2011	Note	UK £000	Europe £000	Middle East and Africa £000	Asia and Australasia £000	Americas £000	Clear £000	Total £000
Total assets		123,410	14,843	2,301	27,185	4,132	10,876	182,747
Total liabilities		(59,225)	(11,316)	(1,931)	(21,499)	(4,967)	(4,992)	(103,930)
Associates included in total assets	20	505	1,673	48	–	–	–	2,226
Non-headline amortisation	16	(151)	(179)	–	–	(253)	(131)	(714)
Capital expenditure	21	1,642	390	133	592	132	577	3,466
Depreciation	21	(882)	(215)	(69)	(584)	(57)	(122)	(1,929)

Reportable segment assets are reconciled to total assets as follows:

	2012 £000	2011 £000
Segment assets	191,154	182,747
Current tax asset	881	322
Deferred tax asset	1,612	1,098
Total assets per balance sheet	193,647	184,167

Reportable segment liabilities are reconciled to total liabilities as follows:

	2012 £000	2011 £000
Segment liabilities	(107,964)	(103,930)
Deferred tax liabilities	(669)	(813)
Current tax liabilities	(3,809)	(2,270)
Other current liabilities and overdraft	(215)	(126)
Other non current liabilities	(4,322)	(3,890)
Minority shareholder put option liabilities	(20,482)	(17,092)
Total liabilities per balance sheet	(137,461)	(128,121)

Additional regional splits required for IFRS 8

Year ended	UK	Europe	Middle East and Africa	Australia	Asia and New Zealand	Americas	Total
31 December 2012	£000	£000	£000	£000	£000	£000	£000
Revenue	80,376	16,867	5,888	41,723	14,571	10,061	169,486
Non current assets	63,140	3,679	694	4,420	838	813	73,574

Year ended	UK	Europe	Middle East Africa	Australia	Asia and New Zealand	Americas	Total
31 December 2011	£000	£000	£000	£000	£000	£000	£000
Revenue	72,966	15,591	2,864	36,634	15,731	9,347	153,133
Non current assets	61,424	7,827	485	2,856	970	821	74,383

Segmental income statement translated at 2011 exchange rates

It is normal practice in our industry to provide like-for-like results. In the year we had not acquired any significant new businesses therefore the only difference in our like-for-like results is the impact from movements in exchange rates. Had our 2012 results been translated at 2011 exchange rate then our results would have been:

Year ended	UK	Europe	Middle East and Africa	Asia and Australasia	Americas	Clear	Total
31 December 2012	£000	£000	£000	£000	£000	£000	£000
Revenue	75,401	17,278	7,290	53,129	8,508	9,426	171,032
Operating profit excluding Group costs	15,252	2,506	296	3,427	65	275	21,821
Group costs	4,269	76	–	110	100	–	4,555
Operating profit	10,983	2,430	296	3,317	(35)	275	17,266
Share of results of associates	77	(96)	100	–	–	–	81
Financial income and cost	75	(45)	16	10	(44)	2	14
Profit before taxation	11,135	2,289	412	3,327	(79)	277	17,361
Taxation	(2,956)	(800)	(185)	(1,546)	(49)	(60)	(5,596)
Profit for the year	8,179	1,489	227	1,781	(128)	217	11,765
Increase/(decrease) in 2012 results caused by translation differences	–	(105)	(40)	–	17	3	(125)

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

	2012	2011
US dollar	1.5849	1.6042
Malaysian ringgit	4.8926	4.9048
Australian dollar	1.5306	1.5547
South African rand	13.0054	11.6340
Euro	1.2332	1.1524

Notes

5. Risk and risk management

M&C Saatchi plc have identified specific categories of business risk and developed policies for their management and control. These policies are kept under constant review as risk and risk perceptions change.

Currency risk (see below, and note 23 and 24)	Market risk (see below)
Interest rate risk (note 12)	Credit risk (note 23)
Share price risk (note 27 and 30)	

Income statement currency exposure

The Group's results are presented in sterling and are subject to fluctuation as a result of exchange rate movements. The Group continues to review its exposure to exchange rate movements and considers methods to reduce the exchange rate risk.

2012 profits would have changed as follows, had average exchange rates been changed by:

Exchange rate	Increase/ (decrease) in profit before tax £000	Increase/ (decrease) in profit after tax £000
+10%	(336)	(132)
(10)%	472	204

See note 4 for the income statement translated at prior year exchange rates.

Market risk

The Group does not have a substantial market share in any market. The key risk the Group is exposed to is the loss of clients. The Group has policies to monitor client feedback and act where there are issues.

Largest clients as a % of total revenue	2012 %	2011 %
Top Client	5.7	5.7
Top 10	32.9	30.3
Top 15	39.5	37.8
Top 30	52.5	50.4

Liquidity risk

Centrally the Group ensures that bank facilities are available to meet the Group's liquidity needs. Liquidity is monitored centrally and managed locally. Spare local cash is released to the centre by way of dividends and loan repayments. In managing its liquidity risk, management considers its free cash and minimises its gearing ratio, and where working capital is utilised to fund the business, management makes sure that the Group has sufficient bank facilities

to cope with an unwinding of positive working capital flows. Our bank debt maturity analysis can be seen in note 25 and financial liability maturity analysis can be seen in note 24.

Capital risk

The Group's capital reserves consist of all its equity reserves with the exclusion of the minority interest put option reserve. The Group maintains its capital reserves to safeguard the Group's going concern, as well as providing adequate return to its shareholders. The capital reserves total £69,825k (2011: £70,361k). The Group minimises the amount of debt it uses to finance its activities, to reduce the risk to the shareholders. Excess working capital is used to reduce debt. Excess cash is used to invest or is returned to shareholders by way of dividend or through buying shares into treasury. Our key process for managing capital is regular Board reviews of our capital structure and needs.

Key estimates

Management's estimates of the future profitability of the Group can be significantly affected by single account wins or losses, and to a lesser extent by the estimated phase of a project, exchange rates and underlying economic growth rates. We have therefore based our estimates on the budgets for the coming year and estimated growth rates and margins thereafter.

Changes in these underlying assumptions could give rise to material adjustments as set out in the following notes:

Note 16 – Intangible assets – Goodwill estimation of value in use;
Note 27 – Minority shareholder put options liabilities; and
Note 30 – Share based payments – Conditional share awards.

Key judgements

Management has made the following key judgements, which have a significant effect: deciding which of its leases are operating and which are finance leases; deciding which of its shareholder contracts are share options and which are put options; deciding to what extent tax losses are recognised as an asset in the balance sheet; useful lives of assets – tangible and intangible; and recoverability of amounts receivable.

Projections

Projections take account of management's view of the local operation's future profitability, given expected market growth, inflation, exchange rates and rapidly growing/shrinking markets. They are based on our budgets for 2013.

They are used in calculating the fair value of minority put options, management's assessment of value in use calculations and in calculating the value of conditional share awards.

6. Operating costs

Year ended 31 December	Note	2012 £000	2011 £000
Total staff costs	7	107,234	95,302
Other costs		46,497	43,738
Operating costs		153,731	139,040
Other costs include:			
Profit on exchange		(40)	(119)
Amortisation of intangibles			
– Acquired intangibles	3	705	714
– Capitalised software		141	188
Goodwill impairment	3	608	902
Depreciation of plant and equipment		2,289	1,929
Loss on disposal of capitalised software		35	–
Loss on disposal of fixed assets		99	38

Year ended 31 December	2012 £000	2011 £000
Operating lease rentals		
Plant	356	399
Property	6,753	5,127
	7,109	5,526

Year ended 31 December	2012 £000	2011 £000
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Total commitments

Plant and equipment

Commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows:

– Within one year	801	808
– Between two and five years	509	1,115
	1,310	1,923

Property

Commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows:

– Within one year	6,904	6,904
– Between one and five years	21,787	21,787
– Greater than five years	24,608	24,608
	53,299	53,299

7. Staff costs

Staff costs (including directors) comprise:

Year ended 31 December	2012 £000	2011 £000
Wages and salaries	91,294	80,423
Social security costs	9,388	8,677
Defined contribution pension scheme costs	3,007	2,823
Other staff benefits	2,620	2,155
	106,309	94,078
Share based incentive plans		
Cash settled	70	137
Equity settled	855	1,087
	925	1,224
Total staff costs	107,234	95,302
Staff cost to revenue ratio	63%	62%

Staff numbers

UK	656	582
Europe	165	102
Middle East and Africa	120	64
Asia and Australia	602	586
America	91	79
Clear	74	85
	1,708	1,498

Pensions

The Group does not operate any defined benefit pension schemes. The Group makes payments, on behalf of certain individuals, to personal pension schemes.

Payments of £3,007k (2011: £2,823k) were made in the year and charged to the income statement in the period they fall due. At the year end there were unpaid amounts included within accruals totalling £114k (2011: £14k).

Key management Remuneration

	2012 £000	2011 £000
Short term employee benefit	4,652	4,392
Post employment benefit	173	231
Share based payments	776	857
Total	5,601	5,480

Notes

8. Auditors' remuneration

Services provided by the Group's auditors and network firms.

	2012	2011
	KPMG	BDO
Year ended 31 December	£000	£000
Audit services		
Audit of the Company and its consolidated accounts	100	119
Audit of the Company's subsidiaries pursuant to legislation	182	247
	282	366
Other services provided by the auditors		
Taxation compliance services	14	90
Taxation advisory services	5	65
Other advice	15	8
	34	163
Total	316	529

During 2012 BDO LLP resigned as Group and Company auditors and KPMG Audit plc was appointed. Apart from amounts accrued in 2011 accounts £8k of fees relating to an audit of a subsidiary was paid to BDO during the period they were auditors in 2012.

9. Share of associates

	2012	2011
Year ended 31 December	£000	£000
Share of associates' profit before taxation	120	133
Share of associates' taxation	(29)	(18)
	91	115

During the year £(1,552)k (2011: nil) of the investment of the Spanish associate was impaired (note 20).

10. Finance income

	2012	2011
Year ended 31 December	£000	£000
Bank interest receivable	398	401
Other interest receivable	24	17
Total interest receivable	422	418
Fair value adjustments to minority shareholder put option liabilities (note 27)	–	1,781
Total finance income	422	2,199

11. Finance costs

	2012	2011
Year ended 31 December	£000	£000
Bank interest payable	(390)	(369)
Interest payable on finance leases	(9)	(1)
Total interest payable	(399)	(370)
Fair value adjustments to minority shareholder put option liabilities (note 27)	(4,436)	–
Total finance costs	(4,835)	(370)

12. Interest rate risk

The Group is exposed to interest rate risk on both interest bearing assets and liabilities. The majority of interest paying and earning assets are exposed to UK inter bank rates. An analysis of net interest by our segmented geographic regions is provided in note 4.

At the year end the Group had a £10m bank facility, the facility runs out in June 2014. The facility can borrow in sterling or euros. At 31 December 2012, £4.3m (2011: £3.8m) of this loan was drawn down.

The Group regularly reviews its treasury structures to minimise commercial interest rate margins.

13. Taxation

	2012	2011
Year ended 31 December	£000	£000
Current taxation		
Taxation in the year		
– UK	3,123	2,858
– Overseas	2,916	2,308
Utilisation of previously unrecognised tax losses	(147)	(141)
Adjustment for over provision in prior periods	354	(10)
Total	6,246	5,015
Deferred taxation		
Origination and reversal of temporary differences	(877)	(571)
Recognition of previously unrecognised tax losses	(11)	145
Effect of changes in tax rates	(1)	–
Total	(889)	(426)
Total taxation	5,357	4,589

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

Year ended 31 December	2012 £000	2011 £000
Profit before taxation	9,881	16,037
Taxation at UK corporation tax rate of 24.5% (2011: 26.5%)	(2,421)	(4,250)
Tax effect of associates	22	30
Non controlling interest share of partnership income	69	11
Expenses not deductible for tax	(216)	(335)
Option charges not deductible for tax	(201)	(258)
Different tax rates applicable in overseas jurisdictions	(452)	(284)
Effect of changes in tax rates on deferred tax	1	–
Utilisation of previously unrecognised tax losses	147	141
Adjustment for current tax under provision in prior periods	(354)	10
Adjustment for deferred tax over provision in prior periods	249	–
Tax losses for which no deferred tax asset was recognised	(574)	(115)
Recognition of previously unrecognised tax losses	(11)	145
Fair value adjustments on minority shareholder put options	(1,087)	472
Impairment of goodwill and investment in associates	(529)	(239)
Fair value of deferred consideration	–	83
	(5,357)	(4,589)

Year ended 31 December	2012 £000	2011 £000
Headline profit before taxation	17,182	15,562
Less associates	(91)	(115)
Headline profit before tax and associates	17,091	15,447
Taxation at UK corporation tax rate of 24.4% (2011: 26.5%)	(4,187)	(4,093)
Non controlling interest share of partnership income	69	11
Expenses not deductible for tax	(216)	(335)
Option charges not deductible for tax	(201)	(288)
Different tax rates applicable in overseas jurisdictions	(465)	(271)
Effect of changes in tax rates on deferred tax	1	–
Utilisation of previously unrecognised tax losses	147	141
Adjustment for current tax under provision in prior periods	(354)	10
Adjustment for deferred tax over provision in prior periods	249	–
Tax losses for which no deferred tax asset was recognised	(574)	(115)
Recognition of previously unrecognised tax losses	(11)	145
	(5,542)	(4,795)
Headline effective tax rate	32.4%	31.0%

14. Deferred taxation

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the Group intends to settle its current tax assets and liabilities on a net basis.

At 31 December	2012 £000	2011 £000
Deferred tax assets	1,612	1,098
Deferred tax liabilities	(669)	(813)
Net deferred tax	943	285

The movement on the net deferred tax asset is as follows:

	2012 £000	2011 £000
At 1 January	285	(117)
Exchange differences	(60)	(24)
Income statement credit	889	426
Acquisitions	(171)	–
At 31 December	943	285

Notes

14. Deferred taxation continued

The following is the deferred tax asset (liability) recognised by the Group and movements in 2012 and 2011.

	Capital allowances and amortisation £000	Tax losses £000	Options and bonus accruals £000	Working capital differences £000	Total £000
At 1 January 2011	(927)	–	217	593	(117)
Exchange differences	(1)	–	–	(23)	(24)
Income statement credit /(charge)	161	369	(158)	54	426
At 31 December 2011	(767)	369	59	624	285
Exchange differences	1	(34)	–	(27)	(60)
Income statement credit/(charge)	335	(100)	50	604	889
Acquisitions	(171)	–	–	–	(171)
At 31 December 2012	(602)	235	109	1,201	943

Within capital allowances and amortisations £858k (2011: £795k) relates to intangibles created as part of acquisition accounting.

Unprovided deferred taxation in respect of carried forward tax losses

	Loss £000	Unprovided deferred tax £000
At 1 January 2012	9,151	3,117
Exchange differences	(454)	(169)
Change in potential tax rates	–	(20)
Losses utilised in year	(107)	(16)
Losses in year	2,707	622
At 31 December 2012	11,297	3,534

Expiry date of losses

	2012 £000	2011 £000
1 to 5 years	165	52
5 to 10 years	1,217	1,251
10 years or more	2,152	1,814
Total	3,534	3,117

A deferred tax asset in respect of certain losses has not been recognised as there is insufficient certainty of future taxable profits against which these would reverse.

15. Dividends

Year ended 31 December	2012 £000	2011 £000
2011 final dividend 3.50p (2010: 3.03p)	2,213	1,895
2012 interim dividend 1.10p (2011: 1.00p)	697	628
	2,910	2,523

Proposed final dividend of 3.85p totalling £2,577k. Dividends relate to the profit of the following years:

Year ended 31 December	2012 £000	2011 £000
First interim dividend	697	628
Final dividends	2,577	2,213
	3,274	2,841
Headline dividend cover	2.9	3.1

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 3 and 4.

Notes

16. Intangible assets

	Goodwill £000	Brand name £000	Customer relationships £000	Software £000	Total £000
Cost					
At 1 January 2011	58,300	2,837	4,119	868	66,124
Exchange differences	(196)	(2)	(21)	(14)	(233)
Acquired	–	–	912	168	1,080
Disposal	–	–	–	(26)	(26)
At 31 December 2011	58,104	2,835	5,010	996	66,945
Exchange differences	(163)	(2)	(22)	(28)	(215)
Acquired	1,157	319	256	159	1,891
Disposal	–	–	–	(1)	(1)
At 31 December 2012	59,098	3,152	5,244	1,126	68,620
Accumulated amortisation and impairment					
At 1 January 2011	846	105	3,435	613	4,999
Exchange differences	(34)	–	(19)	(9)	(62)
Amortisation charge	–	–	714	188	902
Impairment charge	902	–	–	–	902
Disposals	–	–	–	(25)	(25)
At 31 December 2011	1,714	105	4,130	767	6,716
Exchange differences	(40)	–	(28)	(20)	(88)
Amortisation charge	–	108	597	141	846
Impairment charge	608	–	–	–	608
Disposals	–	–	–	(2)	(2)
At 31 December 2012	2,282	213	4,699	886	8,080
Net book value					
At 1 January 2011	57,454	2,732	684	255	61,125
At 31 December 2011	56,390	2,730	880	229	60,229
At 31 December 2012	56,816	2,939	545	240	60,540

Goodwill's accumulated amortisation and impairment, all relate to impairments; all other columns relate to amortisations.

16. Intangible assets continued

Goodwill is allocated to the Group's cash generating units (CGU). Goodwill is made up of:

Cash generating units (CGU)	Goodwill	Goodwill	Segment
	31 December 2012	31 December 2011	
	£000	£000	
Walker Media Ltd	26,155	26,155	UK
M&C Saatchi (UK) Ltd	5,067	5,067	UK
LIDA Ltd	1,462	1,462	UK
M&C Saatchi Sport & Entertainment Ltd	690	690	UK
M&C Saatchi Export Ltd	600	600	UK
M&C Saatchi Mobile Ltd	1,814	1,814	UK
M&C Saatchi Berlin GmbH	1,261	1,299	Europe
M&C Saatchi GAD SAS and associates, including Direct One SAS	864	889	Europe
M&C Saatchi Agency Pty Ltd (Australia)	2,591	2,668	Asia and Australasia
Bang Pty Ltd (Australia)*	1,197	–	Asia and Australasia
M&C Saatchi Ltd (New Zealand)*	–	627	Asia and Australasia
Clear Ideas Ltd	14,518	14,518	Clear
Total of the five CGUs with goodwill less than £0.5m	597	601	Various
Total	56,816	56,390	

* Apart from these CGUs, whose movements are described in this note, all other movements are due to exchange.

Goodwill and other intangibles are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the assets may be impaired. The 2012 review was undertaken in the last quarter of the year in conjunction with our annual business planning process and with the exception of £608k M&C Saatchi Ltd (New Zealand), no goodwill or other intangible asset impairments were identified (2011: £902k). The goodwill of M&C Saatchi Ltd (New Zealand), was created under historic GAAP and reflected mostly client relationships; under the historic GAAP this goodwill balance would have been amortised. During the last eight years M&C Saatchi Ltd (New Zealand) has lost clients and despite the investment the Group has made over the last year, it is now unable to justify its goodwill balance.

Management have approved the forecasts for 2013 and have prepared additional projections based on the 2013 numbers for the next four years. This was used as the basis for determining the recoverable amount of each CGU. Details of uncertainties in our forecasts are described in note 5.

In conducting the review we used a residual growth rate of 3% from year five onwards and a market beta of 1.

The pre-tax discount rates are based on the Group's weighted average cost of capital adjusted for specific risks relating to the country and market in which the CGU operates.

Management are satisfied, with exception for Clear Ideas Ltd, that no possible changes in key assumptions, apart from a significant loss of clients by a CGU, would cause the recoverable amount of any of our CGUs to be below their carrying amount. Management have tested the key assumptions on pre-tax discount rates and management forecasts and projections by adjusting them individually 50% and 20% respectively, which would not lead to impairment.

In respect to Clear Ideas Ltd, if the steps management have taken to reverse the weak performance in the year do not work as expected, there is a risk of impairment. In the event that the pre-tax discount rate should be 10% higher or management revenue forecasts and projections are 10% lower, the impairment will be £1.9m or £1.5m respectively.

Notes

16. Intangible assets continued

Key assumptions	Residual growth rates 2011 and 2012 %	Pre-tax discount rates 2012 %	Pre-tax discount rates 2011 %
UK	3%	14–15	14
Asia and Australasia	3%	14–15	12–16
Europe	3%	14–18	15–17
Clear	3%	14	14

We do not expect the residual growth rates to exceed the long term growth rates in each location.

Brand name

Is made up of the brands that we acquired with acquisitions.

Brand name	CGU	Year acquired	Cost 2012 £000	Cost 2011 £000	Amortisation Period
Clear	Clear Ideas Ltd	2007	2,640	2,640	Infinity
Inside Mobile	M&C Saatchi Mobile Ltd	2010	103	103	Immediately
Direct one	M&C Saatchi GAD SAS	2010	90	92	Infinity
Bang	Bang Pty Ltd (Australia)	2012	319	–	3 years
			3,152	2,835	

There is no foreseeable limit to the duration of the 'Clear' and 'Direct One' brand as we continue to use them for existing and future clients; hence the brand has been treated as having an indefinite life. Inside Mobile was immediately amortised as we stopped using the name. Bang is amortised over 3 years as no decision has been made over the long term use of the name.

Subsidiaries

The Group's significant and dormant subsidiary undertakings included in the consolidation are:

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held at		Trading/dormant
		2012	2011	
M&C Saatchi (UK) Ltd	UK	100%	100%	Advertising
LIDA Ltd	UK	100%	100%	Direct marketing
Talk PR Ltd	UK	51%	51%	PR
M&C Saatchi Sport & Entertainment Ltd	UK	97%	97%	Sport & Entertainment
Walker Media Ltd	UK	100%	100%	Media buying
Clear Ideas Ltd	UK	100%	100%	Brand consulting
M&C Saatchi Mobile Ltd (Note 18)	UK	75%	60%	Mobile
M&C Saatchi International Ltd	UK	100%	100%	Dormant
M&C Saatchi Agency Pty Ltd	Australia	80%	80%	Advertising
M&C Saatchi (M) SDN.BHD	Malaysia	49%	49%	Advertising
M&C Saatchi GAD SAS*	France	61%	57%	Advertising
M&C Saatchi Berlin GmbH**	Germany	80%	85%	Advertising

* On 2 August 2012 the Group acquired 4% of M&C Saatchi GAD SAS on exercise of a put option.

** On 2 January 2012 the Group sold 5% of M&C Saatchi Berlin GmbH to its local management with the proceeds deferred under put option formula.

The following subsidiaries included in the consolidation were established during the year:

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held at		Nature of business
		2012	2011	
M&C Saatchi NY LLP**	USA	65.0%	–	Advertising
M&C Saatchi FZ LLC**	Abu Dhabi	100.0%	–	Advertising
M&C Saatchi AB**	Sweden	60.0%	–	Advertising
M&C Saatchi Sport & Entertainment GmbH	Germany	71.0%	–	Sport & Entertainment
M&C Saatchi Sport & Entertainment Pty Ltd	Australia	40.8%*	–	Sport & Entertainment

* The Group's effective holding.

** Documentation yet to be finalised.

17. Acquisitions and disposals

With the exception of Bang Pty Ltd there were no acquisitions or disposals during the year that resulted in a change of control.

Income statement effects of 2012 acquisitions

85% of shares and voting rights of Bang Pty Ltd was acquired by M&C Saatchi Agency Pty Ltd on 10 January 2012 to enable the Group to have a PR offering in Australia. The results of Bang Pty Ltd since acquisition date as included in the consolidated income statement for reporting period was revenue £1,332k and profit before tax of £305k. The results between 1 January 2012 and the acquisition date were not significant.

Goodwill on 2012 acquisition

2012	Note	Bang Pty Ltd £000
Consideration, satisfied by:		
Cash		1,666
Less		
– Fair value of net assets made up of		
Intangibles		575
Plant and equipment		56
Cash		7
Other current assets		113
Deferred tax liability		(171)
Non controlling interests 15% share of assets		(71)
– Total fair value of net assets		509
Goodwill arising	16	1,157

Goodwill relates to value of the businesses' staff. There is no local tax deduction for goodwill.

In 2011 there were no acquisitions or disposals during the year that resulted in a change of control.

Notes

18. Cash Consumed by acquisitions

	2012 £000	2011 £000
Cash consideration		
– M&C Saatchi Mobile Ltd*	(1,300)	–
– M&C Saatchi GAD SAS (Part of 4% put)	(45)	–
– Clear USA LLC (20%)	(64)	–
– Bang Pty Ltd (85%)	(1,666)	–
– Direct One SAS (final payments for 70%)	(126)	(283)
– Brazilian Client list	–	(912)
– M&C Saatchi Communications Pvt Ltd (2012: 5%, 2011: 20%)	(5)	(17)
– M&C Saatchi Export Ltd (2011: Part of 2.8% put)	–	(27)
	(3,206)	(1,239)
Less cash and cash equivalents acquired	7	–
	(3,199)	(1,239)
Purchase of associates	–	(534)
	(3,199)	(1,773)

* Share buyback of 20% of company's equity.

19. Free cash

Free cash

A significant amount of our cash balances relate to clients' cash paid in advance for third party costs such as production and media. To fund ourselves we utilise £1,486k (2011: £4,259k) of these balances to reduce our debt. We maintain sufficient bank facilities to allow us to repay these amounts when they become due. To estimate the Group's free cash, non cash liabilities or items that are unlikely to be paid (i.e. other deferred income) are added back to net current assets.

	2012 £000	2011 £000
Net current assets	5,016	1,074
Equity payable minority shareholder put option liabilities	1,702	1,448
Other deferred income	5,295	4,960
Free cash	12,013	7,482

The difference between free cash and cash and cash equivalents is client cash.

20. Associates

The following associates are included in the consolidated financial statements:

Name	Nature of business	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held at	
			2012	2011
Zapping/M&C Saatchi S.A. and subsidiaries	Advertising	Spain	25%	25%
Human Digital Limited	Social Web insight and strategy	UK	25%	25%
Milk Data Strategy Limited	Data strategy	UK	25%	25%
M&C Saatchi Russia Limited	Advertising	UK	50%	50%
M&C Saatchi SAL*	Advertising	Lebanon	10%	10%

* Influence exerted through our board membership and contractual relationship.

	2012 £000	2011 £000
At 1 January	2,226	1,579
Exchange movements	(9)	(2)
Subscription for a direct share in associate's subsidiary	–	29
Acquisition of associates	–	505
Impairment of associate	(1,552)	–
Share of profit after taxation	91	115
At 31 December	756	2,226

Impairment of associate 2012

Given the trading performance of the Zapping/M&C Saatchi SA group and the present prospects for the Spanish economy we have decided to fully impair this Spanish associate. The Group's unrecognised share of the Zapping/M&C Saatchi S.A group's trading loss is £30k (2011: Nil).

Subscription for a direct share in associates subsidiary 2011

On 7 July 2011 the Zapping/M&C Saatchi SA group reorganised, to maintain our 25% interest throughout the Zapping/M&C Saatchi SA group, we subscribed at par for more shares.

Acquisition of associates 2011

On 21 April 2011 we acquired 25% of Human Digital Ltd, and on 1 July 2011 we acquired 25% of a start up Milk Data Strategy Ltd. Put options have been issued to equity holders of Human Digital Ltd and Milk Data Strategy Ltd, an asset or liability equal to the difference between the exercise price on the option and the fair value of the equity to be acquired is recognised. Management have calculated that there is no material difference between these values.

On 15 March 2011 in return for the use of our name we received 50% of M&C Saatchi Russia Ltd, the casting vote is held by our partners.

Notes

20. Associates continued

Summarised financial information

	UK £000	Europe £000	Middle East and Africa £000	2012 £000	2011 £000
Income statement					
Revenue	1,589	4,844	6,648	13,081	12,762
Operating profit	386	(258)	1,159	1,287	1,024
Profit before taxation	386	(267)	1,054	1,173	910
Profit after taxation	307	(353)	1,016	970	794
Our share	77	(88)	102	91	115

	UK £000	Europe £000	Middle East and Africa £000	2012 £000	2011 £000
Balance sheet					
Total assets	579	4,320	6,983	11,882	12,632
Total liabilities	(179)	(3,872)	(5,959)	(10,010)	(11,314)

21. Plant and equipment

	Leasehold improvements £000	Furniture fittings and other equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost					
At 1 January 2011	3,238	4,985	4,102	102	12,427
Exchange differences	(12)	(12)	(26)	(1)	(51)
Additions	1,209	863	1,334	60	3,466
Disposals	(64)	(76)	(248)	–	(388)
At 31 December 2011	4,371	5,760	5,162	161	15,454
Exchange differences	(83)	(128)	(69)	(6)	(286)
Additions	1,017	955	752	42	2,766
Acquisition of a subsidiary	12	12	6	26	56
Disposals	(19)	(389)	(96)	(72)	(576)
At 31 December 2012	5,298	6,210	5,755	151	17,414
Depreciation					
At 1 January 2011	1,301	2,733	2,866	40	6,940
Exchange differences	(2)	2	(13)	(1)	(14)
Depreciation charge	430	562	910	27	1,929
Disposals	(61)	(60)	(221)	–	(342)
At 31 December 2011	1,668	3,237	3,542	66	8,513
Exchange differences	(41)	(129)	(5)	(3)	(178)
Depreciation charge	531	1,056	669	33	2,289
Disposals	(13)	(307)	(85)	(42)	(447)
At 31 December 2012	2,145	3,857	4,121	54	10,177
Net book value					
At 1 January 2011	1,937	2,252	1,236	62	5,487
At 31 December 2011	2,703	2,523	1,620	95	6,941
At 31 December 2012	3,153	2,353	1,634	97	7,237

Net book value of assets, included in the above balances which have been purchased through finance lease arrangements are:

	Leasehold improvements £000	Furniture fittings and other equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
At 1 January 2011	–	4	159	5	168
At 31 December 2011	–	18	101	67	186
At 31 December 2012	–	168	101	67	336

Notes

22. Other non current assets

	2012 £000	2011 £000
Rent deposits	2,377	2,316
Loans to employees*	2,610	2,617
Call option provision	54	54
Total other non current assets	5,041	4,987

* This relates to the £1.2m and the AUD2.0m loans that the Group lent local management of M&C Saatchi Agency Pty Ltd, in 2010, to enable them to acquire 20% of that business. The loan is repayable if the purchasers no longer have a beneficial interest in the shares of the Australian Group. The loan is unsecured and charges interest at the Bank of England's base rate of interest; interest on the loan compounds annually and is payable on repayment.

23. Trade and other receivables

	2012 £000	2011 £000
Trade receivables	77,338	74,630
Provision for bad debts	(139)	(160)
Net trade receivables	77,199	74,470
Prepayments and accrued income	13,170	11,915
Amounts due from associates	149	219
VAT and sales tax recoverable	1,245	809
Other debtors	3,485	2,172
Total trade and other receivables	95,248	89,585

The carrying amount of trade and other receivables approximates to their fair value.

Movement in the bad debt provision

	2012 £000	2011 £000
As at 1 January	(160)	(322)
Exchange movements	9	14
Charged to the income statement	(92)	(108)
Released to income statement	51	47
Utilisation of provision	53	209
As at 31 December	(139)	(160)

As at 31 December the following trade receivables were past their due date (of 0 to 3 months) but not impaired. It is management's belief that these debts will be fully repaid.

	2012 £000	2012 %	2011 £000	2011 %
3 to 6 months	2,180	3%	356	0%
Over 6 months	285	0%	240	0%
Total net trade receivables	77,199	100%	74,470	100%

The carrying amount of the Group's trade and other receivables are denominated in the following currencies.

	2012 £000	2012 %	2011 £000	2011 %
Sterling	60,861	64%	57,749	65%
US dollars	3,714	4%	2,471	3%
Australian dollars	10,617	11%	11,948	13%
Malaysian ringgit	3,320	3%	3,770	4%
Euros	7,532	8%	6,242	7%
South African rand	2,513	3%	1,651	2%
Other	6,691	7%	5,754	6%
	95,248	100%	89,585	100%

Credit risk

The Group monitors credit risk at both a local and Group level. Credit terms are set and monitored at a local level according to local business practices and commercial trading conditions. The age of debt is reported regularly. Age profiling is monitored both at local customer level and a consolidated entity level. Bad debt provisions are determined locally. There is only local exposure to debt from our significant global clients. Whilst the Group has some exposure to foreign currency risk this is limited by the proportion of debt denominated in sterling. The Group continues to review its debt exposure to foreign currency movements and will review efficient strategies to mitigate risk as the Group's overseas debt increases.

There are no significant concentrations of credit risk in the Group.

24. Trade and other payables

Amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	(46,062)	(43,453)
Sales taxation and social security payables	(7,507)	(8,233)
Employment benefit accruals	(2,189)	(1,485)
Accruals and deferred income	(46,904)	(47,502)
Other payables	(4,210)	(2,733)
	(106,872)	(103,406)

The carrying amount of trade and other payables approximates to their fair value.

Settlement of trade and other payables is in accordance with our terms of trade established with our local suppliers.

Notes

24. Trade and other payables continued

The carrying amount of the Group's trade and other payables are denominated in the following currencies:

Amounts falling due within one year

	2012 £000	2012 %	2011 £000	2011 %
Sterling	(73,721)	69%	(74,973)	73%
US dollars	(3,279)	3%	(1,781)	2%
Australian dollars	(9,397)	9%	(9,498)	9%
Malaysian ringgit	(5,135)	5%	(4,929)	4%
Euros	(6,794)	6%	(6,190)	6%
South African rand	(2,383)	2%	(992)	1%
Other	(6,163)	6%	(5,043)	5%
	(106,872)	100%	(103,406)	100%

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the period remaining until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not reconcile with amounts disclosed on the statement of financial position:

	2012 £000	2011 £000
Non derivatives		
Up to 6 months	(86,658)	(85,631)
6–12 months	(4)	–
Later than 1 year not later than 5 years	(5,101)	(4,076)
	(91,763)	(89,707)
Put options		
Up to 6 months	(2,549)	(1,682)
Later than 1 year not later than 5 years	(17,465)	(14,508)
Greater than 5 years	(598)	(1,068)
	(20,612)	(17,258)
Total derivative and non derivative	(112,375)	(106,965)

The value of put options represents the minority shareholder put option liability excluding any discount for time. The majority of these financial instruments will be fulfilled by the issue of equity (note 27).

The above table is an indicator of our liquidity risk. The risk is mitigated by the receipt of cash from trade and other receivables.

25. Other financial liabilities

Amounts falling due within one year

	2012 £000	2011 £000
Obligations under finance leases	(8)	–
Other bank loans	(123)	(126)
	(131)	(126)

Amounts falling due after one year

	2012 £000	2011 £000
Obligations under finance leases	(88)	(182)
Secured bank loans	(4,234)	(3,708)
	(4,322)	(3,890)

The carrying value of bank loans approximates to their fair value.

Secured bank loans

The Group has a banking facility of up to £10m (2011: £10m) plus a one year £0.3m (2011: £0.3m) overdraft facility. The facility has floating rates of interest set at 1.75% above LIBOR and the overdraft has floating rates of interest set at 1.75% above Bank of England base rate. The facility matures on 30 June 2014.

Our operations in India and China have overdrafts and local short term bank loans that are guaranteed by the Group the balances outstanding at the year end were £84k and £123k respectively.

	2012 £000	2011 £000
Gross secured bank loans	(4,324)	(3,834)
Capitalised finance costs	90	126
Net secured bank loans	(4,234)	(3,708)
Future interest payable on secured bank loans at balance sheet date	(147)	(249)
Total secured bank loans and future interest	(4,381)	(3,957)

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

	2012 £000	2011 £000
In one year or less, or on demand	(98)	(100)
In more than one year but not more than five years	(4,283)	(3,857)
	(4,381)	(3,957)

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

	2012 £000	2011 £000
In one year or less, or on demand	(8)	–
In more than one year but not more than two years	(88)	(182)
	(96)	(182)

26. Deferred and contingent consideration

	2012 £000	2011 £000
Amounts falling within one year		
– Deferred	–	(128)
	–	(128)

	2012 £000	2011 £000
At 1 January	(128)	(674)
Exchange difference	2	(6)
Transferred from other creditors	–	(41)
Consideration paid	126	283
Income statement credit	–	310
At 31 December	–	(128)

Notes

27. Minority shareholder put option liabilities

Some of our subsidiaries' minorities have the right to a put option. The put options give the minorities a right to exchange their minority holdings in the subsidiary into shares in M&C Saatchi plc or cash (as per the agreement).

	2012 £000	2011 £000
Amounts falling within one year		
– Cash	(847)	(234)
– Equity	(1,702)	(1,448)
	(2,549)	(1,682)
Amounts falling after one year		
– Cash	(2,450)	–
– Equity	(15,483)	(15,410)
	(17,933)	(15,410)
	(20,482)	(17,092)

Of the total cash liability of £3,297k, £2,863k relates to loans to the individuals and advances that already have been made.

	2012 £000	2011 £000
At 1 January	(17,092)	(15,035)
Exchange difference	(1)	–
Additions	(480)	(4,133)
Exercises	161	295
Termination	1,366	–
Income statement charge due to		
– Change in estimates	2,627	517
– Change in share price	(6,932)	1,979
– Time	(131)	(715)
Total income statement charge	(4,436)	1,781
At 31 December	(20,482)	(17,092)

The movements in the year relating to the minority interest put options that are payable in cash and in equity are as follows:

	2012 £000	2011 £000	
Cash based			
At 1 January	(234)	(216)	
Reclassified from share based	(2,863)	–	
Income statement charge due to			
– Change in estimates	(71)	(44)	
– Change in share price	(129)	26	
At 31 December	(3,297)	(234)	
	2012 Equity*	2012 £000	2011 £000
Equity based			
At 1 January	(14,471)	(16,858)	(14,818)
Exchange difference	–	(1)	–
Additions	(266)	(480)	(4,134)
Exercises	107	161	295
Reclassified to cash based	2,458	2,863	–
Terminations	1,173	1,366	–
Income statement charge due to			
– Change in estimates	1,495	2,698	561
– Change in share price	59	(6,803)	1,953
– Time	(72)	(131)	(715)
At 31 December	(9,517)	(17,185)	(16,858)

*The estimated number of M&C Saatchi plc shares that will be issued, in thousands, to fulfil.

Put options are exercisable from:

Subsidiary	Year	% of Subsidiaries shares exchangeable
M&C Saatchi LA Inc	2013	16.0
M&C Saatchi Marketing Arts Ltd	2013	50.0
M&C Saatchi (M) SDN BHD	2013	20.0
M&C Saatchi Sports & Entertainment Ltd	2013	2.8
Influence Communications Ltd	2013	5.0
M&C Saatchi Europe Holdings Ltd	2013	4.0
M&C Saatchi German Holdings Ltd	2013	4.0
M&C Saatchi Communications Pty Ltd	2013	13.0
M&C Saatchi Berlin GmbH	2013	10.0
Talk PR Audience Ltd	2013	17.0
M&C Saatchi GAD SAS**	2013	39.0
FCINQ SAS	2013	18.0
M&C Saatchi PR LLP (US)	2014	35.0
M&C Saatchi Berlin GmbH	2014	5.0
Clear Ideas Consulting LLP	2014	12.5
Clear Ideas Consulting LLP	2015	12.5
M&C Saatchi Agency Pty Ltd	2015	20.0
M&C Saatchi Sport & Entertainment Pty Ltd	2015	49.0
Talk PR Ltd	2015	49.0
M&C Saatchi UK PR LLP	2015	35.0
M&C Saatchi Corporate SAS*	2015	29.8
M&C Saatchi (Switzerland) SA	2016	40.0
M&C Saatchi Mobile Ltd**	2016	25.0
The Source (London) Ltd	2016	30.0
Direct One SAS*	2016	10.0
Direct One SAS*	2017	10.0
M&C Saatchi Berlin GmbH*	2017	5.0
M&C Saatchi Brazil Comunicação LTDA	2017	49.9
Direct One SAS*	2018	10.0

* New or amended options in 2012.

** Holding changed or shares put in 2012.

At each period end the fair value of the put options' liability is calculated in accordance with the shareholders' agreement and any movement is charged to the income statement. Where the agreement gives a right to convert to a variable number of shares (rather than a value), the number of shares is converted to a value by using the period end share price (2012: 180.5p, 2011: 116.5p).

The liability will vary with our share price, and with the results of the subsidiary companies. Current liabilities are determined by our year end share price and the 2012 results of the companies who can exercise in 2013. Non current liabilities are determined by our year end share price and the projected results of the companies who can exercise after 2013. The projected results show management's best estimate of the growth rates and margin of the companies who can exercise after 2013, given that these companies are small, single account wins/losses can have a significant effect on their results. Such account wins are far more significant than changes to exchange rates and underlying economic growth rates.

The fair value of minority shareholder put option liabilities is measured using some inputs that are not based on observable market data (i.e. IFRS7, Level 3 fair value measurement).

Share price risk

Changes in our year end share price will impact the fair value adjustment to minority shareholders put options. The year end share price was 180.5p (2011: 116.5p). The 2012 charges would have changed as follows, had the share price been:

Share price	% Movement	Increase/ (decrease) in profit before and after tax £000
234.7p	+30.0%	£(5,190)
216.6p	+20.0%	£(3,448)
190.5p	+5.5%	£(955)
180.5p	–	–
170.5p	(5.5)%	£960
144.4p	(20.0)%	£3,487

Notes

28. Other non current liabilities

	2012 £000	2011 £000
Employment benefit provisions	(313)	(186)
Other	(779)	(210)
	(1,092)	(396)

29. Issued share capital

	Number of shares	1p Ordinary shares £000
Allotted, called up and fully paid		
At 1 January 2011	62,528,402	625
Fulfilment of options	784,766	8
Acquisition of 2.8% of M&C Saatchi Export Ltd	58,970	1
Acquisition of 5.0% of M&C Saatchi GAD SAS	156,995	1
At 31 December 2011	63,529,133	635
Fulfilment of options	471,183	5
Acquisition of 5.0% of M&C Saatchi GAD SAS	77,202	1
At 31 December 2012	64,077,518	641

The Group holds 700,000 of the above M&C Saatchi plc shares in treasury.

30. Share based payments

Share based payments include vested share options and conditional share awards.

Expense recognised in year:

	2012 £000	2011 £000
Equity settled	855	1,087
Cash settled	70	137
TOTAL	925	1,224

Vested share options

Year of grant	Description	Exercise price (pence)	Exercise period	2012 Number	2011 Number
2004	Vested options	1	2009–2014	128,495	128,495

	Vested options number	LTIP	New LTIP	UK Growth shares	Total number
At 1 January 2011	128,495	666,507	–	–	795,002
Vested	–	–	–	440,708	440,708
Exercised paid in equity**	–	(344,058)	–	(440,708)	(784,766)
Exercised paid in cash*	–	(322,449)	–	–	(322,449)
At 31 December 2011	128,495	–	–	–	128,495
Vested	–	–	3,546,932	471,183	4,018,115
Exercised paid in equity**	–	–	–	(471,183)	(471,183)
At 31 December 2012	128,495	–	3,546,932	–	3,675,427

* To enable the options to be exercised, and to reduce dilution from the options, the Group gave its LTIP holders the option to receive shares net of the employee tax owed (the employee tax is paid to the tax authorities in cash).

** The average price when these options were exercised was 145.6p (2011: 101.0p).

The LTIP were conditional that the employee remains employed by the Group on the day of exercise; the vested options do not have this condition.

The number of shares granted under the UK growth shares and LTIP is dependent on the subsidiaries' and Group's profits. The number of shares granted under the New LTIP and 2012 LTIP is dependent on the Company's share price. As the number of shares to be awarded is variable, it has not been included in the table above.

Conditional share awards

UK growth shares

Some of our UK subsidiaries have classes of equity whose restrictions classify them as share options under IFRS 2. The equity is convertible into the M&C Saatchi plc's equity based on a valuation formula. If the participants exercise their rights to convert their equity Management estimate that this equity will exchange into 1,570,008 shares of M&C Saatchi plc (2011: 1,351,799) split:

Earliest exercise date April	2013	2014	Total
M&C Saatchi (UK) Ltd and subsidiaries	604,637	614,469	1,219,106
LIDA Ltd	350,902	–	350,902
TOTAL	955,539	614,469	1,570,008

Notes

30. Share based payments continued

However, based on 2012 results of the companies and the Group, this equity would have been exchanged into 1,580,320 shares of M&C Saatchi plc (2011: 1,102,441) (see note 4).

During the year 471,183 (2011: 440,708) M&C Saatchi plc shares were issued in return for subsidiaries equity.

The options were valued based on the following assumptions:

Vesting and exercised at end	2011	2010
Share price at grant date	£0.50	£0.50
Vesting period	3 years	2 years
Dividend yield	7.24%	7.24%
Risk free rate	1.47%	1.47%
Fair value of option (per M&C Saatchi plc share issued)	£0.40	£0.43

As these options are nil value options, volatility has no effect on their fair value and there is no maximum term to these options. Valuation method used Black Scholes.

Conditional share awards

LTIP

In 2010 the Group issued new options under its long term incentive plan (LTIP) for senior employees. This could result in the issue of up to 110,759 (2011: 110,759) ordinary shares between 2014 and 2020 and a maximum bonus of £199,920 (based on our 31 December 2012 share price of 180.5p). The number of shares under option will vary with the real increase in diluted earnings per share. The maximum award will vest if real diluted earnings per share grows at 10% or more. At a real diluted earnings per share growth of 3%, 30% of the options will vest. Below 3% earnings per share growth no options will vest.

Grant date	14 October 2010
Share price at grant date	£1.16
Exercise price	£0
Maximum unvested shares under option	110,759
Vesting period (years)	4 to 5
Dividend yield	3.12%
Risk free rate	1.06%
Fair value of option	£1.02

As these options are nil value options volatility has no effect on their fair value. Valuation method used Black Scholes.

New LTIP

In 2010 each of the four participants paid £97,250 for the award, in the form of equity in a subsidiary. This is not refundable if the

share price hurdles and a total shareholder return (TSR) conditions were not met.

The hurdle for 31 December 2012 was that the Company's average ninety day closing mid-market share price as at 31 December 2012 must be greater than or equal to 164.4p and TSR must be in the top half of the comparator group. As the Company's average ninety day closing mid-market share price as at 31 December 2012 was 181.4p, and Company's TSR was top of comparator group of companies, then each participant was entitled to 886,733 of the Company's shares. This award is based on ten percent of the £64.3m increase in Company's market capitalisation since 31 December 2010 when the Company's market capitalisation was £50.6m.

A further award will vest in 2014 if the Company's average ninety day closing mid-market share price as at 31 December 2014 is greater than or equal to 198.9p and if the Company's TSR is in the top half of the comparator group. If this condition is fulfilled then the participants are entitled to an award worth, in aggregate, ten percent of the Company's increase in market capitalisation above its 31 December 2013 value of £114.9m (i.e. 181.4p share price).

The accounting charge for the New LTIP in 2012 was £653,000 (2011: £651,000).

At exercise the subsidiaries equity is converted into equity in the Company.

Grant date	14 October 2010
Share price at grant date	£1.16
Vesting period (years)	2 to 4
Dividend yield	3.12%
Risk free rate	1.06%
Volatility	30.77%
Total fair value of option	£1,756,000

Valuation method used Monte Carlo.

Share price risk New LTIP

On top of the 3,546,932 shares that vested in 2012, the number of shares that will vest in 2014 depends on the share price:

Share price	% Movement	Number of shares to issue 000	Percentage of share capital ¹
235.1p*	+30.2%	1,804	2.70%
234.7p	+30.0%	1,795	2.68%
216.6p	+20.0%	1,384	2.07%
200.5p	+11.1%	960	1.43%
180.5p	–	–	–

* Assuming the only dilution is caused by this scheme, above 235.1p the award will be paid in cash.

¹ This reflects present share capital plus the 3,546,932 shares that vested in 2012 to fulfill New LTIP.

2012 LTIP

The 2012 LTIP was issued on 19 January 2012 when the Company's share price was 123.5p. The participants paid the fair market price for the award of £2,550. The award can be vested once at either 31 December 2014, 31 March 2015 or 30 September 2015. The condition for vesting is that the Company's share price is greater than or equal to 200.0p. The maximum number of the Company's shares awarded is equal to 255,000 M&C Saatchi Network Ltd G shares issued. This award reduces as the share price increase.

Grant date	14 October 2011
Share price at grant date	£1.24
Vesting period (years)	3
Dividend yield	3.6%
Risk free rate	1.02%
Volatility	50%
Total fair value of option	£0.23

Valuation method used Black Scholes binominal pricing model.

Share price risk 2012 LTIP

The number of shares that will be issued:

Share price	% Movement	Number of shares to issue 000	Percentage of share capital ¹
234.7p	+30.0%	217	0.32%
216.6p	+20.0%	170	0.25%
200.5p	+11.1%	129	0.19%
180.5p	-	-	-

¹ This reflects present share capital plus the 3,546,932 shares that vested in 2012 to fulfill New LTIP.

Liability arising from share based payment

The following balances relate to cash based equity payments and employer's tax on share and cash based payments.

	2012 £000	2011 £000
Share based payment liabilities	146	61

31. Post balance sheet events

In January 2013, we acquired 60% of a small UK-based talent management agency Merlin Elite.

There are no other significant post balance sheet events.

32. Commitments

Capital commitments

There are no other significant capital commitments contracted for but not provided.

Operating leases

Commitments under operating leases are reported within note 6.

33. Related party transactions

Key management remuneration

Key management remuneration is disclosed in note 7.

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

Other related parties

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

David Kershaw, Bill Muirhead, Maurice Saatchi and Jeremy Sinclair, who are directors of M&C Saatchi plc, are also directors of 36 Golden Square LLP (the landlord till 19 December 2012, when the property was sold) of one of the Group's London properties). These companies therefore had a controlling nucleus of directors in common. The Group paid rent to 36 Golden Square LLP totalling £1,996k during the year (2011: £1,891k). No amounts remained outstanding between any member of the Group and 36 Golden Square LLP at the year end.

Lloyd Dorfman is chairman of Travelex Holdings Ltd. During the year the Group charged subsidiaries of Travelex Holdings Ltd, on an arm's length basis, £263k (2011: £454k) for advertising and marketing services, of which £109k (2011: £85k) was outstanding at the year end.

Lloyd Dorfman is also a director of The Office Group. During the year the Group charged The Office Group, on an arm's length basis, £10k (2011: £30k) for advertising and marketing services, of which nil (2011: nil) was outstanding at the year end.

Tom Dery is a director of Australian Cancer. During the year the Group passed on third party costs to Australian Cancer of nil (2011: £8k), and charged them £4k (2011: £7k) in fees, of which nil (2011: nil) was outstanding at the year end.

Maurice Saatchi is a trustee of Josephine Hart Foundation. During the year the Group charged, on an arm's length basis, Josephine Hart Foundation £153k (2011: £65k), of which nil (2011: nil) was outstanding at the year end.

During the year the Group made purchases of £32k (2011: £388k) from its associates. At 31 December 2011, there was £33k due to associates in respect of these transactions (2011: £92k). During the year, £255k (2011: £273k) of fees were charged by Group companies to associates. At 31 December 2011, associates owed Group companies £149k (2011: £243k).

The £1.2m and AUD2.0m (2011: 1.2m and AUD2.0m) loan to subsidiary directors, Tom Dery and Tom McFarlane, to assist them to acquire 20% of M&C Saatchi Agency PTY Ltd in 2010, remains outstanding (see note 22 for further details).

During the year the Company recharged its subsidiaries and indirect subsidiaries with £1,191k (2011: £1,191k) of its costs, £291k (2011: 250k) of interest and paid £2k (2011: £3k) of interest. The balance outstanding can be seen in note 36 and 37.

Notes

34. Accounting policies

Critical accounting policies are set out in note 1.
Additional accounting policies followed by the group are:

Cost convention

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments. The principal accounting policies are set out below.

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 (and 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 that we gain control 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 non controlling interest share of the results and net assets is recognised at each reporting date.

Subsidiary acquisitions

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. 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.

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

Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset, being the excess of the cost of the business combination over the interest in the fair value of the identifiable net assets acquired. Cost comprises the fair value of assets given, liabilities assumed (contingent and deferred consideration) and equity instruments issued.

In 2009 and before where the Group increased its stake in a subsidiary, goodwill equals the difference between the consideration paid and the fair value of the minority interest acquired. In 2010 and beyond such balances are taken to reserves in accordance with IAS 27. The amendment to the standard did not require retrospective restatement.

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.

The impairment test is based on management's projections for the next five years and regional growth rates thereafter.

Goodwill arising from foreign investments is retranslated at the year end rate.

Disposals of subsidiaries' equity that do not affect control

The difference between the consideration received and the credit to the non controlling interest reserve is credited directly to retained earnings. In the event that equity had previously been acquired under this revised standard then such a disposal will result in a release from non controlling interest acquired reserve to retained earnings.

Acquisitions of subsidiaries' equity that do not affect control

From 1 January 2012 acquisitions of subsidiaries' equity that do not affect control have been accounted for using non controlling interest reserve. How the non controlling interest reserve is used is described in note 2.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 10% and 50% of the voting rights, minority board representation and in case of shareholdings of between 10% and 20% the Group treats the entity as an Associate where there are significant minority and contractual protections. 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 is recognised in other comprehensive income. 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 if they arise from contractual or other legal rights, and sufficient information exists to measure the fair value of the asset. Intangible assets that relate to associates are included within the carrying value of the investment in associates. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

Intangible assets are stated at historical cost less accumulated amortisation and impairment.

Amortisation is provided to write off the cost of all intangible assets, less estimated residual values, evenly over their expected useful lives. The charge in the income statement is included in operating costs.

Intangible assets are amortised to residual values over the useful economic life of the asset as follows:

Software	– 3 years
Customer relationships	– 1 to 5 years
Brand name	– 0 to infinity

The need for any intangible asset impairment write down is assessed by comparison of the carrying value of the asset against the higher of value in use and fair value less cost to sell.

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 and fittings	– 10% in equal instalments
Computer equipment	– 33% in equal instalments
Other equipment	– 25% 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 fair value less cost to sell and the value in use.

Cash and cash equivalents

Cash and cash equivalents include, for the purposes of the balance sheet and cash flow statement, cash at bank and in hand and deposits with an original maturity of three months or less, net of legally offsettable overdraft which are managed as part of cash balances.

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.

Where operating lease agreements include a fixed uplift for rental payments, the expense is straight lined, except in cases where another systematic basis better represents the benefit to us. Reverse premiums and similar incentives to enter into operating lease agreements are initially recorded as deferred income and released to profit or loss on a straight line basis over the lease term.

Segmental reporting

Segmental reporting reflects how management controls the business. Sales between business units are on an arm's length basis. The assets and liabilities of the segments reflect the assets and liabilities of the underlying companies involved.

Notes

34. Accounting policies continued

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. We have restated the comparative to remove the new office segment. Clear has a different nature of service, and it is reported to the Board on a consolidated basis rather than on an office basis, as with other operating units, we therefore have allocated Clear as a separate segment.

Employee benefits – pensions

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

UK growth shares

Some of our UK subsidiaries have shares that do not pay a dividend but instead have a right attached to the share allowing them to be exchanged into shares of M&C Saatchi plc via a put/call option. The value of the option, which can be exchanged into M&C Saatchi plc shares, is based on the Group's headline profit after tax multiple and excludes loss making companies. The valuation uses the growth of normalised post-tax profits of the subsidiary company above that company's 2007 profits plus a compounded growth factor. The Group has a nominal value call option in the event that the shareholders are no longer employed. This transaction has been treated as an equity settled transaction under IFRS 2.

The cost of equity settled transactions with these shareholders is measured and accounted for in accordance with the Group's stated policy for equity settled share based compensation.

M&C Saatchi Worldwide Ltd A and B shares

Some of the Company's directors have purchased M&C Saatchi Worldwide Ltd A and B shares. These shares have rights to be converted into shares of the Company (see note 30). This transaction has been treated as an equity settled transaction under IFRS 2.

Taxation

Current tax, including UK and foreign tax, is provided for, using the tax rates and laws that have been substantively enacted at the balance sheet date.

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, deferred tax is not provided for temporary differences that arise: 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 profits or loss; and on the initial recognition of goodwill.

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the Group intends to settle its current tax assets and liabilities on a net basis.

Dividends

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

Earnings per share

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

Foreign currency

Foreign currency transactions arising from normal trading activities are recorded in functional currency at the rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the year end exchange rate. Where they form part of the net investment in foreign operations the gain or loss is charged directly to the foreign exchange reserve.

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. The average rate of exchange approximates to the rate on the date that the transactions occurred. Exchange differences arising from the translation of foreign subsidiary results are taken to a separate component of equity. Such translation differences will be recognised as income or expense in the period of disposal.

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. Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms receivable.

Trade and other liabilities

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

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in accordance with IAS 39 financial instruments:

Loans and receivable

Measured at amortised cost, separately disclosed as cash and cash equivalents; current tax assets; trade and other receivables (with the exclusion of prepayments); and loans to employees within other non current assets.

Financial liabilities at fair value through profit or loss

Separately disclosed as minority shareholder put option liabilities.

Financial liabilities measured at amortised cost

Separately disclosed as trade and other payables; current tax liabilities; other financial liabilities; deferred and contingent consideration; and other non current liabilities.

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 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.

Treasury shares

When the Group reacquires its own equity instruments, those instruments (treasury shares) are debited to treasury reserve. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's treasury shares. Such treasury shares may be acquired and held by other members of the Group. Consideration paid or received is recognised directly in equity.

Standard effective for the first time this year

A number of new and amended standards became effective for periods beginning on or after 1 January 2012. The directors consider the impact of these standards on the Group and conclude that none were relevant to the Group's results and financial position:

Amendment to IAS 12 relating to investment properties.

Standards not yet effective

New standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting periods beginning after 1 January 2013 and which the Group has decided not to adopt early. None of these standards have a material effect on our accounts. Those that are relevant to the Group are:

IFRS 9 Financial Instruments will eventually replace IAS 39 in its entirety. (Effective for accounting periods beginning on or after 1 January 2015.)*

IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The new standard replaces the consolidation requirements in SIC-12 Consolidation — Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. (Effective for accounting periods beginning on or after 1 January 2014.)

IFRS 11 Joint arrangements treats accounting of joint ventures the same as associates. (Effective for accounting periods beginning on or after 1 January 2014.)

IFRS 12 Disclosure of Interests in Other Entities includes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. (Effective for accounting periods beginning on or after 1 January 2014.)

IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. (Effective for accounting periods beginning on or after 1 January 2013.)

IFRS 9 financial instruments, replacing IAS 39. (Effective for accounting periods beginning on or after 1 January 2015.)*

Standards, not yet effective, which are not expected to be relevant to the Group

Amendments IAS 1 (effective for accounting periods beginning on or after 1 July 2012).

Amendments to IAS 28 (effective for accounting periods beginning on or after 1 January 2014).

Amendments to IAS 27 (effective for accounting periods beginning on or after 1 January 2014).

* These standards have not yet been endorsed by the EU.

Company balance sheet

At 31 December	Note	2012 £000	2011 £000
Fixed assets			
Investments	36	81,537	81,537
Current assets			
Debtors			
– due within one year	37	8,155	9,908
– due after one year	37	2,657	2,626
		10,812	12,534
Creditors falling due within one year	38	(15,726)	(16,229)
Net current liabilities		(4,914)	(3,695)
Total assets less current liabilities		76,623	77,842
Creditors falling due after more than one year	39	(3,910)	(3,374)
Total assets		72,713	74,468
Capital and reserves			
Share capital	41	641	635
Share premium	41	14,625	13,832
Merger reserve	41	48,817	48,817
Treasury reserve	41	(792)	(792)
Profit and loss account	41	9,422	11,976
Shareholders' funds		72,713	74,468

These financial statements were approved and authorised for issue by the Board on 15 March 2013 and signed on its behalf by:

Jamie Hewitt
 Finance Director
 M&C Saatchi plc
 Company Number 05114893

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. Included within the consolidated income statement for the year ended 31 December 2012 is a profit after tax of £184k (2011: £3,353k).

The notes on pages 67 to 69 form part of these financial statements.

Notes

35. Accounting policies

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

The following principal accounting policies have been applied:

(a) Valuation of investments

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

(b) Pensions

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

(c) Deferred taxation

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

Deferred tax balances are not discounted.

(d) Share based payments

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

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.

For cash settled share based payments, a liability is recognised for the amount payable at the balance sheet date with a corresponding charge being made to the profit and loss account. Where payments depend on future events an assessment is made of the likelihood

of these conditions being met in determining the amounts to be recorded. Where cash settled share options are only part of the way through their vesting period, the liability and profit and loss account charge are adjusted to reflect the proportion of the vesting period that has been covered up to the balance sheet date.

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.

Where equity settled share options are issued to employees of subsidiary companies, the Company charges the employer with its employees' share of cumulative expense, this is paid within 30 days.

(e) Dividends

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

(f) Treasury shares

When the Company reacquires its own equity instruments, those instruments (treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's treasury shares. Such treasury shares may be acquired and held by the Company or by other members of the Group. Consideration paid or received is recognised directly in equity.

36. Investments in subsidiary undertakings

	2012 £000	2011 £000
At 1 January	81,537	81,537
Disposal of subsidiaries	(81,537)	–
Increased investment in subsidiary	81,537	–
At 31 December	81,537	81,537

The significant subsidiary undertakings are listed in note 16 to the consolidated financial statements.

During the year the Company sold its direct interest in M&C Saatchi Worldwide Ltd in return for equity in M&C Saatchi Network Ltd.

Notes

37. Current assets

	2012 £000	2011 £000
Amounts due less than one year		
Amounts from subsidiary undertakings	7,754	8,904
Prepayments and accrued income	72	246
Corporation tax debtor	327	741
Other debtors	2	17
Total trade debtors and other receivables	8,155	9,908
Amount due after more than one year		
Deferred tax asset	47	9
Loans to employees*	2,610	2,617
Total debtors due after more than one year	2,657	2,626

* This relates to the £1.2m (2011: £1.2m) and the AUD2.0m (2011: AUD 2.0m) loans that the Company lent local management of M&C Saatchi Agency Pty Ltd to enable them to acquire 20% of that business.

The loan is repayable if the purchasers no longer have a beneficial interest in the shares of the Australian Group. The loan is unsecured and is at the Bank of England's base rate of interest; interest on the loan compounds annually and is payable on repayment.

38. Creditors falling due within one year

	2012 £000	2011 £000
Overdrafts	(11,083)	(11,564)
Trade creditors	(87)	(57)
Amounts due to subsidiaries	(4,210)	(4,155)
Accruals and deferred income	(151)	(338)
Other payables	(195)	(115)
	(15,726)	(16,229)

39. Creditors falling due after more than one year

	2012 £000	2011 £000
Bank loans	(3,910)	(3,374)

40. Directors' remuneration

	2012 £000	2011 £000
Total for eight directors:		
Directors' salaries and benefits	2,077	1,998
Contribution to money purchase pension schemes	62	76
Total remuneration before accounting charges	2,139	2,074
Share option charges	762	720
	2,901	2,794

	2012 £000	2011 £000
Highest paid director:		

Directors' salaries and benefits	428	428
Contribution to money purchase pension schemes	1	2
Total remuneration before accounting charges	429	430
Share option charges	163	163
	592	593

Unaudited detail on directors' remuneration is disclosed in the remuneration report on pages 20 and 21. (These numbers include accounting charges for the LTIP schemes which the remuneration report exclude.)

The number of directors with a money purchase pension scheme was 5 (2010: 5).

41. Capital and reserves

Year of grant	Share capital £000	Share premium £000	Merger reserve £000	Treasury reserve £000	Profit and loss account £000	Total £000
At 1 January 2011	625	12,822	48,817	(792)	11,187	72,659
Issue of shares	2	262	–	–	–	264
Options exercised	8	748	–	–	(756)	–
Reclassification of share to cash based options	–	–	–	–	(372)	(372)
Equity settled share based payments	–	–	–	–	1,087	1,087
Dividends	–	–	–	–	(2,523)	(2,523)
Profit for the year	–	–	–	–	3,353	3,353
AT 31 DECEMBER 2011	635	13,832	48,817	(792)	11,976	74,468
Issue of shares	1	115	–	–	–	116
Options exercised	5	678	–	–	(683)	–
Reclassification of share to cash based options	–	–	–	–	–	–
Equity settled share based payments	–	–	–	–	855	855
Dividends	–	–	–	–	(2,910)	(2,910)
Profit for the year	–	–	–	–	184	184
AT 31 DECEMBER 2012	641	14,625	48,817	(792)	9,422	72,713

42. Related parties

During the year, the Company charged a management recharge to subsidiaries totalling £1,191k (2011: £1,191k). £230k (2011: £545k) was due in relation to this management recharge from subsidiaries as at the balance sheet date. Including these amounts the Company also provides short-term working capital loans to and borrows funds from certain subsidiaries, disclosed in Notes 36 and 37. The amounts due from subsidiary undertakings of £7,754k (2011: 8,904k) is net of £8,553k (2011: £5,518k) provisions for doubtful accounts.

Further Details of related parties of the Company are provided in note 33.

Independent auditors' report to the members of M&C Saatchi plc

We have audited the financial statements of M&C Saatchi plc for the year ended 31 December 2012 set out on pages 22 to 69. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 18 and 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Scott Cormack

(senior statutory auditor)

For and on behalf of KPMG Audit plc, statutory auditor
Chartered Accountants
15 Canada Square
London, E14 5HL
United Kingdom

15 March 2013

KPMG Audit plc is a subsidiary of KPMG Europe LLP registered in England and Wales (with registered number 3110745).

Additional information

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Nominated adviser and broker

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Auditors

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Bankers

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Registrars

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www.mcsaatchiplc.com

Country of registration

England and Wales

Company number

05114893

Investor relations website

www.mcsaatchiplc.com

Corporate events

AGM

12 June 2013

Final 2012 dividend paid

5 July 2013

To those on the register on

7 June 2013

Interim 2013 statement

20 September 2013

Interim 2013 dividend paid

15 November 2013

To those on the register on

1 November 2013

Preliminary announcement of 2013 result

Late March 2014



WWW.MCSAATCHIPLC.COM