M&C SAATCHI

PRELIMINARY UNAUDITED NON-STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

PRELIMINARY UNAUDITED FINANCIAL STATEMENTS INDEX

PREPARATION

Preparation
These are not the Company's statutory financial statements; these are non-statutory financial statements and do not constitute the Company's statutory financial statements for 2018 or 2019. The Company's financial statements for the year ended 31 December 2019 currently remain unaudited.

No statutory financial statements dealing with the year ended 31 December 2019 have been delivered to the Registrar of Companies. The comparative figures for the year ended 31 December 2018 included in the non-statutory financial statements are extracted from the published Annual Report and Financial Statements which were approved by the Board on 28 May 2019, have been reported on by the Group's predecessor auditors and delivered to the Registrar of Companies. The audit report on the 2018 Annual Report and Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under s498 (2) or (3) of the Companies Act 2006 (the Act).

These comparative figures have been restated to reflect prior year adjustments identified subsequent to the approval of the 2018 Annual Report and Financial Statements.

The audit is expected to be completed shortly and the Directors currently expect the opinion on the closing balance sheet to be unqualified except for the potential lack of comparability with the 2018 balance sheet. However, because of the Group' inability to obtain sufficient appropriate audit evidence over the opening balance sheet, the auditors have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Group's profit and cash flows for the year ended 31 December 2019 and the auditors are expected to disclaim their opinion on those profit and cash flows accordingly. The auditors do not expect their audit report to include a statement under S498(2) of the Act. However, the auditors do expect to include a statement under S498(3) of the Act because they have not obtained all of the information and explanations necessary for the Company's audit. However, because the audit is not yet complete, there can consequently be no certainty that the audit opinion will not be qualified, that the numbers in the balance sheet will not be subject to change or that there will be no statement under S498(2) of the Act.

The Directors believe that it is appropriate to continue to prepare the Company's statutory financial statements for the year ended 31 December 2019 on a going concern basis. However, under a severe but plausible downside scenario which has been modelled, there is material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern without mitigating action being taken. Without qualifying their report, the auditors will be referencing a material uncertainty relating to going concern.

Basis of preparation
The Group's consolidated financial statements have been prepared on a going concern basis and in accordance with EU-endorsed International Financial Reporting Standards (IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS.

The audit is the final stages of completion, with only limited areas of audit to be completed. As the auditors are still finalising their work relating to Billings and Revenue, these unaudited accounts, exclude any reference to these 2 items and reports only Net Revenue.

Going concern
The Directors have concluded it is appropriate that the financial statements be prepared on the going concern basis there is a material uncertainty related to this conclusion. In the Directors' assessment of liquidity for the going concern assessment period the Group's liquidity position has been challenged by a range of scenarios of increasing stringency. Under one extreme but plausible scenario related to loss of one or more significant long-standing clients there is the risk that certain financial covenants of the revolving credit facility will be breached.

Foreign exchange
The unaudited non-statutory consolidated financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand. They have been prepared under the historical cost convention, except for the revaluation of certain financial instruments.

Transactions in foreign currencies are translated at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date, with the resulting exchange differences recognised in the income statement.

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

Consolidation
The unaudited non-statutory financial statements of the Group consolidate the results of the Company and its subsidiary entities, and includes the share of its joint ventures' and associates' results accounted for under the equity method.

A subsidiary is an entity controlled by the Group. The Group controls a subsidiary when it is exposed, or has the rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

The results of subsidiaries are included from the date of acquisition. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group. Intra Group transactions, balances, income and expenses are eliminated on consolidation.

PREPARATION

Where a consolidated company is less than 100% owned by the Group, the treatment of the non-controlling interest share of the results and net assets is dependent on how the equity award is accounted for. Where the equity is accounted for as a share-based payment award under IFRS 2, all dividend outflow is taken to staff cost, and there is no non-controlling interest charge. In all other cases, the non-controlling interest share of the results and net assets is recognised at each reporting date in equity separately from the equity attributable to the shareholders of the company.

The assets and liabilities of overseas subsidiaries (which comprise the Group's net investment in foreign operations) are translated at the exchange rate ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated in equity within the foreign exchange reserve.

Significant accounting policies
The significant accounting policies applied in the preparation of these unaudited non-statutory consolidated financial statements are set out in the relevant notes. These policies have been applied consistently to all the years presented, unless otherwise stated.

A fundamental change in our accounting policies for the year ended 31 December 2019 is the adoption of IFRS 16 Leases. Details surrounding the transition accounting applied to this adoption are included in note 4 on page 28 and details surrounding recurring disclosures with regards to leases are provided in note 15 on page 44.

Critical accounting policies
Certain of the Group's significant accounting policies are considered by the Directors to be critical due to the level of complexity, judgement, or estimation involved in their application and potential impact on the consolidated financial statements. The critical accounting policies are listed below and explained in more detail in the relevant notes to the Group financial statements.

Revenue recognition
The Group applied IFRS 15 Revenue from contracts customers from the start of 2018.

The Group is in the business of the provision of advertising and marketing services. Revenue comprises commission and fees earned and is stated exclusive of VAT. Revenue from contracts with customers is recognised as, or when, the performance obligations present within the contractual agreements are satisfied.

The type of fees arising from the contractual agreements entered into with clients include:

- project fees
- retainer fees
- commission on media spend and other activities where we act as agent arranging for a third party (such as Talent) to provide services to a client.

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

Put option accounting (IFRS 2 and IFRS 9)
It is common for equity holders / partners in the Group's subsidiaries to hold put options over their equity such that they can require the Group to purchase their non-controlling interest for either a variable number of M&C Saatchi plc shares or cash. Dependent on the terms and substance of the underlying agreement, these options are either recognised as a put option liability under IFRS 9 (note 19) or as a conditional share award in the scope of IFRS 2 (note 20).

Under the IFRS 9 approach, a put option liability is recognised in terms of the expected future issue of a variable number of shares. This liability is held at amortised cost at inception of the agreement and remeasured at the end of each reporting period. Both the amortisation of these instruments and any change in the underlying valuation of the amortised cost (driven by changes in either Company’s quoted share price or underlying business performance) is recognised in the income statement as profit or loss.

Typically, the terms of instruments accounted for under IFRS 2 are such that they have the cost of the transaction measured at fair value on the grant date. The majority of these instruments have non-market conditions and have the fair value of the award remeasured annually. The cost is recognised over the vesting period of the award and accumulated within equity.

Headline results
The Directors believe that the headline results and headline earnings per share (see note 1) provide additional useful information on the underlying performance of the business. The headline results reflect the underlying profitability of the business units by excluding all effects of buying and selling equity by the Group; and the accounting effects of the entrepreneurs’ holding equity in the businesses they run. This results in accounting charges and credits to the income statement for the Group's fair value liability of its local entrepreneurs' equity conversion rights but does not account for the increase in value of the businesses.

In addition, the headline results are used for internal performance management and to calculate minority shareholder put option liabilities. The term 'headline' is not a defined term in IFRS. Note 1 reconciles reported to headline results.

The segmental reporting (note 5) reflects headline results in accordance with IFRS 8.

The items that are excluded from headline results are the amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investments in associates; profit or loss on disposal of associates; revaluation of investments and their related costs; and the income statement impact of put option accounting and share-based payment charges. Note 1 shows a reconciliation between the Group's statutory results and the headline results.

PREPARATION

Significant accounting judgements and key sources of estimation uncertainty
In the course of preparing the unaudited non-statutory financial statements, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. Estimates and judgements made are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing a material adjustment to the unaudited non-statutory financial statements in future periods are outlined below.

Significant accounting judgements
Management has made the following judgements, which have the most significant effect in terms of the amounts recognised, and their presentation, in the consolidated unaudited non-statutory financial statements.

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

Revenue recognition judgements
Revenue and production cost judgements are still being audited so have not been quoted in these non-statutory financial statements.

The Group recognises four categories of critical judgements in terms of revenue which relate to
(i) agent versus principal considerations,
(ii) range of contractual terms agreed with customers,
(iii) the impact on the number of performance obligations in a contract which has integrated services; and
(iv) media volume income recognition as revenue from contracts with customers.

Agent versus principal considerations
The Group enters into contracts with customers which include arrangements where it purchases services or goods from third parties on behalf of the client. In these instances, the Group considers the substance of the overall contract in order to assess whether such arrangements constitute the Group acting as either an Agent or as Principal.

The key judgement the Group makes when assessing whether it is acting as an Agent in a contractual relationship relates to whether it controls either the goods or the service prior to transfer to the customer. This assessment includes consideration of the following indicators of control:

- Is the Group responsible for fulfilling the promise to provide the goods or services in an acceptable format or to a satisfactory quality to meet the customer requirements?
- Does the Group direct the activity of the other party performing the service?
- Does the Group provide a service of integrating or combining the third-party goods or services with other goods or services?

In addition, certain of the Group's contractual arrangements where the Group is acting as Agent (specifically for Talent – see note 6) have a significant time lag between the Group's involvement in arranging for services to be provided by a third party to a client, and the actual point at which these services are provided by the third party. In these instances, it has been concluded that the performance obligation related to arranging the services to be provided is completed once the services have been performed (as opposed to when they have been arranged to be performed).

Where the Group does not treat the income as an agent it is treated as a principal.
Multiple contractual terms
We build our services around each client's needs, and often use client's standard terms with negotiated modification, which results in many different contractual arrangements.

Judgement is needed to interpret the contractual terms under IFRS 15 to ascertain when revenue is due to be recognised. Small changes in the contractual terms and implied contractual terms can change the reporting period in which revenue is subsequently recognised.

Identification of performance obligations for integrated services and their recognition as revenue
The Group often enters into contracts with customers which include the provision of an array of services which are judged as representing a single performance obligation. Such instances arise where the overarching objective of the contract comprises a number of discrete activities which are integrated into the provision of a wider overall service. An example would be where the Group has been engaged to produce a client's media strategy. The formulation and delivery of this strategy is comprised of a number of individual services, but the delivery of the strategy is assessed as being the only performance obligation resident in the contract as the discrete services being supplied are not distinct in the context of the contract as a whole.

An example of an instance where services may appear integrated but are in fact separate performance obligations arises when we have been engaged to perform a conceptual design service followed by our arranging deployment of such concept through the use of third-party suppliers. In this instance the Group recognises two performance obligations: the conceptual element of the contract and the deliverable element of the contract.

Management consider the following features of contractual arrangements entered with customers when assessing whether a contract has a number of services which are not distinct and is thus comprised of a combined performance obligation:

- Can the client benefit from the individual goods or services promised in the contract on their own (or in combination with resources readily available to the client)?
- Can a single method of measuring progress of satisfaction of the combined performance obligation be applied which faithfully depicts the economics of the arrangement?
- Is there a single payment mechanism for the combined performance obligation?
- Does the Group perform a significant service of integrating the services provided and are these promised services highly interdependent?

PREPARATION

Media volume income
As disclosed in note 6, the Group receives volume rebates from certain suppliers for transactions entered on behalf of clients, which the clients have agreed we can retain. When the contractual terms of the agreements entered are such that the Group acts as Agent in these instances, then such rebates are recognised as revenue from contracts with customers. By contrast, when the contractual terms of the agreements are such that the Group is acting as principal then such rebates are recognised as a reduction in direct costs.

Certain of the Group's clients, however, have contractual terms such that the pricing of their contracts is structured with the volume rebate being passed through to them. As such, the timing of recognition, the categorisation within the income statement and the valuation of media volume income is subject to judgement in terms of the amounts which are to be retained by the Group and amounts which are to be provided for in lieu of their pass through to clients.

Other significant judgements
Minority interest put option accounting – IFRS 2 or IFRS 9
As noted on page 49 accounting for Minority Interest (MI) put options is a critical accounting policy. Ascertaining whether such put options should be accounted for under IFRS 9 (which results in the recognition of liabilities) or whether the awards fall within the scope of IFRS 2 (which does not result in liabilities) is a key management judgement. We have revised our judgements in 2019 compared to prior years and per note 2 we have restated our historic accounts in accordance with the new judgement.

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

The valuation of these awards represents sources of estimation uncertainty which are discussed below.

Impairment – assessment of CGUs and assessment of indicators of impairment
Where possible, impairment is assessed at the level of individual assets. When, however, this is not possible, then the Cash Generating Unit ('CGU') level is used. A CGU is the smallest identifiable asset or group of assets that generates independent cash flows. Judgement is applied to identify the Group's CGUs; however, they are typically comprised of the underlying entities (both trading subsidiaries and associates) which comprise the Group. This is on the basis that each of these entities represents a stand-alone operating business, none of which holds a cluster of assets which could constitute a CGU in their own right. Goodwill is always allocated to a CGU and never considered in isolation.

External and internal factors are monitored for indicators of impairment. In terms of such indicators, management typically consider adverse changes in the economy or political situation of the geographic locale in which the underlying entity operates in addition to risk of client loss or gain and internal reporting being indicative that an entity's future economic performance is better or worse than expected.
Where management have concluded that such an indication of impairment exists then the recoverable amount of the asset is assessed (see significant estimates).

Significant estimates and assumptions
Those areas of the Group's financial statements subject to key assumptions and other significant sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group has based its assumptions and estimates on parameters available when the financial statements were prepared.

Impairment
Management's approach for determining the recoverable amount of an individual asset or CGU is based on their value in use. Generally, discounted cash flow models are used to determine the recoverable amount of CGUs. The appropriate estimates and assumptions used require judgement and there is significant estimation uncertainty. The results of impairment reviews conducted at the end of the year are held in note 12 for those relating to Goodwill. The variables used in the assessment of the recoverable amount include:

- budgets and long term forecasts of CGU performance;
- discount rate used to calculate present value of future cash flows.

Fair value measurement of financial instruments
The Group holds certain financial instruments which are recorded on the balance sheet at fair value at point of recognition and remeasured at the end of each reporting period. At the year end these relate to
(i) Equity investments at FVTPL in non-listed limited companies
(ii) and certain contingent consideration (note 11). The equity investments include, but are not restricted to, small equity holdings in particular clients in exchange for services rendered in lieu of monetary based remuneration.

No formal market exists to trade these financial instruments and, therefore, their fair value is measured by the most appropriate valuation techniques available, which vary based on the nature of the instruments. The inputs to the valuation models are taken from observable markets where possible, but where this is not feasible, judgement is required in establishing fair values.

PREPARATION

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

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

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

Share-based incentive arrangements
Share-based incentives are valued at the date of the grant using stochastic Monte Carlo pricing models with non-market vesting conditions. Typically, the value of these awards is directly related to performance of a particular entity of the Group in which the employee holds a minority interest in the equity. The key inputs to the pricing model are interest rates, share price volatility and expected future performance of the entity to which the award relates. Management apply judgement to these inputs used various sources of information, including the Group's share price, experience of past performance and published data on risk-free interest rates (government gilts).

Details of awards made in the year are held at note 20.

Estimating percentage completion of client work at a point in time
As described above, we build our services around our clients' many varied needs. This results in a range of contractual terms which vary between contracts, which require interpretation for the purposes of identifying the specific quantum of revenue which is recognisable at a point in time.

Estimation of the appropriate level of revenue to be recognised requires review of the contractual terms and comparison against work performed and delivered to date. Such interpretation of these factual matters across our diverse businesses relies on the particular characteristics of the project in hand and, as a result, the revenue recognised on a specific project is subject to management estimation.

Estimation of the percentage completion of an assignment is performed at the performance obligation level. Details of the Group's principal revenue generative activities and the identification of the performance obligations typically resident are provided in note 6.

UNAUDITED CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Note	Year ended 31 December 2019 Before exceptional items £000	Exceptional items (note 3) £000	Total £000	31 December 2018# Total £000
Net revenue		**256,435**		**256,435**	250,304
Staff costs	7	(189,783)	(4,211)	(193,994)	(196,068)
Depreciation	14	(12,449)		(12,449)	(3,037)
Amortisation	12	(2,865)		(2,865)	(4,730)
Impairment charges	12	(5,874)		(5,874)	(5,093)
Other operating charges		(50,155)	(1,955)	(52,110)	(47,226)
Other (losses) / gains		(96)		(96)	1,584
Operating loss	1	**(4,787)**	(6,166)	**(10,953)**	(4,266)
Share of results of associates and joint ventures	13	**8,000**		**8,000**	2,151
Finance income	8	**613**		**613**	273
Finance expense	8	**(6,233)**		**(6,233)**	(4,472)
Loss before taxation	1	**(2,407)**	(6,166)	**(8,573)**	(6,314)
Taxation	9	**(4,268)**	1,012	**(3,256)**	(7,587)
Loss for the year		**(6,675)**	(5,154)	**(11,829)**	(13,901)
Attributable to:					
Equity shareholders of the Group	1	**(6,642)**	(5,154)	**(11,796)**	(14,022)
Non-controlling interests	1	**(33)**		**(33)**	121
Loss for the year	1	**(6,675)**	(5,154)	**(11,829)**	(13,901)
Loss per share					
Basic (pence)	1	**(7.36)p**		**(13.07)p**	(16.62)p
Diluted (pence)	1	**(7.36)p**		**(13.07)p**	(16.62)p

Headline results*

	Note			2019 Total	2018 Total
Operating profit	1			**20,572**	21,500
Profit before taxation	1			**18,282**	23,470
Profit after tax attributable to equity shareholders of the Group	1			**8,073**	11,256
Basic earnings per share (pence)	1			**8.95p**	13.34p
Diluted earnings per share (pence)	1			**8.20p**	12.35p

Restated see note 2.

The notes on pages 2 to 6 and 14 to 54 form part of these unaudited consolidated non-statutory financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December	2019 £000	2018# £000
Loss for the year	**(11,829)**	(13,901)
Other comprehensive income*		
Exchange differences on translating foreign operations before tax	**(3,441)**	1,000
Other comprehensive (loss) / income for the year net of tax	**(3,441)**	1,000
Total comprehensive loss for the year	**(15,270)**	(12,901)
Total comprehensive income attributable to:		
Equity shareholders of the Group	**(15,237)**	(13,022)
Non-controlling interests	**(33)**	121
Total comprehensive loss for the year	**(15,270)**	(12,901)

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

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

The notes on pages 2 to 6 and 14 to 54 form part of these unaudited consolidated non-statutory financial statements.

UNAUDITED CONSOLIDATED BALANCE SHEET

At 31 December	Note	2019 £000	2018# £000
Non-current assets			
Intangible assets	12	**38,207**	46,472
Investments in associates and JV	13	**3,780**	9,483
Plant and equipment	14	**9,455**	9,064
Right-of-use assets	15	**46,542**	-
Other non-current assets		**3,923**	4,248
Deferred tax assets		**5,455**	5,868
Financial assets at fair value through profit or loss	16	**14,851**	14,041
		122,213	89,176
Current assets			
Trade and other receivables		**116,153**	154,777
Current tax assets		**6,316**	313
Cash and cash equivalents		**67,221**	50,065
Non-current assets classified as held-for-sale	23	**–**	13,106
		189,690	218,261
Current liabilities			
Trade and other payables		**(140,415)**	(161,267)
Provisions		**(2,809)**	-
Current tax liabilities		**(1,374)**	(3,444)
Borrowings	17	**(50,452)**	(14,060)
Lease liabilities	15	**(10,770)**	-
Deferred and contingent consideration	11	**(445)**	(752)
Minority shareholder put option liabilities	19	**(3,183)**	(9,947)
		(209,448)	(189,470)
Net current (liabilities) / assets		**(19,758)**	28,791
Total assets less current liabilities		**102,455**	117,967
Non-current liabilities			
Deferred tax liabilities		**(541)**	(1,444)
Borrowings	17	**(162)**	(38,541)
Lease liabilities	15	**(44,000)**	-
Contingent consideration	11	**(313)**	(514)
Minority shareholder put option liabilities	19	**(3,918)**	(3,817)
Other non-current liabilities		**(1,130)**	(1,944)
		(50,064)	(46,260)
Total net assets		**52,391**	71,707

Restated, see note 2.

The notes on pages 2 to 6 and 14 to 54 form part of these unaudited consolidated non-statutory financial statements.

UNAUDITED CONSOLIDATED BALANCE SHEET

At 31 December	Note	2019 £000	2018# £000
Equity			
Share capital	21	**936**	876
Share premium		**49,540**	46,667
Merger reserve		**33,400**	30,150
Treasury reserve		**(550)**	(792)
Minority interest put option reserve		**(4,953)**	(15,082)
Non-controlling interest acquired		**(32,210)**	(22,212)
Foreign exchange reserve		**1,152**	4,593
Retained earnings		**4,711**	26,575
Equity attributable to shareholders of the Group		**52,026**	70,775
Non-controlling interest		**365**	932
Total equity		**52,391**	71,707

Restated, see note 2.

The notes on pages 2 to 6 and 14 to 54 form part of these unaudited consolidated non-statutory financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Continued

	Note	Share capital £000	Share premium £000	Merger reserve £000	Treasury reserve £000	MI put option reserve £000	Non-controlling interest acquired £000	Foreign exchange reserves £000	Retained earnings £000	Subtotal £000	Non-controlling interest in equity £000	Total £000
At 31 December 2018		876	46,667	31,592	(792)	(12,954)	(22,464)	4,593	34,195	**81,713**	7,207	**88,920**
Restated	2	–	–	(1,442)	–	(2,128)	252	–	(7,620)	**(10,938)**	(6,275)	(17,213)
At 31 December 2018#		876	46,667	30,150	(792)	(15,082)	(22,212)	4,593	26,575	**70,775**	932	**71,707**
Adjustment on initial application of IFRS 16	4	–	–	–	–	–	–	–	(5,364)	**(5,364)**	–	**(5,364)**
Adjusted balance at 1 January 2019		876	46,667	30,150	(792)	(15,082)	(22,212)	4,593	21,211	**65,411**	932	**66,343**
Acquisitions of minority interest		–	–	–	–	–	(44)	–	(102)	**(146)**	–	**(146)**
Exercise of Minority Interest put options	19	26	2,873	3,766	–	10,114	(10,114)	–	0	**6,665**	–	**6,665**
Exercise of Share-based payment schemes	20	34	–	–	242	–	–	–	(5,779)	**(5,503)**	–	**(5,503)**
Exchange rate movements		–	–	–	–	15	160	–	–	**175**	(5)	**170**
Issue of shares to minorities		–	–	–	–	–	–	–	–	**–**	309	**309**
Tax credit on fully charged options		–	–	–	–	–	–	–	208	**208**	–	**208**
Impairment		–	–	(516)	–	–	–	–	516	**–**	–	**–**
Share option charge	20	–	–	–	–	–	–	–	10,266	**10,266**	–	**10,266**
Dividends	10	–	–	–	–	–	–	–	(9,813)	**(9,813)**	(838)	**(10,651)**
Total transactions with owners		60	2,873	3,250	242	10,129	(9,998)	–	(4,704)	**1,852**	(534)	**1,318**
Total comprehensive loss for the year		–	–	–	–	–	–	(3,441)	(11,796)	**(15,237)**	(33)	**(15,270)**
At 31 December 2019		**936**	**49,540**	**33,400**	**(550)**	**(4,953)**	**(32,210)**	**1,152**	**4,711**	**52,026**	**365**	**52,391**

Restated, see note 2.

The notes on pages 2 to 6 and 14 to 54 form part of these unaudited consolidated non-statutory financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Share premium	Merger reserve	Treasury reserve	MI put option reserve	Non-controlling interest acquired	Foreign exchange reserves	Retained earnings	Subtotal	Non-controlling interest in equity	Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 31 December 2017		813	32,095	31,592	(792)	(13,958)	(21,040)	3,593	25,235	**57,538**	6,532	**64,070**
Restatement	2	–	–	(1,442)	–	(1,703)	–	–	8,864	**5,719**	(4,923)	**796**
At 31 December 2017#		813	32,095	30,150	(792)	(15,661)	(21,040)	3,593	34,099	**63,257**	1,609	**64,866**
Adjustment on initial application of IFRS 15		–	–	–	–	–	–	–	28	**28**	–	**28**
Adjustment on initial application of IFRS 9		–	–	–	–	–	–	–	2,971	**2,971**	–	**2,971**
At 1 January 2018#		813	32,095	30,150	(792)	(15,661)	(21,040)	3,593	37,098	**66,256**	1,609	**67,865**
Acquisitions		18	6,484	–	–	–	–	–	–	**6,502**	–	**6,502**
Acquisitions of minority interest		–	–	–	–	–	(319)	–	–	**(319)**	–	**(319)**
Exercise of Minority Interest put options	19	20	2,697	–	–	722	(722)	–	–	**2,717**	–	**2,717**
Exercise of Share-based payment schemes	20	24	4,933	–	–	–	–	–	(5,074)	**(117)**	–	**(117)**
Exchange rate movements		–	–	–	–	31	(131)	–	–	**(100)**	24	**(76)**
Deferred consideration		1	458	–	–	–	–	–	–	**459**	–	**459**
Issue of shares to minorities		–	–	–	–	(174)	–	–	87	**(87)**	5	**(82)**
Share option charge	20	–	–	–	–	–	–	–	16,864	**16,864**	–	**16,864**
Dividends	10	–	–	–	–	–	–	–	(8,378)	**(8,378)**	(827)	**(9,205)**
Total transactions with owners		63	14,572	0	0	579	(1,172)	0	3,499	**17,541**	(798)	**16,743**
Total comprehensive loss for the year		–	–	–	–	–	–	1,000	(14,022)	**(13,022)**	121	**(12,901)**
At 31 December 2018#		876	46,667	30,150	(792)	(15,082)	(22,212)	4,593	26,575	**70,775**	932	**71,707**

Restated, see note 2.

The notes on pages 2 to 6 and 14 to 54 form part of these unaudited consolidated non-statutory financial statements.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT AND ANALYSIS OF NET DEBT

Year ended 31 December	Note	2019 £000	2018# £000
Operating loss		**(10,953)**	(4,266)
Adjustments for:			
Depreciation of plant and equipment	14	3,390	3,037
Depreciation of right-of-use assets	15	9,059	–
Loss on sale of plant and equipment		99	81
Impairment of plant and equipment		–	2,289
Loss on sale of software intangibles		266	9
Increase in financial assets at FVTPL	16	346	(1,584)
Amortisation of acquired intangible assets	12	2,471	4,427
Impairment of goodwill and other intangibles	12	5,874	2,804
Amortisation of capitalised software intangible assets	12	394	303
Equity settled share-based payment expenses	20	10,266	16,864
Operating cash before movements in working capital		**32,165**	28,230
Increase / (decrease) in working capital		20,153	(10,733)
Cash generated from operations		**41,365**	13,231
Tax paid		**(7,767)**	(6,018)
Net cash from operating activities		**33,598**	7,213
Investing activities			
Acquisitions of subsidiaries net of cash acquired		(9,509)	441
Disposal of associate (net of costs)	23	23,264	–
Acquisitions of associates	13	–	(904)
Acquisitions of unlisted investments	16	(964)	(780)
Proceeds from sale of plant and equipment		30	77
Purchase of plant and equipment	14	(4,091)	(4,597)
Purchase of capitalised software	12	(1,710)	(1,046)
Dividends received from associates	13	2,928	428
Interest received		632	273
Net cash consumed investing activities		**10,580**	(6,108)
Net cash from operating and investing activities		**44,178**	1,105

Year ended 31 December	Note	2019 £000	2018# £000
Net cash from operating and investing activities		**44,178**	1,105
Financing activities			
Dividends paid to equity holders of the Company	10	(9,813)	(8,378)
Dividends paid to non-controlling interest		(838)	(827)
Proceeds from issue of shares to non-controlling interests		9	85
Repayment of finance leases		–	(45)
Payment of lease liabilities	15	(10,638)	–
Proceeds from invoice discounting		–	–
Repayment of invoice discounting		(2,001)	(914)
Proceeds from bank loans		16,630	9,100
Repayment of bank loans		(18,818)	(9,462)
Interest paid	8	(1,577)	(1,355)
Interest paid on leases	15	(1,837)	–
Net cash consumed by financing activities		**(28,883)**	(11,796)
Net increase / (decrease) in cash and cash equivalents		**15,295**	(10,691)
Effect of exchange rate fluctuations on cash held		(857)	45
Cash and cash equivalents at the beginning of the year		38,311	48,957
Total cash and cash equivalents at the end of the year		**52,749**	38,311
Cash and cash equivalents**		67,221	50,065
Bank overdrafts*	17	(14,472)	(11,754)
Total cash and cash equivalents at the end of the year		**52,749**	38,311
Bank loans and borrowings***	17	**(36,179)**	(40,819)
Net cash / (debt)		**16,570**	(2,508)

* These overdrafts are legally offsettable against balances in held in the UK; however, they have not been netted off in accordance with the requirements of IAS32.42.
** Cash and cash equivalents of £1,657k is held in a country with restrictions on remittances, but where the balances could be used to repay subsidiaries' expected future third party liabilities.
*** Bank loans and borrowings are defined in note 17, they exclude our lease liability of £54,770k (1 January 2019 £43,739k) (note 15)

The notes on pages 2 to 6 and 14 to 54 form part of these unaudited consolidated non-statutory financial statements.

UNAUDITED NOTES

1. Headline results and earnings per share

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

Year ended 31 December 2019	Note	Statutory 2019	Exceptional items (note 3)	Amortisation of acquired intangibles (note 12)	Impairment of non-current assets (note 12 and 13)	Gain on disposal of associates (note 23)	FVTPL investments under IFRS 9	Revaluation of contingent consideration (note 11)	Acquisition related remuneration (note 7)*	Put option accounting (note 19 and 20)	Headline results
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net revenue		**256,435**	–	–	–	–	–	–	–	–	**256,435**
Staff costs	7	**(193,994)**	4,211	–	–	–	–	–	5,841	10,608	**(173,334)**
Depreciation - non lease**	14	**(3,390)**	–	–	–	–	–	–	–	–	**(3,390)**
Depreciation - lease**	15	**(9,059)**	–	–	–	–	–	–	–	–	**(9,059)**
Amortisation	12	**(2,865)**	–	2,471	–	–	–	–	–	–	**(394)**
Impairments	12	**(5,874)**	–	–	5,874	–	–	–	–	–	**–**
Other operating charges		**(52,110)**	1,955	–	–	–	91	127	–	–	**(49,937)**
Other losses / (gains)		**(96)**	–	–	–	–	347	–	–	–	**251**
Operating (loss) / profit		**(10,953)**	**6,166**	**2,471**	**5,874**	**0**	**438**	**127**	**5,841**	**10,608**	**20,572**
Share of results of associates and JV	13	**8,000**	–	–	5,210	(12,980)	–	–	–	–	**230**
Finance income - non lease**	8	**522**	–	–	–	–	–	–	–	–	**522**
Finance income - lease**	8	**91**	–	–	–	–	–	–	–	–	**91**
Finance expense - non lease**	8	**(4,396)**	–	–	–	–	279	–	–	2,821	**(1,296)**
Finance expense - lease**	8	**(1,837)**	–	–	–	–	–	–	–	–	**(1,837)**
(Loss) / profit before taxation		**(8,573)**	**6,166**	**2,471**	**11,084**	**(12,980)**	**717**	**127**	**5,841**	**13,429**	**18,282**
Taxation	9	**(3,256)**	(1,012)	(620)	–	(281)	(139)	–	–	6	**(5,302)**
(Loss) / profit for the year		**(11,829)**	**5,154**	**1,851**	**11,084**	**(13,261)**	**578**	**127**	**5,841**	**13,435**	**12,980**
Non-controlling interests		33	–	(247)	–	–	–	–	(4,693)	–	**(4,907)**
(Loss) / profit attributable to equity holders of the Group* **		**(11,796)**	**5,154**	**1,604**	**11,084**	**(13,261)**	**578**	**127**	**1,148**	**13,435**	**8,073**

* Details of this breakdown can be found in note 7, Staff costs. The non-controlling interest charge is moved to operating profit due to underlying equity being defined as a conditional share award.
** The impact of the adoption of IFRS 16 (note 4) with regards to additional depreciation and interest charges relating to leases is shown by separate line items in order to improve comparability to the 2018 result presented overleaf.
*** Headline earnings are profit attributable to equity holders of the Group after adding back the adjustments noted above. The increase is calculated as the difference between 2019 and 2018 measures. Headline operating margin is calculated as: Headline operating profit divided by net revenue.

1. Headline results and earnings per share continued

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

Year ended 31 December 2018#	Note	Statutory 2018# £000	Amortisation of acquired intangibles (note 12) £000	Impairment of acquired intangibles (note 12) £000	Impairment of associates (note 13) £000	FVTPL Investments under IFRS 9 (note 12) £000	Revaluation of contingent consideration (note 11) £000	Capital gain tax on issue of put options* £000	Acquisition related remuneration (note 7)** £000	Put option accounting (note 19 and 20)*** £000	Headline results £000
Net revenue		**250,304**	–	–	–	–	–	–	–	–	**250,304**
Staff costs	7	(196,068)	–	–	–	–	–	–	3,106	17,178	(175,784)
Depreciation	14	(3,037)	–	–	–	–	–	–	–	–	(3,037)
Amortisation	12	(4,730)	4,427	–	–	–	–	–	–	–	(303)
Impairments	12	(5,093)	–	2,195	–	–	–	–	–	–	(2,898)
Other operating charges		(47,226)	–	–	–	–	–	–	–	–	(47,226)
Other gains/losses		1,584	–	–	–	(1,177)	37	–	–	–	444
Operating (loss) / profit		**(4,266)**	**4,427**	**2,195**	**–**	**(1,177)**	**37**	**–**	**3,106**	**17,178**	**21,500**
Share of results of associates and JV	13	2,151	–	–	674	–	–	–	–	–	2,825
Finance income	8	273	–	–	–	–	–	–	–	–	273
Finance cost	8	(4,472)	–	–	–	229	–	–	–	3,115	(1,128)
(Loss) / profit before taxation		**(6,314)**	**4,427**	**2,195**	**674**	**(948)**	**37**	**–**	**3,106**	**20,293**	**23,470**
Taxation	9	(7,587)	(1,021)	–	–	179	–	517	–	(403)	(8,315)
(Loss) / profit for the year		**(13,901)**	**3,406**	**2,195**	**674**	**(769)**	**37**	**517**	**3,106**	**19,890**	**15,155**
Non-controlling interests		(121)	(937)	–	–	–	–	–	(2,841)	–	(3,899)
(Loss) / profit attributable to equity holders of the Group******		**(14,022)**	**2,469**	**2,195**	**674**	**(769)**	**37**	**517**	**265**	**19,890**	**11,256**

The statutory result for year ended 31 December 2018 has been restated, see note 2. No other line items within this note have required restatement.

* As part of setting up equity schemes in Australia, subsidiary equity was disposed of which created a local profit on disposal. On consolidation the profit on disposal has been eliminated (IFRS 10.23); however, the capital gains tax and non-controlling interest effect has not been so removed.

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

*** These values represent put options accounted for as conditional share awards (£17,178k) (note 20) and fair value adjustments to minority put option liabilities (£3,115k) (note 19).

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

UNAUDITED NOTES Continued

1. Headline results and earnings per share continued

Policy

Basic and diluted (loss) / earnings per share are calculated by dividing appropriate earnings metrics of the Group by the weighted average number of shares in issue during the year.

Diluted (loss) earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares. Anti-dilutive potential ordinary shares are excluded. The dilutive effect of unvested outstanding options is calculated based on the number that would vest had the balance sheet date been the vesting date.

	Before exceptionals 2019	2019	Headline 2019
Year ended 31 December 2019	**£000**	**£000**	**£000**
(Loss) / profit attributable to equity shareholders of the Group	**(6,642)**	**(11,796)**	**8,073**
Basic earnings per share			
Weighted average number of shares (thousands)	**90,253**	**90,253**	**90,253**
Basic EPS	**(7.36)p**	**(13.07)p**	**8.95p**
Diluted earnings per share			
Weighted average number of shares (thousands) as above	**90,253**	**90,253**	**90,253**
Add			
– Conditional shares	–	–	5,686
– Dilutive put options	–	–	2,316
– Contingent consideration	–	–	281
Total	90,253	90,253	98,536
Diluted (loss) / earnings per share	**(7.36)p**	**(13.07)p**	**8.20p**

1. Headline results and earnings per share continued

Year ended 31 December 2018	2018# £000	Headline 2018# £000
(Loss) / profit attributable to equity shareholders of the Group	**(14,022)**	**11,256**
Basic earnings per share		
Weighted average number of shares (thousands)	**84,360**	**84,360**
Basic EPS	**(16.62)p**	**13.34p**
Diluted earnings per share*		
Weighted average number of shares (thousands) as above	**84,360**	**84,360**
Add		
– Conditional shares	–	6,502
– Dilutive put options	–	–
– Contingent consideration	–	308
Total	**84,360**	**91,170**
Diluted (loss) / earnings per share	**(16.62)p**	**12.35p**

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

2. Prior year misstatements

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

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

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

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

- Trading adjustments – Adjustments principally arising from misstatements of accrued income and amounts receivable which would have arisen as a result of services provided to our clients but for which no provision of such service is believed to have been performed. Thus, such receivables required elimination from the financial statements.
- Non-trading adjustments – Adjustments arising from misstatements in terms of not recognising certain staff and operating costs which are not directly related to the servicing of our clients.
- Non-current asset adjustments – Adjustments arising from overstatement in the value of plant and equipment or intangible assets (both Goodwill and capitalised software costs). For example, fixed assets which ceased to exist following office refurbishment works of previous years but which were continued to be held on the fixed asset register and instances where intangible assets had been capitalised inappropriately due to the absence of their having future economic benefit to the Group.
- Put option accounting adjustments – Adjustments arising from a full internal review by management as to the appropriateness of management judgement's required when determining the requisite accounting for put option incentive schemes. Such review facilitated by the latest interpretations of IFRS and hindsight not previously available.
- Financial reporting adjustments – Adjustments arising from incorrect and unsubstantiated journal entries made in the 2018 year-end consolidation process or in relation to misclassification of balances (such as holding an investment as an other receivable).

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

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

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

	Consolidated balance sheet – as at 1 January 2018							
	As previously reported	Trading adjustments	Non-trading adjustments	Non-current asset adjustments	Put option adjustments	Financial reporting adjustments	Total adjustments	As restated
	£000	£000	£000	£000	£000	£000	£000	£000
Non-current assets								
Intangible assets	**48,515**	–	–	(2,770)	–	–	(2,770)	**45,745**
Investments in associates	**19,725**	–	–		–	–	–	**19,725**
Plant and equipment	**12,269**	–	–	(2,441)	–	–	(2,441)	**9,828**
Other non-current assets	**9,325**	–	–	–	–	–	–	**9,325**
Deferred tax assets	**4,797**	–	–	–	243	–	243	**5,040**
Financial assets at FVTPL	–	–	–	–	–	–	–	–
	94,631	–	–	**(5,211)**	**243**	–	(4,968)	**89,663**
Current assets								
Trade and other receivables	**120,096**	(1,799)	(372)	–	–	(505)	(2,676)	**117,420**
Current tax assets	**945**	–	–	–	–	–	–	**945**
Cash and cash equivalents	**48,957**	–	–	–	–	–	–	**48,957**
Non-current assets Held-for-sale	–	–	–	–	–	–	–	–
	169,998	**(1,799)**	**(372)**	–	–	**(505)**	**(2,676)**	**167,322**
Current liabilities								
Trade and other payables	**(128,256)**	–	(350)	–	(3,390)	–	(3,740)	**(131,996)**
Current tax liabilities	**(1,221)**	335	82	(185)	–	–	232	**(989)**
Minority shareholder put option liabilities	**(14,813)**	–	–	–	11,312	(2,478)	8,834	**(5,979)**
Other current liabilities	**(4,108)**	–	–	–	–	–	–	**(4,108)**
	(148,398)	**335**	**(268)**	**(185)**	**7,922**	**(2,478)**	**5,326**	**(143,072)**
Net current assets	**21,600**	**(1,464)**	**(640)**	**(185)**	**7,922**	**(2,983)**	**2,650**	**24,250**
Total assets less current liabilities	**116,231**	**(1,464)**	**(640)**	**(5,396)**	**8,165**	**(2,983)**	**(2,318)**	**113,913**
Non-current liabilities								
Minority shareholder put option liabilities	**(10,316)**	–	–	–	6,758	(3,644)	3,114	**(7,202)**
Other non-current liabilities	**(41,845)**	–	–	–	–	–	–	**(41,845)**
Total non-current liabilities	**(52,161)**	–	–	–	**6,758**	**(3,644)**	**3,114**	**(49,047)**
Total net assets	**64,070**	**(1,464)**	**(640)**	**(5,396)**	**14,923**	**(6,627)**	**796**	**64,866**

Total adjustment to equity:

	Consolidated balance sheet – as at 1 January 2018							
	As previously reported	Trading adjustments	Non-trading adjustments	Non-current asset adjustments	Put option adjustments	Financial reporting adjustments	Total adjustments	As restated
	£000	£000	£000	£000	£000	£000	£000	£000
Minority interest put option reserve	**(13,958)**	–	–	–	4,419	(6,122)	(1,703)	**(15,661)**
Non-controlling interest acquired	**(21,040)**	–	–	–	–	–	–	**(21,040)**
Non-controlling interest	**6,532**	–	–	–	(4,923)		(4,923)	**1,609**
Retained earnings	**25,235**	(1,464)	(640)	(3,954)	15,427	(505)	8,864	**34,099**
Merger reserve	**31,592**	–	–	(1,442)	–	–	(1,442)	**30,150**
Other reserves	**35,709**	–	–	–	–	–	–	**35,709**
	64,070	(1,464)	(640)	(5,396)	14,923	(6,627)	796	**64,866**

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

	As previously reported £000	Trading adjustments £000	Non-trading adjustments £000	Non-current asset adjustments £000	Put option adjustments £000	Financial reporting adjustments £000	Total adjustments £000	As restated £000
Net revenue	255,373	(3,859)	–	–	–	(1,210)	(5,069)	250,304
Staff costs	(182,536)	–	(379)	–	(12,880)	(273)	(13,532)	(196,068)
Depreciation	(3,558)	–	–	521	–	–	521	(3,037)
Amortisation	(4,730)	–	–	–	–	–	–	(4,730)
Impairment charges	(2,869)	(70)	–	(2,828)	–	674	(2,224)	(5,093)
Other operating charges	(46,496)	70	(800)	–	–	–	(730)	(47,226)
Other gains / losses	1,584	–		–	–	–	–	1,584
Operating profit	**16,768**	**(3,859)**	**(1,179)**	**(2,307)**	**(12,880)**	**(809)**	**(21,034)**	**(4,266)**
Share of results of associates	2,825	–	–	–	–	(674)	(674)	**2,151**
Finance income	273	–	–	–	–	–	–	**273**
Finance costs	(2,268)	–	–	–	(2,204)	–	(2,204)	**(4,472)**
Profit before taxation	**17,598**	**(3,859)**	**(1,179)**	**(2,307)**	**(15,084)**	**(1,483)**	**(23,912)**	**(6,314)**
Taxation	(6,635)	(127)	158	(1,149)	61	105	(952)	(7,587)
Profit for the year	**10,963**	**(3,986)**	**(1,021)**	**(3,456)**	**(15,023)**	**(1,378)**	**(24,864)**	**(13,901)**
Attributable to:								
Equity shareholders of the Group	8,255	(3,986)	(1,021)	(3,456)	(12,436)	(1,378)	(22,277)	(14,022)
Non-controlling interests	2,708	–	–	–	(2,587)	–	(2,587)	121
Profit for the year	**10,963**	**(3,986)**	**(1,021)**	**(3,456)**	**(15,023)**	**(1,378)**	**(24,864)**	**(13,901)**
Earnings per share								
Basic (pence)	9.79p							(16.62)p
Diluted (pence)	9.15p							(16.62)p

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

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

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

Total	PBT £000	Tax £000	PAT £000
Pre 2018 ADJs	(1,442)	475	(967)
in year 2018 ADJs	(23,912)	(952)	(24,864)
TOTAL PROFIT IMPACT	(25,354)	(477)	(25,831)

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

	Pre-2018 £000	During 2018 £000	Total £000
Trading	(1,799)	(3,859)	(5,658)
Non-trading	(463)	(1,179)	(1,642)
Non-current assets impairment	(2,441)	(2,307)	(4,748)
Financial reporting	(505)	(1,483)	(1,988)
Headline PBT impact	(5,208)	(8,828)	(14,036)
Put options	6,536	(15,084)	(8,548)
Goodwill	(2,770)	–	(2,770)
Statutory PBT impact	(1,442)	(23,912)	(25,354)
Tax	475	(952)	(477)
PAT impact	(967)	(24,864)	(25,831)

Pre–2018 adjustments

Pre 2018 ADJs

Item	£000	Description
Revenue	(1,989)	Revenue recognised with no support
Project cost	(313)	Costs not recognised
Staff costs	305	Add back of 2017 staff bonus expense
Other operating charges	(770)	Operating costs not recognised
Impairments - exc goodwill	(2,441)	Impairment of non-current assets identified as not existing
Impairments - goodwill	(2,770)	Goodwill impairments
Put option adjustments	6,536	Judgement change relating to put options accounting
PBT effect	(1,442)	
Tax - add back	475	
PAT effect	(967)	

Revenue adjustments relate to instances where a number of UK businesses had recognised revenue which had no support as to its validity to be so recognised.

Project cost and operating charge adjustments relate to expenses and their corresponding liabilities which had not been recognised during the course of normal business which should have been so recognised.

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

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

The Goodwill impairments relate to write downs of goodwill attached to the PR and LIDA UK businesses. If the prior year adjustments relating to business performance had been known at the time, these impairments would consequently have been recognised at the end of 2018 based on the underperformance of these businesses not having been obfuscated by the results then presented.

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

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

2018 Adjustments

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

Trading adjustments

Item	£000	Description
PBT effect	(3,859)	Inappropriate recognition of revenue and costs
Tax - add back	(127)	
PAT effect	(3,986)	

A gross overstatement of revenue by £3.7million was identified, with a corresponding overstatement of accrued income, across a number of businesses. One UK business accounted for £1.6million of this error, the LA business contributed £0.5million and the balance of £1.6million related to a number of smaller errors amongst a number of other UK businesses.
The net adjustment of only a £2.7million reduction in revenue is due to offset by a separate UK business which had not appropriately applied IFRS 15 on transition such that revenue had been understated by ca £1.0million.

The understatement of project costs related to two UK businesses which had not accounted for certain trading costs which had been incurred during 2018.

Non-trading adjustments

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

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

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

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

Non-current asset adjustments

Item	£000	Description
Impairment	(2,828)	Non-current assets identified as not existing
Depreciation (add back)	521	Resultant reduction in depreciation charge
PBT effect	(2,307)	
Tax - additional	(1,149)	
PAT effect	(3,456)	

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

Fixed assets were concluded as not existing. In total a net book value of £2.3m of fixed assets required elimination. The specific categories of fixed asset to which these items relate is detailed in note 14.

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

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

There were no adjustments relating to impairment of Goodwill identified for 2018.

Put option adjustments

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

Adjustments arising through put options are explained in detail at note 2(e). These adjustments principally arise as a result of hindsight permitting reassessment of judgements surrounding the Company's share schemes, such as the South African items, and based on present accounting practices (rather than the accounting practices and interpretations that existed when the schemes were set up). This updated view of the judgements has changed the fundamental basis of the accounting of put options and the application of the relevant elements of IFRS.

Financial reporting adjustments

Item	£000	Description
Net revenue	(1,129)	UK sub-group consolidation journals with no support
Net revenue	(41)	Prior year audit unadjusted error
Staff costs	(273)	Prior year audit unadjusted error
PBT effect	(1,483)	
Tax - add back	105	
PAT effect	(1,378)	

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

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

Finally, £1.1m of trade and other receivables have been redefined on balance sheet as financial assets at FVTPL, as these relate to equity received in return for services supplied and £0.7m of impairments relating to the Group's Asian Associates have been reanalysed to share of results of associates. Neither of these adjustments are profit impacting.

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

	Consolidated balance sheet – for the year ended 31 December 2018								
	As previously reported	Pre 2018 adjustments (Note 2a)	Trading adjustments	Non-trading adjustments	Non-current asset adjustments	Put option adjustments (note 2e)	Financial reporting adjustments	Total adjustments	As restated
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Non-current assets									
Intangible assets	**49,780**	(2,770)	–	–	(538)	–	–	(3,308)	**46,472**
Investments in associates	**9,483**	–	–	–	–	–	–	–	**9,483**
Plant and equipment	**13,274**	(2,441)	–	–	(1,769)	–	–	(4,210)	**9,064**
Other non-current assets	**4,248**	–	–	–	–	–	–	–	**4,248**
Deferred tax assets	**5,687**	243	–	–	–	(62)	–	181	**5,868**
Financial assets at FVTPL	**12,958**	–	–	–	–	–	1,083	1,083	**14,041**
	95,430	**(4,968)**	–	–	**(2,307)**	**(62)**	**1,083**	(6,254)	**89,176**
Current assets									
Trade and other receivables	**150,941**	(2,676)	(3,714)	(239)	–	(459)	10,924	3,836	**154,777**
Current tax assets	**968**	–	(105)	–	(550)	–	–	(655)	**313**
Cash and cash equivalents	**50,065**	–	–	–	–	–	–	–	**50,065**
Non-current assets Held-for-sale	**13,106**	–	–	–	–	–	–	–	**13,106**
	215,080	**(2,676)**	**(3,819)**	**(239)**	**(550)**	**(459)**	**10,924**	**3,181**	**218,261**
Current liabilities									
Trade and other payables	**(142,627)**	(3,740)	(145)	(940)	–	(325)	(13,490)	(18,640)	**(161,267)**
Current tax liabilities	**(3,318)**	232	(22)	158	(599)	–	105	(126)	**(3,444)**
Minority shareholder put option liabilities	**(12,327)**	8,834	–	–	–	(6,454)	–	2,380	**(9,947)**
Other current liabilities	**(14,812)**	–	–	–	–	–	–	–	**(14,812)**
	(173,084)	**5,326**	**(167)**	**(782)**	**(599)**	**(6,779)**	**(13,385)**	**(16,386)**	**(189,470)**
Net current assets	**41,996**	**2,650**	**(3,986)**	**(1,021)**	**(1,149)**	**(7,238)**	**(2,461)**	**(13,205)**	**28,791**
Total assets less current liabilities	**137,426**	**(2,318)**	**(3,986)**	**(1,021)**	**(3,456)**	**(7,300)**	**(1,378)**	**(19,459)**	**117,967**
Non-current liabilities									
Minority shareholder put option liabilities	**(6,063)**	3,114	–	–	–	(695)	(173)	2,246	**(3,817)**
Other non-current liabilities	**(42,443)**	–	–	–	–	–	–	–	**(42,443)**
Total non-current liabilities	**(48,506)**	**3,114**	–	–	–	**(695)**	**(173)**	**2,246**	**(46,260)**
Total net assets	**88,920**	**796**	**(3,986)**	**(1,021)**	**(3,456)**	**(7,995)**	**(1,551)**	**(17,213)**	**71,707**

	Consolidated balance sheet – for the year ended 31 December 2018								
	As previously reported	Pre 2018 adjustments (Note 2a)	Trading adjustments	Non-trading adjustments	Non-current asset adjustments	Put option adjustments (Note 2e)	Financial reporting adjustments	Total adjustments	As restated
Total adjustment to equity:	£000	£000	£000	£000	£000	£000	£000	£000	£000
Minority interest put option reserve	**(12,954)**	(1,703)	–	–	–	(252)	(173)	(2,128)	**(15,082)**
Non-controlling interest acquired	**(22,464)**	–	–	–	–	252	–	252	**(22,212)**
Non-controlling interest	**7,207**	–	–	–	–	(1,352)	–	(6,275)	**932**
Retained earnings	**34,195**	8,864	(3,986)	(1,021)	(3,456)	(6,643)	(1,378)	(7,620)	**26,575**
Other reserves	**82,936**	(1,442)	–	–	–	–	–	(1,442)	**81,494**
	88,920	**796**	**(3,986)**	**(1,021)**	**(3,456)**	**(7,995)**	**(1,551)**	**(17,213)**	**71,707**

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

2(e) Put option accounting adjustments

The accounting for put options is set out on page 49 and the significant judgements on page 5. We have fully reassessed the judgement as to whether the put options constitute conditional shares (IFRS 2) or minority interest put options (IFRS 9); at the same time we have examined the judgements surrounding market and non-market conditions embedded in conditional shares (IFRS 2). The impact of these adjustments relating to the reporting period ended 31 December 2018 is presented below and the nature of the adjustments explained overleaf.

Income statement adjustments for the year ended 31 December 2018

	Change in category (IFRS 2 or IFRS 9)	Variable share-based payment charges	Cash-settled share-based payments (SA)	Change in accounting practice	Total adjustment (note 2b)	Relating to 1 January 2018 (note 2a)	Relating to year ended 31 December 2018
	£000	£000	£000	£000	£000	£000	£000
Staff costs	(114)	(10,760)	(233)	(1,773)	(12,880)	–	(12,880)
Tax expense	–	–	61	–	61	–	61
Finance income	–	–	–	–	–	–	–
Finance costs	(2,204)	–	–	–	(2,204)	–	(2,204)
Total income statement effect	(2,318)	(10,760)	(172)	(1,773)	(15,023)	–	(15,023)
Attributable to equity shareholders	(1,504)	(10,760)	(172)		(12,436)	–	(12,436)
Attributable to Non-controlling interest	(814)	–	–	(1,773)	(2,587)	–	(2,587)
	(2,318)	(10,760)	(172)	(1,773)	(15,023)	–	(15,023)

Balance sheet adjustments as at 31 December 2018

	£000	£000	£000	£000	£000	£000	£000
Non-current assets							
Deferred tax assets	–	–	181	–	181	243	(62)
Current assets							
Trade and other receivables	(459)	–	–	–	(459)	–	(459)
Current liabilities							
Trade and other payables	–	–	(1,086)	(2,629)	(3,715)	(3,390)	(325)
Minority shareholder put option liabilities	4,858	–	–	–	4,858	11,312	(6,454)
Non-current liabilities							
Minority shareholder put option liabilities	6,063	–	–	–	6,063	6,758	(695)
Total net asset effect	10,462	–	(905)	(2,629)	6,928	14,923	(7,995)

Equity adjustments as at 31 December 2018

	£000	£000	£000	£000	£000	£000	£000
Minority interest put option reserve	4,167	–	–	–	4,167	4,419	(252)
Non-controlling interest acquired	252	–	–	–	252	–	252
Non-controlling interest	(3,646)	–	–	(2,629)	(6,275)	(4,923)	(1,352)
Retained earnings	9,689	–	(905)	–	8,784	15,427	(6,643)
Total reserves effect	10,462	–	(905)	(2,629)	6,928	14,923	(7,995)

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

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

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

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

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

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

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

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

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

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

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

2(f) Other restatement matters

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

In the prior year put option liabilities which pay a variable number of equity instruments or a variable amount of cash at a point in time in the future (note 19) were considered to be derivative instruments and consequently described as being held at fair value through profit or loss. These items have now been identified as representing financial liabilities held at amortised cost. Whilst this has no impact upon the quantum of liabilities due to be held at the end of each reporting period the notes to the accounts have had the 2018 comparatives descriptions amended to reflect this fact. This is in contrast to the IFRS 2 schemes whose recognition within the financial statements continues to be based on the fair value of the award at the date of inception, and, for a subset of schemes, reassessed at the end of each reporting period.

3. Exceptional items

Policy

Items which are both non-recurring and material in either size or nature are presented as exceptional items within their relevant income statement line. The separate reporting of exceptional items helps provide a better indication of the underlying performance of the Group. The principal items which are included as exceptional items are costs arising from significant strategy changes or other non-recurring expenses that are not considered by the Group to be part of the normal operating costs of the business. These costs may include restructuring and other associated costs (only where there is a significant or wholesale restructuring programme).

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

	Operating costs	Staff cost	Taxation	Total
Strategic review and restructuring	–	4,211	(783)	3,428
PwC forensic fees	731	–	(139)	592
Legal fees	474	–	(90)	384
Other costs relating to misstatements	750	–	–	750
Total exceptional items	1,955	4,211	(1,012)	5,154

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

Strategic review and restructuring
During 2019 the Board commenced a strategic realignment of the Group to improve the long-term profitability of the business.

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

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

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

4. Changes in accounting policies and disclosures

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

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

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

Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRS Standards 2015 – 2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income taxes and IAS 23 Borrowing costs
Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 23	Uncertainty over Income Tax Treatments

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

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

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

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

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

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

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

The accounting for recognition of a sublease at transition is the same as that described in note 15.

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

Impact of adoption of IFRS 16
Adopting IFRS 16 results in an increase in earnings for the year ended 31 December 2019 of £0.6m compared to that which would have been recognised under Legacy IFRS.

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

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

UNAUDITED NOTES Continued

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

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

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

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

5. Segmental information

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

The Group's segments are aligned to those business units that are evaluated regularly by the chief operating decision maker (the Board) in deciding how to allocate resources and in assessing performance. The financial information provided to the Board is compiled on geographical regions with trading operations in each country aggregated into that region on a headline basis. This is as each country included in that region has similar economic and operating characteristics and that the products and services provided by entities in a geographic region are all related to marketing communication services.

From 2020, as part of the Group’s ongoing strategic review, we are evaluating alternative ways of analysing and presenting financial information to the chief operating decision maker beyond the geographic segmentation.

Year ended 31 December 2019	UK	Europe	Middle East and Africa	Asia and Australia	Americas	Head office	Total
Headline results	£000	£000	£000	£000	£000	£000	£000
Net revenue	103,221	30,510	16,563	64,533	41,608	–	256,435
Staff costs	(61,376)	(22,273)	(11,337)	(45,093)	(28,752)	(4,503)	(173,334)
Depreciation - non lease	(1,357)	(334)	(349)	(811)	(539)	–	(3,390)
Depreciation - lease	(2,705)	(1,087)	(601)	(2,606)	(2,060)	–	(9,059)
Amortisation	(201)	(22)	(52)	(119)	–	–	(394)
Other operating charges	(22,928)	(3,776)	(2,718)	(10,244)	(7,403)	(2,868)	(49,937)
Other gains/losses	–	–	–	–	251	–	251
Operating profit / (loss)	14,654	3,018	1,506	5,660	3,105	(7,371)	20,572
Share of results of associates and JV	–	(3)	–	(124)	357	–	230
Net finance expense (excluding leases)*	(89)	(72)	17	186	(695)	(121)	(774)
Net finance expense (relating to leases)*	(595)	(146)	(459)	(383)	(163)	–	(1,746)
Profit / (loss) before taxation	13,970	2,797	1,064	5,339	2,604	(7,492)	18,282
Taxation	(2,576)	(1,135)	(219)	(1,655)	(1,099)	1,382	(5,302)
Profit / (loss) for the year	11,394	1,662	845	3,684	1,505	(6,110)	12,980
Non-controlling interests	(2,821)	(259)	(338)	(1,284)	(205)	–	(4,907)
Profit / (loss) attributable to equity shareholders of the Group	8,573	1,403	507	2,400	1,300	(6,110)	8,073
Headline basic EPS							8.95p

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

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

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

Restated, see note 2.
* The adoption of IFRS 16 has led to the recognition of depreciation and finance charges in 2019 which have no 2018 comparative. In the current year, these amounts have consequently been shown separately. Full details of the Group's transition to IFRS 16 can be found at note 4.
** The component elements of the restatement required are as detailed and explained in note 2. All restatements relate to the UK operating segment except for the following: (i) recognition of £0.2m staff expense relating to unaccrued bonuses in the Australian business; (ii) write off of £134k other debtors incorrectly recognised in the NY business; (iii) impairment of £920k of trade and other receivables recognised by the LA business which was inappropriate to be so recognised; and (iv) £385k of corporation tax in India.

UNAUDITED NOTES Continued

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

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

Year ended 31 December 2019	UK	Europe	Middle East and Africa	Asia and Australia	Americas	Head office	Total
Headline restated results	£000	£000	£000	£000	£000	£000	£000
Net revenue	103,222	30,197	16,269	63,385	42,976	–	256,049
Staff costs	(61,376)	(22,044)	(11,197)	(44,316)	(29,690)	(4,503)	(173,126)
Depreciation - non lease	(1,357)	(331)	(337)	(804)	(557)	–	(3,386)
Depreciation - lease	(2,705)	(1,076)	(574)	(2,560)	(2,129)	–	(9,044)
Amortisation of software intangibles	(201)	(21)	(50)	(117)	–	–	(389)
Other operating charges	(22,929)	(3,729)	(2,649)	(10,107)	(7,628)	(2,867)	(49,909)
Other gains/losses	–	–	–	2	239	–	241
Operating profit	14,654	2,996	1,462	5,483	3,211	(7,370)	20,436
Share of results of associates and JV	–	(3)	–	(125)	355	–	227
Financial income and cost (excluding leases)	(89)	(72)	15	185	(721)	(123)	(805)
Financial income and cost (relating to leases)	(595)	(145)	(438)	(376)	(173)	–	(1,727)
Profit before taxation	13,970	2,776	1,039	5,167	2,672	(7,493)	18,131
Taxation	(2,576)	(1,127)	(208)	(1,608)	(1,117)	1,382	(5,254)
Profit for the year	11,394	1,649	831	3,559	1,555	(6,111)	12,877
Decrease in 2019 results caused by translation differences	-	(13)	(14)	(125)	50	(1)	(103)

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

6. Revenue from contracts with customers

Billings comprise all gross amounts billed, or billable to clients in respect of commission-based and fee-based income, together with the total of other fees earned, in addition to those instances where the Group has made payments on behalf of customers to third parties and is stated exclusive of VAT and sales taxes. Billings is a non GAAP measure and is included as it influences the quantum of trade and other receivables due to be recognised at a point in time. The balancing figure between Billings and Revenue is represented by costs incurred on behalf of client with whom we operate as an agent.

Policy

Revenue recognition policies

Revenue is stated exclusive of VAT and sales taxes comprising commission, fees earned and inclusive of third-party costs recharged to our clients where we are adjudged to be acting as principal (as opposed to agent). Net revenue is exclusive of third-party costs recharged to our clients where we are adjudged as acting as principal.

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

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

Measurement of revenue
Based on the terms of the contractual arrangements entered into with customers, revenue is typically recognised over time. This is based on either the fact that (i) the assets generated under the terms of the contracts have no alternative use to the Group and there being an enforceable right to payment or (ii) the client exerts editorial oversight during the course of the assignment such that they control the service as it is provided.

We build our services around our clients needs, and often use clients standard terms with negotiated modification, this results in many different contractual arrangements. Revenue is recognised monthly based on the underlying systems and processes in each business unit. Given the many different contractual arrangements, and judgements on agency vs principal relationships, each business unit, on a periodic basis, reviews contracts and separate obligations to make sure revenue is recognised in the correct accounting period, posting adjustments to the monthly revenue recognised if necessary.

Principal vs agent
When a third-party supplier is involved in fulfilling the terms of a contract then, for each performance obligation identified, the Group assesses whether they are acting as principal or agent. The primary indicator used in this assessment is whether the Group is judged to control the specified services prior to the transfer of those services to the customer. In this instance it is typically concluded the Group is acting as principal. Details surrounding this significant judgement can be found on page 4.

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

Treatment of costs
Costs incurred in relation to the fulfilment of a contract are either recognised as an asset or treated as an expense. Costs are capitalised when they represent incremental costs of winning a contract, are expected to be recovered and subsequently are recognised over the life of the contract arising.

Supplier rebates
The Group receives volume rebates from certain suppliers for transactions entered into on behalf of clients. Management judgement is involved in how these rebates are accounted for. Based on the terms of the relevant contracts and local law, these rebates are either remitted to clients or retained by the Group.

Where a rebate relates to our acting as principal then it is shown as a reduction in cost of sales; where it relates to our acting as agent and is not passed back to the client then it is shown as an increase in revenue.

7. Staff costs

Policy

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

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

Staff costs (including Directors) comprise:

Year ended 31 December	2019 £000	2018# £000
Wages and salaries	**152,608**	151,273
Social security costs	**18,216**	17,782
Defined contribution pension scheme costs	**2,217**	2,088
Other staff benefits	**4,504**	4,641
	177,545	175,784
Dividends paid to holders of IFRS 2 put options	**£000**	**£000**
Allocations and dividends paid to conditional share award holders	**5,841**	3,106
	5,841	3,106
Share-based incentive plans		
Cash settled	**342**	314
Equity settled	**10,266**	16,864
Total staff costs	**193,994**	196,068

Restated, see Note 2

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

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

Payments of £2,222k (2018: £2,371k) were made in the year and charged to the income statement in the period they relate to pensions. At the year end there were unpaid amounts included within accruals totalling £48k (2018: £17k).

Key management remuneration	2019 £000	2018# £000
Short-term employee benefit	**3,231**	2,878
Post-employment benefit	**4**	17
Share-based payments	**408**	3,552
Total	**3,643**	6,447

Restated due to change in option charge

8. Net finance income / (expense)

Policy

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

Year ended 31 December	2019 £000	2018# £000
Bank interest receivable	285	272
Other interest receivable	237	1
Sublease finance income	91	–
Financial income	613	273
Bank interest payable	(1,325)	(1,175)
Other interest payable	(250)	(182)
Interest on lease liabilities	(1,837)	–
Adjustment to minority shareholder put option liabilities (Note19 #)	(2,821)	(3,115)
Financial expense	(6,233)	(4,472)
Net finance expense	(5,620)	(4,199)

2018 restated, note 2

9. Taxation

Policy

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

Year ended 31 December	2019 £000	2018# £000
Taxation in the year		
– UK	**(330)**	2,974
– Overseas	**3,160**	6,507
Withholding taxes payable	**38**	–
Utilisation of previously unrecognised tax losses	**–**	(25)
Adjustment for over provision in prior periods	**(538)**	(447)
Total	**2,330**	9,009
Deferred taxation		
Origination and reversal of temporary differences	**551**	(1,821)
Adjustment for under provision prior periods	**370**	399
Effect of changes in tax rates	**5**	–
Total	**926**	(1,422)
Total taxation	**3,256**	7,587

2018 restated, note 2

10. Dividends

Policy

Equity dividends

Equity dividends on ordinary share capital are recognised as a liability in the period in which they are declared. The interim dividend is recognised when it has been approved by the Board and the final dividend is recognised when it has been approved by the shareholders at the Annual General Meeting.

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

The 2018 dividend has been restated to reflect the number of shares in issue when the dividend was paid, as opposed to the number of shares in existence at 31 December 2018.

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

The dividends relate to the profit of the following years:

Year ended 31 December	2019 £000	2018 £000
Interim dividend paid 2.45p on 8 November 2019 (2018: 2.45p)	**2,247**	2,117
No Final dividends payable (2018: 8.51p)	**-**	7,566
	2,247	9,683
Statutory dividend cover	**loss**	loss
Headline dividend cover	**4.4**	1.2

Dividend cover is calculated by taking profit after tax attributable to equity shareholders and dividing it by the total dividend that relates to that year's profits. The Group in the past has aimed to maintain a long-term headline dividend cover of between 2 and 3. This policy will be reviewed depending on the needs of our Strategic Review, and the outcome to Covid-19 pandemic. Retained profits are used to reinvest in the long-term growth of the Group through funding working capital and investing activities; and to repay bank debt.

11. Deferred and contingent consideration

Policy

Certain acquisitions made by the Group include contingent consideration, the quantum of which is dependent on the future performance of the acquired entity. Such contingent consideration is recognised as a liability and recorded at fair value in line with IFRS 13.

The liability arising is remeasured at the earlier of the end of each reporting period or crystallisation of the consideration payment. The movements in the fair value are recognised in profit or loss.

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

* This relates to a net asset true up payment on M&C Saatchi Social Limited which was paid subsequent to the completion of the 2018 audit.
** This relates to contingent consideration for Levergy Marketing Agency (PTY) Ltd, which will be paid in M&C Saatchi plc shares. The contingent consideration is payable over the next three years, and is dependent on profitability and profitability growth rates of Levergy Marketing Agency (PTY) Ltd. The amount payable is uncapped. The fair value of contingent consideration is measured in line with IFRS 13.
*** Relates to the 2018 acquisition of Scarecrow Communications Limited call option valuation that is payable in the event of shareholder departure.

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

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

12. Intangible assets

Policy

Intangible assets are carried at cost less accumulated amortisation and impairment losses.

Cost

Goodwill

Under the acquisition method of accounting for business combinations, goodwill is the fair value of consideration transferred, less the net of the fair values of the identifiable assets acquired and the liabilities subsumed.

Other intangibles acquired as part of a business combination

Intangible assets acquired as part of a business combination (which includes brand names and customer relationships) are capitalised at fair value if they are either separable or arise from contractual or other legal rights and their fair value is able to be reliably measured.

Software

Purchased software is recorded at cost.

Amortisation

Goodwill is not amortised. Amortisation of other classes of intangible assets is charged to the income statement on a straight-line basis over their estimated useful lives as follows:

Software - three years
Customer relationships - one to five years
Brand name - one to three years

The Group has no indefinite-life intangibles other than goodwill.

Impairment

Impairment reviews are performed as needed and as detailed within this note (for Goodwill) and note 13 (for associates). Impairment losses arise when the carrying amount of an asset or CGU is in excess of the recoverable amount and are recognised in the income statement.

Goodwill's accumulated amortisation and impairment entirely relate to impairments; brand name and customer relationships and software relate to amortisation and impairments.

	Goodwill# £000	Brand name £000	Customer relationships £000	Software# £000	Total £000
Cost					
At 31 December 2017#	53,916	8,394	11,875	1,863	76,048
Exchange differences	814	–	189	(37)	966
Acquired	–	–	–	1,046	1,046
Acquired through business combination	3,718	552	2,307	28	6,605
Disposal	–	–	–	(23)	(23)
Eliminations due to restatement#	–	–	–	(652)	(652)
At 31 December 2018	**58,448**	**8,946**	**14,371**	**2,225**	**83,990**
Exchange differences	(1,343)	(177)	(281)	(51)	(1,852)
Acquired	–	–	–	1,710	1,710
Disposals	–	–	–	(286)	(286)
At 31 December 2019	**57,105**	**8,769**	**14,090**	**3,598**	**83,562**
Accumulated amortisation and impairment					
At 31 December 2017	15,768	5,217	8,480	838	30,303
Exchange differences	183	19	153	(8)	347
Amortisation charge	–	2,057	2,370	303	4,730
Impairment#	2,195	–	–	609	2,804
Disposal	–	–	–	(14)	(14)
Eliminations due to restatement#	–	–	–	(652)	(652)
At 31 December 2018	**18,146**	**7,293**	**11,003**	**1,076**	**37,518**
Exchange differences	(481)	(126)	(242)	(33)	(882)
Amortisation charge	–	924	1,547	394	2,865
Impairment	5,874	–	–	–	5,874
Disposal	–	–	–	(20)	(20)
At 31 December 2019	**23,539**	**8,091**	**12,308**	**1,417**	**45,355**
Net book value					
At 31 December 2017	38,148	3,177	3,395	1,025	45,745
At 31 December 2018	40,302	1,653	3,368	1,149	46,472
At 31 December 2019	**33,566**	**678**	**1,782**	**2,181**	**38,207**

#Restated, see note 2.

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

* M&C Saatchi UK Group CGU has been split into its component parts, based on the data existing in 2016 when it was reorganised, as if this happened in 2016. The CGUs marked have been affected by this allocation.
** Impaired, in the case of LIDA Ltd and M&C Saatchi PR Ltd, if we had knowledge of the prior year adjustment during the 2017 audit, and UK Group CGU has been split into its component parts (as was proposed) then a £2,770k impairment would have occurred in relation to these CGU's. This impairment has consequently been posted as a prior year adjustment (note 2).

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

Goodwill and other intangibles are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the assets may be impaired. All recoverable amounts are from future trading and not from the sale of unrecognised assets or other intangibles (i.e. their value in use).

The Group has recognised a total impairment charge of £5,874k in the year (2018, £5,093k). Of this amount £5,874k relates to Intangibles (2018: £2,804k) and £Nil (2018: £2,289k) relates to plant and equipment (note 14).

The 2019 review of Goodwill was undertaken in the last quarter of the year in conjunction with our annual business planning process; due to client losses resulting in management changes and reorganisations Clear Ideas Ltd was partially impaired and the following were fully impaired M&C Saatchi Madrid S.L., M&C Saatchi (UK) Ltd and M&C Saatchi GAD SAS. Cumulatively this has resulted in total Goodwill impairments during the year of £5,874k (2018: £2,195k).

With the exception of Clear Ideas Ltd for which a partial impairment of Goodwill has been recognised along with Talk PR Ltd and Bohemia Group Pty Ltd management are satisfied that no reasonable changes in long-term key assumptions (other than a significant loss of clients by a CGU), would cause the recoverable amount of a CGU to be below their carrying amount.

All CGU impairment reviews have been performed such that the recoverable amounts have been calculated based on Value in use calculations. The Value in use calculations have been based on future forecast profitability of each CGU for a period of one year, with residual growth rates applied thereafter to form the basis of discounted future cash flows (DCFs). Where the DCF of a CGU is not in excess of its carrying amount then an impairment loss is recognised.

Management have approved the forecasts for 2020 and have prepared additional projections based on the 2020 numbers for the next four years using a 1.5% expected growth rate. These were used as the basis for determining the recoverable amount of each CGU. In making the forecasts, management have reflected on past performance and present business and economic prospects.

In conducting the review, a residual growth rate of 1.5% has been used for all countries. Market betas of 1.0 for UK, 1.09 for Europe, 1.0 for Americas and 1.2 for rest of the world have been utilised.

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

Key assumptions	Residual growth rates 2019 %	Residual growth rates 2018 %	Pre-tax discount rates 2019 %	Pre-tax discount rates 2018 %
UK	**1.5**	3	**12–15**	11–12
Asia and Australia	**1.5**	3	**14–17**	13–17
Middle East	**1.5**	3	**12**	10–13
India*	**1.5**	3	**17**	20
South Africa*	**1.5**	3	**23–24**	23–24
Europe	**1.5**	3	**11–13**	12–16
Americas	**1.5**	3	**12–13**	12–13

The key inputs to the Goodwill impairment reviews are the annual profit forecasts and the discount rates applied to measure the present value of the future forecast cash flows. The sensitivity of the CGUs held as at 31 December 2019 subsequent to the impairments described above are presented below.

	Annual profit forecast reduced by			
Discount rates increased by	–%	10%	20%	30%
–%	-	-	-	-
1%	-	-	-	342
3%	-	-	716	2,087
5%	279	1,057	2,537	4,478

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

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

13. Investments in associates and joint ventures

Policy

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but has neither control nor joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Carrying value
The carrying value of an equity accounted investment comprises the Group's share of net assets and purchased goodwill and is assessed for impairment as a single asset. The carrying amounts of the Group's equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment.

The Group invests in associates and joint ventures, either to deliver its services to a strategic marketplace or to gain strategic mass by being part of a larger local or functional entity.

As described in note 23, towards the end of 2018 the Board finalised plans to dispose of Blue 449. This investment was sold at the start of 2019 and was therefore held as a current asset as at 31 December 2018.

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

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

The Group also holds a 10% equity stake in a Lebanese branch. As at the end of the year this has a carrying value of £NIL (2018; £NIL).

All shares in associates are held by subsidiary companies and have no special rights. Where an associate has the right to use our brand name we hold the right to withdraw such use to prevent it being lost and protect it from damage.

Split of income statement	Note	2019 £000	2018 £000
Profit net of cost of disposal	23	**12,980**	–
Impairment of associate**		**(5,210)**	(674)
Share of profit after taxation		**230**	2,825
At 31 December		**8,000**	2,151

	2019 £000	2018 £000
At 1 January	**22,589**	19,725
Exchange movements	**(617)**	237
Acquisition of associates*	–	904
Impairment of associate**	**(5,210)**	(674)
Dividends	**(2,928)**	(428)
Disposal	**(10,284)**	–
Share of profit after taxation	**230**	2,825
At 31 December	**3,780**	22,589

* Acquisition of Technology, Humans and Taste LLC.
** In 2019, due to a reduction in economic activity, an impairment review was carried out and £5,210k of the carrying value of M&C Saatchi (Hong Kong) Limited (trading in China as AEIOU).

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

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

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

14. Plant and equipment

Policy

Tangible fixed assets are stated at historical cost less accumulated depreciation.

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

Depreciation is calculated at the following annual rates:

Leasehold improvements	- Lower of useful life and over the period of the lease
Furniture and fittings	- 10% straight-line basis
Computer equipment	- 33% straight-line basis
Other equipment	- 25% straight-line basis
Motor vehicles	- 25% straight-line basis

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

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

	Leasehold improvements £000	Furniture, fittings and other equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost					
At 31 December 2017#	9,185	7,339	7,722	198	24,444
Reclassifications	(641)	425	(990)	–	(1,206)
Exchange differences	(14)	22	37	(11)	34
Additions	1,556	853	2,155	73	4,637
Acquisition of subsidiaries	50	77	8	–	135
Disposals	(253)	(62)	(232)	(152)	(699)
Restatement eliminations#	(1,061)	(3,127)	(3,079)	–	(7,267)
At 31 December 2018#	**8,822**	**5,527**	**5,621**	**108**	**20,078**
Exchange differences	(215)	(170)	(149)	(4)	(538)
Additions*	2,166	409	1,489	27	4,091
Disposals	(474)	(379)	(852)	(65)	(1,770)
At 31 December 2019	**10,299**	**5,387**	**6,109**	**66**	**21,861**
Depreciation					
At 31 December 2017#	4,065	4,908	5,545	98	14,616
Reclassifications	(534)	236	(924)	4	(1,218)
Exchange differences	10	38	43	(5)	86
Depreciation charge	1,060	784	1,162	31	3,037
Disposals	(187)	(18)	(210)	(114)	(529)
Impairments#	929	680	680	–	2,289
Restatement eliminations#	(1,061)	(3,127)	(3,079)	–	(7,267)
At 31 December 2018#	**4,282**	**3,501**	**3,217**	**14**	**11,014**
Exchange differences	(119)	(133)	(127)	(1)	(380)
Depreciation charge	1,265	850	1,245	30	3,390
Disposals	(598)	(241)	(739)	(40)	(1,618)
At 31 December 2019	**4,830**	**3,977**	**3,596**	**3**	**12,406**
Net book value					
At 31 December 2017	5,120	2,431	2,177	100	9,828
At 31 December 2018	**4,540**	**2,026**	**2,404**	**94**	**9,064**
At 31 December 2019	**5,469**	**1,410**	**2,513**	**63**	**9,455**

Restated, see note 2 and narrative within this note
* Included within fixed asset additions during 2019 are amounts relating to ongoing refurbishment of the Group's UK offices. These items represent assets under construction and have the following carrying amount as at the point of addition and as at 31 December 2019; Leasehold improvements £570k, Furniture and fittings £40k and Computer equipment £20k.

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

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

	Note	2019 £000	2018 £000
From plant and equipment		3,390	3,037
From right-of-use assets	15	9,059	–
		12,449	3,037

15. Leases

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

Policy

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

Right-of-use assets and lease liabilities

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

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

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

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

Lease term

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

Lease payments

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

Lease modifications

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

Subleases

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

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

Short-term leases and leases of low-value assets

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

Significant estimates relating to leases

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

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

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

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

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

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

Following are the amounts recognised in profit or loss:

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

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

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

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

16. Financial assets at fair value through profit and loss (FVTPL)

Policy

The Group holds certain unlisted equity investments which are classified as financial assets at FVTPL. These investments are initially recognised at their fair value. At the end of each reporting period the fair value is reassessed with gains or losses being recognised in the income statement.

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

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

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

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

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

17. Borrowings

Policy

Loans and overdrafts are recognised initially at fair value, less attributable transaction costs. Subsequently loans and overdrafts are recorded at amortised cost with interest charged to the income statement under the Effective Interest Rate (EIR) method. Where there is a significant change to the future cash flows the EIR is reassessed with a corresponding change in the carrying amount of the amortised cost. The change in the carrying amount is recognised in profit or loss as income or expense.

Interest payable is included within accruals as a current liability.

The Group uses an invoice discounting facility secured against pledged trade receivables. As the Group retains the risk and rewards of the trade receivables pledged in terms of the business model of 'hold to collect' the Group continues to recognise these trade receivables with amounts drawn on the facility treated as a current liability at amortised cost.

From 1 January 2019 leases are shown on balance sheet and in notes separately and re not shown within this note. Details of our lease liability and its movements can be found in note 15.

Amounts due within one year

	2019	2018
At 31 December	**£000**	£000
Obligations under finance leases	–	(7)
Overdrafts*	**(14,472)**	(11,754)
Local bank loans	**(340)**	(298)
Secured bank loans	**(35,640)**	–
Invoice discounting**	–	(2,001)
	(50,452)	(14,060)

* These overdrafts are legally off settable with a net balance of £NIL (2018: £NIL;, however, they have not been netted off in accordance with IAS32.42.
** During 2019 the Group elected to cease utilisation of the invoice discounting facility. As at the prior year balance sheet date, £3.0m was not drawn under this facility. Interest was charged at 1.75% per annum on amounts drawn.

Amounts due after one year

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

Secured bank loans
At the year end, the Group had a banking facility of up to £36m (2018: £38m) plus a £5.0m (2018: £5.0m) overdraft facility. The facility has a floating rate of interest set at 1.75% above LIBOR and the overdraft has floating rates of interest set at 1.75% above the Bank of England base rate. The banking facilities were set to mature on 30 April 2020; it has subsequently been extended to 30 June 2021, with the interest margins increasing to 3.00% above LIBOR for banking facility and the overdraft interest margin set at 3.25% above the Bank of England base rate. In return for the facility the Group gave the bank guarantees over key UK, US, Dutch and Australian companies.

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

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

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

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

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

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

	Gross secured bank loans £000	Local bank loans £000	Invoice discounting** £000	Total* £000
At 1 January 2018	(37,658)	(1,017)	(2,915)	(41,590)
Cash movements	(329)	690	914	1,275
Non-cash movements				
– Foreign exchange changes	(515)	11	–	(504)
At 31 December 2018	(38,502)	(316)	(2,001)	(40,819)
Cash movements	2,401	(213)	2,001	4,166
Non-cash movements	–	–	–	–
– Foreign exchange changes	424	27	–	474
At 31 December 2019	(35,677)	(502)	–	(36,179)

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

18. Potentially issuable shares

This disclosure note is new in the year and is not a statutory requirement. It summarises information relating to all share schemes disclosed in notes 19 and 20.

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

Total future expected share issues as at 31 December 2019

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

Profile of future expected share issues by year

Shares	2020 '000	2021 '000	2022 '000	2023 '000	2024 '000
IFRS 2 schemes	6,381	3,607	7,932	3,611	4,405
IFRS 9 schemes	3,645	–	1,938	144	–
Committed associate acquisitions	5,323	–	–	–	–
Total - by year	15,349	3,607	9,870	3,755	4,405
Total IFRS 2 schemes	25,936				
Total IFRS 9 schemes	5,727				
Committed associate acquisitions	5,323				
Total – all years	36,986				

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

Effect of a change in share price

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

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

Share issued in 2020

Since 1 January 2020 a total of 22,320k shares have been issued to fulfil IFRS 2 and IFRS 9 put option schemes (put options). These shares were issued at an average share price of 32.8p. Had these put options been issued at the year-end share price of 124p, only 5,273k shares would have been issued, which would result in a further 9,273k shares still required to be issued in the remainder of 2020 (based on an issue price of 124p) to settle all put option obligations for 2020. If all the remaining put option obligations for 2020 were to be settled by issuing shares at 62p, a further 14,718k shares would have to be issued in the remainder of 2020.

We have recently negotiated new terms with certain holders of put options with the result that a very significant proportion of the put options that were due to be issued in the remainder of 2020, will now be deferred to and issued in later years, thereby reducing the immediate requirement to issue further shares in 2020.

19. Minority shareholder put option liabilities

Policy – See below but also Basis of Preparation note on page 2

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

Upon exercise of an award by a holder the liability is extinguished, and the associated minority interest put option reserve is transferred to the non-controlling interest acquired reserve.

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

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

The critical judgement as to when a share award scheme is accounted for as a put option liability is provided in detail on page 5. Such schemes should be considered as rewards for future business performance which are not conditional on the holder being an employee of the business. This judgement was re-examined during this audit, the resulting tables reflect all awards that remain following this restatement. All remaining schemes are payable in equity, the number of future shares to issue is variable and will depend on the share price and future performance of the business. These are accounted for as a liability under IFRS 9 and held on the balance sheet at amortised cost.

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

Restated

	2019 £000	2018# £000
At 1 January (restated)	**(13,764)**	(13,181)
Exchange difference	**(188)**	(11)
Additions	**–**	(174)
Exercises	**9,672**	2,717
Income statement charge due to:		
– Change in profit estimates	(2,512)	(3,545)
– Change in share price	(237)	419
– Amortisation of discount	(72)	11
Total income statement charge	**(2,821)**	(3,115)
At 31 December	**(7,101)**	(13,764)

Put options exercised in year	2019 £000	2018# £000
Paid in equity	**6,665**	2,717
Paid in cash	**3,265**	–
Exchange difference	**(258)**	–
Total	**9,672**	2,717

Restated

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

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

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

Put options are exercisable from year ended 31 December:

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

20. Share-based payments

Policy

Certain of the Group's subsidiaries' local entrepreneurs (who are Minority Interests of the Group) have the right to a put option over the equity they hold in the relevant subsidiary or a cash settlement feature. This put option is dependent upon the holders' continued employment by the group or that the holder received the option as a result of employment and is redeemable either in shares of M&C Saatchi plc or by means of a cash payment to the holder. As such these schemes are accounted for under IFRS 2 as equity-settled share-based payments to employees or as cash-settled share-based payment schemes.

Equity-settled share-based payment schemes

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

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

The fair value of the awards is calculated by means of a Monte Carlo model with inputs made in terms of the plc share price at date of grant, risk free rate, historic volatility of share price, dividend yield and time to vest.

Upon exercise of the awards the nominal value of the shares issued is credited to share capital with the balance to retained income.

Cash-settled share-based payment schemes

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

The critical judgement as to when a share award scheme is accounted for as an IFRS 2 Share-based payment is provided in detail on page 5. Such schemes should be considered as rewards for future business performance which are conditional on the holder being an employee of the business.

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

	2019	2018
Share price at grant	£0.90 – £1.92	£2.88 – £3.90
Expected volatility	53% – 87%	29% – 34%
Risk free rate	0.52% – 0.70%	0.72% – 1.11%
Dividend yield	0% – 3%	2% – 3%
Fair value of award per share	£0.90 – £1.92	£1.54 – £3.73

The weighted average share price of options exercised during the period was £3.05 (2018, £3.67).

Expense recognised in the year:

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

Restated
* As explained in note 2 these instruments were previously considered to be composed entirely of market-based performance conditions. The recognition that these items have non-market based performance conditions means their cost to the business requires reassessment at each period end. As at the end of 2018 the 2019 expense related to these schemes was expected to be £4,168k (2018: £6,104k). Reassessment of the cost to the business has consequently resulted in an increase of staff costs of £6,098k (2018: £10,760k prior year adjustment).
** As explained in note 2 some of our South African subsidiaries have unwritten cash based awards that are paid out on an employee's departure.

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

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

Fully vested – re-classified put option liability
As part of the re-examination of the judgement if an award is a put option liability (IFRS 9) or a share-based payment (IFRS 2, note 20), the following awards were redefined as share-based payments. All such awards had vested before the comparative period, apart from reversing the put option liability and asset (note 2), no additional charge was incurred as a share-based payment in these accounts.

M&C Saatchi Marketing Arts Ltd
M&C Saatchi (M) SDN BHD
FCINQ SAS
M&C Saatchi Sport & Entertainment LLP -NY
M&C Saatchi Sport & Entertainment PTY LTD
Talk PR Ltd
M&C Saatchi Brazil Cominicação LTDA
M&C Saatchi PR LLP (UK)
The Source (W1) LLP
M&C Saatchi Agency Pty Ltd
Influence Communications Ltd
RE Team Pty Ltd

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

21. Issued share capital

Allotted, called up and fully paid

Policy

Ordinary shares are classified as equity. Incremental costs attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from proceeds.

Where the Group reacquires its own equity instruments (treasury shares), the consideration paid is deducted from equity attributable to owners of the Group and recognised within the treasury reserve.

	Number of shares	1p Ordinary shares £000
At 31 December 2017	81,332,802	813
Exercise of Mobile USA share options	1,979,782	20
Acquisition of 51% of Scarecrow Communications Ltd	450,639	5
Acquisition of 20% M&C Saatchi Merlin Ltd	250,760	3
Acquisition of 40.3% M&C Saatchi PR UK LLP	1,221,979	12
Acquisition 53% of Red Hare Ltd	1,320,324	13
Contingent consideration Levergy Marketing Agency Pty Ltd	117,733	1
Acquisition 24.5% LIDA NY LLP	315,681	3
Acquisition 10% M&C Saatchi Advertising GmbH	514,947	5
Acquisition of small percentages of US and Swedish subsidiaries	98,906	1
At 31 December 2018	87,603,553	876
Exercise of M&C Saatchi Mobile share options	1,785,527	18
Acquisition of 10% of M&C Saatchi SPA	825,755	8
Acquisition of 10% of M&C Saatchi Merlin Ltd	131,501	1
Acquisition of 33% of Shepardson Stern & Kaminsky LLP	1,048,747	11
Acquisition 10% M&C Saatchi (M) SDN. BHD	408,115	4
Acquisition 17% of Bohemia Group Pty Ltd	1,397,613	14
Acquisition of M&C Saatchi Sports & Entertainment smaller shareholders	395,949	4
At 31 December 2019	93,596,760	936

The Group holds 485,970 (2019: 700,000) of the above M&C Saatchi plc shares in treasury.

22. Related party transactions

Key management remuneration

Key management remuneration is disclosed in note 7.

Other related parties

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

Lara Hussein has an equity interest in Brand Energy. During the year, the Group was charged, on an arm's-length basis, by Brand Energy £825k (2018: £756k), of which nil (2018: nil) was unpaid at the year end.

To assist the local directors to acquire 20% of M&C Saatchi Agency Pty Ltd in 2015, loans of AUD3.6m were issued. At the year end, the balance of the loan was AUD3.2m (2018: AUD3.2m). Other directors of Australian subsidiaries had shareholder loans to acquire equity in the subsidiaries AUD0.8m (2018: AUD0.8m), a further AUD2.4m (2018: AUD2.4m) has been advanced in shareholder loans but is not accounted for as an asset in these accounts due to its accounting as a conditional share award under IFRS 2.

In 2015 the Group lent Antoine Barthuel (France), an arm's-length interest-bearing Euro 150k loan, a further arm's-length interest-bearing Euro 150k loan was issued in 2017, the loans were paid off in the year (2018: Euro 300k at the year end). Other local directors had advances of over £10k that are outstanding at the year end, Jaimes Leggett (Australia) £26k, Katherine Griffith (USA) £19k.

Our Paris office paid on an arm's length basis a total of £48k to five family members for their services, nothing was outstanding at the year end.

The Directors of our subsidiary M&C Saatchi S.P.A have interests in two companies Be Beef Ltd and Utopia S.r.l. During the year M&C Saatchi S.P.A invoiced £790k to these companies of which £452k was outstanding at the year end, and bought £3,103k of services from these companies of which £410k was outstanding at the year end.

During the year, the Group made purchases of £295k (2018: £3,193k) from its associates. At 31 December 2019, there was nil due to associates in respect of these transactions (2018: nil). During the year, £515k (2018: £164k) of fees were charged by Group companies to associates. At 31 December 2019, associates owed Group companies £1,079k (2018: £831k).

During the year, the Company recharged its subsidiaries and indirect subsidiaries with £818k (2018: £818k) of its costs, £373k (2018: £316k) of interest.

23. Assets held for sale and disposed of in the year

Policy

Assets that meet the criteria to be classified as held for sale are measured at the lower of their carrying value and fair value less costs to sell. Any reduction in the value of the asset is recognised as an impairment. Assets meeting the criteria are presented separately as current assets on the balance sheet.

The Group classifies non-current assets as held for sale when the carrying amount will be principally recovered through its disposal as opposed to continued use. For this to be the case the asset must be available for immediate sale and the sale must be highly probable.

An asset classified as held for sale will have its contribution to the income statement shown separately where such an asset meets the definition of a discontinued operation.

	2019	2018
Cost		
As at 1 January	**13,106**	–
Non-current assets classified as held for sale	**–**	13,106
Reduction in carrying value due to dividend declared	**(2,822)**	–
Disposal of non-current assets held for sale	**(10,284)**	–
At 31 December	**–**	13,106

During the course of 2018 the Group decided to commence a plan for the disposal of the 24.9% equity investment held in Walker Media Limited (trading as Blue 449). Consequently, at the end of 2018 this equity investment was presented as a current asset held for sale.

On 1 February 2019 the Company announced that terms had been agreed for Publicis Groupe to acquire this equity investment for £25.0m The consideration was payable in cash on 31 January 2019. Due to the sale £1.7m was paid in fees.

Prior to completion of the sale of the equity interest held, a dividend was declared to the Group for a total of £2.8m. As a result of this dividend being declared, a gain of £13.0m arose subsequent to completion of the transaction.

The gain arising on the disposal is as detailed below:

	2019 £000	2018 £000
Consideration received in cash	**25,000**	–
Carrying amount of investments held-for-sale	**(10,284)**	–
Legal costs	**(1,736)**	–
Gain on sale before income tax	**12,980**	–
Income tax credit	**281**	–
Gain on sale after income tax	**13,261**	–

24. Post balance sheet events

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

Following the announcement of the accounting misstatements, the Financial Conduct Authority opened an investigation into the circumstances surrounding how this matter occurred with which the Company is assisting.

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

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

The economic downturn caused by the Covid-19 pandemic has affected the revenue of most Group companies. However, the Group's business continuation plans worked and we continue to service clients and win clients. We have cut costs to reduce the long-term economic effects of Covid-19 pandemic, however the effects on our associates and cash generating units are different. This along with our strategic plan and other local opportunities and threats will result in the carrying values of our Investments and Goodwill potentially being different at 2020 year-end than at 2019. If economic effects of Covid-19 pandemic continue into the long term then many of our Goodwill CGUs (in particular Bohemia Group Pty Ltd, M&C Saatchi Sport & Entertainment Ltd and Talk PR Ltd), or Investments (in particular M&C Saatchi (Hong Kong) Limited and That) may be at risk of impairment. We will do a full reassessment at the 2020 year end.

ADDITIONAL INFORMATION

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