# SIMPLICITY

WORDS 1

PICTURES 2

NUMBERS 3

# REVIEW

This has been a satisfying year.

In spite of the departure of BA, the Company saw 2006 revenues and profits rise. Units which have performed particularly well include Walker Media (our UK media buying and planning arm), M&C Saatchi offices in Los Angeles and London and Talk PR in the UK.

Of the new offices we established last year, France continues to shine and India is off to a good start with the win of Jet Airways.

The One Word Equity approach which we launched in 2006 continues to shape our thinking and our new business drive. Amid the ever growing clutter, clients are drawn to the simplicity of One Word Equity. The agency's system takes a strategic statement and cuts it down from a paragraph to a sentence, and from a sentence to a word. Once selected, the right word can direct all of a client's marketing in all directions and in all geographies.

We are not the first to worship at the shrine of simplicity. Winston Churchill said "All the great things are simple, and many can be expressed in a single word: Freedom, Justice, Honour, Duty, Mercy, Hope."

It is also comforting to have Einstein on your side "When the solution is simple, God is answering."

Elsewhere, in an understandable effort to reduce costs, many clients now rely on procurement departments to reduce advertising costs. The Company's response is universal and robust. Advertising is no way to save money. It is there, rather, to make money. A recently acquired client saw their cost per response fall by 66% when they ran an M&C Saatchi campaign. This is how advertising makes money.

One other very welcome change is the increasing number of clients who pay performance related fees.

I believe it was Bill Gates who said people overestimate changes in the next two years but underestimate changes in the next ten. The recently forecast demise of traditional media has not taken place, but digital media is increasingly taking a useful place in the advertiser's armoury. It now accounts for around 6% of all advertising expenditure.

Our most up to date research indicates that these days, clients need both digital and traditional media: customers who visit a company's website are twice as likely to make

a purchase if they arrive at the site directly i.e. by the brand name; rather than by the category that they wish to search. Traditional media leads to the brand which leads to the site which leads to the sale.

The Company's overseas expansion continue at a pace. We planted the M&C Saatchi flag in Germany and India. Good luck to them both.

Steadily, the Group is appearing on more and more worldwide new business lists. Our position between the global monoliths and the local boutiques is becoming more widely understood.

Indeed it can be argued that the Company is ideally placed in this regard. A recent story in Ad Age of America stated that "The big Ad-Agency groups are winning less new business – and losing more. Account wins for (the) five top advertising holding companies fell 5% last year... account losses jumped 12%, as agencies failed to hold on to existing business."

Today we have local assignments from many global companies. The aim, over the next few years, is to convert some of these to international accounts.

This year we are also launching a new unit, Accelerator. The plan is to build on our recent experiences with MFI and Halfords, two companies acquired by private equity houses. The needs of private equity shareholders differ from the needs of traditional management.

Accelerator will be a change agent for companies for whom speed of return is more important than a comfortable process. It will advise on all stages, from deal assessment, through the investment committee, the 100 day plan and beyond to the exit event. Accelerator will offer painfully fast implementation, where communication will be based on when it is needed, not how long it traditionally takes. The idea is that payment will be largely linked to results. So far, response to this concept has been encouraging.

Finally, it is appropriate to mark Charles Saatchi's retirement and sale of his shares in the business. Charles was the driving force behind the early growth and phenomenal success of the Saatchi brand. He made the name the global keyword for advertising and marketing. We are all honoured to run the business that inherited his vision and passion.

**Jeremy Sinclair**
Chairman

# AT A GLANCE

| | UK | Europe | US | Asia/Australia | Group |
|---|---|---|---|---|---|
| **Offices** | London | Berlin, Paris | Los Angeles, New York, | Auckland, Bangkok, Hong Kong, Kuala Lumpur, Melbourne, New Delhi, Shanghai, Singapore, Sydney, Tokyo, Wellington | |
| **Revenue (Gross Profit)** (in millions) | **£44.3** | **£2.3** | **£3.6** | **£25.7** | **£75.9** |
| | **58%** | **3%** | **5%** | **34%** | **100%** |
| Revenue compared to 2005 | +12.3% | ~ | +13.1% | +2.2% | +11.6% |
| **Profit Before Tax and** goodwill amortisation (in millions) | **£7.8** | **(£1.3)** | **(£0.3)** | **£1.6** | **£7.8** |
| **Average Employees** | **398** | **29** | **31** | **422** | **880** |
| **Disciplines** | Advertising, Media, Digital, Direct, Design, Promotion, PR, Sport & Entertainment, Luxury Brands | Advertising, Digital, Direct, Design, Promotion | Advertising, Digital, Direct | Advertising, Digital, Direct, Design, Promotion, PR | |

All reference to profit on this page and in management commentary pages 6 to 11 refers to profit excluding the amortisation of goodwill, a reconciliation to statutory profit is on page 12 and 13.

# OPERATIONS

M&C Saatchi is a global marketing services business working for clients across a wide variety of industry sectors.

The Company was founded in 1995. Starting with a strong base in the UK and Australia, we have added new agencies and disciplines in Asia, USA and Europe, employing over 800 staff in 12 countries. The Company was listed on AIM in 2004.

Our strategy has four elements.

**Market Position**
Occupying a position between large conglomerates and single-market 'boutiques' the Group provides both global capabilities and a portfolio of specialist services.

**Creative Philosophy**
The Group has a constant philosophy: Brutal Simplicity. This rigorous discipline drives everything we do, providing consistency across our agencies worldwide.

**Entrepreneurial Manager Model**
Talent is the prime source of competitive advantage. The ablest people are offered the opportunity to build agencies, with a 20-40% interest but without bearing the full entrepreneurial risks.

**Expansion and Diversification**
The Group's agencies worldwide have a strong domestic client base, but also serve international mandates, increasing our potential to grow.

Having diversified from a strong base in advertising as markets and technology have evolved, the Group currently offers a number of complementary marketing disciplines. Agencies worldwide can draw on these, choosing either single disciplines or a bespoke mix to suit each client.

By expanding geographically and functionally the capacity to win both regional and global client accounts is enhanced.

2006 was the twelfth successive year of growth in Group revenues, as well as the largest year-on-year increase since 2000. The 11.6% uplift represented a robust response to the loss of the international BA account, which made up some 7% of Group revenue in 2005. New assignments from existing clients, new business and new offices contributed to this result.

The year also marked the end of significant investment in the European network. International Projects GmbH, a new German partner, was acquired in July and that office has now been rebranded as M&C Saatchi Berlin. Since the year end, an agreement has been reached with the Zapping Group in Spain.

**UK**
Revenue grew by 12.3%, thanks to a mixture of organic growth and new business. Growth was driven by all sectors of the business.

Competitive pressures in the UK advertising industry remain strong, with significant changes to the allocation of clients communication budgets. In particular, digital media is growing. However, whatever this mix, clients will continue to need skilled people able to plan, develop and deliver creative sales messages forcefully and cost effectively through whatever are the most appropriate media: the Group's entrepreneurial culture gives us important competitive advantages over larger less flexible groups.

Significant account wins included: Kingsmill, Lucozade Energy and the European Commission (advertising); Silverjet (advertising, PR and digital media); Barclays (media and digital media). Kingsmill is an important assignment that extends the role the Group performs for Allied Bakeries. Similarly, the Lucozade assignment extends the Group's work for GSK.

# OPERATIONS

## CONTINUED

**Asia and Australia**
2006 was in some ways a disappointing year for the region overall, with revenue only 2% up and operating profit 29% down. This was despite strong performances from Australia and Malaysia, where operating profit rose by 26% and where key account wins included Australia Tourism and Celcom.

New Zealand and Singapore suffered client losses; New Zealand was forced to resign Tourism New Zealand when Australia won its own national tourism account but won Pizza Hut and Police Recruitment while Singapore (a more project-driven business) lost a number of accounts in the first half but made up some ground in the second. The start-up offices in India and Thailand incurred first full-year losses but contributed to revenue growth and 2007 began well with the winning of the Jet Airways account, which has enabled the opening of a new office in Mumbai.

Second-half performance improved significantly, and the recovery will continue into 2007.

**America**
This was a year of good progress, driven by the Los Angeles office, where revenue grew by 47% and operating profit by 95%. The office recorded an excellent new-business performance and in August won Petco, its first national account. Other important wins included City National Bank, Network Omni and the Getty Museum.

New York was hard-hit by the loss of the BA account, which had represented about 80% of its revenues. The office has been scaled back and will now be managed under the aegis of Los Angeles. It will provide a valuable service resource as and when needed by US clients.

**Europe**
For the Group in Europe, 2006 was a turning point, marking the conclusion of the investment programme financed by the Group's AIM listing, and the last year of central development costs. The region's management has been unified under Moray MacLennan.

The Paris office continued to make excellent progress, achieving its budgeted first full year's revenues and winning La Banque Postale account in December.

In March we signed purchase agreements with the Zapping Group in Spain. The Zapping Group will be able to assist clients in producing advertising, direct and digital work and placing media. M&C Saatchi's clients in Europe now include Pernod Ricard (developing into a pan-European account run from Paris), Ferrero, Yves Rocher, Bordeaux Wines, Coca Cola, Viva and Hypovereinsbank. The region generated £2.3m revenues in 2006, and is expected to move into profit in 2007.

2007 should be a year of significant growth opportunity for the Group. We continue to attract new clients on the basis of our creative excellence, the commitment of our people and our unique portfolio of services.

Conditions in the UK and Australia remain challenging. There is significant room for improvement in our offices in Asia/Pacific and New York, as well as broader opportunities for new business development and earnings growth around the world. In Asia/Pacific, we expect a more satisfactory result in the coming year. We have also taken action to reduce losses in New York and to realise the benefits of success in Los Angeles.

Our European operations should become profitable in 2007, and are well positioned for healthy growth.

Taking all these factors together, the outlook for 2007 remains in line with current market expectations.

**David Kershaw**
Chief Executive

# FINANCE

All references to profit in this section of the report refer to profit excluding the amortisation of goodwill. See pages 12 to 13 for a reconciliation to statutory profit.

**Early caution**

We started the year with some caution following the loss of the BA account in November 2005. We were also entering the second year of significant European start-up costs. The market consensus at the beginning of 2006 was that profit before tax would reduce by 25%.

A number of key account wins – particularly in the UK – got the year off to a good start. The momentum carried into the second half with further important wins, again in the UK but also in LA, allowing us to give two profit upgrades in September and December.

We believe the final result – revenue growth of 11.6% and profit before tax growth of 4.2% – shows the strength of the Group's strategy, and the ability of management and employees to recover from setbacks and deliver on their promises.

As mentioned elsewhere, 2006 was our twelfth successive year of revenue growth. This growth, with the exception of a small contribution from our acquisition in Berlin, has been totally organic.

**European investment phase completed**

We opened our first European office in Paris in September 2005. In 2006, we invested a further £1.3m (2005: £1.4m) to continue the expansion of our European presence, a key part of our strategy for future growth. 2006 was the final year of significant investment in start up costs and we are confident that 2007 will begin to show the value to the Group of the investment we have made over the last three years.

**Operating margin**

The Group's operating margin declined to 8.2% (2005: 9.1%). The decline was due to the weakness in the Asia and Australia region which as reported above had a difficult first half last year. The operating margin is also being depressed by the investment in Europe and by the losses in New York.

**Net interest & cash**

The Group's net interest increased by 10% to £1.5m (2005: £1.4m) due to both a strong treasury function and an improvement in the Group's underlying cash position.

The Group cash increased to £31.3m at 31 December 2006 (2005: £20.5m). The net inflow of cash from normal operations was £1.9m used in part to fund the acquisition of our German partner (net £0.6m) and fund the purchase of own shares (£0.8m). The balance of the improvement (£10.3m) is down to working capital timing differences at the year end close.

**Tax rate**

The Group tax rate in 2006 was 37.1% (2005: 36.1%). The Group's target tax rate is between 32% and 33% (based on the current geographical tax rate mix). The tax rate remains high, due to the trading losses incurred in the start up offices and in Asia. These tax losses will be utilised against future profits.

**Minority interest**

An important factor in the success of the Group is the equity participation of the senior managers either via a direct equity interest in their local business or via ownership of PLC shares. The profit attributable to the minorities of £1.1m (2005: £0.7m) is the profit attributable to those key managers that hold their equity interest at the local level. The most significant minority is held by the management of the Group's media planning and buying operation Walker Media. Disclosure of the Group's minorities is set out on page 61.

**Profit after tax**

The profit after tax for the Group increased by 2.5% to £4.9m (2005: £4.8m). However the increase in the profit attributable to the minorities, principally the Walker Media minority reduces the profit for the financial period (after minorities) to £3.7m (2005: £4.1m).

The headline EPS for 2006 is 6.97p (2005: 7.68p).

**Final dividend**

The board is recommending a final dividend of 2.43p per share (2005: 1.78p) which together with the interim dividend of 0.77p per share gives a full year dividend of 3.2p (2005: 2.55p) an increase of 25%. The final dividend is payable on the 11th June 2007 to shareholders on the register as at 11th May 2007.

**Jerry Wales**
Finance Director

# CONSOLIDATED P&L RECONCILIATION

| Year ended 31 December | | Note | 2006 Before amortisation £000 | 2006 Amortisation £000 | 2006 Total £000 | 2005 Before amortisation £000 | 2005 Amortisation £000 | 2005 Total £000 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | **75,877** | | **75,877** | **68,001** | | **68,001** |
| Gross Profit | | | | | | | | |
| Administrative expenses | – Ordinary | | (69,197) | – | (69,197) | (61,639) | – | (61,639) |
| | – Share based payment | | (422) | – | (422) | (185) | – | (185) |
| | – Amortisation of goodwill | | – | (1,735) | | – | (1,688) | |
| Administrative expenses | | | (69,619) | (1,735) | (71,354) | (61,824) | (1,688) | (63,512) |
| Operating profit | – Continuing operations | | 6,190 | – | 4,455 | 6,177 | – | 4,489 |
| | – Acquisitions | | 68 | – | 68 | – | – | – |
| **Operating profit** | | | **6,258** | (1,735) | **4,523** | **6,177** | (1,688) | **4,489** |
| Share of operating profit / (loss) of associates | | | 15 | – | 15 | (75) | – | (75) |
| Interest receivable | | 7 | 1,540 | – | 1,540 | 1,384 | – | 1,384 |
| Interest payable | | 8 | (41) | – | (41) | (29) | – | (29) |
| **Profit before tax** | | | **7,772** | (1,735) | **6,037** | **7,457** | (1,688) | **5,769** |
| **on ordinary activities** | Taxation on profit on ordinary activities | 9 | (2,886) | – | (2,886) | (2,690) | – | (2,690) |
| Profit on ordinary activities after taxation | | | 4,886 | (1,735) | 3,151 | 4,767 | (1,688) | 3,079 |
| Minority interests | | | (1,148) | – | (1,148) | (663) | – | (663) |
| Profit for the financial year | | | 3,738 | (1,735) | 2,003 | 4,104 | (1,688) | 2,416 |
| **Earnings per share** | | | | | | | | |
| – Basic | | 11 | 6.97p | – | 3.73p | 7.68p | – | 4.46p |
| – Diluted | | 11 | 6.89p | – | 3.69p | 7.61p | – | 4.41p |

# DIRECTORS

## EXECUTIVE DIRECTORS

**Jeremy Sinclair**
**Chairman**
Jeremy Sinclair is a founding director of M&C Saatchi. He was one of the founders of Saatchi & Saatchi in 1970, became chairman of the UK agency in 1982 and was appointed chairman of Saatchi and Saatchi International in 1986. He later became executive creative director of Saatchi & Saatchi Advertising Worldwide and Chairman of Saatchi & Saatchi plc.

**Bill Muirhead**
**Executive Director**
Bill Muirhead is a founding director of M&C Saatchi. In 1971 he was one of the first account handlers at Saatchi & Saatchi. He became Group account director and was subsequently appointed chairman of Saatchi & Saatchi Europe with additional responsibility for the London agency. In February 1994 he moved to New York as chief executive and president of Saatchi & Saatchi Advertising Worldwide.

**David Kershaw**
**Chief Executive**
David Kershaw is a founding director of M&C Saatchi. He joined Saatchi & Saatchi in 1982 after obtaining an MBA at London Business School. He became managing director in 1990 and was made chairman and chief executive of the UK agency in 1994.

**Maurice Saatchi**
**Executive Director**
Maurice Saatchi is a founding director of M&C Saatchi. He founded Saatchi & Saatchi in 1970 and became its chairman in 1980. He received a life peerage in 1996.

**Jerry Wales**
**Finance Director**
Jerry Wales is a founder member of the senior management team. He has 20 years' experience in senior finance roles in the advertising industry. Before joining M&C Saatchi in 1995, he was finance director of Chiat-Day New York.



## NON-EXECUTIVE DIRECTORS

**Lloyd Dorfman**
**Non-Executive Director**
Lloyd Dorfman is the senior independent non-executive director at M&C Saatchi. He is currently chairman of Travelex, which he founded in 1976.

**Adrian Martin**
**Non-Executive Director**
Adrian Martin is an independent non-executive director at M&C Saatchi. He is currently chief executive of Reynolds Porter Chamberlain Solicitors and a non-executive director of three other organisations. Until 2000 he was managing partner of BDO Stoy Hayward and chairman of BDO's International Policy Board.

## EXECUTIVE COMMITTEE*

**Tom Dery**
**Chairman, Asia Pacific**
Tom Dery joined in 1995 as executive chairman of M&C Saatchi in Asia Pacific. He has experience on both the client side and the agency side of the business, having worked at Qantas Airlines and Ansett. He was a founding partner of Campaign Palace and managing director of DDB Melbourne.

**Moray MacLennan**
**Chairman, Europe**
Moray MacLennan is a founding member of the senior management team. He joined Saatchi & Saatchi as a trainee in 1983 and was appointed managing director of Saatchi & Saatchi UK in 1994.

**Christine Walker**
**Chairman, Walker Media**
Christine Walker was a founding director of Ray Morgan and Partners, which was sold to Saatchi & Saatchi in 1988. She later became chief executive of Zenith Media and subsequently set up Walker Media, which started trading in 1998.

*** The executive committee is made up of the five executive directors and the three divisional chairmen.**

# COMPLIANCE

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of the Group and Company for the year ended 31 December 2006.

**Results and dividends**

The profit and loss account on pages 42 to 43 shows the result for the year.

The directors paid an interim ordinary dividend of £412,000 (2005 – £416,000) and recommend a final dividend of £1,300,000 (2005 – £965,000).

**Principal activity, trading review and future developments**

The principal activity of the Company and Group during the year was advertising and marketing services.

The review of trading and future developments is on pages 2 to 13.

The principal risk faced by the Group is the loss of clients. Our top five clients account for 27% of Group revenues, and the top 10 for 39%. However, this business profile is in line with those of our major competitors, and we continue to attract new clients on the basis of our creative excellence, the commitment of our people and our unique portfolio of services.

The other risks the Group face are financial (details of which can be seen in note 29 to the accounts), the risk that key staff leave, and the risk that regulatory and legal changes affect our trading or ownership structures.

**Financial instruments**

Details of the use of financial instruments by the Company and the Group are contained in note 29 of the financial statements.

**Charitable and political contributions**

During the year the Group made charitable donations of £52,000 (2005 – £75,000) and paid £5,000 to place a corporate advertisement in a Conservative party publication (a political donation, due to the value not equalling its market value).

## SUBSTANTIAL SHAREHOLDINGS

As at 12 April 2007 the Company had been notified by shareholders representing 3% or more of issued share capital of the following interests:

| | Number of shares | % |
|---|---|---|
| David Kershaw | 3,799,369 | 7.1% |
| Bill Muirhead | 3,799,369 | 7.1% |
| Maurice Saatchi | 3,799,369 | 7.1% |
| Jeremy Sinclair | 3,799,369 | 7.1% |
| Fidelity Investments | 5,910,119 | 11.0% |
| Aberdeen Asset Management | 3,383,000 | 6.3% |
| Herald Investment Trust plc | 3,150,000 | 5.9% |

**Directors**

The names and biographical details of the directors are given on page 14 to 15.

The directors' interest in the Company's ordinary share capital, all of which were beneficial, were as follows:

| | 31 December 2006 | | 1 January 2006 | |
|---|---|---|---|---|
| David Kershaw | 3,799,369 | 7.1% | 3,799,369 | 7.0% |
| Bill Muirhead | 3,799,369 | 7.1% | 3,799,369 | 7.0% |
| Maurice Saatchi | 3,799,369 | 7.1% | 3,799,369 | 7.0% |
| Jeremy Sinclair | 3,799,369 | 7.1% | 3,799,369 | 7.0% |
| Jerry Wales[1] | – | | – | |
| Adrian Martin | – | | – | |
| Lloyd Dorfman | 115,864 | 0.2% | 98,535 | 0.2% |

[1] On admission (14 July 2004), Jerry Wales was granted options for 282,555 (0.5%) ordinary shares exercisable from 14 July 2006 at 1p each, these options have not been exercised. Jerry Wales also had rights to up to 232,558 shares under the group's LTIP scheme, full details of this scheme can be seen in note 21.

**Events since the end of the year**

The Group acquired a Spanish Group on 8 March 2007 (see note 24). The directors are not aware of any other events since the end of the financial year that have had, or may have, a significant impact on the Group's operations, the results of those operations, or the state of affairs of the Group in future years.

## EMPLOYEES

In an attempt to retain and develop our employees, the people we recognise as being key to the Groups's success, we encourage open communication at all levels and endeavour to reward individuals by way of discretionary bonuses and long term incentives plans such as the share save scheme.

**Equal opportunities**

The Company's equal opportunities policy is not discriminate on any grounds other than someone's ability to work effectively. This policy relates to recruitment, training, pay and benefits, promotions and transfers. Specifically in the case of those with a disability we will make reasonable adjustments to working arrangements or to a physical aspect of the work place if the individual is placed at a substantial disadvantage compared to a non disabled person.

**Insurance**

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

**Payment of creditors**

The Company has no formal code of conduct dealing specifically with the payment of suppliers. However, we try to adhere to agreed payment terms, provided the required goods or services have been delivered. The average number of days of purchases of the company represented by trade creditors at 31 December 2006 is 31 days (2005 – 23 days).

**Treasury shares**

At the AGM in 2006 the directors were given the authority to purchase up to 5,420,679 of its ordinary shares. The directors will seek to renew this authority at the next AGM.

During the year the Company purchased 700,000 of its 1p ordinary shares paying £791,851 ('treasury shares'). The directors have the intention of selling these treasury shares back to the market or using them to fulfil option obligations at a later date.

**Directors' ongoing responsibilities**

The directors prepare annual financial statements which comply with the Companies Act 1985 and United Kingdom Generally Accepted Accounting Practice.

The directors ensure that these give a true and fair view of the state of affairs of the Company and Group, and of the profit or loss of the Group for that period. In preparing those financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made reasonable and prudent judgements and estimates;
- stated whether applicable accounting standards have been followed. Any material departures are disclosed and explained in the financial statements;
- prepared financial statements on a going concern basis.

The directors keep proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group. They are responsible for safeguarding the Group's assets and should therefore take all reasonable steps to prevent and detect fraud and other irregularities.

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

## AUDITORS

BDO Stoy Hayward LLP are willing to continue in office.

A resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board

**Andy Blackstone**
Company Secretary
17 April 2007

# COMPLIANCE

## CONTINUED

## STATEMENT OF COMPLIANCE

The directors seek to comply with the 2003 FRC Combined Code on the Principles of Good Governance and Code of Best Practice to the extent that is practicable for a Group of our size. Any areas of non-compliance will be addressed as the Group develops.

Our code of practice for directors' share dealings takes account of our status as an AIM-listed company. We expect, and take steps to ensure, compliance by directors and employees.

## BOARD AND BOARD COMMITTEES

The board members attended the following meetings

| | Board meetings | Audit committee meetings | Remuneration committee meetings |
|---|---|---|---|
| **Executive directors** | | | |
| Jeremy Sinclair (chairman) | 8 | – | 2 |
| David Kershaw (chief executive) | 9 | – | 2 |
| Bill Muirhead | 8 | – | 2 |
| Maurice Saatchi | 9 | – | 2 |
| Jerry Wales (finance director) | 9 | 2 | 1 |
| **Non-executives** | | | |
| Lloyd Dorfman | 9 | 2 | 2 |
| Adrian Martin | 9 | 2 | 2 |
| Total number of meetings 2006 | 9 | 2 | 2 |
| Planned meetings 2007 | 7 | 2 | 2 |

The board oversees the Group's affairs. It approves financial statements, acquisitions and disposals, authorises expenditure levels and regularly reviews management reports. Day-to-day and business management control is delegated to the executive directors. They are responsible for performance and for the implementation of Group policy. They report to the full board regularly. All formal decisions are communicated throughout the Group.

The directors are assisted in their duties by the Company secretary. They also have access to independent advice, at the Group's expense.

Lloyd Dorfman, the senior independent non-executive director, is chairman of the Travelex Group. The board believes that his independence is unaffected by the Group's trade with Travelex.

The mandate of the Group's audit committee is in line with the Combined Code requirements. Its members are the chairman, Adrian Martin and Lloyd Dorfman.

The finance director, Jerry Wales and the auditors also attend as required. It met twice during 2006. Both meetings were fully attended.

The two non-executive directors sit on the Group's remuneration committee, which is chaired by Lloyd Dorfman. It met twice during 2006. Both meetings were fully attended. Its report is on page 20 to 21.

There is no nominations committee, as we feel it is unnecessary in a Group of our size.

All executive directors have service contracts with the Group, terminable by either side on 12 months' notice.

According to the Articles the following directors will offer themselves for re-election at the next AGM:
– Bill Muirhead;
– Adrian Martin;
– Maurice Saatchi.

Directors' biographies are on page 14 to 15.

**Relationship with shareholders**
Getting high quality information to shareholders is a high priority for our directors. The chairman and chief executive summarise our trading performance and outlook in their annual reviews. We publish financial results twice a year and hold regular briefings with investment managers and institutional analysts.

## ACCOUNTABILITY

The board has overall responsibility for our internal control systems. Executive management is charged with implementing and maintaining them. The audit committee has reviewed the effectiveness of our internal controls this year. However, it should be understood that such systems can provide reasonable but not absolute assurance against material misstatement or loss.

The key features of the Group's internal control framework are described below:

**Organisational structure** – decision-making authority is always delegated to the appropriate level. To maintain accountability and acceptable levels of risk we focus on employing suitably qualified staff and ensure that everyone in the organisation understands their responsibilities.

**Information systems** – The Group's systems generate financial and operational reporting based on annual budgets and regular forecasts. The directors use these to monitor actual results and assess key performance indicators. We recognise the continuing need to review and, where appropriate, improve IT systems.

**Risk management** – We have identified specific categories of business risk and developed policies for their management and control. These policies are kept under constant review as risk and risk perceptions change.

**Quality and integrity of personnel** – The Group currently employs 880 people in 18 locations. The Group attaches great importance to the honesty and integrity of all its people. It aims to recruit and promote suitably experienced individuals and give them clearly defined roles.

**Investment appraisal** – Capital investment is not normally a significant part of our total spending, but we do monitor it closely. All major expenditure is included in the annual budget and reported to the board. The board also regularly reviews potential and actual acquisition opportunities in a manner compliant with Group strategy.

**Monitoring** – At present we do not employ an internal auditor. The board and audit committee will be reassessing this situation in the coming year.

# REWARDS

## REMUNERATION REPORT

Lloyd Dorfman and Adrian Martin are the remuneration committee.

**Policy on directors' remuneration**

Attracting and retaining high calibre executives is a key Company objective. We seek to reward them in a way that encourages the creation of value for shareholders. The committee annually reviews the remuneration packages of members of the Executive committee. Executive directors are not privy to discussions relating to their own remuneration.

**Directors' pension arrangements**

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

**Directors' contracts**

All executive directors have service contracts with twelve month notice periods. All non-executive directors have contracts with a nil to 30 day notice period dependant on the circumstances.

**Long Term Incentive Plan ('LTIP')**

The Group operates an LTIP for senior employees. No director received an LTIP award in 2006. The LTIP scheme is based on compound growth in real EPS (after all accounting charges). The scheme comes into effect if the Group achieves a 3% real annual growth rate. At this level 30% of the award is triggered, with the full award occurring if growth reaches 10%.

| Executive directors | Basic salary £000 | Bonus £000 | LTIP charge £000 | Benefits in kind[1] £000 | Other[2] £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2006** | | | | | | |
| David Kershaw | 250 | 100 | – | 48 | 38 | 436 |
| Bill Muirhead | 250 | 100 | – | 50 | 37 | 437 |
| Maurice Saatchi | 278 | 100 | – | 45 | 13 | 436 |
| Jeremy Sinclair | 278 | 100 | – | 46 | 11 | 435 |
| Jerry Wales | 185 | 100 | 68 | 27 | 44 | 424 |
| | 1,241 | 500 | 68 | 216 | 143 | 2,168 |

[1] Benefits in kind include car allowances, permanent health insurance benefits and chauffeur services.
[2] Other benefits include contributions to money purchase pension schemes.

| Executive directors | Basic salary £000 | Bonus £000 | LTIP charge £000 | Benefits in kind[1] £000 | Other[2] £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2005** | | | | | | |
| David Kershaw | 250 | – | – | 50 | 33 | 333 |
| Bill Muirhead | 250 | – | – | 53 | 37 | 340 |
| Maurice Saatchi | 250 | – | – | 50 | 40 | 340 |
| Jeremy Sinclair | 250 | – | – | 48 | 38 | 336 |
| Jerry Wales | 200 | 50 | 27 | 24 | 26 | 327 |
| | 1,200 | 50 | 27 | 225 | 174 | 1,676 |

| Non-executive directors | Basic salary £000 | Bonus £000 | Benefits in kind[1] £000 | Other[2] £000 | Total £000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2006** | | | | | |
| Adrian Martin | 35 | – | – | – | 35 |
| Lloyd Dorfman | 35 | – | – | – | 35 |
| | 70 | – | – | – | 70 |

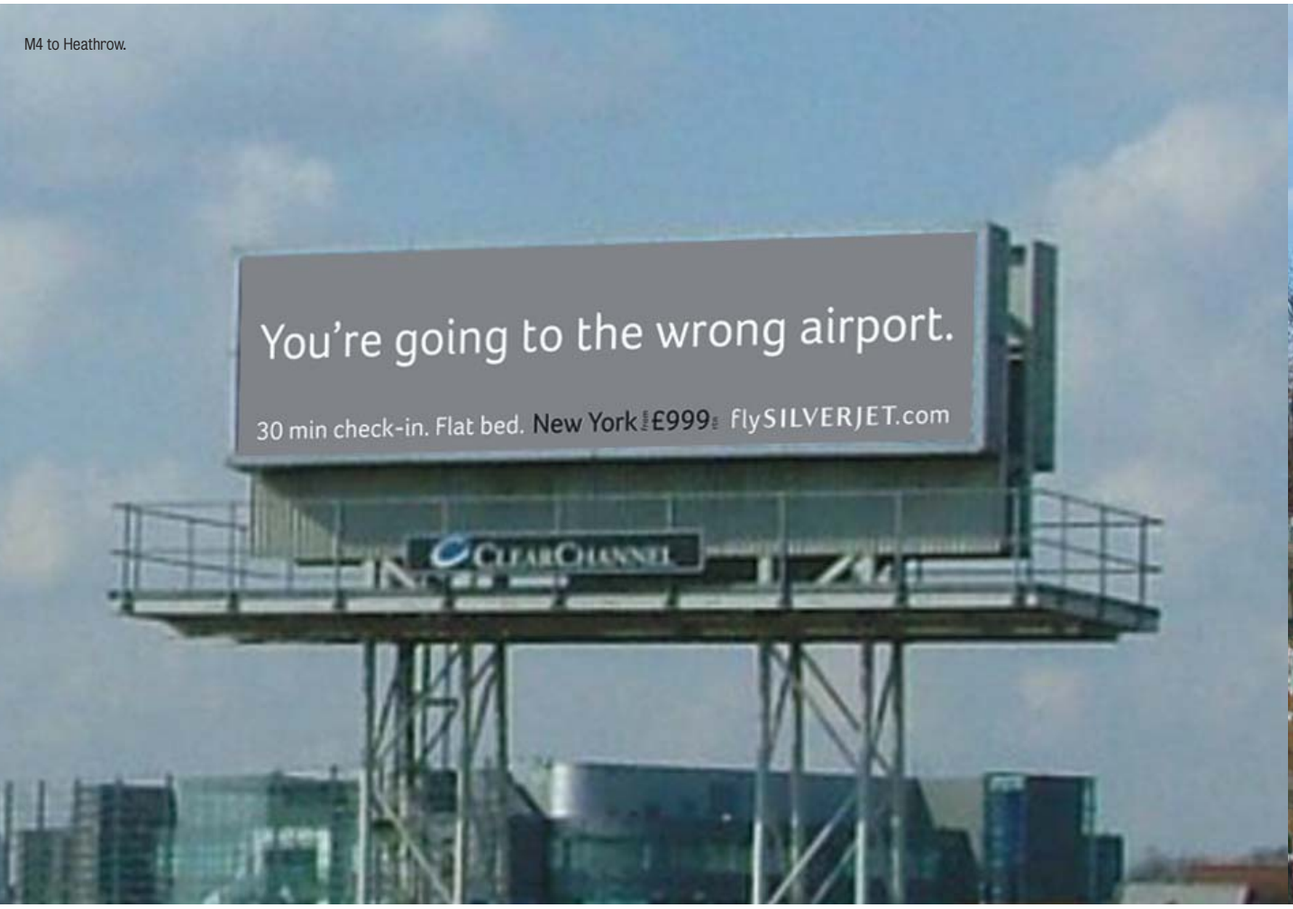
| Non-executive directors | Basic salary £000 | Bonus £000 | Benefits in kind[1] £000 | Other[2] £000 | Total £000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2005** | | | | | |
| Adrian Martin | 35 | – | – | – | 35 |
| Lloyd Dorfman | 35 | – | – | – | 35 |
| | 70 | – | – | – | 70 |

Directors' share interests and interests in options can be seen in the directors' report on page 18.

With the exception of the open market rent paid to 36 Golden Square LLP (see not 27 of the financial statements), no director of the Company has received or become entitled to receive a benefit (other than a fixed salary as a full-time employee of the Company or of a related corporation, or a benefit included in the aggregate amount of remuneration shown in the financial statements) by reason of a contract made by the Company or a related corporation of which he is a member or with a Company in which he has a substantial financial interest.

By order of the Board

**Andy Blackstone**
Company Secretary
17 April 2007




M4 to Heathrow.


Lincoln Tunnel, New York.


WE'VE MADE THE BEDS.
FILLED THE BATH.
AND GIVEN THE CROCS THE NIGHT OFF.
SO WHERE THE BLOODY HELL ARE YOU?
Australia.com

itv 1

# TRINNY & SUSANNAH UNDRESS...

RELATIONSHIPS STRIPPED BARE

Tuesday 8pm

itv.com

Sponsored by Littlewoods

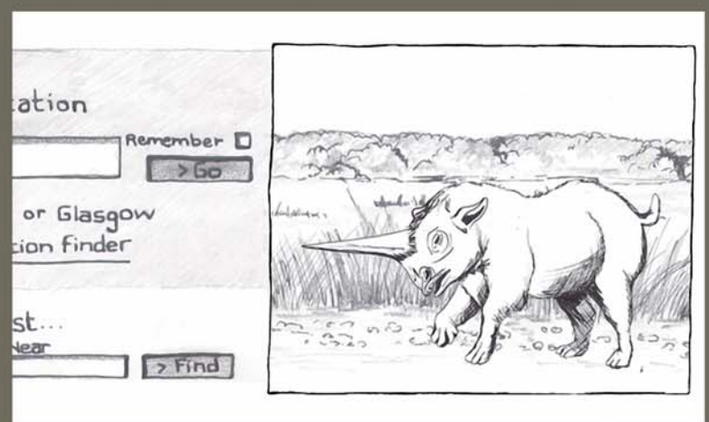

Le musée du quai Branly ouvre le 23 juin 2006.
Les cultures sont faites pour dialoguer - www.quaibranly.fr

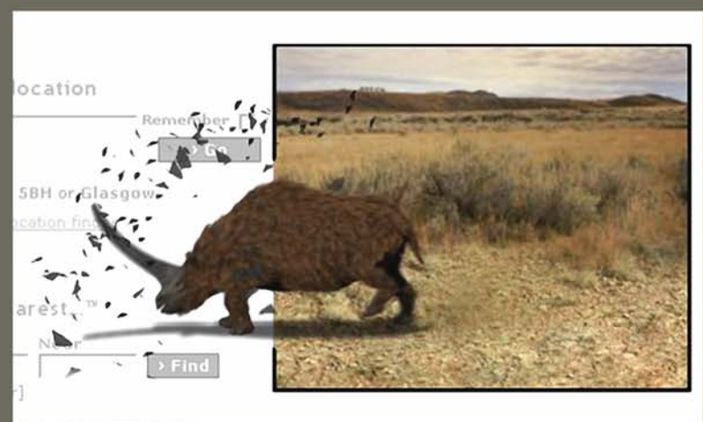
The Official Ribena Website

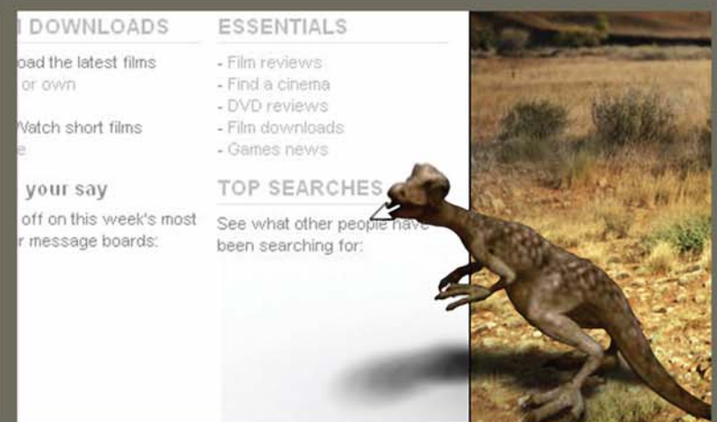


Ribena

ITV - Homepage

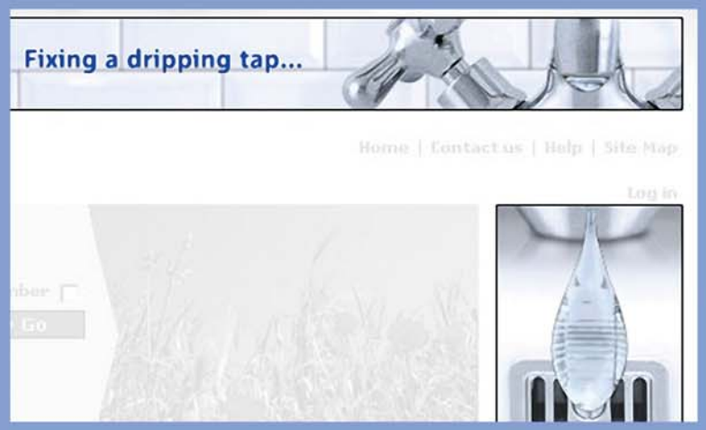



itv 1

Thames Water Utilities Limited - Official Website



Thames Water

# STATUTORY CONSOLIDATED P&L

3

| | | Note | 2006 £000 | 2005 £000 |
|---|---|---|---|---|
| Turnover | – Continuing operations | | **368,918** | 298,284 |
| | – Acquisitions | | **572** | – |
| **Turnover** | | 2 | **369,490** | 298,284 |
| Cost of sales | | 3 | **(293,613)** | (230,283) |
| **Gross profit** | | | **75,877** | **68,001** |
| **Revenue** | | | | |
| **Administrative expenses** | – Ordinary | | **(69,197)** | (61,639) |
| | – Share based payments | | **(422)** | (185) |
| | – Amortisation of goodwill | | **(1,735)** | (1,688) |
| **Administrative expenses** | | 3 | **(71,354)** | (63,512) |
| **Operating profit** | – Continuing operations | | **4,455** | 4,489 |
| | – Acquisitions | | **68** | – |
| **Operating profit** | | | **4,523** | **4,489** |
| Share of operating profit / (loss) of associates | | | **15** | (75) |
| Interest receivable | | 7 | **1,540** | 1,384 |
| Interest payable | | 8 | **(41)** | (29) |
| **Profit before tax** | | | **6,037** | **5,769** |
| **on ordinary activities** | Taxation on profit on ordinary activities | 9 | **(2,886)** | (2,690) |
| Profit on ordinary activities after taxation | | | **3,151** | 3,079 |
| Minority interests | | | **(1,148)** | (663) |
| Profit for the financial year | | | **2,003** | 2,416 |
| **Earnings per share** | – Basic | 11 | **3.73p** | 4.46p |
| | – Diluted | 11 | **3.69p** | 4.41p |
| **Headline earnings per share** | – Basic | 11 | **6.97p** | 7.68p |
| | – Diluted | 11 | **6.89p** | 7.61p |

All amounts relate to continuing activities.

The notes on pages 52 to 73 form part of these financial statements.
The reconciliation of movements in shareholders' funds is shown in note 23 to the financial statements.

# GAINS & LOSSES

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

The notes on pages 52 to 73 form part of these financial statements.

# BALANCE SHEET – CONSOLIDATED

3

| At 31 December | | Note | 2006 £000 | | 2005 £000 | |
|---|---|---|---|---|---|---|
| **Fixed assets** | Intangible assets | 12 | | **13,555** | | 14,592 |
| | Tangible assets | 13 | | **3,618** | | 3,194 |
| | Investments | 14 | | **93** | | 100 |
| | | | | **17,266** | | 17,886 |
| **Current assets** | Work in progress | 15 | **2,416** | | 3,277 | |
| | Debtors | | | | | |
| | – Due within one year | 16 | **45,988** | | 50,552 | |
| | – Due after more than one year | 16 | **1,141** | | 578 | |
| | Total debtors | | **47,129** | | 51,130 | |
| | Cash at bank and in hand | | **31,312** | | 20,486 | |
| | | | **80,857** | | 74,893 | |
| | – Creditors falling due within one year | 17 | **64,494** | | 58,969 | |
| **Net current assets** | | | | **16,363** | | 15,924 |
| | Total assets less current liabilities | | | **33,629** | | 33,810 |
| | – Creditors falling due after more than one year | 18 | | **759** | | 868 |
| | Provisions for liabilities and charges | 19 | | **350** | | 404 |
| | | | | **32,520** | | 32,538 |
| **Capital and reserves** | Share capital | 21 | | **542** | | 542 |
| | Share premium account | 22 | | **9,618** | | 9,618 |
| | Merger reserve | 22 | | **13,553** | | 14,756 |
| | Treasury shares | 22 | | **(792)** | | – |
| | Share option reserve | 22 | | **812** | | 599 |
| | Profit and loss account | 22 | | **7,625** | | 6,101 |
| | Shareholders' funds – equity | 22 | | **31,358** | | 31,616 |
| | Minority interests – equity | | | **1,162** | | 922 |
| | | | | **32,520** | | 32,538 |

These financial statements were approved and authorised for issue by the board on 18 April 2007 and signed on its behalf by:
**David Kershaw,** Chief Executive

The notes on pages 52 to 73 form part of these financial statements.

# BALANCE SHEET – COMPANY

| At 31 December | | Note | 2006 £000 | 2005 £000 |
|---|---|---|---|---|
| **Fixed assets** | Tangible assets | 13 | – | 18 |
| | Investments | 14 | **52,585** | 52,585 |
| | | | **52,585** | **52,603** |
| **Current assets** | Debtors | | | |
| | – Due within one year | 16 | **11,192** | 7,985 |
| | – Due after more than one year | 16 | **46** | 15 |
| | Total debtors | | **11,238** | 8,000 |
| | Cash at bank and in hand | | **9,054** | 10,650 |
| | | | **20,292** | 18,650 |
| | – Creditors falling due within one year | 17 | **1,406** | 1,651 |
| **Net Current Assets** | | | **18,886** | **16,999** |
| | Total assets less current liabilities | | **71,471** | 69,602 |
| | – Creditors falling due after more than one year | 18 | **75** | – |
| | Provisions for liabilities and charges | 19 | **18** | 26 |
| | | | **71,378** | **69,576** |
| **Capital and reserves** | Share capital | 21 | **542** | 542 |
| | Share premium account | 22 | **9,618** | 9,618 |
| | Merger reserve | 22 | **56,763** | 56,763 |
| | Share option reserve | 22 | **812** | 599 |
| | Treasury shares | 22 | **(792)** | – |
| | Profit and loss account | 22 | **4,435** | 2,054 |
| | Shareholders' funds – equity | 22 | **71,378** | **69,576** |

These financial statements were approved and authorised for issue by the board on 18 April 2007 and signed on its behalf by:
**David Kershaw,** Chief Executive

The notes on pages 52 to 73 form part of these financial statements.

# CONSOLIDATED CASH FLOW

3

| Year ended 31 December | Note | 2006 £000 | 2005 £000 |
|---|---|---|---|
| Cash inflow from operating activities | 30 | **18,506** | 7,046 |
| Returns on investments and servicing of finance | 31 | **543** | 933 |
| Taxation | 31 | **(3,275)** | (2,544) |
| Capital expenditure and financial investment | 31 | **(1,670)** | (1,252) |
| Acquisitions and disposals | 31 | **(628)** | (182) |
| Equity dividends paid | | **(1,377)** | (1,045) |
| Net cash inflow before financing | | **12,099** | 2,956 |
| Financing | 31 | **(866)** | (18) |
| Increase in cash in the year | 32 | **11,233** | 2,938 |

The notes on pages 52 to 73 form part of these financial statements.

# NOTES

## 1. ACCOUNTING POLICIES

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

The following principal accounting policies have been applied:

**(a) Basis of consolidation**
The consolidated financial statements incorporate the financial statements of M&C Saatchi plc and all of its subsidiary and associated undertakings made up to 31 December 2006. The Group uses the 'acquisition' or 'merger' methods of accounting to consolidate the results of subsidiary undertakings as appropriate.

Acquisition accounting
Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition to the date of disposal.

Merger accounting
Where merger accounting is used, the investment is recorded in the Company's balance sheet at the fair value of the shares issued, together with the fair value of any additional consideration paid.

In the Group financial statements, merged subsidiary undertakings are treated as if they had always been members of the Group. The results of such a subsidiary are included for the whole period in the year it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to reserves.

Goodwill
Goodwill arising on acquisition of a subsidiary is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Positive goodwill is capitalised and amortised through the profit and loss account over ten years, being the directors' estimate of its useful economic life. Impairment tests on the carrying value of goodwill are undertaken:
– at the end of the first full year following acquisition;
– in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Associates
An entity is treated as an associated undertaking where the Group has a participating interest and exercises significant influence over its operating and financial policy decisions.

In the Group financial statements, interests in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the operating results, interest, pre tax results and attributable taxation of such undertakings based on audited financial statements for the year. In the consolidated balance sheet, the interests in associated undertakings are shown as the Group's share of the net assets.

**(b) Turnover**
Turnover represents amounts invoiced to clients, excluding sales taxes, for services provided to clients.

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

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

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

(3) Third party production fees are recognised at the point the client accepts delivery of each component of a project. The amount of total project revenue allocated to each component is assessed according to the stage of completion of the project as a whole.

(4) Commission earned on production is recognised when production is complete.

(5) Commission on media spend is recognised when the advertisements appear in the media,

**(c) Work in progress**
Work in progress comprises all outlays incurred on behalf of clients which have still to be recharged, and is stated at cost, less any provisions for amounts that may not be recovered.

**(d) Intangible assets and amortisation**
Amortisation is provided to write off the cost of all intangible assets, less estimated residual values, evenly over their expected useful lives.





## 1. ACCOUNTING POLICIES CONTINUED

**(e) Fixed assets and depreciation**
Depreciation is provided to write off the cost of all fixed assets except freehold land, less estimated residual values, evenly over their expected useful lives. Depreciation is calculated at the following annual rates:

| | |
|---|---|
| Short leasehold improvements | – over the period of the lease |
| Furniture, fittings and other equipment | – 10% to 25% in equal instalments |
| Computer equipment | – 25% to 33% in equal instalments |
| Motor vehicles | – 25% in equal instalments |

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

**(g) Valuation of investments**
Investments held as fixed assets are stated at cost, less any provision for impairment.

**(h) Leased assets**
Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been bought outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are divided into capital and interest components. The interest element represents a constant proportion of the balance of capital repayments still outstanding. It is charged to the profit and loss account over the period of the lease. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Reverse premiums and similar incentives to enter into operating lease agreements are initially recorded as deferred income and released to the profit and loss account over the period to the date on which the rent is first expected to be adjusted to the prevailing market rate.

**(i) Pensions**
Contributions to personal pension plans are charged to the profit and loss account in the period in which they are due.

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

Deferred tax balances are not discounted.

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

Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the year end exchange rate or, where appropriate, the rate implied in forward contracts.

Foreign currency gains and losses are credited or charged to the profit and loss account as they arise.

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

**(l) Share based payments**
The Group chose to adopt FRS20 early in 2005.

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

# NOTES
CONTINUED

## 1. ACCOUNTING POLICIES CONTINUED

period. Where awards depend on future events we assess the likelihood of these conditions being met and make an appropriate charge at the end of each reporting period. The credit for equity settled transactions is taken to the share option reserve.

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Share based payments include options issued to employees, phantom bonuses and other long term equity linked bonuses. Payments may be in the form of cash or equity. When options are exercised, the cash received for the issued shares is taken to share capital and share premium and the related balance in the share option reserve is taken to the profit and loss reserve.

**(m) Dividends**
In accordance with FRS 21 (events after balance sheet date) the interim dividends are recorded when they are paid and the final dividends are recorded when they become legally payable.

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

## 2. TURNOVER, PROFIT AND NET ASSETS

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

| | 2006 £000 | 2005 £000 |
|---|---|---|
| **Turnover** | | |
| Analysis by geographical market: | | |
| **By origin** | | |
| UK | **306,291** | 245,926 |
| Asia and Australia | **51,995** | 45,636 |
| America | **6,802** | 6,417 |
| Europe | **4,402** | 305 |
| | **369,490** | 298,284 |

**Gross profit** **75,877**
Analysis by geographical market:

| | | |
|---|---|---|
| **By origin** | | |
| UK | **44,336** | 39,470 |
| Asia and Australia | **25,638** | 25,084 |
| America | **3,632** | 3,211 |
| Europe | **2,271** | 236 |
| | **75,877** | 68,001 |

**Operating profit / (loss) – excluding amortisation of goodwill** **6,258**
Analysis by geographical market:

| | | |
|---|---|---|
| **By origin** | | |
| UK | **6,307** | 5,811 |
| Asia and Australia | **1,496** | 2,117 |
| America | **(261)** | (322) |
| Europe | **(1,284)** | (1,429) |
| | 6,258 | 6,177 |

**Operating profit/(loss)**
Analysis by geographical market:

| | | |
|---|---|---|
| **By origin** | | |
| UK | **4,572** | 4,123 |
| Asia and Australia | **1,496** | 2,117 |
| America | **(261)** | (322) |
| Europe | **(1,284)** | (1,429) |
| | **4,523** | 4,489 |



## 2. TURNOVER, PROFIT AND NET ASSETS CONTINUED

**Profit/(loss) before taxation**
Analysis by geographical market:

| | | |
|---|---|---|
| **By origin** | | |
| UK | **6,034** | 5,318 |
| Asia and Australia | **1,558** | 2,202 |
| America | **(254)** | (319) |
| Europe | **(1,301)** | (1,432) |
| | **6,037** | 5,769 |

**Profit/(loss) before taxation – excluding amortisation of goodwill** **7,772**
Analysis by geographical market:

| | | |
|---|---|---|
| **By origin** | | |
| UK | **7,769** | 7,006 |
| Asia and Australia | **1,558** | 2,202 |
| America | **(254)** | (319) |
| Europe | **(1,301)** | (1,432) |
| | **7,772** | 7,457 |

**Net assets/(liabilities)**
Analysis by geographical market:

| | | |
|---|---|---|
| **By origin** | | |
| UK | **34,621** | 32,008 |
| Asia and Australia | **3,095** | 3,646 |
| America | **(3,032)** | (1,950) |
| Europe | **(2,164)** | (1,166) |
| | **32,520** | 32,538 |

## 3. COST OF SALES AND ADMINISTRATIVE EXPENSES

| | 2006 £000 | 2005 £000 |
|---|---|---|
| **Cost of sales** | | |
| Continuing operations | **293,512** | 230,283 |
| Acquisitions | **101** | – |
| | **293,613** | 230,283 |
| **Administrative expenses** | | |
| Continuing operations | **70,951** | 63,512 |
| Acquisitions | **403** | – |
| | **71,354** | 63,512 |

## 4. EMPLOYEES **880**

The average monthly number of employees of the Group during the year, including executive directors, was as follows:

| Group | 2006 number | 2005 number |
|---|---|---|
| Full time | **880** | 806 |

| | Note | 2006 £000 | 2005 £000 |
|---|---|---|---|
| Staff costs for all employees, including executive directors, consist of: | | | |
| Wages and salaries | | **42,279** | 36,855 |
| Social security costs | | **3,974** | 3,285 |
| Pension costs | 26 | **1,696** | 1,406 |
| | | **47,949** | 41,546 |

| Company | 2006 number | 2005 number |
|---|---|---|
| Full time | **16** | 16 |

| | Note | 2006 £000 | 2005 £000 |
|---|---|---|---|
| Staff costs for all employees, including executive directors, consist of: | | | |
| Wages and salaries | | **2,955** | 2,064 |
| Social security costs | | **280** | 258 |
| Pension costs | | **184** | 185 |
| | | **3,419** | 2,507 |

# NOTES

CONTINUED

## 5. DIRECTORS' REMUNERATION

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Total for the seven directors: | | |
| Directors' salary and benefits | **2,025** | 1,502 |
| Contributions to money purchase pension schemes | **143** | 174 |
| | **2,168** | 1,676 |

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Highest paid director: | | |
| Salary and benefits | **400** | 303 |
| Contributions to money purchase pension schemes | **37** | 37 |
| | **437** | 340 |

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

The number of directors in the money purchase pension scheme was 5 (2005 – 5).

Included within Directors' salaries and benefits is £68k (2005 – £27k) that relates to charges arising out of the group's LTIP schemes.

## 6. OPERATING PROFIT

| | 2006 £000 | 2005 £000 |
|---|---|---|
| This is arrived at after charging/(crediting): | | |
| Loss/(profit) on disposal of fixed assets | **4** | 59 |
| Charitable donations | **52** | 75 |
| Depreciation of tangible fixed assets[1] | **1,212** | 1,183 |
| Operating leases rentals | | |
| – Plant and machinery | **166** | 96 |
| – Other | **3,346** | 3,172 |
| Amortisation of goodwill | **1,735** | 1,688 |
| Auditors' remuneration | | |
| – Audit services[2] | **305** | 270 |
| – Non-audit services (other advice) | **25** | 22 |
| – Non-audit services (tax)[3] | **92** | 120 |
| Exchange differences | **116** | (83) |
| Defined contribution pensions | **1,696** | 1,406 |

(1) Depreciation includes £27k (2005 – £160k) charged on assets held under finance leases and hire purchase contracts.
(2) Audit services includes £70k (2005 – £31k) relating to the Company.
(3) Non-audit services includes £42k (2005 – £37k) relating to the Company.

## 7. INTEREST RECEIVABLE

**1,540**

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Group | **1,540** | 1,384 |
| Associates | **–** | – |
| | **1,540** | 1,384 |

## 8. INTEREST PAYABLE

**41**

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Bank overdrafts | **3** | 1 |
| Interest on finance leases | **13** | 15 |
| Associates | **8** | 6 |
| Other | **17** | 7 |
| | **41** | 29 |

## 9. TAXATION ON PROFIT FROM ORDINARY ACTIVITIES

**2,886**

| | Note | 2006 £000 | 2006 £000 | 2005 £000 | 2005 £000 |
|---|---|---|---|---|---|
| **Current tax** | | | | | |
| UK corporation tax on profit for the year | | **2,275** | | 1,991 | |
| Overseas tax payable | | **916** | | 605 | |
| Adjustment in respect of previous years | | **(68)** | | 53 | |
| Associates | | **2** | | – | |
| Total current tax | | | **3,125** | | 2,649 |
| **Deferred tax** | | | | | |
| Origination and reversal of timing differences | 20 | | **(239)** | | 41 |
| **Taxation on profit on ordinary activities** | | | **2,886** | | 2,690 |

The tax assessed for the year differs from that obtained by using the standard rate of corporation tax in the UK.

The differences are explained below:

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Profit on ordinary activities before tax | **6,037** | 5,769 |
| Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005: 30%) | **1,811** | 1,731 |
| Effects of: | | |
| Expenses not deductible for tax | **238** | 215 |
| Goodwill amortisation | **520** | 506 |
| Unrelieved losses carried forward | **292** | 204 |
| Differences between capital allowances and depreciation | **(23)** | 23 |
| Short term timing differences | **188** | (113) |
| Short term timing differences due to provision on options and phantom bonus accruals | **112** | 49 |
| Adjustment to tax charge in respect of previous years | **(69)** | 53 |
| Tax rate differences | **56** | (19) |
| Current tax charge for year | **3,125** | 2,649 |

# NOTES

CONTINUED

## 10. DIVIDENDS

**3.20p**

| | 2006 £000 | 2005 £000 |
|---|---|---|
| 2005 final dividend 1.78p (2004 – 1.16p) | **965** | 629 |
| 2006 interim dividend of 0.77p per share (2005 – 0.77p) | **412** | 416 |
| | **1,377** | 1,045 |
| Proposed 2006 final dividend 2.43p | **1,300** | |

## 11. EARNINGS PER SHARE

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

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Numerator for calculation of basic and diluted EPS profit for financial year | **2,003** | 2,416 |
| **Denominator** | | |
| Weighted average number of ordinary shares used in basic EPS | **53,677,484** | 54,206,799 |
| Sharesave options | **258,682** | 130,138 |
| Options | **411,050** | 411,050 |
| Weighted average number of ordinary shares used in diluted EPS | **54,347,216** | 54,747,987 |

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

| | | |
|---|---|---|
| **Earnings per share** | | |
| Basic | **3.73p** | 4.46p |
| Diluted | **3.69p** | 4.41p |

**Headline earnings per share**

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

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

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

| | 2006 £000 | 2005 £000 |
|---|---|---|
| **Headline earnings per share** | | |
| Basic | **6.97p** | 7.68p |
| Diluted | **6.89p** | 7.61p |
| **Numerator for calculation of basic and diluted headline EPS** | | |
| Profit for financial year | 2,003 | 2,416 |
| Goodwill amortisation | 1,735 | 1,688 |
| Loss on disposal of fixed assets | 4 | 59 |
| Earnings used for calculation of headline basic and diluted EPS | 3,742 | 4,163 |

**Denominator**

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

## 12. INTANGIBLE ASSETS

| | Goodwill £000 |
|---|---|
| 1 January 2006 | 14,592 |
| Additions | 769 |
| Amortisation | (1,735) |
| Exchange translation differences | (71) |
| **31 December 2006** | **13,555** |

Additions represent the goodwill arising on the acquisition of M&C Saatchi Berlin GmbH.

The Company had no intangible fixed assets during the year to 31 December 2006 (2005 Nil).





## 13. TANGIBLE ASSETS

| Group | Leasehold improvements £000 | Furniture, fittings & other equipment £000 | Computer equipment £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2006 | 2,059 | 3,334 | 3,965 | 121 | 9,479 |
| Additions | 637 | 417 | 640 | 3 | 1,697 |
| New acquisitions | – | 8 | 12 | – | 20 |
| Disposals | – | (23) | (48) | (119) | (190) |
| Exchange translation differences | (19) | (59) | (118) | – | (196) |
| **At 31 December 2006** | **2,677** | **3,677** | **4,451** | **5** | **10,810** |
| **Depreciation** | | | | | |
| At 1 January 2006 | 1,537 | 1,752 | 2,877 | 119 | 6,285 |
| New acquisitions | – | 2 | 4 | – | 6 |
| Provision for year | 280 | 302 | 621 | 1 | 1,204 |
| Disposals | – | (8) | (42) | (119) | (169) |
| Exchange translation differences | (2) | (42) | (91) | 1 | (134) |
| **At 31 December 2006** | **1,815** | **2,006** | **3,369** | **2** | **7,192** |
| **Net book value** | | | | | |
| **At 31 December 2006** | **862** | **1,671** | **1,082** | **3** | **3,618** |
| At 31 December 2005 | 522 | 1,582 | 1,088 | 2 | 3,194 |

The net book value of tangible fixed assets for the Group includes £62,000 (2005 – £106,000) for assets held under finance leases and hire purchase contracts. The Company held no assets under such leases.

| Company | Furniture, fittings and other equipment £000 | Computer equipment £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2006 | 13 | 8 | 21 |
| Additions | – | – | – |
| Disposals | (13) | (8) | (21) |
| **At 31 December 2006** | **–** | **–** | **–** |
| **Depreciation** | | | |
| At 1 January 2006 | 2 | 1 | 3 |
| Provision for year | 2 | 1 | 3 |
| Disposals | (4) | (2) | (6) |
| **At 31 December 2006** | **–** | **–** | **–** |
| **Net book value** | | | |
| **At 31 December 2006** | **–** | **–** | **–** |
| At 31 December 2005 | 11 | 7 | 18 |

# NOTES

## CONTINUED

## 14. INVESTMENTS

| Group | Total £000 |
|---|---|
| **Cost** | |
| At 1 January 2006 | 100 |
| Amortisation of investment | (3) |
| Exchange rate movement | (4) |
| **31 December 2006** | **93** |
| **Share of retained profits** | |
| At 1 January 2006 | – |
| Retained profit for the year | 5 |
| Transferred to provisions | (5) |
| **At 31 December 2006** | **–** |
| **Total** | |
| **At 31 December 2006** | **93** |
| At 31 December 2005 | 100 |

| Company | £000 |
|---|---|
| **Cost** | |
| At 1 January 2006 | 52,585 |
| Additions | – |
| **31 December 2006** | **52,585** |





## 14. INVESTMENTS CONTINUED

The following were subsidiary undertakings at the end of the year:

| Name | Country of Incorporation or registration | Proportion of voting rights and ordinary share capital held at 31 December 2006 | Nature of business |
|---|---|---|---|
| M&C Saatchi (UK) Limited | UK | 100% | Advertising |
| M&C Saatchi Sports and Entertainment Ltd | UK | 77.2% | Public relations |
| M&C Saatchi International Limited | UK | 100% | Holding Company |
| M&C Saatchi Marketing Arts Limited | UK | 50% | Consultancy |
| LIDA Limited | UK | 100% | Direct marketing |
| The Immediate Sales Company Limited | UK | 86.0% | Marketing |
| Talk PR Limited | UK | 78.1% | Public relations |
| Influence Communications Limited | UK | 85% | Advertising |
| Provenance Communication Ltd | UK | 65% | Advertising |
| M&C Saatchi Europe Holdings Ltd | UK | 96% | Holding Company |
| Walker Media Holdings Limited | UK | 75% | Holding Company |
| Walker Media Limited | UK | 75% | Media buying |
| M&C Saatchi Worldwide Limited | UK | 100% | Holding Company |
| M&C Saatchi International Holdings BV | UK Branch | 100% | Holding Company |
| M&C Saatchi Agency Pty Limited | Australia | 100% | Advertising |
| M&C Saatchi Direct Pty Limited | Australia | 100% | Direct marketing |
| Go Studios Pty Limited | Australia | 100% | Advertising |
| Bright Red Oranges Pty Limited | Australia | 100% | Advertising |
| M&C Saatchi Asia Pac Holdings Pty Ltd | Australia | 100% | Holding Company |
| Open Dialogue PR Pty Limited | Australia | 80% | Public relations |
| M&C Saatchi (Hong Kong) Limited | Hong Kong | 100% | Advertising |
| M&C Saatchi (Hong Kong) Limited | Taiwan Branch | 100% | Advertising |
| M&C Saatchi Consulting (Shanghai) Limited | China | 100% | Consultancy |
| M&C Saatchi Agency (S) Pte Limited | Singapore | 100% | Advertising |
| M&C Saatchi Limited | New Zealand | 100% | Advertising |
| M&C Saatchi Limited | Japan | 64% | Advertising |
| M&C Saatchi Communications Pvt. Ltd | India | 67% | Advertising |
| M&C Saatchi Agency Inc | USA | 96% | Advertising |
| M&C Saatchi LA Inc | USA | 84% | Advertising |
| M&C Saatchi GAD SAS | France | 76% | Advertising |
| M&C Saatchi Berlin GmbH | Germany | 80% | Advertising |

# NOTES
CONTINUED

## 14. INVESTMENTS CONTINUED

**Associates**
The amounts included in the consolidated profit and loss account and balance sheet represent the Group's share of the profits and net liabilities of Play London Ltd, a UK incorporated digital marketing company in which the Group owns 50% of the ordinary shares and voting rights, as follows:

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Share of turnover | **508** | 229 |
| Share of profit/ (loss) before tax | **7** | (81) |
| Share of taxation | **(2)** | – |
| Share of profit/ (loss) after tax | **5** | (81) |
| Share of fixed assets | **8** | 2 |
| Share of current assets | **188** | 128 |
| Share of current liabilities | **(272)** | (211) |
| Share of net liabilities | **(76)** | (81) |

## 15. WORK IN PROGRESS

| | 2006 Group £000 | 2006 Company £000 | 2005 Group £000 | 2005 Company £000 |
|---|---|---|---|---|
| Work in progress | **2,416** | **–** | 3,277 | – |

## 16. DEBTORS

| | Note | 2006 Group £000 | 2006 Company £000 | 2005 Group £000 | 2005 Company £000 |
|---|---|---|---|---|---|
| Due within one year: | | | | | |
| Trade debtors | | **40,367** | **–** | 46,242 | – |
| Amount due from subsidiary undertakings | | **–** | **10,360** | – | 7,621 |
| Amount due from associates | | **–** | **–** | 229 | – |
| Other debtors | | **1,671** | **785** | 1,455 | 354 |
| Prepayments and accrued income | | **3,950** | **47** | 2,626 | 10 |
| | | **45,988** | **11,192** | 50,552 | 7,985 |
| Due after more than one year: | | | | | |
| Deferred tax asset | 20 | **693** | **46** | 354 | 15 |
| Other debtors | | **448** | **–** | 224 | – |
| | | **1,141** | **46** | 578 | 15 |

## 17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2006 Group £000 | 2006 Company £000 | 2005 Group £000 | 2005 Company £000 |
|---|---|---|---|---|
| Unsecured bank overdraft | **39** | **–** | 29 | – |
| Trade creditors | **36,699** | **102** | 31,345 | 67 |
| Other creditors | **1,285** | **2** | 2,909 | 7 |
| Deferred consideration | **67** | **–** | – | – |
| Amounts due to subsidiary undertakings | **–** | **306** | – | 1,229 |
| Tax and social security | **2,919** | **–** | 2,760 | – |
| Corporation tax | **1,035** | **–** | 1,612 | – |
| Obligations under finance leases and hire purchase contracts | **23** | **–** | 92 | – |
| Accruals and advanced billings | **22,427** | **996** | 20,222 | 348 |
| | **64,494** | **1,406** | 58,969 | 1,651 |

## 18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2006 Group £000 | 2006 Company £000 | 2005 Group £000 | 2005 Company £000 |
|---|---|---|---|---|
| Other creditors | **730** | **75** | 832 | – |
| Obligations under finance leases and hire purchase contracts | **8** | **–** | 36 | – |
| Bank Loans | **21** | **–** | – | – |
| | **759** | **75** | 868 | – |

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

| Group | 2006 £000 | 2005 £000 |
|---|---|---|
| In one year or less, or on demand | **23** | 92 |
| In more than one year but not more than two years | **3** | 34 |
| In more than two years but not more than five years | **5** | 2 |
| | **31** | 128 |

## 19. PROVISIONS FOR LIABILITIES AND CHARGES

| Group | Deferred taxation £000 | Share based payments £000 | National Insurance £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|
| At 1 January 2006 | 21 | 220 | 82 | 81 | 404 |
| Transfer to creditors | – | (220) | – | – | (220) |
| Charge to the profit & loss account | 120 | – | 51 | (5) | 166 |
| Paid in the year | – | – | – | – | – |
| **At 31 December 2006** | **141** | **–** | **133** | **76** | **350** |

### 19. PROVISIONS FOR LIABILITIES AND CHARGES CONTINUED

| Company | Deferred taxation £000 | Share based payments £000 | National Insurance £000 | Total £000 |
|---|---|---|---|---|
| At 1 January 2006 | – | 21 | 5 | 26 |
| Transfer to creditors | – | (21) | – | (21) |
| Charge to the profit & loss account | 1 | – | 12 | 13 |
| Paid in the year | – | – | – | – |
| **At 31 December 2006** | **1** | **–** | **17** | **18** |

The transfer to creditors represents the share-based payment provision being moved to creditors in the current year.
The provision for national insurance relates to the national insurance payable on share options and other share based payments.

## 20. DEFERRED TAXATION

The amounts of provided deferred taxation are as follows:

| Group | Note | Deferred taxation £000 |
|---|---|---|
| **At 1 January 2006 in provisions** | 19 | 21 |
| At 1 January 2006 in long-term debtors | 16 | (354) |
| | | (333) |
| Exchange translation differences | | 20 |
| Credited to profit and loss account | 9 | (239) |
| **At 31 December 2006** | | **(552)** |
| At 31 December 2006 in provisions | 19 | 141 |
| At 31 December 2006 in long-term debtors | 16 | (693) |
| **At 31 December 2006** | | **(552)** |

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Accelerated capital allowances | 25 | 4 |
| Future relief against tax losses | (58) | – |
| Provision on options & phantom bonus accruals | (374) | (263) |
| Sundry timing differences | (145) | (74) |
| | (552) | (333) |

### 20. DEFERRED TAXATION CONTINUED

The Group has £213,000 of unprovided deferred taxation that relates to tax losses.

| Company | Note | Deferred taxation £000 |
|---|---|---|
| At 1 January 2005 in long-term debtors | 16 | (15) |
| Credited to profit and loss account | 9 | (31) |
| **At 31 December 2006** | | **(46)** |
| At 31 December 2006 in long-term debtors | 16 | (46) |
| **At 31 December 2006** | | **(46)** |

| | **2006 £000** | 2005 £000 |
|---|---|---|
| Accelerated capital allowances | **–** | (4) |
| Provision on options & phantom bonus accruals | **(46)** | (11) |
| | **(46)** | (15) |

The Company has no unprovided deferred taxation.

## 21. SHARE CAPITAL AND TREASURY SHARES

| | **2006 Company £000** | 2005 Company £000 |
|---|---|---|
| Authorised<br>200,000,000 ordinary shares of 1p each | **2,000** | 2,000 |

| | **2006 Company £000** | 2005 Company £000 |
|---|---|---|
| Allotted, called up and fully paid<br>54,206,799 ordinary shares of 1p each | **542** | 542 |
| | **542** | 542 |

| | **2006 Company £000** | 2005 Company £000 |
|---|---|---|
| Held in treasury<br>3 October 2006 – 700,000 ordinary shares of 1p each for 113p | **792** | – |
| | **792** | – |

## 21. SHARE CAPITAL AND TREASURY SHARES CONTINUED

**Potential issues of ordinary shares**
**Options**
Certain employees hold options for 411,050 ordinary shares exercisable (without condition) from 14 July 2006, at 1p. These nominal value options had a value equal to the share price less the exercise price and the expected dividend at the date they were issued (14 July 2004).

| | |
|---|---|
| Grant and vesting date | 14 July 2004 |
| Share price at grant date | £1.25 |
| Exercise price | £0.01 |
| Number of employees | 2 |
| Shares under option | 411,050 |
| Dividend yield | 1.9% |
| Risk free rate | 4.25% |

Given the difference between the grant price & exercise price, volatility has an immaterial effect on the calculation and thus has been ignored.

**Sharesave**
UK based employees have been able to participate in a Sharesave scheme. The scheme has issued 258,682 options exercisable in 2008. The fair value of the options was calculated using the Black-Scholes option-pricing model.

| | |
|---|---|
| Grant date | 1 July 2005 |
| Share price at grant date | £1.255 |
| Exercise price | £1.260 |
| Number of employees | 56 |
| Shares under option | 258,682 |
| Vesting period (years) | 3 |
| Volatility | 17.1% |
| Dividend yield | 1.9% |
| Risk free rate | 4.75% |
| Possibility of ceasing employment | 0.00% |
| Fair value per option | £0.244 |

The expected volatility is based on the historic volatility of available M&C Saatchi share price data (from flotation on AIM 14 July 2004 to issue date). Risk free rate is the base rate at time of issue.

| | Number of options |
|---|---|
| At 1 January 2005 | 670,639 |
| Additions | – |
| Reductions due to staff leaving | (907) |
| **At 31 December 2006** | **669,732** |

| Year of grant | Description | Exercise price pence | Exercise period | 2006 | 2005 |
|---|---|---|---|---|---|
| 2004 | Options | 1 | 2006-2014 | 411,050 | 411,050 |
| 2005 | Sharesave | 126 | 2008 | 258,682 | 259,589 |
| | | | | 669,732 | 670,639 |

## 21. SHARE CAPITAL AND TREASURY SHARES CONTINUED

**LTIP**

| | | |
|---|---|---|
| Grant date | 18 May 2006 | 18 May 2005 |
| Share price at grant date | £1.12 | £1.29 |
| Exercise price | £0 | £0 |
| Maximum shares under option | 127,568 | 1,496,516 |
| Vesting period (years) | 3 | 5 |
| Dividend yield | 2.44% | 1.9% |
| Risk free rate | 4.72% | 4.75% |
| Fair value per option | £1.04 | £1.15 |

These nil priced options had a value equal to the share price less the exercise price and the expected dividend at the date they were issued, this result is consistent with the results obtained from the Black-Scholes option-pricing model.

Given the difference between the grant price & exercise price, volatility has an immaterial effect on the calculation and thus has been ignored.

The Group's long term incentive plan (LTIP) for senior employees could result in the issue of up to 1,624,084 ordinary shares between 2010 and 2015. The number of shares under option will vary with the real increase in earnings per share. The maximum award will vest if real earnings per share grows at 10% or more. At a real earning per share growth of 3%, 30% of the options will vest. Below 3% earnings per share growth no options will vest.

**Acquisition of minority holdings**
When we set up new subsidiary businesses with partners, the minority partners acquire 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. The put options are exercisable from:

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

# NOTES

CONTINUED

## 22. RESERVES

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

| Company | Ordinary share capital £000 | Share premium account £000 | Merger reserve £000 | Treasury reserve £000 | Share option reserve £000 | Profit and loss account £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2006 | 542 | 9,618 | 56,763 | – | 599 | 2,054 | 69,576 |
| Non cash share based incentive plans (including options) | – | – | – | – | 213 | – | 213 |
| Dividends | – | – | – | – | – | (1,377) | (1,377) |
| Purchase of own shares | – | – | – | (792) | – | – | (792) |
| Profit for the year | – | – | – | – | – | 3,758 | 3,758 |
| **At 31 December 2006** | **542** | **9,618** | **56,763** | **(792)** | **812** | **4,435** | **71,378** |

The Company has taken advantage of the dispensation under Section 230(3) of the Companies Act 1985, allowing it not to publish its own profit and loss account. The Group profit for the year includes a profit after tax and before dividend paid of £3,758,000 (2005 – £1,932,000) relating to the Company.





## 23. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | **2006 Group £000** | **2006 Company £000** | 2005 Group £000 | 2005 Company £000 |
|---|---|---|---|---|
| **Profit for the financial year** | | | | |
| – Group | **1,998** | **3,758** | 2,497 | 1,932 |
| – Associates | **5** | **–** | (81) | – |
| Dividend | **(1,377)** | **(1,377)** | (1,045) | (1,045) |
| | **626** | **2,381** | 1,371 | 887 |
| Exchange differences | **(305)** | **–** | (50) | – |
| Non cash share based incentive plans (including options) | **213** | **213** | 85 | 85 |
| Purchase of shares | **(792)** | **(792)** | – | – |
| Net (reduction) / addition to shareholders' funds | **(258)** | **1,802** | 1,406 | 972 |
| Opening shareholders' funds | **31,616** | **69,576** | 30,210 | 68,604 |
| Closing shareholders' funds | **31,358** | **71,378** | 31,616 | 69,576 |

## 24. POST BALANCE SHEET EVENT

On 8 March 2007 we acquired 25% of Zapping Publicidad, S.A. and its subsidiary companies, a Spanish marketing services group, with a commitment to acquire a further 50% over the next three years. The local shareholders have an option to sell their remaining shares to us between 2013 and 2020. All transactions are based on a multiple of profit. The Group made an initial €2 million payment at acquisition.

## 25. COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2006, the Group had the following annual commitments under non-cancellable operating leases:

| | **2006 Land and buildings £000** | **2006 Other £000** | 2005 Land and buildings £000 | 2005 Other £000 |
|---|---|---|---|---|
| Operating leases which expire: | | | | |
| Within one year | **119** | **3** | 95 | 33 |
| In two to five years | **1,173** | **32** | 951 | 97 |
| More than five years | **2,358** | **–** | 1,672 | – |
| | **3,650** | **35** | 2,718 | 130 |

As at 31 December 2006, the Company had no annual commitments under non-cancellable operating leases (2005 – Nil).

# NOTES
CONTINUED

## 26. PENSIONS

The Group does not operate any defined benefit pension schemes. The Group makes payments to certain employees to enable them to contribute to their own personal pension plans. Payments of £1,696k (2005 – £1,406k) were made in the year and charged to the profit and loss account in the period they were due. At the year-end, there were unpaid amounts included within accruals totalling £133k (2005 – £67k).

## 27. RELATED PARTY TRANSACTIONS

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

Jeremy Sinclair, Maurice Saatchi, Bill Muirhead and David Kershaw, who are directors of M&C Saatchi plc, are also directors of 36 Golden Square LLP (the landlord of one of the Group's London properties). These companies therefore have a controlling nucleus of directors in common. The Group paid rent to 36 Golden Square LLP totalling £1,672,000 during the year (2005 – £1,672,000). No amounts remained outstanding between any member of the Group and 36 Golden Square LLP at the year end.

Jeremy Sinclair, Maurice Saatchi, Bill Muirhead and David Kershaw, who are directors of M&C Saatchi plc, are also directors of Complan Limited. During the year, the Group made sales of £Nil (2005 – £77,507) to Complan Limited. At 31 December 2006, the Group owed Complan Ltd £Nil (2005 – the Group owed Complan Ltd £133 relating to these transactions).

During the year the Group made purchases of £12,000 (2005 – £55,101) from Play London Limited, an associate company. At 31 December 2006, there were no amounts due to Play London Limited in respect of these transactions. During the year, £140,000 (2005 – £86,743) of overheads were charged by Group companies to Play London Limited. At 31 December 2006, Play London Limited owed Group companies £413,428 (2005 – £229,000), this balance is primarily made up of working capital loans that the Group has made.

Maurice Saatchi is a director of Centre for Policy Studies Ltd (an independent political think tank). During the year the Group donated £Nil (2005 – £5,000). There were no amounts outstanding at the year end.

Lloyd Dorfman is chairman of Travelex Holdings Limited. During the year the Group charged subsidiaries of Travelex Holdings Limited, on an arm's length basis, £446,059 (2005 – £885,528) for advertising and marketing services and £842,436 (2005 – £2,767,053) to cover third party costs, of which £Nil (2005 – £75,459) was outstanding at the year end. The Group used Travelex foreign currency payment systems to pay £2,826,058 (2005 – £1,909,158) of our bills.

## 28. ACQUISITION OF BERLIN

On 24 July 2006 the Group acquired 80% of 03 International Projects GmbH (renamed M&C Saatchi Berlin GmbH).

In calculating the goodwill arising on acquisition the fair values of the net assets of 03 International Projects GmbH (renamed M&C Saatchi Berlin GmbH) have been assessed. No adjustment from book value was deemed necessary.

| | Book and fair value £000 |
|---|---|
| Fixed assets tangible | 14 |
| **Current assets** | |
| Work in Progress | 87 |
| Debtors | 18 |
| Cash at bank and in hand | 113 |
| **Total assets** | **218** |
| Creditors | |
| Due within one year | (183) |
| **Net assets** | **49** |
| **Consideration** | |
| Satisfied by | |
| Cash consideration | 674 |
| Direct cost of acquisition | 67 |
| Deferred consideration | 67 |
| Less net assets acquired (80%) | (39) |
| **Goodwill arising on acquisition** | **769** |

**Cash flows**
The net outflow of cash arising from the acquisition of 03 International Projects GmbH (renamed M&C Saatchi Berlin GmbH) was as follows:

| | £000 |
|---|---|
| Cost of acquisition | (674) |
| Cash acquired | 113 |
| **Net cash outflow** | **(561)** |

## 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

**Currency exposure**
The Group's results are in pounds sterling and are subject to fluctuation as a result of exchange rate movements. In 2006 the Group hedged against the average rate fluctuations of £2m of its Australian dollar exposure at an exchange rate of £1:AUD2.3865, this transaction expired on 29 December 2006. The Group will continue to review its future exposure to exchange rate movements and put in place methods to reduce the exchange rate risk where it sees such methods as beneficial. (In 2005 no hedging mechanism was used to reduce exchange rate risk.)

The monetary assets and liabilities of the Group not denominated in the functional currency of the operating unit concerned are shown below. The fair value of the monetary assets is not materially different from the book value.

| | US Dollar £000 | Sterling £000 | Total £000 |
|---|---|---|---|
| **Functional currency of Group operations** | | | |
| **2006** | | | |
| Sterling | 225 | – | 225 |
| Singapore Dollar | 10 | 13 | 23 |
| Japanese Yen | 6 | – | 6 |
| **Total** | **241** | **13** | **254** |
| **2005** | | | |
| Sterling | 50 | – | 50 |
| Singapore Dollar | 2 | 2 | 4 |
| Japanese Yen | 59 | – | 59 |
| **Total** | **111** | **2** | **113** |

These balances arose from trading with clients who pay in currencies other than the currency of the local office. Exchange rate exposure is minimised by using forward contracts when the amount of future currency exposure on client contracts is material and known. No such forward contract exist at the year end (2005 – Nil).

**Credit risk**
The Group has no borrowings and holds cash on short term deposit. The credit risk on such deposits is minimal as the money is on deposit with banks with high credit ratings. During the year the Group received an average of 4.4% (2005 – 4.4%) interest on its deposits.

The Group's credit risk is primarily attributable to trade debtors.

The values shown in the balance sheet are net of any allowance for doubtful debt. Doubtful debt is provided by management on a specific case by case basis based on their opinion.

## 30. NET CASH INFLOW FROM OPERATING ACTIVITIES

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

# NOTES

CONTINUED

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

| | Note | 2006 £000 | 2005 £000 |
|---|---|---|---|
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **1,540** | 1,384 |
| Interest paid | | **(20)** | (8) |
| Interest element of finance lease rental payments | | **(13)** | (15) |
| Minority interest dividend paid | | **(964)** | (428) |
| | | **543** | 933 |
| **Taxation** | | | |
| UK taxation paid | | **(2,215)** | (1,851) |
| Overseas taxation paid | | **(1,060)** | (693) |
| | | **(3,275)** | (2,544) |
| **Capital expenditure and financial investment** | | | |
| Purchase of tangible fixed assets | | **(1,686)** | (1,289) |
| Sale of tangible fixed assets | | **16** | 37 |
| | | **(1,670)** | (1,252) |
| **Acquisitions and disposals** | | | |
| Investment in subsidiary | | **(741)** | (369) |
| Cash acquired with subsidiary undertakings | 29 | **113** | 187 |
| | | **(628)** | (182) |
| **Financing** | | | |
| Purchase of own shares | | **(792)** | – |
| Shares issued to minorities by subsidiaries | | **–** | 124 |
| Inception of bank loans | | **34** | – |
| Repayment of bank loans | | **(2)** | – |
| Capital element of finance lease rental payments | | **(106)** | (142) |
| | | **(866)** | (18) |

## 32. ANALYSIS OF CHANGES IN NET FUNDS

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

## 33. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

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

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF M&C SAATCHI PLC

We have audited the Group and Parent Company financial statements of M&C Saatchi plc for the year ended 31 December 2006 which comprise the Group Profit and Loss account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes on pages 52 to 73. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the information contained on pages 1 to 21. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**
In our opinion:
- the Group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's affairs as at 31 December 2006 and of the Group's profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the financial statements.

**BDO STOY HAYWARD LLP**
Chartered Accountants and Registered Auditors
London
18 April 2006

# ADDITIONAL INFORMATION

3

## ADVISORS

**Nominated adviser and broker**
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT
www.numiscorp.com

**Solicitors**
Olswang
90 High Holborn
London WC1V 6XX
www.olswang.com

**Auditors**
BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL
www.bdo.co.uk

**Bankers**
National Westminster Bank plc
21 Lombard Street
London EC3P 3AR
www.natwest.com

**Registrars**
Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
www.computershare.com

**Investor Relations**
Hockenhull Investor Relations
24 Willoughby Road
London NW3 1SA
www.hockenhull.com

**Secretary and registered office**
Andy Blackstone
M&C Saatchi plc
36 Golden Square
London W1F 9EE
www.mcsaatchi.com

**Country of registration**
England and Wales

**Company number**
05114893

## CORPORATE EVENTS

**AGM**
7 June 2007

**Final 2006 dividend paid**
11 June 2007

**To those on the register on**
11 May 2007

**Interim 2007 statement**
September 2007

**Interim 2007 dividend paid**
24 October 2007

**To those on the register on**
5 October 2007

**Preliminary announcement of 2007 result**
Late March 2008

Designed and produced by Addison Corporate Marketing
Printed in UK by St Ives Westerham Press

The paper used in this report is Elemental Chlorine Free (ECF) and manufactured from 100% virgin fibre sourced from sawmill residues, forest thinnings and sustainable forests. It is fully recyclable and bio-degradable. The paper mill (involved in its production) is accredited with (full) ISO 14001 Environmental Certification and is registered under the EMAS Scheme.