M&CSAATCH

Annual Report 2005

IN A WORD

This has been quite a year for the company. The numbers reveal a story of growth of revenues, growth of profit before tax and increasing investment in new subsidiaries. For the first time, more than half the profits were earned outside the advertising agencies. We opened more offices than in any year since our start up, including France, India & Thailand. We started three new profit centres in the UK alone.

Of course, all these moves are not unrelated. More clients are bypassing conventional media and needing us to guide them in more media formats in more countries.

The advertiser's cry used to be Globalisation. The cry now is Simplification. With more choice, more channels and more variety, the appeal of the company's approach of Brutal Simplicity has never been stronger. The company is also well prepared in that of all the major networks, M&C Saatchi is the youngest. We are 10 years old, our larger rivals are 57, 80 and 95.

Today, social scientists divide the world between Digital Natives and Digital Immigrants. Anyone over 25 is a Digital Immigrant. He or she has had to learn the language of technology. The Digital Native learned it like you learned your mother tongue, effortlessly as you grew up.
The Digital Immigrant struggles and forever has a thick debilitating accent.

Neuroscience is showing that the Digital Native's brain is physically different as a result of the digital input it received growing up. It has rewired itself. It responds faster. It sifts out. It recalls less. Only brutally simple ideas get through. They travel lighter, they travel faster.

To reduce the complex to the simple without being simplistic requires, in the words of Bertrand Russell 'the painful necessity of thought'.

The pain comes from the ruthless paring down of the paragraph to the sentence and the sentence down to the word.

St John put it well in his Gospel: In the beginning was the Word.

The word comes first and it is singular – one word, not several words. For a brand, the word comes before all actions, in all media, at all times.

St John went on to say: And the Word was God.

No copywriter could put it better. The Word is the brand's guide, protector, defender, and saviour. Take great care before you pick your word. It is the God of your Brand. It gives your brand One Word Equity.

This is the process that the Company offers its many clients; building One Word Equity in a communications landscape that has been seismically altered by the advance of technology. For the first time since the invention of Television, the TV audience has declined.

The challenge is to find the Word, the Word that guides everywhere. And once having found it, never to forsake it.

Finally, it would be wrong not to mention that in spite of heroic efforts, BA decided to leave us after a 23 year stint.

Our response, in a word? Onwards!

Jeremy Sinclair
Chairman

PERFORMANCE

UK: growth boosted by strong business wins

Asia Pacific: new offices open, growth continues

America: LA growing fast, NY reorganised

Europe: good start for Paris, more this year

Financial performance

Growth in 2005 both exceeded expectations and outpaced the advertising market. Revenues rose 9.4% to £68 million and underlying pre-tax profit grew 11.3% to £9.1 million. (Details of underlying results are shown on page 8.)

Regional review

UK

New business wins contributed to excellent revenue growth – up 8.1% to £39.5 million.

Wins for the advertising agency included ITV, Ribena, Cadbury Müller, the Chariot UK Lottery and Royal Bank of Scotland retail banking. Agency confidence was strengthened in the fourth quarter by a £30 million contract win from Direct Line. LIDA, our direct and digital agency, Talk PR and M&C Saatchi Sponsorship all performed strongly, with new assignments from the COI, NatWest, Carlsberg, Disney, Mini, Orange, Perrier-Jouet and Twinings.

Walker Media maintained strong growth in sales, profits and market share. Business wins included Independent Newspapers and Weetabix – a significant broadening into the fmcg sector from the company's established strength in retail and travel. This year benefits are expected from the 2005 launch of an online media business, Walker-i, which brings the company's rigour and imagination to a sector that many clients still find challenging.

Asia Pacific

Business in Asia Pacific performed well, growing as planned with new offices in Bangkok and New Delhi. Revenues increased 8.5% to £25.1 million.

The Australian agency is very strong in its market and has diversified its offering well. Malaysia, Thailand and India all offer excellent growth potential. So does Greater China, where there is a thriving business in Hong Kong and smaller offices in Shanghai, Beijing and Taipei.

The Bangkok and New Delhi offices have made a good start, reflecting the time and care spent in establishing them. There is now a good regional network led since May 2005 by Kim Walker, who has extensive experience in the region. During the year business wins included Wyeth, eBay and Alliance Bank in Malaysia. Additions are

PERFORMANCE CONTINUED

expected for our roster of pan-Asia business in 2006 with broadening capabilities in digital and direct marketing across the region.

Australia remains the regional powerhouse. The business grew well in 2005, with wins including Pizza Hut and the global Tourism Australia account. To avoid conflict the New Zealand office had to sacrifice its local tourism account, but a new strong team should make up the lost ground this year.

America

The US business showed its ability to grow. Revenues increased 26.7% to £3.2 million, but there was a small operating loss as a result of the cost of management change in New York.

The LA and New York offices now run as a single entity but retain the flexibility to address the differing dynamics of their local markets.

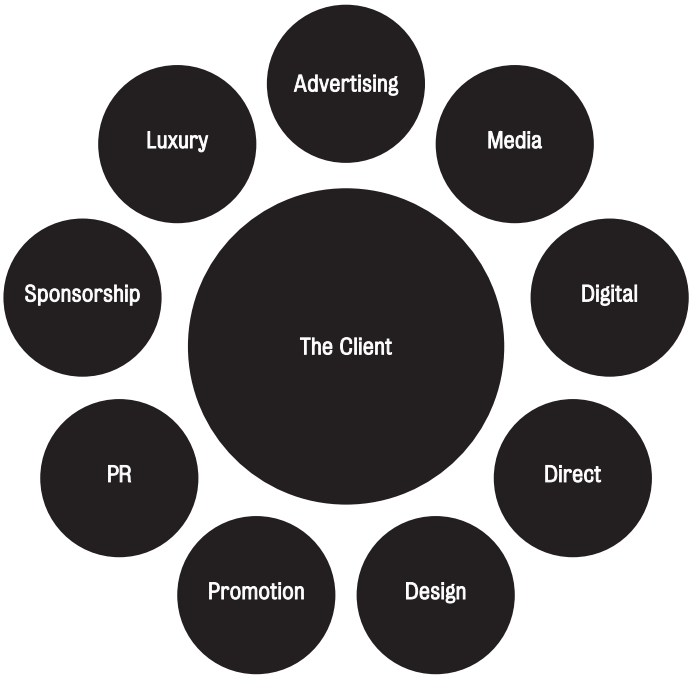
The LA business has grown dramatically since launch in 2002. It strengthened its reputation, adding new clients such as City National Bank and the Beverly Hills Visitor Bureau. In New York a new management team has revitalised the agency. New business wins included PODS (Personal On Demand Storage) and New York Tourism.

Europe

Progress in opening offices on the Continent has been slightly slower than intended. But the Group believes the results will justify the painstaking approach taken to partnering with the right people.

Europe is a vital component in establishing a global offering. In France, there has been little new agency activity for years, with the last significant startup occurring two decades ago. In September 2005 that pattern was broken by the launch of M&C Saatchi.GAD with three outstanding partners – Giles Masson, Antoine Barthuel and Daniel Fohr – who share a 20% stake.

The client list already includes Pernod Ricard (Havana Club rum in four countries, Olmeca tequila in two), the S'Miles loyalty scheme and the Musée Branly in Paris.



The Group is building a 'village' of disciplines that complement the core advertising business. The graphic (left) shows the current UK village, which provides the model for continuing development elsewhere.

The intention this year is to launch offices in Germany and Spain. The Paris office will add further services: design is in place, sales promotion and customer relationship management will follow. Each business is expected to deliver operating profits within two years: Paris in 2007 and the region in 2008.

Outlook

We expect the year ahead to be one of further progress and growth across all of our businesses.

The loss of BA will be felt more significantly in 2006 with an environment that will limit the opportunity for margin growth.

From a new business perspective the year has started well. Important new accounts include Kingsmill (Allied Bakeries) and RBS Retail. The Paris office has maintained its excellent progress winning Bordeaux Wines and is currently pitching for other significant accounts. Walker Media has had an outstanding start to the year and the New York office has also made good progress recently winning AIG insurance.

The investment programme in new offices, through organic start ups or small acquisitions and new businesses streams, will continue into 2006 and this strategy remains the foundation for the company's growth going forward.

David Kershaw
Chief Executive

NUMBERS

Revenues up 9.4% to £68.0 million

Underlying profit before tax
up 11.3% to £9.1 million

European expansion on track –
impact on earnings £1.4 million

Dividend increased by 10% to 2.55p

The Group's objective is profitable, sustainable growth in our existing markets and expansion into new markets and geographies which is the foundation for future growth.

2005 has been the first year that the financial performance has been significantly impacted by the investment phase of the expansion strategy.

To better show how the business is performing against its strategy we are reporting on the underlying performance of the Group (which excludes the impact of the European expansion as well as the amortisation of goodwill and the share based payment charge) and on the impact of the European expansion on the Group's margins and earnings.

The reconciliation between the underlying performance and the reported results is shown on page 10.

Revenues

Reported revenues (gross profit) increased by 9.4% to £68.0 million. 2005 was the 11th successive year of organic revenue growth.

While all areas of the business performed well, the key driver of growth was the UK with revenues up 8.1%, a strong performance given the loss of the BA account. Although small in absolute terms, revenue growth was also strong in the USA at 26.7%.

On a constant currency basis Group revenues grew by 7.9%.

The table below gives details of the revenue and revenue growth by region.

	2005 Constant Rates £000	Vs 04 %	2005 Reported Rates £000	Vs 04 %	2004 £000
UK	**39,470**	8.1	**39,470**	8.1	36,518
Asia Pacific	**24,187**	4.6	**25,084**	8.5	23,126
USA	**3,189**	25.8	**3,211**	26.7	2,534
Europe	**236**	–	**236**	–	–
Total	**67,082**	7.9	**68,001**	9.4	62,178

Underlying Operating Performance

Underlying operating profit increased by 7.5% to £7.8 million (2004: £7.2 million). The underlying operating margin dropped marginally to 11.4% (2004: 11.6%). The small drop was due to the loss of BA revenues in the fourth quarter and the associated pitch costs.

NUMBERS CONTINUED

The Group's net interest increased 50% to £1.4 million (2004: £0.9 million) due to interest earned on the proceeds from the float, a strong treasury function and an improvement in the Group's underlying net cash position.

The underlying profit before tax increased by 11.3% to £9.1 million, (2004: £8.1 million).

Impact of European expansion

2005 has been the first year that operating performance has been significantly impacted by the expansion strategy in Europe.

The initial losses of the Paris office plus the ongoing development costs associated with the European expansion programme totalled £1.4 million and reduced the operating margin by 2.1pts. This is in line with the strategy set out prior to the float in 2004.

The reported numbers

Three reasons explain the difference between the underlying and reported numbers. First, the reported numbers include the cost of our European expansion which hides the strength of the underlying performance. Second, they include an accrued charge for a potential

Reconciliation of reported to underlying results

	2005 Reported Results £000	Excluded Items			2005 Underlying Results £000	2004 Unaudited Proforma £000
		European Expansion £000	Share Based Incentives £000	Amortisation £000		
Revenue (gross Profit)	**68,001**				**68,001**	62,178
Operating Expenses	**63,512**	1,414	185	1,688	**60,225**	54,944
Operating profit	**4,489**				**7,776**	7,234
– Share of Associate	**75**				**75**	–
– Net Interest	**1,355**				**1,355**	901
Underlying Profit Before Tax	**5,769**				**9,056**	8,135

share based incentive payment. Third, the numbers as presented in the consolidated Profit and Loss Account on page 36 include a charge for amortisation of goodwill.

The Group's tax rate (based on underlying results), before taking account of the items listed below, increased by 0.2pts to 33.0%. The impact of the non deductible losses incurred by our associate in the UK (0.6pts) and the European start up (2.5pts) increased the reported tax rate to 36.1%. These losses will be carried forward to offset future taxable profits.

The profits attributable to the minorities increased to £0.7 million (2004: £0.4 million). The percentage of the Group's profits contributed by profits with new or remaining minorities increased to 11.2% (2004: 8.0%) (before the impact of the European expansion). The growth in profits from Walker Media was the principal cause.

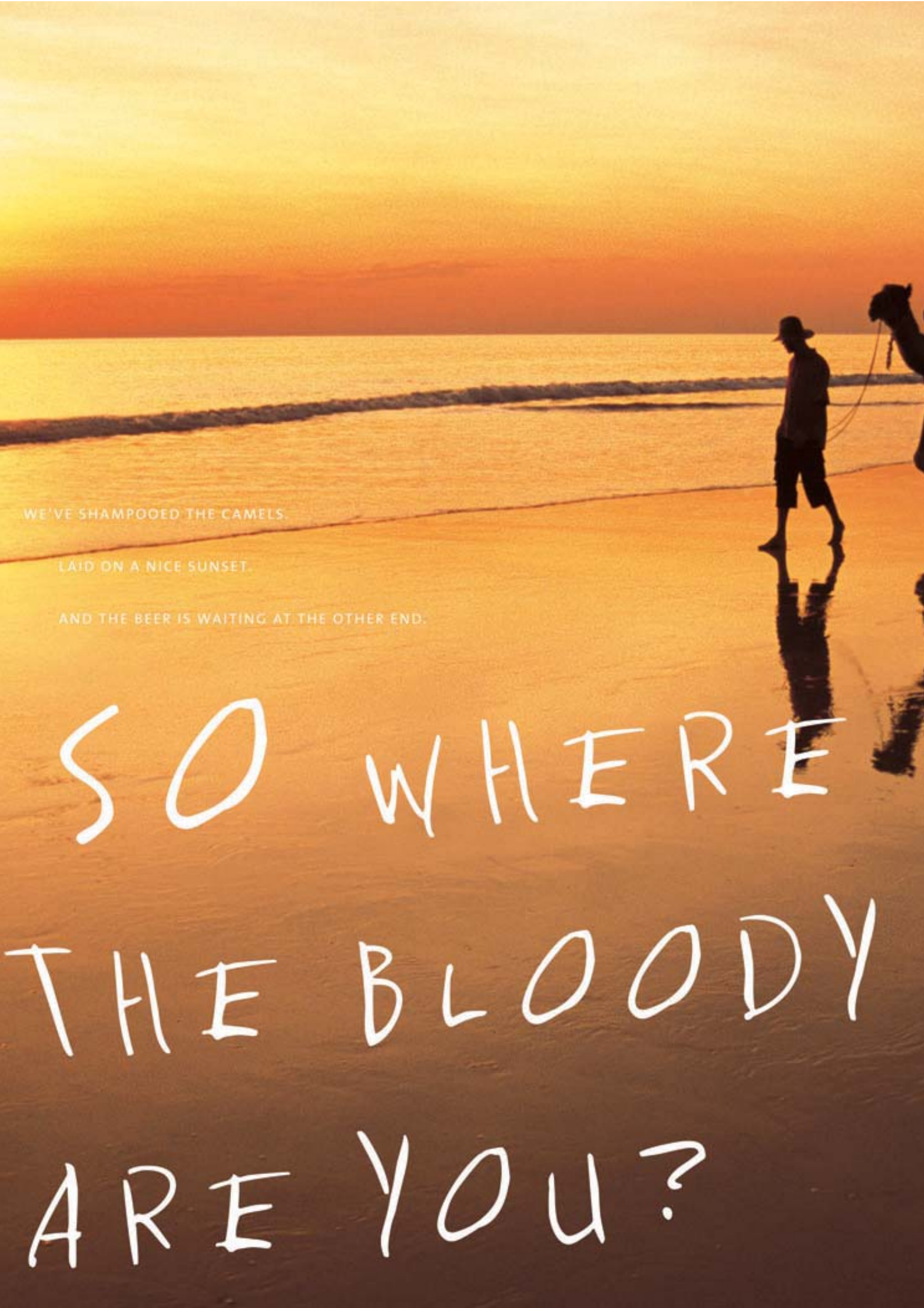
The reported earnings per share decreased due the European expansion to 4.46p (2004: 6.19p)

The Board is recommending a final dividend of 1.78p per share making a total of 2.55p per share for 2005. This represents an increase of 10% on the equivalent annualised dividend for 2004. The final dividend of 1.78p is payable on the 12 June 2006 to shareholders on the register as at 12 May 2006.

2004 unaudited proforma accounts

Except where otherwise stated references to 2004 refer to the proforma profit and loss account. This has been prepared to show the Group's results as if the reorganisation placing and admission to AIM had effect from 1 January 2004 and excludes exceptional costs.

Jerry Wales
Finance Director


WE'VE SHAMPOOED THE CAMELS.
LAID ON A NICE SUNSET.
AND THE BEER IS WAITING AT THE OTHER END.
SO WHERE THE BLOODY ARE YOU?


HELL
Australia.com

Dear Ketel One Drinker
Are you a 'glass half empty' or a 'glass half full' kind of person? Probably depends on what's in the glass, doesn't it?

Dear Ketel One Drinker
It appears we're on the same page.


hydro
Don't lose it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Transport for London


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95% OF ALL BRITAIN'S
BLACKCURRANTS
MAKE IT
Ribena
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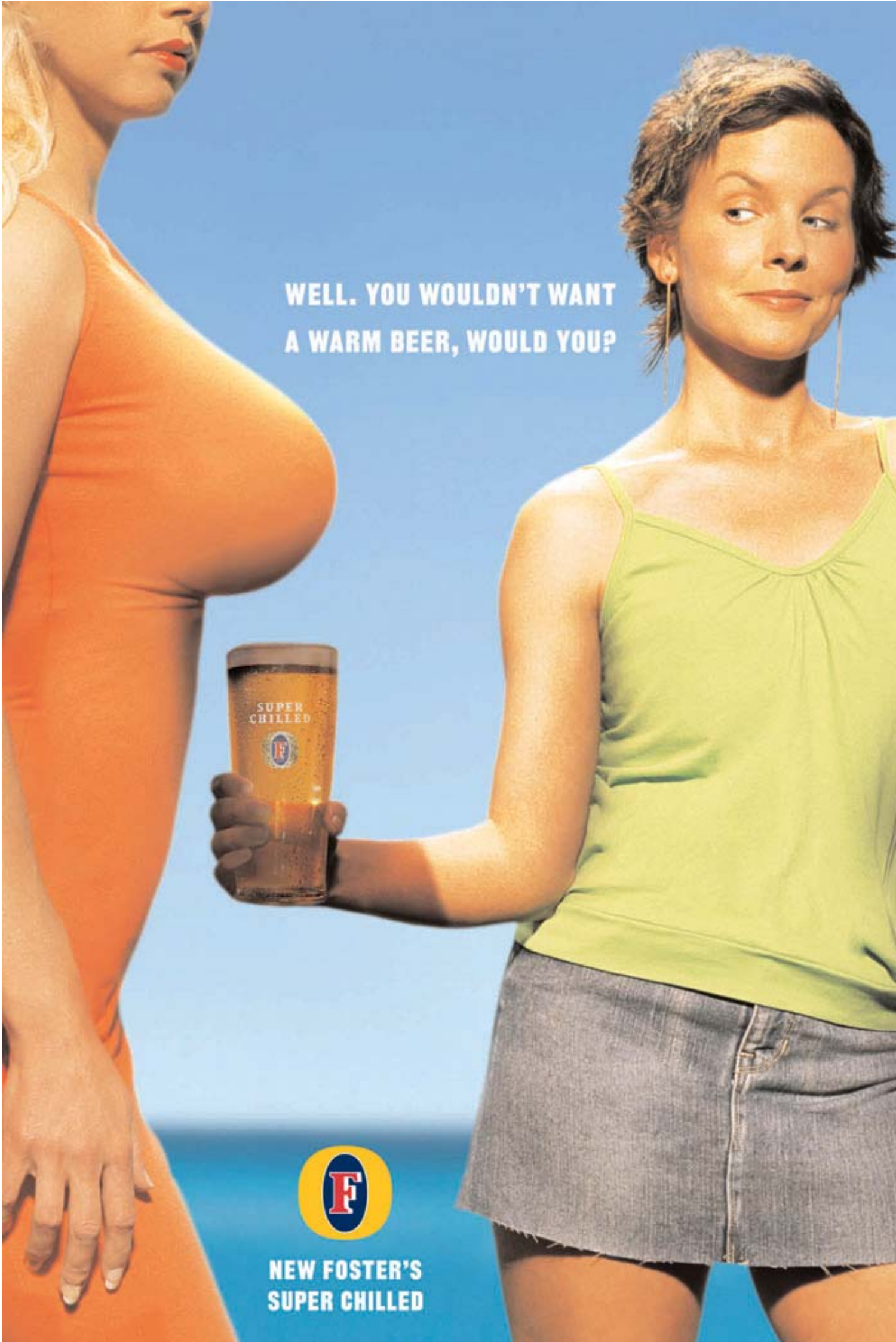
WELL. YOU WOULDN'T WANT
A WARM BEER, WOULD YOU?
NEW FOSTER'S
SUPER CHILLED
SUPER CHILLED


WELL. YOU WOULDN'T WANT
A WARM BEER, WOULD YOU?
SUPER CHILLED
NEW FOSTER'S
SUPER CHILLED

MANAGEMENT

BOARD OF 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.

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. He currently chairs the Advertising Association.

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.

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 executive 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*

REGIONAL CHAIRMEN

Tom Dery
Chairman, Asia Pacific & America
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, UK
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.

Nick Hurrell
Chairman, Europe
Nick Hurrell is a founding member of the senior management team. He joined Saatchi & Saatchi as a trainee in 1985. He rose through the ranks, becoming 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 SHOWN ON THE LEFT AND THE FOUR CHAIRMEN ABOVE.

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 2005.

Results and dividends

The profit and loss account on pages 36 to 37 shows the result for the year.

The directors paid an interim ordinary dividend of £416,000 (2004 – £2,313,000) and recommend a final dividend of £965,000 (2004 – £629,000).

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 9.

Charitable and political contributions

During the year the Group made charitable donations of £75,000 (2004 – £99,000) and no political contributions.

Substantial shareholding

Sections 198-208 of the Companies Act 1985 require that any interest in its ordinary shares representing 3% or more of issued share capital be disclosed to the Company. As at 21 April 2006 the Company had been notified of the following such interests:

	Number of shares	%
David Kershaw	3,799,369	7.0%
Bill Muirhead	3,799,369	7.0%
Maurice Saatchi	3,799,369	7.0%
Jeremy Sinclair	3,799,369	7.0%
Charles Saatchi	3,799,369	7.0%
Fidelity Investments	7,675,484	14.2%
Morgan Stanley	4,017,250	7.4%
Lehman Brothers	3,414,252	6.3%

Directors

The names and biographical details of the directors are given on page 28.

The interests of the directors in the shares of the Company are shown in the remuneration report on pages 34 to 35.

Events since the end of the year

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

Our employees

In an attempt to retain and develop our employees, the people we recognise as being key to the Company'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 in place to ensure that we do 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 Group has no formal code of conduct dealing specifically with the payment of suppliers. However, we try to adhere to agreed payment terms, provided the required goods or services have been delivered. Creditor days for 2005 averaged 38 days (2004 – 53 days).

Directors' responsibilities

Company law requires directors to prepare annual financial statements which comply with the Companies Act 1985. These must 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 must:

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates;
- state whether applicable accounting standards have been followed. Any material departures should be disclosed and explained in the financial statements;
- prepare financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors have to 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.

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

Andy Blackstone
Company Secretary
21 April 2006

CORPORATE GOVERNANCE

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)	9	–	1
David Kershaw (Chief Executive)	8	–	1
Bill Muirhead	8	–	2
Maurice Saatchi	9	–	1
Jerry Wales (Finance Director)	8	2	2
Non-executives			
Lloyd Dorfman	9	2	2
Adrian Martin	8	2	2
Total number of meetings 2005	9	2	2
Planned meetings 2006	8	3	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 and chief executive 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, Lloyd Dorfman and Adrian Martin. The finance director, Jerry Wales and the auditors also attend as required. It met twice during 2005. 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 2005. Both meetings were fully attended. Its report is on page 34 to 35.

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:
– Jeremy Sinclair
– Jerry Wales
Directors biographies are on page 28.

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 and internal control
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 806 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 reviews directors' remuneration packages annually. 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 12-month notice periods.

Long Term Incentive Plan ('LTIP')

The Group operates an LTIP for senior employees. David Kershaw, Bill Muirhead, Maurice Saatchi and Jeremy Sinclair have elected not to participate. 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%.

During the year Jerry Wales was awarded LTIP units whose maximum vesting (in 2011–2015) is 232,558 shares, as well as a bonus equivalent to a further 232,558 shares (redeemable in 2010).

Directors' remuneration

Executive directors	Basic salary (including bonus) £000	Phantom bonus[1] £000	Benefits in kind[2] £000	Other[3] £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[1]	250	–	24	26	300
	1,250	–	225	174	1,649

Executive directors	Basic salary (including bonus) £000	Phantom bonus[1] £000	Benefits in kind[2] £000	Other[3] £000	Total £000
Year ended 31 December 2004					
David Kershaw	229	–	50	25	304
Bill Muirhead	229	–	27	35	291
Maurice Saatchi	229	–	70	35	334
Jeremy Sinclair	229	–	40	35	304
Jerry Wales[1]	300	237[1]	23	25	585
	1,216	237	210	155	1,818

(1) In 2004 Jerry Wales was paid a bonus that was greater than his 2005 bonus. There was also a payment made in accordance with his 'phantom' rights, calculated by reference to the values of the share capital of M&C Saatchi (UK) Limited and M&C Saatchi Worldwide Limited on admission.

(2) Benefits in kind include car allowances, permanent health insurance benefits and chauffeur services.

(3) Other benefits include contributions to money purchase pension schemes.

Non-executive directors	Basic salary (including bonus) £000	Phantom bonus[1] £000	Benefits in kind[2] £000	Other[3] £000	Total £000
Year ended 31 December 2005					
Adrian Martin	35	–	–	–	35
Lloyd Dorfman	35	–	–	–	35
	70	–	–	–	70

Non-executive directors	Basic salary (including bonus) £000	Phantom bonus[1] £000	Benefits in kind[2] £000	Other[3] £000	Total £000
Year ended 31 December 2004					
Adrian Martin	20	–	–	–	20
Lloyd Dorfman	20	–	–	–	20
	40	–	–	–	40

Both non-executive directors were appointed to the Company on 4 June 2004.

Directors' share interests

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

	At 31 December 2005	
David Kershaw	3,799,369	7.0%
Bill Muirhead	3,799,369	7.0%
Maurice Saatchi	3,799,369	7.0%
Jeremy Sinclair	3,799,369	7.0%
Jerry Wales[1]	–	–
Adrian Martin	–	–
Lloyd Dorfman	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.

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
21 April 2006

ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Audited year ended 31 December 2005 £000	Unaudited proforma 31 December 2004 £000	Audited year ended 31 December 2004 £000
Turnover				
– Continuing operations		**297,688**	106,884	106,884
– Acquisitions		**596**	180,864	108,300
Turnover	2	**298,284**	287,748	215,184
Cost of sales	3	**(230,283)**	(225,570)	(155,807)
Gross profit		**68,001**	62,178	59,377
Administrative expenses				
– Ordinary		**(61,639)**	(54,944)	(52,907)
– Exceptional	4	**–**	–	(2,795)
– Share based payment		**(185)**	–	–
– Amortisation of goodwill		**(1,688)**	(1,672)	(777)
Administrative expenses	3	**(63,512)**	(56,616)	(56,479)
Operating profit				
– Continuing operations		**4,480**	4,157	2,257
– Acquisitions		**9**	1,405	641
Operating profit		**4,489**	5,562	2,898
Share of operating (loss)/profit of associates		**(75)**	–	352
Interest receivable	8	**1,384**	931	800
Interest payable	9	**(29)**	(30)	(30)

	Note	**Audited year ended 31 December 2005 £000**	Unaudited proforma 31 December 2004 £000	Audited year ended 31 December 2004 £000
Profit on ordinary activities before taxation		**5,769**	6,463	4,020
Taxation on profits on ordinary activities	10	**(2,690)**	(2,666)	(2,033)
Profit on ordinary activities after taxation		**3,079**	3,797	1,987
Minority interests		**(663)**	(441)	(531)
Profit for the financial year		**2,416**	3,356	1,456
Earnings per share				
– Basic	12	**4.46p**	6.19p	3.42p
– Diluted	12	**4.41p**	6.14p	3.41p

All amounts relate to continuing activities.

The reconciliation of movements in shareholders' funds is shown in note 24 to the financial statements.

The notes on pages 42 to 62 form part of these financial statements

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Profit for the financial year		
– Group	**2,497**	1,140
– Associates	**(81)**	316
	2,416	1,456
Exchange differences on retranslation of opening reserves	**(50)**	260
Total recognised gains and losses for the financial year	**2,366**	1,716

The notes on pages 42 to 62 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

	Note	At 31 December 2005 £000	At 31 December 2005 £000	Restated At 31 December 2004 £000	Restated At 31 December 2004 £000
Fixed assets					
Intangible assets	13		**14,592**		16,158
Tangible assets	14		**3,194**		3,047
Investments	15		**100**		15
			17,886		19,220
Current assets					
Work in progress	16	**3,277**		3,368	
Debtors					
– Due within one year	17	**50,552**		46,374	
– Due after more than one year	17	**578**		731	
Cash at bank and in hand		**20,486**		17,323	
		74,893		67,796	
Creditors					
– Amounts falling due within one year	18	**58,969**		55,351	
Net current assets			**15,924**		12,445
Total assets less current liabilities			**33,810**		31,665
Creditors					
– Amounts falling due after more than one year	19		**868**		774
Provisions for liabilities and charges	20		**404**		218
			32,538		30,673
Capital and reserves					
Share capital	22		**542**		542
Share premium account	23		**9,618**		9,618
Merger reserve	23		**14,756**		15,959
Share option reserve	23		**599**		514
Profit and loss account	23		**6,101**		3,577
Shareholders' funds – equity	23		**31,616**		30,210
Minority interests – equity			**922**		463
			32,538		30,673

These financial statements were approved and authorised for issue by the board on 21 April 2006 and signed on its behalf by:

David Kershaw
Chief Executive

The notes on pages 42 to 62 form part of these financial statements.

COMPANY BALANCE SHEET

	Note	At 31 December 2005 £000	At 31 December 2005 £000	Restated At 31 December 2004 £000	Restated At 31 December 2004 £000
Fixed assets					
Tangible assets	14		18		–
Investments	15		52,585		52,585
			52,603		52,585
Current assets					
Debtors					
– Due within one year	17	7,985		6,441	
– Due after more than one year	17	15		–	
Cash at bank and in hand		10,650		9,801	
		18,650		16,242	
Creditors					
– Amounts falling due within one year	18	1,651		223	
Net current assets			16,999		16,019
Provisions for liabilities and charges	20		26		–
			69,576		68,604
Capital and reserves					
Share capital	22		542		542
Share premium account	23		9,618		9,618
Merger reserve	23		56,763		56,763
Share option reserve	23		599		514
Profit and loss account	23		2,054		1,167
Shareholders' funds – equity	23		69,576		68,604

These financial statements were approved and authorised for issue by the board on 21 April 2006 and signed on its behalf by:

David Kershaw
Chief Executive

The notes on pages 42 to 62 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2005 £000	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000	Year ended 31 December 2004 £000
Cash inflow from operating activities	31		**7,046**		4,953
Dividend received from associates			**–**		728
Returns on investments and servicing of finance					
Interest received		**1,384**		687	
Interest paid		**(8)**		(3)	
Interest element of finance lease rental payments		**(15)**		(27)	
Minority interest dividend paid		**(428)**		(1,296)	
Net cash outflow from return on investment and servicing of finance			**933**		(639)
Taxation					
UK taxation paid		**(1,851)**		(1,136)	
Overseas taxation paid		**(693)**		(664)	
			(2,544)		(1,800)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(1,289)**		(922)	
Sale of tangible fixed assets		**37**		417	
Sale of part share of subsidiary undertakings		**–**		527	
Net cash inflow/(outflow) from capital expenditure and financial investment			**(1,252)**		22
Acquisitions and disposals					
Investment in subsidiary		**(369)**		(382)	
Cash acquired with subsidiary undertakings	29	**187**		2,243	
Investment in associate		**–**		–	
			(182)		1,861
Equity dividends paid			**(1,045)**		(2,313)
Net cash inflow/(outflow) before financing			**2,956**		2,812
Financing					
Share placement		**–**		10,537	
Share placement costs		**–**		(835)	
Shares issued to minorities by subsidiaries		**124**		107	
Repayment of bank loans		**–**		(21)	
Capital element of finance lease rental payments		**(142)**		(225)	
Net cash (outflow)/inflow from financing			**(18)**		9,563
Increase in cash in the year	33		**2,938**		12,375

The notes on pages 42 to 62 form part of these financial statements.

FOOTNOTES

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 2005. 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.

Merger accounting

Where merger accounting is used, the investment is recorded in the Company's balance sheet at the 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 a period of the contract on a straight-line basis.

(3) 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 on media spend is recognised when the advertisements appear in the media, or when production is complete.

(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.

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

(g) 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.

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

(i) 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.

(j) 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.

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

For cash-settled share based payments, where payments depend on future events we assess the likelihood of these

conditions being met and make an appropriate provision at the end of each reporting period. A liability equal to the portion of cash received is recognised at the current fair value determined at each balance sheet date. The credit for cash-settled share based payments are taken to provisions.

Where the cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the vesting date on which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors at that date, will ultimately vest. No expense is recognised for awards that do not 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.

(l) Accounting policy changes since 2004

- FRS 20 (Share based payment) has been adopted for the first time for the period under review. No options exercisable prior to 1 January 2005 have been considered for treatment under FRS 20.
- In accordance with FRS 21 (Events after balance sheet date) dividends are recorded in the year in which they are paid. The final 2005 dividend is not accrued in these financial statements and 2004 comparative numbers have been adjusted so that the 2004 final dividend of £629,000 is recorded within the 2005 numbers.

(m) Pro forma accounts

The pro forma report has been prepared to show for illustrative purposes only, the results as if the reorganisation which occurred immediately prior to its admission to trading on AIM on 14 July 2004, had occurred on 1 January 2004. The reorganisation included the acquisition of M&C Saatchi Worldwide Ltd by M&C Saatchi plc and the acquisition of a further 29% of Walker Media Holdings share capital resulting in a 75% holding. At the same time a number of key executives who held shares in their operating companies had their interest acquired by M&C Saatchi plc. Full details were set out in the admission document. The directors believe that the presentation of the financial highlights and the financial report on this basis provide a clearer understanding of the Group's results.

2. TURNOVER, PROFIT AND NET ASSETS

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

	Audited 2005 £000	Unaudited pro forma 2004 £000	Audited 2004 £000
Turnover			
Analysis by geographical market:			
By origin and destination			
UK	**245,926**	241,373	168,809
Asia and Australia	**45,636**	41,736	41,736
America	**6,417**	4,639	4,639
Europe	**305**	–	–
	298,284	287,748	215,184
Gross profit			
Analysis by geographical market:			
By origin			
UK	**39,470**	36,518	33,717
Asia and Australia	**25,084**	23,126	23,126
America	**3,211**	2,534	2,534
Europe	**236**	–	–
	68,001	62,178	59,377

2. TURNOVER, PROFIT AND NET ASSETS CONTINUED

	Audited 2005 £000	Unaudited pro forma 2004 £000	Audited 2004 £000
Operating profit/(loss) – excluding amortisation of goodwill			
Analysis by geographical market:			
By origin			
UK	**5,811**	4,348	789
Asia and Australia	**2,117**	2,686	2,686
America	**(322)**	200	200
Europe	**(1,429)**	–	–
	6,177	7,234	3,675
Operating profit/(loss)			
Analysis by geographical market:			
By origin			
UK	**4,123**	2,676	12
Asia and Australia	**2,117**	2,686	2,686
America	**(322)**	200	200
Europe	**(1,429)**	–	–
	4,489	5,562	2,898
Profit/(loss) before taxation			
Analysis by geographical market:			
By origin			
UK	**5,318**	3,528	1,085
Asia and Australia	**2,202**	2,736	2,736
America	**(319)**	199	199
Europe	**(1,432)**	–	–
	5,769	6,463	4,020
Net assets/(liabilities)			
Analysis by geographical market:			
By origin			
UK	**32,008**		30,574
Asia and Australia	**3,646**		2,466
America	**(1,950)**		(2,367)
Europe	**(1,166)**		–
	32,538		30,673

3. COST OF SALES AND ADMINISTRATIVE EXPENSES

	Audited 2005 £000	Unaudited proforma 2004 £000	Audited 2004 £000
Cost of sales			
Continuing operations	**229,869**	50,554	50,554
Acquisitions	**414**	175,016	105,253
	230,283	225,570	155,807
Administrative expenses			
Continuing operations	**63,339**	54,210	54,073
Acquisitions	**173**	2,406	2,406
	63,512	56,616	56,479

4. EXCEPTIONAL ITEMS

During 2004 the Group reorganised and floated on AIM. The resulting costs totalled £3,998k, of which £2,795k was charged directly to the profit and loss account, £368k included in cost of investments and £835k was charged against share premium. Included with the amounts charged directly to the profit and loss account was £514k of float related share based payment charges. There were no exceptional costs in 2005.

5. EMPLOYEES

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

Group	2005 number	2004 number
Full time	**806**	790

	Note	2005 £000	2004 £000
Staff costs for all employees, including executive directors, consist of:			
Wages and salaries		**36,855**	31,929
Social security costs		**3,285**	2,819
Pension costs	26	**1,406**	1,328
		41,546	36,076

FOOTNOTES CONTINUED

5. EMPLOYEES CONTINUED

Company	2005 number	2004 number
Full time	16	5

	Note	2005 £000	2004 £000
Staff costs for all employees, including executive directors, consist of:			
Wages and salaries		2,064	222
Social security costs		258	23
Pension costs		185	12
		2,507	257

The Company was formed as part of the reorganisation of the Group that occurred prior to the 14 July 2004 Flotation. The Company started to trade on 14 July 2004.

6. DIRECTORS' REMUNERATION

	2005 £000	2004 £000
Total for the seven directors:		
Directors' salary and benefits	1,545	1,466
Phantom bonuses	–	237
Contributions to money purchase pension schemes	174	155
	1,719	1,858

	2005 £000	2004 £000
Highest paid director:		
Salary and benefits	303	323
Phantom bonuses	–	237
Contributions to money purchase pension schemes	37	25
	340	585

Unaudited detail on directors' remuneration is disclosed in the remuneration report on pages 34 to 35.

The number of directors in the money purchase pension scheme was 5 (2004 – 5).

7. OPERATING PROFIT

	2005 £000	2004 £000
This is arrived at after charging/(crediting):		
Loss/(profit) on disposal of fixed assets	60	(34)
Charitable donations	75	99
Depreciation of tangible fixed assets[1]	1,183	1,167
Operating leases rentals		
– Plant and machinery	96	84
– Other	3,172	3,031
Amortisation of goodwill	1,688	777
Auditors' remuneration		
– Audit services[2]	270	240
– Non-audit services (float and reorganisation)	–	478
– Non-audit services (other advice)	22	37
– Non-audit services (tax)[3]	120	70
Exchange differences	(83)	71

(1) Depreciation includes £160k (2004 – £140k) charged on assets held under finance leases and hire purchase contracts.
(2) Audit services includes £31k relating to the Company.
(3) Non-audit services includes £37k relating to the Company.

8. INTEREST RECEIVABLE

	2005 £000	2004 £000
Group	1,384	687
Associates	–	113
	1,384	800

9. INTEREST PAYABLE

	2005 £000	2004 £000
Bank overdrafts	1	1
Interest on finance leases	15	27
Associates	6	–
Other	7	2
	29	30

10. TAXATION ON PROFITS FROM ORDINARY ACTIVITIES

	Note	2005 £000	2005 £000	2004 £000	2004 £000
Current tax					
UK corporation tax on profits for the year		1,991		1,204	
Overseas tax payable		605		1,024	
Adjustment in respect of previous years		53		15	
Associates		–		148	
Total current tax			2,649		2,391
Deferred tax					
Origination and reversal of timing differences		41		(358)	
Movement in deferred tax provision	21		41		(358)
Taxation on profit on ordinary activities			2,690		2,033

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:

	2005 £000	2004 £000
Profit on ordinary activities before tax	5,769	4,020
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2003: 30%)	1,731	1,206
Effects of:		
Expenses not deductible for tax	215	150
Float expenses not deductible for tax	–	379
Goodwill amortisation	506	233
Exchange adjustment taken to reserves subject to tax	–	81
Tax losses Carried forward	204	31
Differences between capital allowances and depreciation	23	(25)
Short term timing differences	(113)	175
Short term timing differences due to provision on options and phantom bonus accruals	49	214
Adjustment to tax charge in respect of previous years	53	15
Tax rate differences	(19)	(68)
Current tax charge for year	2,649	2,391

FOOTNOTES CONTINUED

11. DIVIDENDS

	2005 £000	2004 £000
Paid prior to reorganisation and flotation[1]		
Ordinary shares of £1: £0 per share (2004 – £144)	–	1,800
Ordinary shares of £1: £0 per share(2004 – £135[2])	–	338
'B' shares of £1: £0 per share (2004 – £41,100)	–	164
'C' shares of £1: £0 per share (2004 – £10,924)	–	11
	–	2,313
Interim dividend of 0.77p per share (2004 – Nil)	416	–
2004 final dividend[3] (2004 – 1.16p)	629	–
	1,045	2,313

(1) These 2004 dividends were paid by M&C Saatchi Worldwide Limited (the previous ultimate holding company of the M&C Saatchi Group). Its share capital before reorganisation consisted of 12,500 ordinary shares of £1, 4 B shares of £1 and 1 C share of £1.

(2) This 2004 Dividend waived by all the ordinary £1 shareholders with the exception of Charles Saatchi, who held 2,500 shares.

(3) In line with FRS 21, dividends agreed after balance sheet date are not accrued in the accounts. The proposed final 2005 dividend is 1.78p per share, making a total dividend per share of 2.55p (£1,381,000) for the year.

12. 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:

	2005	2004
Basic		
Profit for the year	£2,416,000	£1,456,000
Weighted average number of ordinary shares	54,206,799	42,542,000
Basic earnings per share	4.46p	3.42p
Diluted		
Profit for the year	£2,416,000	£1,456,000
Weighted average number of ordinary shares	54,747,997	42,732,000
Diluted earnings per share	4.41p	3.41p

On 31 December 2005 there were 670,634 (2004 – 411,050) outstanding options. The weighted average for the year was 541,198 (2004 – 190,322).

13. INTANGIBLE ASSETS

	Goodwill £000
1 January 2005	16,158
Additions	275
Amortisation	(1,688)
Exchange translation differences	(153)
31 December 2005	**14,592**

Additions represent the goodwill arising on the acquisition of Thailand and the investment in France funded by cash.

The Company had no intangible fixed assets during the year to 31 December 2005.

14. TANGIBLE ASSETS

Group	Leasehold improvements £000	Short other equipment £000	Furniture, fittings and computer equipment £000	Motor vehicles £000	Total £000
Cost					
At 1 January 2005	1,940	2,852	3,246	243	8,281
Additions	179	442	680	–	1,301
New acquisitions	40	39	58	–	137
Disposals	(121)	(138)	(126)	(121)	(506)
Exchange translation differences	21	139	107	(1)	266
At 31 December 2005	**2,059**	**3,334**	**3,965**	**121**	**9,479**
Depreciation					
At 1 January 2005	1,373	1,428	2,241	192	5,234
New acquisitions	24	30	29	–	83
Provision for year	237	283	636	27	1,183
Disposals	(109)	(78)	(122)	(100)	(409)
Exchange translation differences	12	89	93	–	194
At 31 December 2005	**1,537**	**1,752**	**2,877**	**119**	**6,285**
Net book value					
At 31 December 2005	**522**	**1,582**	**1,088**	**2**	**3,194**
At 31 December 2004	567	1,424	1,005	51	3,047

The net book value of tangible fixed assets for the Group includes £106,000 (2004 – £213,000) for assets held under finance leases and hire purchase contracts. The Company held no assets under such leases.

FOOTNOTES CONTINUED

14. TANGIBLE ASSETS CONTINUED

Company	Furniture, fittings and other equipment £000	Computer equipment £000	Total £000
Cost			
At 1 January 2005	–	–	–
Additions	13	8	21
At 31 December 2005	**13**	**8**	**21**
Depreciation			
At 1 January 2005	–	–	–
Provision for year	2	1	3
At 31 December 2005	**2**	**1**	**3**
Net book value			
At 31 December 2005	**11**	**7**	**18**
At 31 December 2004	–	–	–

15. INVESTMENTS

Group	Total £000
Cost	
At 1 January 2005	15
Additions	81
Amortisation of investment	–
Exchange rate movement	4
31 December 2005	**100**
Share of retained profits	
At 1 January 2005	–
Retained loss for the year	(81)
Transferred to provisions	81
At 31 December 2005	–
Total	
At 31 December 2005	**100**
At 31 December 2004	15

Company	£000
Cost	
At 1 January 2005	52,585
Additions	–
31 December 2005	**52,585**

15. 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 2005	Nature of business
M&C Saatchi (UK) Limited	UK	100%	Advertising
M&C Saatchi Sponsorship Limited	UK	74.4%	Advertising
M&C Saatchi International Limited	UK	100%	Holding Company
M&C Saatchi (Management) Limited	UK	100%	Dormant
M&C Saatchi Marketing Arts Limited	UK	50%	Consultancy
LIDA Limited	UK	100%	Direct marketing
The Immediate Sales Company Limited	UK	83.2%	Direct marketing
Talk PR Limited	UK	72.9%	Public relations
Influence Communications Limited	UK	100%	Advertising
Newinco 292 Limited	UK	100%	Dormant
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 Agency (ESOP) Limited	Jersey	100%	Dormant
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
eMC Saatchi Pty Limited	Australia	100%	Dormant
Bright Red Oranges Pty Limited	Australia	100%	Advertising
DNA Agency Network Pty Limited	Australia	95%	Advertising
M&C Saatchi Asia Pac Holdings Pty Ltd	Australia	100%	Holding Company
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 (M) SDN BHD	Malaysia	80%	Advertising
Charter Chamber Ltd	Thailand	100%	Holding Company
M&C Saatchi (Thailand) Co Ltd	Thailand	52%	Advertising
M&C Saatchi Limited	Japan	64%	Advertising
M&C Saatchi Communications Pvt. Ltd	India	100%	Advertising
M&C Saatchi Agency Inc	USA	96%	Advertising
M&C Saatchi LA Inc	USA	84%	Advertising
M&C Saatchi GAD SAS	France	72%	Advertising
M&C Saatchi España, SL	Spain	100%	Advertising

FOOTNOTES CONTINUED

15. INVESTMENTS CONTINUED

Associates
The 2005 numbers represent the Group's share of the losses of Play London Ltd, a UK incorporated digital marketing company in which the Group owns 50% of the ordinary shares and voting rights.

The 2004 numbers represent the first half results of Walker Media Holdings Limited. On 14 July 2004 the Group increased its holding from 46% to 75% by acquiring a further 29% of the issued 'B' ordinary shares of Walker Media Holdings Limited. As a result, Walker Media Holdings Limited has been accounted for as a subsidiary from that date.

The Group's share of the results and balance sheet of its associates are as follows:

Company	2005 £000	2004 £000
Share of turnover	229	33,371
Share of (loss)/profit before tax	(81)	464
Share of taxation	–	(148)
Share of (loss)/profit after tax	(81)	316
Share of fixed assets	2	–
Share of current assets	128	–
Share of current liabilities	(211)	–
Share of net (liabilities)/assets	(81)	–

16. WORK IN PROGRESS

	2005 Group £000	2005 Company £000	2004 Group £000	2004 Company £000
Work in progress	3,277	–	3,368	–

17. DEBTORS

	Note	2005 Group £000	2005 Company £000	2004 Group £000	2004 Company £000
Due within one year:					
Trade debtors		46,242	–	43,287	11
Amount due from subsidiary undertakings		–	7,621	–	6,274
Amount due from associates		229	–	–	–
Other debtors		1,455	354	587	142
Prepayments and accrued income		2,626	10	2,500	14
		50,552	7,985	46,374	6,441
Due after more than one year:					
Deferred tax asset	21	354	15	370	–
Other debtors		224	–	361	–
		578	15	731	–

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 Group £000	2005 Company £000	2004 Group £000	2004 Company £000
Unsecured bank overdraft	29	–	–	–
Trade creditors	31,345	67	31,189	35
Other creditors	2,909	7	822	5
Amounts due to subsidiary undertakings	–	1,229	–	5
Tax and social security	2,760	–	2,553	–
Corporation tax	1,612		1,279	–
Obligations under finance leases and hire purchase contracts	92	–	133	–
Accruals and advanced billings	20,222	348	19,375	178
	58,969	1,651	55,351	223

FOOTNOTES CONTINUED

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 Group £000	2005 Company £000	2004 Group £000	2004 Company £000
Other creditors	832	–	663	–
Obligations under finance leases and hire purchase contracts	36	–	111	–
	868	–	774	–

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

	2005 £000	2004 £000
In one year or less, or on demand	92	133
In more than one year but not more than two years	34	85
In more than two years but not more than five years	2	26
	128	244

20. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred taxation £000	Share based payments £000	National Insurance £000	Other £000	Total £000
At 1 January 2005	9	143	66	–	218
Charge to the profit & loss account	12	77	16	81	186
Paid in the year	–	–	–	–	–
At 31 December 2005	21	220	82	81	404

Company	Deferred taxation £000	Share based payments £000	National Insurance £000	Total £000
At 1 January 2005	–	–	–	–
Charge to the profit & loss account	–	21	5	26
Paid in the year	–	–	–	–
At 31 December 2005	–	21	5	26

The provision for national insurance relates to the national insurance payable on share options and other share based payments.

21. DEFERRED TAXATION

The amounts of provided deferred taxation are as follows:

Group	Note	Deferred taxation £000
At 1 January 2004 in provisions	20	9
At 1 January 2004 in long-term debtors	17	(370)
		(361)
Exchange translation differences		(13)
Debited to profit and loss account	10	41
At 31 December 2005		**333**
At 31 December 2005 in provisions	20	21
At 31 December 2005 in long-term debtors	17	(354)
At 31 December 2005		**(333)**

	2005 £000	2004 £000
Accelerated capital allowances	**4**	27
Provision on options & phantom bonus accruals	**(263)**	(214)
Sundry timing differences	**(74)**	(174)
	(333)	(361)

The Group has no unprovided deferred taxation.

Company	Note	Deferred taxation £000
At 1 January 2004 in long-term debtors	17	–
		–
Credited to profit and loss account	10	15
At 31 December 2005		**15**
At 31 December 2005 in long-term debtors	17	15
At 31 December 2005		**15**

	2005 £000	2004 £000
Accelerated capital allowances	**(4)**	–
Provision on options & phantom bonus accruals	**(11)**	–
	(15)	–

The Company has no unprovided deferred taxation.

FOOTNOTES CONTINUED

22. SHARE CAPITAL

	2005 Company £000	2004 Company £000
Authorised		
200,000,000 ordinary shares of 1p each	**2,000**	2,000

	2005 Company £000	2004 Company £000
Allotted, called up and fully paid		
54,206,799 ordinary shares of 1p each	**542**	542
	542	542

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 will have 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 243,943 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	57
Shares under option	259,589
Vesting period (years)	3

22. SHARE CAPITAL CONTINUED

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 2004	411,050
Additions	259,589
At 31 December 2005	**670,639**

Year of grant	Description	Exercise price pence	Exercise period	**2005**	2004
2004	Options	1	2006-2014	**411,050**	411,050
2005	Sharesave	129	2008	**259,589**	–
			670,639	**411,050**	–

LTIP

Grant date	18 May 2005
Share price at grant date	£1.29
Exercise price	£0
Maximum shares under option	1,496,516
Vesting period (years)	5
Dividend yield	1.9%
Risk free rate	4.75%
Fair value per option	£1.15

Given the difference between the grant price & exercise price, Volatility will have 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 1,496,516 ordinary shares between 2011 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.

FOOTNOTES CONTINUED

22. SHARE CAPITAL CONTINUED

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's shares exchangeable
Walker Media Holdings Ltd	2006	12.5%
Walker Media Holdings Ltd	2007	12.5%
Talk PR Ltd	2007	27.1%
The Immediate Sales Company Ltd	2007	16.8%
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%
DNA Agency Network Pty Limited	2008	5.0%
M&C Saatchi Agency Inc	2008	4.0%
M&C Saatchi GAD SAS	2011	28.0%
M&C Saatchi (Thailand) Co Ltd	2011	48.0%

23. RESERVES

Group	Ordinary share capital £000	Share premium account £000	Merger reserve £000	Share option reserve £000	Profit and loss account £000	Total £000
At 1 January 2005	542	9,618	15,959	514	3,577	30,210
Exchange differences	–	–	–	–	(50)	(50)
Issue of options	–	–	–	85	–	85
Merger reserve release on goodwill amortisation	–	–	(1,203)	–	1,203	–
Dividends	–	–	–	–	(1,045)	(1,045)
Profit for the year	–	–	–	–	2,416	2,416
At 31 December 2005	**542**	**9,618**	**14,756**	**599**	**6,101**	**31,616**

Company	Ordinary share capital £000	Share premium account £000	Merger reserve £000	Share option reserve £000	Profit and loss account £000	Total £000
At 1 January 2005	542	9,618	56,763	514	1,167	68,604
Issue of options	–	–	–	85	–	85
Dividends	–	–	–	–	(1,045)	(1,045)
Profit for the year	–	–	–	–	1,932	1,932
At 31 December 2005	**542**	**9,618**	**56,763**	**599**	**2,054**	**69,576**

23. RESERVES CONTINUED

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 £1,932,000 (2004 – £1,167,000) relating to the Company.

24. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2005 Group £000	2005 Company £000	2004 Group £000	2004 Company £000
Profit for the financial year				
– Group	2,497	1,932	1,140	1,167
– Associates	(81)	–	316	–
Dividend	(1,045)	(1,045)	(2,313)	–
	1,371	887	(857)	1,167
Exchange differences	(50)	–	260	–
Issue of shares	–	–	27,155	67,758
Share issue cost	–	–	(835)	(835)
Issue of options	85	85	514	514
Net addition to shareholders' funds	1,406	972	26,237	68,604
Opening shareholders' funds	30,210	68,604	3,973	–
Closing shareholders' funds	31,616	69,576	30,210	68,604

25. COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2005, the Group had the following annual commitments under non-cancellable operating leases:

	2005 Land and buildings £000	2005 Other £000	2004 Land and buildings £000	2004 Other £000
Operating leases which expire:				
Within one year	95	33	174	58
In two to five years	951	97	836	139
More than 5 years	1,672	–	1,961	–
	2,718	130	2,971	197

FOOTNOTES 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 £1,406k (2004 – £1,328k) 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 £67k (2004 – £82k).

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 (2004 – £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 £77,507 (2004 – £87,064) to Complan Limited. At 31 December 2005, the Group owed Complan Ltd £133 relating to these transactions (2004 – the Group was owed £23,702).

Maurice Saatchi, was Co-Chairman of the Conservative Party to 4 May 2005. During the year the Group charged, on an arms length basis, the Conservative Central Office £670,365 for advertising and marketing services (2004 – £350,684) of which £Nil (2004 – £31,603) was outstanding at year end. In addition, the Group charged the Conservative Central Office £985,742 (2004 – £Nil) to cover third party production costs managed on their behalf of which £Nil (2004 – £31,603) was outstanding at year end.

During the year the Group made purchases of £55,101 (2004 – £Nil) from Play London Limited, an associate company. At 31 December 2005, there were no amounts due to Play London Limited in respect of these transactions. During the year, £86,743 (2004 – £Nil) of overheads were charged by Group companies to Play London Limited. At 31 December 2005, Play London Limited owed Group companies £229,000 (2004 – £Nil), 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 £5,000 (2004 – £5,000). There were no amounts outstanding at the year end.

Lloyd Dorfman is chairman and chief executive of Travelex Holdings Limited. During the year the Group charged subsidiaries of Travelex Holdings Limited, on an arm's length basis, £885,528 (2004 – £356,786) for advertising and marketing services and £2,767,053 (2004 – £1,158,842) to cover third party costs. Of which £75,459 (2004 – £114,952) was outstanding at the year end. The Group used Travelex foreign currency payment systems to pay £1,909,158 (2004 – £364,727) of our bills.

28. CONTINGENT LIABILITIES

In 2004 the Group guaranteed amounts that are due to certain suppliers of its subsidiary company Walker Media Limited. At the year end the liabilities covered by these guarantees totalled £Nil (2004 – £20,238,545).

29. ACQUISITION OF THAILAND

On 2 September 2005 the Group acquired 52% of Spalding & Co. Ltd (renamed M&C Saatchi (Thailand) Co. Ltd).

In calculating the goodwill arising on acquisition the fair values of the net assets of Spalding & Co. Ltd (renamed M&C Saatchi (Thailand) Co. Ltd) have been assessed. No adjustment from book value was deemed necessary.

	Book and fair value £000
Fixed assets tangible	55
Current assets	
Debtors	420
Cash at bank and in hand	187
Total assets	**662**
Creditors	
Due within one year	(479)
Net assets	**183**
Cash consideration	143
Cost of acquisition	131
Less net assets acquired (52%)	(95)
Goodwill arising on acquisition	**179**

There were also £96k costs associated with acquiring the French company.

29. ACQUISITION OF THAILAND CONTINUED

Cash flows
The net outflow of cash arising from the acquisition of Spalding & Co. Ltd (renamed M&C Saatchi (Thailand) Co. Ltd) was as follows:

	£000
Cost of acquisition	(274)
Cash acquired	187
Net cash outflow	(87)

30. FINANCIAL INSTRUMENTS

The Group has no borrowings and holds cash on short term deposit. During the year the Group received an average of 4% interest on its deposits.

Currency exposure
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			
2005			
Sterling	50		50
Singapore Dollar	2	2	4
Japanese Yen	59		59
Total	**111**	**2**	**113**
2004 Sterling & Total	3,921	–	3,921

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.

FOOTNOTES CONTINUED

31. NET CASH INFLOW FROM OPERATING ACTIVITIES

	2005 £000	2004 £000
Operating profit	4,489	2,898
Amortisation of intangible fixed assets	1,688	777
Non cash flow expenses associated with reorganisation	–	460
Depreciation	1,183	1,167
Loss/(profit) on sale of tangible fixed assets	59	(34)
Decrease/(increase) in work in progress	224	(2,062)
(Increase) in debtors	(3,003)	(16,233)
Increase in creditors	2,213	17,892
Increase in provisions	186	10
Option charge	85	–
Exchange differences	(78)	78
	7,046	4,953

32. ANALYSIS OF CHANGES IN NET FUNDS

	Balance at 1 January 2005 £000	Cash inflow £000	Finance leases £000	Exchange movements £000	Balance at 31 December 2005 £000
Cash at bank and in hand	17,323	2,967	–	196	20,486
Overdrafts	–	(29)	–	–	(29)
	17,323	2,938	–	196	20,457
Finance leases	(244)	142	(14)	(12)	(128)
Total	**17,079**	**3,080**	**(14)**	**184**	**20,329**

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

	2005 £000	2005 £000	2004 £000	2004 £000
Increase in cash in the year	2,938		12,375	
Cash outflow from decrease in lease financing	142		225	
Inception of finance leases	(14)		(31)	
Exchange differences	184		(87)	
Cash outflow from repayment of bank loan	–		21	
Movement in net funds in the year		3,250		12,503
Net funds at start of year		17,079		4,576
Net funds at end of year		20,329		17,079

RECONCILIATION OF THE UNAUDITED PROFORMA ACCOUNTS TO THE AUDITED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004

2004	M&C Saatchi plc £000	Removal exceptional items and goodwill £000	Re-organisation[1] £000	Enlarged Group £000
Turnover	215,184	–	72,564	287,748
Cost of sales	(155,807)	–	(69,763)	(225,570)
Gross profit	59,377	–	2,801	62,178
Administrative expenses				
– Ordinary	(52,907)	–	(2,037)	(54,944)
– Exceptional	(2,795)	2,795	–	–
– Amortisation of goodwill	(777)	(895)	–	(1,672)
Operating profit	2,898	1,900	764	5,562
Share of operating profit of associates	352	–	(352)	–
Interest receivable	800	–	131	931
Interest payable	(30)	–	–	(30)
Profit on ordinary activities before taxation	4,020	1,900	543	6,463
Taxation on profits from ordinary activities	(2,033)	(460)	(173)	(2,666)
Profit on ordinary activities after taxation	1,987	1,440	370	3,797
Minority interests	(531)	–	90	(441)
Profit for the financial period	1,456	1,440	460	3,356
Earnings per share (EPS)				
– Basic	3.42p	3.06p	0.12p	6.19p
– Diluted	3.41p	3.06p	0.11p	6.14p
Shares on which EPS is based:[2]	42,541,744	47,068,544	54,206,799	54,206,799

(1) Reorganisation column restates the first half of the year to show Walker Media Holdings Ltd as a subsidiary, and adjusts minority interests by £262,000 to remove the minority charge relating to the M&C Saatchi minorities that were acquired during the reorganisation.

(2) 54,206,799 is the number of ordinary shares in existence at 31 December 2004 and includes the new shares placed on 14 July 2004.

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 2005 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses and the related notes on pages 36 to 62. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 35 and page 63. 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 financial statements:
- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent Company's affairs as at 31 December 2005 and of the Group's profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

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

ADDITIONAL INFORMATION

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Registrars
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Secretary and registered office
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www.mcsaatchi.com

Country of registration
England and Wales

Company number
05114893

CORPORATE EVENTS

AGM
7 June 2006

Final 2005 dividend paid
12 June 2006

To those on the register on
12 May 2006

Interim 2006 statement
Early September 2006

Interim 2006 dividend paid
18 October 2006

To those on the register on
22 September 2006

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