M&C SAATCHI GROUP

Annual Report and Accounts 2020

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CHAIRMAN'S STATEMENT

In my first statement as Chairman of the Company, I am pleased to report that 2020 has proved to be a year of resilient business performance. Whilst the Covid-19 pandemic disrupted all our lives, both personally and professionally, we were able to rise to meet the challenges. Last year we promised that we would do everything to ensure that the Company emerges hungrier, leaner and stronger from the challenges of recent years. During 2020, we started that process by beginning to simplify and strengthen our business through cost-cutting, restructuring and disposals of loss-making companies. These activities helped reduce total Headline operating costs by over £22m.

The Covid-19 pandemic resulted in unprecedented trading conditions in 2020 with many clients worldwide reducing or cancelling their marketing spend. Most of our businesses saw revenue reductions, but there were some bright spots. Our Global and Social Issues Division and creative talent management agency, M&C Saatchi Merlin, both saw increases in net revenue and profit before tax.

Overall, there was a 12% reduction in Group net revenue and a 54% reduction in Headline profit before tax. The difficult trading conditions lent added impetus to our pace of business simplification and business process improvement, which has continued in earnest in 2021. Headline earnings per share decreased by 83% to 1.5p and the Statutory loss per share reduced to 9.1p from a loss of 13.1p. Given the difficulties of recent years, the 2019 audit process was significantly prolonged, but I am pleased to report that we have recovered well and have seen an improvement in the Company's share price. However, there is still much to do.

One of the Company's biggest priorities was the management of cash and liquidity. I am pleased to say that we excelled in this regard, with year end cash being significantly ahead of expectations - net cash of nearly £33m, almost twice the level of the previous year. The Company received approximately £1m of furlough payments in the UK which, in 2021, we have voluntarily returned in full to HMRC.

Details of the Company's financial performance can be found on pages 34 to 40.

BOARD CHANGES

After more than twenty-five years in their roles and having founded the Company, Jeremy Sinclair and David Kershaw stood down as Chairman and Chief Executive respectively at the end of 2020 and Bill Muirhead stepped down on 31 March 2021 from his Executive Directorship. On behalf of my fellow Directors, I would like to record the Board's thanks to Jeremy, David and Bill for their great contributions to the success and development of the Company.

On 1 January 2021, Moray MacLennan was appointed Chief Executive Officer of the Company and joined the Board, bringing with him a great depth of experience of both the Company and the wider sector alongside the ambition and ability to deliver the Company's vision and strategy going forward.

I was pleased to join the Board as Deputy Chairman in February 2020 and replaced Jeremy as Chairman at the end of the year. We were delighted that Colin Jones, Lisa Gordon and Louise Jackson all agreed to join the Board during 2020 as Non-Executive Directors. In March 2021, Vinodka (Vin) Murria joined as a Non-Executive Director and Deputy Chair.

Given Vin Murria is one of the Company's major shareholders, she is not considered to be an independent Non-Executive Director. All of the Non-Executive Directors bring a wealth of experience from their respective careers and have already enhanced the quality of discussion and challenge around the Board table. Details of all five new Non-Executive Directors can be found on pages 61 to 64.

CORPORATE GOVERNANCE

I am also pleased to report substantial progress in the governance of the business and in our efforts to fully comply with the UK Corporate Governance Code 2018 (the "Code"). Five new Non-Executive Directors have joined since the start of 2020 because we believe that good governance requires strong Non-Executive Directors to challenge the thinking of the Executive Directors. The changes in our Board have also led to a broader mix of skills, backgrounds, gender and ethnicity. We believe that the Board should set the standard for more diverse representation across the Company by providing pathways to success for women and employees from ethnic minorities. The new ideas and perspectives that come from more diversity will only strengthen our performance and leadership. Please see pages 45 to 47 for details on the progress on diversity. To consolidate these changes in corporate governance, we commissioned an external review of the effectiveness of the Board and we will be implementing the recommendations for improvement from the review during the course of 2021. Please see page 65 for the details.

Similarly, the Directors' Remuneration Policy was reviewed by external consultants and now incorporates a number of best practice measures so that it complies with the Code. These include clarity, simplicity, disincentives to take inappropriate risks, proportionality and alignment to culture. Louise Jackson, one of the Non-Executive Directors, has been appointed as the representative of the employees on the Board to ensure engagement with the Company's workforce. The details are set out on pages 86 to 107.

Please refer to pages 68 and 69 for the s172 statement which provides details of the Company's engagement with its stakeholders.

ENVIRONMENTAL AND SOCIAL CHANGE

The Company's mission of driving meaningful change also applies to the areas of environmental, social and governance (ESG) and sustainability. Sustainability and supporting communities are at the heart of much of our client work. Please see page 51 for some powerful examples of our current client work in this area. Later this year we expect to launch a new sustainability practice which will help businesses build brand value.

We have also continued to invest in external partnerships around the world that focus on the development of diverse talent. We are particularly proud of our involvement in the M&C Saatchi Saturday School which was set up to teach the basics of business to under-represented groups, and also the Mentor 300 Black Businesses initiative, which has now grown into a programme mentoring over one thousand black businesses. Please see page 47 for more details.

During the Covid-19 pandemic we prepared for reductions in space in our London, New York, Singapore and Cape Town offices and work has started on initiatives to make our London headquarters more environmentally friendly. All these measures will reduce our carbon footprint. Please see page 50 for details on the Company's moves to support the environment.

CONTROLS

New financial systems, controls and personnel have laid the foundations for a better controlled and managed Group. We are centralising control of our business functions in order to move from a federation of siloed, local operations to a connected, digital, global organisation. More still needs to be done, but already during the Covid-19 pandemic, the Company has operated in a much more cohesive fashion with increased standardisation of policies and procedures and better co-operation and co-ordination between agencies.

To improve internal controls and financial risk management the Group's finance function has been reorganised, and has moved towards standardised Group accounting policies and procedures for all subsidiaries as well as implementing a cloud-based accounting and forecasting system to be deployed across the Group. There have been significant improvements in a short space of time as a result of these initiatives, but the change programme is ongoing, and further improvements are expected. Governance improvements have been made, improved whistleblowing systems have been implemented and required cultural changes have been identified. The latter has seen a shift to a more centralised approach with better collaboration between the Group's agencies and also the move to a more diverse culture. The appointment of a dedicated General Counsel and Company Secretary and a Chief People Officer will continue to strengthen our business processes, the way in which we develop talent and the considerable potential that we have in our worldwide businesses.

Refer to page 40 for details of systems implementations and pages 127 to 129, 159 to 162 and 237 to 238 for details of accounting policies.

OUTLOOK

The Covid-19 pandemic continues to create uncertainty, but we believe that our new simpler business model (refer to pages 13 to 15) and the restructuring actions taken during 2019 and 2020 mean that the Group is well placed to take advantage as the world emerges from lockdown. Our five-year plan sets out a roadmap for growing revenue and reaching an 18% Headline operating profit margin by 2025 through a change in the mix of services we provide and operational efficiencies. We have a globally recognised brand, exceptional people and talent, and a strong and committed client base.

On behalf of the Board, I would like to welcome colleagues who have joined during the course of the year and to thank everyone throughout the Group for their commitment and hard work, in spite of the difficulties they faced during 2020 especially with remote working. The Board is confident in the future and the success of the Company given the skills and diversity of the business both in terms of geographical coverage and range of service offerings.

GARETH DAVIS
Chairman
27 August 2021

CHIEF EXECUTIVE'S REVIEW

2020 was a watershed year for the Company. Past issues were tackled and the financial position strengthened, whilst adapting to the new Covid-19 environment.

By the close of the year there was a new Board, new leadership, a new structure and a new strategy.

OUR 2020 PERFORMANCE

Despite the extraordinary circumstances of 2020 and its impact on the sector as a whole, we continue to generate Headline profits, albeit at a reduced level, and we reduced the Statutory loss.

We acted swiftly to reduce costs, closing or merging 20 operating entities, driving operational efficiency and allowing us to focus on future growth.

The Company's underlying core strengths including the breadth of offering, quality of output, agility, and strong client relationships helped us navigate this turbulent and challenging period with minimal client losses.

I would like to thank all 2,450 people who work for the Group around the world for their commitment, creativity and hard work. What you achieved was nothing short of extraordinary and provides great confidence for our future.

2020 financial summary

Net revenue declined by 12% to

£225.4m

Headline profit before tax reduced by 54% to

£8.3m

Statutory loss before tax reduced by 1% to

£(8.5)m

Net cash increased by £16.2m to

£32.7m

REPORT BY REGION

UK

Like-for-like net revenue in the UK declined by 14% (2020: £88.9m 2019: £103.2m) driven by budget cuts from existing clients. Headline operating profit was up 12% (2020: £16.4m 2019: £14.7m) with Headline operating costs decreasing by 18%.

The advertising agency merged with LIDA, our CRM company, and under new leadership, delivered a turnaround in profit.

Early in 2020, we simplified and strengthened the PR businesses by merging two companies into a single entity, M&C Saatchi Talk.

World Services, our Global & Social Issues business, and M&C Saatchi Performance had outstanding results and continued to see strong demand, despite the Covid-19 pandemic.

M&C Saatchi Sport & Entertainment was hit hard by the cancellation of events, but had a near perfect record in terms of client retention and new business conversion. Critically, it pivoted from a live event landscape to one entirely digitally focused.

Our Talent and Social businesses performed strongly and Clear unified their UK and US operations to improve efficiencies and set the direction of travel for 2021.

Notable new business:
First ever digital Census.

First post-Covid tourism campaign for Iceland.

New roster clients – include Kia, TikTok, Hello Fresh, and Care International.

Significant new assignments from existing clients included Public Health England, Costa, O2 and Homebase.

Europe
Like-for-like net revenue in Europe declined by 7% (2020: £28.4m 2019: £30.5m) which was also caused primarily by existing clients cutting marketing spend. Headline operating profit declined by 51% (2020: £1.5m 2019: £3.0m).

Despite being hit early and hard by the Covid-19 pandemic, our Italian agency continued to perform well, producing outstanding work for BMW and Sky. Germany and the Nordics proved resilient, trading profitably.

Losses in Spain and France were reduced through taking our shareholding to minority status. This allows us to continue to have a meaningful presence for international assignments, but de-risks for the future.

Notable new business:
Tele2 and Fortum from Sweden for the Nordics.

Polaroid in Italy.

Middle East and Africa
The Middle East and Africa region performed creditably. Like-for-like net revenue was down by just 6% (2020: £15.6m 2019: £16.6m). Headline operating profit declined by 55% (2020: £0.7m 2019: £1.5m) with Headline operating costs reducing by 1%.

The region performed well, especially with regards to new business.

The Sport & Entertainment company, Levergy, was voted Agency of the Year.

Notable new business:
Standard Bank, one of the largest assignments on the African continent. South Africa also secured TikTok, Astron Energy, and new assignments from Nando's.

Dubai won the Wizz Air account and extended their remit with Pizza Hut in the region.

Asia
Like-for-like net revenue declined by 25% (2020: £10.5m 2019: £13.9m). Headline operating profit reduced by 286% (2020: -£0.8m 2019: £0.4m) with Headline operating costs reducing by 16%.

Operations across Asia suffered particularly badly due to the Covid-19 pandemic. In Singapore, plans for a fundamental restructure were drawn up, to be implemented in 2021.

Malaysia and China proved more resilient maintaining levels of profitability.

The new agency in Hong Kong weathered the storm and is well set for the future.

Standout performers were the Jakarta agency which won Campaign's Creative, Independent and Digital Agency of the Year 2020 and Performance Asia who saw significant growth.

Notable new business:
Indonesia Tourism Ministry, BP Castrol, Tinder, Grab.

Australia
Like-for-like net revenue declined by 6% (2020: £47.4m 2019: £50.6m). Headline operating profit reduced by 41% (2020: £3.1m 2019: £5.2m) with Headline operating costs reducing by 2%.

Under new leadership, our Australian group of companies continued to go from strength to strength despite the headwinds of fire, flood and Covid-19.

Capabilities were extended and relationships deepened with major clients Woolworths, CommBank and Optus.

The Australian Tourism campaign successfully pivoted to reflect new priorities due to the pandemic.

Melbourne returned to profitability under new leadership and worked closely with the Victoria State Government to combat Covid-19.

Re (brand experience) had a particularly strong year.

Notable new business:
Victoria State Government, World Vision, Domain, Origin and Maurice Blackburn.

Americas
Like-for-like net revenue declined by 17% (2020: £34.6m 2019: £41.6m). Clients reacted cautiously in the face of the pandemic by cancelling and delaying work. Headline operating profit reduced by 19% (2020: £2.5m 2019: £3.1m) with Headline operating costs reducing by 17%.

Following the closure of LA and our US PR operations, the New York based companies traded profitably.

SS+K were part of the successful Biden-Harris campaign and had a strong new business year.

Sport & Entertainment North America's performance was particularly noteworthy, growing despite the cancellation of almost all sporting and other events.

The customer experience and media companies performed well and our consulting division Clear saw strong growth.

Outside of the US, our agencies in Sao Paulo and Mexico City were hit hard, but again, a recovery is expected in 2021.

Notable new business:
The Biden-Harris campaign, NFL, Anheuser Busch, Sonos, Weather Channel, McCain, Campbell's and Promote Iceland.

OUTLOOK

Our focus in 2020 was fixing what needed to be fixed and giving clarity of direction for our future – structurally, strategically, and operationally.

In 2021, the focus is on driving growth through the new strategy – increasing connectivity whilst continuing to simplify, drive efficiencies and enhance governance.

Trading

Having been swift to act in 2020, we are positioned for a return to growth in 2021.

And as the vaccine program progresses and client and consumer confidence return, so does ours for the upcoming period.

We expect to see a steady improvement to trading conditions across the year and our performance to reflect that.

Structure

We will continue to streamline our operations, merging companies where appropriate and ceasing operations where the risk is not justified by the potential reward.

In particular, we will look to reinforce our central data and insight capabilities.

We will invest so that we have category leading expertise in sustainability.

And new platforms will be implemented to fuel our connected growth.

Efficiency

There will be a continued focus on cost reduction.

Central costs will increase in the short term as we address past issues and implement new tech platforms to enhance corporate governance, but thereafter targets have been set for reductions in central, property and other operating costs.

We are confident we will find further operational efficiencies within HR and finance functions across future periods.

Talent

Our people remain the foundation of our success.

We anticipate the talent war becoming even more fierce, and we will focus on our employer value proposition and culture more keenly than ever, led by our new global Chief People Officer.

Our purpose of navigating, creating and leading meaningful change was informed by our colleagues, and will be an important element in ensuring we retain and attract talent.

AND FINALLY

I helped start M&C Saatchi in 1995.

It was a time of uncertainty but excitement and optimism.

In my first year as the Chief Executive Officer of the Company, there are echoes. Our sector is changing rapidly which produces uncertainty, but also extraordinary opportunity that our entrepreneurial culture is well set to take advantage of.

We have drawn a line under our recent troubles and I feel that same sense of excitement and optimism for the coming years as we implement the new strategy.

> "2020 was a watershed year for M&C Saatchi. Past issues were tackled and the financial position strengthened, whilst adapting to the new Covid environment."
>
> **– Moray MacLennan**

OUR BUSINESS MODEL

Strategic review

During the second half of 2020, I worked closely with the Board to develop the new business strategy and structure:

A NEW MISSION

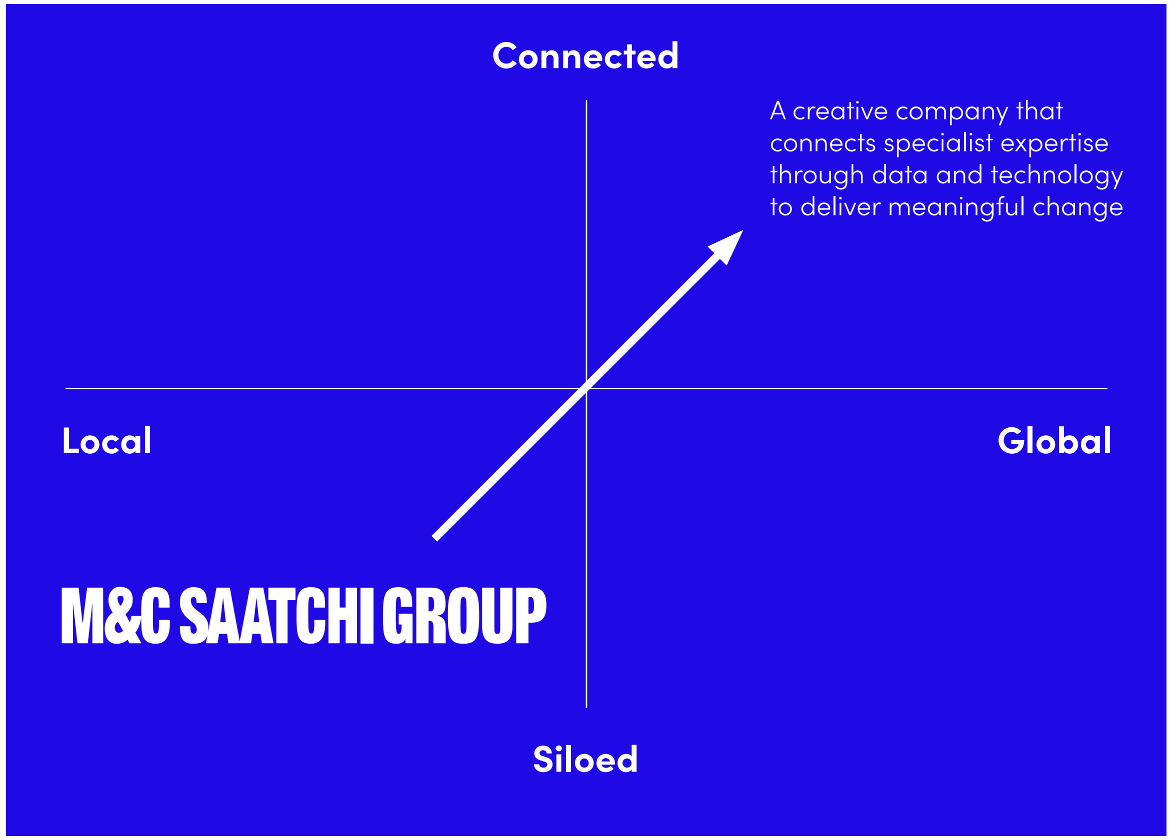
A NEW PROPOSITION

A NEW STRUCTURE

NEW MISSION

The Group will move from being largely siloed and local, to a more connected and global company, fuelled by data and technology.

This will give us the ability to compete for more significant revenue assignments and to extend existing clients into more sectors.



NEW PROPOSITION

Our research shows that the top three challenges clients will face are:

Understanding and adapting to changing consumer needs, responding successfully to economic uncertainty and disruption, and investing in online customer experience.

Our strategy is rooted in an analysis of these needs and the future marketing landscape. Change over the coming years will be deep and complex, accelerated by the impact of new technology, amplified by the shadow of Covid-19 and multiplied by deep economic upheaval.

Clients will face accelerated disruption, new consumer behaviours where consumer segments shift, priorities change and what was previously certain no longer will be.

This has informed the new proposition:

To navigate, create and lead meaningful change.

We **navigate** complexity with a deeper, more accurate understanding of people, culture and society.

We **create** connections with a wider range of creative and technical capabilities.

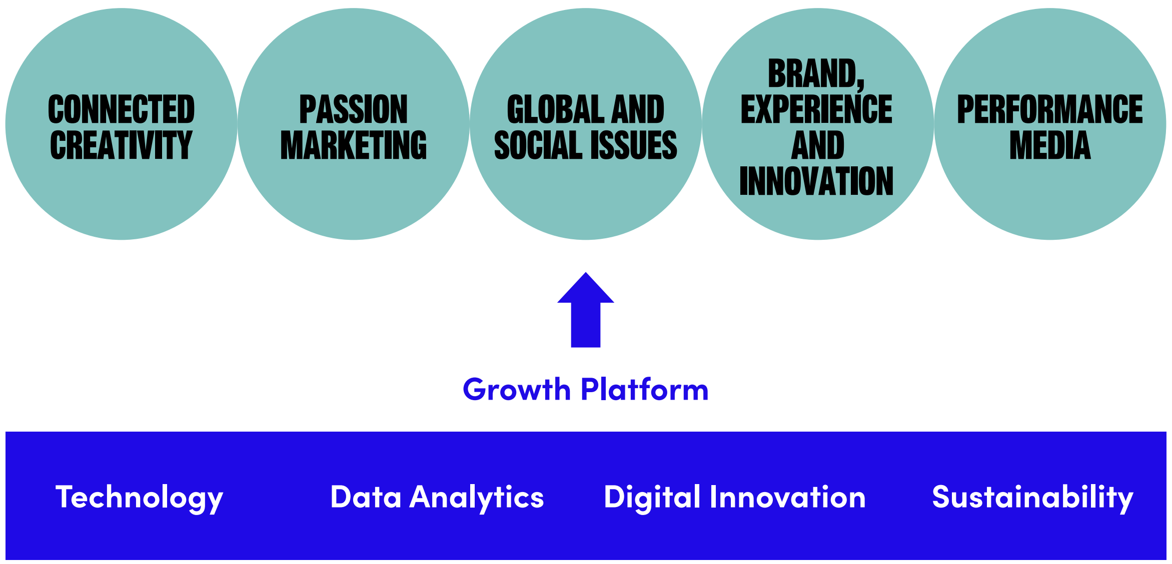
We **lead** value creation by identifying how and where creativity can unlock new value for clients.

NEW STRUCTURE

We have introduced a new simpler operating model, stripping out complexity and underperforming operations.

The Company held a Capital Markets Day event in January 2021 in which we outlined a new Group divisional structure. The Group has been simplified into five specialist divisions, and new central growth drivers added to fuel performance – data, sustainability expertise and new growth platforms.

The divisions meet clear and growing client needs. They build on existing strengths where we have world class talent and when connected make up a differentiated end-to-end offer to clients.



NEW DIVISIONS

Connected Creativity The application of marketing science and creativity to solve complex problems	Our agency network has the capabilities to operate across the entire communication landscape, from transformative creative ideas that drive fame and penetrate conversations, to targeted digital content that drives brand relevance and transactions. Whether owned, earned or paid for, the output is fuelled by data and insight, and is increasingly distributed on digital platforms to targeted, more addressable audiences driving more measurable outcomes. Future investment will be in enhancing dynamic content creation and distribution as well as the centralised data and insight capabilities.
Passion Marketing Connecting brands direct to consumers through their passions	A world-leading capability in using data led insight to identify people's passions and creativity to engage. Passions include sport (including esports), music, film, and fashion. New offerings have been developed for the new and emerging passions that have come out of the Covid-19 era.
Global and Social Issues Driving critical global and social change. Protecting the planet, transforming lives for the better	Partnering with governments, civil society, foundations and the private sector, we deploy behaviour change expertise and strategic communications to tackle some of the world's most challenging problems. These include the climate emergency, national security, human rights, global health and conflict prevention. With world class insight, creativity and technology, we lead transformational change that protects the planet and improves peoples' lives.
Brand, Experience and Innovation Transformative digital experience, design, and innovation	Digitally pioneered upstream growth consulting. Full stack, fully integrated digital brand and experience design. Reimagining digital products and services for clients' future growth.
Performance Media Connecting brands with today's connected consumers	Our media capabilities are performance centric and global, creating targeted, measurable results, in the hyperconnected world. We operate across the digital ecosystem, using proprietary technology and an agile tech stack, in real time, at scale.

CONNECTED CREATIVITY

We apply marketing science and creativity to solve complex problems.

2020 demanded our industry to dig deeper than ever in its quest to understand customers better, serve clients with more agility, and deliver work to the highest creative standard. Clients were facing the toughest communications challenges in a generation. For all of our teams it was a year spent working with clients to help them get closer to their customers and make digital connections.

We deepened many of our existing client relationships as a result with new assignments to help them through the pandemic; from Costa, Homebase and the Department of Health in the UK, to Nando's in South Africa, Pizza Hut in the Gulf countries and Woolworths and Commonwealth Bank in Australia. During that time teams were working together globally to win new business; from winning the Promote Iceland global assignment, to winning clients such as Standard Bank, TikTok and World Vision through to working on the highly anticipated Biden-Harris U.S. election campaign.

And the winning did not stop there. Our agency in South Africa won best client and agency partnership, again. In Australia we were voted most innovative company by Financial Review and our agencies in Italy and Indonesia won Agency of the Decade and Campaign's Best Creative & Digital Agency respectively. Needless to say, despite the challenges of the year, our connected creativity teams all around the world did us proud.

PASSION MARKETING

We connect brands direct to consumers through their passions.

The sport and entertainment industry may have come to an abrupt halt in 2020 but we did anything but stand still. Outperforming the market and most of their competitors through resilience, creativity and a relentless determination to succeed. The result was an offer with a far more digitally led approach.

When physical events disappeared overnight, we pivoted to creating world class digital virtual events instead. These included some of the most talked about events of the year for Heineken and their Champions League party, a live training session with Rafa Nadal for Kia and a weekend of music for McDonald's headlined by Stormzy.

This and more resulted in the UK being named Large Sponsorship Agency of the Year in 2020. Our production studio also produced more digital content than any previous year. New business performance was strong with other wins including Dettol, eToro, Sonos and Just Water. This was a major factor in Sports & Entertainment New York delivering record numbers in 2020. All of these wins added to our existing roster of clients including Heineken, adidas, Coca-Cola, Ballantine's and Virgin Media.

GLOBAL AND SOCIAL ISSUES

We drive critical global and social change. Protecting the planet, transforming lives for the better.

2020 was a year of unprecedented change. Change which heightened our clients' need to address an evolving set of global and social issues, in new and challenging circumstances.

Workflow remained consistently high, as we adapted to new ways of working, delivering across the development, diplomatic, security and social impact sectors, at a faster pace and greater scale than ever before. New client briefs included The Global Fund, COP26 (UK Cabinet Office), NATO, UNICEF, Care International, The Rockefeller Foundation and ONS UK Census.

BRAND, EXPERIENCE AND INNOVATION

We create transformative digital experience, design and innovation.

The Covid-19 pandemic of 2020 had a huge impact on trading for this division. A well-diversified client base meant the impact was mixed. Well documented downsides were in the hospitality space where significant contracts with airlines and restaurant groups were cancelled overnight.

But on the positive side, the Covid-19 pandemic also accelerated structural consumer trends that led to an increase in demand from this division's services. There was an increased demand to reposition and re-express brands to better connect with a changing culture while the division was well placed to respond to the urgent need to improve digital experience.

The division continued to invest in and develop key capabilities in digital experience and agile incubation services to better serve clients' changing needs.

We received additional assignments from existing clients such as Optus (Australia) Discover (US) and GSK (UK). There were a number of notable new business wins from clients such as Weld North Education, Rent-a-center and TikTok.

Looking forward, with growing client confidence in key client markets, the outlook is positive.

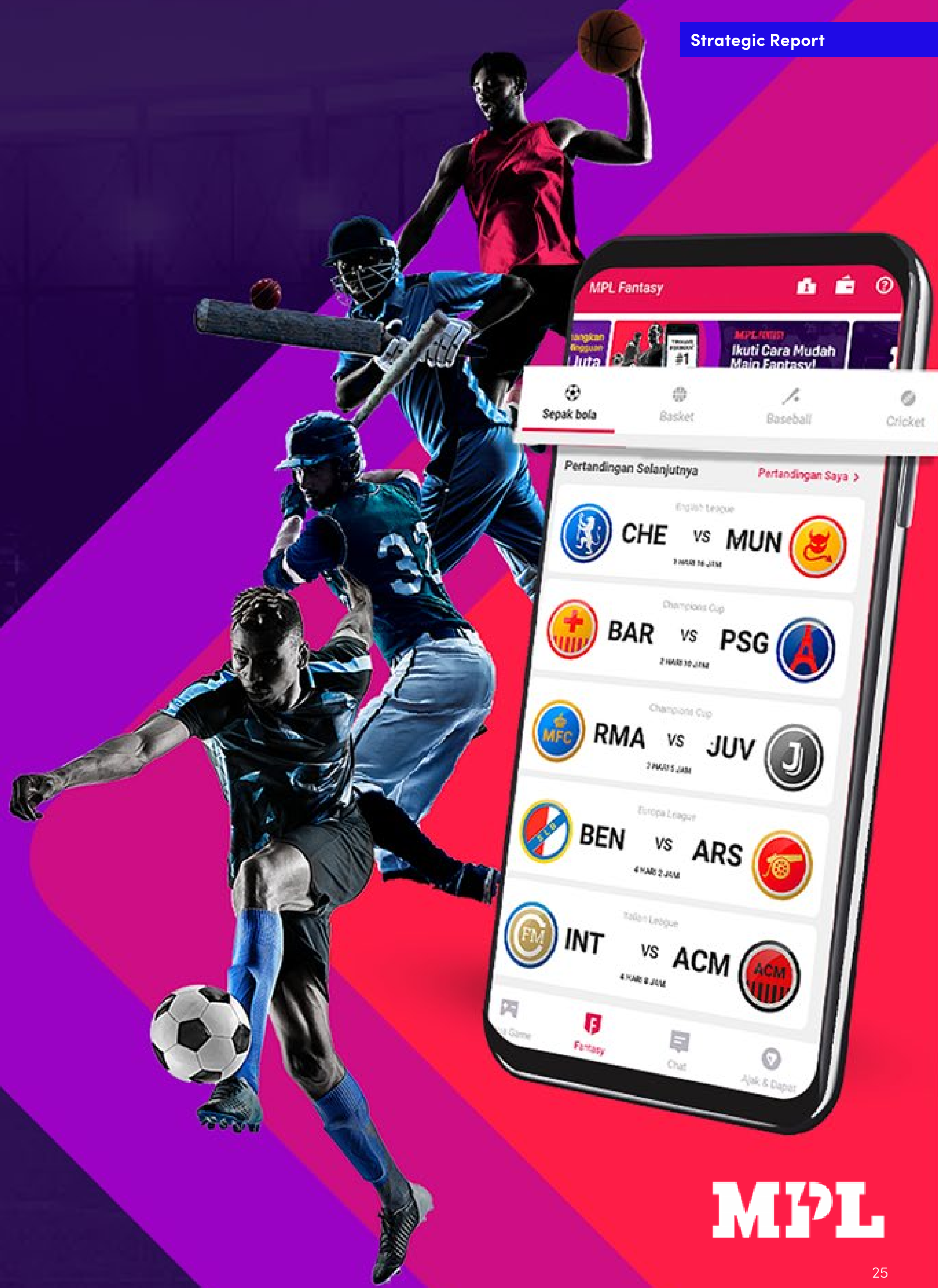
PERFORMANCE MEDIA

We connect brands with today's connected consumers.

Last year, digital became a lifeline for many, replacing shops, meetups, and offices while the world was forced indoors. Digital adoption was accelerated overnight, and digital media became the main way for brands to connect with consumers.

Our experience in performance media put us in a strong position to help our clients continue to connect with core audiences and build deeper and lasting relationships. As the digital space becomes more complex with regulation and privacy protection, our team have been creating innovative strategies to navigate an increasingly contextual marketplace. In unpredictable times, our measurable marketing strategies have been a reliable constant for our clients.

We have built on our long-standing relationships with world-leading ecommerce brands and delivery services, we've also welcomed new and exciting mobile-first clients dominating the dating and entertainment app charts. Together we are driving the digital economy.



PRINCIPAL RISKS AND UNCERTAINTIES

The Board has overall responsibility for internal controls and for reviewing their effectiveness. The Group operates a policy of continuous identification and review of business risks. This includes the monitoring of key risks, identification of emerging risks and consideration of risk mitigations after taking into account risk appetite and the impact of how those risks may affect the achievement of business objectives and the future success of the Group.

The risks and uncertainties that the business faces evolve over time and the Executive Directors and the senior management are delegated the task of implementing and maintaining controls to ensure that risks are managed appropriately. The Group's risk management framework is designed to identify and manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board carried out a robust assessment of the Company's emerging and principal risks together with the actions to be taken to mitigate these risks. The following table details our principal risks and uncertainties for the year ahead. These are considered to be the most significant, but are not an exhaustive list of all risks identified and monitored through our risk management process, which includes the consolidation of the underlying functional risk registers of the Group's subsidiaries into the single risk review reported to the Board.

Future threats that cannot be accurately assessed at the current time but could have a material impact on the business in the future are considered alongside existing risks with a view to improving our response plans and exploit potential opportunities. Our view of emerging risk includes several trends which could form part of the legacy of the Covid-19 pandemic. In most cases these trends could heighten our existing principal risks. For example, the continued border restrictions in Australia may add to the challenge of retaining and attracting the talent needed in that region. The macroeconomic outlook could also see an increased threat of further disruption in the coming years, through social and political instability. Emerging trends can also present opportunity. We take a proactive approach to the changing market conditions and patterns in our sectors to ensure we continue to meet the expectations of our clients. Climate change and the transition to a low carbon economy could present some of our most significant challenges and opportunities in the future. Government commitments to reduce carbon emissions are expected to lead to further developments and changes in regulation across the supply chain and property management. There is significant opportunity in addressing climate-related matters to meet client expectations and secure the reputation of our brands in respect of their sustainability credentials.

PRINCIPAL RISK DESCRIPTION	RISK RESPONSE	RISK MOVEMENT SINCE 2019
CLIENTS		
Loss of clients Loss of clients and reductions in expected revenue from clients. We lose clients for a number of reasons including but not limited to: • Negative global or local economic conditions directly impacting clients' businesses; • Clients running out of funding following commission; • Clients redirecting marketing spend elsewhere; • Innovation from competitors; and • Increased competition from a wide variety of sources.	• Digital Innovation: creation of a new breed of innovation studio in 2021 involving centralisation of digital production and dynamic content distribution; • The launch of new service offerings such as the Group's data consultancy, M&C Saatchi Fluency, and a new sustainability practice; • Creation of a new, simpler operating model: simplification of structure down to five specialist divisions, addition of connective tissue between the specialist divisions, new growth drivers to fuel performance; • Diversified client portfolio across the overall Group.	
EMPLOYEES		
Loss of key employees Employees remain our greatest asset and high levels of employee turnover are a principal risk.	• Supporting our employees physically and mentally during the Covid-19 pandemic including arranging for remote working, ensuring regular contact with and support for employees working from home; • Significant efforts made to engage with and obtain feedback from employees; • Fostering a culture in which employees influence and have a say in the environment in which they work; • Increasing diversity at Board level will set the standard for more diverse representation across the Company; • Appointment of a Chief People Officer to drive new employee-related initiatives.	
Inadequate employee skills and welfare Highly skilled employees are vital to building and maintaining client relationships and winning new work. Without the continuous development of our employees they will become demotivated, and the service we offer our clients may suffer.	• Best practices from each office shared via our intranet; • Worldwide meetings and local and global working groups. • Local businesses focus on their employee development to create the leaders of tomorrow; • The changes wrought by the Covid-19 pandemic have improved inter-office communication, co-operation and collaboration; • HR initiatives during lockdown to promote employee welfare.	
IT, SYSTEMS, PROCESSES AND CONTROLS		
System access and security compromised As our product range expands and becomes more data and technology dependent, so too does the risk of cyber-attacks.	• Continual monitoring, updating and globalisation of computer systems; • Use of training programmes to improve data protection and awareness of cyber security risks; • Employment of staff with relevant expertise; • Critical areas of our technology infrastructure come under the ISO27001 regime, and we strive to increase its coverage meaning our security is regularly audited; • Insurance against cyber risk; • IT security policies.	
Internal controls inadequate or overridden The risk that our multiple accounting platforms, lack of common financial control policies, reliance on manual processes, the ability for controls to be overridden without knowledge or review by others, and cultural and historical habits, do not reflect the Board's direction.	• Reorganisation of the Group finance function; • Roll-out of standardised Group accounting policies and procedures; • Implementation of a cloud-based accounting and forecasting system across the Group; • Review of governance including improving whistleblowing systems and identifying cultural changes needed.	

PRINCIPAL RISK DESCRIPTION	RISK RESPONSE	RISK MOVEMENT SINCE 2019
Inadequate central control Due to the large number of businesses in the Group and the decentralised management of those businesses and complexity of the Group structure, the risk exists that significant business decisions that should be decided and/or approved centrally are made locally without central oversight.	Implementation of greater central control in finance, legal, HR and IT etc through: • Roll-out of standard Group accounting policies and procedures; • Implementation of a cloud-based accounting and forecasting system across the Group; • Ongoing Group simplification; • Strengthening corporate governance; • Appointment of a new Chief People Officer to reduce employee-related risk.	▼
Suppliers We depend on suppliers for products and services, particularly technology. Without these, we face disruption or delays in the delivery of work, impacting our contracts and revenue.	We strive to work with reputable suppliers and aim to always have a fall-back option: • Implementation of failover/alternative systems in order to avoid potential downtime; • Use of "cloud-first" migration strategies to improve reliability; • Pro-active engagement with vendors to risk-assess them; • Full implementation of a new cloud-based accounting system allowing future data mining of suppliers.	NEWLY REPORTED
LEGAL AND REPUTATIONAL		
Reputation The Group's brand and name has value and recognition and helps win clients. As our name is well known, our actions are subject to public scrutiny, disproportionate to our size. Many of the risks identified in this risk review section have the potential to damage our brand and reputation.	Reputational risk management is at the heart of managing all the other risks set out here. We manage this risk by: • Strengthening corporate governance; • Standardising policies and procedures around the world; • Using a strategic financial and corporate communications advisory firm; • Using whistleblowing tools allowing employees to report any form of misconduct in the workplace; • Appointing a new Chief People Officer to reduce employee related reputational damage.	▼
Regulation and legal Regulatory and legal rule changes can affect our trading, ownership structures or interpretation of our financial data. We are exposed to multiple regulators in various countries covering amongst other areas: trading in our shares, health and safety of our employees, data protection, advertising standards, accounting, financial reporting and tax authorities.	• Continuous monitoring and planning for proposed and actual regulatory and legislative changes and interpretations; • Standardising policies and procedures around the world; • Where possible, active and positive engagement with regulators; • Sharing knowledge and best practice across the Group; • Using whistleblowing tools allowing employees to report any form of misconduct in the workplace.	◀▶
Litigation As a services business with a wide variety of stakeholders, we face an ongoing risk of litigation.	• Reviewing and updating quality control processes; • Employing staff with the necessary knowledge and expertise; • Seeking legal advice where necessary; • Insuring against this risk and regularly engaging with our insurer via our broker.	◀▶
Association The risk that suppliers, clients, or employees damage our corporate and brand values, with resulting damage to our reputation and credibility. This can potentially impact our ability to win new client business, result in the departure of existing clients, hindering our ability to retain or hire talent or result in fines.	• Implementing policies and training programmes for employees to vet and monitor clients and suppliers at all levels and taking any relevant action; • Making use of appropriate advisors; • Ensuring the Board is regularly informed of new business; • Taking out insurance to allow us to access experts if such a situation arises.	◀▶
Security The risk from security challenges such as theft, bribery and corruption, terrorism and political activism due to our geographic spread. As a creative business, intellectual property theft is a particular concern.	• Risk assessments carried out as appropriate and dependent on location to understand business' exposure and to mitigate accordingly; • Making use of appropriate advisors; • Use of specialist security operations teams in high-risk locations; • Vetting of employees, suppliers or partners (and obtaining security clearance where appropriate).	NEWLY REPORTED

PRINCIPAL RISK DESCRIPTION	RISK RESPONSE	RISK MOVEMENT SINCE 2019
FINANCIAL		
Funding and liquidity Our ability to secure and service adequate funding is paramount to our success. The Company could experience a breach of its financial covenants under its revolving credit facility agreement leading to cash restrictions, loss of shareholder confidence and less favourable terms when refinancing in the future.	• Maximising cash in the Group through significantly improved treasury management function, evidenced by the substantial increase in cash between December 2019 and December 2020; • Close cash monitoring and cash flow forecasting; • Regular liaison with and transparent relationships with lenders; • Performing forward covenant testing on a monthly basis, applying sensitivity analysis and stress modelling; • Employing a suitably qualified treasury expert; • Entered into a new revolving credit facility in May 2021.	▼
Financial Changes to exchange rates, interest rates, tax rates and the Company's share price can affect profitability, cash flows and future liquidity.	• Monitoring and modelling likely and actual changes; • Implementing a cloud-based accounting and forecasting system which will improve our decision making as well as enabling the better utilisation of locally held cash; • Maintaining close relationships in the banking sector and the wider capital markets to enable us to access future liquidity.	◀▶
Financial mismanagement and fraud As well as the risk of misstatement of the financial statements, there is also a risk of financial mismanagement against clients through incorrect billings and/or overcharging clients. Employees could commit fraud by false accounting or submitting inflated expense claims.	Increased visibility and reduced risk as a result of: • Implementation of new financial systems; • Improved financial controls; • Continued co-operation with regulatory bodies, consultants and external advisors to resolve past accounting issues and prevent future recurrence; • Roll-out of standardised Group accounting policies and procedures.	**NEWLY REPORTED**
GEOGRAPHIC		
Global footprint Risks arising from operating in certain geographic regions which potentially endanger our employees or restrict our ability to trade. Security challenges such as bribery, corruption, terrorism and political activism are risks due to our size and geographic spread.	• Monitoring our global footprint, insurance and travel plans; • Investing in technology to allow us to work remotely from these regions; • Continuing to review and update our business contingency plans. Investment in technology has been used to maintain our cohesion and client delivery despite the difficulties imposed as a result of the Covid-19 pandemic.	◀▶
Covid-19 pandemic Despite our success in adapting to remote working, Covid-19 remains a threat to the business, employees and suppliers. The Group may suffer a decline in revenue from those clients affected by the pandemic.	The operational, principal and emerging risk landscape has been reassessed in light of the impact of the pandemic on these risks. During the year, detailed reviews have been undertaken by the Board and senior management on the impact of the pandemic. These included the following: • Continual monitoring of government advice for changes to ensure regulatory and compliance controls; • Use of remote working collaboration tools; • Strong focus on cash management and cash preservation; • Continued investment in business continuity, e.g. ISO 22301 certification drive in London; • Monitoring employee wellbeing and providing adequate support.	**NEWLY REPORTED**

FINANCIAL REVIEW

FINANCIAL KEY PERFORMANCE INDICATORS

The Group manages its operational performance through a number of financial key performance indicators. These are stated below with the comparative key performance indicators for 2020.

Net revenue, down

12.1%

Staff cost ratio, up

4.3%

Headline operating margin, down from 8.0% to

5.3%

Statutory operating loss margin, improving from -4.3% to

-2.2%

Headline profit before tax, down from £18.3m to

£8.3m

Statutory loss before tax, improving from £8.6m to

£8.5m

Statutory loss per share reduced by

4.0p

per share and still remains negative

Increase in net cash, up year on year by

£16.2m

	Headline			Statutory		
£m	2020	2019	Movement	2020	2019	Movement
Billings*	454.5	561.4	-19.0%	–	–	–
Revenue	323.3	381.0	-15.2%	323.3	381.0	-15.2%
Net revenue*	225.4	256.4	-12.1%	–	–	–
Operating profit/(loss)	12.0	20.6	-41.6%	(4.9)	(11.0)	55.0%
Profit/(loss) before taxation	8.3	18.3	-54.4%	(8.5)	(8.6)	0.8%
Profit/(loss) for the year	5.0	13.0	-61.2%	(9.9)	(11.8)	16.2%
Earnings**	1.7	8.1	-80.0%	(9.9)	(11.8)	16.1%
Earnings/(loss) per share	1.5p	9.0p	-83.0%	(9.1p)	(13.1)p	30.3%
Tax rate	39.6%	29.0%	+10.6pts	-16.6%	-38.0%	+21.4pts

* Billings and net revenue excluded from Statutory results because these are not IFRS terms.

** Earnings are calculated after deducting share of profits attributable to non-controlling interests.

The items that are excluded from Headline results are the exceptional items (which include costs relating to the accounting misstatements identified in 2019 and restructuring), the amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investments in associates and right-of-use assets; gain or loss on disposal of associates and subsidiaries; revaluation of investments in SaatchInvest and their related costs; and the income statement impact of put option accounting and share-based payment charges.

HEADLINE RESULTS

To better assist the readers' understanding of the underlying performance of the business, the commentary concentrates on the Headline measures used by the Board to assess the underlying profitability of the Group. These Headline figures are alternative performance measures that the Board considers provide an appropriate basis to manage the business, to monitor its results on a day-to-day basis, enable comparability with industry peers and like-for-like year on year on comparisons. Headline measures exclude all accounting charges related to acquired equity, put options and passive investments.

The Headline results also make like-for-like year-on-year comparisons more understandable and more closely correlate with the cash and working capital position of the Group.

Refer to the Glossary on page 266 for key definitions used in this section including Billings, Revenue, Net Revenue.

NET REVENUE AND OPERATING PROFIT MARGIN

Group net revenue decreased by 12.1%.

Headline operating profit was £12.0m, decreasing from £20.6m. The Group reported a Statutory operating loss of £(4.9)m (2019 £(11.0)m).

Group Headline operating profit margin decreased to 5.3% from 8.0%. Statutory operating loss margin improved to -2.2% from -4.3%.

The Group experienced a sharp reduction in net revenue in the first three months of the year, recording a substantial operating loss in that initial three month period. By taking action to reduce our cost base early in the year, the Group was able to mitigate the impact of the reduced revenue. The combination of salary cuts, staff reductions in the form of redundancies, reduced freelancer numbers and reduced travel costs, contributed to a 9.5% decline in operating costs compared to 2019. The Group acted quickly in securing Covid-19 Government financial support, where it was available. This took the form of furlough payments, loan forgiveness programmes and tax deferment schemes. We secured £1.0m in the UK through the Coronavirus Job Retention Scheme, but repaid the full amount in 2021.

The key movements between Statutory to Headline results

Reconciliation of Headline profit before taxation to Statutory profit before taxation	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Statutory loss before taxation	**(8,507)**	**(8,573)**
Exceptional items	1,972	6,166
Amortisation of acquired intangibles	1,686	2,471
Impairment of non-current assets	3,920	11,084
(Gain)/loss on disposal of associates	–	(12,980)
(Gain)/loss on disposal of subsidiaries	(1,432)	–
FVTPL investments under IFRS 9	2,095	717
Revaluation of contingent consideration	446	127
Dividends paid to IFRS 2 put option holders	4,728	5,841
Put option accounting - IFRS 9 and IFRS 2	3,420	13,429
Headline profit before taxation	**8,328**	**18,282**

Some of the larger items causing the movement between Statutory and Headline results for 2020 are explained on the following page:

Exceptional items, including restructuring

Exceptional costs of £2.0m (2019: £6.2m) include one-off restructuring and reorganisation costs arising from the Group wide commitment to reduce the overhead cost base, as well as the furlough money received that was repaid subsequent to year end, and professional fees relating to the accounting misstatements identified in 2019. The restructuring costs were principally staff redundancy costs, predominantly involving companies in the UK, US, Australia and Singapore.

Impairment of non-current assets

During the pandemic, the Group reviewed its global property portfolio in the wake of the move to a more flexible working environment. We determined that approximately 17,000 square feet or 30% of the Group's real estate in London, is now surplus to requirements and we are actively marketing the space. Accordingly, of the £3.0m total impairment charge, £2.7m relates to an impairment against the carrying value of our right of use of property assets. The significantly higher charge in 2019 was due to impairment of goodwill (£5.9m) and associate investments (£5.2m).

Gain/(loss) on disposal of subsidiaries

The Board made a strategic decision at the start of 2020 to eliminate loss-making businesses from the Group by the end of the year. As a result, a total of 20 entities were either closed, merged or our interest in those entities was divested. Combined, they contributed £4.0m of Headline operating losses in 2020. The Group incurred a further £1.0m of net asset write downs as a result of these closures and divestments. The breakdown of the £1.4m gain on disposals and more detail on these losses and costs are provided in note 11 of the financial statements.

Financial assets at fair value through profit and loss – FVTPL investments under IFRS 9

The Group holds unlisted equity investments in early stage companies detailed in note 19 of the financial statements. The revaluation of these companies is excluded from Headline results. Two of the unlisted investments went into administration resulting in a write-down of £2.5m.

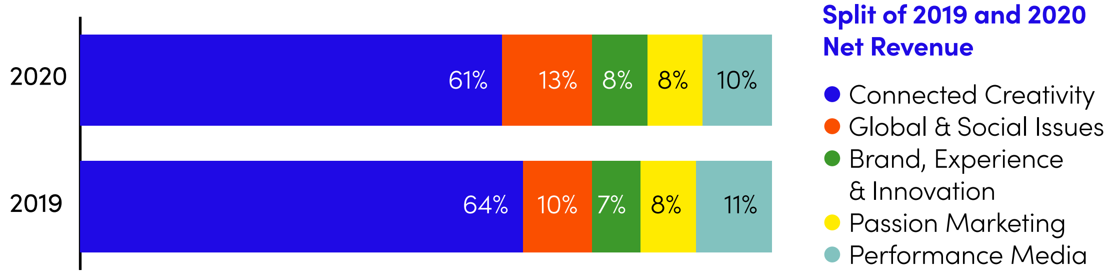
Put option accounting

These comprise allocations of profit and dividends paid to holders of put options, the charge being excluded from Headline results.

REPORT BY DISCIPLINE

The Chief Executive's review introduced the Group's new specialist divisions. The chart below highlights 2020 performance vs 2019 by these specialist divisions. Although total net revenue declined during 2020, net revenue from the Global and Social Issues Division grew in both absolute and relative terms and made up 12.7% (2019: 10.0%) of the Group's net revenue. The Connected Creativity Division, however, declined to a 61.4% (2019: 64.4%) share of the Group's net revenue.

Split of 2019 and 2020 Net Revenue



Financial income and expense
The Group's finance income and expenses includes bank interest, lease interest and fair value adjustments to minority shareholder put option liabilities (IFRS 9).

Bank interest payable for the year was £1.2m (2019: £1.3m). As a result of making improvements to the Group's cash management processes and systems, overall borrowings decreased in 2020 compared to the prior year.

Interest on leases increased to £2.5m (2019: £1.8m).

Fair value adjustment of put option liabilities created a debit of £(0.1)m (2019: £(2.8)m). Further details can be found in note 7 of the financial statements.

Tax

Headline Tax

The Headline tax rate is a function of the Group's tax charges globally. In the UK there has been increased focus on Group governance which has added cost, whilst in the UK trading entities, the Covid-19 pandemic also reduced profits. This has led to the UK Group making tax losses, which is not tax-efficient in a low-tax market such as the UK. In addition we did not derive tax benefits from losses in closed or disposed of offices. 2019 also included a significant under-provision for tax. As a result there was an increase in our Group Headline tax rate to 39.6% in 2020 from 29.0% in 2019.

Statutory Tax

We expect large variations in future Statutory tax rates due to significant items such as share-based payments (option charges), put options and investment in subsidiaries being non-deductible against corporation tax as a result of these items being capital in nature. The Statutory tax rate has reduced from -38.0% in 2019 to -16.6% in 2020.

Looking forward, there is a likelihood that Governments will raise taxes to recover the costs of the Covid-19 pandemic. For instance, the UK Government has substantively enacted in May 2021 increases in corporation tax rates from 19% to 25% from 2023. This will have an impact on the Statutory effective tax rate in 2021.

Non-controlling interests (minority interests)
On a Headline reporting basis, the share of profits attributable to non-controlling interests decreased to £3.4m (2019: £4.9m). This was in line with the overall decrease in the Group's profits.

However, for Statutory reporting, certain costs that were charged to non-controlling interests in Headline reporting are required (under IFRS 2) to be accounted for as staff costs, as the share option charge is accrued and subsidiary dividend is paid. Most of the minorities' share and rewards from local equity have been redefined as staff costs.

Dividend
The Company did not pay a dividend to its shareholders in 2020 (2019: £9.8m). The Board has reviewed the dividend policy as part of the Group's recent strategic review and is not proposing to pay a final dividend for the year ended 2020 (2019: nil). We concluded that the Group's priority is to return the business to pre-pandemic levels of profitability and earnings and, thereafter, to grow in line with the targets set out at the Capital Markets Day held in January 2021. Assuming a return to normal trading conditions, we would expect to reinstate dividends from 2022.

Cash flow and banking arrangements
Total cash as at 31 December 2020 was £76.3m (2019: £69.0m). Cash net of bank borrowings was a net surplus of £32.7m compared to a net surplus of £16.6m in 2019.

The Group's net cash flow from operating activities was £33.7m. The improvement in working capital in 2020 was driven by a combination of factors including the Group's improved treasury and cash collection procedures.

The Group extended its revolving credit facility (RCF) with National Westminster Bank plc (NatWest) in May 2020, which was then reduced from £36.0m to £33.0m from 1 December 2020. As at 31 December 2020, £27.0m of the RCF was drawn. In addition to the RCF, the Group had a £5m overdraft facility with NatWest, which remained unutilised as at 31 December 2020.

On 31 May 2021, the Company entered into a revolving multicurrency facility agreement with National Westminster Bank Plc and Barclays Bank PLC for up to £47m (the "Facility"). The Facility includes a £2.5m overdraft and the ability to draw up to £3m as a bonding facility as required. The Facility is provided on a three-year term (with two optional one-year extensions).

The primary purpose of the Facility is to support the Group's working capital requirements which are capable of significant movement within any given month and from one month to the next.

Capital expenditure
Total capital expenditure in 2020 (including software acquired) decreased to £3.7m (2019: £4.1m). Capex includes £0.9m on computer equipment and £0.5m on software and film rights. The remaining £2.3m was incurred on leasehold improvements and furniture and fittings, most of which was incurred in the refurbishment of the Group's London headquarters.

Share-based incentive arrangements
The Group operates a business model through which senior management have minority ownership in the subsidiary companies they operate, through share-based incentive (put option) arrangements. Accounting for share-based payments is a complex area, with different accounting treatments applicable depending on the nature of the share scheme in place. To increase clarity in this area we have indicated the potential dilutive effect in note 25 of the financial statements, providing an estimate of the total number of shares issuable in each of the next five years through the various share-based payments schemes based on different share prices that might prevail over that period.

This is summarised in the table below which shows shares issued and % dilution at different share prices:

		Potentially issuable						
Shares total by year	Issued in 2021 '000	2021 '000	2022 '000	2023 '000	2024 '000	2025 '000	Total '000	% Potentially issuable share dilution*
At 83.6p	7,252	9,807	8,402	4,492	2,826	674	33,453	21%
At 100p	6,827	9,921	7,560	4,262	2,807	731	32,108	21%
At 135p	6,827	9,396	6,557	3,935	2,909	853	30,477	19%
At 150p	6,827	9,187	6,301	3,850	2,988	906	30,059	19%
At 200p	6,827	8,717	5,724	3,659	3,332	1,088	29,347	18%
At 250p	6,827	8,434	5,378	3,545	3,741	1,272	29,197	18%
At 300p	6,827	8,246	5,148	3,469	4,183	1,457	29,330	18%

* Based on the current issued share capital of 122,743,435 shares and taking into consideration all potentially issuable shares.

Using the data on the previous page and a share price ranging from 135p to 300p, the total dilution to existing shareholders to 2025 from the issue of new shares will be between 18%-21%.

This analysis has been calculated using the Group's most recent budgets and long term financial plans to derive valuations for the share-based schemes. However, valuations may be different to those used for this analysis, with the result that the number of shares to be issued and the dilutive impact may be different to that stated above. Refer to note 25 for more details on the assumptions behind these calculations.

Global accounting function, controls and systems

The historical accounting issues identified in 2019 brought to light fundamental organisational and control weaknesses within the Group's finance and accounting functions. The Group has historically operated a decentralised accounting function. The increased size and complexity of the Group necessitated a move to a standardised and enhanced accounting, consolidation and forecasting system. As at 31 May 2021, approximately 70% of the global Group, as measured by net revenue, had moved over to the NetSuite-Workday platform. We have also deployed a global cash management and cash forecasting platform, Kyriba, providing real-time data and access to all bank accounts across the Group.

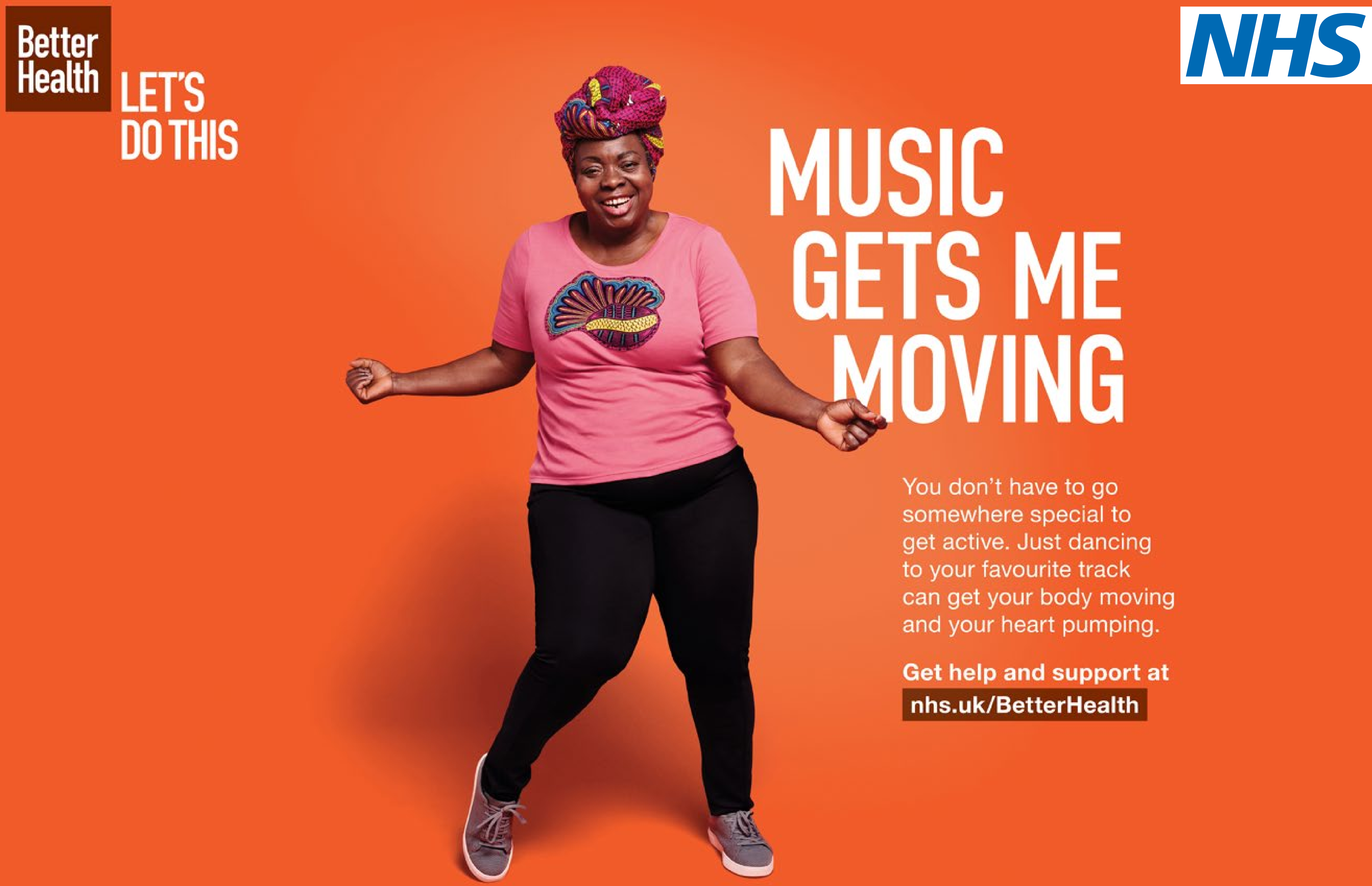
The Group worked tirelessly in implementing changes and improvements in its financial management, controls and governance. 2020 was an extremely challenging year, but the improved financial discipline imposed across the Group was instrumental in supporting our recovery from the challenges of recent years.

Strategic report

The Chairman's statement (page 2), Chief Executive's review (page 6), Our business model (page 12), Principal risks and uncertainties (page 26), Financial review (page 34), Environmental, Social and Governance (page 44) and s172 statement (page 68) together form the Strategic report.

The Strategic report is approved by order of the Board

MORAY MACLENNAN
Chief Executive Officer
27 August 2021


Better Health
LET'S DO THIS
NHS
MUSIC GETS ME MOVING
You don't have to go somewhere special to get active. Just dancing to your favourite track can get your body moving and your heart pumping.
Get help and support at
nhs.uk/BetterHealth

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

OUR FOCUS ON PEOPLE

Through our vision, actions, and culture, we celebrate the lived experiences of individuals from diverse backgrounds and protected characteristic groups who are underrepresented and potentially marginalised in the workplace. We champion difference by creating a culture rooted in equity, where treating people fairly means they are treated differently, based on individual need.

We believe that we have a moral obligation to invest in the development of a diverse workforce, an inclusive culture and the removal of barriers for underrepresented groups and that diversity, equity and inclusion creates value and is our 'way of doing business'.

All employees have a shared responsibility for removing systemic barriers and reducing bias and inclusive leaders maximise the collective intelligence of their teams and unlock each person's potential. We also believe that data and analysis should be the basis of decisions and data-driven storytelling should act as a catalyst to action.

These values and beliefs translate into five strategic pillars which will form the basis of our future strategy:

Workforce
Diversify our talent base and improve representation at all levels.

Culture
Create an inclusive lived experience where all can flourish and belong.

Operations
Place diversity, equity and inclusion at the heart of how we plan and operate.

Community
Create coalitions which give access to diverse communities and networks

Marketplace
Use our influence for good and leverage learning and development to drive business outcomes

WORKFORCE

As at December 2020, our UK workforce consists of 55% female employees (up from 49% in 2019), with our top salary band being 28% female and the Executive Board being 21% female. The UK workforce consists of 21% BAME employees (up from 19% in 2019), 7% disabled (up from 3% in 2019), 12% LGBTQI and 62% of the UK's employees are under 35*. We aim to increase diverse representation at senior levels as a priority over the next three years and Mickey Kalifa, the Chief Financial Officer, has been appointed sponsor of diversity, equity and inclusion at a Board Level. The Company has also appointed a full time Head of Diversity, Equity and Inclusion to drive a roadmap of change initiatives.

It has been the intention of the Board to fulfil the recommendations set out in Lord Davies' report of having at least 33% female representation on the Board and the recommendations of the Parker Review of appointing at least one person from an ethnic minority background on the Board. As at the date of the Annual Report and Accounts, 43% (three) of the Directors on the Board are female (up from 13% in 2019) and 29% (two) of the Board come from an ethnic minority. All future appointments and re-appointments will be made with due regard to the benefits of diversity and the needs of the Board.

INCLUSIVE CULTURE

We operate six employee led networks in our UK businesses which are the voice of groups within our workforce and influence our policy creation and delivery. Each of these networks has its own strategic plan to drive change, awareness and engagement through a series of events, encompassing a host of topics and themes to coincide with events such as Black History Month, Pride, International Women's Day, National Inclusion Week and World Mental Health Day.

These networks are:

Heritage: Representing our Black, Asian and Minority Ethnic communities.

Equals: Representing women and non-binary people.

Family: Representing parents and carers.

Pride: Representing the LGBTQ+ community.

Together: Supporting those with mental health and accessibility issues.

Juniors: Representing those starting out on their career paths.

OPERATIONS

We have completed two internal studies, one qualitative and one quantitative, to capture the exact make-up of the business and shine a light on what it is like to work at the Company. As a result of those studies, we have committed to a number of actions in 2021 including an overhaul of our entire recruitment process to ensure we diversify our talent base and improve representation at all levels.

The Group is in the process of transforming its overall culture due to global influences such as the Covid-19 pandemic and ongoing employee feedback about the type of company they want to work for, and the Board is at the centre of driving this transformation. Detail on how this will be monitored and assessed will be shared with shareholders in due course.

We believe that in order to drive equity across our business over the long term, compensation levels across our business at all levels and between genders must be monitored and reported. Our voluntary gender pay gap reporting is conducted annually and is available on our website at https://mcsaatchi.com.

We recruit, select and promote our people without discrimination. Candidates are assessed objectively against the requirements of the job, taking account of any reasonable adjustments that may be required for candidates with a disability. For people who develop a disability during their employment, we make adjustments to their working environment or other employment arrangements wherever possible, within a reasonable time frame and in consultation with the relevant employees.

COMMUNITY

Open House

In 2020, we opened our doors to 1,500 trainees from across the world through our free 8-week online training programme open to anyone and everyone, created to reach a diverse audience and to provide access to industry knowledge and employment opportunities.

Mentor Black Business

In 2020, we established the mentor black business programme in collaboration with social business activist Akil Benjamin, as a free resource to help black businesses thrive in the UK, giving the community access to the best industry know-how and experience. In under a year over 500 black owned SME businesses have signed up to the programme accessing over 1,500 mentors. The scheme is supported by market leading clients including Google, Lloyds, Goldman Sachs, Virgin and Budweiser, who provide mentors and expertise. We further increased our investment to support a further 5,000 black business people in year one alone.

M&C Saatchi Saturday School

Saturday School is a global pro bono programme that we launched with Akil Benjamin, which supports minority community entrepreneurs and has a particular focus on Black women, women of colour and young people aged 16-25. CPD accredited courses are taught for free covering subjects such as business planning, digital marketing, wellbeing at work and business finance essentials. In 2020, the school taught over 3,500 people and led to 87% of participants feeling empowered to take the next steps in their business. We have committed to scaling up the programme with a target of supporting a further 2,000 people a year from across the UK, every year of the framework.

Highlights from M&C Saatchi Saturday School and Mentor Black Business in 2020 include:

- Partnering with Virgin StartUp to give businesses access to the start up loan backed by the British Business Bank;
- Partnering with Google and their Digital Boost initiative to give businesses access to another 1,000 mentors;

* Comparative data provided where possible. All data gathered from employee surveys.

- Being appointed as the delivery partner to run the Black Business Incubator in partnership with Somerset House and funded by Morgan Stanley;
- Winning a £123,000 grant to extend the Black Business Incubator to support more than 50 black businesses from Southwark, Lambeth, Wandsworth and Lewisham.

Starting in the UK and soon transitioning to the US market, all programmes are based around doing more and making change at scale for minority communities.

MARKETPLACE

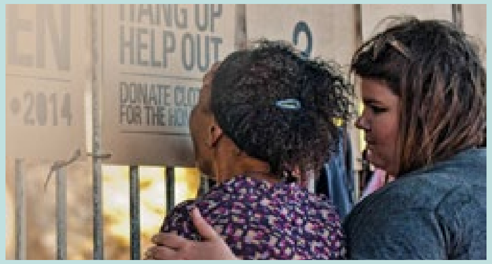
Channelling the passion of protests into action for the US election

With LeBron James' organisation, More Than a Vote, and the NAACP Legal Defense Fund, we wanted to channel the passion of the 2020 protests for social justice into action for the 2020 US election.

We developed a campaign that connected the struggles of racial equality to the opportunities that would allow people to get involved in the political process today by signing up to become poll workers who had been in short supply thanks to the Covid-19 pandemic.

And it worked. We helped recruit more than 40,000 poll workers for the 2020 US presidential election.

The world's first rent-free, premises-free, pop-up clothing store for homeless people



In partnership with the Haven Shelter, we conceptualised the world's first rent-free, premises-free, free "pop-up clothing store" for the homeless, found entirely on the street and curated by residents. The Street Store is made up of a series of cardboard posters, doubling up as clothes hangers which more fortunate members of society can hang up to help out. The clothes are then hung up on the simple, bespoke posters giving homeless people the chance to "shop" and help themselves to clothes they actually want and like. Used to rummaging in bins or begging for clothing, this was the first real, dignified shopping experience for many.

After its success in South Africa, we wanted this initiative to help as many people as possible, so Street Store went open source. To date, over 940 stores have popped up globally, clothing hundreds of thousands of homeless people around the world. What started as a local campaign became a global initiative for good. In 2020 it was named a finalist in the Best World Changing Idea EMEA Region and Creativity categories in Fast Company's World Changing Ideas 2020 global awards. It also received an honourable mention in the Advertising, Spaces, Places, and Cities, Corporate Social Responsibility, and General Excellence categories.

OUR FOCUS ON PLANET

We believe that our industry has an important role in addressing the climate emergency. In the way we operate as a responsible business, and importantly how we use the influence of the work we do for clients to change behaviour around the world. Our focus must be on driving long term responsible growth.

FOUR STRATEGIC PILLARS:

1

Reducing the operational impact of our business on the environment.

2

Applying socially responsible procurement policies with anyone we work with or for.

3

Advising and supporting our clients in making meaningful change to enhance their social and environmental impacts wherever we can.

4

Promoting transparency, integrity and ethics in all areas of our business.

OPERATIONS

Our global headquarters in London is our largest operation and where we can report significant progress to date.

We have earned the ISO 14001 Certified Environmental Management System (EMS) and are continuously monitoring and improving our progress through employee engagement and director commitment.

Our headquarters now run on 100% renewable energy. We separate waste across five waste streams including food, which emits methane, a powerful greenhouse gas, in landfill conditions. We have achieved verified zero waste to landfill and a reported 98% recycling rate.

Since the implementation of our EMS, we have reduced our water consumption by 1.5 million litres per year through the installation of water-saving devices in all toilets. We have also changed from bottled water to reusable bottles and plumbed-in water dispensers. We have increased our environmental purchases by 9.3% and significantly reduced single-use-plastic in our canteen by reducing packaging and disposables.

Sustainable sourcing is a key consideration for us. Our confidential shredding and water cups are recycled into employee notebooks to engage everyone in the importance of reducing waste and promoting the circular economy.

We have also signed up to Ad Net Zero, the industry initiative to tackle climate change led by the Advertising Association and its members. The aim is to reduce the carbon impact of developing, producing and running UK advertising to real net zero by the end of 2030 and commit to make practical changes in the way the industry operates.

We are on a mission to connect and scale our environmental policies and operations across the group and have appointed a Global ESG Committee to develop this roadmap. The output will be new consolidated commitments in the areas of carbon emissions, procurement, and further governance.

Refer to the Directors' report (pages 112 and 113) for the Company's Streamlined Energy and Carbon Reporting ("SECR").

WORK FOR CLIENTS

Accelerating demand for solar energy with the International Solar Alliance

As part of our work with the UK Government, we worked on the repositioning and rebranding of the International Solar Alliance (ISA). A coalition of 73 member countries, ISA was established at the end of 2015 to accelerate the demand for and use of safe, sustainable and affordable solar energy for all. It aims to mobilize over USD 1 trillion of investment into solar projects by 2030 through focused advocacy, policy and regulatory support, capacity building and by overcoming perceived investment barriers. Our communications objectives were therefore to raise awareness of ISA, its programmes and initiatives, creating a positive and aspirational communications framework in which to establish the ISA as the leading institution for solar energy. With a recently appointed new Director General and in a year when addressing global climate change transition commitments will take centre stage in the run up to COP26, the UN's Climate Change Conference in the UK in November 2021, our work with ISA will continue in 2021.

Using technology to drive conservation efforts with Cisco

Up until 100 years ago, rhinos were roaming in their hundreds of thousands across Africa. Now, three rhinos are killed every day at the hands of poachers, and their population hovers below 25,000. If this continues, the animal will be extinct by 2025 or far more rapidly if government bans on illegal rhino horn trade are lifted – it could be a matter of only a couple of years.

We teamed up with former cricketers Kevin Pietersen and Graeme Smith, outback wrangler Matt Wright and technology provider Cisco to create a powerful documentary charting the struggles, obstacles, and success in the war against poaching.

Technology is the future of conservation. And we knew that this was a story we needed to tell. In its first year of operation, Cisco's solution reduced poaching by 96% in the pilot reserve. But few knew about it. We produced a two-part documentary series, showing the emotional journey of orphaned rhino, Arthur, and exploring the solutions developed by Cisco, to be aired on National Geographic.

CORPORATE GOVERNANCE

Our New York agency SS+K played a significant role in the Biden-Harris presidential election campaign.

CHAIRMAN'S INTRODUCTION

Dear Shareholder,

On behalf of the Board, I am pleased to present the Corporate Governance Report for the year ended 31 December 2020. This report describes the Company's corporate governance structures and procedures, as well as summarising the work of the Board and its committees to illustrate how the Company has discharged its responsibilities this year and progressed on compliance with the requirements of the 2018 Corporate Governance Code (the "Code"). As an AIM-listed company, the Company is not required to comply with the Code, but the Board believes that it represents best practice and has moved significantly towards full compliance with the Code.

BOARD ROLE AND EFFECTIVENESS

The Board is collectively responsible for how the Company is directed and controlled. Its responsibilities include promoting the Company's long term success; setting its strategic aims and values; supporting the leadership to put such aims and values into effect; supervising and constructively challenging the leadership on the operational running of the business; ensuring a framework of prudent and effective controls; and reporting to stakeholders on the Board's stewardship. As Chairman, I am responsible for leading and ensuring there is an effective Board. Accordingly, in February 2021, we commissioned a formal and vigorous evaluation of the effectiveness of the Board by an external adviser. The results have been reviewed and the recommendations are in the process of being implemented. Please see details on page 65. The responsibilities of the Board and its committees and the way in which they uphold high standards of corporate governance are set out on pages 66 to 75.

BOARD CHANGES

In addition to myself, four Non-Executive Directors have joined the Company in the last 18 months, all of whom are assisting with the required changes in corporate governance, serving the needs of all stakeholders and thereby allowing the business to grow. Please see pages 60 to 64 for details of the current Board of Directors. In keeping with the theme of change, our corporate governance framework has been transformed, and the Company is now fully compliant with the majority of the provisions of the Code (see full details on pages 70 to 75). The Company's remuneration policy has been updated to better align incentives and remuneration with the Company's strategy and objectives (see details on pages 86 to 107).

COMMITTEES OF THE BOARD

The Board is supported by the Audit, Remuneration and Nomination Committees. The Board appoints the committee members. The reports of the Audit Committee and the Remuneration Committee can be found on pages 76 and 86 respectively whilst the Nomination Committee will only report from 2021 onwards. Each committee has access to external advice as it considers appropriate. The Company Secretary or her nominee acts as Secretary to the committees. The terms of reference of each committee are reviewed regularly, updated as necessary to ensure ongoing compliance with best practice guidelines and must be approved by the Board. Copies of the committees' terms of reference are available from the website at https://www.mcsaatchiplc.com/governance.

DIRECTORS' CONFLICTS OF INTEREST

Directors have a statutory duty to avoid conflicts of interest with the Company. The Company's Articles of Association allow the Directors to authorise conflicts of interest and the Board has adopted a policy for reviewing conflicts of interest as they arise. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported by the Directors. A review of Directors' conflicts of interest is conducted at least annually.

CULTURE AND INCLUSION

The Company's new leadership team has placed a strong emphasis on the importance of purpose and a positive and values-led culture. Part of that is a commitment to ensure inclusive and diverse teams throughout the business, and the Board needs to set the standard in that regard. We believe that diversity is a source of strength for our business, and I am pleased to report that several key initiatives have been implemented in this area. As I write this, the proportion of female Directors has risen to 43%, exceeding the target set by the Hampton-Alexander Review (which focussed on increasing representation of women in senior positions). This compares to 11% two years ago and 0% four years ago. The number of Directors from ethnic minorities has risen to two (29%) which exceeds the target set by the Parker Review (which reviewed ethnic diversity on UK Boards). The Board recognises the need to create the conditions that foster talent and encourage all colleagues to achieve their full career potential in the Group and accordingly Mickey Kalifa, the Chief Financial Officer, has been appointed as the representative for diversity, equity and inclusion at Board level, with a full time Head of Diversity, Equity and Inclusion also being appointed. Please see pages 45 to 47 for details of the Company's diversity initiatives.

STAKEHOLDER ENGAGEMENT

We have also changed our approach to our key stakeholders: our clients, our shareholders and our employees. The Company's new mission is to be "a creative company that connects specialist expertise through data and technology to deliver meaningful change" and the Strategic report sets out the new client initiatives which will drive this change.

We are reviewing the Group's put option schemes with the aim of addressing the historically dilutive impact of such schemes on shareholders and have set out a timetable for potentially restarting the payment of dividends.

Our employees are our greatest asset. Louise Jackson, one of our Non-Executive Directors, has been nominated as the representative of the employees on the Board. Mark Dickinson-Keen has joined as Chief People Officer, responsible for developing the people strategy and the Group's capabilities, culture and overall employee experience for the next phase of the business. Victoria Clarke joined the business as the Group's Head of Legal in 2020 and has recently been promoted into the role of General Counsel and Company Secretary.

Please refer to pages 68 to 69 for details of how the Company engages with its stakeholders.

SYSTEMS AND POLICIES

The new finance systems and policies introduced across the Group, as mentioned in the Financial review on page 40, will allow the management and the Board to monitor the effectiveness of internal controls, risk management policies and ensure compliance with statutory and regulatory obligations across the Group. Particular focus has been placed on improving the reporting into the Group finance function, supported by the roll-out of a new Group wide accounting package, a new consolidation system and a new treasury management system.

I am confident that the Group can maintain and further develop a strong and effective governance system to enable the business to deliver its strategy, generate shareholder value and safeguard the interests of all stakeholders.

GARETH DAVIS
Chairman
27 August 2021

"The Company's new leadership team has placed a strong emphasis on the importance of purpose and a positive and values-led culture."

– Gareth Davis

BOARD OF DIRECTORS

The Code requires the Board and its committees to have an appropriate balance of skills, experience, independence and knowledge of the Company, to enable them to discharge their duties and responsibilities effectively and in line with the corporate strategy. Members of the Board bring a wealth of knowledge and experience to the discussions, maintain memberships of a number of professional bodies and ensure their skill sets are constantly developed.

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

Gareth Davis

NON-EXECUTIVE CHAIRMAN

KEY STRENGTHS
A highly experienced former CEO and current chairman. Long-standing plc experience and shareholder understanding with particular expertise in the fields of governance, mergers and acquisitions, building global brands and corporate transformations.

M&C SAATCHI ROLE
Chair of the board, which is responsible for group strategy, performance and governance.

JOINED M&C SAATCHI BOARD
February 2020.

OTHER COMMITMENTS:
Non-Executive Director of Gresham House Plc.

PREVIOUS EXPERIENCE
Chairman of DS Smith Plc (2012-2021), Non-Executive Director/Chairman of Ferguson Plc (2003-2019), Chairman of William Hill Plc (2010-2018), Chief Executive of Imperial Tobacco Group Plc (now Imperial Brands plc) (1996-2010).

COMMITTEES
2021 – Nomination Committee.
2020 – Nomination Committee, Remuneration Committee and Audit Committee.

Moray MacLennan*

CHIEF EXECUTIVE OFFICER

KEY STRENGTHS
Started as a graduate trainee with Saatchi and Saatchi, and has been with the Company since its creation so very familiar with all parts of the Group. Past President of UK and European communications agencies' bodies, holds vast industry experience.

M&C SAATCHI ROLE
Leads the Group and proposes the strategy to be approved by the Board, accountable for delivery of strategic and financial objectives.

JOINED M&C SAATCHI BOARD
January 2021.

OTHER COMMITMENTS:
None.

PREVIOUS EXPERIENCE
The Company (1995 onwards: Worldwide CEO 2010-2020) Saatchi and Saatchi (1983-1995).

COMMITTEES
None.

* Joined the Board after year end

Mickey Kalifa
CHIEF FINANCIAL OFFICER

KEY STRENGTHS
Experienced Chief Financial Officer and former Chief Executive Officer with 30 years of experience in the media, technology and sports industries. Has steered the finances of the Group through the problems of the last two years.

M&C SAATCHI ROLE
Leads the Finance department as well as taking responsibility for a number of strategic and cross-functional initiatives.

JOINED M&C SAATCHI BOARD
March 2019.

OTHER COMMITMENTS:
Non-Executive Director of Zoo Digital Group PLC.

PREVIOUS EXPERIENCE
Chief Financial Officer (plus other senior finance roles) of Sportech PLC (2008-2017), executive roles at Liberty Global, Sky and Disney.

COMMITTEES
None.

Louise Jackson
NON-EXECUTIVE DIRECTOR

KEY STRENGTHS
Extensive remuneration experience through roles as Human Resources Director and as an advisor on people, organisation, change and transformation. Experience with organisation design, restructuring, cost reduction, talent and culture change work for a large number of household names including many in media.

M&C SAATCHI ROLE
As a Non-Executive Director, provides strategic advice, monitors management performance and chairs the Remuneration Committee.

JOINED M&C SAATCHI BOARD
March 2020.

OTHER COMMITMENTS
Director of Leadership and Talent, Selfridges Group.

PREVIOUS EXPERIENCE
Previously founded and ran her own consulting organisation for ten years before selling it. Roles with British Airways, Mothercare and Korn Ferry.

COMMITTEES
Nomination Committee, Remuneration Committee (Chair), Audit Committee.

Colin Jones
NON-EXECUTIVE DIRECTOR

KEY STRENGTHS
Experienced former FTSE-250 media sector Chief Financial Officer with particular expertise in financial reporting, corporate finance, investor relations and audit/remuneration/risk committees.

M&C SAATCHI ROLE
As a Non-Executive Director, provides strategic advice, monitors management performance and chairs the Audit Committee.

JOINED M&C SAATCHI BOARD
February 2020.

OTHER COMMITMENTS
Non-Executive Chair of Centaur Media Plc; Non-Executive Director and Chair of the Finance & Commercial Committee of The City Literary Institute.

PREVIOUS EXPERIENCE
Chief Finance Officer of Euromoney Institutional Investor PLC (1996-2018).

COMMITTEES
Nomination Committee, Remuneration Committee, Audit Committee (Chair).

Lisa Gordon
NON-EXECUTIVE DIRECTOR

KEY STRENGTHS
Digital transformation, strategy, business development, corporate restructuring, mergers and acquisitions and investor relations.

M&C SAATCHI ROLE
As the Senior Independent Non-Executive Director, supports the Chairman in his role, acts as an intermediary for other Non-Executive Directors and ensures there is a clear division of responsibility between the Chairman and the Chief Executive Officer. Also provides strategic advice and monitors management performance.

JOINED M&C SAATCHI BOARD
March 2020.

OTHER COMMITMENTS
Chair of Cenkos Securities Plc, Non-Executive Director, Alpha FX Group Plc; Non-Executive Director, Magic Light Pictures Limited.

PREVIOUS EXPERIENCE
Non-Executive Chair of Albert Technologies Plc (2015-2020), founding Director of Local World Plc (2012-2015), Chief Operating Officer of Yattendon Group (2007-2013), Corporate Development Director of Chrysalis Group Plc (1994-2003), Non-Executive Director of Future Plc (2003-2005).

COMMITTEES
Nomination Committee, Remuneration Committee, Audit Committee.

Vinodka ("Vin") Murria*

NON-EXECUTIVE DIRECTOR AND DEPUTY CHAIR

KEY STRENGTHS

A highly experienced former Chief Executive Officer. In-depth knowledge of software, technology and support services sectors, having executed a number of highly successful growth strategies. Awarded an OBE for services to the digital economy.

M&C SAATCHI ROLE

As both a Non-Executive Director and the Deputy Chair, provides strategic advice and monitors management performance. The Board does not consider Vin to be independent given that she is a major shareholder of the Company.

JOINED M&C SAATCHI BOARD

March 2021.

OTHER COMMITMENTS

Non-Executive Director of Softcat plc, Bunzl plc, SVBUK Limited and Chair of both MAC1 and Summerway Capital plc. Acts in a senior advisory capacity at both NM Rothschild and HG Capital.

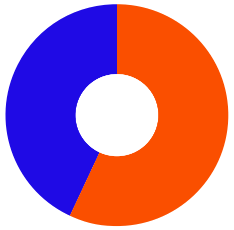
PREVIOUS EXPERIENCE

Founder and Chief Executive Officer of Advanced Computer Software Group plc (2008-2015), Chief Executive Officer of Computer Software Group (2002-2007), Non-Executive Director of Sophos Plc (2017-2020), Non-Executive Director of Zoopla Property Group plc (2015-2018), Non-Executive Director of Chime plc (2013-2016), Chief Operating Officer of Kewill Systems (now known as BluJay Solutions) (1986-2001).

COMMITTEES

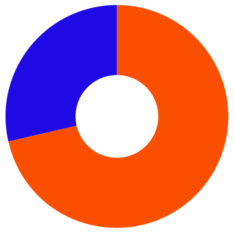
Nomination Committee.

BOARD COMPOSITION



Gender

- Male: 4
- Female: 3



Ethnicity

- White: 5
- Asian British: 2

Tenure

- Under 3 years: 7

All Directors have the necessary time, skills and resources to discharge their Board responsibilities. They have access to the advice and services of the Company Secretary and are also able to gain access to external independent professional advice at the Company's expense should they wish to do so in the furtherance of their duties.

In February 2021, a three-year Board development programme was commissioned using external consultants. The Directors and the General Counsel and Company Secretary were invited to complete a survey followed by an interview. The Board was assessed on a wide variety of performance and oversight metrics. See the next page for a summary of the key findings:

* Joined the Board after year end

BOARD PERFORMANCE EVALUATION

In 2021, the Company engaged an external advisor, Lintstock, to facilitate a review and evaluation of the performance of the Company's Board of Directors.

The first stage of the review involved Lintstock engaging with the key project sponsors to set the context for the evaluation and to tailor survey content to the specific circumstances of the Company. All Directors were then invited to complete a survey addressing the performance of the Board and each of its committees, after which each Director was interviewed by a Lintstock representative. The anonymity of the respondents was ensured throughout the process, in order to promote an open and frank exchange of views.

The exercise addressed core areas of Board and committee performance, and incorporated a particular focus on the following areas:

- The development of the dynamic amongst Board members, following recent Director appointments and the holding of Board meetings remotely due to Covid-19 restrictions.
- The balance of skills, experience and diversity amongst the members of the Board, taking into account the transition in Board membership that has taken place over the past year.
- The key areas of focus for the new Chief Executive Officer following his recent appointment, and the top priorities for ensuring the successful execution of the Company's strategy.
- The development of the Company's strategic plan, the monitoring of implementation and the Board's understanding of the capacity of the organisation to deliver.
- The level of focus on competition and market insight, as well as the understanding of digital opportunities and threats facing the business.
- The oversight of risk management at Board and committee level, and the monitoring of developments in the market environment and any likely impacts on the business.
- The Board's understanding of, and engagement with, the Company's key stakeholders, including investors, clients and employees, and the oversight of talent and succession issues.

The Board considered the outcomes of the exercise at the Board meeting held in May 2021. As a result of the review, the Board agreed to focus on a few key action points over the coming year, including:

i. Monitoring strategic and business plans, which are a key focus for the Chief Executive Officer;

ii. Developing the engagement with management and the wider business as Covid-19 restrictions ease;

iii. Pursuing continued improvements in the information flow; and

iv. Continuing to develop the dynamic and relationship between the Board and management.

GOVERNANCE REVIEW

DIVISION OF RESPONSIBILITIES AND THE COMPANY'S PURPOSE

Board

Chaired by Gareth Davis (appointed Chairman on 31 December 2020)

Responsible for:
- Promoting the Group's long-term success through effective governance and prioritising the interests of stakeholders.
- Overseeing the Group's governance and internal control.
- The Board currently consists of seven members, the Chairman, the CEO, the CFO and four Non-Executive Directors. Details of their careers and strengths can be found on pages 60 to 64. The Directors' report can be found on pages 108 to 117.

Audit Committee

Chaired by Colin Jones (appointed 3 February 2020)

Responsible for:
- Monitoring the integrity of the financial statements.
- Reviewing the Group's internal financial controls and risk management systems.
- The Group's relationship with the external auditors.

The Audit Committee consists of three independent Non-Executive Directors: Colin Jones, Lisa Gordon and Louise Jackson, with the Chief Financial Officer and the other Directors attending as required.

The report of the Audit Committee can be found on pages 76 to 85.

Remuneration Committee

Chaired by Louise Jackson (appointed 6 May 2020)

Responsible for:
- Determining the policy for Executive Director remuneration.
- The Remuneration Committee consists of three independent Non-Executive Directors: Colin Jones, Lisa Gordon and Louise Jackson.

The committee engaged the services of a leading independent external remuneration advisor, Korn Ferry, to assist in a comprehensive review of current remuneration practices and to ensure that remuneration, strategy and culture are fully aligned.

The Directors' remuneration report can be found on pages 86 to 107.

Nomination Committee

Chaired by Gareth Davis (appointed 6 May 2020)

Responsible for:
- All Executive and Non-Executive Director appointments.
- Overseeing the Executive Committee that reports to the Chief Executive Officer.
- Making use of independent search consultancies for all of its appointments.

The Nomination Committee consists of the Chairman of the Board, Gareth Davis, and the Non-Executive Directors, Lisa Gordon, Louise Jackson, Colin Jones and Vin Murria.

During 2020, the Nomination Committee did not meet on a formal basis and so a report on the committee's activities will only appear in the 2021 Annual Report and Accounts.

COMPANY'S PURPOSE

The Company's purpose is to help clients navigate complex change and create new opportunities through creativity and technology. The Board commissioned several in-house work groups to review the Company's purpose and values and strategy. There have been regular presentations and updates to the Board and this work was presented to the Company's stakeholders at a Capital Markets Day held in January 2021. This served to:

- Connect purpose and strategy to culture.
- Align values and incentives.
- Assess, measure and report on the Company's culture and how it benefits all stakeholders.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS DURING THE YEAR

Fifteen scheduled meetings of the Board were held during the year ended 31 December 2020. The Nomination Committee met on an unscheduled basis to deal with the matters at hand, in particular, the appointment of the new Non-Executive Directors. The attendance record of the Directors at the meetings of the Board and of the Board's committees is shown in the table below.

	Board meetings	Audit Committee meetings	Remuneration Committee meetings
Chairman			
Jeremy Sinclair***	15/15	x	x
Executive Directors			
David Kershaw***	15/15	9/9	x
Mickey Kalifa	15/15	9/9	x
Bill Muirhead****	14/15	x	x
Non-Executive Directors			
Lisa Gordon**	13/13	7/7	1/1
Louise Jackson**	12/13	5/7	1/1
Gareth Davis*	14/14	9/9	1/1
Colin Jones*	14/14	9/9	1/1

Statistics are not included for the Nomination Committee because it only formally met from 2021 onwards.
* Appointed on 3 February 2020.
** Appointed on 17 March 2020.
*** Departed Board on 31 December 2020.
**** Departed Board on 31 March 2021.

SECTION 172 STATEMENT

The Board considers it has made decisions in a way that, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the factors set out in section 172 of the Companies Act 2006.

Below we look at each of these factors in turn:

Consequences of any decision in the long term

The Directors are aware of the changing marketing landscape and the needs of its different stakeholder groups. Where conflicts arise between the short term and long term consequences of a decision, these consequences are carefully considered. Whilst precedence is given to long term benefits, the Directors will consider whether these are outweighed by short term impacts in reaching their conclusions.

The Board undertakes regular reviews of the Company's strategy and is actively involved in reviewing and approving strategy changes which ultimately drive the future of the business. An example is the exercise undertaken to simplify our operating model and remove under-performing operations. As a result, our structure was refined down to five specialist, strongly performing divisions. Other relevant decisions during the year include the creation of a new Chief People Officer role, the approval of a new strategy on diversity, equity and inclusion, and the approval of the 2021 budget and five year plan.

Employees

The Board acknowledges people are essential to the delivery of our strategy. The Covid-19 pandemic was a difficult time for many, and the Directors were keen to continue to provide meaningful support to the Group's employees. During 2020, workshops were scheduled to support physical and mental health as well as sessions for children and parents in school holidays. A Non-Executive Director was designated to represent employees on the Board and a Head of Diversity role was created to develop a culture where talent can thrive. A new Chief People Officer was appointed to maximise employee engagement and performance. Also in 2020, employee led networks were formed in the UK to represent specific groups which cover important issues including gender, parent and caring responsibilities, race, LGBTQ+, physical and mental health and those new to the industry. Creation of a meritocratic culture has always been a priority, and the Board continues to review and act on the results of employee satisfaction surveys which help drive the direction of focus.

Business relationships

Customers are the clients that are the end users of our services. The Board is committed to ensuring clients receive high quality deliverables and that they are supported in managing the new marketing landscape. To this aim, we are continuously striving to improve client services, e.g. with the creation of a new sustainability practice in 2021. Other examples of work for clients include helping them with the impact of their operations on community and environment. See page 51 for examples of this. We believe in treating our suppliers fairly, for example by ensuring that we pay our suppliers promptly in accordance with the agreed terms of business.

Community and environment

The Board supports employees taking up opportunities in our various offices around the world, has made infrastructure improvements to offices to support a reduction in our carbon footprint and ensures each office has initiatives to support its local community through volunteering and pro-bono work. For more information on this type of work refer to pages 47 to 48. For more details on the Company's environmental impact, refer to pages 50, 112 and 113.

Business conduct

The Board recognises that a commitment to a high standard of business conduct is critical to the delivery of the Company's strategy and aspires to complete honesty and transparency in all activity. Creditworthiness of the Company is factored into relevant decision making whilst the necessary interaction with our key creditors (National Westminster Bank Plc and Barclays Bank PLC) takes place.

Shareholder engagement

The Board recognises that relationships with our stakeholders are also key to the delivery of our strategy. The Board is committed to open engagement with our shareholders and provides all the necessary information needed to enable decision making. This is evidenced through our annual general meetings, investor roadshows and the recent Capital Markets Day where shareholders are able to ask questions of the Company's management and by the press releases issued throughout the year. We maintain an up-to-date website and use an investor relations advisory practice to facilitate clear and productive exchanges with shareholders.

The Board has also taken actions to lower the Company's risk profile by improving corporate governance and by reviewing the Group's put option schemes to address the issue of dilution of shareholder value. Regular meetings are held with the Company's institutional shareholders and the Chief Executive and/or the Chief Financial Officer and/or the Chairman to discuss the Company's results and objectives.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018 ("THE CODE")

As an AIM-listed company, the Company is not required to comply with the Code, but the Board believes that it represents best practice and has moved significantly towards full compliance with the Code. The Board continues to work to implement the provisions of the Code and supports the focus that it places on relationships with employees, shareholders and other stakeholders. Other than as detailed below, the Company complied with the provisions of the Code for the whole of 2020:

PROVISION OF THE CODE (INCLUDING CODE REFERENCE NUMBER)	NON-COMPLIANCE	REASON FOR NON-COMPLIANCE	COMPLIANCE OR PROGRESS TOWARDS COMPLIANCE
4) Specific communications are set out in the event that 20 per cent or more of votes have been cast against a Board resolution.	The Company did not provide the statements required under provision 4 of the Code in respect of the significant dissent against the 2019 remuneration report.	The annual general meeting took place on 31 December 2020 by which time a revised remuneration policy was already being put in place for 2021.	The Company will take this provision of the Code into account going forward as appropriate.
5) Engagement with workforce using one of the prescribed methods.	During 2020, the Company did not have a director appointed from the workforce, a formal workforce advisory panel, a designated Non-Executive Director nor appropriately formal alternative arrangements.	Until the appointment of the new Non-Executive Directors in February/March 2020 there were no suitable candidates available.	Louise Jackson, a Non-Executive Director, was appointed as the designated Non-Executive Director in March 2021. Since then the Company has complied with this provision.
9) The Chairman should be independent on appointment.	During 2020, the then Chairman, Jeremy Sinclair, was an Executive Director and, therefore, not independent.	The Board considered the depth of knowledge that the previous Chairman brought to the Board to be of significant value for a creative business.	The new Chairman, Gareth Davis, was appointed at the Company's annual general meeting on 31 December 2020, and was independent at that time. The Company therefore now complies with this provision.
11) At least half the Board, excluding the Chairman, should be Non-Executive Directors whom the Board considers to be independent.	Until the appointment of the Non-Executive Directors in early 2020, the Company departed from this provision.	As reported in the 2019 Annual Report and Accounts, the Board was in a period of reconstruction during this time.	Following the appointment of four new independent Non-Executive Directors by March 2020, the Board complied with the Code for the rest of the year. Subsequent to the year end, Vin Murria was appointed as a Non-Executive Director on 3 March 2021. She is not considered by the Board to be independent. Therefore, for a short time in March 2021 while Bill Muirhead was still a serving director, Board composition once again did not comply. Bill Muirhead stepped down from the Board on 31 March 2021, and the Company has complied with this provision since then.
12) Senior Non-Executive Director to be appointed who acts as an intermediary for other Board members and annually appraises the Chairman's performance.	Until 3 February 2020, there was no Senior Non-Executive Director of the Company.	Until the appointment of the new Non-Executive Directors in February/March 2020 there were no suitable candidates available.	Gareth Davis became the Senior Independent Non-Executive Director on 3 February 2020. Lisa Gordon then took up the role on her appointment on 17 March 2020. The Company has complied with this provision since 3 February 2020.
17) Nomination Committee appointed, with the majority of members being independent Non-Executive Directors.	The previous Nomination Committee did not have a majority of independent Non-Executive Directors.	The previous Nomination Committee was created on an ad hoc basis.	From 6 May 2020, the Nomination Committee was properly constituted as required under the Code, with a majority of independent members. The Company has complied with this provision since then.

PROVISION OF THE CODE (INCLUDING CODE REFERENCE NUMBER)	NON-COMPLIANCE	REASON FOR NON-COMPLIANCE	COMPLIANCE OR PROGRESS TOWARDS COMPLIANCE
18) All Board members are subject to annual re-election.	The Company departed from the Code at annual general meetings up until the one on 31 December 2020 as the Board members were elected on a three-year rotation.	The election of Board members on a three-year rotational basis reflected historical precedent. The Company's new Articles of Association have been updated to take account of this matter.	In 2020, in line with the Code, all the Directors offered themselves for re-election at the Company's annual general meeting. The new Articles of Association will require Directors to retire at the Company's annual general meeting on the basis recommended by any corporate governance code adopted by the Company and, in any event require that any Director who was not appointed or re-appointed as a Director at either of the last two annual general meetings must retire and (if relevant) stand for re-appointment. The Company now complies with this provision of the Code.
19) Maximum tenure of Chairman is nine years.	The Company departed from the Code in relation to this provision for the whole of 2020. Upon the Company's listing to the AIM market of the London Stock Exchange, the previous Chairman, Jeremy Sinclair, was appointed for an indefinite term subject to re-election.	The Board considered the depth of knowledge that the previous Chairman brought to the Board to be of significant value for a creative business.	Since Gareth Davis' appointment as Chairman at the annual general meeting in December 2020, the Company has complied with this provision of the Code.
21) Formal rigorous annual evaluation of Board performance.	No annual Board evaluation occurred during 2020.	The Board evaluation was postponed to 2021 due to the departure of half of the previous Board.	A Board evaluation was carried out in early 2021. The results have now been received and are set out on page 65 of this report. The Company now complies with this provision of the Code.
22) Results of annual evaluation of Board performance should be acted on.	No annual Board evaluation occurred during 2020.	The Board evaluation was postponed to 2021 due to the departure of half of the previous Board.	The Board evaluation was carried out in early 2021 and the Board are implementing the recommendations for improvement from the review. The Company has complied with this provision of the Code through 2021 and will continue to do so.
23) The annual report should describe the work of the Nomination Committee, including: **• The policy on diversity and inclusion, its objectives and linkage to company strategy, how it has been implemented and progress on achieving its objectives.** **• How the process used in relation to appointments and the approach to succession planning support developing a diverse pipeline.**	No discussion of the diversity and inclusion policy or succession planning has taken place at the Nomination Committee.	The previous Nomination Committee was created on an ad hoc basis to discuss appointments, these matters were instead routinely discussed at the Board.	From 6 May 2020, the Nomination Committee was properly constituted as required under the Code. The 2021 Annual Report and Accounts will include a complete Nomination Committee report detailing the work of the committee.
26) The audit committee should provide an explanation of how it has assessed the effectiveness of internal audit and satisfied itself that the quality, experience and expertise of the function is appropriate for the business	The Group's internal audit function, which was provided as an outsourced service, did not operate during 2020.	The internal audit function was suspended when the accounting misstatements were identified in August 2019.	The Audit Committee strongly believes that an internal audit function should be a key element of the Group's control framework, particularly, given the complex structure of the Group, the significant number of small, de-centralised operations, and an incentive-based culture. The Chief Financial Officer has been asked to present a plan for a new internal audit function for implementation before the end of 2021.

PROVISION OF THE CODE (INCLUDING CODE REFERENCE NUMBER)	NON-COMPLIANCE	REASON FOR NON-COMPLIANCE	COMPLIANCE OR PROGRESS TOWARDS COMPLIANCE
32) Remuneration Committee should be properly formed with a Chairman who, prior to appointment, has served on a Remuneration Committee for at least 12 months.	The Board did not consider this provision in the formation of the previous Remuneration Committee.	The formation of the reconstituted Remuneration Committee was delayed until the arrival of the new Non-Executive Directors.	As of 6 May 2020, the Remuneration Committee was properly constituted as required under the Code and chaired by an individual with the requisite skill and who, prior to appointment, had served on a remuneration committee for at least 12 months. The Company now complies with this provision of the Code.
36) Share schemes should give awards on a phased basis and have a holding period of five years or more. The Remuneration Committee should develop a formal policy for post-employment shareholding requirements.	The Board did not consider this provision in the previous remuneration policy.	The Board did not consider this provision in the previous remuneration policy.	The revised remuneration policy which will be put to shareholders at the 2021 annual general meeting will take account of a number of these matters from that date forward. Refer to the Directors' remuneration report on page 86 for more information.
38) Pension contribution rates for executive directors should be aligned with those available to the workforce.	The Board did not consider this provision in the previous remuneration policy.	The Board did not consider this provision in the previous remuneration policy.	Under the revised remuneration policy which will be put to shareholders at the 2021 annual general meeting, Executive Director pension contribution rates will be fully aligned with the workforce by the end of 2021. The Company will comply with this provision from that date forward.
40) and 41) Remuneration policy and disclosures aligned with the Code	The Board did not consider this provision in the previous remuneration policy.	The Board did not consider this provision in the previous remuneration policy.	The revised remuneration policy which will be put to shareholders at the 2021 annual general meeting will take account of a number of the matters in provisions 40 and 41 of the Code from that date forward. Refer to the Directors' remuneration report on page 86 for more information. The Company has not yet made plans to engage with the workforce to explain how executive pay aligns with wider company pay policy but will continue to consider this going forward.

REPORT OF THE AUDIT COMMITTEE

The current Audit Committee was formed on 3 February 2020 when Gareth Davis and I were appointed to the Board as independent Non-Executive Directors. Lisa Gordon and Louise Jackson were appointed as independent Non-Executive Directors on 17 March 2020 and joined the Audit Committee on 6 May 2020. Gareth stepped down from the committee following his appointment as the Chairman of the Company in January 2021. The Board asked me to chair the Audit Committee on the basis of my recent and relevant financial experience.

Throughout 2020 the principal activity of the committee was the oversight of the 2019 audit, which was conducted following the discovery in 2019 of significant accounting misstatements relating to 2018 and previous years. This audit was not completed until December 2020. As a result, there was only a short break before planning for the 2020 audit could commence and the timetable for completion of this audit has been challenging.

The Audit Committee's mandate is to provide effective governance over the appropriateness of the Group's financial reporting and the performance of both the internal and external audit functions. The Audit Committee also reviews and monitors the Group's internal financial control, risk management processes and related compliance activities. Committee meetings are attended by the Chief Financial Officer, other directors, the Company Secretary, key members of the Group's UK-based central finance team, and by the external auditors, all as required. The committee meets at least annually with the external auditors without the Executive Directors present.

PRINCIPAL RESPONSIBILITIES

The principal responsibilities of the Audit Committee are:

Financial reporting: To monitor the integrity of the Company and the Group's financial statements and any formal announcement relating to the Group's financial performance, to review significant financial reporting judgements, issues and estimates, and to confirm whether, taken as a whole, the Annual Report and Accounts are fair, balanced and understandable.

Risk management and internal controls: On behalf of the Board, to review and monitor the effectiveness of the Group's internal financial controls and risk management systems and procedures.

External audit: To assess the effectiveness of the external audit process, to review and monitor the external auditors' independence and objectivity, to develop and implement a policy for the provision of non-audit services by the external auditors and to make recommendations to the Board about the appointment, reappointment and removal of the external auditors and its remuneration and terms of engagement.

Internal audit: To monitor and review the effectiveness of the internal audit function and the annual internal audit plan (where applicable).

The committee's full terms of reference, which are reviewed annually, are available at: www.mcsaatchiplc.com/governance and reflect the requirements of the UK Corporate Governance Code 2018 ("the Code").

The Audit Committee works to a programme aligned to key events in the financial reporting cycle. Agendas include key audit, accounting and reporting issues as well as standing items required by the committee's terms of reference.

ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee held nine meetings in 2020 in connection with the 2019 audit, and a further six meetings in 2021 for the 2020 audit. The activities of the committee in respect of the 2019 audit are set out in the 2019 Annual Report and Accounts. The areas of focus for the committee since the 2019 audit was completed in December 2020 have been as follows:

AREA OF FOCUS	MATTERS CONSIDERED
Financial reporting	• Significant accounting judgements, estimates and assumptions including: going concern, revenue recognition, put option accounting, assessment of goodwill, valuation of investments in associates and unlisted equity investments, disposals of subsidiaries, lease accounting, exceptional items and alternative performance measures (see details below under "Significant accounting issues and judgements") • Review of the Annual Report and Accounts and confirmation to the Board that it is fair, balanced and reasonable.
External audit	• Review and approval of audit plan including key audit matters • Monitoring implementation of the external auditors' recommendations for improving the efficiency of the year-end closing and audit process; • Regular updates on audit progress; • Review of external auditors' report to the committee.
Internal controls	• Confirming requirement for an internal audit function to be reintroduced; • Making recommendations for improvements in quality of resources and structure of the Group's accounting function; • Monitoring roll-out of new standard Group systems and accounting policies to local subsidiaries; • Annual assessment of the effectiveness of the Group's internal financial controls.
Risk management	• Reviewing management's risk management processes and the Group risk register; • Annual assessment of the Group's emerging and principal risks including disclosures in the Annual Report and Accounts.
Corporate governance	• Confirming compliance with the Code.
Other matters	• Monitoring progress of FCA investigation; • Review of Audit Committee's Terms of Reference.

The most significant accounting issues and judgements considered by the Audit Committee, and discussed with the external auditors, are set out below.

SIGNIFICANT ACCOUNTING ISSUES AND JUDGEMENTS

Going concern and viability statements

As explained on page 126, the financial statements have been prepared on the going concern basis. In this context, the Board and the Audit Committee considered the Group's ability to meet its obligations as they fall due for the foreseeable future, with particular reference to the economic downturn caused by the Covid-19 pandemic, the potential for recovery as Covid-19 restrictions are eased in 2021, the impact of strategic initiatives to simplify the business and improve profitability, and the support of the Group's lenders. Management prepared a set of cash flow forecasts, assessing different scenarios, covering the period to the end of 2022. The Board and Audit Committee reviewed these forecasts under each scenario, including a severe but plausible downside outcome, and the key assumptions on which they are based, and are satisfied that they are appropriate. Further details of these forecasts and assumptions are set out in the Directors' Report.

In the preparation of the 2019 financial statements the Board recognised that, under its modelling of possible future financial outcomes, there was a material uncertainty which may cast doubt over the Group's ability to continue as a going concern without mitigating actions. This material uncertainty arose from a potential breach of the Group's banking covenants under a severe but plausible downside scenario.

As highlighted in the Financial Review on page 39, the Group has entered into a new three-year revolving credit facility of £47m (£38m under the previous facility) which terminates on 31 May 2024 and which has two one-year extension options. With this new facility in place, the Board has concluded that, under all scenarios modelled by management, the Group will have sufficient liquidity to operate and will not breach its financial covenants under the facility.

Based on these forecasts and assumptions, the Board and the Audit Committee believe that it remains appropriate to prepare the financial statements on a going concern basis.

The Board and the Audit Committee have also assessed the statement in the Directors' Report in relation to the longer-term viability of the Group including reviewing the forecasts used in the going concern models extended for a further year to the end of 2023, considering the appropriateness of this viability period, and challenging the factors, assumptions and risks which are critical to the Group's viability over this period. The Board and the Audit Committee have concluded that the statement made by the Directors in relation to the longer-term viability of the Group is appropriate.

Revenue recognition

Revenue recognition is a critical accounting policy and risk area for the Group. The Group adopted IFRS 15 from 1 January 2018, but only at a group level. Local subsidiaries did not apply IFRS 15 until 2019, and even then not on a consistent basis, which then required a number of adjustments to be booked as part of the consolidation process. It remained the case during 2020 that many subsidiaries only applied IFRS 15 as part of their year end close process. During 2020 and 2021, a significant amount of management time has therefore been spent ensuring that subsidiaries within the Group are accounting correctly under IFRS 15.

The Audit Committee has devoted considerable time to reviewing the many different aspects of revenue accounting (see note 4 of the financial statements). It is satisfied that the Group's accounting policies have been consistently applied and that revenue is not materially misstated. The committee continues to encourage management to reinforce the correct application of IFRS 15 at an entity level throughout the year and this will also be a priority for the internal audit function. The committee also confirmed that the significant judgements disclosed in this area in the 2019 financial statements are no longer considered significant.

Share-based payments and put option accounting

The Company's strategy has been to grow organically rather than by acquisition. This has traditionally been achieved by launching new businesses in partnership with a local management team. The local management team receives an equity interest in the start-up company at launch and has the option to sell such equity to the Company at a future date based on certain performance and valuation criteria of the start-up company as set out in its governing documents.

The accounting for these put option schemes is a critical accounting policy. It is a complex area, requiring a number of judgements and depends on the substance and detailed terms of the underlying arrangement. There were approximately 60 of these schemes in place during 2020. For the 2019 audit a comprehensive exercise was undertaken by management to assess each put option scheme and determine whether it should be accounted for under IFRS 2 (equity or cash settled) or IFRS 9, which led to a number of prior year adjustments.

Many of the put option schemes are satisfied using Company shares and the final number of shares is determined by the Company's share price at the date of exercise. Fluctuations in the share price have an impact on the dilutive effect of these schemes on the Company's shareholders as they are exercised. Where possible, management have been renegotiating these arrangements to reduce or defer the dilution. The disclosures made in notes 25 to 27 of the financial statements have been included to enable readers to understand the potential future dilution from these put option schemes at different share prices of the Company.

The Audit Committee has considered the key judgements and estimates made by management in respect of these put option schemes, in particular, the justification for classification under IFRS 2 or IFRS 9 (and, if IFRS 2, whether cash or equity settled), the assessment of non-market performance conditions, and the appropriateness of forecasts used for valuation purposes. During the year it was agreed to pay two put option schemes which had previously been reported as equity settled schemes in cash. The reclassification had no P&L impact, but reduced equity by £1.1m and increased trade and other payables by £1.1m at the start of the year. The committee has concluded that the judgements and estimates applied by management to the accounting for these put option arrangements are reasonable, and that the related disclosures in the notes to the financial statements are appropriate.

Goodwill carrying value and impairment
The carrying value of goodwill as at 31 December 2020 was £33.5m (2019: £33.6m), full details of which are set out in note 14 of the financial statements. The recoverable amount of goodwill is determined by management by reference to a value-in-use calculation for each cash generating unit (CGU), based on the Board approved 2021 budget and 5-year approved plans and based on a residual growth rate of 1.5%. These forecasts were prepared as recently as January 2021 and have been updated for any significant variations from current year performance against budget. Management also prepares sensitivity analyses for each CGU, for which the key variables are the forecast profits for 2021, the expected future growth rates, and the discount rate used to measure the present value of the forecast cash flows.

The Audit Committee has reviewed management's assessment of the recoverability of this goodwill and the potential for any impairment, taking into account the key judgements and sensitivity analyses, particularly in view of the uncertainty over net revenue and cash flow forecasts arising from the Covid-19 pandemic. The committee has also reviewed the disclosures relating to goodwill carrying values and impairment in note 14 of the financial statements. The committee is satisfied with the conclusion that no impairment is required and with the presentation of the goodwill in the financial statements.

Unlisted equity investments (financial assets at fair value through profit and loss)
The Group has historically invested in early stage, unlisted businesses for the purposes of gaining access to new technologies and digital media trends. The portfolio consists of 29 investments of which 22 are managed independently by UK-based experienced investment managers who are remunerated based on the performance of the investments. During the year the Group invested a further £0.7m in new and existing businesses and sold half of its investment in another asset for a significant gain on its original investment. The net revaluation adjustment was a decrease of £3.3m, largely arising from the write-off of two investments in UK companies that went into administration at the end of the year and the write-off of three investments in Australia. The portfolio has a carrying value at the balance sheet date of £11.4m (see note 19 of the financial statements).

Because most of the holdings are small both in absolute terms and as a proportion of the issued equity of each investment, and are in early-stage ventures, the valuations are inherently judgemental other than when there have been recent funding rounds.

The Board receives regular investment proposals and portfolio valuations from the investment managers. The Audit Committee has reviewed the year end valuation of the portfolio. No single investment provides a material risk and the Audit Committee is satisfied that the judgements made in valuing the portfolio at 31 December 2020 are reasonable.

Leases
The Group adopted IFRS 16 in 2019 which resulted in a significant grossing up of the balance sheet to reflect the right-of-use assets and corresponding lease liabilities for the many offices it occupies around the world. The strategic restructuring undertaken in 2020, combined with a permanent move to a more flexible working environment, means a number of these offices, predominantly in London, are now surplus to requirements. An impairment charge has therefore been taken against the right-of-use asset associated with these leases (see note 17 of the financial statements).

In determining this impairment charge, management has had to make a number of judgements regarding the potential for subletting these offices, taking into account the challenges of an uncertain economic outlook and reduced demand for prime location space in a post Covid-19 world. External professional advice was also taken.

The Audit Committee has reviewed the judgements made by management in determining the impairment charge and concluded that these are reasonable in the context of the significant uncertainties facing the commercial office market in London.

Alternative performance measures and exceptional items
The Audit Committee has paid particular attention to the alternative performance measures included in the Annual Report and Accounts. The Group uses "Headline" numbers to report its underlying results as well as for internal reporting purposes. The Headline numbers strip out the accounting impact of equity transactions, including put options and investments. They also exclude the impact of exceptional items. During 2020, the Group incurred significant one-off costs in respect of its strategic restructuring and these have been treated as an exceptional item (see note 2 of the financial statements).

The committee has reviewed the Group's policy for the exclusion of certain items when presenting Headline earnings and confirmed the consistent application and appropriateness of this policy from year to year. It has also confirmed that the costs treated as exceptional are in accordance with the Group's accounting policy.

INTERNAL AUDIT

The Group's internal audit function, which was provided as an outsourced service, was suspended when the accounting misstatements were identified in August 2019. No internal audit has been undertaken since then.

The Audit Committee believes strongly that an internal audit function should be a key element of the Group's internal control framework, particularly given the complex structure of the Group, the significant number of small, de-centralised operations, and an incentive-based culture. The Chief Financial Officer has been asked to present a plan for a new internal audit function for implementation before the end of 2021.

EXTERNAL AUDITOR AND AUDIT EFFECTIVENESS

PricewaterhouseCoopers LLP were first appointed as the external auditors of the Group and the Company in September 2019, and were reappointed at the annual general meeting held in December 2020. The PricewaterhouseCoopers LLP partner responsible for the audit is Nigel Reynolds (Senior Statutory Auditor).

The Audit Committee is responsible for monitoring the external audit process to ensure high standards of quality and effectiveness. The committee has satisfied this objective through a number of measures and interactions taken throughout the period, including:

- Reviewing the audit plan, scope, materiality and resources – continuity of the audit team has been an important factor after the challenges of the 2019 audit.
- Monitoring the independence and transparency of the auditors (see below).
- Frequent meetings between the Audit Committee chair and the audit partner
- Meetings of the audit partner with the Audit Committee, and with the Company Chairman, both without the Executive Directors present.
- Obtaining feedback from the Chief Financial Officer and his team on the quality of the audit team, their understanding of the business and its risks, and the quality of their judgements and communications.
- The Lintstock independent board review specifically considered the effectiveness of the Audit Committee in reviewing and assessing the work of the external auditors, and this was rated highly.

These steps have enabled the committee to be satisfied with the effectiveness of the external audit.

The external auditors' report to the Directors and to the Audit Committee has confirmed that they remained independent throughout the 2020 audit, and the committee concurs with this view.

To help safeguard the external auditors' objectivity and independence, it is excluded from providing any non-audit services that individually, or in aggregate, could impair its independence. Prior approval from the Audit Committee is required for any provision of audit-related or other services taking into account the relevant professional and regulatory requirements. The fees paid to PricewaterhouseCoopers LLP in respect of non-audit services are shown in note 6 of the financial statements.

The fee for the 2020 audit of the Group and its subsidiaries is £2.6m (2019: £3.2m). The decrease in the fee from the previous year reflects the smoother 2020 audit as a result of improvements in financial controls, processes and reporting.

Since their appointment as external auditors, PricewaterhouseCoopers LLP have worked constructively with the Group to address the issues raised by the accounting misstatements identified in early 2019, which related to the financial statements for 2018 and earlier. During this period, the auditors, as part of their audit work, have identified many areas for improvement in the Group's internal financial controls and financial reporting processes, and the Group continues to respond positively by implementing the auditors' recommendations. After two challenging audits, both parties have now agreed that it makes sense for new external auditors to be appointed. PricewaterhouseCoopers LLP will therefore not be seeking reappointment as the Group's external auditors at the Company's forthcoming annual general meeting. The Company is in the process of appointing new external auditors for its 2021 financial year end and a resolution to appoint the new external auditors shall be set out in the Company's notice of annual general meeting.

EFFECTIVENESS OF THE GROUP'S SYSTEM OF INTERNAL CONTROLS AND RISKS

The Audit Committee is responsible for reviewing the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems. The accounting misstatements identified in 2019 highlighted a number of weaknesses in the Group's internal financial controls.

Steps were taken during 2020 to address these financial control weaknesses including the continued roll-out of new, standardised finance systems across all Group entities, the push down of Group accounting policies to local entities, investment in resources and skills within the Group finance function, and a shift from a de-centralised operating culture to one with more robust central control, oversight and accountability. These improvements have all been monitored and reviewed by the Audit Committee for effectiveness.

Nevertheless, the 2020 audit again identified a significant number of errors in the draft numbers and continuing control weaknesses, and it is clear that the Group's internal financial controls have not been fully effective during the year. The quality of financial reporting from the subsidiary entities is a particular area of concern to the committee. To compensate for this weak control environment, the central finance team have had to undertake significant additional reviews and reworks of the subsidiary reporting packs in order to obtain the appropriate assurance around the accuracy of subsidiary financial reporting. A priority for the central finance team is to ensure robust and consistent balance sheet disciplines are embedded in the monthly reporting from all subsidiaries, rather than being left until after the year end for review and adjustment.

The discovery of the accounting misstatements in 2019 was also a significant factor in the delayed 2019 audit. Following completion of this audit in December 2020, the external auditors wrote to the Board setting out their recommendations for improvements to the Group's financial reporting systems and processes, in particular around the Group's year end reporting and preparation for audit. The Audit Committee has monitored the implementation of these recommendations and while the 2020 audit has certainly been smoother than last year, there have again been significant delays in completing the audit and there are still a number of areas where improvements are required.

During 2021, the Audit Committee will continue to work with management and the external auditors to implement recommendations for improvements in the effectiveness of the Group's internal financial controls and systems, including the development of a minimum control framework, establishing a process for monitoring the effectiveness of these controls, developing a more robust accountability culture for reporting and addressing control weaknesses, and integrating a new internal audit function into the overall control framework.

The Audit Committee also continues to review and update the Group's principal risks schedule.

AUDIT COMMITTEE EFFECTIVENESS

As set out in the Board Review on page 65, an independent evaluation of the effectiveness of the Board and its committees was undertaken earlier this year by the board advisory firm, Lintstock. As far as the Audit Committee's effectiveness is concerned, the overall evaluation was positive which is particularly pleasing in the context of the previous accounting misstatements and delays in completing the 2019 audit. The main area identified for improvement was the quality and timeliness of papers prepared for the committee, and this will be addressed in 2021.

COLIN JONES
Chair of the Audit Committee
27 August 2021

"Significant improvements have been made in many areas during 2020 and the new finance systems, policies and changes in personnel introduced across the Group have been monitored and reviewed by the Audit Committee for effectiveness."

– Colin Jones

DIRECTORS' REMUNERATION REPORT

Dear Shareholder

I was pleased to be appointed Chair of the Remuneration Committee in April 2020 as the Company established a formal Remuneration Committee. A committee had not existed for a number of months, and as an AIM listed Company, had only operated informally prior to that. The new committee now consists of my fellow independent Non-Executive Directors, Lisa Gordon and Colin Jones, and by standing invitation, Gareth Davis and Vin Murria attend our meetings. We are independently advised by Korn Ferry, who are members of the Remuneration Consultants Group and advise in accordance with their Code of Conduct.

I would like to take this opportunity to thank our senior leaders and their teams for their commitment to our clients and the business, their focus on delivering excellence and their resilience during what has been the most challenging of years. A year during which we set out on a journey of strategic change and development. We believe our remuneration framework is very much aligned with that new vision and strategy and puts shareholder interests at its heart.

The work of the committee over the past year has focused on establishing good governance, process and policy in support of the shift across the whole business to a more robust governance framework. It, with support from Korn Ferry, has also completed a thorough review of all incentive arrangements of the Executive Directors. Based on Korn Ferry's recommendations, the Company has formulated a new policy for the remuneration of the Executive Directors.

Although, as an AIM listed Company we are not obliged to, we seek to implement the provisions of the Code and ensure our remuneration arrangements align with best practice. This starts with resolutions to approve a new Directors' Remuneration Policy and the Directors' Remuneration Report at the forthcoming annual general meeting.

ALIGNMENT WITH VISION AND STRATEGY

Our vision is to navigate, create and lead meaningful change for our clients and the world. We will achieve this by being a creative company that connects specialist expertise through data and technology. This requires us to operate in an increasingly more connected and global way, through five specialist divisions, fuelled by our growth platform. We have developed a Remuneration Policy and framework that supports this vision and strategy directly. Key targets set out during the Capital Markets Day included;

- Net revenue growth of 6% CAGR (FY 2020 to 2025).
- Operating profit growth of >25% CAGR (FY 2020 to 2025).
- Strong operational leverage and tight cost control.
- A Group operating margin of 18% by 2025.

I will describe later how our LTIP arrangement and the bonus speak directly to these measures.

THE EXECUTIVE TEAM

We have now seen the retirement of the three original founders of the Company Bill Muirhead, David Kershaw and Jeremy Sinclair and the appointment of our new Chief Executive Officer, Moray MacLennan. No exit payments were made to the three founders in relation to their departures, but a contribution to enable their individual private health insurance arrangements to continue was agreed with each. These amounts are disclosed in this report. They each remain shareholders of the Company.

Having served with the business for over 20 years, Moray MacLennan provides much needed continuity and stability during a time of incredible change. He has also been the lead architect of a new vision, strategy and change roadmap for the business. A new central executive team has been formed, that will drive performance and delivery against this strategy. A new Global Chief People Officer role has been created, and we are delighted to welcome Mark Dickinson-Keen in that role. Through 2021 and beyond, Mark will continue the full review of remuneration and reward throughout the Group, ensuring market benchmarks are fully considered in any proposed changes. He will work alongside Mickey Kalifa, Chief Financial Officer, Tim Duffy, Director of Strategy, Wendy Dixon, Chief Growth Officer and Victoria Clarke, General Counsel and Company Secretary. The Remuneration Committee is responsible for both Board Directors' remuneration as well as the remuneration of Executives who form the membership of the Group's Executive Committee.

On appointment to the Board and as Chief Executive Officer from 1 January 2021, Moray's salary was changed from £600,000 to £650,000 per annum. His pension contribution is fully aligned with that available to the wider workforce at 6%.

Mickey Kalifa was recruited during 2019 at a time of great uncertainty for the business. This included an entitlement to 200% of salary in cash as an LTIP each year for four years, the first two of which (2019 and 2020) had no performance criteria attached. The final two (2021 and 2022) were to have only one-year performance periods. The Remuneration Committee has worked with Mickey to adjust these previously agreed contractual entitlements to better align them with shareholder interests. We are grateful to Mickey for agreeing to make significant changes to his contractual position. It has therefore been agreed that the cash LTIPs already granted (2019 and 2020) will convert into restricted shares, with vesting dates and standard holding periods applied, as Mickey is an Executive Director. Moving forward, Mickey's LTIP opportunity will reduce over time, be performance tested over three years (not one year) along with other Executives, and have two-year holding periods.

LTIP opportunity:

- 2021: 200% of salary
- 2022: 150% of salary
- 2023: 100% of salary

In addition, Mickey received a 25% salary increase at the end of February 2020, again as part of a historical agreement made by the three founders. This increased Mickey's salary from £300,000 to £375,000 per annum. He also received a maximum bonus (of 75% of base pay) for 2019 performance, a decision taken prior to the formation of this committee.

The committee has agreed that there will be no further salary increases for either Executive Director in 2021. Although both Moray and Mickey worked incredibly hard and achieved a tremendous amount in the year, the committee did not feel that it would be appropriate to award a bonus to them in respect of 2020. Many of our stakeholders' experiences were not what we would want them to have been during the year and to their credit, both Executive Directors fully accepted the committee's decision. We are grateful to them both for the leadership and great example they have shown in these challenging times.

COVID-19 IMPACT ON REMUNERATION AND ENGAGEMENT

It should be noted that many of our employees, including our senior leaders, the Executive Team and the Non-Executive Directors, undertook a voluntary salary sacrifice of 20% for a period of three months. This saved the organisation approximately £1m and helped to preserve jobs. A further factor in the preservation of jobs was the decision to claim under the UK Government Job Retention Scheme at the height of the crisis. With the business in good health, this money has been fully repaid.

The business did an outstanding job at maintaining employee engagement and ensuring professional, social and wellbeing support during the Covid-19 pandemic. Given the federated nature of the business, both in terms of specialism and geography, examples of this support vary across the Group. However, they include the introduction of a real-time 'happiness index', virtual wellbeing events including meditation and exercise classes and the provision of online wellbeing advice and counselling services.

Formal monitoring of engagement to date has been a localised activity. Moving forwards we will be reviewing whether a company-wide approach to this may bring benefits.

In addition, I have been named as Non-Executive Director with responsibility for workforce engagement and through 2021 will be working with the Chief People Officer to establish mechanisms for me to engage directly with employees across the business.

We have also appointed a Head of Diversity, Equity and Inclusion who is currently launching a formal strategy within the UK businesses that places diversity, equity and inclusion at the heart of how we think and operate. This strategy will be globalised in future. The UK Group companies also have six employee led networks who work closely with colleagues and business leaders to foster an inclusive culture. They cover important issues including gender, parent and caring responsibilities, race, LGBTQ+, physical and mental health and those new to the industry. The Group is intending to extend a number of these employee led networks internationally.

SHAREHOLDER ENGAGEMENT

We are very conscious of the benefits from and need to fully engage with our shareholders on all key matters moving forward and are committed to doing so. The voting result on the 2020 remuneration report is set out below. We spoke with a number of shareholders to explain the Company's position and have received extensive feedback and insight on areas to consider in the design of a new framework. We believe we have reflected those views.

We anticipate that this will be a year of executing a new remuneration policy and framework and will consult internally and with our shareholders on its effectiveness in 2022, allowing a full year of implementation.

REMUNERATION POLICY 2021

This is set out in a standard format in the report and contains the normal elements of fixed and variable pay. The bonus and long term incentives are capped by reference to salary, and directors have shareholding guidelines. Pay in 2021 is therefore more closely aligned to shareholders' interests.

The bonus will be a key driver in incentivising in-year performance in line with financial goals shared externally, with targets being set for Headline profit before tax (50%), revenue (25%) and the achievement of critical personal objectives (25%).

The LTIP will focus on driving longer term performance aligned to the financial goals shared externally, with targets being set for total shareholder return (70%) and Headline profit before tax (30%). The committee understands the importance of simplifying the series of complex remuneration and ownership structures that exist across the Group and thereby reducing the level of minority interests. When this is sufficiently underway, the committee will be in a position to use Headline earnings per share as a performance measure, rather than Headline profit before tax, in long term incentives.

The policy provides structure and transparency over the way that our Directors' incentives are determined and reported.

LOUISE JACKSON
Chair of the Remuneration Committee
27 August 2021

COMMITTEE COMPOSITION

This section details the Remuneration Committee's composition and activities undertaken over the past year.

Committee members

The current committee members and the dates they joined the committee are:

- Louise Jackson (Chair) 17 March 2020
- Lisa Gordon 17 March 2020
- Colin Jones 17 March 2020
- Gareth Davis 17 March 2020 until he was appointed Chair of the Board

No directors are involved in determining their own remuneration. The committee may invite other individuals to attend all or part of any committee meeting, as and when appropriate and necessary, including the Chief Executive Officer and external advisors.

Role

The Remuneration Committee is a committee of the Board. The committee has responsibility for determining the remuneration of the Company's Executive Directors, the Chair and selected senior executives, taking into account the need to ensure Executives are properly incentivised to perform in the interests of the Company, its people and its shareholders.

The Remuneration Committee's key responsibilities are:

- Shaping and agreeing with the Board the policy framework for the remuneration of Executive Directors and certain aspects of the remuneration of senior management.
- Determining the total individual remuneration package of each Executive Director with due regard to the performance of the individual, in line with the agreed remuneration policy.
- Agreeing Executive Directors' contractual terms.
- Acting on behalf of the Board in connection with the establishment and administration of the Company's current and/or future share plans, including the selection of participants, determining the structure of awards and the setting of performance targets.
- Drafting and approving any remuneration related resolutions to be put to the shareholders at the Company's annual general meeting.

The committee formally met once during 2020. The main purpose of the meeting was to agree the remuneration of the Chief Executive Officer on his appointment and to consider the structure of incentive arrangements for 2021. The committee has met on numerous occasions in 2021 which will be referred to in detail in the 2021 Annual Report and Accounts.

Advisors

The committee has appointed Korn Ferry to provide independent remuneration consultancy services to the Group and Addleshaw Goddard to advise on employment law and share incentives. Korn Ferry is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at www.remunerationconsultantsgroup.com.

The total fee for advice provided to the committee during the year was £56,137 (2019: £29,000). The committee is satisfied that the advice it has received has been objective and independent.

Shareholder considerations
The Company is committed to ongoing shareholder dialogue and takes an active interest in feedback it receives from its shareholders and voting outcomes. The voting results from the annual general meeting held in 2020 on the resolution to approve the Remuneration Report are set out below.

Voting results from the annual general meeting held in 2020

	For	Against	Withheld	Total votes as % of issued share capital
Approval of the 2019 Remuneration report (2020 annual general meeting)	77.1% (62,843,120)	22.9% (18,652,232)	8,384,561	77.6%

A vote withheld is not a vote in law and is not counted in the calculation of the votes for or against a resolution.

DIRECTORS' REMUNERATION POLICY

This section sets out the Company's Directors' Remuneration Policy (the "Remuneration Policy"). The Remuneration Policy has been developed taking into account the regulations applicable to main market listed companies*, the principles of the 2018 UK Corporate Governance Code and relevant UK institutional investor guidance.

Whilst the Company is listed on AIM and is therefore not required to comply with the requirements for Main Market listed companies, the Board and committee have chosen to follow these requirements insofar as is possible and practicable for the Company.

The Remuneration Policy will be subject to an advisory shareholder vote at the Company's annual general meeting to be held in 2021, and if approved will be applicable for (and including), the financial year ending 31 December 2021 onwards.

Key principles of the Remuneration Policy
The Company is committed to ensuring that its remuneration practices enable the Company to appropriately compensate employees for the services they provide to the Company, attract and retain employees with skills required to effectively manage the operations and growth of the business and motivate employees to perform in the best interests of the Company.

The Company's remuneration principles ensure that:

- The Company offers a suitable package to attract, retain and motivate people with the skills and attributes needed to deliver the Company's business goals;
- The Company's policy and practices aim to drive behaviours that support the Company strategy and business objectives; and
- The Company's incentive plans are linked to Company and individual performance to encourage high performance from employees both at an individual and collective level.

These policy objectives will be achieved by ensuring remuneration is reflective of applicable market conditions, Statutory obligations and the level of accountability (responsibility, objectives, goals) assigned to the provision of incentives to deliver outstanding performance, whilst providing organisational flexibility and operational efficiency.

In addition, the Remuneration Policy is designed taking into account the following principles of the Code:

- **Clarity** – the Remuneration Policy is well understood by the management team and is clearly articulated to shareholders;
- **Simplicity** – the committee is mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. Therefore, one of the committee's objectives is to ensure that the executive remuneration policies and practices are as simple to communicate and operate as possible, while also supporting strategy;
- **Risk** – the Remuneration Policy is designed to ensure that inappropriate risk-taking is not encouraged and will not be rewarded. This is done via (i) the balanced use of both short and long term incentive plans which employ a blend of financial, non-financial and shareholder return targets, (ii) the significant role played by equity in the incentive plans (together with shareholding guidelines) and (iii) recovery provisions;
- **Predictability** – the incentive plans have clearly defined performance conditions setting out the metrics and targets required to be met to achieve defined levels of pay;
- **Proportionality** – there is a clear link between individual awards, delivery of strategy and long term performance. In addition, the significant role played by incentive/'at-risk' pay, together with the structure of the Executive Directors' service contracts, ensures that poor performance is not rewarded;
- **Alignment to culture** – the executive pay policies are fully aligned to the Company's culture.

* Large and Medium-size Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, as amended.

REMUNERATION POLICIES

PURPOSE	OPERATION	OPPORTUNITY	PERFORMANCE MEASURES
Base Salary			
Provide a base level of remuneration to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Company's strategy.	Salaries are normally reviewed annually with any changes typically effective from the beginning of the financial year. When determining an appropriate level of salary, the committee considers: • remuneration practices within the Company; • the performance of the individual Executive Director; • the experience and responsibilities of the Executive Director; • the general performance of the Company; • salary level prior to appointment; • salaries paid by comparable companies; and • the economic environment.	Increases will normally be in line with average increases made to the wider employee workforce, although in exceptional circumstances larger increases may be provided, for example, to reflect a change in role/responsibilities. Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set at a lower level with larger increases provided as they gain experience.	None, although individual and corporate performance is taken into account during any annual salary review.
Benefits			
Provide a market competitive level of benefits to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Company's strategy.	The Executive Directors may receive benefits which include, but are not limited to, car allowance and related benefits, family private health cover, critical illness cover, life assurance cover, income protection and accident/sickness/business travel insurance (including tax payable if any). Other benefits such as relocation allowances may be offered if considered appropriate and reasonable by the committee. Any reasonable business-related expenses can be reimbursed in accordance with the Company's expenses policy, including the tax thereon if determined to be a taxable benefit. The Executive Directors may participate in any all-employee share plans operated by the Company, on the same terms as other employees.	The maximum will be set at the cost of providing the benefits described.	None
Pensions			
Provide appropriate levels of pension benefits to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Company's strategy.	The Company may provide pension contributions in the form of a salary supplement and/or as an employer contribution to a defined contribution pension plan.	For the Chief Executive Officer and any new Executive Directors, the maximum pension contribution as a percentage of basic salary will be in line with the contribution level provided to the majority of the workforce (currently 6% of salary). The Chief Financial Officer's maximum pension contribution is 8% of salary, which is the rate he receives for 2021. His pension contribution will be aligned with the workforce rate by the end of 2021.	None

PURPOSE	OPERATION	OPPORTUNITY	PERFORMANCE MEASURES
Group annual bonus			
The Group annual bonus plan provides an incentive to the Executive Directors linked to achievement in delivering goals in a sustainable manner that are closely aligned with the Company's strategy and the creation of value for shareholders.	Performance measures, weightings and targets are reviewed and set annually by the committee, in line with the Company's strategic objectives at that time. Levels of award determined by the committee after the year end will be based on performance against the targets set, based on audited results, unless otherwise noted. The committee retains overriding discretion to adjust the outcome upwards or downwards, where the formulaic outcome is, in the view of the committee, not a fair and accurate reflection of business performance. The bonus may be paid wholly in cash, or the committee may determine that a portion of the bonus should be delivered in deferred shares. Malus and clawback provisions apply such that in certain circumstances the committee may withhold or recover bonus payments.	The maximum bonus opportunity is 100% of salary. For 2021, the Chief Executive Officer's annual bonus opportunity is 100% of salary and the Chief Financial Officer's bonus opportunity is 75% of salary. No more than 25% of the relevant portion of the bonus is payable for delivering a threshold level of performance rising to full payout of the relevant portion for delivering in line with the maximum target. No more than 50% of the relevant portion is payable for delivering a target level of performance.	Performance measures will be set to support the strategy based on a range of key financial and personal/strategic objectives. For 2021, at least 50% of the bonus will be based on Group financial metrics and no more than 25% will be based on personal objectives. For 2021, the bonus will be based on Group Headline profit before tax targets (50% weighting), revenue targets (25% weighting) and personal objectives (25% weighting). The targets and performance against them will be disclosed in the relevant annual report and accounts following the end of the performance period.
Long Term Incentive Plan (LTIP)			
Awards are designed to incentivise the Executive Directors to maximise returns to shareholders by successfully delivering the Company's objectives over the long term in a sustainable manner.	Awards may be granted annually to Executive Directors under the LTIP. The awards normally vest no earlier than the third anniversary of grant and only to the extent the performance conditions have been satisfied. The committee retains overriding discretion to adjust the outcome upwards or downwards, where the formulaic outcome is, in the view of the committee, not a fair and accurate reflection of business performance. A two-year holding period will normally apply to the vested shares such that the shares may not be sold by the Director during this period other than to settle tax liabilities in relation to those shares. Malus and clawback provisions apply such that in certain circumstances the committee may withhold or recover LTIP payments.	For 2021 onwards, the maximum annual grant level is 200% of salary. The Chief Executive Officer will be granted an award over shares to the value of 150% of salary in 2021. The Chief Financial Officer will be granted an award over shares to the value of 200% of salary in 2021 and 150% of salary in 2022 under the LTIP. No more than 25% of the relevant portion of an award will vest for delivering a threshold level of performance rising to full payout of the relevant portion for delivering in line with the maximum target.	Performance measures are set by the committee over a three-year period prior to the grant being made. At least 50% of the LTIP will be based on Group financial and/or total shareholder return ("TSR") metrics. 2021 awards will be assessed against TSR performance versus the FTSE SmallCap Index (70% weighting) and Headline profit before tax (30% weighting).

PURPOSE	OPERATION	OPPORTUNITY	PERFORMANCE MEASURES
CFO Recruitment Long Term Incentive Plan (CFO LTIP)			
The award was designed to recruit and retain the CFO. To meet best practice this has been revised with the CFO's consent.	Cash awards were made on recruitment covering 2019 and 2020 and will be converted into restricted share awards over the Company's shares using the average closing price of a Company share for the 45 days prior to 20 August 2021. The restricted share awards normally vest in early 2023 and 2024 in the amounts of shares to the value of £817,000 and £508,000 subject to continued employment.	The cash awards made in relation to 2019 and 2020 equal £600,000 and £725,000 respectively, which will be converted into restricted share awards. No further awards will be made under this plan.	The 2019 and 2020 awards are not subject to performance conditions.
Shareholding requirement			
To support long term commitment to the Company and the alignment of Executive Director interests with those of shareholders.	The committee has adopted shareholding guidelines that encourage the Executive Directors to build up and then subsequently hold a shareholding equivalent to a multiple of their base salary. The requirement for an Executive Director to maintain a holding of 100% of salary for a year after leaving excludes any shares purchased by the director. The committee retains discretion with respect to the operation of the shareholding requirement.	Executive Directors are required to build up and hold a shareholding equivalent to 200% of salary and then retain a holding of 100% of salary for the year after leaving.	None
Chair and Non-Executive Directors			
To provide a competitive fee for undertaking the role which is sufficient to attract high calibre individuals to the role.	Fees are structured as follows: • The Chairman is paid an all-inclusive fee for all Board responsibilities. • Non-Executive Directors are paid a basic fee, plus additional fees for additional responsibilities such as chairing Board Committees The Chairman's fee is determined by the committee with the Non-Executive Directors' fees being determined by the Board. Additional fees may also be paid to the Chairman and/or Non-Executive Directors on a per diem (or other) basis to reflect increased time commitment in certain limited circumstances. Fees are normally paid in cash. Any reasonable business-related expenses can be reimbursed, including the tax thereon if deemed to be a taxable benefit. Non-Executive Directors are encouraged to build a shareholding equal to at least 1 x their annual fees. Whilst there is no time limit for this, it is hoped that this will occur by the end of their second three-year term.	Overall fees will not exceed the maximum in the Company's Articles of Association.	None. The Non-Executive Directors are not entitled to receive any remuneration which is performance related.

REMUNERATION COMMITTEE DISCRETION

The committee retains discretion to make any payments, notwithstanding that they are not in line with the policy set out above, where the terms of the payment were agreed (i) before the policy came into effect, or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration of the individual becoming a director of the Company.

The committee will operate the variable pay plans (i.e. Group annual bonus plan, Long Term Incentive Plan and CFO LTIP) according to their respective rules. The committee retains certain discretion in respect of the operation and administration of these arrangements which include, but are not limited to, the following:

- the participants;
- the timing of the grant of an award or payment;
- the size of an award;
- the determination of the extent to which performance measures have been met and the corresponding vesting or payment levels;
- discretion required when dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers based on the rules of the respective arrangement and the appropriate treatment chosen, including the pro rating of awards;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends);
- the annual review of performance measures, weighting and targets from year to year; and
- whether an award is over cash or shares and if shares, the manner in which share awards can be satisfied (i.e. through the use of new issue, market purchased or treasury shares or by way of a cash payment).

In addition, the committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. a material acquisition and/or divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

MALUS AND CLAWBACK PROVISIONS

Both the bonus and LTIP contain malus and clawback provisions under which the committee may determine the relevant claw back amount two years after the date of vesting in respect of the LTIP and two years after the date of payment in respect of the bonus. Circumstances that give rise to malus and clawback provisions include misstatements of results, gross misconduct, vesting calculations based on error, significant reputational damage and corporate failure.

RECRUITMENT POLICY

The remuneration arrangements for a new Executive Director would normally be in line with the terms of the Remuneration Policy and would be set taking into account the specific circumstances of the individual. In addition, the committee may offer additional remuneration to replace remuneration forfeited on leaving a previous employer.

Where a position is filled internally, the committee may honour any pre-existing remuneration obligations or outstanding variable pay arrangements in relation to the individual's previous role such that these shall be allowed to continue according to the original terms (adjusted as relevant to take account of the Board appointment).

For internal and external appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

Service contracts and cessation of employment

Service contracts may be terminated by either the Company or an Executive Director with no more than 12 months' notice. The Company may determine to make a payment in lieu of notice in respect of salary and contractual benefits only.

The treatment of outstanding variable pay schemes shall be determined by the committee taking into account the time employed during the respective performance periods and the circumstances of departure. In doing so the committee will fulfil its duty to seek to ensure that there is no reward for failure and in doing so not paying more than is necessary whilst acting fairly and reasonably to all parties.

ANNUAL REMUNERATION REPORT

This section summarises remuneration paid out to Directors for the 2020 financial year, and details of how the Remuneration Policy will be implemented in the 2021 financial year.

DIRECTORS' REMUNERATION FOR THE 2020 FINANCIAL YEAR (AUDITED)

Director	Base Salary/Fees £000 2020	Base Salary/Fees £000 2019	Benefits £000 2020	Benefits £000 2019	Pension £000 2020	Pension £000 2019	Annual bonus £000 2020	Annual bonus £000 2019	Long term Incentives £000 2020	Long term Incentives £000 2019	Total £000 2020	Total £000 2019	Total fixed remuneration £000 2020	Total fixed remuneration £000 2019	Total variable remuneration £000 2020	Total variable remuneration £000 2019
Mickey Kalifa	344	225	5	4	24	18	–	225	485	400	858	872	373	247	485	625
David Kershaw	309	325	48	46	49	49	–	–	–	–	406	420	406	420	–	–
Jeremy Sinclair	309	325	48	47	49	49	–	–	–	–	406	421	406	421	–	–
Bill Muirhead	309	325	51	48	49	49	–	–	–	–	409	422	409	422	–	–
Gareth Davis*	135	–	–	–	–	–	–	–	–	–	135	–	135	–	–	–
Colin Jones**	66	–	–	–	–	–	–	–	–	–	66	–	66	–	–	–
Lisa Gordon	59	–	–	–	–	–	–	–	–	–	59	–	59	–	–	–
Louise Jackson	54	–	–	–	–	–	–	–	–	–	54	–	54	–	–	–
TOTAL	**1,585**	**1,200**	**152**	**145**	**171**	**165**	**–**	**225**	**485**	**400**	**2,393**	**2,135**	**1,908**	**1,510**	**485**	**625**

* Gareth Davis was appointed on 3 February 2020 and was paid £150,000 per annum as Deputy Chair. On his appointment as Chair on 1 January 2021 his fee increased to £250,000 in accordance with the table below showing the fee structure for the Non-Executive Directors.

** Colin Jones was appointed on 3 February 2020. Lisa Gordon and Louise Jackson were appointed on 17 March 2020.

All Directors voluntarily accepted a pay cut to protect the business during the initial impact of the Covid-19 pandemic. The pay cut equated to 20% of base pay for the three months of April 2020 to June 2020 inclusive. The four Non-Executive Directors took a cut in their fees of £10,000 per annum, pro-rated for the same period.

DEPARTING EXECUTIVE DIRECTORS (UNAUDITED)

No Executive Directors departed during the year but Jeremy Sinclair and David Kershaw left the company on 31 December 2020 and Bill Muirhead left the company on 31 March 2021.

As part of the negotiations around their departure, the Company contributed towards their private healthcare insurance costs for the next three years. This involved an ex-gratia payment to Jeremy Sinclair of £45,073, David Kershaw of £36,324 and Bill Muirhead of £39,390. No other termination payments nor payments in lieu of notice were made.

DIRECTORS' REMUNERATION FOR THE 2020 AND 2021 FINANCIAL YEARS (AUDITED)

Base salary

Moray MacLennan was appointed Chief Executive Officer with effect from 1 January 2021 on a salary of £650,000. Given the position of the Company and the wider economic environment, the committee determined that the salary for the Chief Financial Officer, Mickey Kalifa, will remain at £375,000 for 2021. His salary was increased from £300,000 on 1 March 2020 by the Executive Directors on the Board at that time in the absence of a Remuneration Committee.

Pension and benefits

On appointment as Chief Executive Officer, Moray MacLennan's pension allowance was set at 6% of salary which is in line with the workforce rate. Mickey Kalifa's pension is currently at 8% and will be aligned with the workforce rate at the end of 2021. Benefits consist principally of private healthcare and permanent health insurance. Moray MacLennan also receives a car allowance of £20,000 and fuel benefit. The fuel benefit will cease at the end of 2021.

GROUP ANNUAL BONUS PLAN

The Executive Directors are eligible for a performance-related bonus that is paid in cash following the year end.

2020 Group annual bonus (audited)

The Chief Financial Officer was the only eligible Director participating in the 2020 Group annual bonus. No bonus payment was awarded in light of the overall financial performance of the Group and the committee's desire to align executive reward with the shareholder experience.

2021 Group annual bonus (audited)

For 2021, the Group annual bonus will be structured in line with the Remuneration Policy. The maximum opportunity for the Chief Executive Officer is 100% of salary and 75% of salary for the Chief Financial Officer. The performance metrics and weightings are set out in the table below. As the targets are forward-looking these are considered commercially sensitive by the Board and will be disclosed next year.

Measure	Weighting (% of bonus)
Headline profit before tax	50%
Revenue	25%
Personal objectives	25%

LONG TERM INCENTIVE PLAN

The Chief Executive Officer and Chief Financial Officer will participate in the LTIP in 2021 and receive shares, following the end of the three-year performance period only to the extent that the performance targets are met and normally that they remain employed at the time. They are required to hold shares that vest for an additional two-year period following the end of the performance period.

The maximum LTIP percentage for 2021 will be 150% of base salary for the Chief Executive Officer and 200% of salary for the Chief Financial Officer.

2021 LTIP AWARDS

The awards will vest to the extent performance targets are met over the period to 31 December 2023. The performance metrics and weightings are as summarised in the table below.

Performance measure	Weighting
Headline profit before tax for 2023	30%
Relative TSR vs. FTSE Small Cap index	70%

The targets attached to the TSR element require performance to match the Index TSR for vesting to start to occur rising from 0% on a straight-line basis to full vesting for 10% per annum outperformance of the Index. TSR is the share price movement over the period of three years and the value of dividends for the Company's shareholders. The FTSE Small Cap Index TSR will be calculated by a financial information provider. The same vesting scale applies to the Headline profit before tax targets. However, as the Headline profit before tax targets are felt to be commercially sensitive at the current time, these will be disclosed in a future Directors' Remuneration Report.

The LTIP contains malus and clawback provisions under which the committee may determine the relevant claw back amount two years after the date of vesting in certain circumstances referred to in the specific paragraph dealing with malus and clawback.

CFO LTIP AWARDS

As part of his remuneration arrangements on recruitment in 2019, Mickey Kalifa, the Chief Financial Officer, was granted a long term incentive providing annual long term incentive grants in each of 2019, 2020, 2021 and 2022.

i. 2019 award of £600,000 (200% of salary);

ii. 2020 award of £725,000 (200% of salary);

iii. 2021 award of up to £750,000 dependent upon the meeting of corporate performance targets for 2021 to be set by the committee: and

iv. 2022 award of up to 200% of his 2022 salary dependent upon the meeting of corporate performance targets for 2022 to be set by the committee.

The above tranches would become payable in cash in equal thirds in early 2023, 2024 and 2025 subject to continued employment and, in the case of the 2021 and 2022 awards subject to the meeting of the performance conditions. The awards were to vest in full on a change of control, subject to the 2021 and 2022 awards meeting their performance targets.

With his consent, the above awards were varied to create greater alignment with shareholders and introduce three-year performance targets in place of the one-year targets for 2021 and 2022. The revised plan converts the 2019 and 2020 cash payments into restricted share awards using the average closing price of a Company share for the 45 days prior to 20 August 2021. The restricted share awards then vest 62% in early 2023 and 38% in early 2024. The vesting has been calculated to replicate the anticipated amounts and timing of the payments under the scheme, had it not been voluntarily varied. The 2021 award will be replaced by a grant of 200% of salary under the LTIP which will vest in early 2024 subject to meeting the three-year performance targets and the 2022 award will be replaced by a grant of 150% of salary under the LTIP which will vest in early 2025 subject to meeting the three-year performance targets. LTIP awards have a two-year holding period requirement post vesting.

The committee's view was that the changes of introducing three-year performance in replacement of one-year performance, converting all awards into equity and introducing the holding requirements and shareholding periods were in aggregate beneficial to the company and shareholders.

COMPANY CHAIR AND NON-EXECUTIVE DIRECTORS' REMUNERATION (UNAUDITED)

The fee structure for the Non-Executive Directors in respect of 2020 is set out in the table below. Fees will remain unchanged for 2021.

	Fee as at 31 December 2020	% Increase
Base fee		
Chair*	£250,000	n/a
Deputy Chair	£150,000	n/a
Non-Executive Directors	£50,000	n/a
Additional fees		
Senior Independent Director	£25,000	n/a
Audit Committee Chair	£25,000	n/a
Remuneration Committee Chair	£25,000	n/a

* Gareth Davis was only appointed Chairman on 1 January 2021 so this fee did not apply during 2020 as he was Deputy Chair and paid £150,000.

SHAREHOLDINGS AND SHARE INTERESTS (UNAUDITED)

From 2021 Executive Directors are required to build and maintain a shareholding equivalent to 200% of their base salary.

The table below summarises the Executive Directors' shareholdings at 31 December 2020, including shares subject to deferral or holding period and performance conditions.

Director	Beneficially owned shares on 31 Dec 2020	Vested shares subject to deferral/holding period	Unvested shares subject to performance conditions
Mickey Kalifa	27,985	–	–
David Kershaw	4,579,697	–	–
Jeremy Sinclair	4,579,697	–	–
Bill Muirhead	4,579,697	–	–

David Kershaw, Jeremy Sinclair and Bill Muirhead departed before the remuneration policy was implemented and therefore shareholding requirements are not applicable.

None of the current Non-Executive Directors held shares in the Company in 2020, save for Vin Murria who was not appointed to the Board until 2021. Since the end of the year, Gareth Davis, Lisa Gordon and Colin Jones have purchased shares in the Company and own 102,720, 50,000 and 31,175 shares respectively.

Moray MacLennan owned 351 shares at 31 December 2020, the day before his appointment as the Chief Executive Officer and an Executive Director. He subsequently purchased a further 561,798 shares on 3 February 2021.

POLICY ON EXTERNAL APPOINTMENTS (UNAUDITED)

The committee believes that the Group can benefit from Executive Directors holding approved non-executive directorships in other companies, offering executive directors the opportunity to broaden their experience and knowledge. Our policy is to allow Executive Directors to retain fees paid from one external appointment. Mickey Kalifa holds a non-executive directorship at Zoo Digital plc which is listed on the AIM market of the London Stock Exchange.

ENGAGEMENT WITH THE WORKFORCE (UNAUDITED)

The Company is committed to regularly engaging with its workforce and realises the value in listening to and acting on employee views across the organisation.

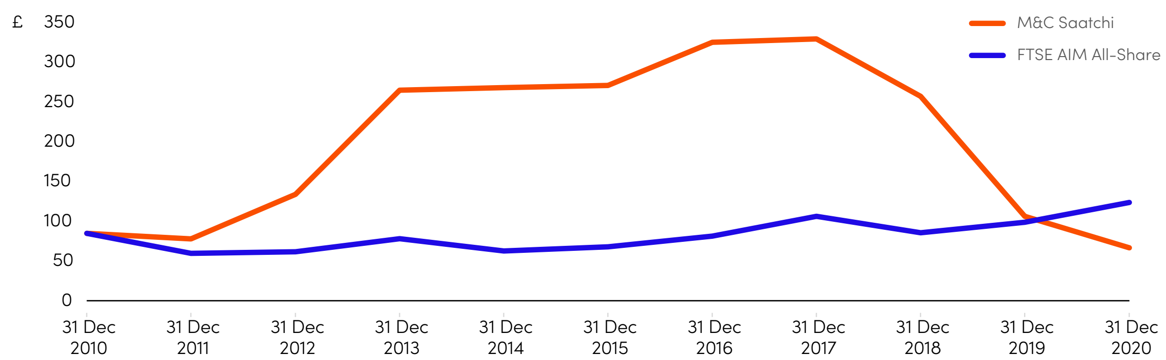
Multiple mechanisms exist across both the Group and its individual companies in order to facilitate this, including participative 'all hands' style meetings and various newsletters.

Louise Jackson has been appointed as the Board member responsible for engagement with the workforce and will work with the Chief People Officer to ensure the Board are furnished with qualitative and quantitative data.

At the end of 2020, all employees were asked to share their views on how they would like the Company to be described in the future. This data has been analysed to identify key themes and will be used to shape the Group people strategy.

PERFORMANCE GRAPH (UNAUDITED)

The chart below illustrates the Company's total shareholder return performance compared with the performance of the FTSE Small Cap Index, over the last ten years. The FTSE Small Cap Index has been selected as an appropriate benchmark, as this index is being used in the targets for long term incentives.



LOUISE JACKSON
Chair of the Remuneration Committee
27 August 2021

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Group and Company for the year ended 31 December 2020.

STRATEGIC REPORT

The Group's Strategic report is set out on pages 2 to 51 together with the s172 statement on pages 68 and 69. The Strategic report contains an indication of likely future developments in the business of the Company and the Group.

RESULTS AND DIVIDENDS

The consolidated income statement on page 132 shows the results for the year. In view of the economic effects of the Covid-19 pandemic and a desire to preserve cash, the Directors do not recommend the payment of a 2020 dividend (2019: 2.45p: £2,246,973). The Directors have concluded that the Group's priority, ahead of any distribution, is to return the business to pre-pandemic levels of profitability and earnings and, thereafter, to grow in line with the targets set out at the Company's Capital Markets Day held in January 2021. Assuming a return to normal trading conditions, the Directors expect to reinstate dividends from 2022.

PRINCIPAL ACTIVITY, TRADING REVIEW AND FUTURE DEVELOPMENTS

The principal activity of the Group during the year was the provision of marketing services. The review of trading, future developments and key performance indicators can be found in the Strategic report.

GOING CONCERN

The financial information has been prepared on the going concern basis which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future, being a period of at least 18 months from the date of signing these financial statements.

The Directors have formed their opinion after evaluating three different forecast scenarios extending to 31 December 2022, comprising:

1. The base case;
2. The severe but plausible downside ("SBP") case; and
3. The reverse stress test case.

As at 31 December 2020, the Group held net cash of £32.7m. As at 30 June 2021, the Group held net cash of £32.8m.

On 31 May 2021, the Company entered into a revolving multicurrency facility agreement with National Westminster Bank Plc and Barclays Bank PLC for up to £47m (the "Facility"). The Facility includes a £2.5m overdraft and the ability to draw up to £3m as a bonding facility, as required. The Facility is provided on a three-year term (with two optional one-year extensions).

In all models and scenarios considered by management, the Facility is not expected to be fully drawn and indeed the amount drawn from the Facility is expected to reduce over the term.

The SBP case factors in a decline in profit before tax of £10.1m compared to the base case plan for the cumulative two-year period ending 31 December 2022: a £4.0m decline in profit before tax in 2021 and £6.1m profit before tax decline in 2022. This decline arises from the continued uncertainty surrounding the impact of the Covid-19 pandemic and other factors more specific to the Group. The assumptions in the SBP scenario are based on specific downsides in the Group's two largest divisions at the same time as a general downturn impacting revenues across the entire Group.

We have performed a reverse stress test exercise to see how extreme conditions would need to be for the Group to break its financial covenants within the going concern review period. The conditions go significantly further than the SBP scenario and reflect a scenario that the Directors consider to be highly unlikely. In any event, we would undertake numerous further actions to mitigate the impact, beyond those in the SBP case, should such a scenario materialise.

The actions the Company would take to mitigate the downside scenarios include:

- reducing staff and other operating expenses to levels that align to the revenue reduction, as demonstrated by our actions in 2020;
- placings/equity fundraising given the demand for our shares (evidenced by the demand for shares in the share issue in February 2021);
- continuing to take action to close loss-making entities within the Group;
- taking advantage of government assistance, loans and furlough monies if available and only as required;

- exploiting the diversity of our business both in terms of functional disciplines and geographic spread which provides a hedge against the severest of downturns. The mix of different businesses within the Group means that we are much less likely to face the headwinds experienced by pureplay advertising and marketing groups. The vast majority of the Group's operating profit falls outside of the core advertising business.
- selling unlisted investments, either as a group or individually. These are currently valued at £11.4m.

The Directors are therefore satisfied that the Group's forecasts, which take into account reasonably possible changes in trading performance, show that there are no material uncertainties over going concern, and that under all scenarios the Group will continue to have sufficient liquidity and headroom to operate within the terms of its financial covenants under its financing arrangements. The Directors therefore concluded the going concern basis of preparation continues to be appropriate.

VIABILITY

The Directors assess the prospects of the Group and appropriateness of the period used for the assessment by taking into account various factors, including the Group's current position, the nature of its business, risks to the future success of the Group's business model and strategy, its principal risks, its liquidity and its expected performance all of which have been considered in the going concern review.

TIME HORIZON

The Directors have reviewed the period used for the assessment and determined that a three-year time horizon (from 31 December 2020) is the maximum length of time the Directors can reasonably be expected to assess the Group's viability at the present time. The Directors' assessment of the Group's viability for the next three years has been made after evaluating the following:

- the impact on the Group of the Covid-19 pandemic, including restrictions on businesses, social activities and travel and the potential impact on the markets, economies and clients in which the Group operates;
- the relatively short-term nature of client projects and assignments;
- the need for continuous change and investment in our client offerings; and
- the Group's new strategy.

This period has been chosen as it reflects the Directors' best estimate of the future viability of the Company. Whilst we have built a five-year plan, levels of uncertainty increase as the planning horizon extends. The Group's planning, therefore, concentrates more closely on the next three years. The Board, therefore, considers a period of three years to be an appropriate period over which to assess the long term viability of the Company.

STRESS TEST

In testing the viability of the Company, we have undertaken a robust scenario assessment of the principal risks which could threaten the viability or existence of the Company. As per the going concern statement set out on page 108 to 110, we scenario planned several outturns, including a SBP case and the impact lasts the whole of 2021 and into 2022. We also built a reverse stress test model which involves building further downside on top of the downsides built into the SBP model. The reverse stress test case showed profit before tax declining against the SBP case by £6.8m in 2021 and by £8.0m in 2022.

STATEMENT

Based on the assessment explained above, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, until at least 31 December 2023.

However, the impacts of a series of additional unforeseen risks such as policies on data handling or employee welfare not being followed or a banking crisis could result in additional financial burdens on the Group and may change the Board's expectation of the Group's viability.

PRINCIPAL RISKS AND UNCERTAINTIES

On pages 26 to 33 we describe the Group's principal risks and uncertainties. We provide information on the nature of the risk, actions to mitigate risk exposure, the change in exposure compared to last year and an indication of the significance of the risk by reference to its potential impact on the Group's business and financial condition. Not all potential risks are listed on pages 26 to 33. Some risks are excluded because the Board considers them not to be material to the Group as a whole. Additionally, there may be risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial that may also have an adverse effect upon the Group.

FINANCIAL INSTRUMENTS

Details of the use of financial instruments by the Group and their risks are contained in financial risk management, note 30 of the financial statements.

POLITICAL CONTRIBUTIONS

During the year, the Group made no political donations (2019: nil).

DIRECTORS

The names of the Directors and details of their careers and skills are set out on pages 60 to 64. Details relating to Board meeting attendance and the composition of the committees of the Board are shown in the Governance Review on pages 66 and 67.

The Directors of the Company who were in office during 2020 and up to the date of signing the financial statements are detailed in the table below:

	Joined Board	Departed Board
Executive Directors		
David Kershaw	–	31 December 2020
Mickey Kalifa	29 March 2019	–
Jeremy Sinclair	–	31 December 2020
Moray MacLennan*	1 January 2021	–
Bill Muirhead	–	31 March 2021
Non-Executive Directors		
Gareth Davis	3 February 2020	–
Colin Jones	3 February 2020	–
Lisa Gordon	17 March 2020	–
Louise Jackson	17 March 2020	–
Vinodka (Vin) Murria, OBE*	3 March 2021	–

* Directors who were appointed to the Board after year end.

The current Articles of Association of the Company require one third of the Directors previously appointed by shareholders in a general meeting to retire annually at the Company's annual general meeting. Any Directors so retiring may stand for re-election. The Code recommends that all directors of listed companies should be subject to annual re-election by shareholders. The Directors decided to endorse this recommendation of the Code and therefore all the Directors retired at the annual general meeting held in 2020 (save for those that were departing the Company) and offered themselves for re-election at the Company's annual general meeting held in 2020. The Company is amending its Articles of Association, a resolution will be presented to the Company's shareholders for approval at the Company's upcoming annual general meeting to be held in 2021 and those amended Articles of Association will require Directors to retire at the Company's annual general meeting on the basis recommended by any corporate governance code adopted by the Company and, in any event require that any Director who was not appointed or re-appointed as a Director at either of the last two annual general meetings must retire and (if relevant) stand for re-appointment.

SOCIAL RESPONSIBILITY

The Group follows the guidance in the International (Social Responsibility) Standard ISO 26000 and is accredited for BS OHSAS 18001, ISO 14001 and is registered with CIPS Sustainability Index. Please see the section on "Our Focus on Planet" on page 49.

In addition, the Group is involved with many campaigns (including paid, low bono and pro bono) that help create a socially responsible world. Please see details on pages 47 and 48.

STREAMLINED ENERGY AND CARBON REPORTING ("SECR")

The UK Government's SECR policy was implemented on 1 April 2019. This is the first time the Group has adopted disclosures on energy and carbon. The table below represents the Group's energy use and associated greenhouse gas (GHG) emissions from electricity and fuel for its UK based companies for the year ended 31 December 2020.

Scope 1	
Natural gas utilised	398,862 kWh
Vehicle operations (below materiality threshold)	– km
Fugitive emissions (HVAC refrigeration gas top up) (none declared for 2020)	0 kg
Scope 2	
Electricity (supplied from National Grid with REGO certs)	793,057 kWh
Electricity (supplied from National Grid without REGO certs)	126,562 kWh
Total electricity (supplied from National Grid)	919,619 kWh
Total district heat	– kWh

Corresponding emissions from activities for which the Company is responsible:

Scope 1	
Natural gas utilised	73.43 tCO2e
Vehicle operations	– tCO2e
Fugitive emissions (HVAC refrigeration gas top up)	– tCO2e
Total Scope 1 emissions	73.43 tCO2e
Scope 2 (Dual Reporting)	
Market-based emissions	
Electricity (supplied from National Grid with REGO certs)	– tCO2e
Electricity (supplied from National Grid without REGO certs)	31.41 tCO2e
Total electricity (Market based emissions determination)	31.41 tCO2e
Location-based emissions	
Total electricity (supplied from National Grid, UK Grid mix factors)	226.35 tCO2e
Total district heat	– tCO2e
Total gross Scope 1 & Scope 2 emissions (Market based included)	104.84 tCO2e
Total gross Scope 1 & Scope 2 emissions (All locational based included)	299.78 tCO2e

Energy intensity ratio

The energy intensity ratio used has been based upon the standard measure of tCO2e (gross Scope 1 + 2) per £100,000 revenue. Based upon the 2020 turnover of £134,357,000 of the Group's UK companies, this amounts to:

Market based intensity ratio: tCO2e (Gross Scope 1 + 2)/£100,000 revenue	0.078 tCO2e/£100,000
Location based intensity ratio: tCO2e (Gross Scope 1 + 2)/£100,000 revenue	0.223 tCO2e/£100,000

Energy efficiency action taken in financial year

No reportable actions were taken in the reporting year. This has primarily been due to the changes in working practices that have had to be enacted associated with the Covid-19 pandemic.

There are no previous year's figures for energy use and GHG emissions as this is a first year report.

BUSINESS RELATIONSHIPS

The Group recognises the need to foster business relationships with suppliers, customers and others. Details on the actions taken to strengthen these relationships and how the Board considered these relationships when making decisions can be found in our section 172 statement on page 68.

ANTI-BRIBERY AND CORRUPTION

The Group has well established anti-bribery and anti-corruption policies (including management of conflicts of interest) aimed at ensuring adherence to associated legal and regulatory requirements.

WHISTLEBLOWING

Employees are encouraged to report any potential, or apparent, malpractice or misconduct in confidence, in accordance with the Group's internal whistleblowing policy. We continue to look at innovative ways to allow our employees to report any potential, or apparent, malpractice or misconduct in confidence. The Group's mobile app, Vault, gives employees a safe space to report any form of misconduct in the workplace, including but not limited to harassment, bullying, discrimination, and racism, through to fraud and corruption. Since the end of the year, the Board has approved a new Group wide whistleblowing policy. This will be routinely reviewed for efficacy.

ENGAGEMENT WITH EMPLOYEES AND OTHER STAKEHOLDER ENGAGEMENT

Ensuring that we create close collaborative and mutually beneficial relationships with suppliers who adopt standards consistent with our own helps us to streamline processes, increase savings and protect our reputation. Information about the Company's engagement with employees and other stakeholders can be found at page 68.

GOVERNANCE

Companies listed on AIM are required to adopt a recognised corporate governance code. The Board has selected the UK Corporate Governance Code 2018, which can be found at https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code. We believe that it demonstrates our commitment to enhancing the Group's governance arrangements as it contains principles that are appropriate for our needs and circumstances and it aligns with our values as a company. We are in compliance with the majority of the requirements of the code and the table on pages 70 to 75 provides explanations for where we differ.

SLAVERY AND HUMAN TRAFFICKING STATEMENT

The Group continually monitors its supply chains and operates a zero-tolerance policy to slavery and human trafficking, as reflected in its Modern Slavery Statement (www.mcsaatchiplc.com/governance).

DIRECTORS' CONFLICT OF INTEREST

Under the UK Companies Act 2006, Directors are subject to a statutory duty to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or may conflict, with the interests of the Company. Directors are required to notify the Company of any conflict or potential conflict of interest under an established procedure and any conflicts or potential conflicts are noted at each Board meeting.

DIRECTORS' LIABILITY INSURANCE AND INDEMNITY

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. The third party indemnity was in force during the financial year and also at the date of approval of the financial statements.

CHANGE OF CONTROL

Depending on the circumstance, some of the put options in the Company's subsidiary companies are exercisable upon a change of control of the Company.

DIRECTORS AND SUBSTANTIAL SHAREHOLDINGS

Shareholders holding 3% or more of the Company's issued share capital (excluding treasury shares) as at 18 August 2021:

Shareholders	Number of ordinary shares	Percentage of the Company's issued share capital
Vinodka Murria and family	15,237,985	12.46%
Octopus Investments Nominees Limited	12,373,380	10.12%
Invesco Perpetual	11,110,383	9.09%
Paradice Investment Management	10,731,511	8.78%
Fidelity International	8,831,791	7.22%
Herald Investment Management	5,336,433	4.36%
Aviva Investors	4,864,892	3.98%
David Kershaw	4,579,697	3.75%
Jeremy Sinclair	4,579,697	3.75%
William Muirhead	4,579,697	3.75%
Lord Maurice Saatchi	4,124,882	3.37%
Stonehage Fleming	4,112,465	3.36%

Regularly updated details of the Directors' shareholdings and substantial shareholdings can be found on the Company's corporate website www.mcsaatchiplc.com.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 31 May 2021, the Company entered into a revolving multicurrency facility agreement with National Westminster Bank Plc and Barclays Bank PLC for up to £47m (the "Facility"). The Facility includes a £2.5m overdraft and the ability to draw up to £3m as a bonding facility as required. The Facility is provided on a three-year term (with two optional one-year extensions). The Facility replaces the Company's £33m revolving credit facility and £5m overdraft which were due to terminate on 30 June 2021.

During 2020, four US Group companies received proceeds of £2.3m under the Paycheck Protection Program (PPP) loan scheme. At the date of preparation of the financial statements, three out of four of those companies have had their loans forgiven, with the fourth company still awaiting a decision on its loan of £0.5m.

Following the year end, the Board appointed a Non-Executive Director and Deputy Chair who the Board did not consider to be independent upon appointment. Vinodka (Vin) Murria was appointed to the Board on 3 March 2021.

On 1 January 2021, the Board appointed Moray MacLennan as Chief Executive Officer.

The Company issued 6,499,606 ordinary shares on 10 February 2021 (of which part included the acquisition of a controlling interest in its Hong Kong associate, M&C Saatchi (Hong Kong) Ltd and its Brazil associate, Santa Clara Participacoes Ltda) and a further 327,239 ordinary shares on 1 April 2021 in settlement of put option obligations.

On 12 March 2021, the Group acquired a 10% shareholding in Australie SAS, France.

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.

TREASURY SHARES

At the Company's annual general meeting held in 2020, the Directors were given the authority to purchase up to 11,543,062 of the Company's ordinary shares. At the year end, the Company held 485,970 of its ordinary shares as treasury shares.

DIRECTORS' POWER TO ISSUE SHARES

At the Company's annual general meeting held in 2020, the Directors were given the authority to issue shares in the capital of the Company up to a maximum nominal amount of £384,768 which was equivalent to approximately one third of the total issued ordinary share capital of the Company of which up to a maximum nominal amount of £115,430 (which is equivalent to 10% of the total issued ordinary share capital of the Company), was approved to be issued for cash on a non pre-emptive basis. During the year, the Company issued 22,319,830 shares to fulfil options and to acquire equity in the Company's subsidiary companies (see note 28 of the financial statements). The Company did not issue any shares for cash.

SHARE CAPITAL

As at the date of the Annual Report and Accounts, the Company had 122,743,435 (£0.01) ordinary shares in issue. Of this total, 485,970 ordinary shares are held in treasury. Therefore, the total number of ordinary shares in issue with voting rights is 122,257,465.

The Company has not purchased any of its own shares during the year.

AUDITORS

Since their appointment as external auditors, PricewaterhouseCoopers LLP have worked constructively with the Group to address the issues raised by the accounting misstatements identified in early 2019, which related to the financial statements for 2018 and earlier. During this period, the auditors, as part of their audit work, have identified many areas for improvement in the Group's internal financial controls and financial reporting processes, and the Group continues to respond positively by implementing the auditors' recommendations. After two challenging audits, both parties have now agreed that it makes sense for new external auditors to be appointed. PricewaterhouseCoopers LLP will therefore not be seeking reappointment as the Group's external auditors at the Company's forthcoming annual general meeting. The Company is in the process of appointing new external auditors for its 2021 financial year end and a resolution to appoint the new external auditors shall be set out in the Company's notice of annual general meeting.

DISCLAIMER

The purpose of the Annual Report and Accounts is to provide information to shareholders of the Company, and it has been prepared for, and only for, the shareholders of the Company as a body, and no other persons. The Company, its Directors and employees, agents and advisors do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

The Directors' Report has been signed by order of the Board by:

VICTORIA CLARKE
Company Secretary
M&C Saatchi plc
Company Number 05114893
27 August 2021

"The Group is involved with many campaigns, including paid, low bono and pro bono, that help create a socially responsible world."

– Louise Jackson

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE FINANCIAL STATEMENTS:
The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006.

WEBSITE PUBLICATION
The Directors are responsible for the maintenance and integrity of the Company's website (www.mcsaatchiplc.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' CONFIRMATIONS
In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

The Statement of Directors' responsibilities in respect of the financial statements has been signed by order of the Board by:

MORAY MACLENNAN
Chief Executive Officer
27 August 2021

MICKEY KALIFA
Chief Financial Officer
27 August 2021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FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

PREPARATION

BASIS OF PREPARATION

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

We have previously announced the Unaudited Non-statutory Financial Statements for the year ended 31 December 2020 on 30th June 2021. There is no change to the Group's 2020 previously announced profit. A £1.1m prior period adjustment to headline (not statutory) profit reported in the unaudited financial statements published on 30 June 2020 is now not considered to be necessary, with the result that 2019 headline profit is now the same as the audited financial statements for the year ended 31 December 2019. This adjustment is no longer required as the events that changed the accounting occurred in 2020 rather than in the prior year. There has been a reclassification in the 2020 balance sheet to make corrections for two misclassifications. Current year trade and other receivables has increased by £1m, trade and other payables has increased by £0.2m, resulting in an increase in net assets by £0.8m. Accumulated losses reduced by £0.8m. Operating cash flows before working capital have increased by £1.9m and movement in working capital reduced by £1.9m, with a £1m increase in the movement of trade and other receivables and £0.9m decrease in trade and other payables.

GOING CONCERN

These financial statements have been prepared on the going concern basis, as discussed in the Directors' Report on page 108 and the Report of the Audit Committee (page 78).

The Board have concluded that under the most likely going concern scenarios which have been modelled and they have reviewed, the Group will have sufficient liquidity and headroom on bank covenants to continue to operate for a period of not less than a year from approving the financial statements.

The Board have formed their opinion after evaluating three different forecast scenarios extending to 31 December 2022, comprising:

1. The base case;
2. A severe but plausible downside case; and
3. A reverse stress test case

The severe but plausible case factors in a decline in Profit before Tax of £10.1m compared to the base case plan for the cumulative two year period ending 31 December 2022: a £4m decline in Profit before Tax in 2021 and £6.1m Profit before Tax decline in 2022. This decline arises from the continued uncertainty surrounding the impact of the Covid-19 pandemic and other factors more specific to the Group.

The reverse stress test case evaluates how extreme conditions would need to be for the Group to break its covenants within the going concern review period. The conditions go significantly further than the severe but plausible scenario and reflect a scenario that the Directors consider to be highly unlikely.

The Directors have also considered the impact of climate change on going concern, taking into account the Company's support for Ad Net Zero (the industry initiative to tackle climate change led by the Advertising Association and its members), and do not believe that there is a significant financial impact.

The Board is satisfied that the Group's forecasts, which take into account reasonably possible changes in trading performance, show that there are no material uncertainties over going concern, and that even under the severe but plausible scenario the Group will continue to have sufficient liquidity and headroom to operate within the terms of its banking covenants. The Board, therefore, concluded the going concern basis of preparation continues to be appropriate.

FOREIGN EXCHANGE

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

The accounts of each subsidiary are prepared using the functional currency of that subsidiary. The income statements of foreign subsidiary undertakings are translated into pounds sterling at average exchange rates on consolidation.

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

CONSOLIDATION

The financial statements of the Group consolidate the results of the Company and its subsidiary entities, and include the share of its joint ventures' and associates' results accounted for under the equity method.

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

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

CRITICAL ACCOUNTING POLICIES

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

Revenue recognition

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

The Group's revenue is earned from the provision of advertising and marketing

PREPARATION CONTINUED

services, commission based income in relation to media spend and commission based income in relation to talent performance. Revenue from contracts with customers is recognised as, or when, the performance obligations present within the contractual agreements are satisfied. Depending on the arrangement with the client, the Group may act as principal or as agent in the provision of these services.

See note 4 for a full listing of the Group's revenue accounting policies.

Put option accounting (IFRS 2 and IFRS 9)
It is common for equity partners in the Group's subsidiaries to hold put options over their equity such that they can require the Group to purchase their non-controlling interest for either a variable number of M&C Saatchi plc shares or cash. Dependent on the terms and substance of the underlying agreement, these options are either recognised as a put option liability under IFRS 9 (note 26) or as a conditional share award under IFRS 2 (note 27).

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

The majority of instruments accounted for under IFRS 2 are equity settled with the cost of the transaction measured at fair value on the grant date. The majority of these instruments also have non-market conditions and have the fair value of the award re-measured annually. The fair value is recognised over the vesting period of the award and accumulated within equity. Where the instruments are considered to be cash settled then the fair value is recalculated in full at each balance sheet date.

Headline results
As stated in the Financial Review (pages 34 to 40), the Directors believe that the Headline results and Headline earnings per share (see note 1) provide additional useful information on the underlying performance of the business. The Headline results reflect the underlying profitability of the business units by excluding all effects of buying and selling equity by the Group; and the accounting effects of management equity holdings in the subsidiaries they run. This results in accounting charges and credits to the income statement for the Group's fair value liability of its local management's equity conversion rights, but does not account for the increase in value of the businesses.

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

The segmental reporting (note 3) reflects Headline results in accordance with IFRS 8.

The items that are excluded from Headline results are the exceptional items (which include costs relating to the accounting misstatements identified in 2019 and restructuring), the amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investments in associates and right-of-use assets; gain or loss on disposal of associates and subsidiaries; revaluation of investments in SaatchInvest and their related costs; and the income statement impact of put option accounting and share-based payment charges.

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

SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the course of preparing financial statements, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. The estimates and judgements that are made are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing a material adjustment to the financial statements within the next financial year are outlined below:

SIGNIFICANT ACCOUNTING JUDGEMENTS

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

Minority interest put option accounting – IFRS 2 or IFRS 9
As noted on page 128, accounting for Minority Interest (MI) put options is a critical accounting policy. Ascertaining whether such put options should be accounted for under IFRS 9 or whether the awards fall within the scope of IFRS 2 is a key management judgement.

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

The valuation of these awards represents a source of estimation uncertainty which is discussed below.

Impairment – assessment of CGUs and assessment of indicators of impairment
Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Finite lived assets are reviewed for indicators of impairment (an impairment "trigger") and judgement is applied in determining whether such a trigger has occurred.

External and internal factors are monitored for indicators of impairment: management typically consider adverse changes in the economy or political situation of the geographic locale in which the underlying entity operates, in addition to risk of client loss or chance of client gain and internal reporting suggesting that an entity's future economic performance is better or worse than previously expected.

PREPARATION CONTINUED

Where management have concluded that such an indication of impairment exists, then the recoverable amount of the asset is assessed (see "Significant estimates and assumptions").

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

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

Deferred tax assets

The Group assesses the future availability of carried forward losses and other tax attributes by reference to jurisdiction-specific rules around carry forward and utilisation and it assesses whether it is probable that future taxable profits will be available against which the attribute can be utilised. Current forecasts show recovery of substantially all recognised losses within 5 years but there is estimation uncertainty around this assessment, and its impact is material as the Deferred Tax Asset on losses increased by £7m during 2020.

Impairment

Management's approach to determining the recoverable amount of an individual asset or CGU is based on their value in use. Value in use calculations are compared with the carrying value of the CGU assets. The carrying value of the CGUs also include the Right of Use Assets under IFRS 16. Generally, discounted cash flow models, based on the Group's 2021 budget, the 5 year financial plan (presented at the Capital Markets day in January 2021) and a long term growth rate are used to determine the recoverable amount for the CGUs. The appropriate estimates and assumptions used require judgement and there is significant estimation uncertainty. The results of impairment reviews conducted at the end of the year are reported in note 14 for those relating to Goodwill and note 15 for those relating to Associates. The variables used in the assessment of the recoverable amount include:

- Budgets, 5 year financial plans and estimated growth rate;
- discount rate used to calculate present value of future cash flows.

In addition, impairments have been recorded for the right of use assets in note 17 and property, plant, and equipment in note 16.

Fair value measurement of financial instruments

The Group holds certain financial instruments which are recorded on the balance sheet at fair value at the point of recognition and remeasured at the end of each reporting period. At the year end these relate to:

i. Equity investments at FVTPL in non-listed limited companies (note 19); and

ii. and certain contingent consideration (note 13).

The equity investments comprise early-stage companies and small equity holdings in a client received in exchange for services rendered in lieu of monetary based remuneration. No formal market exists to trade these financial instruments and, therefore, their fair value is measured by the most appropriate valuation techniques available, which vary based on the nature of the instruments. The inputs to the valuation models are taken from observable markets where possible, but where this is not feasible, judgement is required to establish fair values.

The basis of calculation of the estimated fair value of these financial instruments (in addition to sensitivity analyses on the estimates' salient inputs) is detailed in note 29.

Share-based incentive arrangements

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

Details of awards made in the year are shown in note 27.

OTHER ESTIMATES AND ASSUMPTIONS

Leasing estimates

Within IFRS 16 there are two estimates and such items continue to be relevant this year for the recognition of new leases, along with amendments made to existing leases. These relate to (i) determining the interest rate used for discounting of future cash flows, and (ii) the length of the lease term.

Derivation of the interest rate used for discounting future cash flows

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

Anticipated length of lease term

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee is reasonably certain to exercise that option. Where a lease includes the option for the Group to extend the lease term, the Group takes a view at inception as to whether it is reasonably certain that the option will be exercised. This will take into account the length of time remaining before the option is exercisable, current trading, future trading forecasts and the level and type of any planned capital investment. The assessment of whether the option will be exercised is reassessed in each reporting period if there is a significant event or change in circumstances within the Group's control that affects whether the Group is reasonably certain to exercise the option. A reassessment of the remaining life of the lease could result in a recalculation of the lease liability and a material adjustment to the associated balances.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December 2020			Year ended 31 December 2019		
Year ended 31 December	Note	Before exceptional items £000	Exceptional items (note 2) £000	Total £000	Before exceptional items £000	Exceptional items (note 2) £000	Total £000
Billings (unaudited)	1	**454,504**	**–**	**454,504**	**561,426**	**–**	**561,426**
Revenue	1	**323,250**	**–**	**323,250**	**381,025**	**–**	**381,025**
Project cost/direct cost		(97,861)	–	(97,861)	(124,590)		(124,590)
Net revenue		**225,389**	**–**	**225,389**	**256,435**	**–**	**256,435**
Staff costs	5	(170,056)	(1,661)	(171,717)	(189,783)	(4,211)	(193,994)
Depreciation	16,17	(11,659)	–	(11,659)	(12,449)	–	(12,449)
Amortisation	14	(2,275)	–	(2,275)	(2,865)	–	(2,865)
Impairment charges	14,16,17	(3,217)	–	(3,217)	(5,874)	–	(5,874)
Other operating charges		(38,324)	(311)	(38,635)	(50,155)	(1,955)	(52,110)
Other gains/losses	19	(2,818)	–	(2,818)	(96)	–	(96)
Operating loss	1	**(2,960)**	**(1,972)**	**(4,932)**	**(4,787)**	**(6,166)**	**(10,953)**
Share of result of and gain on disposal of associates and joint ventures	15	(113)	–	(113)	13,210	–	13,210
Gain on disposal of subsidiaries	11	1,432	–	1,432	–	–	–
Impairment of associate investment	15	(895)	–	(895)	(5,210)	–	(5,210)
Finance income	7	364	–	364	613	–	613
Finance expense	7	(4,363)	–	(4,363)	(6,233)	–	(6,233)
Loss before taxation	1	**(6,535)**	**(1,972)**	**(8,507)**	**(2,407)**	**(6,166)**	**(8,573)**
Taxation	8	(1,893)	482	(1,411)	(4,268)	1,012	(3,256)
Loss for the year		**(8,428)**	**(1,490)**	**(9,918)**	**(6,675)**	**(5,154)**	**(11,829)**
Attributable to:							
Equity shareholders of the Group	1	(8,407)	(1,490)	(9,897)	(6,642)	(5,154)	(11,796)
Non-controlling interests	1	(21)	–	(21)	(33)	–	(33)
Loss for the year	1	**(8,428)**	**(1,490)**	**(9,918)**	**(6,675)**	**(5,154)**	**(11,829)**
Loss per share							
Basic (pence)	1	(7.73)p		(9.10)p	(7.36)p		(13.06)p
Diluted (pence)	1	(7.73)p		(9.10)p	(7.36)p		(13.06)p

CONSOLIDATED INCOME STATEMENT CONTINUED

		Year ended 31 December 2020			Year ended 31 December 2019		
Year ended 31 December	Note	Before exceptional items £000	Exceptional items (note 2) £000	Total £000	Before exceptional items £000	Exceptional items (note 2) £000	Total £000
Headline results							
Operating profit	1			**11,970**			20,572
Profit before taxation	1			**8,328**			18,282
Profit after tax attributable to equity shareholders of the Group	1			**1,650**			8,073
Basic earnings per share (pence)	1			**1.52p**			8.95p
Diluted earnings per share (pence)	1			**1.31p**			8.37p

The notes on pages 126 to 131 and 148 to 233 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December	2020 £000	2019 £000
Loss for the year	**(9,918)**	**(11,829)**
Other comprehensive loss*		
Exchange differences on translating foreign operations	(289)	(3,281)
Other comprehensive loss for the year net of tax	**(289)**	**(3,281)**
Total comprehensive loss for the year	**(10,207)**	**(15,110)**
Total comprehensive loss attributable to:		
Equity shareholders of the Group	(10,186)	(15,077)
Non-controlling interests	(21)	(33)
Total comprehensive loss for the year	**(10,207)**	**(15,110)**

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

The notes on pages 126 to 131 and 148 to 233 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December	Note	2020 £000	2019 re-stated* £000
Non-current assets			
Intangible assets	14	36,523	38,207
Investments in associates and JV	15	2,829	3,780
Plant and equipment	16	7,157	9,455
Right-of-use assets	17	34,006	46,542
Other non-current assets	18	3,494	3,923
Deferred tax assets	9	8,301	5,285
Financial assets at fair value through profit or loss	19	11,410	14,851
		103,720	**122,043**
Current assets			
Trade and other receivables*	20	89,262	107,849
Current tax assets		2,621	5,956
Cash and cash equivalents		76,295	68,981
		168,178	**182,786**
Current liabilities			
Trade and other payables*	21	(124,740)	(134,721)
Provisions	22	(666)	(2,989)
Current tax liabilities		(2,019)	(1,014)
Borrowings	23	(41,083)	(52,212)
Lease liabilities	17	(6,250)	(10,770)
Deferred and contingent consideration	13	(1,679)	(445)
Minority shareholder put option liabilities	26	(978)	(3,183)
		(177,415)	**(205,334)**
Net current liabilities		**(9,237)**	**(22,548)**
Total assets less current liabilities		**94,483**	**99,495**

CONSOLIDATED BALANCE SHEET CONTINUED

At 31 December	Note	2020 £000	2019 re-stated* £000
Non-current liabilities			
Deferred tax liabilities	9	(405)	(371)
Borrowings	23	(2,199)	(162)
Lease liabilities	17	(40,171)	(44,000)
Contingent consideration	13	–	(313)
Minority shareholder put option liabilities	26	(1,804)	(3,918)
Other non-current liabilities	24	(4,773)	(1,130)
		(49,352)	**(49,894)**
Total net assets		**45,131**	**49,601**
Equity			
Share capital	28	1,159	936
Share premium		44,607	44,607
Merger reserve		37,554	33,400
Treasury reserve		(550)	(550)
Minority interest put option reserve		(4,953)	(4,953)
Non-controlling interest acquired		(29,190)	(32,239)
Foreign exchange reserve		1,210	1,181
(Accumulated losses)/retained earnings		(4,939)	6,854
Equity attributable to shareholders of the Group		44,898	49,236
Non-controlling interest		233	365
Total equity		**45,131**	**49,601**

* Within the 2019 figures we identified amounts that needed to be presented net between trade and other receivables and trade and other payables of £5.3million; therefore, we have reclassified for comparative purposes, refer to notes 20 and 21.

Reserves are defined in note 35.

These consolidated financial statements pages 126 to 233 were approved and authorised for issue by the Board of Directors on 27 August 2021 and signed on its behalf by:

MICKEY KALIFA
Chief Financial Officer
M&C Saatchi plc
Company Number 05114893

The notes on pages 126 to 131 and 148 to 233 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £000	Share premium £000	Merger reserve £000	Treasury reserve £000	MI put option reserve £000	Non-controlling interest acquired £000	Foreign exchange reserves £000	Retained earnings/ (accumulated losses) £000	Subtotal £000	Non-controlling interest in equity £000	Total £000
At 31 December 2018		**876**	**41,734**	**30,150**	**(792)**	**(15,082)**	**(22,081)**	**4,462**	**28,718**	**67,985**	**932**	**68,917**
Adjustment on initial application of IFRS 16		–	–	–	–	–	–	–	(5,364)	(5,364)	–	(5,364)
Adjusted balance at 1 January 2019		**876**	**41,734**	**30,150**	**(792)**	**(15,082)**	**(22,081)**	**4,462**	**23,354**	**62,621**	**932**	**63,553**
Acquisitions of minority interest		–	–	–	–	–	(44)	–	–	(44)	–	(44)
Exercise of minority interest put options	26	26	2,873	3,766	–	10,114	(10,114)	–	–	6,665	–	6,665
Exercise of share-based payment schemes	27	34	–	–	242	–	–	–	(5,881)	(5,605)	–	(5,605)
Exchange rate movements		–	–	–	–	15	–	–	–	15	(5)	10
Issue of shares to minorities		–	–	–	–	–	–	–	–	–	309	309
Tax credit on fully charged options		–	–	–	–	–	–	–	208	208	–	208
Reserve transfer following impairment of goodwill		–	–	(516)	–	–	–	–	516	–	–	–
Share option charge	27	–	–	–	–	–	–	–	10,266	10,266	–	10,266
Dividends	10	–	–	–	–	–	–	–	(9,813)	(9,813)	(838)	(10,651)
Total transactions with owners		60	2,873	3,250	242	10,129	(10,158)	–	(4,704)	1,692	(534)	1,158
Total comprehensive loss for the year		–	–	–	–	–	–	(3,281)	(11,796)	(15,077)	(33)	(15,110)
At 31 December 2019		**936**	**44,607**	**33,400**	**(550)**	**(4,953)**	**(32,239)**	**1,181**	**6,854**	**49,236**	**365**	**49,601**
Exercise of Minority Interest put options	26	82	–	4,154	–	–	–	–	–	4,236	–	4,236
Exercise of Share-based payment schemes	27	141	–	–	–	–	–	–	(683)	(542)	–	(542)
Disposal of subsidiaries		–	–	–	–	–	3,049	318	(3,367)	–	40	40
Share option charge	27	–	–	–	–	–	–	–	3,275	3,275	–	3,275
Reclassification of equity settled share-based payments to cash settled	27	–	–	–	–	–	–	–	(1,121)	(1,121)	–	(1,121)
Dividends	10	–	–	–	–	–	–	–	–	–	(151)	(151)
Total transactions with owners		223	–	4,154	–	–	3,049	318	(1,896)	5,848	(111)	5,737
Total loss for the year		–	–	–	–	–	–	–	(9,897)	(9,897)	(21)	(9,918)
Total other comprehensive loss for the year		–	–	–	–	–	–	(289)	–	(289)	–	(289)
At 31 December 2020		**1,159**	**44,607**	**37,554**	**(550)**	**(4,953)**	**(29,190)**	**1,210**	**(4,939)**	**44,898**	**233**	**45,131**

The notes on pages 126 to 131 and 148 to 233 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December	Note	2020 £000	2019 re-stated* £000
Operating loss		**(4,932)**	**(10,953)**
Adjustments for:			
Depreciation of plant and equipment	16	2,555	3,390
Depreciation of right-of-use assets	17	9,104	9,059
Impairment of right-of-use asset	17	2,651	–
Loss on sale of plant and equipment		640	122
Impairment of plant and equipment	16	374	–
Loss on sale of software intangibles		433	266
Revaluation of financial assets at FVTPL	19	3,315	346
Gain on disposal of financial assets at FVTPL	19	(497)	–
Revaluation of contingent consideration	13	446	–
Amortisation of acquired intangible assets	14	1,686	2,471
Impairment of goodwill and other intangibles	14	–	5,874
Impairment and amortisation of capitalised software intangible assets	14	781	394
Exercise of share-based payment schemes with cash		(683)	(5,605)
Equity settled share-based payment expenses	27	3,275	10,266
Operating cash before movements in working capital		**19,148**	**15,630**
Decrease in trade and other receivables		9,052	39,874
Increase/(decrease) in trade and other payables		9,425	(22,733)
(Decrease)/increase in provisions		(2,323)	2,989
Cash generated from operations		**35,302**	**35,760**
Tax paid		(1,645)	(7,767)
Net cash from operating activities		**33,657**	**27,993**
Investing activities			
Acquisitions of subsidiaries net of cash acquired		–	(635)
Disposal of associate or subsidiary (net of cash disposed of)	11	(4,114)	23,264
Acquisition of associates	15	(1)	–
Acquisitions of unlisted investments	19	(713)	(964)
Proceeds from sale of unlisted investments		1,233	–

CONSOLIDATED CASH FLOW STATEMENT CONTINUED

Year ended 31 December	Note	2020 £000	2019 re-stated* £000
Proceeds from sale of plant and equipment		387	30
Purchase of plant and equipment	16	(3,184)	(4,091)
Purchase of capitalised software	14	(502)	(1,710)
Dividends received from associates	15	–	2,928
Interest received		364	632
Net cash (consumed by)/generated from investing activities		**(6,530)**	**19,454**
Net cash from operating and investing activities		**27,127**	**47,447**
Financing activities			
Dividends paid to equity holders of the Company	10	–	(9,813)
Dividends paid to non-controlling interest		(151)	(838)
Proceeds from issue of shares to non-controlling interests		–	9
Cash consideration for non-controlling interest acquired	12	(204)	(3,269)
Payment of lease liabilities	17	(7,224)	(10,638)
Repayment of invoice discounting (net)		–	(2,001)
Proceeds from bank loans	23	3,472	15,038
Repayment of bank loans	23	(8,900)	(17,318)
Borrowing costs		(518)	–
Interest paid	7	(1,751)	(1,485)
Interest paid on leases	17	(2,471)	(1,837)
Net cash consumed by financing activities		**(17,747)**	**(32,152)**
Net increase in cash and cash equivalents		**9,380**	**15,295**
Effect of exchange rate fluctuations on cash held		246	(857)
Cash and cash equivalents at the beginning of the year		52,749	38,311
Total cash and cash equivalents at the end of the year		**62,375**	**52,749**
Cash and cash equivalents***		76,295	68,981
Bank overdrafts**	23	(13,920)	(16,232)
Total cash and cash equivalents at the end of the year		**62,375**	**52,749**
Bank loans and borrowings****	23	(29,628)	(36,179)
Net cash		**32,747**	**16,570**

* Within the 2019 figures we identified amounts that needed to be presented net between trade and other receivables and trade and other payables of £5.3m; therefore, we have reclassified for comparative purposes, refer to notes 20 and 21.
** These overdrafts are legally offset against balances held in the UK; however, they have not been netted off in accordance with the requirements of IAS32.42.
*** Cash and cash equivalents of £644k (2019: £1,657k) are held in a country with restrictions on remittances, but where the balances could be used to repay subsidiaries' expected future third party liabilities.
**** Bank loans and borrowings are defined in note 23; they exclude our lease liability of £46,421k (2019 £54,770k) (note 17).

The notes on pages 126 to 131 and 148 to 233 form part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. HEADLINE RESULTS AND EARNINGS PER SHARE

The analysis below provides a reconciliation between the Group's Statutory results and the Headline results.

Year ended 31 December 2020	Note	Statutory 2020 £000	Exceptional items (note 2) £000	Amortisation of acquired intangibles (note 14) £000	Impairment of non-current assets (note 16 and 17) £000	Gain on disposal of subsidiaries and associates (note 11) £000	FVTPL investments under IFRS 9 (note 19)* £000	Revaluation of contingent consideration (note 13) £000	Dividends paid to IFRS2 put holders (note 5)** £000	Put option accounting (note 26 and 27) £000	Headline results £000
Billings (unaudited)		**454,504**	**–**	**–**	**–**	**–**	**–**	–	**–**	**–**	**454,504**
Revenue		**323,250**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**323,250**
Net revenue		**225,389**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**225,389**
Staff costs	5	(171,717)	1,661	–	–	–	–	–	4,728	3,300	(162,028)
Depreciation	16, 17	(11,659)	–	–	–	–	–	–	–	–	(11,659)
Amortisation	14	(2,275)	–	1,686	–	–	–	–	–	–	(589)
Impairments	16, 17	(3,217)	–	–	3,025	–	–	–	–	–	(192)
Other operating charges		(38,635)	311	–	–	–	(232)	446	–	–	(38,110)
Other (losses)/gains	19	(2,818)	–	–	–	–	1,977	–	–	–	(841)
Operating (loss)/profit		**(4,932)**	**1,972**	**1,686**	**3,025**	**–**	**1,745**	**446**	**4,728**	**3,300**	**11,970**
Share of results of associates and JV	15	(113)	–	–	–	–	–	–	–	–	(113)
Gain on disposal of subsidiaries	11	1,432	–	–	–	(1,432)	–	–	–	–	–
Impairment of associate investment	15	(895)	–	–	895	–	–	–	–	–	–
Finance income	7	364	–	–	–	–	–	–	–	–	364
Finance expense	7	(4,363)	–	–	–	–	350	–	–	120	(3,893)
(Loss)/profit before taxation	8	**(8,507)**	**1,972**	**1,686**	**3,920**	**(1,432)**	**2,095**	**446**	**4,728**	**3,420**	**8,328**
Taxation	8	(1,411)	(482)	(405)	(575)	**–**	(398)	–	–	(24)	(3,295)
(Loss)/profit for the year		**(9,918)**	**1,490**	**1,281**	**3,345**	**(1,432)**	**1,697**	**446**	**4,728**	**3,396**	**5,033**
Non-controlling interests		21	–	–	–	–	–	–	(3,404)	–	(3,383)
(Loss)/profit attributable to equity holders of the Group* **		**(9,897)**	**1,490**	**1,281**	**3,345**	**(1,432)**	**1,697**	**446**	**1,324**	**3,396**	**1,650**

* From the total revaluations in note 19, £2,474k relates to the unlisted investments held by SaatchInvest Ltd. This revaluation is offset by the gain on investment disposal of £497k.

** The non-controlling interest charge is moved to operating profit due to underlying equity being defined as a conditional share award.

*** Headline earnings are profit attributable to equity holders of the Group after adding back the adjustments noted above. Headline operating margin is calculated as: Headline operating profit divided by net revenue.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. HEADLINE RESULTS AND EARNINGS PER SHARE CONTINUED

The analysis below provides a reconciliation between the Group's Statutory results and the Headline results.

Year ended 31 December 2019	Note	Statutory 2019 £000	Exceptional items (note 2) £000	Amortisation of acquired intangibles (note 14) £000	Impairment of non-current assets (note 16 and 17) £000	Loss on disposal of subsidiaries and associates £000	FVTPL investments under IFRS 9 (note 19) £000	Revaluation of contingent consideration (note 13) £000	Dividends paid to IFRS2 put holders (note 5)* £000	Put option accounting (note 26 and 27) £000	Headline results £000
Billings (unaudited)		**561,426**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**561,426**
Revenue		**381,025**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**381,025**
Net revenue		**256,435**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**256,435**
Staff costs	5	(193,994)	4,211	–	–	–	–	–	5,841	10,608	(173,334)
Depreciation	16,17	(12,449)	–	–	–	–	–	–	–	–	(12,449)
Amortisation	14	(2,865)	–	2,471	–	–	–	–	–	–	(394)
Impairments	16,17	(5,874)	–	–	5,874	–	–	–	–	–	–
Other operating charges		(52,110)	1,955	–	–	–	92	127	–	–	(49,936)
Other (losses)/gains		(96)	–	–	–	–	346	–	–	–	250
Operating (loss)/profit		**(10,953)**	**6,166**	**2,471**	**5,874**	**–**	**438**	**127**	**5,841**	**10,608**	**20,572**
Share of results of associates and JV	15	13,210	–	–	–	(12,980)	–	–	–	–	230
Impairment of associate investment	15	(5,210)	–	–	5,210	–	–	–	–	–	–
Finance income	7	613	–	–	–	–	–	–	–	–	613
Finance expense	7	(6,233)	–	–	–	–	279	–	–	2,821	(3,133)
(Loss)/profit before taxation		**(8,573)**	**6,166**	**2,471**	**11,084**	**(12,980)**	**717**	**127**	**5,841**	**13,429**	**18,282**
Taxation	8	(3,256)	(1,012)	(620)	–	(281)	(139)	–	–	6	(5,302)
(Loss)/profit for the year		**(11,829)**	**5,154**	**1,851**	**11,084**	**(13,261)**	**578**	**127**	**5,841**	**13,435**	**12,980**
Non-controlling interests		33	–	(247)	–	–	–	–	(4,693)	–	(4,907)
(Loss)/profit attributable to equity holders of the Group**		**(11,796)**	**5,154**	**1,604**	**11,084**	**(13,261)**	**578**	**127**	**1,148**	**13,435**	**8,073**

* The non-controlling interest charge is moved to operating profit due to underlying equity being defined as a conditional share award.

** Headline earnings are profit attributable to equity holders of the Group after adding back the adjustments noted above. Headline operating margin is calculated as: Headline operating profit divided by net revenue.

Policy

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. HEADLINE RESULTS AND EARNINGS PER SHARES CONTINUED

Year ended 31 December 2020	Before exceptionals 2020	2020	Headline 2020
(Loss)/profit attributable to equity shareholders of the Group (£000)	**(8,407)**	**(9,897)**	**1,650**
Basic earnings per share			
Weighted average number of shares (thousands)	108,783	108,783	108,783
Basic EPS	**(7.73)p**	**(9.10)p**	**1.52p**
Diluted earnings per share			
Weighted average number of shares (thousands) as above	108,783	108,783	108,783
Add			
– Conditional shares	–	–	11,963
– Put option	–	–	3,356
– Deferred and contingent consideration	–	–	1,757
	–	–	17,076
Total	**108,783**	**108,783**	**125,859**
Diluted earnings per share	**(7.73)p**	**(9.10)p**	**1.31p**

Year ended 31 December 2019	Before exceptionals 2019	2019	Headline 2019
Loss attributable to equity shareholders of the Group (£000)	**(6,642)**	**(11,796)**	**8,073**
Basic earnings per share			
Weighted average number of shares (thousands)	90,253	90,253	90,253
Basic EPS	**(7.36)p**	**(13.06)p**	**8.95p**
Diluted earnings per share			
Weighted average number of shares (thousands) as above	90,253	90,253	90,253
Add			
– Conditional shares	–	–	3,650
– Put option	–	–	2,316
– Contingent consideration	–	–	281
	–	–	6,247
Total	**90,253**	**90,253**	**96,500**
Diluted earnings per share	**(7.36)p**	**(13.06)p**	**8.37p**

2. EXCEPTIONAL ITEMS

Policy

Exceptional items relate to restructuring and costs relating to the accounting misstatements identified in 2019. This process started in 2019 and has continued in 2020. In addition, within exceptional items for 2020 we have recognised the furlough money received that was repaid subsequent to year end. Exceptional items are shown separately and are excluded from Headline profit to provide a better understanding of the underlying results of the Group.

Exceptional items for the year ended 31 December 2020 comprise the following:

	Operating costs £000	Staff costs £000	Taxation £000	After tax total £000
Restructuring	–	2,637	(608)	2,029
Legal fees	311	–	(59)	252
Furlough salary expense	–	(976)	185	(791)
Total exceptional items	**311**	**1,661**	**(482)**	**1,490**

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

	Operating costs £000	Staff costs £000	Taxation £000	After tax total £000
Strategic review and restructuring	–	4,211	(783)	3,428
PwC forensic fees	710	–	(135)	575
Legal fees	147	–	–	147
Professional fees	798	–	(94)	704
Other costs relating to misstatements	300	–	–	300
Total exceptional items	**1,955**	**4,211**	**(1,012)**	**5,154**

Strategic review and restructuring

As explained in last year's annual report, the Board commenced a strategic review of the Group in 2019 to improve the long-term profitability of the business. The restructuring of operations continued into 2020 and was extended due to the effects of the Covid-19 pandemic with the principal cost being staff redundancy.

Legal fees and other costs relating to misstatements

The Group continued to incur fees for legal and regulatory advice relating to the consequences of the accounting misstatements identified in 2019.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL INFORMATION

Headline segmental income statement

Segmental results are reconciled to the income statement in note 1. The Board reviews Headline results.

The Group's operating segments are aligned to those business units that are evaluated regularly by the chief operating decision maker ("CODM"), namely, the Board, in making strategic decisions, assessing performance and allocating resources. The operating segments comprise individual country entities, the financial information of which is provided to the CODM and is aggregated into specific geographic regions on a Headline basis, with each geographic region considered a reportable segment. Each country included in that region has similar economic and operating characteristics. The products and services provided by entities in a geographic region are all related to marketing communications services and generally offer complementary products and services to their customers.

From 2021, as part of the Group's ongoing strategic review, we are evaluating alternative ways of analysing and presenting financial information to the CODM in addition to the geographic segmentation.

No revenues were derived from an individual customer with a net revenue contribution of greater than 10% of the total net revenue during either 2020 or 2019.

Year ended 31 December 2020	UK £000	Europe £000	Middle East and Africa £000	Asia and Australia £000	Americas £000	Head office and consolidation adjustments £000	Total £000
Billings (unaudited)*	**245,227**	**53,336**	**25,896**	**89,299**	**40,746**	**–**	**454,504**
Revenue*	**134,357**	**40,158**	**25,781**	**81,500**	**41,454**	**–**	**323,250**
Net revenue	**88,931**	**28,414**	**15,578**	**57,896**	**34,570**	**–**	**225,389**
Staff costs	(54,520)	(21,877)	(11,866)	(41,492)	(25,487)	(6,786)	(162,028)
Depreciation	(4,159)	(1,503)	(835)	(3,367)	(1,795)	–	(11,659)
Amortisation	(388)	–	(43)	(158)	–	–	(589)
Impairment charges	–	–	–	(192)	–	–	(192)
Other operating charges	(13,350)	(3,551)	(2,162)	(9,722)	(4,782)	(4,543)	(38,110)
Other (losses)/gains	(114)	–	–	(727)	–	–	(841)
Operating profit/(loss)	**16,400**	**1,483**	**672**	**2,238**	**2,506**	**(11,329)**	**11,970**
Share of results of associates and JV	–	–	–	(33)	(80)	–	(113)
Financial income	788	–	32	141	106	(703)	364
Financial expense	(1,849)	(148)	(390)	(515)	(989)	(2)	(3,893)
Profit/(loss) before taxation	**15,339**	**1,335**	**314**	**1,831**	**1,543**	**(12,034)**	**8,328**
Taxation	(3,072)	(719)	(307)	(1,079)	(380)	2,262	(3,295)
Profit/(loss) for the year	**12,267**	**616**	**7**	**752**	**1,163**	**(9,772)**	**5,033**
Non-controlling interests	(2,703)	(212)	79	(162)	(385)	–	(3,383)
Profit/(loss) attributable to equity shareholders of the Group	**9,564**	**404**	**86**	**590**	**778**	**(9,772)**	**1,650**
Headline basic EPS							**1.52p**

* These items were not regularly reviewed by the chief operating decision maker in the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL INFORMATION CONTINUED

Headline segmental income statement continued

Year ended 31 December 2019	UK £000	Europe £000	Middle East and Africa £000	Asia and Australia £000	Americas £000	Head office and consolidation adjustments £000	Total £000
Billings (unaudited)*	**266,488**	**52,714**	**36,126**	**144,980**	**61,118**	**–**	**561,426**
Revenue*	**158,786**	**45,924**	**33,906**	**90,160**	**52,249**	**–**	**381,025**
Net revenue	**103,221**	**30,510**	**16,563**	**64,533**	**41,608**	**–**	**256,435**
Staff costs	(61,376)	(22,273)	(11,337)	(45,093)	(28,752)	(4,503)	(173,334)
Depreciation – non lease**	(1,357)	(334)	(349)	(811)	(539)	–	(3,390)
Depreciation – lease**	(2,705)	(1,087)	(601)	(2,606)	(2,060)	–	(9,059)
Amortisation	(201)	(22)	(52)	(119)	–	–	(394)
Other operating charges	(22,928)	(3,776)	(2,718)	(10,244)	(7,402)	(2,868)	(49,936)
Other gains/(losses)	–	–	–	–	250	–	250
Operating profit/(loss)	**14,654**	**3,018**	**1,506**	**5,660**	**3,105**	**(7,371)**	**20,572**
Share of results of associates and JV	–	(3)	–	(124)	357	–	230
Financial income	226	15	52	210	122	(12)	613
Financial expense	(910)	(233)	(494)	(407)	(980)	(109)	(3,133)
Profit/(loss) before taxation	**13,970**	**2,797**	**1,064**	**5,339**	**2,604**	**(7,492)**	**18,282**
Taxation	(2,576)	(1,135)	(219)	(1,655)	(1,099)	1,382	(5,302)
Profit/(loss) for the year	**11,394**	**1,662**	**845**	**3,684**	**1,505**	**(6,110)**	**12,980**
Non-controlling interests	(2,821)	(259)	(338)	(1,284)	(205)	–	(4,907)
Profit/(loss) attributable to equity shareholders of the Group	**8,573**	**1,403**	**507**	**2,400**	**1,300**	**(6,110)**	**8,073**
Headline basic EPS							**8.95p**

* These items were not regularly reviewed by the chief operating decision maker in the year.

** The adoption of IFRS 16 in 2019, led to the recognition of depreciation and finance charges in 2019 which had no 2018 comparative, therefore these were shown separately. In the current year Annual Report these amounts have consequently been shown combined.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL INFORMATION CONTINUED

Headline segmental income statement continued

Non-current assets other than excluded items:

As at 31 December	2020 £000	2019 £000
United Kingdom	45,626	51,542
Europe (excluding UK)	2,364	6,446
Middle East and Africa	5,575	1,911
Asia and Australia	12,163	15,003
Americas	14,788	23,082
Total non-current assets other than excluded items	**80,516**	**97,984**
Non-current assets excluded from analysis above:		
Deferred tax assets	8,301	5,285
Other financial assets	14,903	18,774
Total non-current assets per balance sheet	**103,720**	**122,043**

Allocation of non-current assets by country is based on the location of the business units. Items included comprise fixed assets, intangible assets, IFRS 16 assets and equity accounted investments.

Capital expenditure	2020 £000	2019 £000
UK	2,114	2,462
Europe	450	360
Middle East and Africa	229	513
Asia and Australia	282	516
Americas	611	240
	3,686	**4,091**

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

Billings comprise all gross amounts billed, or billable to clients and is stated exclusive of VAT and sales taxes. Billings is a non-GAAP measure and is included as it influences the quantum of trade and other receivables recognised at a given date. The difference between Billings and Revenue is represented by costs incurred on behalf of clients with whom we operate as an agent, and timing differences where invoicing occurs in advance or in arrears of the related revenue being recognised.

Net revenue is a non-GAAP measure and is reviewed by the CODM and other stakeholders as a key metric of business performance (note 3).

Policy

4(a) Revenue recognition policies

Revenue is stated exclusive of VAT and sales taxes. Net revenue is exclusive of third-party costs recharged to our clients where we are acting as principal.

Performance obligations

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

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

Further discussion of performance obligations arising in terms of the main types of services provided by the group in addition to their typical pattern of satisfaction is provided in note 4(d).

Measurement of revenue

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

Principal vs agent

When a third-party supplier is involved in fulfilling the terms of a contract then, for each performance obligation identified, the Group assesses whether the Group is acting as principal or agent. The primary indicator used in this assessment is whether the Group is judged to control the specified services prior to the transfer of those services to the customer. In this instance it is typically concluded the Group is acting as principal.

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

Treatment of costs

Costs incurred in relation to the fulfilment of a contract are generally expensed as incurred if revenue is recognised over time or held in contract assets if it is recognised at a point in time.

4(b) Disaggregation of revenue

The Group monitors the composition of revenue earned by the Group on a geographic basis. The disaggregation of this revenue is shown within note 3. In 2021 the Group outlined a new divisional structure comprising five specialist divisions as noted on page 15.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. REVENUE FROM CONTRACTS WITH CUSTOMERS CONTINUED

4(c) Assets and liabilities related to contracts with customers

Contract assets and liabilities arise when there is a difference (generally due to timing) in the amount of revenue which can be recognised and the amount which can be invoiced under the terms of the contractual arrangement.

Where revenue earned from customers is recognised over time, many of the Group's contractual arrangements have terms which permit the Group to remit invoices for the amount of work performed to date on a specific contract (described in our accounting policies as 'Right-to-invoice'). Where the terms of a contractual arrangement do not carry such right to invoice then a contract asset is recognised over time as work is performed until such point that an invoice can be remitted.

Where revenue earned from customers is recognised at a point in time then this will be dependent on satisfaction of a specific performance obligation. At such point it is usual that there are no other conditions required to be met for receipt of consideration and as such a trade receivable is recognised at this point upon raising of invoice, otherwise it is recognised as a contract asset.

Contract liabilities comprise instances where a customer has made payments relating to services prior to their provision. Where payments are received in advance, IFRS 15 requires assessment of whether these cash transfers contain any financing component. Under the terms of the contractual arrangements entered into by the Group, there are no instances where such financing elements arise. This is the case even for those arrangements where the Group receives monies more than a year in advance by virtue of the terms of the contractual agreement so entered into.

Set out below is the amount of revenue recognised from:

	2020 £000	2019 re-stated* £000
Amounts included in contract liabilities at the beginning of the year*	20,491	25,129
Performance obligations satisfied in previous years	–	–

* Within the 2019 figures we identified amounts that needed to be presented net between trade and other receivables and trade and other payables and within trade and other payables.
- Advance billing of £5.3million was grossed up in the balance sheet in 2019 between trade receivables and contract liabilities.
- Contract liabilities of £4.8million and other payables of £1.5million were incorrectly included in accruals in 2019.

These items were correctly accounted for in 2020 and reclassified in 2019 for comparative purposes. We have not included a third balance sheet where we have made prior year balance sheet reclassifications as we believe that this would not be helpful to users of the accounts and could be misleading as a result of the issues identified in the 2019 audit.

All contract assets recognised at 31 December 2019 related to invoices in the year.

4(d) Revenue recognition policies and performance obligation satisfaction by category of services performed

Further details regarding revenue recognition and performance obligations of the Group's main service offerings are summarised below.

Provision of advertising and marketing services

Our provision of advertising and marketing services to our clients typically meets the criteria identified in note 4(a) on page 159 for revenue to be recognised over time. The quantum of revenue to be recognised over the period of the assignments is either based on the 'right-to-invoice' expedient or as the services are provided, depending on the contractual terms. In measuring the progress of services provided in an assignment, the Group uses an appropriate measure depending on the circumstances, which may include inputs (such as internal labour costs incurred) or outputs (such as media posts). Where projects are carried out under contracts, the terms of which entitle the Group to payment for its performance only when a discrete point is reached (such as an event has occurred or a milestone has been reached), then revenue is recognised at the time that payment entitlement occurs, i.e. at a point in time.

The provision of advertising and marketing services can encompass provision of a range of media deliverables in addition to development and deployment of a media strategy. Regular assessment of the effectiveness of the project with regards to the objective of the contractual arrangement may also be included. Often the range of services provided within these arrangements is considered to be integrated to an extent that no separable performance obligations can be identified other than a single over-arching combined performance obligation relating to the delivery of the project. In these instances, revenue is recognised over time as the performance obligation is being satisfied depending on the circumstances, which may include inputs (such as internal labour costs incurred) or outputs (such as media posts).

When services provided are considered separable, and not integrated, then multiple performance obligations are recognised.

Multiple performance obligations are most common in projects where there are clearly separable conceptual preparatory obligations culminating in a customer deliverable, such as an event. In these scenarios the conceptual preparation element and the deliverable are concluded as forming separate performance obligations with the revenue and corresponding cost of sales (typically third party pass through costs) assigned to the obligation to which they relate.

Whilst it is uncommon for projects to be such that revenue is not able to be recognised over time, examples can occur. In these instances, the element of the transaction price assigned to each performance obligation (in proportion to stand-alone selling prices) is recognised as revenue once an obligation has been fully satisfied, for example an event has occurred or a milestone has been reached.

The Group enters into Retainer fees that relate to arrangements whereby the nature of the Group's contractual promise is to agree to 'stand-ready' to deliver services to the customer for a period of time rather than to deliver the goods or services underlying that promise. Revenue relating to retainer fees is recognised over the period of the relevant assignments or arrangements, typically in line with the 'stand-ready' incurred costs.

Where fees are remunerated to the agency in excess of the services rendered then a contract liability is recognised. Conversely where the services rendered are in excess of the actual fees paid then a contract asset is recognised when there is a right to consideration.

Certain of these arrangements have contractual terms relating to the agency meeting specific customer identified KPIs. As a result, the overall level of consideration can vary by increasing or decreasing as a result of performance against these KPI metrics. To reflect this variability in the overall level of consideration, management estimate the most likely outcome and then reflect

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. REVENUE FROM CONTRACTS WITH CUSTOMERS CONTINUED

Policy continued

4(d) Revenue recognition policies and performance obligation satisfaction by category of services performed continued

Provision of advertising and marketing services continued

that outcome in the revenue recognised as the performance obligation(s) of the contract are satisfied. When determining the likely outturn position the estimated consideration is such that it is highly probable there will not be significant reversal of the revenue in the future. The estimated portion of the variable element is recalculated at the earlier of the completion of the contract or the next reporting period and revenue is adjusted accordingly. These estimates are based on historical award experience, anticipated performance and best judgement at the time.

Commission based income in relation to media spend

The Group arranges for third parties to provide the related goods and services to its customers in the capacity of an agent. Revenue is recognised in relation to the amount of commission the Group is entitled to. Often additional integrated services are provided at the same time with regards to the development and deployment of an overarching media strategy. Due to the integration of the services provided under the terms of the contract, management judgement is applied to assess whether there is a single combined performance obligation.

The performance obligation for media purchases is considered to have been satisfied when the associated advertisement has been purchased.

In the majority of instances where the Group purchases media for clients, the Group is acting as agent.

Commission based income in relation to talent performance

Revenue in relation to talent performance involves the Group acting as agent. Typically, such arrangements have a single, or a sequence, of specific performance obligations relating to the talent (or other third party) providing services. The performance obligations are generally satisfied at a point in time once the service has been provided, at which point, revenue is recognised. The consideration for the services is normally for a fixed amount (as a percentage of the talent's fee) with no degree of variability.

Recognition of supplier discounts and rebates as revenue from contracts with customers

The Group receives discounts and rebates from certain suppliers for transactions entered into on behalf of clients, which the clients have agreed we can retain. When the contractual terms of the agreements entered into are such that the Group acts as Agent in these instances, then such rebates are recognised as revenue from contracts with customers. By contrast, when the contractual terms of the agreements are such that the Group is acting as principal then such rebates are recognised as a reduction in direct costs. Certain of the Group's clients, however, have contractual terms such that the pricing of their contracts is structured with the rebate being passed through to them.

5. STAFF COSTS

Policy

Pensions

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

Bonuses

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

Staff costs (including Directors) comprise:

Year ended 31 December	Note	2020 £000	2019 £000
Wages and salaries		137,235	152,608
Social security costs		16,360	18,216
Other pension costs		2,617	2,217
Other staff costs*		6,555	4,504
Total		**162,767**	**177,545**
Plus: dividends paid to holders of IFRS 2 put options			
Allocations and dividends paid to conditional share award holders	1	4,728	5,841
Share based incentive plans:			
Cash settled	27	947	342
Equity settled	27	3,275	10,266
Total share based incentive plans		4,222	10,608
Total staff costs		**171,717**	**193,994**

* Other staff costs include redundancy costs, insurance and other staff benefits.

Staff numbers	2020	2019
UK	687	702
Europe	357	335
Middle East and Africa	373	346
Asia and Australia	778	807
America	255	302
	2,450	**2,492**

These staff numbers are based on the average number of monthly staff.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. STAFF COSTS CONTINUED

Pensions

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

Payments of £2,617k (2019: £2,217k) were made in the year and charged to the income statement in the period they relate to.

Compensation for key management personnel and directors

Key management remuneration	2020 £000	2019 £000
Short term employee benefit	2,325	3,399
Post-employment benefit	249	4
Share based payments	485	384
Total	**3,059**	**3,787**

Key management personnel include the Directors and employees responsible for planning, directing and controlling the activities of the Group. Refer to pages 102 to 103 of the Directors' remuneration report for detail of the Directors' remuneration, including the highest paid Director.

6. AUDITORS' REMUNERATION

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Group:

Year ended 31 December	2020 £000	2019 £000
Audit services		
Audit of the Company and its consolidated financial statements	2,337	2,978
Audit of the Company's subsidiaries pursuant to legislation	255	181
	2,592	**3,159**
Other services provided by the Auditors:		
Taxation compliance services	–	32
Remuneration report services	–	29
Forensic services	–	710
	–	**771**
Total	**2,592**	**3,930**

7. NET FINANCE INCOME/(EXPENSE)

Policy

Financial income and borrowing costs

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

Year ended 31 December	2020 £000	2019 £000
Bank interest receivable	215	285
Other interest receivable	78	237
Sublease finance income	71	91
Financial income	**364**	**613**
Bank interest payable	(1,240)	(1,287)
Amortisation of loan costs	(228)	(38)
Other interest payable	(304)	(250)
Interest on lease liabilities	(2,471)	(1,837)
Amortisation adjustment to minority shareholder put option liabilities (Note 26)	(120)	(2,821)
Financial expense	**(4,363)**	**(6,233)**
Net finance expense	**(3,999)**	**(5,620)**

8. TAXATION

Policy

Current tax

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

Year ended 31 December	2020 £000	2019 £000
Taxation in the year		
– UK	(8)	(330)
– Overseas	3,765	3,280
Withholding taxes payable	7	38
Adjustment for over provision in prior periods	1,312	(538)
Total	**5,076**	**2,450**
Deferred taxation		
Origination and reversal of temporary differences	(3,100)	431
Adjustment for under provision prior periods	(565)	370
Effect of changes in tax rates	–	5
Total	**(3,665)**	**806**
Total taxation	**1,411**	**3,256**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. TAXATION CONTINUED
Current tax continued

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

Year ended 31 December	2020 £000	2020 %	2019 £000	2019 %
Loss before taxation	**(8,507)**		**(8,573)**	
Taxation at UK corporation tax rate of 19.00% (2019: 19.00%)	**(1,616)**	**19.0%**	**(1,629)**	**19.0%**
Tax effect of associates	21	-0.3%	(1)	0.0%
Expenses not deductible for tax	127	-1.5%	442	-5.2%
Option charges not deductible for tax	1,280	-15.0%	2,752	-32.0%
Different tax rates applicable in overseas jurisdictions	213	-2.5%	1,469	-17.1%
Effect of changes in tax rates on deferred tax	–	0.0%	5	-0.1%
Withholding taxes payable	7	-0.1%	39	-0.5%
Adjustment for current tax under/(over) provision in prior periods	1,312	-15.4%	(538)	6.3%
Adjustment for deferred tax (over)/under provision in prior periods	(565)	6.6%	370	-4.3%
Tax losses for which no deferred tax asset was recognised	711	-8.3%	451	-5.3%
Fair value adjustments on minority shareholder put options	23	-0.3%	536	-6.3%
Disposal of subsidiaries on which no tax is charged	(272)	3.2%	–	–
Nil tax on disposal of associates	–	0.0%	(2,749)	32.1%
Impairment with no tax credit	170	-2.0%	2,109	-24.6%
Total taxation	**1,411**	**-16.6%**	**3,256**	**-38.0%**
Effective tax rate	**-16.6%**		**-38.0%**	

We expect large variations in future tax rates of our statutory accounts due to significant items such as share-based payments (option charges), put options and investment in subsidiaries being non-deductible against corporation tax as a result of these items being capital in nature.

The key differences between actual and standard tax rates are as follows:

- Option charges incudes dividend paid to option holders that are not deductible for tax: our share-based payment schemes mostly relate to equity held in subsidiary companies. The Group generally receives no tax benefit on the exercise of these put options or payment of the dividends.
- Different tax rates applicable in overseas jurisdictions. The Group operates in multiple locations round the world where tax rates are higher than the UK, e.g. Australia (30%) and USA (between 21% to 28%).
- The net effect of the adjustment for current and deferred tax in prior periods is £747k, (8.8)% (2019: £(168)k, 2.0%) of total tax charge. This mostly relates to companies in the UK. The adjustment is spread over our 47 reporting entities in the UK and is caused by many small adjustments between our 2018 and 2019 tax estimates and actual values in our tax returns (all were filed under a Covid-19 concession following the year end). At the same time due to temporary tax losses in the UK during 2020 in part due to the Covid-19 pandemic, there has been a reassessment resulting in our historic current tax asset being redefined as a deferred tax asset.
- Tax losses were made during the year by companies that we disposed of. The Group will receive no future tax benefits from those losses.
- There was a gain on disposal of subsidiaries in the consolidated accounts which was not taxable under local tax legislation.
- Nil tax on disposal of associates. In the 2019 we disposed of our remaining 24.9% interest in Walker Media and we expect to receive substantial shareholding exemption on this disposal.
- Impairment with no tax credit. On most of our acquisitions we received no tax benefit from the acquisition of Goodwill. During the periods some of our Goodwill was impaired with no future tax benefit of such impairments.

Looking forward, there is a likelihood that Governments will raise taxes to recover the costs of the Covid-19 pandemic. For instance, the UK Government has stated that corporation tax rates will increase from 19% to 25% from 2023.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. TAXATION CONTINUED

Tax on Headline profits

As can be seen in our Headline tax reconciliation, the largest drivers of Headline tax charge are our local entities' profitability with central costs being incurred in the UK, a lower tax market, and profits being made in higher tax countries such as Australia and USA.

Our Headline tax rate has increased from 29.0% to 39.6%. The tax rate increase reflects losses made by disposed of subsidiaries from which we expect no future tax benefit as well as higher non-deductible costs due to the loss-making nature of some of our subsidiaries. It is likely that companies based in the UK will in total continue to be loss making in the short-term. With the UK tax rate increases to 25% in 2023, it should be possible to offset these losses at the higher rate. This is likely to create swings in our effective tax rate in 2021 and 2022.

Year ended 31 December	2020 £000	2020 %	2019 £000	2019 %
Headline profit before taxation (note 1)	**8,328**		**18,282**	
Taxation at UK corporation tax rate of 19.00% (2019: 19.00%)	**1,582**	**19.0%**	**3,474**	**19.0%**
Tax effect of associates	21	0.3%	(1)	–
Non-controlling interest share of partnership income	(309)	-3.7%	(377)	-2.2%
Expenses not deductible for tax	127	1.5%	424	2.3%
Different tax rates applicable in overseas jurisdictions	406	4.8%	1,455	8.5%
Effect of changes in tax rates on deferred tax	–	–	5	–
Withholding taxes payable	7	0.1%	39	0.2%
Adjustment for current tax under/(over) provision in prior periods	1,312	15.8%	(538)	-3.1%
Adjustment for deferred tax (over)/under provision in prior periods	(561)	-6.7%	370	2.2%
Tax losses for which no deferred tax asset was recognised	710	8.5%	451	2.6%
Headline taxation (note 1)	**3,295**	**39.6%**	**5,302**	**29.5%**
Headline effective tax rate	**39.6%**		**29.0%**	

9. DEFERRED TAXATION

Policy

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not, however, provided for temporary differences that arise from: (i) initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profits or loss, (ii) the initial recognition of Goodwill.

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

Deferred tax assets are recognised to the extent that it is probable future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

At 31 December	2020 £000	2019 £000
Deferred tax assets	8,301	5,285
Deferred tax liabilities	(405)	(371)
Net deferred tax	**7,896**	**4,914**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. DEFERRED TAXATION CONTINUED

The Deferred tax asset is recoverable against future profits, and future corporation tax liabilities. The following table shows the deferred tax asset/(liability) recognised by Group and movements in 2020 and 2019.

	Intangibles £000	Capital allowances £000	Tax losses £000	Working capital differences £000	Total £000
At 1 January 2019	1,413	83	1,662	1,266	4,424
1 January 2019 – IFRS 16 adjustment	–	–	–	1,495	1,495
	1,413	**83**	**1,662**	**2,761**	**5,919**
Exchange differences	(56)	(1)	(70)	(72)	(199)
Income statement (charge)/credit	(1,059)	(33)	(69)	355	(806)
At 31 December 2019	298	49	1,523	3,044	4,914
Exchange differences	(4)	(1)	(143)	(54)	(202)
Income statement (charge)/credit	(58)	1,278	7,136	(4,691)	3,665
Disposals (note 11)	–	–	(13)	(468)	(481)
At 31 December 2020	**236**	**1,326**	**8,503**	**(2,169)**	**7,896**

Based on the 2021 Board approved budget and 5-year plans (presented at the Capital Markets day in January 2021), the Group has reviewed the deferred tax asset created by tax losses for their recoverability. Where the Group believes such losses are not recoverable they have not been recognised on the balance sheet and have been included in unrecognised deferred tax assets.

Substantially all territories for which deferred tax assets in respect of losses are recognised, made an accounting loss in the current year. In particular the UK, US and Australia. The Group assesses the future availability of carried forward losses and other tax attributes by reference to the jurisdiction-specific rules around carry forward and utilisation; and it assesses whether it is probable that future taxable profits will be available against which the attribute can be utilised. The reversal of deferred tax liabilities may provide a source of probable future taxable profits but, where these are insufficient, the Group considers the forecast profits of the company or jurisdiction in question as set out in the Group's five-year plan, and would extrapolate these as necessary over what is deemed to be a commercially reasonable look-out period. However, current forecasts show recovery of substantially all recognised losses within 5 years. Profit forecasts used for deferred tax asset recognition are consistent with those used for goodwill impairment testing.

Within the local entities £5,733k (2019: £2,382k) of deferred tax has been naturally offset. Disregarding this offset, the split of deferred tax is as follows:

	Intangibles £000	Capital allowances £000	Tax losses £000	Working capital differences £000	Total £000
At 31 December 2019					
Deferred tax assets	2,091	68	1,539	4,139	7,837
Deferred tax liabilities	(1,793)	(19)	(16)	(1,095)	(2,923)
Net deferred tax	**298**	**49**	**1,523**	**3,044**	**4,914**
At 31 December 2020					
Deferred tax assets	290	1,328	8,503	3,953	14,074
Deferred tax liabilities	(54)	(2)	–	(6,122)	(6,178)
Net deferred tax	**236**	**1,326**	**8,503**	**(2,169)**	**7,896**

The working capital differences mostly relate to the tax effects of working capital in Australia which calculates tax on a cash basis rather than the accruals basis used in other countries; along with the continuing tax effects of the adoption of IFRS16 (Leases); and tax provision on any long term deferred bonuses.

UK tax legislation was substantively enacted after the year end on 24 May 2021 which increases the UK corporation tax from 19% to 25% with effect from 1 April 2023. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. The effect on the 2021 revaluation of the deferred tax balance of this change is reliant on projections of 2021, 2022 and, in part, 2023 profits, so is an estimate. At the present time our estimate on the 2021 revaluation of deferred tax balance is £161k increase in the deferred tax asset due to the UK corporation tax change.

An unrecognised deferred tax asset in respect of carried forward tax losses is shown below:

	Losses £000	Deferred tax impact £000
At 1 January 2020	4,159	882
Exchange differences	(81)	(21)
Disposal of subsidiaries	(1,961)	(597)
Losses in year	2,655	711
At 31 December 2020	**4,772**	**975**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. DEFERRED TAXATION CONTINUED

Expiry date of losses:

	2020 £000	2019 £000
One to five years	–	191
Five to ten years	439	98
Ten years or more	536	593
Total	**975**	**882**

The unrecognised deferred tax assets in respect of certain losses in overseas territories, referred to in the tables above, have not been recognised as there is insufficient certainty of future taxable profits against which these would reverse.

10. DIVIDENDS

Policy

Equity dividends

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

Year ended 31 December	2020 £000	2019 £000
No 2019 Final dividend paid (2018 final dividend, paid 2019: 8.51p)	–	7,566
No 2020 Interim dividend paid (2019 interim dividend, paid 2019: 2.45p)	–	2,247
	–	**9,813**

The dividend policy was reviewed as part of the Group's recent strategic review. We concluded that the Group's priority is to return the business to pre-pandemic levels of profitability and earnings and, thereafter, to grow in line with the targets set out at the Capital Markets Day held in January 2021. Assuming a return to normal trading conditions, we would expect to reinstate dividends from 2022.

Year ended 31 December	2020 £000	2019 £000
No 2020 Interim dividend paid (2019: 2.45p)	–	2,247
No 2020 Final dividend payable (2019: nil)	–	–
	–	**2,247**
Statutory dividend cover	–	loss
Headline dividend cover	–	3.6

Dividend cover is calculated by taking profit after tax attributable to equity shareholders and dividing it by the total dividend that relates to that year's profits. The Group has historically aimed to maintain a long term Headline dividend cover of between 2 and 3. Retained profits are used to reinvest in the long term growth of the Group through funding working capital and investing activities, and to repay bank debt.

11. DISPOSALS

Policy

We account for disposals of entities in the Group in accordance with IFRS 10:25. When the parent's ownership of a subsidiary company changes and results in the parent's loss of control of a subsidiary within the Group, the parent:

- Derecognises the assets and liabilities attributable to the former subsidiary from the consolidated statement of financial position;
- Recognises any investment retained in the former subsidiary when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs;
- Recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

The Group embarked on a Board approved process of eliminating loss-making businesses as a one-off programme, as part of a broad strategic review of the Group which was communicated to the market and to the shareholders. As a result, a total of 20 entities were either closed, merged or our interest in those entities was divested.

As part of this process, the Group sold/reduced its majority stakes in 15 subsidiaries on or before 31 December 2020. The Group classifies non-current assets held for sale when the carrying amount will be principally recovered through its disposal as opposed to continued use. For this to be the case the asset must be available for immediate sale and the sale must be highly probable. The entities that were not disposed of before year end will be closing down in 2021. The carrying amount for these entities will not be recovered through the disposal; therefore they are not classified as non-current assets held for sale.

The legal entities that we sold or our interest was divested are M&C Saatchi Tel Aviv Ltd, M&C Saatchi Brasil Comunicação Ltda, M&C Saatchi Gad SAS, FCINQ SAS, Cometis SARL, M&C Saatchi Little Stories SAS, M&C Saatchi the Loop SARL, Moonlike M&C Saatchi SARL, Paris Gad Holding SAS, Tataprod SARL, M&C SAATCHI ONE SAS, M&C Saatchi Madrid SL, M&C Saatchi Sponsorship SL, Media By Design Spain S.A. and Send Me A Sample Ltd. Of these entities, we retained 6% of M&C Saatchi Little Stories SAS (note 15) and 10% of M&C Saatchi Madrid SL (note 19). The fair value of these retained stakes was determined by the group to be nil at the date of disposal. Following its merger with M&C Saatchi Gad SAS, we have been promised as deferred consideration 10% of the entire and fully diluted shares in Australie SAS (refer to the bottom of this note for details).

In addition to the entities sold/divested, the Group closed or merged a further 5 legal entities. These were M&C Saatchi LA Inc, The Source LA, LIDA Australia PTY LTD, LIDA US LLP and Clear KL.

The legal entities that were closed or will be closed post year end comprise Creative Spark (Pty) Ltd, M&C Saatchi PR LLP, M&C Saatchi Marketing Arts Ltd and Create Collective PTE.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. DISPOSALS CONTINUED

Policy continued

These entities listed above had contributed £4m of losses to the 2020 results. The Headline results of the entities disposed of and closed or which are to be closed and which have been included in the results for the year, were as follows:

Year ended 31 December 2020	UK £000	Europe £000	Middle East and Africa £000	Asia and Australia £000	Americas £000	Total £000
Revenue	**155**	**23,170**	**897**	**1,209**	**3,375**	**28,806**
Project cost/direct cost	–	(11,345)	(178)	(7)	(604)	(12,134)
Net revenue	**155**	**11,825**	**719**	**1,202**	**2,771**	**16,672**
Staff costs	(664)	(9,788)	(962)	(945)	(3,631)	(15,990)
Depreciation	(2)	(833)	(17)	(2)	(327)	(1,181)
Amortisation	(79)	–	(4)	(291)	–	(374)
Other operating charges	(197)	(1,518)	(94)	(355)	(880)	(3,044)
Operating loss	**(787)**	**(314)**	**(358)**	**(391)**	**(2,067)**	**(3,917)**
Finance income	–	–	(1)	–	2	1
Finance expense	–	(110)	15	–	(32)	(127)
Loss before taxation	**(787)**	**(424)**	**(344)**	**(391)**	**(2,097)**	**(4,043)**

Year ended 31 December 2019	UK £000	Europe £000	Middle East and Africa £000	Asia and Australia £000	Americas £000	Total £000
Revenue	**289**	**25,495**	**1,736**	**5,079**	**12,411**	**45,010**
Project cost/direct cost	–	(12,239)	(345)	(457)	(3,915)	(16,956)
Net revenue	**289**	**13,256**	**1,391**	**4,622**	**8,496**	**28,054**
Staff costs	(1,144)	(10,809)	(1,153)	(3,617)	(8,739)	(25,462)
Depreciation	(107)	(781)	(27)	(30)	(419)	(1,364)
Other operating charges	(545)	(1,608)	(263)	(1,565)	(2,635)	(6,616)
Operating profit/(loss)	**(1,507)**	**58**	**(52)**	**(590)**	**(3,297)**	**(5,388)**
Finance income	–	11	–	–	14	25
Finance expense	–	(109)	(8)	–	(59)	(176)
Loss before taxation	**(1,507)**	**(40)**	**(60)**	**(590)**	**(3,342)**	**(5,539)**

The Group sold/reduced its majority stakes in 15 subsidiaries on or before 31 December 2020. Cash held by those subsidiaries at the date of disposal was £5,093,697.

The gain on disposal of subsidiaries as of 31 December 2020 is calculated as follows:

	£000
Consideration received in cash and cash equivalents*	979
Share consideration receivable*	444
Deferred consideration payable**	(536)
Total consideration	**887**
Plant and equipment	562
Right-of-use assets	2,661
Other non-current assets	63
Deferred tax assets	481
Trade and other receivables	11,708
Current tax assets	583
Cash and cash equivalents	5,094
Trade and other payables	(17,425)
Borrowings	(1,462)
Lease liabilities	(2,810)
Add net liabilities	**(545)**
Gain on disposal of subsidiaries	**1,432**

* M&C Saatchi International Holdings B.V. sold its stake in M&C Saatchi GAD SAS to Australie SAS for a total cash consideration of €1,100,000 and for 1,707 shares of Australie's share capital, i.e. 10% of the entire and fully diluted Australie's share capital. The Group recognised a deferred consideration receivable in the amount of €500k, representing 1,707 ordinary shares of Australie SAS. We have valued the investment using our best estimate and all information presently available. However, as an unlisted, illiquid asset in which we hold only a minority stake, our estimate of the valuation is subject to uncertainty and risk. The deferred consideration receivable amount is included within other non-current assets. On receipt of the shares, this asset will be reclassified as an unlisted equity investment.

** £536k paid to M&C Saatchi F&Q Brasil Comunicacao LTDA in April 2021.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. CASH CONSUMED BY ACQUISITIONS

During the year the Group has spent the following amounts of cash to acquire equity in subsidiary companies and associates:

	2020 £000	2019 £000
Exercise of share-based payment schemes with cash		
– M&C Saatchi Network Ltd	–	(3,475)
– M&C Saatchi GAD Holdings SAS	–	(1,989)
– Small purchases of non-controlling interest's equity	–	(141)
Total exercise of share-based payment schemes with cash	**–**	**(5,605)**
Cash consideration for non-controlling interest acquired		
– SS+K LLP	(204)	(3,066)
– M&C Saatchi Berlin GmbH	–	(199)
– Small purchases of non-controlling interest's equity	–	(4)
Total paid to acquire additional shares in subsidiaries	**(204)**	**(3,269)**
Acquisitions of subsidiaries net of cash acquired		
– Deferred and contingent consideration paid (note 13)	–	(635)
Acquisitions of subsidiaries net of cash acquired	**–**	**(635)**

13. DEFERRED AND CONTINGENT CONSIDERATION

Policy

Certain acquisitions made by the Group include contingent consideration, the quantum of which is dependent on the future performance of the acquired entity. Such contingent consideration is recognised as a liability and recorded at fair value in line with IFRS 13 (note 29).

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

	2020 £000	2019 £000
Current		
Deferred consideration*	(1,227)	–
Contingent consideration	(452)	(445)
Total current	**(1,679)**	**(445)**
Non-current		
Contingent consideration	–	(313)
Total current and non-current	**(1,679)**	**(758)**

* Made up of £536k paid to M&C SAATCHI F&Q Brasil Comunicacao LTDA) in April 2021 and £691k paid to Levergy Marketing Agency (Pty) in January and February 2021.

	2020 £000	2019 £000
At 1 January	(758)	(1,266)
Exchange differences	61	–
Deferred consideration due on disposals**	(536)	–
Charged to the income statement***	(446)	(127)
Conditional consideration paid in cash	–	635
Total	**(1,679)**	**(758)**

** Made up of £536k paid to M&C SAATCHI F&Q Brasil Comunicacao LTDA in April 2021.
*** Made up of £374k revaluation of Scarecrow Communications Ltd contingent consideration and £72k revaluation of Levergy Marketing Agency (Pty) deferred consideration.

£536k of deferred consideration is payable to M&C Saatchi Brasil Participacoes Ltda from the holding company M&C Saatchi International Holdings BV whilst the remaining £1,144k of deferred and contingent consideration is payable from the parent company and held as a liability in the company's own balance sheet.

Detail surrounding the fair value measurement of the contingent consideration recognised at year end is provided in note 29.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. INTANGIBLE ASSETS

Policy

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

Cost

Goodwill

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

Other intangibles acquired as part of a business combination

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

Software & film

Purchased software, internally created software and film rights are recorded at cost. In case of internally created software and film rights these are created so that they can be directly used to generate future client income.

Amortisation

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

Software and film rights – three years
Customer relationships – one to five years
Brand name – one to three years

The Group has no indefinite life intangibles other than goodwill.

Impairment

Goodwill impairment reviews are performed annually or more frequently if events or changes in circumstances indicate a potential impairment. Finite lived assets are reviewed for indicators of impairment, and if an indicator is noted then an impairment review is performed. Impairment losses arise when the carrying amount of an asset or CGU is in excess of the recoverable amount and are recognised in the income statement.

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

	Goodwill £000	Brand name £000	Customer relationships £000	Software and film rights** £000	Total £000
Cost					
At 1 January 2019	58,448	8,946	14,371	2,225	83,990
Exchange differences	(1,343)	(177)	(281)	(51)	(1,852)
Acquired	–	–	–	1,710	1,710
Disposal	–	–	–	(286)	(286)
At 31 December 2019	**57,105**	**8,769**	**14,090**	**3,598**	**83,562**
Exchange differences	12	(17)	(173)	185	7
Acquired	–	–	–	502	502
Disposals	(2,809)	(1,404)	(2,766)	(776)	(7,755)
Reclassification*	–	–	–	850	850
At 31 December 2020	**54,308**	**7,348**	**11,151**	**4,359**	**77,166**
Accumulated amortisation and impairment					
At 1 January 2019	**18,146**	**7,293**	**11,003**	**1,076**	**37,518**
Exchange differences	(481)	(126)	(242)	(33)	(882)
Amortisation charge	–	924	1,547	394	2,865
Impairment	5,874	–	–	–	5,874
Disposal	–	–	–	(20)	(20)
At 31 December 2019	**23,539**	**8,091**	**12,308**	**1,417**	**45,355**
Exchange differences	125	5	(162)	175	143
Amortisation charge	–	335	1,351	589	2,275
Impairment	–	–	–	192	192
Disposal	(2,809)	(1,404)	(2,766)	(343)	(7,322)
At 31 December 2020	**20,855**	**7,027**	**10,731**	**2,030**	**40,643**
Net book value					
At 31 December 2018	40,302	1,653	3,368	1,149	46,472
At 31 December 2019	33,566	678	1,782	2,181	38,207
At 31 December 2020	**33,453**	**321**	**420**	**2,329**	**36,523**

* Reclassifications are between property, plant and equipment, and intangible assets. Relates to software previously classified within computer equipment.

** Software and film assets include an amount of NBV £910k (2019: £955k) relating to a film asset, Leandre, in the Group's Australian entity, This Film Studio. The film is expected to be released in cinemas in Australia in the second half of 2021 and in the rest of the world following that. We consider the NBV to be recoverable.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. INTANGIBLE ASSETS CONTINUED

Cash generating units (CGUs)	Goodwill 31 December 2020 £000	Goodwill 31 December 2019 £000	Segment
M&C Saatchi Sport & Entertainment Ltd	1,184	1,184	UK
M&C Saatchi Mobile Ltd	4,283	4,283	UK
M&C Saatchi Merlin Ltd	765	765	UK
Talk PR Ltd	625	625	UK
M&C Saatchi Social Ltd	2,612	2,612	UK
Clear Ideas Ltd	5,031	5,008	Europe
M&C Saatchi Advertising GmbH	1,392	1,317	Europe
M&C Saatchi Middle East Fz LLC (Dubai)	677	699	Middle East and Africa
Levergy Marketing Agency (PTY) Ltd (South Africa)*	882	956	Middle East and Africa
M&C Saatchi Agency Pty Ltd (Australia)	2,860	2,740	Asia and Australia
Bohemia Group Pty Ltd (Australia)	1,907	1,792	Asia and Australia
Shepardson Stern + Kaminsky LLP	5,321	5,491	Americas
LIDA NY LLP (MCD)	5,145	5,309	Americas
Scarecrow Communications Ltd	663	700	Asia and Australia
M&C Saatchi (M) SDN BHD	106	85	Asia and Australia
Total	**33,453**	**33,566**	

All movements in the table above are due to foreign exchange differences.

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

The 2020 review of Goodwill was undertaken as at 31/12/2020 with no impairment identified for FY20.

The Group has recognised a total impairment charge of £4,112k in the year (2019: £5,874k). £895k relates to associate investments (2019: £nil), £192k relates to Intangibles (2019: £5,874k). £3,025k is attributable to Tangible assets (2019: £5,874k), of which £2,651k relates to the Right of Use Assets (2019: £nil) and £374k relates to plant and equipment (2019: £nil).

All CGU impairment reviews have been performed such that the recoverable amounts have been calculated based on value in use calculations. The value in use calculations have been based on the forecast profitability of each CGU based on the 2021 Board approved budget and 5-year plans (presented at the Capital Markets day in January 2021), with a residual growth rate of 1.5% p.a. applied thereafter. This forecast data is based on past performance and current business and economic prospects. This data is then applied within a discounted future cash flow forecast (DCF) for each CGU, which forms the basis for determining the recoverable amount of each CGU.

If the DCF of a CGU is not in excess of its carrying amount (that includes the value of its fixed assets (note 16) and ROU Assets (note 17)), then an impairment loss would be recognised.

In conducting the review, a residual growth rate of 1.5% has been used for all countries. Market betas of 1.059 for UK, 1.000 for Europe, 1.059 for Americas and 1.2 for rest of the world have been utilised.

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

Key assumptions	Residual growth rates 2020 %	Residual growth rates 2019 %	Pre-tax discount rates 2020 %	Pre-tax discount rates 2019 %
UK	1.5	1.5	12-13	12–15
Asia and Australia	1.5	1.5	13-14	14–17
Middle East	1.5	1.5	12	12
India	1.5	1.5	18	17
South Africa	1.5	1.5	24	23–24
Europe	1.5	1.5	11	11–13
Americas	1.5	1.5	12-13	12–13

The key inputs to the Goodwill impairment reviews are the annual profit forecasts and the discount rates applied to measure the present value of the future forecast cash flows. The sensitivity of the CGUs held as at 31 December 2020, showing the impairment required at the reduced profit level/increased discount rate are presented below:

	Annual profit forecast reduced by			
Discount rates increased by	0%	10%	20%	30%
0%	–	–	78	173
1%	–	43	157	417
3%	137	348	583	895
5%	485	705	973	1,241

CGUs showing in the above sensitivity, due to theoretical significant long term client losses, are Levergy Marketing Agency (PTY) Ltd, M&C Saatchi Advertising GmbH and Scarecrow Communications Ltd. These entities remain at risk of impairment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Policy

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

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

Carrying value

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

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

December 31	2020 £000	2019 £000
Investments intended to be held in the long term	2,829	3,780
Investments categorised as held-for-sale	–	–
Total equity accounted investments	**2,829**	**3,780**

Region & Name	Nature of business	Country of incorporation or registration	Investment in associate 2020 £000	Investment in associate 2019 £000	%Proportion of voting rights 2020 %	%Proportion of voting rights 2019 %
Europe						
M&C Saatchi Istanbul	Advertising	Turkey	–	14	25%	25%
Asia and Australia						
M&C Saatchi (Hong Kong) Ltd*	Advertising	China	2,365	2,258	40%	40%
February Communications Private Ltd	Advertising	India	18	24	20%	20%
M&C Saatchi Ltd	Advertising	Japan	2	24	10%	10%
Love Frankie Ltd	Advertising	Thailand	185	157	25%	25%
Americas						
Technology, Humans and Taste LLC	Advertising	USA	3	1,089	30%	30%
Santa Clara Participacoes Ltda*	Advertising	Brazil	256	214	25%	25%
Total			**2,829**	**3,780**		

* In February 2021 the Group took a controlling stake in both these entities. We had committed to these acquisitions at the year end but their execution was delayed.

The Group also holds a 10% equity stake in a Lebanese associate, M&C Saatchi SAL along with 50% equity in a Pakistan joint venture. As at the end of the year the carrying value of both entities was £NIL (2019: £NIL). The above associates have the following subsidiaries: CSZ Comunicação Ltda, M&C Mena Ltd, Al Dallah For Creativity & Design LLC & M&C Saatchi Advertising (Shanghai) Ltd. In addition, on 31 December 2020, following the disposal of the Group's French subsidiary, our effective holding in M&C Saatchi Little Stories SAS reduced to 6%. At the end of 2020 the minority shareholders in M&C Saatchi Little Stories SAS exercised their right to put their shares on the Group, this was completed in February 2021 increasing our interest to 25%.

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

Split of income statement	2020 £000	2019 £000
Profit net of cost of disposal	–	12,980
Share of (loss) / profit after taxation	(113)	230
At 31 December	**(113)**	**13,210**
Movements in the balance sheet		
At 1 January	3,780	22,589
Exchange movements	56	(617)
Acquisition of associates	1	–
Impairment of associate*	(895)	(5,210)
Dividends	–	(2,928)
Disposal	–	(10,284)
Share of profit after taxation	(113)	230
At 31 December	**2,829**	**3,780**

* £880k of the carrying value of Technology, Humans and Taste LLC impaired in 2020.

The results and net assets of the Associate entities are set out below along with our share of these results and net assets:

	Asia and Australia* £000	Americas £000	Total 2020 £000	Total 2019 £000
Income statement				
Revenue	8,953	3,822	12,775	16,918
Operating (loss)/profit	(367)	12	(355)	2,010
(Loss)/profit before taxation	(343)	(151)	(494)	1,744
(Loss)/profit after taxation	(325)	(251)	(576)	1,626
Group's share	(32)	(81)	(113)	230
Dividends received	–	–	–	(2,928)

* Consists principally of a single associate, M&C Saatchi (Hong Kong) Ltd (trading in China as AEIOU).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

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

	Asia and Australia £000	Americas £000	2020 £000	2019 £000
Balance sheet				
Total assets	6,768	3,451	10,219	11,276
Total liabilities	(3,950)	(4,909)	(8,859)	(8,150)
Net assets/(liabilities)	2,818	(1,458)	1,360	3,126
Our share	1,172	(365)	807	1,254
Losses not recognised	178	365	543	235
Goodwill	1,219	260	1,479	2,291
Total investments	**2,569**	**260**	**2,829**	**3,780**

Additional disclosure relating to the single material associate held by the Group M&C Saatchi (Hong Kong) Ltd (trading in China as AEIOU) is as follows:

Summarised balance sheet	2020 £000	2019 £000
Current assets	4,239	5,175
Current liabilities	(1,669)	(2,523)
Current net assets	**2,570**	**2,652**
Non-current assets	737	388
Non-current liabilities	–	(62)
Non-current net assets	**737**	**326**
Total net assets	**3,307**	**2,978**
Our share	**1,323**	**1,191**

16. PLANT AND EQUIPMENT

Policy

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

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

Depreciation is calculated at the following annual rates:

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

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

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

	Leasehold improvements £000	Furniture, fittings and other equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost					
At 1 January 2019	8,822	5,527	5,621	108	20,078
Exchange differences	(215)	(170)	(149)	(4)	(538)
Additions	2,166	409	1,489	27	4,091
Disposals	(474)	(379)	(852)	(65)	(1,770)
At 31 December 2019	10,299	5,387	6,109	66	21,861
Exchange differences	(1,080)	551	136	11	(382)
Additions	1,442	826	916	–	3,184
Reclassifications*	–	–	(88)	–	(88)
Disposals	(2,171)	(2,743)	(2,228)	(60)	(7,202)
At 31 December 2020	**8,490**	**4,021**	**4,845**	**17**	**17,373**
Depreciation					
At 31 December 2018	4,282	3,501	3,217	14	11,014
Exchange differences	(119)	(133)	(127)	(1)	(380)
Depreciation charge	1,265	850	1,245	30	3,390
Disposals	(598)	(241)	(739)	(40)	(1,618)
At 31 December 2019	4,830	3,977	3,596	3	12,406
Exchange differences	(856)	381	201	6	(268)
Depreciation charge	1,046	551	941	17	2,555
Impairment*	374	–	–	–	374
Reclassifications**	–	–	762	–	762
Disposals	(1,310)	(2,264)	(2,015)	(24)	(5,613)
At 31 December 2020	**4,084**	**2,645**	**3,485**	**2**	**10,216**
Net book value					
At 31 December 2018	4,540	2,026	2,404	94	9,064
At 31 December 2019	5,469	1,410	2,513	63	9,455
At 31 December 2020	**4,406**	**1,376**	**1,360**	**15**	**7,157**

* Leasehold improvement impairment relates to the impairment of the right of use assets, refer to Note 17 for further detail.

** Reclassifications are between property, plant and equipment, and intangible assets of £850k (£1,210k cost and £360k depreciation), which relates to software previously classified within computer equipment. There was an additional reclassification between cost and depreciation within computer equipment of £1,122k.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. PLANT AND EQUIPMENT CONTINUED

Depreciation is broken down as follows:

	Note	2020 £000	2019 £000
From plant and equipment		2,555	3,390
From right-of-use assets	17	9,104	9,059
		11,659	**12,449**

17. LEASES

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

Policy

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

Right-of-use assets and lease liabilities

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

Under IFRS 16 right-of-use assets are tested for impairment in accordance with IAS 36 'Impairment of Assets' when there is an indication of impairment.

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

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

Lease term

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

Lease payments

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

Lease modifications

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

Covid lease modifications

In May 2020, the IASB published an amendment to IFRS 16 that provided a practical expedient, whereby a lessee may elect not to assess whether a rent concession that meets the conditions below is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022); and

c) there is no substantive change to other terms and conditions of the lease.

It was elected to apply this practical expedient to all rent concessions that meet the conditions above. The amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions is a profit of £659k.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. LEASES CONTINUED

Subleases

At times entities of the Group will sublet certain of their properties when underlying business requirements change. Under IFRS 16, the Group assesses the classification of these subleases with reference to the right-of-use asset, not the underlying asset.

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

Short-term leases and leases of low-value assets

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

Estimates relating to leases

The Group has made estimates in adopting IFRS 16, additions subsequent to adoption, along with the ongoing recognition of amendments and modifications, which are considered to be: determining the interest rate used for discounting of future cash flows, and the lease term. Details relating to these estimates can be found on page 131.

Impairment of non-current assets – right-of-use property assets

During the pandemic, the Group reviewed its global property portfolio in the wake of the move to a more flexible working environment. We determined that approximately 17,000 square feet or 30% of the Group's real estate in London is now surplus to requirements and we are actively marketing the space. The key assumptions used for the calculation in relation to the current rental market are the length of the period where the properties are expected to be empty and the rent achievable if a sublease is agreed. Accordingly, we have taken an impairment of £2.7m as at 31 December 2020 against the carrying value of our right-of-use property assets.

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

Right-of-use assets	Land & Buildings £000	Computer equipment £000	Motor vehicles £000	Total £000
At 1 January 2019	**33,121**	**831**	**–**	**33,952**
Additions	22,234	118	122	22,474
Sublease	(165)	–	–	(165)
Depreciation	(8,721)	(315)	(23)	(9,059)
Foreign exchange	(630)	(27)	(3)	(660)
At 1 January 2020	**45,839**	**607**	**96**	**46,542**
Additions	1,097	426	51	1,574
Modifications	640	–	–	640
Sublease	(259)	–	–	(259)
Disposals	(30)	–	–	(30)
Depreciation	(8,705)	(328)	(71)	(9,104)
Impairment	(2,651)	–	–	(2,651)
Subsidiary disposals	(2,661)	–	–	(2,661)
Foreign exchange	(62)	11	6	(45)
At 31 December 2020	**33,208**	**716**	**82**	**34,006**

Lease liabilities	Land & Buildings £000	Computer equipment £000	Motor vehicles £000	Total £000
At 1 January 2019	**42,752**	**987**	**–**	**43,739**
Additions	22,234	118	122	22,474
Accretion of interest	1,798	37	2	1,837
Payments	(11,996)	(455)	(24)	(12,475)
Foreign exchange	(774)	(28)	(3)	(805)
At 1 January 2020	**54,014**	**659**	**97**	**54,770**
Additions	1,097	426	51	1,574
Modifications	640	–	–	640
Covid modifications	(600)	(59)	–	(659)
Disposals	(30)	–	–	(30)
Accretion of interest	2,428	38	5	2,471
Payments	(9,328)	(289)	(78)	(9,695)
Dilapidations	211	–	–	211
Subsidiary Disposals	(2,810)	–	–	(2,810)
Foreign exchange	(49)	(8)	6	(51)
At 31 December 2020	**45,573**	**767**	**81**	**46,421**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. LEASES CONTINUED

Of lease payments made in the year of £9,695k (2019: £12,475k), £7,224k (2019: £10,638k) related to payment of principal on the corresponding lease liabilities and the balance to payment of interest £2,471k (2019: £1,837k) due on the lease liabilities.

Lease liabilities At 31 December 2020	Land & Buildings £000	Computer equipment £000	Motor vehicles £000	Total £000
Amounts due within one year	5,859	335	56	6,250
Amounts due after one year	39,714	432	25	40,171
At 31 December 2020	**45,573**	**767**	**81**	**46,421**

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

£000	2020	2019
Depreciation of right of use assets	(9,104)	(9,059)
Short-term lease expense	(337)	(134)
Low-value lease expense	(220)	(537)
Short-term sublease income	94	70
Charge to operating profit	**(9,567)**	**(9,660)**
Sublease finance income	71	91
Lease liability interest expense	(2,471)	(1,837)
Lease charge to profit before tax	**(11,967)**	**(11,406)**

The Group does not face a significant liquidity risk with regard to its lease liabilities and manages them in line with its approach to other month-to-month liquidity matters, as described in note 30. The cash payment maturity of the lease liabilities held as at 31 December 2020 net of sublease receipts is as follows:

£000	2020	2019
Period ending 31 December:		
2021	9,909	10,770
2022	8,974	7,971
2023	8,223	6,090
2024	5,448	6,181
2025	5,062	5,054
Later years	30,745	33,997
Gross future liability before discounting	**68,361**	**70,063**

Of future lease payments post 2025 £28m relates to a single office lease which expires in 2034. This lease agreement was entered into in December 2019.

18. OTHER NON-CURRENT ASSETS

Policy

Loans to employees

Represent financial assets at amortised cost and subsequently measured using the effective interest rate method.

At 31 December	2020 £000	2019 £000
Other debtors including rent deposits	1,244	1,422
Loans to employees*	2,250	2,501
Total other non-current assets	**3,494**	**3,923**

* Relates to Australian and South African loans held at amortised cost. The Australian loans relate to AUD3.4m (2019: AUD3.3m) loans (£1,967k, 2019: £1,788k) that the Group lent local management of M&C Saatchi Agency Pty Ltd in 2015 to enable them to acquire 20% of that business. The full recourse loan is repayable in full if the purchasers no longer have a beneficial interest in the shares of the Australian Group or are no longer employed (though the equity can be held when not employed). The loan is unsecured and charged interest at 0.1% above the five-year Australian interbank rate at the date the loan was advanced. The carrying values of the loans are not materially different to the fair value. The South African loans relate to £283k (2019: £713k) of loans that the Group lent to a black equity trust to enable it to acquire equity in one of the South African Group businesses. The loan is unsecured and charged interest at LIBOR.The carrying value of the loan is not materially different to the fair value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (FVTPL)

Policy

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

The unlisted equity investments held by the Group principally relate to 26 (2019: 22) early-stage companies. In addition, investments are held by two of the overseas businesses. These latter investments relate to client equity stakes provided as consideration for services rendered to those clients.

With regards to the early-stage non-client investments, the most we have invested in any one company over time is £0.7m and the least £0.1m. The Group invests in these companies for long term return and to gain knowledge and insight into developing sectors and trends.

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

	2020 £000	2019 £000
1 January total	**14,851**	**14,041**
Additions	713	1,160
Disposals	(736)	–
Revaluations	(3,315)	(346)
Foreign exchange	(103)	(4)
At 31 December	**11,410**	**14,851**

Additions of £713k were paid for in cash. Of the 2019 additions, £964k were paid for in cash, with the residual as consideration for services provided to early-stage companies. Refer to note 30 and the significant estimate in relation to financial instruments, described on page 130. From the total revaluations, £2,474k relates to the unlisted investments held by SaatchInvest Ltd. The cash consideration received for the disposals was £1,233k which resulted a gain on disposal of £497k. The Group disposed of the majority of its investment in M&C Saatchi Madrid SL, but has retained a 10% shareholding. This is an unlisted investment valued at nil. The Group also holds an unlisted investment in Send Me A Sample Ltd., which is also valued at nil.

20. TRADE AND OTHER RECEIVABLES

Policy

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. These financial assets give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding. They are generally due for settlement within 30 – 90 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional. The Group holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Impairment – Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance ('ECL') for all trade receivables and contract assets. To calculate the lifetime ECL the Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environments in which the Group operates.

	2020 £000	2019 re-stated* £000
Trade receivables*	58,534	72,716
Loss allowance	(677)	(1,621)
Net trade receivables	57,857	71,095
Prepayments	3,504	4,396
Amounts due from associates	837	740
VAT and sales tax recoverable	304	1,900
Contract assets*	1,370	1,624
Other receivables**	25,390	28,094
Total trade and other receivables	**89,262**	**107,849**

* Within the 2019 figures we identified amounts that needed to be presented net between trade and other receivables and trade and other payables and within trade and other receivables.

- Advance billing of £5.3million was grossed up in the balance sheet in 2019 between trade receivables and contract liabilities.
- In 2019 our contract assets included accrued income of £8.5million relating to goods and services already transferred to the customers for which right to payment was conditional on the passage of time only. These assets have been reclassified to other receivables.

These items were correctly accounted for in 2020 and reclassified in 2019 for comparative purposes. We have not included a third balance sheet where we have made prior year balance sheet reclassifications as we believe that this would not be helpful to users of the accounts and could be misleading as a result of the issues identified in the 2019 audit.

** Included within Other receivables are transactions relating to goods and services already transferred to the customers for which right to payment was conditional on the passage of time only.

Set out below is the movement in the loss allowance (which includes provision for expected credit losses) of trade receivables and contract assets.

	2020 £000	2019 £000
As at 1 January	(1,621)	(873)
Release for expected credit losses during the year	32	98
Movement in forward looking provision for specific bad debts:		
– Charge during the year	(555)	(1,444)
– Released during the year	756	632
– Utilisation of provision	711	30
Foreign exchange movement	–	(64)
Year end provision	**(677)**	**(1,621)**

The information about credit exposures is disclosed in note 30.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. TRADE AND OTHER PAYABLES

Policy

Trade and other liabilities are non-interest bearing and are stated at their amortised cost subsequent to initial recognition at their fair value, which is considered to be equivalent to their carrying amount due to their short-term nature.

	2020 £000	2019 re-stated* £000
Trade creditors	39,490	51,198
Contract liabilities*	22,022	20,491
Sales taxation and social security payables	6,803	6,648
Accruals*	42,267	45,734
Other payables	14,158	10,650
	124,740	**134,721**

* Within the 2019 figures we identified amounts that needed to be presented net between trade and other receivables and trade and other payables and within trade and other payables.
- Advance billing of £5.3 million was grossed up in the balance sheet in 2019 between trade receivables and contract liabilities.
- Contract liabilities of £4.8 million and other payables of £1.5 million were incorrectly included in accruals in 2019.

These items were correctly accounted for in 2020 and reclassified in 2019 for comparative purposes. We have not included a third balance sheet where we have made prior year balance sheet reclassifications as we believe that this would not be helpful to users of the accounts and could be misleading as a result of the issues identified in the 2019 audit.

Settlement of trade and other payables is in accordance with the terms of trade established with the Group's local suppliers.

Contract liability balance at the beginning of the period was recognised as revenue in the reporting period. Contract liabilities have increased significantly. Due to the pandemic, many of the clients did not spend all their 2020 budgets and some agencies saw a surge of prebill requests in the last quarter of 2020, particularly in November and December.

Interest payable related to borrowings of £nil (2019: £106k) is included within accruals.

22. PROVISIONS

Policy

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date.

Provisions charged to the income statement in 2020 comprise the continued costs of the Group restructuring programme initiated in 2019, the principal cost being staff redundancy. Additional provisions in 2020 relate to overseas sales and payroll tax provisions in India and Kenya, along with an income protection provision in the UK.

The year end provision of £0.7m comprises of costs relating to tax liabilities and income protection schemes of £0.4m, along with £0.3m relating to costs for the accounting misstatements (which required the Group's result for the year ended 31 December 2018 to be restated).

	2020 £000	2019 £000
At 1 January	(2,989)	–
Charged to the income statement:		
– Restructuring costs	(2,688)	(4,211)
– Costs associated with accounting misstatements	(260)	(1,955)
- Overseas sales taxation and social security liabilities	(220)	–
- Income protection provision	(145)	–
Utilised in the year		
– Restructuring costs	5,376	1,522
– Costs associated with accounting misstatements	260	1,655
At 31 December	**(666)**	**(2,989)**

As at the end of 2020 all amounts recognised as provisions were expected to be utilised within 12 months and are held as current liabilities. The Directors do not anticipate that any of the above will have a material adverse effect on the Group's financial position or on the results of its operations.

23. BORROWINGS

Policy

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

Interest payable is included within accruals as a current liability.

From 1 January 2020 leases are shown separately on the balance sheet and in notes and hence not within this note. Details of our lease liability and its movements can be found in note 17.

In response to the Covid-19 pandemic, the US Government established the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), administered by the U.S. Small Business Administration ("SBA"). Companies who met the eligibility requirements set forth by the PPP could qualify for PPP loans provided by local lenders, which supports payroll, rent and utility expenses ("qualified expenses"). If the loan proceeds are fully utilised to pay qualified expenses over the covered period, as further defined by the PPP, the full principal amount of the PPP loan may qualify for loan forgiveness, subject to potential reduction based on the level of full-time employees maintained by the organisation during the covered period as compared to a baseline period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. BORROWINGS CONTINUED

Policy continued

During 2020, the Company received proceeds of £2.3m under the PPP loan scheme. These are reported within local bank loans.

Amounts due within one year

At 31 December	2020 £000	2019 £000
Overdrafts*	(13,920)	(16,232)
Local bank loans	(158)	(340)
Secured bank loans**	(27,005)	(35,640)
	(41,083)	**(52,212)**

* These overdrafts are legally offsetable with a net balance of £NIL (2019: £Nil). However, they have not been netted off in accordance with IAS32.42.
** £21.4million relates to the parent company.

Amounts due after one year

At 31 December	2020 £000	2019 £000
Local bank loans*	(2,199)	(162)
	(2,199)	**(162)**

* The local bank loans for FY20 consist of the PPP loans as described above. Movement from £2.3m is due to FX.

Secured bank loans

At the year end, the Group had up to £33m (2019: £36m) of funds available under its Revolving Credit Facility (RCF), plus a £5m (2019: £5.0m) overdraft facility. The RCF had a floating rate of interest set at 1.75% above LIBOR and the overdraft has floating rates of interest set at 1.75% above the Bank of England base rate. The banking facilities were set to mature on 30 April 2020; they were subsequently extended as at 30 June 2020, to 30 June 2021, with the interest margins increasing to 3.00% above LIBOR for the banking facility and the overdraft interest margin set at 3.25% above the Bank of England base rate. In return for the facility the Group gave the bank guarantees over key UK, US, Dutch and Australian companies.

On 31 May 2021, the Company entered into a revolving multicurrency facility agreement with National Westminster Bank Plc and Barclays Bank PLC for up to £47m (the "Facility"). The Facility includes a £2.5m overdraft and the ability to draw up to £3m as a bonding facility, as required. The Facility is provided on a three-year term (with two optional one-year extensions). The Facility replaced the Company's existing £33m RCF and £5m overdraft which were due to terminate on 30 June 2021.

As part of the Facility, the Company must comply with two key financial covenants, interest cover and leverage, which are measured quarterly. The interest covenant is currently set at 3.50:1 and decreases over the period of the loan to 2.50:1 for the quarter ended 30 June 2022, and to 2.00:1 from 31 March 2023 until the end of the term of the Facility. The leverage covenant is currently set at 4.00:1 and increases to 5.00:1 from 30 June 2022.

At 31 December	2020 £000	2019 £000
Gross secured bank loans	(27,271)	(35,677)
Capitalised finance costs	266	37
Net secured bank loans	(27,005)	(35,640)
Future interest payable on secured bank loans at balance sheet date	(425)	(267)
Total secured bank loans and future interest	**(27,430)**	**(35,907)**

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

At 31 December	2020 £000	2019 £000
In one year or less, or on demand	(27,430)	(35,907)
In more than one year but not more than five years	–	–
	(27,430)	**(35,907)**

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

	Gross secured bank loans £000	Local bank loans £000	Invoice discounting £000	Total bank loans* £000	Lease liabilities** £000	Total £000
At 1 January 2019	**(38,502)**	**(316)**	**(2,001)**	**(40,819)**	**(43,739)**	**(84,558)**
Cash movements	2,501	(313)	2,001	4,189	10,638	14,827
Non-cash movements						
– Foreign exchange	324	127	–	451	805	1,256
– Lease	–	–	–	–	(22,474)	(22,474)
At 31 December 2019	**(35,677)**	**(502)**	**–**	**(36,179)**	**(54,770)**	**(90,949)**
Cash movements	8,900	(3,472)	–	5,428	9,695	15,123
Disposals	–	1,462	–	1,462	–	1,462
Non-cash movements						
– Leases	–	–	–	–	(1,397)	(1,397)
– Foreign exchange	(494)	155	–	(339)	51	(288)
At 31 December 2020	**(27,271)**	**(2,357)**	**–**	**(29,628)**	**(46,421)**	**(76,049)**

* The borrowing used to calculate net cash.
** Refer to Note 17 for movements on the lease liability

24. OTHER NON-CURRENT LIABILITIES

31 December	2020 £000	2019 £000
Employment benefit provisions*	1,416	821
Long term bonus provision	1,765	–
Other**	1,592	309
	4,773	**1,130**

* This relates to long term service leave in some locations, deferred contributions to pension schemes, employers' tax on Put option and long term bonus plans.
** The main items include a Termination Indemnity Plan in Italy of £576k (2019: £309k), this liability is for the 13th month salary accrual for all Italian employees to be paid to them when they leave the company. The other main items include amounts due to investors relating to financing a specific film project within This Film in Australia of £454k (2019: £0k).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25. POTENTIALLY ISSUABLE SHARES

This disclosure note summarises information relating to all share schemes disclosed in notes 26 and 27 and is not a Statutory requirement.

In the table below we present the total number of shares expected to be issued in the future for put option schemes based on the 2020 year end share price of 83.6p and the estimated future business performance for each business unit through to the point at which the put option schemes first become exercisable. These forecasts are based on the Group's five-year plans developed as part of the strategic review exercise and presented at the Capital Markets day in January 2021.

Total future expected share issues as at 31 December 2020

At 83.6p	Issued in 2021 '000	Potentially issuable 2021 '000	2022 '000	2023 '000	2024 '000	2025 '000	Total '000
IFRS2 Schemes	363	8,371	6,418	4,353	2,826	674	23,005
IFRS9 Schemes	476	728	1,984	139	–	–	3,327
Committed associate acquisitions	5,443	–	–	–	–	–	5,443
Other share issue	310	–	–	–	–	–	310
Deferred and contingent consideration	660	708	–	–	–	–	1,368
	7,252	9,807	8,402	4,492	2,826	674	33,453
Share price change to issue date	(425)						
Issued shares	6,827						

The same data from the table above is presented in the table below, but in this analysis the expected total number of shares to be issued in the future for put option schemes is based on a range of different potential future share prices.

Effect of a change in share price

Shares total by year	Issued in 2021 '000	Potentially issuable 2021 '000	2022 '000	2023 '000	2024 '000	2025 '000	Total '000	% Potentially issuable share dilution*
At 83.6p	7,252	9,807	8,402	4,492	2,826	674	33,453	21%
At 100p	6,827	9,921	7,560	4,262	2,807	731	32,108	21%
At 135p	6,827	9,396	6,557	3,935	2,909	853	30,477	19%
At 150p	6,827	9,187	6,301	3,850	2,988	906	30,059	19%
At 200p	6,827	8,717	5,724	3,659	3,332	1,088	29,347	18%
At 250p	6,827	8,434	5,378	3,545	3,741	1,272	29,197	18%
At 300p	6,827	8,246	5,148	3,469	4,183	1,457	29,330	18%

* Based on the current issued share capital of 122,743,435 shares and taking into consideration all potentially issuable shares.

Put option holders are not required to exercise their options at the first opportunity. Many do not and prefer to remain shareholders in the subsidiary companies they manage. As a result, some put option holders may not exercise their options on the dates we have estimated in the tables above.

Share issued to signing date in 2021

Since 1 January 2021, a total of 6,827k shares have been issued to fulfil Deferred Consideration, Associate, IFRS 2 and IFRS 9 put option schemes (put options). These shares were issued at an average share price of 90.8p. Had these put options been issued at the year end share price of 83.6p, 7,252k shares would have been issued.

26. MINORITY SHAREHOLDER PUT OPTION LIABILITIES

Policy

See below but also Basis of Preparation note on page 128.

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

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

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

The critical judgement as to when a share award scheme is accounted for as a put option liability is provided in detail on page 128. Such schemes should be considered as rewards for future business performance which are not conditional on the holder being an employee of the business. All schemes are payable in equity, the number of future shares to issue is variable and will depend on the share price and future performance of the business. These are accounted for as a liability under IFRS 9 and held on the balance sheet at amortised cost.

As at 31 December	2020 £000	2019 £000
Amounts falling due within one year	(978)	(3,183)
Amounts falling due after one year, but less than three years	(1,804)	(3,918)
	(2,782)	**(7,101)**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. MINORITY SHAREHOLDER PUT OPTION LIABILITIES CONTINUED

	2020 £000	2019 £000
At 1 January	(7,101)	(13,764)
Exchange difference	(1)	(188)
Exercises	4,440	9,672
Income statement charge due to:		
– Change in profit estimates	1,671	(2,512)
– Change in share price	(1,732)	(237)
– Amortisation of discount	(59)	(72)
Total income statement charge	(120)	(2,821)
At 31 December	**(2,782)**	**(7,101)**

The estimated number of M&C Saatchi plc shares that will be issued to fulfil these options at 83.6p is 3,327,751 shares (2019: 124.0p is 5,726,613 shares).

Put options exercised in year	2020 £000	2019 £000
Paid in equity	4,236	6,665
Paid in cash	204	3,265
Exchange difference	–	(258)
Total	**4,440**	**9,672**

At each period end, the amortised cost of the put option liability is calculated in accordance with the put option agreement to determine a best estimate of the future value of the expected award. Resultant movements in the amortised cost of these instruments is charged to the income statement. Where the agreement gives a right to convert to a variable number of shares (rather than a value), the number of shares is converted to a value by using the period end share price (2020: 83.6p; 2019: 124.0p).

The put option liability will vary with both our share price and the subsidiary enterprises' performance. Current liabilities are determined by our year end share price and the 2020 results of the companies who can exercise in 2021. Non-current liabilities are determined by our year end share price and the projected results of the companies who can exercise after 2021. The projected results use management's best estimate of the growth rates and margin of the companies who can exercise after 2021.

Put options are exercisable from year ended 31 December:

Subsidiary	Year	% of subsidiaries shares exercisable
M&C Saatchi Little Stories SAS*	2020	19.9
M&C Saatchi (Switzerland) SA	2020	20.0
M&C Saatchi Merlin Ltd	2020	15.0
Resolution Design Pty Ltd	2020	15.0
Bohemia Group Pty Ltd	2021	25.9
This Film Studio Pty Ltd	2022	30.0

* Option exercised in 2020, M&C Saatchi plc shares issued 10 February 2021.

27. SHARE-BASED PAYMENTS

Policy

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

The critical judgement as to when a share award scheme is accounted for as an IFRS 2 Share-based payment is provided in detail on page 128. Such schemes should be considered as rewards for future business performance which are conditional on the holder being an employee of the business.

Equity-settled share-based payment schemes

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. SHARE-BASED PAYMENTS CONTINUED

Cash-settled share-based payment schemes

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

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

	2020	2019
Share price at grant	£1.12	£0.90 – £1.92
Expected volatility	47%	53% – 87%
Risk free rate	0.53%	0.52% – 0.70%
Dividend yield	5%	0% – 3.33%
Fair value of award per share	£1.45	£0.90 – £1.92

The total fair value of each award, expense recognised in the year plus grant and vesting dates can be seen on pages 205 to 207. The weighted average share price of options exercised during the period was £0.33 (2019: £3.05).

Share option activity exclude LTIP awards made to the Directors of the Group as they have been accounted for as a bonus. These are discussed in the Directors' Remuneration Report (pages 86 to 107).

During the year it was agreed to pay two put option schemes which had previously been reported as equity settled schemes in cash. The reclassification had no P&L impact, but reduced equity by £1.1m and increased trade and other payables by £1.1m at the start of the year. Due to this change we have removed from these schemes items that we exclude from our Headline Profits. If such items are removed in all years the equity expense recognised in the year is as follows:

	2020 £000	2019 £000
Equity settled	3,275	10,266
Cash settled over equity in SA*	25	342
Total not affecting headline results (Note 1)	3,300	10,608
Cash based and settled awards – charge in year**	922	–
Total	**4,222**	**10,608**

* Some of our South African subsidiaries have unwritten cash-based awards that acquire the employee's local equity are paid out on an employee's departure.

** Cash based and settled awards relate to the schemes that in 2019 we had agreed to equity settle but which are now determined to be cash settled schemes. Under the Companies Act rules these specific schemes cannot be settled using equity without the shareholder paying the nominal value and so management agreed to settle these in cash and they have now been reclassified as cash settled. As these are no longer equity settled, are based on achieving profit targets and are to be settled in cash, they are more akin to a conventional bonus and as such are accounted for as a Headline charge for 2020.

Cash settled share-based payments

The movement in the liability required to be recognised at the end of each reporting period is as detailed below.

	2020 £000	2019 £000
1 January total	**(571)**	**(1,086)**
Equity settled transferred to cash based and settled awards	(1,121)	–
Revaluations	(947)	(342)
Settled	–	864
Foreign exchange	51	(7)
At 31 December	**(2,588)**	**(571)**

The balance as at 31 December 2020 is included within other payables in the balance sheet.
All the amounts related to South Africa is fully vested £545k (2019: £571k) and of the remaining balance £497k (2019: Nil) is fully vested.

Fully vested with no accounting charge in the period

M&C Saatchi AB

M&C Saatchi Accelerator Ltd

M&C Saatchi Marketing Arts Ltd

M&C Saatchi (M) SDN BHD

M&C Saatchi (S) Pty Ltd

M&C Saatchi Sport & Entertainment NY LLP

M&C Saatchi Sport & Entertainment Pty LTD

M&C Saatchi Talk Ltd

M&C Saatchi European Holdings Ltd

M&C Saatchi PR UK LLP

M&C Saatchi Agency Pty Ltd

FCINQ SAS

Cometis SARL

The Source (W1) LLP

Influence Communications Ltd

LIDA NY LLP (MCD)

RE Team Pty Ltd

Fully vested – annulled schemes

Due to the sale to management of our equity in M&C Saatchi Brasil Comunicação Ltda, Send Me A Sample Ltd and M&C Saatchi Tel Aviv Ltd, the put option was annulled.

With management's departure, equity was bought back at nominal value from M&C Saatchi LA Inc.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. SHARE-BASED PAYMENTS CONTINUED

Share option schemes (conditional shares) outstanding at the end of the year are shown as follows:

	Grant date	Vesting date	MI shareholding 2019	Total charge over vesting period £000	Charge for 2020 £000	Charge for 2019 £000
Clear Ideas (Singapore) Pte Ltd	01/01/2018	15/04/2023	10.00%	32	2	7
Clear Ideas Ltd – B1 shares	03/03/2017	15/04/2022	5.00%	228	16	(3)
Clear Ideas Ltd – B2 shares	03/03/2017	15/04/2022	10.00%	457	(23)	(8)
Clear Deutschland GmbH	31/08/2018	15/05/2024	20.00%	135	121	–
Clear Deutschland GmbH	31/08/2018	15/05/2026	20.00%	121	96	–
Clear LA LLC	28/03/2017	15/04/2022	5.00%	13	(13)	7
Greenhouse Australia Pty Ltd	01/01/2018	15/01/2022	11.00%	404	140	160
Greenhouse Australia Pty Ltd	01/01/2018	15/01/2023	1.80%	81	27	21
Greenhouse Australia Pty Ltd	01/01/2018	15/01/2024	7.20%	381	119	68
Human Digital Ltd	12/04/2017	15/04/2021	11.50%	72	(35)	7
Human Digital Ltd	12/04/2017	15/04/2022	11.50%	53	(25)	5
Human Digital Ltd	12/04/2017	15/04/2023	17.00%	76	(17)	5
Levergy Marketing Agency (Pty) Ltd	15/11/2017	15/04/2021	11.90%	118	(176)	191
M&C Saatchi Advertising GmbH	12/07/2018	15/04/2023	4.10%	–	–	(2)
M&C Saatchi Advertising GmbH	01/10/2018	15/04/2023	10.00%	–	–	–
M&C Saatchi Advertising GmbH	14/12/2016	15/04/2021	7.90%	–	–	–
M&C Saatchi Asia Hong Kong Ltd	23/11/2018	15/04/2024	30.00%	381	82	63
M&C Saatchi Digital GmbH	14/02/2017	15/04/2022	5.00%	285	128	30
M&C Saatchi Gad SAS	24/02/2016	01/05/2019	40.00%	2,687	–	640
M&C Saatchi Holdings Asia Pte Ltd (Indonesia)	20/03/2018	07/09/2022	27.40%	242	107	33
M&C Saatchi Holdings Asia Pte Ltd (Indonesia)	20/03/2018	07/09/2024	22.50%	394	131	32
M&C Saatchi Merlin Ltd	10/01/2020	15/05/2023	15.00%	127	123	–
M&C Saatchi Middle East Holdco Ltd	23/03/2016	15/04/2019	20.00%	22	–	22
M&C Saatchi Mobile Ltd	23/08/2016	15/04/2020	10.00%	12,000	956	3,291
M&C Saatchi Mobile Asia Pacific Pte Ltd	24/06/2015	15/04/2020	5.00%	68	4	(24)
M&C Saatchi Mobile LLC	28/10/2016	15/04/2020	0.01%	4,611	386	1,330
M&C Saatchi Network Ltd	05/05/2015	15/04/2019	5.00%	5,275	–	384
M&C Saatchi PR International Ltd	29/11/2017	15/04/2022	11.30%	63	–	(7)
M&C Saatchi PR International Ltd	29/11/2017	15/04/2023	11.30%	56	–	(6)
M&C Saatchi PR International Ltd	29/11/2017	15/04/2024	11.30%	49	–	(5)
M&C Saatchi (S) Pte Ltd	01/09/2013	15/04/2019	20.00%	–	–	(237)
M&C Saatchi Social Ltd	29/06/2018	26/06/2020	22.00%	1,339	–	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. SHARE-BASED PAYMENTS CONTINUED

	Grant date	Vesting date	MI shareholding 2019	Total charge over vesting period £000	Charge for 2020 £000	Charge for 2019 £000
M&C Saatchi Social Ltd	29/06/2018	30/06/2021	13.50%	905	–	–
M&C Saatchi Social Ltd	29/06/2018	30/06/2023	13.50%	739	–	–
M&C Saatchi SpA	09/12/2015	15/04/2019	10.00%	2,590	–	222
M&C Saatchi Sport & Entertainment Ltd	31/10/2017	15/04/2021	25.00%	357	–	(121)
M&C Saatchi Sport & Entertainment LA LLC	01/01/2018	24/04/2022	35.00%	464	(73)	303
M&C Saatchi Sport & Entertainment NY LLP	01/11/2018	15/04/2019	3.00%	62	–	37
M&C Saatchi Sport & Entertainment NY LLP	01/11/2018	15/04/2024	12.50%	447	135	38
M&C Saatchi Sport & Entertainment NY LLP	01/11/2019	15/05/2025	5.00%	175	37	–
M&C Saatchi (UK) Ltd	06/07/2018	15/04/2023	12.00%	159	–	(27)
M&C Saatchi World Services LLP	05/12/2019	15/05/2020	8.00%	1,117	375	742
M&C Saatchi World Services LLP	05/12/2019	15/05/2021	6.00%	1,452	495	779
M&C Saatchi World Services LLP	05/12/2019	15/05/2022	6.00%	1,264	287	787
M&C Saatchi, S.A. DE. C.V	01/07/2017	15/04/2023	41.00%	262	61	17
Majority LLC	07/11/2018	15/04/2024	50.00%	–	(37)	34
RE Worldwide UK Ltd	01/01/2018	31/12/2022	49.90%	570	(146)	78
Scarecrow M&C Saatchi Ltd	01/05/2018	20/01/2020	24.50%	227	7	89
Scarecrow M&C Saatchi Ltd	01/05/2018	20/01/2022	24.50%	55	(98)	74
M&C Saatchi Talk Ltd	23/11/2018	15/04/2023	10.00%	192	7	85
Talk.Purpose Ltd	07/12/2018	15/04/2024	6.00%	–	–	(1)
Talk.Purpose Ltd	07/12/2018	15/04/2025	6.00%	–	–	(1)
Talk.Purpose Ltd	07/12/2018	15/04/2026	8.00%	–	–	(1)
The Source Insight Australia Pty Ltd	15/02/2018	15/01/2022	14.00%	98	31	16
The Source Insight Australia Pty Ltd	15/02/2018	15/01/2025	21.00%	182	45	12
Disposed of Companies				–	–	(21)
					3,275	**9,145**
Schemes moved from equity to cash settled						
M&C Saatchi Mobile Ltd*	01/06/2018	15/05/2024	0.00%	–	–	624
M&C Saatchi Mobile Ltd*	10/08/2018	per annum	0.00%	–	–	497
					–	1,121
TOTALS					**3,275**	**10,266**

* During the year, two put option schemes which had previously been reported as equity settled schemes were reclassified as cash settled. The reclassification had no P&L impact, but reduced equity by £1.1m and increased trade and other payables by £1.1m at the start of the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. SHARE-BASED PAYMENTS CONTINUED

The large change in the charge between 2019 and 2020 is caused by the following reasons:

- Full vesting of M&C Saatchi Mobile Ltd & M&C Saatchi Mobile LLP equity schemes part way through 2020, with only 1/4 year charge in 2020 – causing a £3.3m reduction;
- Reclassification of IFRS2 charges for two M&C Saatchi Mobile Ltd schemes for which the Group had a choice of settlement in either shares or cash. It is now expected to be settled in cash so the scheme has been reclassified in 2020 and a charge in 2020 of £0.9m (2019: £1.1m) is now included within cash settled charges instead of equity settled charges (marked * above);
- Schemes that fully vested in 2019 causing a £1.0m reduction in the charge;
- M&C Saatchi World Services scheme that started 5 Dec 2019. However, 60% of the charge is taken on day one as the scheme had a business continuity clause thus did not require a performance obligation. The net reduction in the charge is £1.1m; and
- Deterioration in non-market forecasts (profits) – reduction of £0.5m.

Conditional shares issuable

Currently all our equity-settled share-based payment schemes are conditional shares. The shareholder holds equity in a subsidiary company and has a right, after a period of time, to convert it to shares in M&C Saatchi PLC. Changes to our share price, local subsidiary profitability or group profitability affect the number of shares we are committed to pay in exchange for these conditional shares. The below table shows the number of shares that we will issue at the 2020 year end share price of 83.6p (2019: 124.0p) assuming:

1) the put option was exercised at the first available opportunity, even if that gives no reward, and:

2) we do not exercise our right under business continuity clauses to block the exercise (and assuming no revenue declines in the year after the put).

Our management forecast of potentially issuable shares (Note 25) reflects the earliest estimated time that management believes such option will be exercised. The difference to timing of exercises explains the difference in number of share exercisable between Note 25 and the following table.

	Number of shares '000
At 1 January 2020	27,359
Reclassification to cash settled scheme	(6,863)
	20,496
Granted or amended	378
Exercised	
– Shares issued (average 32.8p)	(14,025)
– Share price effect of exercise	10,099
Changes in estimate	
– Changes to profitability	5,131
– Changes to share price (2020:83.6p. 2019:124.0p)	432
At 31 December 2020	**22,511**

Explanation of the changes in estimate:

- Changes to profitability: The majority of the change to profitability increasing the number of shares was caused by one subsidiary, which, due to its counter cyclical nature has had a good year in 2020. Other key increases are from small subsidiaries in large markets who have used the past crisis to get market fit and are now expected to expand at a faster rate. Many conditional share subsidiaries have not had a reduction in profitability as great of the Group, thus their share of the group has increased, along with the number of shares they are likely to receive.
- Changes to share price: During the year there were large changes in our share price, with our share price reducing from 124.0p at the start of year, down to 32.8p when we fulfilled a put with a fixed monetary valuation, and back to 83.6p by year end. The revaluation at year end of remaining schemes only increases the number of shares we needed to issue by 432k shares. The movement is the balance between the debt ladened scheme with a variable multiple, where the number of shares reduces with a reduction in share price, versus the fixed value schemes, where the number of share increases with a reduction in share price.

As many of our scheme's period of required employment has been fulfilled, changes to profitability (the non market variable) have no effect on the accounting charge, however, the number of shares we need to fulfil the option continues to change.

Conditional shares issuable used in these accounts

	Note	2020 Number of shares '000	2020 Share price used	2019 Number of shares '000	2019 Share price used
Per EPS calculation	1	11,963	65.1p	3,650	269.1p
Share based payments	27	22,511	83.6p	27,359	124.0p
Potentially issuable shares	25	23,005	83.6p	25,936	124.0p

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. SHARE-BASED PAYMENTS CONTINUED

As explained on the previous page, share based payments (Note 27) calculates the number of shares that could be issued at the first vesting date after the year end and potentially issuable shares (Note 25) calculates the number of shares that could be issued at the earliest estimated time that management believes such option will be exercised. Both use the year end share price in the calculation.

The EPS calculation (note 1) for conditional shares uses the average share price for the year, calculating the number of shares to be issued using its formula value had it been possible to exercise on the year end date, and takes a deduction for any remaining uncharged share option charge at start of year and the share of profits the is allocatable to the equity during the year. The EPS calculation is thus attempting to show the dilutive effect rather than the likely shares we will issue. For EPS calculation (note 1) for other items apart from conditional shares we use the average share price for the year, and only if the calculation creates a dilutive effect, based on year end and prior year results are the potentially issuable shares counted in the EPS calculation.

28. ISSUED SHARE CAPITAL

Allotted, called up and fully paid

Policy

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

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

	Number of shares	1p Ordinary shares £000
At 31 December 2018	**87,603,553**	**876**
Exercise of M&C Saatchi Mobile share options	1,785,527	18
Acquisition of 10% of M&C Saatchi SPA	825,755	8
Acquisition of 10% of M&C Saatchi Merlin Ltd	131,501	1
Acquisition of 33% of Shepardson Stern & Kaminsky LLP*	1,048,747	11
Acquisition of 10% M&C Saatchi (M) SDN. BHD	408,115	4
Acquisition of 17% of Bohemia Group Pty Ltd	1,397,613	14
Acquisition of M&C Saatchi Sports & Entertainment smaller shareholders	395,949	4
At 31 December 2019	**93,596,760**	**936**
Exercise of M&C Saatchi Mobile share options	13,671,602	137
Final payment for acquisition of 33% of Shepardson Stern & Kaminsky LLP*	8,295,033	82
Acquisition of 22% M&C Saatchi Social Ltd	353,195	4
At 31 December 2020	**115,916,590**	**1,159**

* Shares were issued by M&C Saatchi plc to enable the acquisition by M&C Saatchi Agency Inc. of this equity.

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

29. FAIR VALUE MEASUREMENT

Policy

See also basis of preparation on page 130.

Certain of the Group's financial assets and liabilities, in addition to certain non-financial assets and liabilities, are held at fair value.

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date.

Financial and non-financial assets and liabilities measured at fair value in the Balance Sheet are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: unobservable inputs for the asset or liability.

The Group holds both assets and liabilities which are measured at fair value on a recurring basis and those which are measured at fair value on a non-recurring basis. Items measured at fair value on a non-recurring basis typically relate to non-financial assets arising as a result of business combinations as accounted for under the acquisition method. In this regard, during the year the Group has recognised additions to intangible assets (brand names and customer lists) totalling £Nil (2019: £Nil).

In addition, the Group also calculates the fair value of certain non-financial assets when there is the need to conduct an impairment review. These calculations also fall within Level 3 of the IFRS 13 hierarchy and, where applicable, are described in note 14.

Assets and liabilities measured at fair value on a recurring basis.

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at 31 December 2020 and 31 December 2019:

At 31 December 2020	Level 1 £000	Level 2 £000	Level 3 £000
Financial assets			
Equity investments at FVTPL	–	–	11,410
Financial liabilities			
Contingent consideration	–	–	(452)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. FAIR VALUE MEASUREMENT CONTINUED

At 31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000
Financial assets			
Equity investments at FVTPL	–	–	14,851
Financial liabilities			
Contingent consideration	–	–	(758)

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The movements in the fair value of the level 3 recurring financial assets and liabilities are shown as follows:

	Equity instruments at FVTPL £000	Contingent consideration £000
At 1 January 2020	14,851	(758)
Net loss in the income statement	(3,315)	(374)
Additions	713	–
Disposal	(736)	–
Redefined as deferred consideration	–	691
Currency movements	(103)	(11)
At 31 December 2020	**11,410**	**(452)**

Valuation and sensitivity to valuation
The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values. Where appropriate such valuations are performed in consultation with third-party valuation specialists for complex calculations.

The valuation approaches adopted for each category of financial instrument held at fair value detailed above, in addition to the calculation's sensitivity to salient inputs, are as detailed below.

(i) Equity instruments at FVTPL – These assets relate to corporate venturing unlisted equity investments as detailed in note 19. Management use the most recent market prices as the basis for establishing the fair value of the equity investments as at year end. Fluctuations in these purchase prices would therefore change the fair value of the investments recognised at year end as follows assuming a 10% uplift or downwards movement in the price:

Adjusted purchase price	Increase/(decrease) in fair value of asset 2020 £000	Increase/(decrease) in fair value of asset 2019 £000
+10%	1,141	1,485
-10%	(1,141)	(1,485)

In addition, management considers there to be a risk that the most recent purchase prices are sensitive to a decision to sell the investments to an unwilling market. If such a market existed, then discounting the investments to reflect such risk could impact the value as shown below:

Risk adjusted sales price	Decrease in fair value of asset 2020 £000	Decrease in fair value of asset 2019 £000
-30% sales discount due to illiquid nature*	(3,423)	(4,455)
-12% risk discount for unwilling market place**	(958)	(1,247)
Value after discounts	**7,029**	**9,149**

* If these illiquid securities were to be sold then such a sale is expected to yield between a 10% and 50% discount, so sensitivity based on 30%.
** Risk that if the cash supply dries up, some of the investments with future growth prospects will run out of cash requiring a fire sale, reflected by additional risk discount of 12%.

(ii) Contingent consideration – Contingent consideration relates to the 2018 acquisition of Scarecrow Communications Ltd

The Scarecrow Communication Ltd contingent consideration is payable in a variable number of plc shares. The formula used to derive the number of plc shares is based on historic results of the company. As such the calculation does not involve any estimates and no disclosures regarding the sensitivity of the inputs made are relevant.

30. FINANCIAL RISK MANAGEMENT

Principal financial instruments
The principal financial instruments held by the Group, from which financial instrument risk arises, include contract assets, trade and other receivables, cash and cash equivalents, contract liabilities, trade and other payables, loans and borrowings, MI put options accounted under IFRS 9 as liabilities and equity instruments representing long term investments in non-listed entities.

The Group does not typically use derivative financial instruments to hedge its exposure to foreign exchange or interest rate risks arising from operational, financing and investment activities.

The following financial instruments are measured at fair value and details regarding the valuations undertaken are disclosed in note 29.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. FINANCIAL RISK MANAGEMENT CONTINUED

Group

	2020 £000	2019 £000
Financial assets		
Equity investments at FVTPL	11,410	14,851
Financial liabilities		
Contingent consideration	(452)	(758)

Company

The Company does not directly hold any financial instruments recognised at fair value.

30.1 – General objective, policies and processes

The Board has overall responsibility for the determination of the Group's and Company's risk management objectives and policies. Whilst retaining ultimate responsibility for them, the Board has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's senior management of each core business unit. The Board receives monthly reports from management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility of the global businesses of which it is comprised. Further details regarding these policies are set out below.

30.2 – Market risk

Market risk arises from the Group's use of interest-bearing financial instruments and foreign currency cash holdings. It is the risk that the fair value of future cash flows on its debt finance and cash investments will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) and other price risk such as equity price risk and share price risk. Financial instruments affected by market risk include loans and borrowings, deposits, debt, equity investments and minority interest (MI) put options.

Exposure to market risk arises in the normal course of the Group's business.

30.3 – Foreign exchange risk

Foreign exchange risk arises from transactions and recognised assets and liabilities and net investments in foreign operations. The Group's general operating policy historically has been to conduct business in the currency of the local area in which businesses of the Group are geographically located, thereby naturally hedging the consideration resulting from client work. Businesses of the Group maintain bank accounts in the currency of these transactions solely for working capital purposes. As the Group has grown there has been an increase in services rendered being exported from the UK businesses to clients who transact in non-GBP currencies. The transactional risk arising from such exports is mitigated in terms of the structuring of the billing arrangements and agreement to regular invoices being remitted and promptly paid (<30 days).

The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. The Group does not hedge the translation effect of exchange rate movements on the income statements or balance sheets of foreign subsidiaries and equity accounted investments as it regards these as long term investments.

The estimated impact on foreign exchange gains and losses of a +/- 10% movement in the exchange rate of the Group's significant currencies is as follows:

Exchange rate	Increase/ (decrease) in profit before tax 2020 £000	Increase/ (decrease) in profit after tax 2020 £000	Increase/ (decrease) in profit before tax 2019 £000	Increase/ (decrease) in profit after tax 2019 £000
USD +10%	764	625	173	108
USD -10%	(695)	(568)	(142)	(88)
AUD +10%	268	172	598	413
AUD -10%	(244)	(156)	(489)	(338)

The year end and average exchange rates to GBP for the significant currencies are as follows:

	Year End Rate		Average Rate	
Currency	2020	2019	2020	2019
USD	1.37	1.32	1.29	1.28
AUD	1.77	1.88	1.87	1.84

The Group assumes that currencies will either be freely convertible, or the currency can be used in the local market to pay for goods and services, which we can sell to clients in a freely convertible currency. Within our 2020 year end cash balances we hold £506k in Indian Rupees; £498k in Libyan Dinars; and £2,513k in South African Rands.

30.4 – Interest rate risk

The Group is exposed to interest rate risk because it holds a banking facility of up to £33m and an overdraft facility of up to £5m, both based on floating interest risks. The Group does not consider this risk to be significant.

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments held at the balance sheet date. The analysis is prepared assuming the amount of borrowings outstanding at the balance sheet date were outstanding for the whole year. A 50-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible changes in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2020 would (decrease)/increase by £(138)k/£138k (2019: £(192)k/£192k). This is principally attributable to the Group's exposure to interest rates on its floating rate loan.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. FINANCIAL RISK MANAGEMENT CONTINUED

30.5 – Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and, when appropriate, principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as and when they fall due. The Group's debt instruments carry interest at LIBOR + 3.0%.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they come due. To achieve this aim, the Group has a planning and budgeting process in place to determine the funds required to meet its normal operating requirements on an ongoing basis. The Group and Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash and cash equivalent and proposed strategic investments.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances. At the end of the financial year, these projections indicated that the Group had sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

Group

	Up to 3 months £000	3 to 12 months £000	1 to 2 years £000	2 to 5 years £000	over 5 years £000
At 31 December 2020					
Trade and other payables*	(65,915)	(30,000)	–	–	–
Loans and borrowings	–	(27,163)	(2,199)	–	–
Overdrafts	(13,920)	–	–	–	–
Total	**(79,835)**	**(57,163)**	**(2,199)**	**–**	**–**

* Excludes taxes as these are not considered financial instruments and contract liabilities as these are not financial liabilities.

Company

	Up to 3 months £000	3 to 12 months £000	1 to 2 years £000	2 to 5 years £000	over 5 years £000
At 31 December 2020					
Trade and other payables	(2,887)	(45,355)	–	–	–
Loans and borrowings	–	(21,600)	–	–	–
Total	**(2,887)**	**(66,955)**	**–**	**–**	**–**

The maturity profile for leases accounted for under IFRS 16 (representing undiscounted contractual cashflows) of lease liabilities:

£000	2020	2019
Period ending 31 December:		
2021	9,909	10,770
2022	8,974	7,971
2023	8,223	6,090
2024	5,448	6,181
2025	5,062	5,054
Later years	30,745	33,997
Gross future liability before discounting	68,361	70,063

The Group breached no banking covenants during the year.

30.6 – Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group monitors credit risk at both a local and Group level. Credit terms are set and monitored at a local level according to local business practices and commercial trading conditions. The age of debt, and the levels of accrued and deferred income are reported regularly. Age profiling is monitored, both at local customer level and at consolidated entity level. There is only local exposure to debt from our significant global clients. The Group continues to review its debt exposure to foreign currency movements and will review efficient strategies to mitigate risk as the Group's overseas debt increases.

Management determines concentrations of credit risk by reviewing amounts due from customers monthly. The only significant concentrations of credit risk which are accepted are with multinational blue chip (or their equivalent) organisations where credit risk is not considered an issue, the risk of default is considered low.

Impairment

The group has one principal class of assets in scope for expected credit loss test:

- Trade receivables

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The expected loss rates for each business are based on the payment profiles of sales at least over a period of 24 months before 31 December 2020 or 31 December 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The expected credit loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows for trade receivables.

	Trade receivables				
31 December 2020	**Not past due**	**0-30 days past due**	**31-90 days past due**	**91-120 days past due**	**> 120 days past due**
Expected loss rate (%)	0.02%	0.01%	0.02%	0.51%	3.55%
Trade receivables	38,417	13,312	4,501	966	1,338
Loss allowance	**8**	**1**	**1**	**5**	**47**

	Trade receivables				
31 December 2019	**Not past due***	**0-30 days past due**	**31-90 days past due**	**91-120 days past due**	**> 120 days past due**
Expected loss rate (%)	0.02%	0.01%	0.02%	0.51%	3.55%
Trade receivables	47,557	16,600	5,309	674	2,576
Loss allowance	**11**	**2**	**1**	**3**	**91**

* Within the 2019 figures we identified amounts that needed to be presented net between trade and other receivables and trade and other payables and within trade and other receivables. Advance billing of £5.3million was grossed up in the balance sheet in 2019 between trade receivables and contract liabilities. These items were correctly accounted for in 2020 and reclassified in 2019 for comparative purposes. We have not included a third balance sheet where we have made prior year balance sheet reclassifications as we believe that this would not be helpful to users of the accounts and could be misleading as a result of the issues identified in the 2019 audit.

Under IFRS 9 Financial Instruments, the expected credit loss is the difference between asset's gross carrying amount and the present value of the estimated future cashflows discounted at the asset's original effective interest rate.

Contract assets relate to work-in-progress, and as we have no experience of material write offs in relation to these financial assets, no expected credit loss allowance is recognised.

30.7 – Share price risk
As detailed on page 128 the Group uses put option awards to incentivise certain local key management (who are NCI). The value of these awards is in part dependent upon the Group's share price.

30.8 – Equity price risk
The Group's non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages equity price risk through diversification and by placing limits on individual and total equity investment securities. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Board reviews and approves all equity investment decisions. The basis of the fair value calculations and the sensitivity of these calculations to the key inputs is detailed in note 29.

30.9 – Capital management
The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Strong financial capital management is an integral element of the Directors' strategy to achieve the Group's stated objectives. The Directors review financial capital reports on a regular basis and the Group finance function does so on a daily basis ensuring that the Group has adequate liquidity. The Directors' consideration of going concern is detailed in the Directors' Report.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents as disclosed in the cash flow statement and equity attributable to equity holders of the parent as disclosed in the Statement of Changes in Equity.

31. GROUP COMPANIES

Key

* All those entities included in the below list in which the Group holds less than 50% of the share capital are accounted for as Associates (note 15). All subsidiary companies which the Group controls in line with the requirements of IFRS 10 have been included in the consolidated financial statements.

** This subsidiary undertaking is exempt from Companies Act 2006 requirement relating to audit of their individual accounts by virtue of Section 479A of the Act as M&C Saatchi plc will guarantee the subsidiary company under Section 479C of the Act.

*** With the exception of M&C Saatchi Network Ltd, our South African subsidiaries, Scarecrow Communication Ltd, M&C Saatchi Social Ltd where all our equity is directly held by M&C Saatchi plc, all other subsidiary companies' equity is either in part or wholly held via subsidiaries of M&C Saatchi plc.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31. GROUP COMPANIES CONTINUED

As at 31 December	Country	Effective % ownership 2020	Effective % ownership 2019	Activities
UK				
Alive & Kicking Global Ltd**	United Kingdom	100	100	Dormant
Audience Communications Ltd**	United Kingdom	–	100	Marketing
Black & White Strategy Ltd	United Kingdom	100	100	Dormant
Clear Ideas Consultancy LLP**	United Kingdom	85	85	Marketing
Clear Ideas Ltd**	United Kingdom	85	85	Marketing
FYND Media Ltd**	United Kingdom	100	100	Media Buying
H2R Research Ltd	United Kingdom	80	80	Research
Human Digital Ltd**	United Kingdom	60	60	Research
Influence Communications Ltd**	United Kingdom	95	95	Dormant
Lean Mean Fighting Machine Ltd**	United Kingdom	88	70	Dormant
LIDA (UK) LLP**	United Kingdom	88	100	Direct Marketing
LIDA Ltd** & ***	United Kingdom	88	100	Direct Marketing
M&C Saatchi (UK) Ltd** & ***	United Kingdom	88	70	Advertising
M&C Saatchi Accelerator Ltd**	United Kingdom	81	56	Advertising
M&C Saatchi European Holdings Ltd**	United Kingdom	96	96	Holding Company
M&C Saatchi Export Ltd** & ***	United Kingdom	91	70	Advertising
M&C Saatchi Fluency Ltd**	United Kingdom	100	–	Advertising
M&C Saatchi German Holdings Ltd**	United Kingdom	100	100	Holding Company
M&C Saatchi International Ltd**	United Kingdom	100	100	Holding Company
M&C Saatchi Marketing Arts Ltd**	United Kingdom	50	50	Advertising
M&C Saatchi Merlin Ltd**	United Kingdom	67	85	Talent Management
M&C Saatchi Middle East Holdco Ltd**	United Kingdom	80	80	Holding Company
M&C Saatchi Mobile Ltd**	United Kingdom	100	89	Mobile Marketing
M&C Saatchi Network Ltd** & ***	United Kingdom	100	100	Holding Company
M&C Saatchi PR International Ltd**	United Kingdom	84	66	Dormant
M&C Saatchi PR Ltd**	United Kingdom	100	100	PR Agency
M&C Saatchi PR UK LLP**	United Kingdom	100	100	PR Agency
M&C Saatchi Social Ltd** & ***	United Kingdom	73	51	Marketing
M&C Saatchi Shop Ltd**	United Kingdom	100	100	Marketing
M&C Saatchi Sport & Entertainment Ltd** & ***	United Kingdom	75	75	Sport Sponsorship & Entertainment PR Agency
M&C Saatchi WMH Ltd**	United Kingdom	100	100	Holding Company
M&C Saatchi World Services LLP**	United Kingdom	80	80	Marketing
M&C Saatchi Worldwide Ltd** & ***	United Kingdom	100	100	Holding Company

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31. GROUP COMPANIES CONTINUED

As at 31 December	Country	Effective % ownership 2020	Effective % ownership 2019	Activities
M&C Saatchi WS .ORG Ltd**	United Kingdom	80	80	Not for profit marketing
Re Worldwide Ltd**	United Kingdom	50	50	Branding
SaatchInvest Ltd**	United Kingdom	100	100	Holding Company
Send Me A Sample Ltd**	United Kingdom	10	60	Marketing
M&C Saatchi Talk Ltd** & ***	United Kingdom	61	61	PR Agency
Talk.Purpose Ltd** & ***	United Kingdom	49	49	PR Agency
The Source (London) Ltd**	United Kingdom	100	100	Research Agency
The Source (W1) LLP**	United Kingdom	90	90	Research Agency
This Is Noticed Ltd**	United Kingdom	69	69	Internet Retailer
Tricycle Communications Ltd**	United Kingdom	80	80	Holding Company
Europe				
Cometis SARL	France	–	51	Advertising
FCINQ SAS	France	–	88	Website Construction
M&C Saatchi Gad SAS	France	–	100	Advertising
M&C Saatchi Little Stories SAS*	France	6	80	PR Agency
M&C Saatchi the Loop SARL	France	–	80	Advertising
Moonlike M&C Saatchi SARL	France	–	70	Advertising
M&C Saatchi One SAS	France	–	100	Advertising
Paris Gad Holding SAS	France	–	98	Holding Company
Tataprod SARL	France	–	98	Production and publishing
Clear Deutschland GmbH	Germany	51	51	Marketing
M&C Saatchi Advertising GmbH	Germany	78	78	Advertising
M&C Saatchi Sports & Entertainment GmbH	Germany	86	86	Sport Sponsorship & Entertainment PR Agency
M&C Saatchi Digital GmbH	Germany	95	95	Marketing
M&C Saatchi PR UG (haftungsbeschränkt)	Germany	78	80	Dormant
M&C Saatchi SpA	Italy	90	90	Advertising
M&C Saatchi PR srl	Italy	90	90	Dormant
Clear Netherlands BV	Netherlands	85	85	Dormant
M&C Saatchi B.V.	Netherlands	50	50	Advertising
M&C Saatchi International Holdings BV	Netherlands	100	100	Holding Company
M&C Saatchi Sport & Entertainment Benelux BV	Netherlands	100	100	Sport Sponsorship & Entertainment PR Agency
M&C Saatchi Madrid SL	Spain	10	51	Advertising
M&C Saatchi Sponsorship SL	Spain	49	49	Dormant
M&C Saatchi Digital SL	Spain	24	24	Dormant

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31. GROUP COMPANIES CONTINUED

As at 31 December	Country	Effective % ownership 2020	Effective % ownership 2019	Activities
Media By Design Spain S.A.	Spain	24	24	Dormant
M&C Saatchi PR SRL	Spain	84	66	Dormant
M&C Saatchi AB	Sweden	70	70	Advertising and Marketing
M&C Saatchi Go! AB	Sweden	70	70	Advertising
M&C Saatchi PR AB	Sweden	70	70	Dormant
M&C Saatchi (Switzerland) SA	Switzerland	76	76	Advertising
Middle East and Africa				
M&C Saatchi Bahrain WLL	Bahrain	89	100	Dormant
M&C Saatchi Tel Aviv Ltd	Israel	–	80	Advertising
M&C Saatchi SAL*	Lebanon	10	10	Advertising (Associate)
Creative Spark Interactive (Pty) Ltd***	South Africa	56	56	Advertising
Dalmation Communications (Pty) Ltd***	South Africa	50	50	Advertising
M&C Saatchi Abel (Pty) Ltd	South Africa	50	51	Advertising
M&C Saatchi Africa (Pty) Ltd***	South Africa	50	50	Advertising
M&C Saatchi Connect (Pty) Ltd***	South Africa	50	50	Advertising
Levergy Marketing Agency (Pty) Ltd***	South Africa	62	50	Sport Sponsorship & Entertainment PR Agency
Razor Media (Pty) Ltd	South Africa	50	50	Dormant
M&C Saatchi Istanbul*	Turkey	25	25	Advertising (Associate)
M&C Saatchi Middle East FZ LLC	United Arab Emirates	80	80	Advertising
M&C Saatchi FZ LLC	United Arab Emirates	80	80	Advertising
Asia and Australia				
1440 Agency Pty Ltd	Australia	80	80	Dormant
Elastic Productions Pty Ltd	Australia	80	80	Production
Bellwether Global Pty Ltd	Australia	80	80	Dormant
Bohemia Group Pty Ltd	Australia	59	59	Advertising
Brands In Space Pty Ltd	Australia	80	80	Design
Clear Australia Pty Ltd	Australia	85	85	Dormant
Go Studios Pty Ltd	Australia	80	80	Finished Art & Production Management Studio
Greenhouse Australia Pty Ltd	Australia	64	64	Advertising
Hidden Characters Pty Ltd	Australia	76	76	Branding and Digital Marketing
LIDA Australia Pty Ltd	Australia	80	80	Digital Marketing
M&C Saatchi Agency Pty Ltd	Australia	80	80	Advertising
M&C Saatchi Asia Pac Holdings Pty Ltd	Australia	100	100	Holding Company
M&C Saatchi Direct Pty Ltd	Australia	80	80	Direct Marketing

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31. GROUP COMPANIES CONTINUED

As at 31 December	Country	Effective % ownership 2020	Effective % ownership 2019	Activities
M&C Saatchi Sport & Entertainment Pty Ltd	Australia	72	72	Sport Sponsorship & Entertainment PR Agency
M&C Saatchi Sydney Pty Ltd	Australia	80	80	Advertising
M&C Saatchi Melbourne Pty Ltd	Australia	80	80	Advertising
Park Avenue PR Pty Ltd	Australia	80	80	PR & Marketing
Re Team Pty Ltd	Australia	70	70	Marketing
Resolution Design Pty Ltd	Australia	68	68	Design
Saatchi Ventures Pty Ltd	Australia	48	48	Holding Company
Tricky Jigsaw Pty Ltd	Australia	68	68	Marketing
This Film Studio Pty Ltd	Australia	56	56	Production
Yes Agency Pty Ltd	Australia	70	70	Marketing
Ugly Sydney Pty Ltd	Australia	60	60	Dormant
World Services (Australia) Pty Ltd	Australia	80	80	Marketing
eMCSaatchi Pty Ltd	Australia	80	80	Dormant
The Source Insight Australia Pty Ltd	Australia	52	52	Research Agency
M&C Saatchi Advertising (Shanghai) Ltd*	China	40	40	Consultancy (Associate)
Clear Asia Ltd	Hong Kong	79	79	Dormant
M&C Saatchi Asia Ltd	Hong Kong	100	100	Advertising
M&C Saatchi (Hong Kong) Ltd*	Hong Kong	40	40	Advertising (Associate)
M&C Saatchi Spencer Hong Kong Ltd	Hong Kong	70	70	Advertising
Re HK Ltd	Hong Kong	100	100	Branding
February Communications Pvt Ltd*	India	20	20	Advertising (Associate)
M&C Saatchi Communications Pvt Ltd	India	95	95	Dormant
M&C Saatchi Mobile India LLP	India	99	88	Marketing
Scarecrow M&C Saatchi Ltd	India	51	51	Advertising
PT. MCS Saatchi Indonesia	Indonesia	50	50	Advertising
M&C Saatchi Ltd*	Japan	10	10	Advertising (Associate)
M&C Saatchi World Services Pakistan (Pvt) Ltd	Pakistan	40	40	Marketing (Joint Venture)
M&C Saatchi (M) Sdn Bhd	Malaysia	49	49	Advertising
Design Factory Sdn Bhd	Malaysia	49	49	Advertising
Watermelon Productions Sdn Bhd	Malaysia	49	49	Advertising
M&C Saatchi Source (M) SDN BHD	Malaysia	49	49	Research Agency
Clear KL (MYR)	Malaysia	100	100	Marketing
Clear Ideas (Singapore) Pte Ltd	Singapore	77	77	Marketing
Create Collective Ltd	Singapore	100	100	Networking

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31. GROUP COMPANIES CONTINUED

As at 31 December	Country	Effective % ownership 2020	Effective % ownership 2019	Activities
M&C Saatchi Holdings Asia Pte Ltd	Singapore	50	50	Holding Company
M&C Saatchi (S) Pte Ltd	Singapore	80	80	Advertising
M&C Saatchi Mobile Asia Pacific Pte Ltd	Singapore	95	88	Mobile Marketing
Love Frankie Ltd*	Thailand	20	20	Marketing (associate)
Americas				
CSZ Comunicação Ltda*	Brazil	25	25	Advertising
Lily Participacoes Ltda	Brazil	100	100	Holding Company
M&C Saatchi Brasil Comunicação Ltda	Brazil	60	60	Advertising
M&C Saatchi Brasil Participacoes Ltda	Brazil	100	100	Holding Company
M&C Saatchi/Insight Pesquisa & Planejamento Ltda	Brazil	100	100	Dormant
Santa Clara Participacoes Ltda*	Brazil	25	25	Advertising (associate)
M&C Saatchi, S.A. DE. C.V	Mexico	59	59	Advertising
Clear LA LLC	USA	95	95	Marketing
Clear USA LLC	USA	85	85	Marketing
Clear NY LLP	USA	85	85	Holding Company
LIDA NY LLP (MCD)	USA	76	76	Direct Marketing
LIDA USA LLP	USA	100	100	Marketing
M&C Saatchi Agency Inc.	USA	100	100	Holding Company
World Services US Inc. (California)	USA	100	53	Advertising
M&C Saatchi Mobile LLC	USA	100	100	Mobile Marketing
M&C Saatchi PR LLP	USA	100	100	PR
M&C Saatchi Share Inc.	USA	80	53	Dormant
M&C Saatchi Sport & Entertainment NY LLP	USA	80	80	Sport Sponsorship & Entertainment PR Agency
M&C Saatchi Sport & Entertainment LA LLC	USA	65	65	Sport Sponsorship & Entertainment PR Agency
M&C Saatchi NY LLP	USA	90	90	Dormant
Majority LLC	USA	69	50	Production
Shepardson Stern + Kaminsky LLP	USA	100	100	Marketing Consultant
Technology, Humans and Taste LLC*	USA	30	30	Marketing (associate)
World Services US Inc. (New York)	USA	80	80	Dormant

Within the above list the following companies are associates, Technology, Humans and Taste LLC; Santa Clara Participacoes Ltda; CSZ Comunicação Ltda; Love Frankie Ltd; M&C Saatchi Ltd, M&C Saatchi (Hong Kong) Ltd; M&C Saatchi Advertising (Shanghai) Ltd; M&C Saatchi Istanbul; and M&C Saatchi SAL. Refer to note 45 for the list of registered addresses.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

32. RELATED PARTY TRANSACTIONS

Key management remuneration
Key management remuneration is disclosed in note 5.

Audited detail on Directors' remuneration is disclosed in the Directors' Remuneration Report on page 102 to 103.

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

Lara Hussein has an equity interest in Brand Energy. During the year, the Group was charged, on an arm's-length basis, by Brand Energy £322k (2019: £825k), of which nil (2019: nil) was unpaid at the year end.

To assist the local directors to acquire 20% of M&C Saatchi Agency Pty Ltd in 2015, loans of AUD3.6m were issued. At the year end, the balance of the loan was AUD3.4m (2019: AUD3.3m) (see note 18 for further details). Other directors of Australian subsidiaries had shareholder loans to acquire equity in the subsidiaries AUD0.7k (2019: AUD0.8k), a further AUD2.0m (2019: AUD2.4m) has been advanced in shareholder loans but is not accounted for as an asset in these accounts due to its accounting as a conditional share award under IFRS 2.

4 subsidiary company directors had advances of over £10k that are outstanding at the year end, the total amount of these advances being £160k (2019: £160k).

The Directors of our subsidiary M&C Saatchi S.P.A have interests in Utopia S.r.l. During the year M&C Saatchi S.P.A invoiced £888k (2019: £790k) to this company of which nil (2019: £452k) was outstanding at the year end, and bought £2,691k (2019: £3,103k) of services from these companies of which nil (2019: £410k) was outstanding at the year end.

The Members of management of our subsidiary Shepardson Stern + Kaminsky LLP have interests in Wingo Ltd. During the year Shepardson Stern + Kaminsky LLP invoiced $90k (2019: $186k) to this company of which $90k (2019: $12k) was outstanding at the year end.

On 9 October 2020 as part of a reorganisation prior to disposal, Moray MacLennan's 5% interest in Send Me A Sample Ltd was cancelled with his agreement.

During the year, the Group made purchases of £1,534k (2019: £295k) from its associates. At 31 December 2020, there was £118k due to associates in respect of these transactions (2019: nil). During the year, £574k (2019: £515k) of fees were charged by Group companies to associates. At 31 December 2020, associates owed Group companies £837k (2019: £1,301k).

33. COMMITMENTS

With the introduction of IFRS 16 Leases in 2019, most of the Group's commitments are now shown on the balance sheet. There has been one lease entered into post balance sheet. The lease is in Sydney, Australia, at 99 Macquarie Street, and commenced on 01/06/2021 for 10 years, terminating on 31/05/2031. The annual cash payments for this space are AUD2.7m.

Capital commitments
At the year end we had £677k committed costs (2019, £550k) to acquire property plant and equipment.

Other commitments
Other than our normal contractual commitments to staff and the commitment to complete profitable projects for our clients, the Group does not have any other material commitments which are not reflected on the balance sheet.

34. POST BALANCE SHEET EVENTS

On 31 May 2021, the Group agreed a new 3 year joint banking arrangement with Barclays and NatWest. The new revolving credit facility for £47m (the "Facility"), includes two sub-limits for ancillary facilities, both provided by NatWest: a £2.5m overdraft and a £3m performance bond line. The Facility, between M&C Saatchi Plc and M&C Saatchi International Holdings BV, matures in May 2024 and is available for drawdowns in Sterling, US Dollar and Euro at an interest margin of 3.0% p.a. The Facility replaces the Group's existing £33m revolving credit facility and £5m overdraft which were due to terminate on 30 June 2021.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to reduce the tax expense for the period by £60k, to increase the deferred tax asset by £60k.

During 2020, the four of the Group's US companies received proceeds of £2.3m under the Paycheck Protection Program (PPP) loan scheme. At the date of preparation of the financial statements, three out of the four companies have had their loans forgiven, with the fourth company still awaiting a decision on their loan of £0.5m.

On 1 January 2021, the Board appointed Moray MacLennan as Chief Executive Officer. On 3 March 2021, the Board appointed Vinodka (Vin) Murria as a Non-Executive Director.

On 10 February 2021, the Group acquired a controlling interest in its Hong Kong associate, M&C Saatchi (Hong Kong) Ltd and its Brazilian associate, Santa Clara Participacoes Ltda. On 12 March 2021, the Group acquired a 10% shareholding in Australie SAS, France. The initial accounting for these transactions is incomplete at the time the financial statements are authorised for issue, therefore the IFRS 3 disclosure is not presented in the Annual Report.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

35. OTHER ACCOUNTING POLICIES

Reserves

Equity comprises the following:

Share capital

Represents the nominal value of equity shares in issue.

Share premium

Represents the excess over nominal value of the fair value of consideration received for equity shares, net of issuance costs.

Other reserves

Merger reserve

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

Treasury reserve

Amount paid for own shares acquired.

Minority interest put option reserve

Corresponds to the initial fair value of the liability in respect of the put options at creation. When the put option is exercised, the related amount in this reserve is taken to the non-controlling interest acquired reserve. All revaluations of put options are expensed through the income statement to the profit and loss reserve.

Non-controlling interest acquired reserve

From 1 January 2010, a non-controlling interest acquired reserve has been used when the Group acquires an increased stake in a subsidiary. The purpose of the non-controlling interest reserve is to reflect the unrealised losses relating to underlying investments held by subsidiary companies. This loss is realised on disposal or impairment of the underlying asset. It works as follows: If the stepped acquisition is due to a put option, then the non-controlling interest acquired reserve is equal to the minority interest put option reserve transferred less the book value of the minority interest acquired. Otherwise the non-controlling interest acquired reserve is equal to the consideration paid less the book value of the minority interest acquired. If the equity stake in the subsidiary is subsequently sold, then balances from this reserve will be transferred to retained earnings. In the event that the underlying investment held by a subsidiary company is impaired or disposed of, then the related value in the non-controlling interest reserve is taken to retained earnings. If, however, a corresponding merger reserve was created at inception, and its related value in non-controlling interest acquired reserve is taken to retained earnings, then the related merger reserve is released to retained earnings.

Foreign exchange reserve

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

Retained earnings

Cumulative gains and losses recognised.

36. NEW AND REVISED STANDARDS ISSUED BUT NOT YET EFFECTIVE

In the current year, the following Standards and Interpretations became effective:

- Interest Rate Benchmark Reform– Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7);
- Impact of Covid-19 Related Rent Concessions (Amendment to IFRS 16);
- Definition of material (Amendments to IAS 1 and IAS 8).

For the detail on the impact on the financial statements, refer to note 17 for Covid-19 rent concessions. We do not believe that the Interest Rate Benchmark Reform has a material difference on the group accounts given the low level of inter bank rates at present.

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance contracts
Amendments to IAS 1	Classification of liabilities as current or non-current
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policy
Amendments to IAS 28 and IFRS 10	Definition of Accounting Estimate
Interest Rate Benchmark Reform—Phase 2	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

COMPANY BALANCE SHEET

At 31 December	Note	2020 £000	2019 £000
Non-current assets			
Investments	38	129,874	127,994
Deferred tax		192	87
Amounts due from subsidiary undertakings	42	87,831	89,832
Other non-current assets	39	2,250	2,071
		220,147	**219,984**
Current assets			
Trade and other receivables	40	4,930	2,946
Cash and cash equivalents		8,256	10,679
		13,186	**13,625**
Current liabilities			
Trade and other payables	41	(48,242)	(43,771)
Provisions		(300)	(1,225)
Deferred and Contingent consideration	13	(1,144)	(444)
Borrowings		(21,372)	(27,562)
		(71,058)	**(73,002)**
Net current liabilities		**(57,872)**	**(59,377)**
Total assets less current liabilities		**162,275**	**160,607**
Non-current liabilities			
Deferred and Contingent consideration	13	–	(313)
Employment benefit provision		(1,011)	(459)
Bank loans		–	–
		(1,011)	**(772)**
Total net assets		**161,264**	**159,835**

At 31 December	Note	2020 £000	2019 £000
Capital and reserves			
Share capital		1,159	936
Share premium		44,607	44,607
Merger reserve		71,116	66,962
Treasury reserve		(550)	(550)
Share based payment reserve		38,792	36,912
Profit and loss account		6,140	10,968
Shareholders' funds		**161,264**	**159,835**

These financial statements on pages 234 to 249 were approved and authorised for issue by the Board on 27 August 2021 and signed on its behalf by:

MICKEY KALIFA
Chief Financial Officer
M&C Saatchi plc
Company Number 05114893

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. Included within the consolidated income statement for the year ended 31 December 2020 is a loss after tax of £(4,419)k (2019: profit of £3,431k).

The notes on pages 237 to 249 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Merger reserve £000	Treasury reserve £000	Share based payment reserve £000	Profit and loss account £000	Total £000
At 31 December 2018	876	41,734	63,197	(792)	33,343	10,653	149,011
Exercise of put options	60	2,873	3,765	242	–	–	6,940
Share option charge	–	–	–	–	10,266	–	10,266
Realisation of reserve	–	–	–	–	(6,697)	6,697	–
Dividends paid	–	–	–	–	–	(9,813)	(9,813)
Total transactions with owners	936	44,607	66,962	(550)	36,912	7,537	156,404
Total comprehensive profit for the year	–	–	–	–	–	3,431	3,431
At 31 December 2019	**936**	**44,607**	**66,962**	**(550)**	**36,912**	**10,968**	**159,835**
Exercise of put options	223	–	4,154	–	–	–	4,377
Recharge of share option	–	–	–	–	(683)	–	(683)
Share option charge	–	–	–	–	3,275	–	3,275
Reclassification of equity settled share-based payments to cash settled	–	–	–	–	(1,121)	–	(1,121)
Realisation of reserve	–	–	–	–	409	(409)	–
Total transactions with owners	223	–	4,154	–	1,880	(409)	5,848
Total comprehensive loss for the year	–	–	–	–	–	(4,419)	(4,419)
At 31 December 2020	**1,159**	**44,607**	**71,116**	**(550)**	**38,792**	**6,140**	**161,264**

The notes on pages 237 to 249 form part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

37. GENERAL INFORMATION AND ACCOUNTING POLICIES

M&C Saatchi plc acts as the holding company for of the M&C Saatchi plc group. The Company is quoted on London's AIM stock exchange and is domiciled and incorporated in England and Wales (registered number 05114893). The address of its registered office is 36 Golden Square, London, W1F 9EE.

The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 under the historical cost convention in accordance with the reduced disclosure framework of FRS101. They have been prepared on a going concern basis, further details of which are in the Directors' report on page 108.

In adopting the reduced disclosure framework of FRS101, the Company has taken advantage of the following exemptions from disclosure:

- the cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management; and
- the effects of new but not yet effective IFRSs.

Accounting policies applied

The following principal accounting policies have been applied consistently and there were no new policies adopted within the year:

a) Valuation of investments

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

b) Pensions

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

c) Group policies (preparation page 126, and the following policies)

For current tax (note 8), deferred tax (note 9), share-based payments (note 27) and borrowings (note 23).

d) Share-based payments in Company

The cost of awards to employees of subsidiary entities classified as conditional share awards is accounted for as an additional investment in the employing subsidiary. When such awards are recharged to employing or acquiring entities, the investment in the Company's books is reduced by the value of equity awarded. In the event that the investment in the subsidiary created from conditional share awards is impaired then there is an equal and opposite release from share-based payment reserve.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

37. GENERAL INFORMATION AND ACCOUNTING POLICIES CONTINUED

Accounting policies applied continued

e) Dividends

Interim dividends are recorded when they are paid and the final dividends are recorded when they become legally payable. Disclosure of dividend activity can be found at note 10.

f) Treasury shares

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

g) Expected credit losses

Amounts owed by subsidiaries are recorded at amortised cost and are reduced by expected credit losses. Under IFRS 9 Financial Instruments, the expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Key judgements & estimates

Judgements made on debt with other group companies:

a) A judgement to assess whether debt due from other group companies is a quasi-investment under IAS 27 or an intercompany receivable under IFRS 9. We have assessed most of this debt balance as an intercompany receivable under IFRS 9.

b) In the event that debt with other group companies is accounted for under IFRS9 a judgment to assess whether such balances are repayable on demand or if they are payable over one year.

The following estimates on the value are made:

a) Recoverability of intercompany debtors

Estimates on the future recoverability of debt and provisions are made where necessary. Such estimates are based on the substance of the underlying agreements which typically rely on subsequent asset sales by the debtor being used to clear amounts due to the parent.

b) Valuation of investments

Estimates are made on the future value of investments based on the lower of value in use and net realisable value. This assessment is performed after any debt from entities has been recovered. Impairments are made where necessary.

Reserves

Share-based payment reserve

Represents equity-settled share-based employee remuneration until such share options are exercised.

38. INVESTMENTS

	2020 £000	2019 £000
At 1 January	127,994	123,959
Acquisition of subsidiaries	–	3,524
Disposal of shares in subsidiary	–	(309)
Provision against acquired subsidiary	–	(2,749)
Conditional share award paid by subsidiary	(683)	–
Release of provision/(provision) against conditional share awards	409	(6,697)
Transfer of equity settled to cash settled awards	(1,121)	–
Conditional share awards*	3,275	10,266
At 31 December	**129,874**	**127,994**

* Conditional share awards (note 27).

The value in use calculations have been based on the forecast profitability based on the 2021 Board approved budget and 5-year plans (presented at the Capital Markets day in January 2021), with a residual growth rate of 1.5% p.a. applied thereafter. This forecast data is based on past performance and current business and economic prospects. This data is then applied within a discounted future cash flow forecast (DCF), which forms the basis for determining the recoverable amount of each Investment.

The direct and indirect subsidiary undertakings are listed in note 31 to the consolidated financial statements.

39. OTHER NON-CURRENT ASSETS

	2020 £000	2019 £000
Loans to subsidiary employees*	1,967	1,788
Loans to assist equity purchase**	283	283
Total	**2,250**	**2,071**

* This related to the AUD3.3m (current balance AUD3.3m) loans that the Group lent local management of M&C Saatchi Agency Pty Ltd, in 2015, to enable them to acquire 20% of that business. The full recourse loan is repayable in full if the purchasers no longer have a beneficial interest in the shares of the Australian Group or are no longer employed. The loan is unsecured and charged interest at 0.1% above the five-year Australian interbank rate at the date the loan was advanced. The carrying value of the loan approximated to fair value.

** Loan to South African indigenous equity holders to enable them to acquire equity in South African subsidiaries in accordance with local laws.

40. TRADE AND OTHER RECEIVABLES

Amounts due less than one year	2020 £000	2019 £000
Prepayments	270	126
Corporation tax receivable	4,249	2,464
Other receivables	411	356
Total	**4,930**	**2,946**

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

41. TRADE AND OTHER PAYABLES

	2020 £000	2019 £000
Trade creditors	(847)	(229)
Amounts due to subsidiaries*	(44,131)	(40,518)
Accruals	(3,264)	(3,024)
Total	**(48,242)**	**(43,771)**

* Repayable on demand.

42. AMOUNTS DUE FROM SUBSIDIARY UNDERTAKINGS

Amounts due from subsidiary undertakings are repayable on demand. However, agreements are in place between subsidiary companies that state that such repayments will not be due until the underlying investments of the subsidiary company are sold or realised. Due to these agreements the amounts due from subsidiary undertakings have been defined as long term.

The Amounts receivable from subsidiary undertakings include receivables relating to exercised put options. As detailed in notes 1 and 26, the Group has a number of put option arrangements in place. On exercise of these put options, the Company is required to issue shares in exchange for the shares of the minority interests. Where the Company's shareholding of the acquired subsidiary becomes equal to or higher than 90% as a result, amounts are credited to the Merger Reserve on exercise. The acquired shares are then immediately sold to subsidiaries of the Company, thereby creating an intercompany receivable and eliminating the Company's increase in investments.

	2020 £000	2019 £000
Amounts due from subsidiary undertakings	87,831	89,832

The amounts due from subsidiary undertakings are net of the expected credit losses of £9,899k (2019: £13,539k) that have been provided against these balances. Our annual review of the expected credit loss provision took into account trading performance, the reorganisations taking place and likely future performance. As a result of this review the expected credit loss decreased by £3,640k (2019: increased by £6,513k).

43. STAFF COST

Staff costs (including Directors) comprise:

Year ended 31 December	2020 £000	2019 £000
Wages and salaries	3,711	3,526
Social security costs	426	469
Other pension costs	40	33
Other staff benefits	194	54
	4,371	**4,082**
Staff numbers	18	14

Staff numbers are based on monthly average staff and exclude Non-Executive Directors.

Directors' remuneration

	2020 £000	2019 £000
Directors' salaries and benefits	1,908	2,111
Bonuses	–	225
Contributions to money purchase pension schemes	–	4
Total remuneration before accounting charges	1,908	2,340
Gain on exercise of share options	–	–
Total	**1,908**	**2,340**

The highest paid Director earned:	2020 £000	2019 £000
Director's salary and benefits	373	247
Bonuses	–	225
Contribution to money purchase pension scheme	–	–
Total remuneration before accounting charges	373	472
Long term incentives	485	–
Total	**858**	**472**

The number of Directors with a money purchase pension scheme during the year was 5 (2019: 5).

The Directors are the key management personnel of the Company.

Additional details with regards to Directors' remuneration, as required by Rule 19 of the AIM rules, can be found in the Directors' Remuneration Report on page 102 to 103. There has been neither grant to, nor exercise by the Directors with regards to share options during either 2020 or 2019.

44. RELATED PARTIES

During the year, the Company charged a management recharge to subsidiaries totalling £773k (2019: £4,818k). The amount due from subsidiary undertakings payable in cash of £87,831k (2019: £89,832k) is net of £9,899k (2019: £13,539k) provisions for doubtful accounts.

Further details of related parties of the Company are provided in note 31.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

45. LIST OF REGISTERED ADDRESSES

Country	Entity	Registered Address
Australia	Bohemia Group Pty Ltd Greenhouse Australia Pty Ltd M&C Saatchi Sport & Entertainment Pty Ltd Park Avenue PR Pty Ltd Saatchi Ventures Pty Ltd Tricky Jigsaw Pty Ltd Resolution Design Pty Ltd This Film Studio Pty Ltd Ugly Sydney Pty Ltd	99 Macquarie Street, Sydney NSW 2000
	Bellwether Global Pty Ltd Brands in Space Pty Ltd Lida Australia Pty Ltd	Level 12, 131 Macquarie Street, Sydney NSW 2000
	1440 Agency Pty Ltd Go Studios Pty Ltd M&C Saatchi Direct Pty Ltd	Level 6 131 Macquarie Street, Sydney NSW 2000
	eMCSaatchi Pty Ltd M&C Saatchi Agency Pty Ltd Re Team Pty Ltd	Level 19, 2 Market Street, Sydney NSW 2000
	M&C Saatchi Asia Pac Holdings Pty Ltd	Level 12, 131 Lucouarel Street, Sydney NSW 2000
	Hidden Characters Pty Ltd	Unit 19, 285A Crown Street, Surry Hills NSW 2010
	M&C Saatchi Melbourne Pty Ltd	Level 1, 129 York Street, South Melbourne VIC 3205
	World Services (Australia) Pty Ltd	Suite 11.01, Level 11, 60 Castlereagh Street, Sydney NSW 2000
	Yes Agency Pty Ltd	Level 17, 383 Kent Street, Sydney NSW 2000
Bahrain	M&C Saatchi Bahrain WLL	51,122,1605,316 Manama Center
Brazil	Lily Participacoes Ltda	Avenida Brigadeiro Faria Lima, 1355 Jardim Paulistano 16 Andar, Sal São Paulo 01452-919
	M&C Saatchi Brasil Comunicação Ltda M&C Saatchi Brasil Participacoes Ltda M&C Saatchi/Insight Pesquisa & Planejamento Ltda	Rua Girassol, 925/927, 1st Floor, Vila Madalena, 05433-002
	Santa Clara Participacoes Ltda	Rua Wisard, 305, Vila Madalena, 3 Andar-Con, São Paolo
China	M&C Saatchi Advertising (Shanghai) Ltd	376 Wukang Rd, Xuhui Qu, Shanghai, 200331

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

45. LIST OF REGISTERED ADDRESSES CONTINUED

Country	Entity	Registered Address
France	FCINQ SAS M&C Saatchi Gad SAS M&C Saatchi Little Stories SAS M&C Saatchi One SAS M&C Saatchi The Loop SARL Moonlike M&C Saatchi SARL Paris Gad Holding SAS	32 Rue Notre Dame des Victoires, 75002, Paris
Germany	Cometis SARL Tataprod SARL	14 Rue Meslay, 75003, Paris
	Clear Deutschland GmbH	Taunusanlage 8, Frankfurt am Main, 60329
	M&C Saatchi Advertising GmbH M&C Saatchi Digital GmbH M&C Saatchi PR UG (haftungsbeschränkt) M&C Saatchi Sports & Entertainment GmbH	Munzstrasse 21-23, 10178, Berlin
Hong Kong	Clear Asia Ltd M&C Saatchi (Hong Kong) Ltd Re HK Ltd	29/F Cambridge House, Taikoo Place 979 King's Road, Quarry Bay
	M&C Saatchi Asia Ltd	6/F Alexandra House, 18 Chater Road, Central
India	M&C Saatchi Communications Pvt Ltd	2 Palam Mang, Vasant Vihar New Delhi, 110057
	February Communications Pvt Ltd M&C Saatchi Mobile India LLP	141B Shahpur Jat New Delhi
	Scarecrow M&C Saatchi Ltd	32 Ramjibhai Kamani Marg, Mumbai
Indonesia	PT. MCS Saatchi Indonesia	E.V. Hive, Plaza Kungan, Lantai 11, Jakarta Selatan 12920
Israel	M&C Saatchi Tel Aviv Ltd	1 Abba Even, Boulevard, Herzliya 4672519
Italy	M&C Saatchi PR srl M&C Saatchi SpA	Viale Monte Nero, 27 20135, Milan
Japan	M&C Saatchi Ltd	26-1 Ebisy-Nishi 1-Chome, Shibuya- Ku, Tokyo
Lebanon	M&C Saatchi SAL	Quantum Tower, Charles Malek Avenue, St Nicolas, Beirut
Malaysia	M&C Saatchi (M) Sdn Bhd Design Factory Sdn Bhd Watermelon Production Sdn Bhd	Unit 10-2, 10th Floor, Bangunan Malaysia RE, 17 Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur
	M&C Saatchi Source (M) Sdn Bhd	15B, Jalan Tengku Ampuan Zabedah F9/F, Section 9, Shah Alam, Selangor Darul Ehsan 40100
Mexico	M&C Saatchi, S.A. DE. C.V	Darwin 74, Piso 1, Miguel Hidalgo, 11590 Ciudad de México, CDMX, Mexico

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

45. LIST OF REGISTERED ADDRESSES CONTINUED

Country	Entity	Registered Address
Netherlands	M&C Saatchi International Holdings BV	36 Golden Square, London W1F 9EE, UK
	Clear Netherlands BV	Keizersgracht 203 Amsterdam
	M&C Saatchi B.V.	Overschiestraat 61 F, 1062XD Amsterdam
	M&C Saatchi Sport & Entertainment Benelux BV	Tuinstraat 157 B, 1015PB Amsterdam
Pakistan	M&C Saatchi World Services Pakistan (Pvt) Ltd	48M, Block 6 P.EC.H.S, Karachi
Singapore	M&C Saatchi Holdings Asia Pte Ltd	1 Coleman Street, #05-06A, The Adelphi, Singapore 179803
	Clear Ideas (Singapore) Pte Ltd M&C Saatchi (S) Pte Ltd M&C Saatchi Mobile Asia Pacific Pte Ltd	59 Mohamed Sultan Road #02-08, Sultan Link, Singapore 238999
South Africa	Creative Spark Interactive (Pty) Ltd Dalmation Communications (Pty) Ltd M&C Saatchi Abel (Pty) Ltd M&C Saatchi Africa (Pty) Ltd M&C Saatchi Connect (Pty) Ltd	Media Quarter, 5th Floor, Corner Somerset and De Smit Street, Ded, Waterkant, Cape Town
	Levergy Marketing Agency (Pty) Ltd Razor Media (Pty) Ltd	9 8th Street, Houghton, Johannesburg, Gauteng 2198
Spain	M&C Saatchi Madrid SL M&C Saatchi Digital SL Media By Design Spain S.A. M&C Saatchi Sponsorship SL	Calle Gran Via, 27, 28013, Madrid
Sweden	M&C Saatchi AB M&C Saatchi Go! AB M&C Saatchi PR AB	Skeppsbron 16, 11130, Stockholm
Switzerland	M&C Saatchi (Switzerland) SA	Boulevard Carl-Vogt 83, 1205, Geneve
Thailand	Love Frankie Ltd	571 RSU Tower, 10th Floor, Soi Sukhumvit 31, Sukhumvit Road, Wattana District, Bangkok
Turkey	M&C Saatchi Istanbul	Acarkent Mah. 1 Cadde No 132B Beykoz, Istanbul
United Arab Emirates	M&C Saatchi Middle East Fz LLC	Al Thuraya Tower 1, Floor 14, Office 1404, Dubai Media City, Dubai, 62614
	M&C Saatchi Fz LLC	PO Box: 77932, Abu Dhabi
United Kingdom	All UK entities (except for the following):	36 Golden Square, London, W1F 9EE
	Clear Ideas Ltd Clear Ideas Consultancy LLP	2 Golden Square, London, W1F 9HR
	M&C Saatchi Talk Ltd	3-5 Rathbone Place, London, W1T 1HJ

45. LIST OF REGISTERED ADDRESSES CONTINUED

Country	Entity	Registered Address
USA	LIDA USA LLP Shepardson Stern + Kaminsky LLP M&C Saatchi Agency Inc.	88 Pine Street, 30th Floor, New York, NY 10005
	LIDA NY LLP Clear NY LLP M&C Saatchi Mobile LLC	138 W 25th Street, 5th Floor, New York, NY 10001
	Majority LLC World Services US Inc	Mailing Address: 8033 Sunset Blvd. #1075 Los Angeles, CA 90046 Physical Address: 1801 N. Vista Street Los Angeles, CA 90046
	M&C Saatchi Sports & Entertainment NY LLP	466 Broome Street, New York, NY 10013

46. POST-BALANCE SHEET EVENTS

On 31 May 2021, the Group agreed a new 3 year joint banking arrangement with Barclays and NatWest. The new revolving credit facility for £47m (the "Facility"), includes two sub-limits for ancillary facilities, both provided by NatWest: a £2.5m overdraft and a £3m performance bond line. The Facility, between M&C Saatchi Plc and M&C Saatchi International Holdings BV, matures in May 2024 and is available for drawdowns in Sterling, US Dollar and Euro at an interest margin of 3.0% p.a. The Facility replaces the Group's existing £33m revolving credit facility and £5m overdraft which were due to terminate on 30 June 2021.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to reduce the tax expense for the period by £60k, to increase the deferred tax asset by £60k.

On 1 January 2021, the Board appointed Moray MacLennan as Chief Executive Officer. On 3 March 2021, the Board appointed Vinodka (Vin) Murria as a Non-Executive Director.

Subsequent to the year end there have been no other material events specific to the Company requiring disclosure. Those items relevant to the Group are disclosed in note 34.

47. SHARE CAPITAL

Movements in the Company's Share capital can be found at note 28.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF M&C SAATCHI

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Qualified opinion (in respect of the comparability of the M&C Saatchi plc's Group loss and cash flows with the 2019 year-end)

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph below:

- M&C Saatchi plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company Balance Sheets as at 31 December 2020; the Consolidated Income Statement and Consolidated Statement of Other Comprehensive Income, the Consolidated Cash Flow Statement and Analysis of Net Debt, and the Consolidated and Company Statements of Changes in Equity for the year then ended; the Preparation section and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for qualified opinion

Prior year restatements were identified by the directors during the year ended 31 December 2019. During the prior year audit, it was not possible for us to obtain sufficient appropriate audit evidence in a reasonable timeframe regarding the amounts, including the restated amounts in the statement of financial position as at 31 December 2018, forming the opening balances for the prior year as at 1 January 2019, because of an absence of underlying documentation and an inability to obtain explanations from the Group finance team members who are no longer employed by the Group. This impacted the Consolidated income statement for the year ended 31 December 2019 and individual line items reported in cash generated from operations in the Consolidated cash flow statement and the Consolidated statement of changes in equity for the year ended 31 December 2019. Due to us not being able to obtain sufficient appropriate audit evidence over the Group's loss and cash flows for the year ended 31 December 2019, our opinion is qualified, only in respect of the possible effect of this matter on the comparability between the Group's loss and cash flows for the year ended 31 December 2020 and the Group's loss and cash flows for the year ended 31 December 2019.

This matter only impacted the Company's subsidiaries, and therefore our opinion on the Company financial statements is unqualified.

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on the Group financial statements and our unqualified opinion on the Company financial statements.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

- Full scope audits across 21 reporting units.
- Specified procedures over large or higher risk balances at certain out of scope components to give appropriate coverage of all material or higher risk balances at the Group level.
- Central procedures performed over financial assets at fair value through profit or loss, IFRS 2: Share-based Payments, minority shareholder put option liabilities, IFRS 16: Leases, goodwill and other intangibles, taxation and going concern.

Key audit matters
- Revenue recognition (Group)
- Valuation of financial assets at fair value through profit or loss (Group)

INDEPENDENT AUDITORS' REPORT CONTINUED

- Recoverability of investments in subsidiaries and intercompany receivables (Company)
- Consideration of the impact of the Covid-19 pandemic (Group and Company)
- Potential lack of comparability of the Group's loss and cash flows with the 2019 year-end (Group) – see Basis for qualified opinion section above

Materiality
- Overall Group materiality: £1,000,000 (2019: £1,100,000) based on professional judgement having applied 'rule of thumb' percentages to a number of potential benchmarks and considering the overall scale of the business.
- Overall Company materiality: £1,600,000 (2019: £1,600,000) based on 1% of net assets.
- Performance materiality: £500,000 (Group) and £800,000 (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Other than the matter described in the Basis for qualified opinion paragraph above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

"Potential lack of comparability of the Group's loss and cash flows with the 2019 year-end (Group)" and "Revenue recognition (Group)" are new key audit matters this year resulting from and replacing the previous year's key audit matter "Prior period restatements/Revenue recognition (Group)" as a result of the disclaimer of opinion/qualified opinion in the prior year. "Going concern (Group and Company)" was a key audit matter last year due to the material uncertainty related to going concern but the going concern consideration this year is included within the "Consideration of the impact of the Covid-19 pandemic (Group and Company)" key audit matter. "Carrying value of goodwill and investments in associates and joint ventures (Group)" and "Accounting for management incentive schemes and non-controlling interests in subsidiaries (Group and Company)", which were key audit matters last year, are not included this year because the audit risk relating to the areas reduced as a result of improved trading performance and there being only minimal new put option schemes this year, respectively.

Otherwise, the key audit matters below are consistent with those in the prior year.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition (Group)	
Refer to the accounting policies and Note 4 of the financial statements. As there is a possibility that management may be put under pressure to achieve revenue forecasts, this was identified as an area where fraud could occur. We considered this would most likely occur through posting a manual journal (including a topside entry at a Group level) or through accrued income balances which remained on the balance sheet at year end. This risk was identified in relation to the following revenue streams: • Provision of advertising and marketing services; • Commission based income in relation to media spend; and • Commission based income in relation to talent performance. In addition, we identified a risk of error in relation to the misapplication of IFRS 15 *Revenue from Contracts with Customers ("IFRS 15")* given the extensive Group structure and varying levels of understanding of this standard by management across the Group. This risk was identified in relation to the following revenue stream: • Provision of advertising and marketing services.	We performed walkthroughs of the revenue process to understand the revenue recognition for each of the full scope reporting units. For a sample of contracts within each in-scope reporting unit, we performed the following procedures to ensure revenue transactions existed and were accurately recorded: • Obtained and read the underlying contracts to understand the nature of the project/revenue, including understanding the number of performance obligations in line with IFRS 15 and whether these were to be recognised over time or at a point in time; • Examined management's assessment of agent versus principal based on the underlying contracts and challenged management to provide additional support for those contracts that were considered to be the most judgemental; and • Detailed testing from contract, through to invoice, evidence supporting the level of work performed (where multiple performance obligations exist, or percentage of completion is applied) and cash received. We tested debit balance sheet line items (e.g. accrued income within contract assets and other receivables) to underlying documentation including contracts, invoices and post year end cash receipts to obtain a 'high' degree of assurance. This was performed through targeted and non-statistical sample testing to gain audit evidence over the existence and cut-off of revenue transactions. In addition to the work performed over full scope components as detailed above, we also performed a detailed assessment of a number of out of scope components with significant revenue balances including obtaining supporting documentation (e.g. contracts) for significant contracts and assessing contract related balance sheet items to ensure these were supportable, as well as considering the judgemental areas as set out above. We also performed testing of unusual journals impacting revenue, firstly through the use of data analytics to identify unusual account combinations, and then obtaining supporting documentation for any identified journals to ensure these were appropriate entries. All material topside consolidation journals were also subject to detailed testing. Our work identified a number of errors in relation to revenue recognition under IFRS 15 but did not indicate any fraudulent matters. Following adjustments made by management, we noted no remaining material issues arising from our work.

INDEPENDENT AUDITORS' REPORT CONTINUED

Key audit matter	How our audit addressed the key audit matter
Valuation of financial assets at fair value through profit or loss (Group)	
This key audit matter was referred to as "Valuation of unlisted investments (Group)" in the prior year audit report. Refer to the accounting policies and Note 19 of the financial statements. The Group holds shares in unlisted investments, which are held at fair value, with fair value gains and losses recognised in the income statement. At the balance sheet date, these were valued at £11.4m (2019: £14.9m) The investments are in unlisted early stage businesses, of which the Group holds a small percentage of the equity. There is judgement applied in the consideration of the valuation of the equity, with most being based on a recent funding round or sale of shares, however, some valuations are made based on the fund manager's expertise with less supporting evidence presented by management. As such, we included this as a key audit matter due to the high level of judgement and subjectivity applied.	Our audit procedures included: • obtaining a full list of investments from management and testing this for completeness based on review of documentation including board minutes and discussions with management. • agreeing the initial cost and opening balances of investments back to the previous year's audited balances • obtaining management's valuations for investments, except for those that were both individually and in aggregate below performance materiality of £0.5m, and - holding discussions with the relevant fund managers to assess their suitability and reliability (e.g. proximity to latest funding round, class of share issued and whether the issue included third parties) for inclusion in the valuation model; - agreeing the inputs into these valuations to external sources where available, e.g. information on funding rounds, investor calls and other available information (from the Company or other publicly available information); - searching for ancillary evidence at Companies House, on the internet and from other sources to corroborate or contradict management's estimates; - considering the impact on valuations of different share classes of the investment held compared to any funding round, considering whether there were any circumstances or events that had arisen since the dates of the valuation inputs that would impact on the valuations; and • for those that were considered to be highly judgemental, we engaged our valuations specialists to assist with the assessment of the valuations. Our work identified a number of adjustments which have been reflected by management in the financial statements.

Key audit matter	How our audit addressed the key audit matter
Recoverability of investments in subsidiaries and intercompany receivables (Company)	
Refer to the accounting policies in Notes 37 and 42 (Company) of the financial statements. The Company balance sheet includes £129.9m (2019; £128.0m) investment in subsidiaries and £87.8m (2019: £89.8m) intercompany receivables. The testing of these balances for impairment is inherently judgemental as it relies on a number of estimates including profit and cash flow forecasts, discount rates and long term growth rates. These items are all subjective and susceptible to management bias and calculation risk, and any resulting impairment charges could be material.	To address the risk over recoverability of investments in subsidiaries and intercompany receivables, we performed the following procedures: • Obtained and evaluated management's assessment of the classification of intercompany loans within the scope of IFRS 9 *Financial instruments* ("IFRS 9") or IAS 27 *Consolidated and separate financial statements*; • Assessed management's calculation of the expected credit losses under IFRS 9 in relation to the intercompany loans; • Tested the recoverable values of investments by testing the discounted cash flow model utilising valuation specialists to assess the discount rates and long term growth rates applied to management's forecasts; • Evaluated the difference between the total investment carrying value and the Group's market capitalisation; and • Evaluated whether the classification of these loans is appropriate in the Company balance sheet. Based on the procedures performed and following adjustments made by management, we noted no material issues arising from our work over the recoverability of investments in subsidiaries and intercompany receivables.

INDEPENDENT AUDITORS' REPORT CONTINUED

Key audit matter	How our audit addressed the key audit matter
Consideration of the impact of the Covid-19 pandemic (Group and Company)	
Refer to Going concern, significant accounting judgements and, significant estimates and assumptions in the Preparation section of the financial statements. The Covid-19 pandemic has had a significant impact on economies globally with consequences for the judgements and estimates made by the Group and Company. The extent of the negative impact of the pandemic on future trading performance is unclear and measurement of this, as it relates to the financial statements, involves a degree of estimation uncertainty. Management has had particular focus on the Group's and Company's ability to continue as a going concern. Management considered its forecasts as part of the Group's and Company's going concern statements and the Group's viability assessment, including the impact of reduced revenues and adjusted operating margins due to the impact of the Covid-19 pandemic. This includes applying stress tests to reflect the potential for heightened financial risk stemming from the ongoing effects of the pandemic by modelling possible downside scenarios to its base case model. Having considered the impact of these possible downside scenarios, together with an assessment of planned and possible mitigating actions, management has concluded that the Group and Company are going concerns, and that there is no material uncertainty in respect of these conclusions.	We evaluated management's assessment of accounting estimates within the financial statements which could be impacted by the challenging economic environment resulting from the Covid-19 pandemic. This includes management's assessment of expected credit losses for current assets in the Group and Company and intercompany receivables in the Company. In addition, we audited management's goodwill impairment assessment which is based on management's 5 year plan. We did not identify any issues with management's measurement of these estimates. We also considered the appropriateness of management's disclosures in the Annual Report of the impact of the current environment and the increased uncertainty on its accounting estimates and found these to be adequate. With respect to management's going concern statements and viability assessment, we evaluated management's base case and downside scenarios, challenging key assumptions together with assessing the Group's available facilities. The procedures performed and our conclusions in respect of going concern are set out in the "Conclusions relating to going concern" section below. Our consideration of the directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group, is set out in the "Corporate Governance Statement" section below. We considered whether changes to the Group and Company's working practices brought about by the impact of the Covid-19 pandemic had had an adverse impact on the effectiveness of management's business process and IT controls. We did not identify any evidence of significant deterioration in the control environment.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's consolidation comprises 117 reporting units including trading entities, holding companies and dormant entities. The Group's trading entities vary significantly in size and we identified 21 reporting units that, in our view, required an audit of their complete financial information, due to their size or risk characteristics.

Specific audit procedures over revenue transactions were performed at an additional reporting unit, to give appropriate coverage over the balance at the Group level. Further, specific audit procedures over central functions and areas of significant judgement, including financial assets at fair value through profit or loss, IFRS 2 Share-based Payment, minority shareholder put option liabilities, IFRS 16 Leases, goodwill and other intangibles, taxation and going concern were performed by the Group audit team centrally. Together, the reporting units subject to audit procedures and centralised testing accounted for 85% of Group revenues and 78% of absolute Group profit before tax. For all reporting units that were not considered to be in scope for audit procedures, the Group audit team performed desktop review procedures on a reporting unit basis.

Where the work was performed by an overseas reporting unit audit team, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. As a part of our year end procedures, we held numerous discussions with the overseas reporting unit teams to evaluate and review the work performed, update calls on the progress of their fieldwork, discussion of issues arising and judgements taken, and involvement in key meetings with local management.

Our scoping of the Company was based on the materiality of the Company, and covered all material financial statement line items and related disclosure notes. All work was performed by the Group audit team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

INDEPENDENT AUDITORS' REPORT CONTINUED

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£1,000,000 (2019: £1,100,000).	£1,600,000 (2019: £1,600,000).
How we determined it	Professional judgement having applied 'rule of thumb' percentages to a number of potential benchmarks and considering the overall scale of the business	1% of net assets
Rationale for benchmark applied	We considered calculating materiality in several ways, including: (a) Application of a 5% statutory loss before tax, resulting in an indicative overall materiality of £0.4 million; and (b) Application of a 1% revenue, resulting in an indicative overall materiality of £3.2 million. In our professional judgement, we concluded that materiality at the higher end of the range (£3.2 million) would encompass amounts which, if impacting reported profits, could influence decisions made by the Group's members as a body, and which therefore would be considered material. We also concluded, in our professional judgement, that amounts at the lower end of the range (£0.4 million) would not influence such decisions, given the scale of the Group's operations. We therefore determined that an appropriate level of materiality for performing the 2020 audit would be within this range, whilst at neither the upper nor the lower end. Based on our professional judgement, we selected an overall materiality of £1.0 million.	As a non-trading entity, net assets is the key measure used by members in assessing the performance of the Company for the year.

For each component in scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £60,000 to £765,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 50% of overall materiality, amounting to £500,000 for the Group financial statements and £800,000 for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk, and the effectiveness of controls – and concluded that an amount at the lower end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £30,000 (Group audit) (2019: £55,000) and £30,000 (Company audit) (2019: £55,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining the directors' financial forecast used in their going concern assessment and their downside sensitivities and conclusions;
- testing the mathematical accuracy of the directors' financial forecasts and the calculations for financial covenant compliance;
- discussing and challenging management and the directors on the key assumptions made in their going concern assessment;
- obtaining evidence supporting the reasonableness of the significant assumptions, including internal documentation and, where possible, external evidence;
- considering the potential impact of the Covid-19 pandemic on the performance of the Group globally and how this might impact forecasts;
- agreeing cash positions across the Group to bank statements at 31 July 2021;
- assessing the likelihood of the different scenarios and sensitivities considered by the directors and performed our own independent assessment of other potential downside scenarios;
- examining banking agreements in respect of the Group's new revolving credit and overdraft facility entered into in May 2021 and the related covenants. We assessed the covenant compliance of each forecast model; and
- considering the appropriateness of the disclosures made in respect of the going concern basis of preparation.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

INDEPENDENT AUDITORS' REPORT CONTINUED

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance Review is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;

INDEPENDENT AUDITORS' REPORT CONTINUED

- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the audit committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax regulations, anti-bribery and corruption legislation, health and safety regulation and equivalent local laws and regulations applicable to reporting components, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and AIM Rules for Companies. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, management bias in accounting estimates and the potential impact of management incentive schemes held in subsidiaries. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, Group legal counsel and the Audit Committee including consideration of known or suspected instances of non-compliance with laws and regulations and frauds;
- Reading minutes of board meetings and details of cases identified through whistleblowing systems;
- Agreeing financial statement disclosures to supporting documentation to assess compliance with applicable laws and regulations;
- Challenging management's significant judgements and estimates in particular those relating to fair value measurement of financial instruments, valuation of management incentive schemes, carrying value of goodwill, other intangibles and other assets, deferred tax assets and provisions;
- Considering the entities with management incentives schemes and how these might influence local management's incentive to manipulate results and performing procedures aimed to identify this; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, and testing all material consolidation journals.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

In respect solely of the limitation on our work in respect of the comparability of the Group's loss and cash flows with the 2019 year-end, described in the Basis for qualified opinion paragraph above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether adequate accounting records have been kept by the Company.

Under the Companies Act 2006 we are also required to report to you if, in our opinion:

- returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

OTHER VOLUNTARY REPORTING

Directors' remuneration

The Company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' remuneration report specified by the Companies Act 2006 to be audited as if the Company were a quoted Company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

NIGEL REYNOLDS
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 August 2021

GLOSSARY

Billings	Billings comprise all gross amounts billed, or billable to clients in respect of commission-based and fee-based income, whether acting as agent or principal, together with the total of other fees earned, in addition to those instances where the Group has made payments on behalf of customers to third parties. It is stated exclusive of VAT and sales taxes. This is a non-Statutory number and is unaudited.
Headline	The Directors believe that the Headline results and headline earnings per share measures provide additional useful information on the underlying performance. The Headline result is used for internal performance management, calculating the value of subsidiary convertible shares and minority interest put options. The term Headline is not a defined term in IFRS. Headline results represent the underlying trading profitability of the Group, excluding all accounting charges related to equity and investments. The items that are excluded from Headline results are the exceptional items; the amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investments in associates and right-of-use assets; gain or loss on disposal of associates and subsidiaries; revaluation of investments in Saatchinvest and their related costs; and the income statement impact of put option accounting and share-based payment charges. Exceptional items include restructuring and costs relating to the accounting misstatements identified in 2019.
Company	M&C Saatchi Plc, a company incorporated and domiciled in England and Wales, listed on the AIM Market of the London Stock Exchange plc.
Group	The Company and its subsidiaries.
Net debt	Net debt at a period end is calculated as the sum of the net borrowings of the Group, derived from the cash ledgers and accounts in the balance sheet. Net debt excludes lease liabilities.
Net revenue	Net revenue is equal to revenue less project cost/direct cost. It is not an IFRS defined term. It is, however, used as a key performance indicator by the Group.
Minority interests and non-controlling interest	Within the Group, there are a number of subsidiary companies and partnerships in which employees hold a direct interest in the equity of those companies. These employees are referred to as minority shareholders. Of these subsidiary companies and partnerships, the majority account for the shareholding of their minority shareholders as a management incentive (through the award of conditional shares) and are 100% consolidated in the Group's financial statements. The remaining seven subsidiary companies (including one without a put option) account for their minority shareholders as non-controlling interests, a defined IFRS term, with their share of the Group's profits being shown separately on the Income Statement.
Revenue	Revenue comprises the total of all gross amounts billed, or billable to clients in respect of commission-based, fee-based and any other income where we act as principal and our share of income where we act as an agent. The difference between Billings and Revenue is represented by costs incurred on behalf of clients with whom we operate as an agent, and timing differences where invoicing occurs in advance or in arrears of the related revenue being recognised.

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PRELIMINARY ANNOUNCEMENT OF 2021 RESULTS
Late May 2022


TOURISM
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Annual Report and Accounts 2020