Registered number 1403668

AEGIS GROUP PLC

Annual Report and Accounts 2004

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Directors and advisors >

Directors of Aegis Group plc
Lord Sharman, *non-executive Chairman*
Robert Lerwill, *Chief Executive Officer*
Adrian Chedore
Daniel Farrar, *non-executive*
Bernard Fournier, *non-executive*
Jeremy Hicks, *Chief Financial Officer*
Charles Strauss, *non-executive*
David Verklin
Leslie Van de Walle, *non-executive*

Company Secretary
John Ross

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London EC4A 3TR

Registrars
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Stockbrokers
Hoare Govett Limited
250 Bishopsgate
London EC2M 4AA

Report of the directors >

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2004.

Results and dividends
The profit and loss account is set out on page 45 and shows a retained profit for the financial year of £16.6 million (2003: £6.4 million) all of which was transferred to reserves. An interim dividend of 0.575p per share was paid on 1 October 2004 to ordinary shareholders. The directors recommend a final dividend for the year of 0.875p per share which, if approved at the Annual General Meeting, will be payable on 24 June 2005 to ordinary shareholders registered at 3 June 2005. The total dividend for the year will then amount to 1.45p per share (2003: 1.32p).

Principal activity
The principal activity of the Company is that of a holding company based in London. Its subsidiaries and related companies provide a broad range of services in the areas of media communications and market research.

Review of business and future developments
A review of the business and likely future developments of the Group is given in the Letter to Shareholders on pages 3 and 4 and in the Financial and Operating Reviews on pages 6 to 20.

Research and development
The Group is involved in media research and development in order to offer clients the most advanced media communications services. During the year, the Group spent £27.6 million (2003: £25.8 million) on research and development.

Donations
The Group's policy with respect to charitable donations and the amounts donated are detailed on page 22.

Employment policies
The Group operates throughout the world and therefore has developed employment policies that meet local conditions and requirements. These policies are based on the best traditions and practices in any given country in which it operates and are discussed on page 22.

Health & safety policies
The Group is committed to conducting its business in a manner which ensures high standards of health and safety for its employees, visitors and the general public. It complies with all statutory and regulatory requirements.

Ethical, environmental & social issues
The Group takes its ethical, environmental and social responsibilities seriously and details of our policies in these respects are given on pages 22 to 23.

Supplier payment policy
Whilst the Company does not impose a formal code of payment practice on its subsidiaries, the Group nevertheless does have a policy toward the payment of its suppliers and details are given on page 22.

At 31 December 2004, the Group had 60 days purchases outstanding (2003: 67 days). The creditor day analysis is not applicable to the holding company.

Directors
The names of the directors at the date of this report and biographical details are given on pages 24 and 25.

Changes in the directorate since the year end have been as follows:

Doug Flynn (formerly Chief Executive Officer, resigned from that position as at 07.02.05 and as a director of the Company on 31.03.05)
Robert Lerwill (formerly non-executive director, was appointed as Chief Executive Officer on 07.02.05)

The interests of the directors in the shares of the Company are shown in the Remuneration Report on pages 34 to 42.

Report of the directors (continued) >

Re-election of directors
In accordance with the Articles of Association, Lord Sharman, Jeremy Hicks and Adrian Chedore retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. Details of all the directors' service agreements, including notice periods, are given in the Remuneration Report on pages 34 to 42.

Substantial shareholdings
At 7 April 2005 the Company had been notified of the following interests of 3% or more in its ordinary shares:

	Number of Shares	%
Harris Associates	110,765,700	9.90
Aegon Asset Management UK	55,155,920	4.93
Fidelity Investments	79,910,337	7.18
Legal & General Investment Management	36,378,291	3.25
The Goldman Sachs Group	34,761,871	3.10

Share capital
Details of share capital movements (authorised and issued) are given in note 17 to the financial statements on page 62.

Special business at the Annual General Meeting
Details of the special business and the resolutions to be proposed at the forthcoming AGM are given in the enclosed circular to shareholders, along with the Notice of Meeting.

Auditors
Resolutions to re-appoint Deloitte & Touche LLP as auditors to the Company and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

Directors' responsibilities
United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

John Ross
Company Secretary
8 April 2005

Corporate governance >

The Board supports the highest standards of corporate governance and the directors consider that throughout the period under review the Company has complied with the provisions set out in Section 1 of the Combined Code of Corporate Governance issued in July 2003 (the Code) as incorporated into the UK Listing Authority Listing Rules, save that the US based executive director, David Verklin, has a rolling service contract with a contractual termination payment provision in excess of one year and, prior to his resignation, Doug Flynn had a contractual notice period of 24 months. Details of David Verklin's contractual entitlement on termination are set out on page 36 and the board believes that his contract is appropriate given the need to retain a key senior operational executive in the context of highly competitive local market conditions. The Board believed that Doug Flynn's service contract had been in line with comparable agreements within the industry when it was entered into but had committed to bring it into line with best practice. Following his resignation Doug Flynn received no contractual compensation. Details of the contractual notice periods applicable to the other executive directors are set out on page 36.

At the date of this report the Board comprises 9 directors, with four executive directors and five non-executive directors. Their biographies illustrate the directors' range of experience, which ensures that the Company has an effective Board to lead and control the Group. The Board has determined that each of the non-executive directors is independent, as they are independent of the Company's executive management and free from any material business or other relationship with the Company. Accordingly, the Board believes that there are no such relationships that could materially interfere with the exercise of their independent judgement. Robert Lerwill was the nominated senior independent director up until his appointment as Chief Executive Officer on 7 February 2005. The board is seeking to appoint an additional two non-executive directors over the course of 2005 and a decision will be taken at that time as to the appointment of a new senior independent director to whom shareholders may convey any concerns in the event that they do not wish to involve the Chairman or the Chief Executive Officer. Pending the announcement of such appointment, shareholders may convey any concerns to any of the non-executive directors. The roles of Chairman and Chief Executive Officer are clearly established, being set out in writing and agreed by the Board. The Chairman was independent at the time of his appointment and has remained so since. The Board has a formal induction plan for non-executive directors to ensure that a comprehensive familiarisation programme is in place. Ongoing training needs for all directors are met as required and at each board meeting one or two presentations are arranged from different business units in order that the non-executives in particular continue their process of familiarisation with the business of the Group. The Board meets at least seven times a year and more frequently when business needs require. One meeting is devoted entirely to the development of the Company's strategy.

The following table identifies the number of Board and Committee meetings held during the past year and the attendance record of individual directors.

		Committee meetings		
	Board meetings	Audit	Remuneration	Nomination
No. of meetings in year	**7**	**3**	**1**	**1**
Lord Sharman	7	–	–	1
Douglas Flynn	6	–	–	1
Adrian Chedore	7	–	–	–
Daniel Farrar	7	–	–	1
Bernard Fournier	7	3	1	1
Jeremy Hicks	7	–	–	–
Robert Lerwill	7	3	1	–
Charles Strauss	6	–	1	1
David Verklin	6	–	–	–
Leslie Van de Walle	7	3	1	1

The Chairman holds meetings with the other non-executive directors without the executive directors being present. In 2004, the non-executives, led by the senior non-executive director, started the process of meeting at least annually without the Chairman being present to appraise the Chairman's performance. As a result of this the senior independent director and the Chief Executive Officer met with the Chairman to discuss particular issues where it was felt that improvements could be made.

The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. Board meetings follow a formal agenda and the Board has a schedule of matters specifically reserved to it for decision, including approval of interim and annual results, the dividend policy, approval of all circulars and listing particulars, matters relating to share capital, approval of the annual budget and approval of major capital projects, investments and commitments. All directors have access to the advice and services of the Company Secretary and, if required, external professional advice at the Company's expense. The Board considers that the Company has in place an appropriate level of Directors and Officers insurance cover in respect of legal action against the directors.

In accordance with the Company's Articles of Association, one third of the Board are required to retire by rotation each year so that over a three-year period all directors will have retired from the Board and faced re-election.

Corporate governance (continued) >

During 2004 the Board introduced a formal performance evaluation appraisal of the Board as a whole and of all of the individual directors. This was undertaken by one of the Group's specialist research companies with each director completing a detailed questionnaire which sought an assessment of the effectiveness of the board and the contribution of individual directors. The responses were aggregated and fed back to the board. The Chairman has provided feedback on individual assessment and overall board performance and agreed any actions necessary to assist improvements. It is planned to build on this process and in the 2005 evaluation process the performance of the board committees will be added to the review process.

Board committees
The Board sets the terms of reference for all board committees which are formally documented and regularly updated. The main roles and responsibilities of the committees, including the authority delegated to them by the Board, as set out in the terms of reference, are displayed on the Company's website at www.aegisplc.com.

Audit Committee
Robert Lerwill chaired the Audit Committee until stepping down from the committee following his appointment as Chief Executive Officer on 7 February 2005. Robert Lerwill is a chartered accountant and has significant recent and relevant financial experience. The other two, continuing members of the Committee are Bernard Fournier and Leslie Van de Walle. The board is seeking to appoint two new non-executive directors with the intention that one of the appointees will be suitably qualified to join and chair the Audit Committee. In the interim, Lord Sharman, who is a chartered accountant and has significant recent and relevant financial experience, is chairing the Audit Committee. The Chief Financial Officer and the external auditors attend all meetings. Although not a member of the Committee, the Chief Executive Officer may attend meetings. The Committee chairman has, and also uses, together with the other members of the Committee, the opportunity to meet with the auditors without management present. The Board considers that, through the Audit Committee, it has an objective and professional relationship with the external auditors.

The Committee meets three times a year:

- To review the half-year interim results and the findings of the auditors' review and to discuss the scope of the current year full audit
- To review internal risk management and controls and to consider progress reports from the Group Risk Committee and Group Risk Manager
- Before the release of the preliminary announcement of the annual results, to review the year's results and audit findings

In reviewing the half-year and annual financial statements the Committee focuses in particular on:

- Changes in accounting policies and practices
- Major judgemental areas
- Significant adjustments resulting from the audit
- The going concern assumption
- Compliance with accounting standards and the Combined Code
- Compliance with stock exchange and legal requirements

In addition the Committee has responsibility for making recommendations to the Board in relation to the external auditors' appointment, monitoring and reviewing the external auditors' independence, objectivity and effectiveness and developing and implementing policy on the engagement of the supply of non-audit services. Details of amounts paid to the external auditors in respect of audit and non-audit services are given in note 6 to the financial statements. The Committee has confirmed that the policy applied by the external auditors concerning rotation of audit partner complies with current guidance issued by the Institute of Chartered Accountants in England and Wales.

During the year the Committee involved itself in a number of specific matters including:

- As reported in last year's Report and Accounts, conduct of the external auditor review which culminated in the appointment of Deloitte & Touche LLP as the Company's external auditors
- Review and consideration of issues arising from the Smith Committee Report
- Consideration of the impact of IFRS reporting
- The introduction of an internal audit function

Corporate governance (continued) >

Remuneration Committee
During the year the Remuneration Committee comprised Charles Strauss (chairman), Robert Lerwill and Daniel Farrar. Since being appointed as Chief Executive Officer on 7 February 2005, Robert Lerwill has stepped down from the Committee and it is intended that he will be replaced once a new non-executive director is appointed. The Committee meets periodically as required but not less than once a year. It is responsible for overseeing the policy regarding executive remuneration and for determining the remuneration packages for the Group's executive directors. It is also responsible for reviewing incentive schemes for the Group as a whole and is empowered to approve awards under the 2003 Executive Share Option Scheme and the 2003 Performance Share Plan.

Although not a member of the Committee, the Chief Executive Officer may attend meetings and the Committee consults him on proposals relating to the remuneration of the other executive directors and other appropriate senior executives. He does not attend when the Committee discusses matters relating to him. Similarly, the chairman of the Board is not a member of the Committee but may attend meetings and is consulted by the Committee on proposals relating to the remuneration of the Chief Executive Officer.

Nomination Committee
The Nomination Committee comprises all of the non-executive directors together with the Chief Executive Officer and is chaired by Lord Sharman. The Committee meets as and when necessary and has responsibility for reviewing the board structure, size and composition, and for identifying and nominating to the Board candidates for appointment as directors.

The Committee meets once a year, together with the Group Human Resources director, specifically to review the Group's ongoing succession planning. This is key to ensuring that the Group maintains an appropriate balance of skills and experience across the Group and on the board.

The Committee had a number of discussions recently to review proposals for the successor to Doug Flynn as Chief Executive Officer and also proposals for two new non-executive directors. In its deliberations over the successor to Doug Flynn, the Committee did not use the services of an external search consultancy. It was felt very strongly that Robert Lerwill had all the attributes necessary to fill the role, including extensive experience of the media world, both internationally and in the UK and having been a non-executive director of the Company since 2000, a good level of knowledge of the business and its management. The Committee is using the services of a search consultancy in respect of the new non-executive director appointments.

Internal control and risk management
The Group operates a system of internal control, which is maintained and reviewed in accordance with the Code and the guidance contained in the Turnbull Report.

The Board has overall responsibility for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness whilst the role of management is to implement Board policies on risk and control. The system of internal controls is designed to manage rather than eliminate the risk of failure of the achievement of business objectives. In pursuing these objectives, internal controls can only give reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee reviews the effectiveness of the risk management process and any significant risk issues are referred to the Board for consideration.

An executive committee (the "Group Risk Committee") has been in place since early 2003 to manage and monitor the Group's risk and control processes and procedures. Membership of the committee comprises:

Group Risk Manager	Group HR Director
Group Chief Financial Officer	Group Company Secretary
Group Legal Counsel	Group Chief Information Officer

Senior representatives from the various operating Group businesses

The committee meets three times a year.

The role of the Group Risk Manager is to develop policies and procedures and to manage the risk self-assessment program and the internal control peer reviews, together with other activities as directed by the Group Risk Committee.

The chairman of the Audit Committee reports the outcome of the Audit Committee meetings and of the Group Risk Committee meetings to the Board and the Board also receives the minutes of the meetings of both committees.

Corporate governance (continued) >

The key procedures which have been in place throughout the year and up to the date of approval of the Annual Report and Accounts are as follows:

a The Board has overall responsibility for the Group's system of internal controls, including financial, operational and compliance controls and risk management. The full Board meets regularly and has adopted a schedule of matters which are required to be brought to it for consideration, thus ensuring that it maintains full and effective supervision over appropriate controls. The Group's strategic direction is reviewed annually by the Board. The Chief Executive Officer together with the executive directors consider the strategy for the individual businesses.

b The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. Annual plans and performance targets for each business are set by the executive directors and reviewed by the Board in the light of the Group's overall objectives. The division of responsibility at Board level is achieved by the appointment of a non-executive Chairman and a Chief Executive Officer. Management of the Group's day-to-day activities is delegated to the Chief Executive Officer and the executive directors and they review on a regular basis any significant risks which the business faces.

c Each operation's chief executive officer is responsible for:
 i the conduct and performance of their business;
 ii ensuring an effective system of internal controls is in place;
 iii meeting defined reporting timetables and ensuring compliance with the Group's policies and controls; and
 iv signing-off their accounts on a monthly basis subject to the limitations set by the annual business strategy and the reserved powers and sanctioning limits laid down by the Board.

d The Board receives, on a monthly basis, financial results from each business and the Group reports biannually to shareholders based on a standardised reporting process.

e The Audit Committee, comprised exclusively of non-executive directors, reviews the effectiveness of the internal control environment of the Group and receives reports from the Group Risk Committee, the Group Risk Manager, the Chief Financial Officer and the external auditors on a regular basis.

f The internal financial control system is reviewed by Group Finance which reports to management and the Audit Committee. Group Finance, the Group Risk Manager and the external auditors co-ordinate their work to the extent necessary for the external auditors to express their audit opinion on the Group's report and accounts.

g There is a clearly defined framework for approving all acquisitions, new and renewing leases, major capital projects and expenditure within the Group. An acquisitions committee reviews all proposals before they are submitted either to the Chief Executive Officer for approval or to the full Board (in the case of any acquisition over £15 million). All property lease proposals have to be approved by the relevant regional business head before then being submitted to Group head office for consideration by the Chief Financial Officer. All major capital projects and expenditure are submitted to Group head office for approval by the Chief Financial Officer either at the time of the annual budget process or at quarterly review dates.

h A detailed manual of Group Principles and Policies is held by all Group senior management. The manual formally collates, in a single document, policies that apply throughout the Group and which address legal, financial, IT, personnel and other areas of risk. During the year an employee version of the manual was made available, via the Company's intranet site, to other employees around the Group.

i A formal risk self-assessment programme using an online questionnaire is used twice each year. It requires every business unit CEO to report, for each of the Group's key risks, the status of internal control and risk management within their operation. The results, including management's planned actions, are analysed by the Group Risk Committee.

j A peer review programme takes place at higher risk locations within the Group and each review assesses the controls over the Group's key risks. The reviews are carried out by experienced finance directors from other Group operating companies. The reviews are structured to ensure that each of the Group's key risks are rigorously evaluated using a consistent approach and a common work program. The results are reported to country, regional and Group management and to the Risk and the Audit Committees. Action plans to address any areas of concern are agreed with management and implementation is monitored. The results are reported to the Group Risk Committee.

k Arrangements are in place that allow employees, in confidence, to raise any concerns about possible improprieties in matters of financial reporting or other matters.

Corporate governance (continued) >

During 2004 the Group Risk Manager and Group Risk Committee have continued to build on the above core procedures and processes. In particular the following matters were implemented to further strengthen the internal control infrastructure and environment:

- Peer reviews were conducted at 27 businesses.
- The key risks that confront the Group were reviewed and revised accordingly. The revised risks were used to adjust the focus of the internal control peer review program and the December risk self assessment survey. In addition, each regional CEO regularly submits to the Group CEO an assessment of the current major risks facing his business and any actions taken.
- Each business within the Group was targeted to produce a documented Business Continuity Plan by December 2004. Guidance including a template was produced and the best plans were shared to encourage best practice throughout the Group. During 2005 the focus will move to the maintenance and updating of the plans and testing the plans to verify that they work and to help train the recovery teams in each business.
- A structured and detailed fraud management workshop has been developed by the Group Risk Manager and run to train finance, IT, HR and client service management in 20 countries to date. Further workshops are planned in 2005 throughout the Group.
- The Group uses the Internet in many ways. This includes delivering client service through Isobar and Synovate, as well as deploying extranets for over 25 clients and intranets for sharing information internally. All uses introduce risks and a best practice guide has been developed, distributed and implemented.

Following a recommendation from the Audit Committee the Board has decided that, with the continuing growth and diversity of the Group's business, an Internal Audit function should be introduced during 2005. A more detailed report on this function will be included in the 2005 Annual Report and Accounts.

The Board confirms that it has reviewed the effectiveness of the system of internal controls and that there are ongoing processes for identifying, evaluating and managing the significant risks faced by the Group.

Going concern
Based on normal business planning and control procedures, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Relations with shareholders
Good relations with shareholders are of prime importance to the Company. Formal presentations are made to institutional investors and brokers' analysts after the release of the Group's interim and final results. Individual meetings are held during the year to ensure that the strategies and objectives of the Company are well understood and the larger institutional investors are offered the opportunity to meet with newly appointed non-executive directors.

The Board receives regular briefings from the Company's brokers giving views on shareholder perceptions and is considering what further steps it might take to improve its understanding of shareholder issues.

The Annual General Meeting provides an opportunity for shareholders to address questions to the Chairman or the Board directly (including the chairmen of the Board Committees). Shareholders may also discuss any issues on an informal basis following the conclusion of the Meeting.

Published information, including press releases, is available on the Aegis website (www.aegisplc.com).

John Ross
Company Secretary
8 April 2005

Remuneration report >

The Remuneration Report is presented to shareholders by the Board and sets out the remuneration policies operated by the Company and details the remuneration of each director. The Remuneration Report will be put to the Annual General Meeting for approval by the shareholders. This vote is advisory only. The Board has an established Remuneration Committee, the members of which are disclosed on page 31.

New Bridge Street Consultants LLP ("NBSC") has been appointed by the Remuneration Committee to provide advice on directors' remuneration and the Company's share incentive schemes. NBSC provides no other services to, and has no other connection with, the Company.

Remuneration policy
In determining the remuneration packages of the executive directors, the Committee has regard to two fundamental principles:

- the importance of attracting, motivating and retaining management of the highest calibre; and
- linking reward to the Group's performance.

The Committee has applied, and continues to apply, these principles to develop remuneration packages which:

- provide a competitive base salary designed to attract and retain executive directors of the highest calibre and to reflect their role and experience;
- provide incentive arrangements which are subject to challenging performance targets, reflect the Company's objectives and recognise the importance of providing sustained motivation of management to focus on annual, as well as longer-term, performance; and
- align the interests of the executive directors with those of shareholders.

In order to achieve these objectives, the Committee's approach is that a substantial proportion of the overall remuneration package should be linked to performance, through participation in short-term and long-term incentive schemes.

The Committee determines remuneration packages with regard to the prevailing pay and benefits conditions across the Group's markets.

Remuneration package of executive directors
The main components are:

- *Base salary and benefits*
  Base salary and benefits are determined on an annual basis by the Committee after a review taking into account the individual's performance, market trends and the performance of the Group as a whole and, where relevant, the performance of the business for which the executive is responsible. For guidance, the Committee has regard to available research and published remuneration information on companies within the same industry and markets in the countries in which the executives are based. Base salaries prevailing at the date of this report are: Robert Lerwill £600,000, Jeremy Hicks £330,000, Adrian Chedore £293,774 and David Verklin £384,096. A summary of the benefits payable to executive directors is given on page 38.
- *Bonus schemes*
  All of the executive directors participate in the Group's Annual Cash Bonus Scheme based upon achievement of individual objectives and financial targets (profit before tax and management charges) linked to Group and, in the case of directors with operational responsibilities, regional performance. This may result in the payment of cash bonuses of up to 25% of base salary for on-target financial performance, with the opportunity to earn higher bonuses for exceptional performance up to 75% of base salary (100% for the Chief Executive Officer).

  Additionally, the executive directors with operational responsibilities (Adrian Chedore and David Verklin) participate in a separate deferred annual cash bonus scheme based on achievement of a demanding year on year profit growth of the businesses for which they are responsible. This additional plan has been in operation in order to provide competitive total cash remuneration using, as a benchmark, other media businesses and to reflect their critical contribution to the business. This additional bonus is potentially worth up to 200% of base salary. The payment of half of any such bonus is deferred for one year. This deferred bonus will normally be forfeited in the event that the director leaves the Group.

Remuneration report (continued) >

- *Share-based incentives*

  At the 2003 Annual General Meeting shareholders approved the adoption of a new 2003 Executive Share Option Scheme and a new 2003 Performance Share Plan. These schemes replaced all of the previous share-based incentive schemes and were designed to reflect changes in the guidelines issued by institutional shareholders and developments in market practice.

  i) 2003 Executive Share Option Scheme

  In any financial year, an executive can receive share options worth no more than three times basic salary in normal circumstances. As part of his agreement on becoming Chief Executive Officer, Robert Lerwill was granted options over 1.5 million shares on 9 March 2005 (at an exercise price of 106.5p, equating to 2.66 times salary). The exercise of options is based upon the Company's earnings per share ("EPS") growth relative to inflation ("RPI"), and the following performance conditions apply:

Average annual EPS growth in excess of RPI	Proportion of option grants exercisable
3%	Up to 0.5 x salary
3% to 7%	0.5 to 1 x salary (pro rata, on a straight-line basis)
7% to 12%	1 to 2 x salary (pro rata, on a straight-line basis)
12% to 17%	2 to 3 x salary (pro rata, on a straight-line basis)

  Following a review by the Remuneration Committee, the EPS growth targets have been increased as detailed above for grants made in 2005 in recognition of the outlook for the business, to ensure that performance conditions remain appropriately stretching. EPS growth targets for awards made in 2003 and 2004 are detailed on page 40.

  These EPS performance conditions are tested after three financial years beginning with the year in which options are granted. For grants made after 31 December 2004 there is no provision for retesting. To the extent that the performance conditions are not satisfied, the options lapse.

  ii) 2003 Performance Share Plan

  In any financial year, an executive can receive a conditional award of shares worth no more than two times basic salary in normal circumstances. On 9 March 2005 Robert Lerwill was granted a conditional award of 1 million shares (worth on the date of award £1,065,000, equating to 1.77 times salary). The extent to which awards vest is determined partly by reference to the Company's Total Shareholder Return ("TSR") performance relative to a group of similar businesses and partly by reference to the Company's EPS growth relative to RPI.

  The following TSR targets apply:

TSR performance relative to peer group	Proportion of award vesting
Median or below	nil
1st or 2nd	50%
For intermediate performance	Nil to 50% (pro rata on a straight line basis)

  The following companies will be included in the peer group for calculation of TSR performance:

Dentsu Inc.	Publicis Groupe S.A.
Havas SA	Reed Elsevier plc
The Interpublic Group of Companies Inc	Taylor Nelson Sofres plc
IPSOS S.A.	Viacom Inc.
The News Corporation Limited	VNU N.V.
Omnicom Group Inc	WPP Group plc
Pearson plc	

  The following EPS performance conditions apply:

Average annual EPS growth in excess of RPI	Proportion of award vesting
3% or less	nil
15%	50%
3% to 15%	nil to 50% (pro rata, on a straight-line basis)

  These TSR and EPS performance conditions are tested after three financial years beginning with the year in which awards are made. There is no provision for retesting. To the extent that the performance conditions are not satisfied, the awards lapse.

Remuneration report (continued) >

The assessment of these performance conditions will be carried out by NBSC, in its capacity as adviser to the Committee. In relation to EPS measurement, the Remuneration Committee will ensure that a consistent basis of measurement is used during the transition to International Financial Reporting Standards.

The Committee believes that using both EPS growth and TSR for awards under the Performance Share Plan provides a balanced incentive between assessing the Company's relative returns to shareholders and its underlying financial performance. For share options, the sole use of EPS as a performance condition is considered an appropriate underpinning performance condition to the requirement inherent in an option to grow the share price.

The use of EPS for both options and as part of the performance share award is considered appropriate after recognising the difference between the two incentives and the different level at which the EPS ranges are targeted.

Overall, the blend between EPS and TSR performance conditions and the two different types of plan are considered to provide a well-rounded incentive for the Company's executives.

No further awards will be made under the previous closed schemes, although awards granted in the past will continue to be exercisable in accordance with the rules of each respective scheme. The closed schemes are the 1995 Executive Share Option Scheme, the 1998 Management Incentive Scheme and the Leveraged Investment Plan. Details of the performance conditions of these are given on pages 40 and 41.

Details of all share incentive awards outstanding for each executive director serving during 2004 are set out on pages 39 to 41.

Pensions
All UK executive directors participate in Inland Revenue approved defined contribution pension schemes. Douglas Flynn also made his own unapproved pension arrangements funded by additional salary payments. Pensionable salary is limited to base salary excluding all bonuses and other benefits. Non-UK executive directors have arrangements in line with market conditions and statutory obligations operating in their own countries. Robert Lerwill's total annual employer contributions are £250,000.

Service contracts
Details of the service contracts of those who served as executive directors during the year and Robert Lerwill, the new Chief Executive Officer, are set out below.

All directors have rolling service contracts which expire at normal retirement age unless terminated beforehand in accordance with the terms of the individual contract.

Name	Contract date	Notice period from Company	Notice period from director
Robert Lerwill	22.02.05	12 months*	6 months
Adrian Chedore	21.02.03	12 months**	6 months
Jeremy Hicks	09.02.01	12 months***	6 months
David Verklin	01.07.98	6 months****	6 months

Notes:

* Robert Lerwill's contract contains an initial notice period of 18 months, rolling down to 12 months on a monthly basis over the six-month period following 7 February 2005. This increased initial notice period was agreed as part of Robert Lerwill agreeing to become Chief Executive Officer.

** Adrian Chedore has agreed, with effect from 1 April 2005, to drop the additional 12-month change of control notice period which he previously had in his contract.

*** Jeremy Hicks has agreed to drop the additional 12-month change of control notice period which he previously had in his contract on a month by month basis over a 12-month period commencing on 1 January 2005, such that by 31 December 2005 his notice period from the Company will be 12 months.

**** David Verklin has agreed, with effect from 1 April 2005, to drop the additional 6-month change of control notice period which he previously had in his contract. However, David Verklin still retains a contractual entitlement on termination of an amount equal to 12 months' salary and benefits in addition to any payments in respect of his normal 6-month notice period. The Remuneration Committee believes that this provision is appropriate in this instance given the need to retain a key senior operational executive in the context of highly competitive local market conditions.

Unless there are exceptional circumstances, it is the Company's policy that under any new service contracts, notice periods to be given by the Company will not exceed 12 months (whether or not a change of control of the Company occurs). In addition, new contracts will not normally include liquidated damages clauses and any termination payments will be calculated on normal contractual principles taking into account a director's duty to mitigate loss.

Former director

Name	Contract date	Notice period from Company	Notice period from director
Doug Flynn (resigned 31.03.05)	22.10.99	24 months	6 months

In addition to payments in respect of notice periods, Doug Flynn had a contractual entitlement on termination to an amount equal to two times any bonus received in the previous 12 months. In the event of a change of control, he was entitled, within 6 months, to give notice to terminate his employment and receive a payment equal to 24 months' salary and benefits plus an amount equal to any bonus received in the previous 12 months. Following his resignation Doug Flynn received no contractual compensation.

Non-executive directors

Non-executive directors are appointed for an initial term of three years with a one-month notice period. Renewal of appointments for a further term of three years is not automatic. The fees of the non-executive directors are determined at a Board meeting at which the non-executive directors do not vote. Fees are disclosed on page 38. Non-executive directors have letters of engagement rather than service contracts and do not receive benefits or pension contributions and do not participate in any Group incentive scheme.

Non-executive director	Date of first appointment to board	Unexpired term as at 31.3.05
Lord Sharman (a)	02.09.99	7 months
Daniel Farrar	02.06.03	1 years 2 months
Bernard Fournier (b)	01.06.00	1 years 2 months
Robert Lerwill (c)	01.06.00	–
Charles Strauss	05.09.03	1 years 5 months
Leslie Van de Walle	02.06.03	1 years 2 months

Notes:

a Lord Sharman was originally appointed without a specified term. This was remedied in October 2002 when he was appointed for a further term of three years commencing 1 November 2002.

b Bernard Fournier has been appointed for a further period of three years with effect from 1 June 2003.

c Robert Lerwill's letter of engagement was terminated with effect from 7 February 2005 when he was appointed Chief Executive Officer.

Remuneration report (continued) >

Audited directors' remuneration

	Basic salary £'000	Fees £'000	Benefits £'000 (a)	Annual Cash Bonus £'000 (b)	Deferred Annual Bonus £'000 (b)	Total 2004 £'000	Total 2003 £'000	Pensions 2004 £'000	Pensions 2003 £'000
Adrian Chedore	290	–	84	145	95	614	687	11	12
Daniel Farrar	–	35	–	–	–	35	18	–	–
Douglas Flynn (resigned 31.3.05)	640	–	35	640	–	1,315	1,208	311	283
Bernard Fournier	–	35	–	–	–	35	30	–	–
Jeremy Hicks	315	–	22	171	–	508	471	70	43
Robert Lerwill	–	40	–	–	–	40	30	–	–
Lord Sharman	–	135	–	–	–	135	120	–	–
Charles Strauss (c)	–	38	–	–	–	38	10	–	–
David Verklin	363	–	35	165	155	718	702	3	2
Leslie Van de Walle (d)	–	35	–	–	–	35	18	–	–
Totals	1,608	318	176	1,121	250	3,473	3,294	395	340

Notes:

a Benefits relate to the provision of a car, life assurance, disability and health insurance and, in the case of Adrian Chedore (resident in Hong Kong), a housing allowance of £63,000 and home leave allowance of £3,000.

b The main terms of the bonus schemes are summarised on page 34. For executive directors, between 57% and 72% of the maximum potential under the annual cash bonus scheme was earned in respect of 2004. For the two executive directors whose deferred annual bonus is determined purely by the level of year on year growth in the financial performance of their respective businesses, bonus earned in respect of 2004 was on the basis of having grown year on year profits by at least 15%.

c Fees in respect of Charles Strauss were paid to Unilever for the period up to 13 May 2004 when he retired from Unilever. Since that time fees have been paid direct to him.

d Since July 2004 Leslie Van de Walle has a standing instruction through the Company's brokers to use his fees (received monthly net of taxes) to purchase shares in the Company. Prior to that date his fees were paid to Shell.

At 31 December 2004 there were four directors (2003: four) who had benefits accruing under money purchase pension schemes. Figures shown for pensions are the contributions paid by the Company to both approved and unapproved retirement benefits schemes.

It is the Board's policy that executive directors with external non-executive positions are allowed to retain any fees from such positions. However, before an executive director can accept an external non-executive position permission must be sought from the Chairman who will take into consideration the time commitment involved. As at the date of this report Robert Lerwill and Jeremy Hicks had external non-executive directorships as follows:

Director	Company	Annual Fees
Robert Lerwill	British American Tobacco	£60,000
Robert Lerwill	Synergy Healthcare	£23,000
Jeremy Hicks	First Choice Holidays	£38,000

None of the directors was materially or beneficially interested in any contract of significance with the Company or any of its subsidiary undertakings during or at the end of the financial year ended 31 December 2004.

Directors' share interests

The interests of the directors, in the ordinary shares of the Company, all of which are beneficial, were as follows:

	7 April 2005	31 December 2004	1 January 2004
Adrian Chedore	50,000	50,000	25,000
Daniel Farrar	6,250	6,250	–
Douglas Flynn (resigned 31.3.05)	–	45,000	25,000
Bernard Fournier	10,000	10,000	10,000
Jeremy Hicks	90,000	90,000	70,000
Robert Lerwill	20,000	20,000	20,000
Lord Sharman	25,000	25,000	25,000
Charles Strauss	20,000	20,000	–
David Verklin	17,800	17,800	–
Leslie Van de Walle	21,618	14,793	–

As at 7 April 2005 the executive directors were deemed to have an interest in 5,000,000 ordinary shares, held by the Trustee of the Aegis Group plc Employee Share Trust, as potential beneficiaries under that Trust.

There is a limit on the number of newly issued shares that can be used to satisfy awards under the Group's share schemes in any 10-year period. The limit and the Group's current position against that limit are set out below:

Limit	Position as at 31.12.04
16% of Group's issued share capital	10.1% dilution

Audited directors' share option interests

Ordinary 5p shares for which directors have, or had during the year, beneficial options to subscribe are as follows:

Director		Options held at 1.1.04	Granted during 2004	Lapsed during 2004	Exercised during 2004	Options held at 31.12.04	Exercise price	Date from which exercisable	Expiry date
Douglas Flynn	*	5,000,000	–	–	–	5,000,000	138.25p	09.09.02	08.09.09
(resigned 31.03.05)		642,857	–	–	–	642,857	140p	22.10.02	21.10.09
		233,100	–	–	–	233,100	214.5p	09.03.03	08.03.10
	*	2,500,000	–	–	–	2,500,000	219.5p	10.03.03	09.03.10
		450,939	–	–	–	450,939	119.75p	23.03.04	22.03.11
		137,725	–	–	–	137,725	109p	14.03.05	13.03.12
	*	1,000,000	–	–	–	1,000,000	109p	14.03.05	13.03.12
	**	700,000	–	–	–	700,000	85.5p	05.06.06	04.06.13
	**	–	872,700	–	–	872,700	95.75p	17.03.07	16.03.14
Adrian Chedore	*	1,000,000	–	–	–	1,000,000	109p	14.03.05	13.03.12
	**	350,000	–	–	–	350,000	85.5p	05.06.05	04.06.13
		–	340,000	–	–	340,000	95.75p	17.03.07	16.03.14
Jeremy Hicks	*	2,000,000	–	–	–	2,000,000	170p	08.05.03	07.05.10
		73,529	–	–	–	73,529	170p	08.05.03	07.05.10
	*	750,000	–	–	–	750,000	125.7p	17.04.04	16.04.11
		112,734	–	–	–	112,734	119.75p	23.03.04	22.03.11
		60,255	–	–	–	60,255	109p	14.03.05	13.03.12
	*	500,000	–	–	–	500,000	109p	14.03.05	13.03.12
	**	350,000	–	–	–	350,000	85.5p	05.06.05	04.06.13
		–	270,000	–	–	270,000	95.75p	17.03.07	16.03.14

Remuneration report (continued) >

Director		Options held at 1.1.04	Granted during 2004	Lapsed during 2004	Exercised during 2004	Options held at 31.12.04	Exercise price	Date from which exercisable	Expiry date
David Verklin		641,398	–	–	–	641,398	80.5p	09.04.01	08.04.08
	*	2,000,000	–	–	–	2,000,000	87p	15.05.01	14.05.08
		271,088	–	–	–	271,088	121.5p	17.03.02	16.03.09
	*	1,500,000	–	–	–	1,500,000	138.25p	09.09.02	08.09.09
		82,513	–	–	–	82,513	214.5p	09.03.03	08.03.10
		173,056	–	–	–	173,056	119.75p	23.03.04	22.03.11
		79,497	–	–	–	79,497	109p	14.03.05	13.03.12
	*	1,000,000	–	–	–	1,000,000	109p	14.03.05	13.03.12
	**	450,000	–	–	–	450,000	85.5p	05.06.06	04.06.13
		–	340,000	–	–	340,000	95.75p	17.03.07	16.03.14
Totals		22,058,691	1,822,700	–	–	23,881,391			

Notes:
All of the above options were granted for nil consideration.

* Options granted under the closed 1998 Management Incentive Scheme (the performance condition required that the Company's TSR over the three year performance period must be not less than 15% per annum compound and must at least match that of the FTSE Actuaries 350 Index). There are re-testing opportunities after the fourth, fifth and sixth years.

** Options granted under the 2003 Executive Share Option Scheme have the following performance condition attached:

Average annual EPS growth in excess of RPI	Proportion of option grants exercisable
3%	0.5 x salary
3% to 5%	0.5 to 1 x salary (pro rata, on a straight-line basis)
5% to 10%	1 to 2 x salary (pro rata, on a straight-line basis)
10% to 15%	2 to 3 x salary (pro rata, on a straight-line basis)

For options granted in 2003 and 2004, the performance condition may be retested once after the fourth year.

All other options are granted under the closed 1995 Executive Share Option Scheme (the performance condition required that EPS growth over the performance period exceed a composite retail price index plus 5% per annum and that the Company's TSR performance be greater than that of the FTSE 100 company ranked 33rd over the performance period). There are opportunities to re-test these conditions annually over the life of the option if they are not achieved after three years, in each case measuring from the same base point.

Other than as noted above, no directors or members of their immediate families have exercised or sold options during the period ended 7 April 2005. In addition, other than as noted above, no options have been granted, expired or lapsed during the year in respect of the directors.

The middle market price of the ordinary 5p shares of the Company as derived from the Stock Exchange Daily Official List on 31 December 2004 was 108p and the range during the year was 78p to 115p. The share price on 7 April 2005, the latest practicable date prior to publication of the Annual Report and Accounts, was 101.25p.

Treatment of outstanding options granted to Doug Flynn

Options granted under the Management Incentive Scheme lapse with immediate effect on resignation.

Options granted under the 1995 Executive Share Option Scheme, may be exercised, in accordance with the rules of the scheme, within the period of 6 months after resignation.

For options granted under the 2003 Executive Share Option Scheme, the Remuneration Committee has determined that options may be exercisable for a period of 12 months following resignation, after taking account of the achievement of performance conditions measured up to the date of resignation.

Audited awards under the 2003 Performance Share Plan

The table below details awards to executive directors under the 2003 Performance Share Plan:

Name	Maximum potential award of shares at 1.1.04	Awards granted during year	Awards lapsed during year	Maximum potential award of shares at 31.12.04	Performance period
Douglas Flynn	1,023,000	–	–	1,023,000	01.01.03 to 31.12.05
(resigned 31.3.05)	–	1,163,000	–	1,163,000	01.01.04 to 31.12.06
Adrian Chedore	331,000	–	–	331,000	01.01.03 to 31.12.05
	–	300,000	–	300,000	01.01.04 to 31.12.06
Jeremy Hicks	331,000	–	–	331,000	01.01.03 to 31.12.05
	–	430,000	–	430,000	01.01.04 to 31.12.06
David Verklin	491,000	–	–	491,000	01.01.03 to 31.12.05
	–	300,000	–	300,000	01.01.04 to 31.12.06

The market price of Aegis shares at the date of the 2003 award was 85.5p and for the 2004 award was 100.75p. The number of shares shown represents the maximum number of shares which is capable of vesting at the end of the performance period, if the performance conditions are satisfied to the fullest extent.

The performance conditions for all outstanding awards are set out in the policy section of this report on page 35. (Grey Global Group Inc. was additionally included in the comparator group for awards granted in 2003 and 2004.)

Outstanding awards to Doug Flynn as detailed above lapsed with immediate effect on resignation.

Audited awards under the closed Leveraged Investment Plan

The table below details awards to executive directors under the Leveraged Investment Plan:

Name	Maximum potential award of Matching Shares at 1.1.04	Awards granted during year	Awards lapsed during year	Maximum potential award of Matching Shares at 31.12.04	Performance period
Douglas Flynn (resigned 31.3.05)	37,500	–	37,500	–	01.01.01 to 31.12.03
Jeremy Hicks	52,500	–	52,500	–	01.01.01 to 31.12.03
David Verklin	480,000	–	480,000	–	01.01.01 to 31.12.03

The performance period for the final set of awards under this plan ended on 31 December 2003 and the performance condition (comparing the Company's earnings before tax, depreciation and amortisation relative to a peer group) was tested during 2004. The performance condition was not satisfied and, as a result, all of the outstanding Matching Shares lapsed.

Shareholding guidelines

The Company has share ownership guidelines which operate in tandem with the executive share incentive schemes introduced in 2003. Executive directors and other senior executives are required to retain at least 35% (50% in the case of the Chief Executive Officer) of any profit made (after paying the exercise price and any tax liability) on the exercise of options and the vesting of any Performance Share Plan awards, until they have built a shareholding equal to one times basic salary (two times basic salary for executive directors of the Company). No further options or Performance Share Plan awards will be granted unless executives retain shares in accordance with these guidelines.

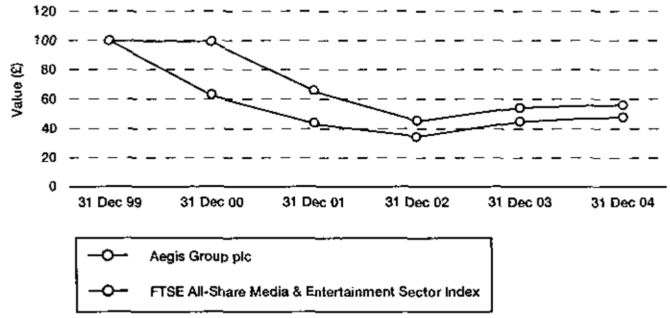
Remuneration report (continued) >

Unaudited performance graph

The following graph illustrates the Company's TSR between 31 December 1999 and 31 December 2004 relative to the FTSE Media & Entertainment Index, in accordance with paragraph 4 of the Directors' Remuneration Report Regulations 2002. Aegis Group plc is a member of the FTSE Media & Entertainment Index and the Remuneration Committee considers that a comparison of the Company's TSR relative to similar businesses is more appropriate than a comparison with a general FTSE Index, in order to reduce the impact of general stock market trends.

Total shareholder return

Source: Datastream



This graph looks at the value, by the end of 2004, of £100 invested in Aegis Group on 31 December 1999 compared with that of £100 invested in the FTSE All-Share Media & Entertainment Sector Index. The other points plotted are the values at intervening financial year-ends.

Charles Strauss
Chairman of the Remuneration Committee
8 April 2005

Independent auditors' report to the members of Aegis Group plc >

We have audited the financial statements of Aegis Group plc for the year ended 31 December 2004 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the reconciliation of movements in equity shareholders' funds, the note of historical cost profits and losses, the balance sheets, the consolidated cash flow statement and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Independent auditors' report to the members of Aegis Group plc (continued) >

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, England
8 April 2005

Consolidated profit and loss account >

For the year ended 31 December 2004

	Notes	2004 £m	2004 £m	2003 £m
Turnover – amounts invoiced to clients				
– continuing operations			7,479.3	7,156.2
– acquisitions			115.0	–
Turnover	1, 2		7,594.3	7,156.2
Cost of sales – payments to the media		(6,847.3)	(6,847.3)	(6,507.4)
Revenue	6		747.0	648.8
Cost of sales – other direct costs		(99.5)	(99.5)	(76.3)
Cost of sales – total	6	(6,946.8)		(6,583.7)
Gross profit	6		647.5	572.5
Operating expenses before amortisation of goodwill and exceptional items		(547.2)		(488.3)
Exceptional operating expenses	3	–		5.2
Goodwill amortisation	10	(29.8)		(26.5)
Operating expenses			(577.0)	(509.6)
Group operating profit:				
– continuing operations		61.5		62.9
– acquisitions		9.0		
Group operating profit			70.5	62.9
Group share of operating profit in associated undertakings before goodwill amortisation			1.5	1.2
Goodwill amortisation in respect of associates	3, 12		(0.2)	(9.2)
Group share of operating profit/(loss) in associated undertakings			1.3	(8.0)
Exceptional amounts written off investments	3		–	(2.0)
Interest and similar items:				
– interest receivable	5	6.8		7.2
– interest payable	5	(12.5)		(10.9)
– amortisation of refinancing costs	5	(2.2)		(1.2)
Net interest payable			(7.9)	(4.9)
Profit on ordinary activities before taxation	2, 6		63.9	48.0
Tax on profit on ordinary activities	7		(27.6)	(24.3)
Profit on ordinary activities after taxation			36.3	23.7
Equity minority interests			(3.5)	(2.6)
Profit attributable to members of the parent company			32.8	21.1
Ordinary dividends	8		(16.2)	(14.7)
Retained profit for the year			16.6	6.4
Earnings per ordinary share:	9			
Basic			2.9p	1.9p
Underlying basic earnings per share*			5.6p	4.9p
Underlying diluted earnings per share*			5.6p	4.9p
Diluted			2.9p	1.9p

*As detailed in note 9, underlying earnings per share excludes amortisation of goodwill of £30.0 million (2003: £35.7 million) and a £nil of exceptional items (2003: a £2.9 million exceptional credit (net of tax)), in order to eliminate the effect of these items.

Consolidated statement of total recognised gains and losses >

For the year ended 31 December 2004

	Note	2004 £m	2003 £m
Profit for the year		**32.8**	21.1
Currency translation differences on foreign currency net investments	18	**(8.1)**	(17.8)
Total recognised profit for the year		***24.7***	3.3

The Company has reported no gains or losses other than those reported in its own profit and loss account.

Reconciliation of movements in equity shareholders' funds >

For the year ended 31 December 2004

	Group 2004 £m	Group As Restated (note 1) 2003 £m	Company 2004 £m	Company As Restated (note 1) 2003 £m
Profit/(loss) for the year	**32.8**	21.1	**(33.8)**	(37.6)
Ordinary dividends	**(16.2)**	(14.7)	**(16.2)**	(14.7)
	16.6	6.4	**(50.0)**	(52.3)
Issue of shares by the Company	**4.9**	6.9	**4.9**	6.9
Shares purchased by ESOP	**(2.7)**	(1.6)	**(2.7)**	(1.6)
Currency translation differences on foreign currency net investments	**(8.1)**	(17.8)	**-**	-
Credit for share-based incentive schemes	**1.9**	–	**-**	-
Net increase/(decrease) in equity shareholders' funds	**12.6**	(6.1)	**(47.8)**	(47.0)
Opening equity shareholders' funds as previously reported	**108.7**	113.2	**367.8**	400.0
Prior year adjustments (note 1)	**(1.6)**	–	**(14.8)**	–
Opening equity shareholders' funds as restated	**107.1**	113.2	**353.0**	400.0
Closing equity shareholders' funds	**119.7**	107.1	**305.2**	353.0

Note of historical cost profits and losses >

For the year ended 31 December 2004

There is no material difference between the reported results for the Group or the Company for the years ended 31 December 2004 and 2003 and the results for those years restated on an unmodified historical cost basis.

Balance sheets >

At 31 December 2004

	Notes	Group 2004 £m	Group As Restated (note 1) 2003 £m	Company 2004 £m	Company As Restated (note 1) 2003 £m
Fixed assets					
Intangible fixed assets	10	**467.0**	425.9	**-**	–
Tangible fixed assets	11	**57.4**	53.9	**4.1**	4.0
Investment in joint venture:	12				
Share of gross assets		**1.6**	1.6	**-**	–
Share of gross liabilities		**(0.1)**	(0.1)	**–**	–
		1.5	1.5	**–**	–
Investments in associated undertakings	12	**8.7**	11.5	**-**	–
Other fixed asset investments	12	**3.1**	2.5	**850.9**	783.7
		537.7	495.3	**855.0**	787.7
Current assets					
Stock: work in progress		**7.7**	8.0	**-**	–
Debtors	13	**1,272.6**	1,206.5	**100.2**	103.8
Investments – negotiable securities		**28.7**	–	**–**	–
Cash at bank and in hand		**247.3**	264.6	**4.9**	2.3
		1,556.3	1,479.1	**105.1**	106.1
Creditors: amounts falling due within one year	14	**(1,705.3)**	(1,612.5)	**(450.6)**	(333.6)
Net current liabilities		**(149.0)**	(133.4)	**(345.5)**	(227.5)
Total assets less current liabilities		**388.7**	361.9	**509.5**	560.2
Creditors: amounts falling due after more than one year	15	**(137.9)**	(130.6)	**(81.9)**	(88.3)
Convertible bond	15	**(122.4)**	(118.9)	**(122.4)**	(118.9)
Provisions for liabilities and charges	16	**(2.0)**	(1.5)	**–**	–
Net assets		**126.4**	110.9	**305.2**	353.0
Capital and reserves					
Issued, allotted, called up and fully paid share capital	17	**55.9**	55.6	**55.9**	55.6
Share premium account	18	**210.9**	206.3	**210.9**	206.3
Capital redemption reserve	18	**0.2**	0.2	**0.2**	0.2
Merger reserve	18	**-**	–	**13.0**	13.0
ESOP reserve	18	**(4.3)**	(1.6)	**(4.3)**	(1.6)
Profit and loss account	18	**(143.0)**	(153.4)	**29.5**	79.5
Equity shareholders' funds		**119.7**	107.1	**305.2**	353.0
Equity minority interests		**6.7**	3.8	**–**	–
Total capital employed		**126.4**	110.9	**305.2**	353.0

The financial statements on pages 45 to 69 were approved by the board of directors on 8 April 2005 and signed on their behalf by:
Robert Lerwill (Chief Executive Officer)
Jeremy Hicks (Chief Financial Officer)

Consolidated cash flow statement >

For the year ended 31 December 2004

	Notes	2004 £m	As Restated (note 1) 2003 £m
Net cash flow from operating activities		**123.7**	67.3
Dividends received from associates		**0.1**	0.3
Returns on investments and servicing of finance			
Interest received		**6.8**	7.2
Interest paid		**(11.3)**	(7.8)
Dividends paid to minority interests		**(3.2)**	(1.3)
Refinancing costs		**(1.3)**	(1.6)
Net cash flow for returns on investments and servicing of finance		**(9.0)**	(3.5)
Taxation		**(30.1)**	(22.7)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(28.4)**	(19.9)
Proceeds from sale of tangible fixed assets		**4.1**	2.6
Loans made to NewworldiQ		**–**	(2.0)
Net cash flow for capital expenditure and financial investment		**(24.3)**	(19.3)
Acquisitions and disposals			
Purchase of subsidiary undertakings and minority interests	19	**(49.7)**	(44.6)
Net cash acquired on purchase of subsidiary undertakings	19	**7.1**	5.0
Proceeds from disposal of subsidiaries		**0.6**	–
Investment in associated undertakings		**(1.0)**	(5.1)
Deferred consideration on prior period acquisitions		**(18.2)**	(32.0)
Net cash flow for acquisitions and disposals		**(61.2)**	(76.7)
Equity dividends paid		**(14.3)**	(14.1)
Cash flow before management of liquid resources and financing		**(15.1)**	(68.7)
Management of liquid resources			
Transfer of funds to negotiable securities		**(29.0)**	–
Cash flow from management of liquid resources		**(29.0)**	–
Financing			
Issue of ordinary share capital	17, 18	**4.9**	0.2
Net increase in debt due within one year		**68.3**	13.1
Net decrease in debt due after more than one year		**(4.2)**	(3.8)
Purchase of own shares		**(2.7)**	(1.6)
Capital element of finance lease rental payments		**(0.1)**	(1.0)
Net cash flow from financing		**66.2**	6.9
Increase/(decrease) in cash in the year		**22.1**	(61.8)

Notes to this consolidated cash flow statement are provided overleaf.

Notes to consolidated cash flow statement >

For the year ended 31 December 2004

Reconciliation of operating profit to operating cash flow	2004 £m	As Restated (note 1) 2003 £m
Operating profit	**70.5**	62.9
Amortisation of goodwill	**29.8**	26.5
Depreciation charges	**21.8**	21.3
Loss on disposal of tangible fixed assets	**0.1**	0.2
Increase in debtors	**(14.3)**	(173.6)
Decrease/(increase) in stock: work in progress	**0.8**	(0.8)
Increase in creditors	**15.0**	136.0
Provision for Independent Media Services Inc. judgement (note 3)	**-**	(5.2)
Net cash flow from operating activities	**123.7**	67.3

Reconciliation of net cash flow to movement in net debt	2004 £m	As Restated (note 1) 2003 £m
Increase/(decrease) in cash in the year	**22.1**	(61.8)
Cash inflow from increase in debt	**(64.1)**	(9.3)
Cash outflow from management of liquid resources	**29.0**	-
Cash outflow from finance lease payments	**0.1**	1.0
Cash outflow from issue costs of debt	**1.3**	1.6
Change in net debt resulting from cash flows	**(11.6)**	(68.5)
Amortisation of issue costs of debt	**(2.2)**	(1.2)
Other non cash changes	**(0.2)**	(2.1)
Effect of foreign exchange rate changes	**(3.5)**	0.1
Movement in net debt in the year	**(17.5)**	(71.7)
Net debt at 1 January	**(32.0)**	39.7
Net debt at 31 December	**(49.5)**	(32.0)

Analysis of net debt	As Restated (note 1) 1 January 2004 £m	Cash flow £m	Other non-cash changes £m	Exchange movement £m	31 December 2004 £m
Cash at bank and in hand	264.6	(12.9)	–	(4.4)	**247.3**
Overdrafts	(73.4)	35.0	-	0.3	**(38.1)**
	191.2	22.1	–	(4.1)	**209.2**
Debt due within one year	(16.9)	(68.3)	–	1.4	**(83.8)**
Debt due after more than one year	(209.7)	4.2	-	(0.5)	**(206.0)**
Investments – negotiable securities	–	29.0	–	(0.3)	**28.7**
Net debt before finance lease obligations and issue costs of new debt	(35.4)	(13.0)	–	(3.5)	**(51.9)**
Finance lease obligations	(0.1)	0.1	(0.2)	-	**(0.2)**
Issue costs of debt	3.5	1.3	(2.2)	–	**2.6**
Total	(32.0)	(11.6)	(2.4)	(3.5)	**(49.5)**

There was cash of £7.1 million (2003: £5.0 million) within subsidiaries acquired in the year.

Notes to the financial statements >

For the year ended 31 December 2004

1. Principal accounting policies

Basis of preparation
The principal accounting policies are summarised below. They have been applied consistently throughout the current year and preceeding years with the exception of those described under 'Changes in accounting policy' below. The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards.

Changes in accounting policy and prior year adjustments

a. Interest in own shares
As a result of the adoption of UITF Abstract 38 'Accounting for ESOP Trusts', the Group's interest in own shares, which was previously held within investments, is now presented as a deduction from equity shareholders' funds. The balance sheets at 31 December 2003 have been restated accordingly. There was a £1.6 million reduction in net assets at 31 December 2003 as a result of adopting UITF Abstract 38.

b. Payments for media advertising
A major part of the Group's business involves the purchase of media advertising from supplies on behalf of clients. Payment for such liabilities frequently straddles the end of an accounting period. This makes it necessary to assess which payments, some of which may be in transit or process, are to be treated as reducing the Group's cash balance at the period end, and which should be treated as paid subsequent to the year-end.

The Group has historically adopted the practice of treating as a payment, certain transactions for which payment was due prior to the period end but for which the formal transfer of funds took place after the end of the accounting period. The Group's auditors have advised that, in their opinion, this treatment, although showing a prudent view of the cash balance at the balance sheet date is not an appropriate practice. The Group has therefore decided to treat as paid only those transactions for which instructions to the Group's bankers for payment have been issued.

The effect of this change on the prior period's Group balance sheet has been to increase the amount shown as cash, and increase the amount shown as liabilities, by £117.2 million at 31 December 2003.

c. Company balance sheet
The Company has made an adjustment to its balance sheet as at 31 December 2003 to write down its investment in eVerger on a basis consistent to that presented in the published 2003 consolidated Group accounts. The effect of this change on the Company's balance sheet at 31 December 2003 is to decrease other fixed asset investments and net assets by £13.2 million and also to increase the Company's loss for the year ended 31 December 2003 by £13.2 million. There is no impact on the consolidated Group accounts.

Basis of consolidation
The consolidated financial statements incorporate the results, cash flows and net assets of Aegis Group plc and its subsidiary undertakings. Where subsidiaries are acquired in the year, their results and cash flows are included from the date of acquisition up to the balance sheet date. All inter-company balances and transactions are eliminated. The financial statements also include the Group's attributable share of associated undertakings' and joint ventures' results for the year and of their net assets/liabilities at the balance sheet date.

Goodwill
Prior to 1 January 1998, it was the Group's policy to write off purchased goodwill immediately to reserves and charge it to the profit and loss account only on the subsequent disposal of the business to which it related. For acquisitions prior to 1 January 1998, the Group has elected to continue with this accounting policy.

In accordance with Financial Reporting Standard 10, goodwill arising on each acquisition on or after 1 January 1998 is capitalised as an asset in the balance sheet. The directors review the estimated useful economic life of goodwill arising on each acquisition and, where this is considered finite, the goodwill is amortised over this period on a straight line basis not exceeding 20 years. Following the first full year of ownership of an acquired business, the goodwill capitalised is reviewed for impairment. The carrying value of goodwill may also be reviewed at any time if there is a new event or change in circumstance which may impact upon its recoverable amount.

Deferred consideration on acquisitions is provided based on the directors' best estimate of the liability at the balance sheet date. The liability is discounted and an imputed interest charge is included in the profit and loss account.

1. Principal accounting policies (continued)

Foreign currencies
Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Upon settlement, monetary assets and liabilities are re-translated at the rate ruling on the settlement date. Monetary assets and liabilities at the year end are re-translated at the exchange rate ruling at the balance sheet date. Exchange differences arising upon re-translation at the settlement date or balance sheet date are taken to the profit and loss account. Short-term forward exchange contracts are used to hedge transactions with material foreign currency exposures. Assets and liabilities denoted under such contracts are translated at the contracted rate. Exchange differences arising on the re-translation of foreign currency borrowings used to provide a hedge against foreign currency investments are taken directly to reserves.

For consolidation purposes, profit and loss accounts and cash flows in foreign currencies, arising in foreign subsidiaries, are translated into sterling at average exchange rates. Assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Exchange differences arising upon consolidation are taken directly to reserves.

Financial instruments
The costs of issue of capital instruments such as the issue costs of new debt are charged to the profit and loss account over the life of the instrument.

The Group has entered into a swap agreement to convert interest payable on its US dollar Loan Notes from fixed into floating rate based upon the US dollar six month LIBOR rate. Under the terms of the agreement, the Group remits or receives the differential between the fixed and variable rate calculated by reference to the notional principal amount. This differential is charged or credited to the profit and loss account in the year to which it relates.

Turnover and revenue
Turnover represents amounts invoiced for media handled by the Group on behalf of clients, together with fees invoiced for media and research services provided, net of discounts, VAT and other sales related taxes.

Media turnover is recognised when charges are made to clients, principally when advertisements appear in the media. Fees are recognised over the period of the relevant assignments or agreements.

For the market research business, turnover is recognised either on completion of a project or on the satisfactory completion of a specific phase of a project. Provision is made for losses on a project when identified. Invoices raised during the course of a project are booked as deferred income on the balance sheet until such a time as the related revenue is recognised in the profit and loss account.

Revenue is the value of media and research fees and commission earned by the Group.

Research and development
Research expenditure is written off as incurred. Development expenditure is capitalised where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. This period is usually between three and five years. Provision is made for any impairment.

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

Depreciation is provided to write off the cost of all fixed assets, except freehold land, to their residual value over their expected useful lives. It is calculated on the historic cost of the assets at the following rates:

Freehold buildings	1%-5% per annum
Leasehold buildings	Over the period of the lease
Leasehold improvements	10%-20% per annum or over the period of the lease, if shorter
Office furniture, fixtures, equipment & vehicles	10%-50% per annum

Leased assets
Operating lease rentals are charged to the profit and loss account over the lease term on a straight-line basis.

Notes to the financial statements (continued) >

For the year ended 31 December 2004

1. Principal accounting policies (continued)

Subsidiary undertakings

Investments in subsidiaries are held in the Company balance sheet at cost less any provisions for impairment.

Associated undertakings and joint ventures

Companies in which the Group has a participating interest and over whose operating and financial policies it exercises a significant influence are treated as associated undertakings. Investments in associated undertakings are included in the consolidated balance sheet at cost less provision for impairment in value plus attributable post-acquisition retained profits or losses and amortisation of goodwill. Attributable profits or losses are included in the Group profit and loss account in the year.

Investments in joint ventures are accounted for using the gross equity method. Amounts are included in the consolidated balance sheet at cost less provision for any impairment, plus attributable post-acquisition profits or losses. Attributable profits or losses are included in the Group profit and loss account in the year. In the case of the Group's joint venture in eVerger, no account is taken of the trading results of eVerger's underlying investments.

Other fixed asset investments

The Group's other fixed asset investments are stated at cost less any provision for permanent diminution in value. In the Company's financial statements, investments in subsidiary undertakings are stated at cost. Provision is made for any impairment in value.

Investment in own shares

Investments in own shares, held through the Aegis Group Employee Share Trust, are shown as a deduction from shareholders' equity at cost in accordance with UITF 38. The costs of administration of the Trust are included in the profit and loss account as they accrue.

Work in progress

Work in progress comprises directly attributable costs on market research projects and is held in the balance sheet at the lower of cost and net realisable value.

Provisions for liabilities and charges

Where leasehold properties remain unutilised by the Group and have not been sublet, provision is made in full for the outstanding rental payments together with other outgoings for the remaining period of the lease. This provision takes into account any future sublet income reasonably expected to be obtained. Future rental payments are charged against this provision in the period in which they are made.

Current taxation

Current tax, including UK and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation

Full provision is made for timing differences that have arisen but not reversed at the balance sheet date between the treatment of certain items for tax and accounting purposes. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

Pension costs

Retirement benefits for employees are principally provided by defined contribution schemes which are funded by contributions from Group companies and employees. The amount charged to the profit and loss account is the contribution payable in the year.

2. Segmental reporting

The Group operates in two business sectors: media communications and market research. An analysis of turnover by geographical area and business sector is set out below. The geographical analysis reflects the regions by which the Group is managed.

	Continuing Operations £m	Acquisitions £m	2004 £m Total	2003 £m Total
Analysis by geographical area:				
Europe, Middle East and Africa	**5,160.0**	**89.1**	**5,249.1**	4,836.8
Americas	**1,895.5**	**8.3**	**1,903.8**	1,936.4
Asia-Pacific	**423.8**	**17.6**	**441.4**	383.0
Total turnover – amounts invoiced to clients	**7,479.3**	**115.0**	**7,594.3**	7,156.2
Analysis by business sector:				
Media communications	**7,234.3**	**87.6**	**7,321.9**	6,937.3
Market research	**245.0**	**27.4**	**272.4**	218.9
Total turnover – amounts invoiced to clients	**7,479.3**	**115.0**	**7,594.3**	7,156.2

There is no material difference between turnover determined by origin and that determined by destination.

An analysis of operating profit by geographical area and business sector is set out below:

	2004 £m Total	2003 £m Underlying	2003 £m Exceptional items	2003 £m Total
Analysis by geographical area:				
Europe, Middle East and Africa	**76.4**	65.3	–	65.3
Americas	**17.3**	14.8	5.2	20.0
Asia-Pacific	**6.6**	4.1	–	4.1
Total operating profit (before goodwill amortisation)	**100.3**	84.2	5.2	89.4
Analysis by business sector:				
Media communications	**79.9**	69.8	5.2	75.0
Market research	**20.4**	14.4	–	14.4
Total operating profit (before goodwill amortisation)	**100.3**	84.2	5.2	89.4
Group share of operating profit in joint venture and associated undertakings	**1.5**	1.2	–	1.2
Exceptional amounts written off investments	**–**	–	(2.0)	(2.0)
Net interest payable	**(7.9)**	(4.9)	–	(4.9)
Profit on ordinary activities before taxation and amortisation of goodwill	**93.9**	80.5	3.2	83.7
Amortisation of goodwill	**(30.0)**			(35.7)
Profit on ordinary activities before taxation	**63.9**			48.0

Underlying profit excludes goodwill amortisation of £30.0 million in 2004 (2003: £35.7 million) and a £3.2 million exceptional credit in 2003.

Notes to the financial statements (continued) >

For the year ended 31 December 2004

2. Segmental reporting (continued)

An analysis of net assets by geographical area and business sector is set out below.

	2004 £m	Restated 2003 £m
Europe, Middle East and Africa	**102.7**	73.3
Americas	**3.4**	9.6
Asia-Pacific	**69.8**	60.0
Unallocated net liabilities	**(49.5)**	(32.0)
Total net assets	**126.4**	110.9
Media communications	**236.7**	239.0
Market research	**(62.3)**	(97.6)
eVerger joint venture	**1.5**	1.5
Unallocated net liabilities	**(49.5)**	(32.0)
Total net assets	**126.4**	110.9

Unallocated net liabilities comprise the interest bearing non-operating assets and liabilities of the Group. The Group's share of the net assets of associated undertakings and joint ventures of £10.2 million (2003: £13.0 million) is principally located in Europe, amounting to £2.8 million (2003: £4.8 million) and Asia-Pacific, amounting to £7.4 million (2003: £8.2 million).

Prior year figures have been restated as a result of adopting UITF 38, as explained in note 1, and also to achieve a more appropriate allocation of items not directly attributable to a specific region or division.

3. Exceptional items

There are no exceptional items in the year ended 31 December 2004.

The following exceptional items are included in the Group's results for the year ended 31 December 2003:

a In the year ended 31 December 2002, the Group made a provision for an adverse legal judgement relating to court action brought by Independent Media Services Inc. In the year to 31 December 2003, the Group reached agreement to purchase the business of Independent Media Services Inc. As a result, the provision of £5.2 million was released.

b During the year, the Group has written down the value of its investment in NewworldIQ. This has resulted in an additional goodwill charge of £9.0 million. In addition, loans made to NewworldIQ were written off, resulting in an exceptional charge of £2.0 million.

In total, these exceptional items gave rise to a corporation tax debit of £0.3 million and a cash outflow of £2.0 million in 2003.

4. Staff costs

	2004 £m	2003 £m
Staff costs consist of:		
Wages and salaries	**307.2**	268.3
Social security costs	**48.1**	41.7
Other pension costs	**8.0**	8.0
	363.3	318.0

Number of employees

	Media communications 2004	Market research 2004	Total 2004	Media communications 2003	Market research 2003	Total 2003
Average number of full-time employees	**6,039**	**4,110**	**10,149**	4,978	3,458	8,436
Employees as at 31 December	**6,112**	**4,252**	**10,364**	5,092	3,446	8,538
Average number of full-time UK employees	**762**	**616**	**1,378**	745	160	905

Directors' remuneration is disclosed in the Remuneration Report on page 38. The total amount of directors' remuneration in 2004 was £3.9 million (2003: £6.4 million).

5. Interest and similar items

	2004	2003
Interest payable:	**£m**	**£m**
On bank loans and overdrafts	**(1.9)**	(0.9)
On other loans, loan notes and convertible debt	**(7.3)**	(7.6)
Other charges	**(3.3)**	(2.4)
	(12.5)	(10.9)
Amortisation of refinancing costs	**(2.2)**	(1.2)
	(14.7)	(12.1)
Interest receivable	**6.8**	7.2
Net interest payable	**(7.9)**	(4.9)

On 15 May 2002, the Group issued €165 million of convertible bonds, due in 2006. The issue cost of these bonds of £2.6 million was capitalised and is being written off over the period to 2006.

On 20 November 2000, the Group issued US$160 million of unsecured loan notes, repayable between 2006 and 2008. The cost of issuing these loan notes of £0.8 million was capitalised in 2000 and is being written off over 6 years, the minimum outstanding period of the notes.

Amortisation of refinancing costs also includes amortisation of the cost of securing new banking facilities in 2004 and includes a write off of refinacing costs of previous banking facilities of the group.

Other charges include £1.2 million (2003: £1.0 million) of imputed interest arising from discounting deferred consideration payable on acquisitions.

Interest receivable principally comprises bank interest.

6. Profit on ordinary activities before taxation

	2004	2004	2004	2003
This is stated after charging/(crediting):	**Deloitte**	**Other**	**Total**	**Total**
Auditors' remuneration and expenses	**£m**	**£m**	**£m**	**£m**
— statutory audit services – UK	**0.3**	**0.1**	**0.4**	0.3
— statutory audit services – overseas	**0.9**	**0.1**	**1.0**	0.9
	1.2	0.2	1.4	1.2
Auditors' remuneration and expenses:				
— non-audit services (due diligence) – UK	**0.2**	**0.1**	**0.3**	1.0
— non-audit services (tax) – UK	**0.2**	**0.4**	**0.6**	–
— non-audit services (tax) – overseas	**-**	**0.3**	**0.3**	0.2
— non-audit services (other) – UK	**0.1**	**0.1**	**0.2**	–
— non-audit services (other) – overseas	**0.1**	**0.4**	**0.5**	0.1
	0.6	1.3	1.9	1.3

	2004	2003
	£m	**£m**
Depreciation of fixed assets — owned	**21.7**	21.1
Depreciation of fixed assets held under finance leases	**0.1**	0.2
Operating lease rentals – plant and machinery	**0.7**	1.1
Operating lease rentals – other	**29.5**	24.7
Amortisation and impairment of intangible fixed assets (note 10)	**29.8**	26.5
Amortisation and impairment of joint venture and associates' goodwill (note 12)	**0.2**	9.2
Research and development costs	**27.6**	25.8
Loss on disposal of tangible fixed assets	**0.2**	0.2
Foreign exchange gain	**(0.4)**	(1.6)

The auditors' remuneration shown above is in respect of the current auditors Deloitte & Touche LLP for the current year and the prior year amounts are in respect of the previous auditors, PricewaterhouseCoopers LLP. There is auditors' remuneration payable in the current year to auditors other than Deloitte & Touche LLP. This is principally in respect of the previous auditors, PricewaterhouseCoopers LLP. During the year the Company paid £0.1 million to Deloitte and £0.1 million to other auditors for audit services.

Notes to the financial statements (continued) >

For the year ended 31 December 2004

6. Profit on ordinary activities before taxation (continued)

All operating expenses are administrative expenses.

Cost of sales – payments to the media – for continuing operations was £6,776.9 million and for acquisitions was £70.4 million.

Revenue for continuing operations was £705.4 million and for acquisitions was £41.6 million.

Cost of sales – other direct costs – for continuing operations was £88.0 million and for acquisitions was £11.5 million.

Gross profit for continuing operations was £618.2 million and for acquisitions was £29.3 million.

Operating expenses for continuing operations were £509.7 million and for acquisitions were £37.5 million.

7. Tax on profit on ordinary activities

	2004 £m	2003 £m
UK taxation – 30% (2003: 30%)	-	(1.4)
Overseas taxation	28.0	26.5
Group's share of associated undertakings' taxation	0.3	0.5
Total current tax	28.3	25.6
Deferred taxation	(0.7)	(1.3)
Tax on profit on ordinary activities	27.6	24.3

Reconciliation of the Group's current tax to the United Kingdom's statutory tax rate:	£m	£m
Profit on ordinary activities before taxation	63.9	48.0
Tax on profit at statutory rate of 30% (2003: 30%)	19.2	14.4
Effects of:		
Expenditure not deductible for tax purposes	7.6	6.3
Rate differences on overseas earnings	4.3	4.0
Adjustment to tax in respect of prior years – UK taxation	–	(2.1)
Adjustment to tax in respect of prior years – overseas taxation	(0.7)	0.3
Tax losses not recognised in the period	(2.0)	3.4
Tax losses utilised in the period	(0.8)	(2.0)
Short term timing differences	0.7	1.3
Total current tax	28.3	25.6

The effective rate of tax on the Group's underlying profits is 29.4% (2003: 29.8%) based on profits before amortisation of goodwill of £93.9 million (2003: £83.7 million) and exceptional costs in 2003 as disclosed in note 3 above. The effective rate of tax on the Group's reported profits is 43% (2003: 50%). Exceptional items of £3.2 million in 2003 resulted in a tax charge of £0.3 million. There are no exceptional items in 2004.

8. Dividends	2004	2003
Ordinary shares of 5p each		
— interim dividend rate per share	0.575p	0.52p
— final dividend proposed rate per share	0.875p	0.80p
	1.45p	1.32p
	£m	£m
— interim dividend paid	6.4	5.8
— final dividend proposed	9.8	8.9
	16.2	14.7

The final dividend, if approved, will be paid on 24 June 2005 to all ordinary shareholders on the register on 3 June 2005.

Notes to the financial statements (continued) >

For the year ended 31 December 2004

9. Earnings per ordinary share

Earnings per ordinary share is calculated as follows:	2004	2003
Basic		
Profit for the year	**£32.8m**	£21.1m
Goodwill amortisation	**£30.0m**	£35.7m
Exceptional items (net of tax)	**-**	£(2.9)m
Underlying profit for the year	**£62.8m**	£53.9m
Weighted average number of ordinary shares in issue	**1,111.3m**	1,105.9m
Basic earnings per share	**2.9p**	1.9p
Goodwill amortisation	**2.7p**	3.2p
Exceptional items (net of tax)	**-**	(0.2)p
Underlying basic earnings per share	**5.6p**	4.9p
Diluted		
Profit for the year	**£32.8m**	£21.1m
Goodwill amortisation	**£30.0m**	£35.7m
Exceptional items (net of tax)	**-**	£(2.9)m
Underlying profit for the year	**£62.8m**	£53.9m
Weighted average number of ordinary shares in issue	**1,117.4m**	1,108.5m
Diluted earnings per share	**2.9p**	1.9p
Goodwill amortisation	**2.7p**	3.2p
Exceptional items (net of tax)	**-**	(0.2)p
Underlying diluted earnings per share	**5.6p**	4.9p
Weighted average number of ordinary shares		
Basic weighted average number of ordinary shares	**1,111.3m**	1,105.9m
Dilutive potential ordinary shares: employee share options	**6.1m**	2.6m
Dilutive weighted average number of ordinary shares	**1,117.4m**	1,108.5m

The calculation of basic and diluted earnings per share is based on profit after tax and minority interests. The weighted average number of shares excludes the Group's interests in own shares held through an ESOP trust.

At 31 December 2004, there were 1,114.0 million (2003: 1,112.2 million) ordinary shares in issue and 108.0 million (2003: 104.6 million) options outstanding. The total proceeds that would be received on exercise of the outstanding options at 31 December 2004 is £118.8 million (2003: £115.9 million).

Underlying profit for the year is calculated by adding back amortisation of goodwill of £30.0 million (2003: £35.7 million) to the profit for the year. In addition, an exceptional credit of £2.9 million (net of tax) was added back to calculate underlying profit for the year ended 31 December 2003. There were no exceptional items in the year ended 31 December 2004.

10. Intangible fixed assets	Note	Goodwill
Group:		**£m**
Cost at 1 January 2004		500.4
Additions	19	98.8
Transferred from associates		1.3
Disposals		(0.2)
Adjustments to prior period estimates of deferred contingent consideration		(10.2)
Exchange adjustments		(23.3)
At 31 December 2004		**566.8**
Amortisation at 1 January 2004		74.5
Amortisation charge for the year		29.8
Exchange adjustments		(4.5)
At 31 December 2004		**99.8**
Net book value		
At 31 December 2004		**467.0**
At 31 December 2003		425.9

Notes to the financial statements (continued) >

For the year ended 31 December 2004

11. Tangible fixed assets

Group:	Freehold land and buildings £m	Long leasehold and leasehold improvements £m	Office furniture, fixtures, equipment and vehicles £m	Total £m
Cost at 1 January 2004	14.7	27.1	103.4	145.2
Additions	0.1	6.0	22.7	28.8
Acquisitions	–	0.4	3.6	4.0
Disposals	(8.6)	(0.4)	(10.4)	(19.4)
Exchange adjustments	(0.2)	(0.6)	(2.1)	(2.9)
At 31 December 2004	**6.0**	**32.5**	**117.2**	**155.7**
Depreciation at 1 January 2004	7.2	14.0	70.1	91.3
Provided in the year	0.4	3.6	17.8	21.8
Aquisitions	–	0.2	1.3	1.5
Disposals	(5.3)	(0.4)	(8.8)	(14.5)
Exchange adjustments	(0.1)	(0.2)	(1.5)	(1.8)
At 31 December 2004	**2.2**	**17.2**	**78.9**	**98.3**
Net book value				
At 31 December 2004	**3.8**	**15.3**	**38.3**	**57.4**
At 31 December 2003	7.5	13.1	33.3	53.9

Company:	Long leasehold and leasehold improvements £m	Office furniture, fixtures, equipment and vehicles £m	Total £m
Cost at 1 January 2004	0.8	9.0	9.8
Additions	–	2.3	2.3
Disposals	–	(0.5)	(0.5)
At 31 December 2004	**0.8**	**10.8**	**11.6**
Depreciation at 1 January 2004	0.2	5.6	5.8
Provided in the year	0.1	2.1	2.2
Disposals	–	(0.5)	(0.5)
At 31 December 2004	**0.3**	**7.2**	**7.5**
Net book value			
At 31 December 2004	**0.5**	**3.6**	**4.1**
At 31 December 2003	0.6	3.4	4.0

11. Tangible fixed assets (continued)

The cost of the Group's tangible fixed assets includes £0.2 million (2003: £0.2 million) and the net book value includes £0.1 million (2003: £0.2 million) in respect of assets held under finance leases. Depreciation on these assets in the year was £0.1 million (2003: £0.1 million).

The net book value of the Company's tangible fixed assets does not include any amount in respect of assets held under finance leases (2003: £nil).

Neither the Group nor the Company had any capital commitments contracted for but not provided as at 31 December 2004 (2003: £nil).

12. Fixed asset investments

	Share of net assets	Associates goodwill	Total	Joint ventures	Other fixed asset investments As Restated (note 1)
Group:	£m	£m	£m	£m	£m
Cost:					
At 1 January 2004	5.6	6.4	12.0	10.4	2.5
Acquired/invested in the year	1.6	1.0	2.6	–	0.9
Adjustments to prior period estimates of deferred consideration	–	(0.7)	(0.7)	–	–
Transferred to subsidiaries	(4.4)	(1.3)	(5.7)	–	–
Share of profits	1.5	–	1.5	–	–
Exchange adjustments	(0.2)	(0.1)	(0.3)	–	(0.3)
At 31 December 2004	4.1	5.3	9.4	10.4	3.1
Amortisation:					
At 1 January 2004	–	0.5	0.5	8.9	–
Amortisation charge for the year	–	0.2	0.2	–	–
At 31 December 2004	–	0.7	0.7	8.9	–
Net book value:					
At 31 December 2004	4.1	4.6	8.7	1.5	3.1
At 31 December 2003	5.6	5.9	11.5	1.5	2.5

Company:	
Cost:	
At 1 January 2004	796.9
Additions	75.0
At 31 December 2004	871.9
Provision for impairment:	
At 1 January 2004	13.2
Provided in the year	7.8
At 31 December 2004	21.0
Net book value:	
At 31 December 2004	850.9
At 31 December 2003	783.7

Notes to the financial statements (continued) >

For the year ended 31 December 2004

12. Fixed asset investments (continued)

Associated undertakings and joint ventures

A list of the Group's principal associated undertakings and joint ventures is disclosed in note 23.

Other fixed asset investments

The Group's other fixed asset investments principally comprise an investment of approximately 2.1% in Harris Interactive, Inc. The market value of these shares at 31 December 2004 was £4.5 million (2003: £5.1 million).

The Company's fixed asset investments principally relate to shares in subsidiary undertakings and its joint venture, eVerger. A list of the Group's principal subsidiary undertakings is disclosed in note 23.

13. Debtors

		Group		Company
	2004	2003	2004	2003
	£m	£m	£m	£m
Trade debtors	**1,113.4**	1,069.4	**0.1**	0.5
Amounts due from Group undertakings	**–**	–	**97.1**	99.2
Amounts due from associated undertakings and joint ventures	**1.2**	7.2	**0.3**	0.3
Other debtors	**127.0**	92.0	**2.4**	3.3
Deferred tax asset (note 16)	**3.6**	2.7	**–**	–
Prepayments and accrued income	**27.4**	35.2	**0.3**	0.5
	1,272.6	1,206.5	**100.2**	103.8

All amounts due from associated undertakings and joint ventures relate to trading balances.

14. Creditors: amounts falling due within one year

		Group As Restated (note 1)		Company
	2004	2003	2004	2003
	£m	£m	£m	£m
Bank loans and overdrafts	**121.9**	90.3	**211.3**	117.1
Less issue costs of debt to be amortised	**(1.3)**	(1.4)	**(1.3)**	(1.4)
	120.6	88.9	**210.0**	115.7
Trade creditors	**1,136.0**	1,202.7	**2.7**	1.2
Finance leases and hire purchase contracts	**0.1**	0.1	**–**	–
Amounts due to Group undertakings	**–**	–	**208.6**	201.3
Amounts due to associated undertakings	**2.8**	–	**–**	–
Corporation tax	**15.7**	16.6	**–**	–
Taxation and social security	**46.6**	45.0	**0.4**	–
Other creditors	**179.3**	107.9	**0.8**	1.0
Accruals and deferred income	**194.4**	142.4	**18.3**	5.5
Dividends payable	**9.8**	8.9	**9.8**	8.9
	1,705.3	1,612.5	**450.6**	333.6

None of the above amounts are secured by the assets of any Group company.

Notes to the financial statements (continued) >
For the year ended 31 December 2004

15. Creditors: amounts falling due after more than one year

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Bank loans	**0.4**	0.4	**-**	–
Loan notes	**83.0**	89.5	**83.0**	89.5
Less issue costs of debt to be amortised	**(1.1)**	(1.2)	**(1.1)**	(1.2)
	82.3	88.7	**81.9**	88.3
Finance leases and hire purchase contracts	**0.1**	0.1	**-**	-
Other creditors	**55.5**	41.8	**–**	–
	137.9	130.6	**81.9**	88.3

Convertible bond	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Convertible bond	**122.6**	119.8	**122.6**	119.8
Less issue costs of debt to be amortised	**(0.2)**	(0.9)	**(0.2)**	(0.9)
	122.4	118.9	**122.4**	118.9

On 15 May 2002, the Group issued €165 million of convertible bonds, due in 2006.

The bonds may be redeemed, at the option of the Company, at any time on or after 29 May 2005.

Unless previously redeemed, the bonds are convertible into ordinary 5p shares, at the option of the holder, between 25 June 2002 and 8 May 2006.

Unless previously redeemed or converted, the bonds will be redeemed on 15 May 2006 at 107.95% of their principal amount. The initial conversion price was 149.8 pence per ordinary share and is subject to adjustment in certain circumstances relating to changes in the capital structure of the Company or a change of control. If all the bonds were to be converted at the initial conversion price, 67.5 million ordinary shares would be issued.

Interest is payable on the bonds at 2 per cent per annum with a 1.875 per cent premium payable.

On 20 November 2000, the Group issued US$160 million of unsecured loan notes, repayable between 2006 and 2008. An interest rate swap has been entered into for the duration of the loan notes to convert this fixed rate borrowing into floating rate based upon the US 6 month LIBOR rate. These loan notes are guaranteed by the Company and certain of its subsidiaries.

None of the above amounts are secured by the assets of any Group company.

Notes to the financial statements (continued) >

For the year ended 31 December 2004

16. Provisions for liabilities and charges

	Vacant properties £m	Deferred tax £m	Total £m
Group:			
Balance at 1 January	0.4	1.1	1.5
Charged to the profit and loss account	0.7	0.2	0.9
Utilised in the year	(0.4)	–	(0.4)
At 31 December 2004	0.7	1.3	2.0

The Group's vacant leasehold properties are principally located in the US. Provision has been made for the residual lease commitments for the remaining period of the leases, which at 31 December 2004 is approximately 3 years.

The Company had no provisions for liabilities and charges at either 31 December 2003 or 31 December 2004.

Deferred Tax	2004 £m	2003 £m
Provision for deferred tax comprises:		
Deferred tax liabilities	**1.3**	1.1
Deferred tax assets	**(3.6)**	(2.7)
Net deferred tax asset	**(2.3)**	(1.6)
At 1 January	**(1.6)**	(0.3)
Amount credited to profit and loss account (note 7)	**(0.7)**	(1.3)
Net provision at 31 December 2004	**(2.3)**	(1.6)

All recognised deferred tax balances represent short term timing differences relating to fixed assets.

A deferred tax asset of £14.2 million (2003: £16.1 million) has not been recognised in respect of tax losses as there is currently insufficient evidence that any asset would be recoverable.

17. Share capital

	2004 £m	2003 £m
Authorised:		
1,500,000,000 (2003: 1,500,000,000) ordinary shares of 5p each	**75.0**	75.0
	75.0	75.0
Issued, allotted, called up and fully paid:		
At 1 January – 1,112,204,529 (2003: 1,104,507,686) ordinary shares of 5p each	**55.6**	55.2
Issue of 6,838,996 (2003: 7,696,843) shares by the Company	**0.3**	0.4
At 31 December – 1,119,043,525 (2003: 1,112,204,529) ordinary shares of 5p each	**55.9**	55.6

Ordinary shares:

The ordinary shares of 5p each have full voting rights.

The Company issued a total of 6,838,996 shares in the year with an aggregate nominal value of £341,950, all due to the excercise of share options. The total share premium arising on the issue of shares in the year was £4,627,890.

Under the Group's share option schemes, there were outstanding options over 107,977,115 ordinary shares of 5p at 31 December 2004 (2003: 104,563,499), for which the participants have the right to exercise their options at prices ranging from 26.5p to 219.5p. These options are exercisable between 31 December 2004 and 7 December 2014.

18. Reserves

	Share premium account £m	Capital redemption reserve £m	ESOP reserve £m	Profit and loss account £m
Group:				
At 1 January 2004 as previously reported	206.3	0.2	–	(153.4)
Prior year adjustment (note 1)	–	–	(1.6)	–
At 1 January 2004 as restated	206.3	0.2	(1.6)	(153.4)
Retained profit for the year	–	–	–	16.6
Issue of shares by the Company	4.6	–	–	–
Purchase of shares by ESOP	–	–	(2.7)	–
Currency translation differences on foreign currency net investments	–	–	–	(8.1)
Credit for share-based incentive schemes	–	–	–	1.9
At 31 December 2004	**210.9**	**0.2**	**(4.3)**	**(143.0)**

Goodwill arising on acquisitions up to 31 December 1997 of £563.9 million, which has been written off immediately to reserves, is included within the profit and loss account reserve at 31 December 2004.

	Merger reserve £m	Share premium account £m	Capital redemption reserve £m	ESOP reserve £m	Profit and loss account £m
Company:					
At 1 January 2004 as previously reported	13.0	206.3	0.2	–	92.7
Prior year adjustment (note 1)	–	–	–	(1.6)	(13.2)
At 1 January 2004 as restated	13.0	206.3	0.2	(1.6)	79.5
Retained loss for the year	–	–	–	–	(50.0)
Purchase of shares by ESOP	–	–	–	(2.7)	–
Issue of shares by the Company	–	4.6	–	–	–
At 31 December 2004	13.0	210.9	0.2	(4.3)	29.5

The Company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The loss after tax dealt with in the accounts of the Company for the year to 31 December 2004 was £33.8 million (year to 31 December 2003: loss of £37.6 million, as restated for the eVerger investment write down – see note 1).

ESOP reserve

At 31 December 2004, the Group's ESOP (the 'Aegis Group Employee Share Trust') held 5,000,000 Ordinary Shares in the Company with a nominal value of £250,000 and a market value of £5.4 million. At 31 December 2003, the Group's ESOP held 2,000,000 Ordinary Shares in the Company with a nominal value of £100,000 and a market value of £2.0 million. These shares were acquired by the Trust in the open market using funds provided by Aegis Group plc.

The Trust has waived any entitlement to the receipt of dividends in respect of all of its holding of the Company's Ordinary Shares.

As a result of the adoption of UITF 38, the Group's interest in own shares, which was previously held within investments, is now presented as a deduction from shareholders' funds. The balance sheet at 31 December 2003 has been restated accordingly. There was a £1.6 million reduction in net assets at 31 December 2003 as a result of adopting UITF 38.

Notes to the financial statements (continued) >

For the year ended 31 December 2004

19. Goodwill on acquisitions

During the year, the Group acquired subsidiaries (all acquisition accounted for) as detailed below:

Company	Country of incorporation	% Acquired (Total Group holding)	Date of acquisition
Agency W	Korea	51% (51%)	October 2004
Datacom CRM	Spain	55% (55%)	November 2004
Eccla	France	100% (100%)	December 2004
iProspect	USA	100% (100%)	December 2004
Lentus	Sweden	100% (100%)	January 2004
Magic Touch Media	Spain	100% (100%)	December 2004
Media Co-ordination	South Africa	67.2% (67.2%)	October 2004
Medialand.nl BV	Netherlands	51% (51%)	June 2004
Medialand.NV	Netherlands	21.1% (62.8%)	June 2004
Mediasal	Spain	27.1% (51%)	May 2004
MRM Australia	Australia	100% (100%)	July 2004
Posterscope Beijing	China	30% (70%)	January 2004
Posterscope Hong Kong	China	40% (80%)	January 2004
Posterscope India	India	51% (51%)	November 2004
Posterscope South East Asia	Singapore	60% (60%)	January 2004
Proactive	South Africa	100% (100%)	June 2004
Symmetrics	USA	100% (100%)	March 2004
Takezo	France	100% (100%)	May 2004
TRBI	UK	100% (100%)	January 2004
Velocity	USA	100% (100%)	December 2004
WWWins Taiwan	Taiwan	100% (100%)	August 2004

Initial consideration totalled £49.7 million, with estimated contingent deferred consideration of £52.2 million payable between 2005 and 2009, subject to performance criteria. A summary of the net assets/liabilities acquired and goodwill arising is given below.

	Book value acquired £m	Accounting policy adjustments (a) £m	Other adjustments (b) £m	Fair value of net assets £m
Net assets/(liabilities) acquired:				
Tangible fixed assets	2.6	(0.1)	–	2.5
Debtors	49.7	0.1	–	49.8
Stock: work in progress	6.5	–	–	6.5
Cash at bank and in hand	7.1	–	–	7.1
Creditors	(57.7)	–	(2.4)	(60.1)
Net assets	8.2	–	(2.4)	5.8
Minority interest				(2.7)
				3.1
Goodwill capitalised in the year				98.8
Consideration				101.9
Satisfied by:				
Initial cash consideration				47.9
Direct costs of acquisition				1.8
Deferred consideration (note 20)				52.2
				101.9

Provisional adjustments have been made as follows:

a Adjustments have been made to bring the useful economic lives of fixed assets and debtors into line with Group accounting policy.

b Provision has been made to properly reflect the fair value of existing liabilities.

All provisional amounts are based on management's best estimates. Fair value adjustments are expected to be finalised in 2005.

Associates

The Group acquired a 30% interest in Dr Pichutta KG, a company based in Germany, during the year. The initial cash consideration was £1.0 million.

20. Deferred consideration and other commitments

Deferred consideration, which has been provided for in creditors, may be paid to the vendors of certain subsidiary undertakings in the years to 2009. Such payments are either fixed under the terms of the acquisition or are contingent on future financial performance. The directors estimate that, at the rates of exchange ruling at the balance sheet date, the liability at 31 December 2004 for payments that may be due is as follows:

	2004 £m	2003 £m
Within one year	48.6	19.3
Between one and two years	35.1	22.6
Between two and five years	6.2	10.7
	89.9	52.6

The minimum liability is £13.9 million and the maximum is £128.1 million.

Put options held by outstanding minority interests
There are put options held by certain minority interest shareholders in respect of Group companies in Spain, France, Thailand, Israel, Japan and Singapore. The directors estimate the value of these contingent liabilities, based upon the profitability of the individual companies, to be approximately £5.9 million (2003: £9.4 million).

Guarantees
At 31 December 2004, the Company had issued bank guarantees of up to £40.8 million (2003: £31.0 million). Other bank guarantees issued by Group companies totalled £7.0 million (2003: £17.1 million).

At 31 December 2004, Group companies had issued other external guarantees, principally in relation to media and rent guarantees, of £33.2 million (2003: £26.4 million).

Lease commitments
At 31 December 2004, there were the following annual commitments in respect of non-cancellable operating leases:

	Group Land and buildings 2004 £m	Group Other 2004 £m	Total Group 2004 £m	Company Land and buildings 2004 £m	Group Land and buildings 2003 £m	Group Other 2003 £m	Total Group 2003 £m	Company Land and buildings 2003 £m
Operating leases that expire:								
Within one year	3.6	0.4	4.0	-	4.4	1.5	5.9	-
Between one and five years	10.1	1.8	11.9	-	9.1	2.2	11.3	-
After more than five years	7.3	0.2	7.5	0.8	6.1	0.2	6.3	0.8
31st December	21.0	2.4	23.4	0.8	19.6	3.9	23.5	0.8

Contingent liabilities
The Group has a contingent liability in respect of amounts due to certain employees relating to local statutory retirement arrangements. Certain of these amounts have not been provided for in the financial statements because the likelihood of any liability crystallising is considered to be remote.

In the view of the directors, the Group has no unprovided liability in respect of outstanding litigation.

21. Related party transactions

There are no related party transactions which require disclosure in 2004.

In 2003, the Group had the following transactions with associated undertakings and joint ventures:

Carat Espāna SA purchased media space on behalf of Mediasal 2000 SA, an associated undertaking, totalling £21.8 million in 2003. The balance due at the end of 2003 was £5.2 million.

Aegis Media Hellas SA purchased media space on behalf of Joint Venture Bonds (Greece), an associated undertaking, totalling £1.1 million in 2003. No balance was due at the end of 2003.

Group companies provided administrative services to Percept D'Mark, an associated undertaking, totalling £0.1 million. The balance due at the end of 2003 was £0.3 million.

Carat Media Services (Malaysia) Sdn Bhd purchased media space on behalf of Perindiny Pakar Media, an associated undertaking, totalling £1.8 million. The balance due at the end of 2003 was £0.4 million.

Notes to the financial statements (continued) >

For the year ended 31 December 2004

22. Financial instruments

The Group has established objectives concerning the holding and use of financial instruments which are discussed in further detail in the Treasury Management section of the Financial Review on page 9. The key objective is to manage the financial risks faced by the Group, which are discussed below.

Formal policies and guidelines have been set to achieve this objective and it is the responsibility of Group Treasury to implement these policies using the strategies set out below.

The Group does not trade in financial instruments nor engage in speculative arrangements and it is the Group's policy not to use any complex financial instruments, unless, in exceptional circumstances, it is necessary to cover defined risks.

Management of financial risk

The Group considers its major financial risks to be currency risk, liquidity risk, interest rate risk and credit risk. The Group's policies with regard to these risks and the strategies concerning how financial instruments are used to manage these risks are set out below.

Currency risk

A significant portion of the Group's activities take place overseas. The Group therefore faces currency exposures on transactions undertaken by subsidiaries in foreign currencies and upon consolidation following the translation of the local currency results and net assets/liabilities of overseas subsidiaries.

The Group's foreign currency management policy requires subsidiaries to hedge all transactions and financial instruments with material currency exposures. This is achieved using short-term forward exchange contracts. At the year end, the aggregate value of transactions and related hedges was not material. It is the Group's policy not to hedge exposures arising from the translation of profits or net assets as these represent an accounting rather than cash exposure.

The Group's policy is to borrow locally wherever possible to act as a natural hedge against the translation risk arising from its net investments overseas. A currency analysis of borrowings is given below.

Liquidity risk

The Group's objective of ensuring that adequate funding is in place is achieved by having agreed sufficient committed bank facilities. The Group also seeks to manage its working capital requirement by requiring clients to pay for media in advance whenever possible.

At 31 December 2004, the Group had net debt (before finance lease obligations and issue costs of new debt) of £51.9 million (2003: £35.4 million). The Group had cash balances and liquid short term investments of £276.0 million at 31 December 2004 (2003: £264.6 million) and gross borrowings of £327.9 million (2003: £300.0 million).

Included within gross borrowings is £122.6 million (2003: £119.8 million) of 2 per cent convertible bonds due in 2006. These bonds were issued on 15 May 2002.

Also included within gross borrowings is £83.0 million (US$160 million) (2003: £89.5 million (US$160 million)) of unsecured loan notes issued on 20 November 2000. These notes are repayable in full between 2006 and 2008.

In addition to the net debt at 31 December 2004, the Group has undrawn committed facilities of £231.6 million (2003: £200.0 million). Further details are given on page 68.

Interest rate risk

The Group's borrowings, excluding the convertible bond but including the unsecured loan notes referred to above, are at floating rates. The Group has entered into long-term hedging arrangements to swap the interest relating to the unsecured loan notes from fixed into floating rates.

The Group has in place cash pooling arrangements in a number of territories. These enable the Group to minimise the interest paid on short-term borrowings and overdrafts, whilst allowing net surplus funds to be invested in interest bearing accounts.

An analysis of the interest rate risk profile of the financial liabilities and assets of the Group is given opposite.

22. Financial instruments (continued)

Credit risk
Trade credit risk is managed in each territory through the use of credit checks on new clients and individual credit limits, where considered necessary. In some instances, clients are required to pay for media in advance.

Short-term debtors and creditors and currency disclosures
Short-term debtors and trade creditors have been excluded from all disclosures provided in this note. Group companies do not have material, unhedged monetary assets and liabilities in currencies other than their local currencies. Hence, no currency risk disclosures have been provided.

Maturity profile of financial assets and liabilities
The maturity profile of the Group's financial liabilities is set out in the table below:

	Bank loans and overdrafts 2004 £m	Other 2004 £m	Total 2004 £m	Bank loans and overdrafts 2003 £m	Other 2003 £m	Total 2003 £m
Within one year or less or on demand	121.9	-	121.9	90.3	-	90.3
More than one year but not more than two years	0.4	137.3	137.7	0.4	-	0.4
More than two years but not more than five years	-	68.3	68.3	-	209.3	209.3
Gross financial liabilities	122.3	205.6	327.9	90.7	209.3	300.0

The table above excludes obligations under finance leases of £0.2 million (2003: £0.2 million) and issue costs of debt of £2.6 million (2003: £3.5 million).

The amounts disclosed above at 31 December 2004 include £60 million of bank borrowings due within one year drawn against the Group's £250 million Committed Revolving Credit Facility. This borrowing can be extended under the terms of the facility, which matures in 2009.

With the exception of the Group's other fixed asset investments of £3.1 million, all financial assets have a maturity of less than one year.

Analysis of currency and interest rate risk profile of financial liabilities of the Group
The currency and interest rate risk profile of the financial liabilities of the Group at 31 December was:

	Fixed rate financial liabilities 2004 £m	Floating rate financial liabilities 2004 £m	Total financial liabilities 2004 £m	Fixed rate financial liabilities 2003 £m	Floating rate financial liabilities 2003 £m	Total financial liabilities 2003 £m
Sterling	-	81.4	81.4	-	64.5	64.5
Euro	121.7	13.8	135.5	118.2	0.9	119.1
US dollar	-	83.1	83.1	-	89.2	89.2
Other currencies	-	25.5	25.5	-	23.9	23.9
	121.7	203.8	325.5	118.2	178.5	296.7

Interest is payable on the above floating rate financial liabilities (excluding the US unsecured loan notes) based on the inter bank offer rate in each country. The weighted average interest rate for the year ended 31 December 2004 was 3.8% (2003: 3.3%). The variable interest rate payable on the US unsecured loan notes is based on the prevailing US LIBOR rate.

Interest on the convertible bond, which comprises all of the fixed rate financial liabilities, is fixed at 2% with a 1.875% premium payable fixed until May 2006. Issue costs to be amortised in respect of the convertible bond at 31 December 2004 are £0.9 million (2003: £1.6 million) of which £0.7 million (2003: £0.7 million) is included in creditors: amounts falling due within one year.

In addition to the liabilities above, the Group had creditors due after more than one year of £55.5 million (2003: £41.8 million) which includes £41.3 million (2003: £33.3 million) of deferred consideration on acquisitions, on which generally no interest is paid.

Notes to the financial statements (continued) >

For the year ended 31 December 2004

22. Financial instruments (continued)

Analysis of the currency and interest rate risk profile of financial assets of the Group

The currency and interest rate risk profile of the financial assets of the Group at 31 December was:

	Cash at bank and in hand 2004 £m	Cash at bank and in hand 2003 £m
Sterling	**22.8**	78.8
Euro	**117.7**	104.6
US dollar	**71.2**	37.3
Other currencies	**64.3**	43.9
	276.0	264.6

The financial assets of the Group comprise cash balances and liquid short-term investments. Floating rate cash earns interest based on the relevant national LIBID equivalent. In addition to the financial assets above, the Group had other fixed asset investments of £3.1 million (2003: £2.5 million) principally in US dollars, which do not yield an interest-related income and which do not have a fixed maturity date.

Fair values of the Group's financial assets and liabilities

With the exception of the Group's £3.1 million other fixed asset investments (principally in Harris Interactive Inc) and the interest rate swap on the Group's US$ loan notes (which is not included in the balance sheet), there are no material differences between the book and fair values of the Group's financial assets or liabilities. The fair value of the Group's investment in Harris Interactive Inc at 31 December 2004 was £4.5 million based on that company's listed share price. The fair value of the swap at 31 December 2004 was £7.2 million based on a discounted cash flow model and yield curves applicable (2003: £12.1 million). This fair value represents unrecognised profits which the Group expects to realise as a result of lower variable interest payments under the swap compared with the fixed interest rate applicable on the underlying loan notes. £3.5 million of this unrealised profit is expected to be realised in 2005.

Borrowing facilities

The Group had the following undrawn, committed bank borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date:

	2004 £m	2003 £m
Expiring within one year	**–**	100.0
Expiring between one and two years	**41.6**	–
Expiring between two and five years	**190.0**	100.0
	231.6	200.0

On 23 August 2004, the Group entered into a new five-year revolving credit agreement replacing the existing revolving credit facility. The new facility comprises a £250.0 million multi-currency revolving credit facility provided by a syndicate of banks. Drawings under the facility bear interest at between 0.35% and 0.75% above LIBOR as periodically determined by reference to certain agreed financial ratios.

Of the amounts disclosed above at 31 December 2004, £41.6 million expiring between one and two years, being the undrawn amount of the Asian Bilateral Facilities, may be extended annually by the Group until 2008.

Market risk

At 31 December 2004, it is estimated that a general simultaneous parallel shift of 1% in interest rates would reduce the Group's reported profit by approximately £0.3 million. It is also estimated that a strengthening of Sterling by 1% would reduce 2004 profit before tax by approximately £0.7 million.

Currency exposures

No Group companies have material unhedged monetary assets and liabilities in currencies other than that of the local functional currency.

Hedges of future transactions

At 31 December 2004 and 2003, there were no material foreign exchange contracts to hedge against future transaction flows.

Notes to the financial statements (continued) >

For the year ended 31 December 2004

23. Principal subsidiary and associated undertakings

Principal subsidiary undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2004
Media communications:		
Aegis Media UK & Ireland Ltd	England and Wales	100%
Aegis Media France S.A.S.	France	100%
Aegis Media Belgium s.a.	Netherlands	100%
Aegis Media Italia Srl	Italy	100%
Aegis Media Iberia S.L.	Spain	100%
Aegis Media (Deutschland) GmbH	Germany	100%
Carat Nordic AB	Sweden	100%
Carat North America Inc	USA	100%
Market research:		
Synovate Ltd	England and Wales	100%
Synovate (Cyprus) Ltd	Cyprus	100%
Synovate Inc	USA	100%
Synovate (Asia Pacific) BV	Netherlands	100%

All shareholdings are of ordinary shares. The subsidiary undertakings listed, all of which are consolidated in the accounts of the Group, are those which, in the opinion of the directors, principally affected the results or financial position of the Group during or at the end of the financial year.

All of the principal subsidiary and associated undertakings disclosed above and below are indirectly held. The effective interest in the issued share capital is equivalent to the percentage of voting rights held by the Group, unless otherwise stated. A full list of all subsidiary undertakings, and the information shown above with respect to them, is filed with the Company's annual return.

The companies listed immediately below are included in the consolidated financial statements of Aegis Group plc, as such we apply S264b HGB of the German Commercial Code.

Aegis Media GmbH & Co. KG Central Services, Wiesbaden
HMS GmbH & Co. KG Media-Service, Wiesbaden
Carat 21 GmbH & Co. KG Kommunikationsberatung, Frankfurt
CARAT Wiesbaden GmbH & Co. KG Media-Service, Wiesbaden
CARAT Hamburg GmbH & Co. KG, Hamburg

Principal associated undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2004
Media Communications:		
Percept D'Mark	India	26%
Dr Pichutta KG	Germany	30%
Qin Jia Yuan	China	25%

All shareholdings are of ordinary shares. All the results of the above associated undertakings have been equity accounted for.

Joint ventures
The Group has a 44.65% shareholding in eVerger Limited, an investment company incorporated in Guernsey.

24. Post balance sheet events

On 9 March 2005, the Group announced the acquisition of AZTEC Information Systems, an Australian company which will become part of Synovate. The purchase price is composed of initial consideration of £14.8 million, payable in cash on completion, and deferred consideration payable over 3 years, up to a maximum of £18.1 million, subject to performance criteria.

On 2 March 2005, the Group announced the acquisition of Columbus Quanti, a Belgian market research company which will become part of Synovate. The purchase price is composed of initial consideration of €5.6 million (net of cash acquired), payable in cash on completion, and deferred consideration payable over 3 years, up to a maximum of €1.7 million, subject to performance criteria.

Shareholder information >

Financial calendar

25 May 2005	Annual General Meeting
1 June 2005	Ex-dividend date
3 June 2005	Last date for transfers
24 June 2005	Final dividend payable
6 September 2005	Announcement of interim results
Early October 2005	Interim dividend payable
Early March 2006	Preliminary announcement of results for the year ending 31 December 2005

Registrars
The Company's share register is administered by Computershare Investor Services PLC and all correspondence regarding ordinary shares should be sent to them at the address shown on page 26. Alternatively they can be contacted on:

Tel 0870 702 0010
Fax 0870 703 6143

Shareholder information on the Internet
Computershare Investor Services PLC, the Company's Registrar, has introduced a facility whereby shareholders are able to access details of their shareholding in the Company over the Internet, subject to complying with an identity check. This service can be accessed on their website — http://www.computershare.com

Aegis Group plc's website
Company information, including recent press releases and the current market price of the Company's ordinary shares, is available on the Company's website — http://www.aegisplc.com

Analysis of ordinary shareholdings at 31 December 2004

Size of holdings	Number of holders	%	Number of shares	%
1–1,000	1,508	41.37	684,640	0.06
1,001–10,000	1,274	34.95	4,423,806	0.40
10,001–25,000	205	5.62	3,443,993	0.31
25,001–50,000	129	3.53	4,862,352	0.43
50,001–100,000	110	3.02	8,064,956	0.72
100,001–250,000	107	2.94	16,869,286	1.51
250,001–500,000	95	2.61	33,634,194	3.01
500,001–1,000,000	67	1.84	47,604,421	4.25
1,000,001–10,000,000	130	3.57	399,335,052	35.69
10,000,001–25,000,000	9	0.25	160,230,215	14.31
25,000,001 +	11	0.30	439,890,610	39.31
	3,645	100.00	1,119,043,525	100.00

Five year summary >

Profit and loss:	2004	Restated 2003	Restated 2002	Restated 2001	Restated 2000
Turnover	**£7,594.3m**	£7,156.2m	£6,233.8m	£6,095.7m	£5,712.5m
Revenue	**£747.0m**	£648.8m	£591.9m	£529.0m	£473.0m
Gross profit	**£647.5m**	£572.5m	£515.1m	£463.2m	£382.8m
% Gross profit to turnover	**8.5%**	8.0%	8.3%	7.6%	6.7%
Operating profit (before amortisation of goodwill and exceptional items)	**£100.3m**	£84.2m	£76.6m	£71.1m	£84.5m
Profit before tax, amortisation of goodwill and exceptional items	**£93.9m**	£80.5m	£71.4m	£63.3m	£78.4m
Profit before tax*	**£63.9m**	£48.0m	£34.7m	£10.8m	£71.6m
Effective underlying tax rate	**29.4%**	29.8%	30.6%	31.9%	29.5%
Profit/(loss) for the financial year	**£32.8m**	£21.1m	£13.1m	£(10.2)m	£47.4m
Cash flow:					
Operating cash flow	**£123.7m**	£67.3m	£176.5m	£102.8m	£152.5m
Net (debt)/funds at the year end	**£(49.5)m**	£(32.0)m	£39.7m	£(33.2)m	£(2.7)m
Balance sheet:					
Goodwill	**£467.0m**	£425.9m	£374.9m	£362.8m	£369.7m
Other fixed assets	**£70.7m**	£69.4m	£74.1m	£89.0m	£66.5m
Net current liabilities	**£(149.0)m**	£(133.4)m	£(92.2)m	£(160.3)m	£(107.3)m
Creditors: amounts falling due after more than one year	**£(137.9)m**	£(130.6)m	£(130.8)m	£(151.5)m	£(178.7)m
Convertible bond	**£(122.4)m**	£(118.9)m	£(107.3)m	–	–
Provisions for liabilities and charges	**£(2.0)m**	£(1.5)m	£(1.6)m	£(1.1)m	–
Net assets	**£126.4m**	£110.9m	£117.1m	£138.9m	£150.2m
Shareholder returns:					
Earnings per share — underlying*					
— basic	**5.6p**	4.9p	4.4p	3.8p	5.0p
— diluted	**5.6p**	4.9p	4.3p	3.8p	4.9p
Earnings/(loss) per share — FRS 14					
— basic	**2.9p**	1.9p	1.2p	(0.9)p	4.4p
— diluted	**2.9p**	1.9p	1.2p	(0.9)p	4.2p
Ordinary dividend rate per share	**1.45p**	1.32p	1.25p	1.20p	1.15p

Comparative period results have been restated to reflect the change in accounting policy in respect of interest in own shares and payments for media advertising, as explained in note 1.

*Based on profit before goodwill amortisation and exceptional items.

Glossary of terms >

The Group
Aegis Group plc and its subsidiaries.

Aegis Media
The media services division of Aegis Group plc.

Synovate
The market research division of Aegis Group plc.

Billings
The annualised value of media purchased and/or managed on behalf of clients, before agency discounts.

Turnover
Represents amounts invoiced for media handled by the Group on behalf of clients, together with fees invoiced for media and research services provided.

Revenue
The value of media and research fees and commission earned by the Group.

Gross profit
Media and research income after deduction of all direct costs.

Gross margin
Gross profit stated as a percentage of turnover.

Operating profit
Gross profit less operating expenses and amortisation of goodwill.

Operating margin
Operating profit stated as a percentage of gross profit.

Underlying results
Underlying results exclude the impact of goodwill amortisation and exceptional items.

Net new business
The annualised value of media billings gained less the annualised value of media billings lost.

Reported growth
Reported growth represents the year on year growth including the effect of new businesses acquired or disposed of during the year and movements in exchange rates.

Organic growth
Organic growth represents year on year growth after adjusting for the effect of businesses acquired or disposed of since the beginning of the prior year.

Constant currency results
Constant currency results are calculated by restating the prior year local currency amounts using current year exchange rates.

Goodwill
The difference between the fair value of purchase consideration of a business as a whole and the aggregate fair value of its separable net assets.

Minority interests
Partial ownership of subsidiary undertakings by external shareholders.