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Aegis Group plc ›› Annual Report & Accounts 2001

Aegis Group plc >

Annual Report & Accounts 2001

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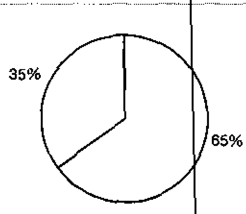
Group at a glance >

Financial Highlights

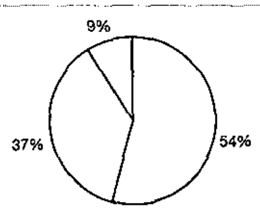
	2001	2000	1999	1998	1997
Turnover	**£6,095.7m**	£5,712.5m	£4,791.8m	£4,130.0m	£3,652.5m
Revenue	**£529.0m**	£473.0m	£323.5m	£221.0m	£191.8m
Gross profit	**£425.8m**	£382.8m	£281.7m	£221.0m	£191.8m
Underlying operating profit*	**£71.1m**	£84.5m	£66.4m	£50.6m	£44.4m
Underlying profit before tax*	**£63.3m**	£78.4m	£64.6m	£51.1m	£43.5m
Earnings per share — underlying* — basic	**3.8p**	5.0p	4.3p	4.0p	3.6p
— diluted	**3.8p**	4.9p	4.2p	3.7p	3.2p
(Loss/earnings per share — FRS 14 — basic	**(0.6p)**	4.4p	4.6p	4.0p	3.8p
— diluted	**(0.6p)**	4.3p	4.4p	3.7p	3.4p**
Full year dividend per share	**1.20p**	1.15p	1.0p	0.85p	0.7p
Operating cash flow	**£66.3m**	£96.2m	£76.3m	£57.0m	£54.5m
Net (debt)/funds	**£(126.0m)**	£(59.0m)	£(15.1m)	£36.9m	£(2.2m)
New business performance — media	**US$1,701m**	US$2,045m	US$1,206m	US$770m	US$702m

* Before amortisation of goodwill and exceptional items ** As restated under Financial Reporting Standard 14

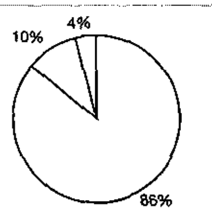
Group Financial Analysis



Revenue by business
Media 65%
Research 35%

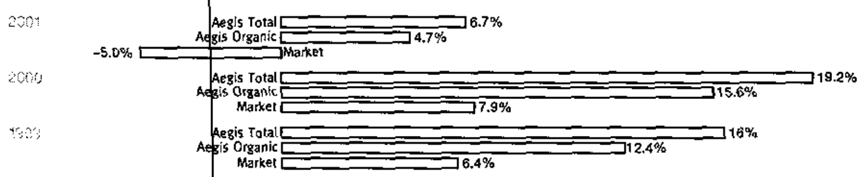


Revenue by region
Europe 54%
N. America 37%
ROW 9%



Underlying operating profit by region
Europe 86%
N. America 10%
ROW 4%

Turnover vs Market Growth



Key Events

January 2001	>	Aegis acquires Pegram Walters in UK
	>	Aegis acquires MarkTrend in Canada
February 2001	>	Aegis acquires Lord Media in Poland
March 2001	>	Aegis acquires Copernicus in the US
	>	Aegis integrates all its market research activities into Aegis Research
May 2001	>	Aegis Research acquires MEMRB
June 2001	>	Aegis Research acquires Demoscopie in France
July 2001	>	Aegis Research acquires IMR in the US
September 2001	>	Aegis Research Worldwide CEO appointed
November 2001	>	Aegis Research acquires Research Fact in Japan
	>	Aegis Research acquires BIT in Germany
December 2001	>	Carat acquires Vizium in the US
January 2002	>	Carat named Global Media Agency of the Year
	>	Carat acquires Lot 21 in the US
	>	Carat acquires interest in Chusen Media in Japan
February 2002	>	Aegis Research acquires Market&More in Europe
	>	Aegis Research acquires interest in The Filter Group, an Asian marketing consultancy

Aegis company profiles

Aegis Group plc

Aegis Group plc is the holding company for Carat (media services) and Aegis Research (market research). Aegis Group plc is listed on the London Stock Exchange (AGS.L)

Carat

Carat is the world's largest independent media communication specialist. Present in 46 countries across Europe, North America, Asia-Pacific and Latin America, billing US $14.7 billion. Carat's national operating companies are leaders in most of their markets.

Aegis Research

Aegis Research provides clients with cohesive global support and a comprehensive suite of leading research products. Aegis Research is present in 43 countries across Europe, the Middle East & Africa, North America, Latin America and Asia-Pacific.

eVerger

eVerger is a joint venture with Warburg, Pincus and is focused on identifying, funding and developing marketing businesses and enabling technologies to help marketers promote and strengthen their brands.

Aegis Group websites

Aegis Group plc

Investor site
www.aegisplc.com

Carat

Carat
www.carat.com
Carat North America
www.carat-na.com
Carat Interactive
www.caratinteractive.com
Media Marketing Assessment (MMA)
www.mma.com
Posterscope
www.posterscope.co.uk
Outdoor Vision
www.outdoorvision.com

Aegis Research

Market Facts
www.marketfacts.com
Asia Market Intelligence
www.ami-group.com
MEMRB
www.memrb.com
Pegram Walters
www.pegramwalters.com
Market&More
www.marketandmore.com
Demoscopie
www.demoscopie.com
The Filter Group
www.thefiltergroup.com
Research Fact
www.researchfact.co.jp
Motoresearch
www.motoresearch.com
Copernicus
www.copernicusmarketing.com

eVerger

eVerger
www.everger.com
Amacis
www.amacis.com
Dynamic Logic
www.dynamiclogic.com
Paramark
www.paramark.com
New World IQ
www.newworldiq.com

Carat

46 countries — 4,300 employees

Argentina, Australia, Austria, Belgium, Canada, Chile, China, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Italy, Japan, Latvia, Lithuania, Malaysia, Mexico, Netherlands, New Zealand, Norway, Philippines, Poland, Portugal, Romania, Russia, Singapore, Slovak Republic, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, UK, USA, Venezuela

Aegis Research

43 countries — 2,500 employees

Algeria, Argentina, Belgium, Brazil, Bulgaria, Canada, China, Cyprus, Czech Republic, Egypt, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Iran, Israel, Japan, Korea, Kuwait, Malaysia, Malta, Mexico, Morocco, Netherlands, Oman, Philippines, Poland, Romania, Russia, Saudi Arabia, Singapore, Slovak Republic, Taiwan, Thailand, Tunisia, Ukraine, UAE, UK, USA, Yemen

Letter to shareholders >

2001 saw the deepest advertising recession in living memory. Depite this, our revenues grew 12% against a market contraction of 5%

Dear Shareholder

2001 has witnessed the deepest advertising recession in living memory. It has been estimated that the global advertising market declined by around 5% during 2001 after nearly a decade of solid year-on-year growth. Nevertheless the strength of our service combined with excellent client relationships meant that we continued to win new business and our revenues grew by 11.8%.

Our operating profit, however, was adversely affected by clients reducing their marketing spend during the year. Furthermore, bad debts, which arose as a result of Argentina's economic collapse, also had a significant effect on our business. Whilst we continue to try to recover monies owed to us in Argentina we have had to make a provision for bad debts and this has significantly impacted our operating margin.

In order to return to the Group's margin targets, cost reduction, through restructuring and selective staff reductions, has been implemented across the Group. The exceptional costs of this programme have arisen principally in 2001.

Additionally, the Group's investment in start-up operations and product development was higher than in prior years. It is anticipated that there will be significant reductions both in the losses associated with these start-ups and in other costs – mainly internal investment – over the coming year. These reductions along with the strong market share gains of 2001 will help drive Aegis' performance in 2002.

The challenges that we encountered in 2001 are reflected in the Group's financial performance.

Turnover for the year was up 6.7% to £6,095.7 million (2000: £5,712.5 million) in contrast to the global market's 5% contraction. Revenue was up 11.8% to £529.0 million (2000: £473.0 million). Gross margin was up to 7.0% (2000: 6.7%) reflecting the increased range of higher margin services that we can offer clients. Underlying profit before tax, however, declined to £63.3 million (2000: £78.4 million) reflecting the investment referred to above and the impact of clients reducing their advertising and marketing spend during the year. Consequently underlying diluted EPS also declined to 3.8p (2000: 4.9p).

Despite the difficult market conditions, the Board is optimistic that the actions taken in 2001 to reduce costs will improve the Group's performance in 2002.

	2001	Change %	2000
Turnover	£6,095.7m	6.7	£5,712.5m
Revenue	£529.0m	11.8	£473.0m
Gross margin	7.0%		6.7%
Underlying profit before tax	£63.3m	(19.3)	£78.4m
Underlying diluted EPS	3.8p		4.9p

Letter to shareholders >

We fully expect the current difficult trading conditions to persist for much of 2002 but the Group should nevertheless feel the benefits of the actions we have taken in 2001

The Board is recommending a final dividend of 0.72 pence per ordinary share, making 1.20 pence per ordinary share for the full year, an increase of 4.3% over the dividend paid in respect of 2000.

Each year the marketing services sector continues to evolve. In the sectors in which we operate there is a continuing trend towards international mandates. Companies with global brands increasingly award their business to agencies that can support them in the global marketplace and that can deliver real value from their marketing spend. These requirements tend to be service specific as marketers seek the best of breed in each service area.

Our research division is being transformed from a disparate collection of high quality research companies into a cohesive global network. Two years ago a worldwide research network was just an idea. Today, Aegis Research has offices in 43 countries and is developing quickly into a leading industry player. Although there is still much work to be done we are pleased by the progress made.

Our media division also continued to evolve. We grew the business both geographically and by increasing the range of added value services that we can offer clients. These are services beyond media buying. They allow clients to manage efficiently their media investment, which these days can run into billions of dollars. It was Lord Leverhulme who said in the 1920s, "I know that half my advertising is wasted, the problem is I don't know which half". We aim to help marketers understand this question and to make their entire marketing spend more effective. Media choice today is much more diverse, fragmented and international so the ability to provide marketers with control, feedback and analysis of their media investment is a compelling offer.

Carat's industry leading expertise in this area was recognised in May 2001 when Philips awarded the agency its first global media account.

But Philips was not alone in choosing Carat to handle its media. Carat showed its mettle by winning a total of $1.7 billion of net new business in a very tough market; an excellent performance that has provided the momentum to keep our business moving forward and take market share from our competitors.

This performance was brought to the attention of the marketing world when Carat was named 2001 "Global Media Agency of the Year" by Ad Age Global, the leading international advertising industry trade magazine. In choosing Carat for this award, Ad Age Global wrote: "...2001 was Carat's year – for its success in becoming a strong independent global media player against considerable odds; its commanding new business performance in difficult conditions; its client retention and added value service; for establishing a point of difference in a homogeneous market; and through it all maintaining healthy margins. Taking these achievements in the round no other network could match it."

Our business sectors, media and market research, are both knowledge based. We mine mountains of data to provide clients with jewels of insight – insights into the relationships that exist between consumers, media and brands. Increasingly, however, we are adding value to insight by providing foresight – marketing and communication consultancy services that generate great ideas for our clients.

You want to sell more product? Have an idea. You want to build brand awareness? You need ideas. You want product and service innovations? More ideas. Work smarter? Ideas again. And as for different ways to connect with customers – ideas are the only way you can create new kinds of lasting relationships both online and offline.

Great ideas come from anywhere. But they come faster and with more audacity from environments that encourage and nurture them.

In 2001 we looked at how we could align the many thousands of extremely bright minds within our organisation towards achieving this ambition. We talked to people throughout the company and worked with our business leaders to develop a vision and a set of values for our company that we are all committed to making a reality.

In 2002 we shall be taking this process further and through communication and training, we shall be introducing the mindset, disciplines and practices that will be required to achieve our ambitious goals.

The market services sector saw continuing concentration with several high profile acquisitions mostly by the ad agency conglomerates. We do not see any evidence that clients' needs can best be provided by these groupings. Indeed, it is our belief that our independence serves as an advantage, not a handicap, in attracting new clients. Our new business success over the last few years lends weight to this belief.

During the year we continued to make changes to our operations and this was reflected by changes to the Board. In December 2001, Pat Doble stood down from the Board, after 7 years as Marketing Director. In February 2002 we consolidated our European media operations into a single reporting unit headed by Bruno Kemoun and Eryck Rebbouh. As a result of this restructuring Ray Kelly stepped down as CEO of Northern Europe and from the Board. We thank both Pat and Ray for their contribution to the Group and wish them well for the future.

The consolidation of our global research operations saw the appointment of Adrian Chedore to the Board in December 2001 following his appointment as CEO of Aegis Research in September. He is responsible for developing our research division and we all look forward to working with him in the years ahead.

In the current market environment it is important not to lose sight of issues which in the long term will deliver real shareholder value. Our strategy is to build highly valuable businesses with leading positions in media and market research and to this end we are making good progress.

The Group's results in 2001 have been affected by the industry-wide recession. Our planning for 2002 has been built around adspend levels that are likely to be flat or slightly down for the full year with the earliest expectation of a return to positive growth in the latter part of 2002.

Because our media business is mostly commission-based, and our market research business operates at the discretionary end of the industry, the Group is operationally geared to benefit from an upturn in client advertising spend.

Despite the difficult market conditions, there are many things that have been done that will improve the Group's performance in the current year. Operating margins should be boosted by the careful and systematic cost reductions implemented in 2001, by the fall in investment costs and by the move towards profitability at the Group's newly opened offices. Good progress will also be made during 2002 towards achieving the Group target of improving operating profit margins to at least 20% of gross profit in 2003.

The actions that we have taken and our ability to win new business and grow revenues lead us to be positive about the prospects for the Group.

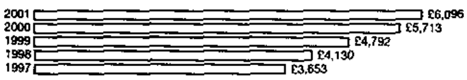
Lord Sharman
Chairman

Doug Flynn
Chief Executive Officer

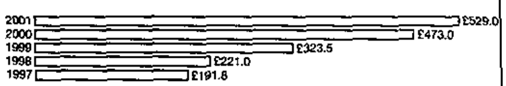
Financial review >

Carat's excellent new business performance has provided the momentum to keep revenues growing and Aegis Research is now attracting significant international business

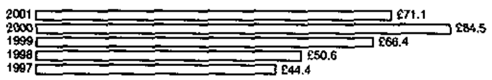
Turnover > £m



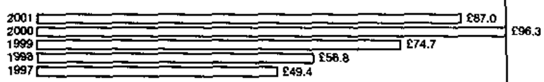
Revenue > £m



Underlying operating profit > £m



Underlying profit before interest, tax, depreciation and amortisation > £m



Introduction

Our financial results highlight the challenging market conditions that persisted throughout the year. The current advertising recession began in the last quarter of 2000 in the US and advertising budgets fell heavily in the first quarter of 2001. The effect spread rapidly to Europe and the problem was exacerbated by the tragic events of September 11, after which a number of major US marketers pulled their campaigns off-air for a period of time.

Both the depth of the advertising recession and the speed with which it spread around the globe was unprecedented. The Group's business suffered directly from the fall in marketing activity although the success of both Carat and Aegis Research in winning new business helped to cushion the impact.

In order to protect the Group's margins a process of cost reduction, which included restructuring to improve operating efficiency and selective staff reductions, was implemented across the Group. The exceptional costs of this programme, amounting to £6.0 million, impacted the 2001 results.

The severe economic conditions in Argentina also affected trading. By the year-end, Argentina's economy had effectively collapsed precipitating a postponement of most normal business activity. Because of the uncertain economic climate, we implemented a number of initiatives to reduce Carat's local cost base. A number of local clients defaulted on payments for media booked on their behalf and, with credit insurance unavailable in this market, the company made a provision of £10.0 million for bad and doubtful debts.

The Group's strategy is to continue to grow its businesses by building leading positions in the complementary areas of media and market research and, throughout 2001, the Group continued to invest in the business at considerably higher rates than previously. This took the form of geographic expansion through business start-ups and new services and products. This investment has now peaked with a number of those new businesses expected to be in profit in 2002.

Financial review >

Financial Highlights

Trading results:	2001	2000
Turnover	£6,095.7m	£5,712.5m
Revenue	£529.0m	£473.0m
Gross profit	£425.8m	£382.8m
% Gross profit to turnover	7.0%	6.7%
Underlying operating profit*	£71.1m	£84.5m
Underlying profit before tax*	£63.3m	£78.4m
Exceptional items	£(18.6)m	-
Profit before tax and goodwill	£44.7m	£78.4m
Effective underlying tax rate*	31.9%	29.5%
Amortisation of goodwill	£30.7m	£6.7m
Profit before tax	£14.0m	£71.7m
Cash flow:		
Operating cash flow	£66.3m	£96.2m
Net debt	£(126.0)m	£(59.0)m
Shareholder returns:		
Basic (loss)/earnings per share		
– underlying*	3.8p	5.0p
– after exceptional items	2.2p	-
– FRS 14	(0.6)p	4.4p
Diluted (loss)/earnings per share		
– underlying*	3.8p	4.9p
– after exceptional items	2.2p	-
– FRS 14	(0.6)p	4.3p
Total dividend per share for the year	1.20p	1.15p

**Underlying results exclude exceptional items and amortisation of goodwill*

Media Services

During 2001, Carat's media billings (defined as the annualised value of media purchased on behalf of clients, before agency discounts) increased by 11.4% to $14.7 billion. Carat's media operations increased revenues by 7.3% to £343.9 million (2000: £320.5 million), which represents 65% of Group revenues. Net new business won in 2001 was $1.7 billion and included Pfizer, Philips and New Line Cinema.

Europe

Carat's European operations continue to be the powerhouse for the Group. The European operations not only achieved net new business of $503 million but also contributed to the success of the rest of the Carat network. With nearly half of the world's top 100 global marketers headquartered in Europe, Carat's strong market position in the region continues to favour the agency as these large companies consolidate their media business pan-regionally and globally. Philips and adidas are both examples of established European clients that consolidated their budgets with Carat's international operations during the year. Despite the recession and reductions in clients' budgets, Carat's European operations continued to take market share and deliver solid revenue growth largely fuelled by the substantial account gains made in 2000.

Americas

Carat's US and Latin American billings now amount to $3.8 billion. Net new business in 2001 amounted to $1,086 million, with very large wins coming early in the year from healthcare giant Pfizer and New Line Cinema as well as the European account consolidation referred to above. Although there was considerable new business success, the US agency's profitability came under severe pressure as the US advertising recession saw many clients reduce their spend. At the same time there was a pressing need, early in the year, to invest in the new infrastructure required by the substantial new business gains which for the most part did not generate revenue until the second half of the year. Consequently the US business undertook a major restructuring to reduce costs where necessary whilst catering for the substantial expansion being achieved elsewhere. Where possible this was achieved by transferring staff, but some redundancies were needed where a mismatch of skills or location made staff transfers impractical.

Latin America remained a focus of investment as Carat grew its operations in support of its international clients. During the year Carat launched Carat Mexico and Carat Venezuela and both operations are performing as expected. As outlined in the Introduction, Argentina suffered very severe economic problems and the Buenos Aires office has been substantially reduced in size. The significant losses in Argentina are not expected to recur.

Asia-Pacific

Carat Asia-Pacific continued to grow strongly through market share gains from some of the longer-established players in the region. Net new business gains totaled $112 million, representing a healthy year-on-year increase over 2000. Consistent with the strategy of extending its global presence, Carat has strengthened further its position in Japan, the world's second largest advertising market, through the acquisition of an interest in the media buying agency Chusen Media in January 2002. Carat's coverage of Asia-Pacific is now as good as any of its competitors in the region.

Market Research

In 2001, Aegis Research's revenues rose 21.4% to £185.1 million (2000: £152.5 million) and they now represent 35% of the Group's total revenues. The year saw the continued expansion of Aegis Research from its existing base in the US and Asia to Europe, with a series of acquisitions in the region. Aegis Research now provides market research solutions to clients in 43 countries. The ability to offer clients international market research solutions through Aegis Research's growing worldwide network also provided incremental income and this is expected to build into a substantial revenue stream in future years.

Americas

Market Facts remains the largest of Aegis Research's operating divisions and its North American presence grew further with the acquisition of Copernicus, IMR and MarkTrend and a new office in Mexico. In the Americas, although the research industry as a whole expanded, the specific segments in which we operate came under pressure as clients sought to reduce their discretionary expenditure. This resulted in a contraction in the market and pressure on prices. Market Facts was affected by this recession in the industry and showed little organic growth. To combat these difficult conditions, Market Facts restructured its operations through headcount reduction and other efficiencies. In addition, its internet-gathered data business more than doubled in 2001 as Market Fact's proprietary e-Panel grew into a valuable asset.

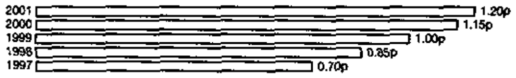
Asia-Pacific

Asia-Pacific experienced a tough trading year with many operations in the region recording only marginal growth. Asia's leading markets (Japan, Hong Kong and Singapore) were the hardest hit economies. However, China and Korea each reported positive growth. In November, Aegis acquired Research Fact in Tokyo to strengthen its Asia-Pacific network.

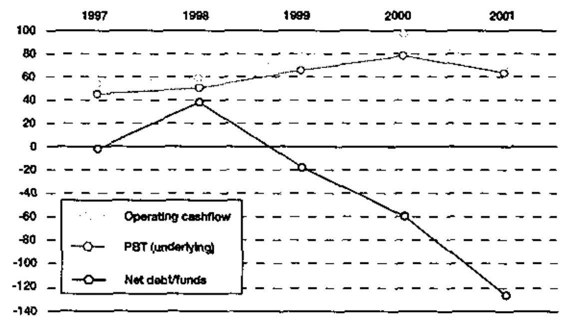
Europe, the Middle East and Africa (EMEA)

Aegis Research's entry into the European market began in January 2001 with the acquisition of Pegram Walters. During the year, the Group also acquired MEMRB, a custom research business with a 22-country network in Central, Eastern and Southern Europe, the Middle East and North Africa, as well as Demoscopie in France and BIT in Germany. The investment in the network continued in early 2002 with the acquisition of Market&More bolstering Europe with operations in Germany, the Netherlands, Belgium and France. The nascent network in EMEA benefited from access to Aegis Research's worldwide network and saw a substantial increase in revenues as a result.

5 year dividend growth > pence



Operating cashflow, profit before tax and net debt/funds > 1997-2001



Financial review >

Group Results

Turnover

Group turnover was £6,095.7 million (2000: £5,712.5 million), a 6.7% increase, and, excluding acquisitions, underlying turnover grew by 4.7%. Carat North America grew 20% and now represents some 22% of the Group's media turnover (2000: 20%). Carat's European turnover grew by 3%. Despite the advertising recession all the big five European countries, France, Germany, Italy, Spain, and the UK performed well and Eastern Europe as a whole achieved particularly strong growth. Carat's Asia Pacific operation is also developing well with turnover up by 25%. Carat's Latin American turnover continues to grow satisfactorily in most areas, except in Argentina where the economic crisis took its toll.

Carat's turnover growth was 6.3% and 2001 was a good year for new business with large wins particularly in the North American market. These new business wins should positively impact Group turnover in 2002. Aegis Research increased its revenue by 21.4%, helped by the expansion of its presence in Europe.

Revenue

The Group's revenue was £529.0 million (2000: £473.0 million), an increase of 11.8%. The organic growth after adjusting for the effect of acquisitions was 5.2%.

Gross profit

Gross profit was £425.8 million (2000: £382.8 million) an 11.2% increase. Excluding acquisitions the increase was 5.8% arising from the strong increase in turnover and a further improvement in gross margin. Gross margin was 7.0% (2000: 6.7%) reflecting the increased contribution from Aegis Research.

Operating expenses

During the year the Group continued to invest in greenfield ventures to complement its expansion by acquisition, with new operations in the US (Carat Interactive), Germany, Chile, China, Mexico, Romania, Singapore and Venezuela incurring significant costs. As a result, operating expenses (excluding amortisation of goodwill and exceptional items) rose by 18.9% to £354.7 million (2000: £298.3 million). The increase in investment expenditure together with the fall in spend by existing clients resulted in a fall in the Group's operating margin. The Group's underlying operating margin (excluding exceptional items and amortisation of goodwill) was 16.7% (2000: 22.1%).

In addition to the underlying operating costs, the Group incurred significant exceptional costs, including £6.0 million in restructuring costs of which £4.1 million related to the Americas, £10.0 million in bad debt provisions relating to Argentina, and £2.6 million in provisions against the reduction in value of two investments held by eVerger, our venture capital investment associated company.

The total staff complement at 31 December 2001 was 6,849 (2000: 5,829). Full time employees within the Aegis Research Division accounted for 2,549 of this total at 31 December 2001 with Carat representing 4,300. Consistent with preceding years approximately two-thirds of the Group's operating expenses are related to personnel.

Expenditure on research during 2001 was £23.2 million (2000: £22.4 million).

Management remains focused on enhancing operating efficiency and productivity and, although we compare favourably to similar companies, we will strive to make further progress in this area.

Pre-tax profits

Overall, underlying profit before tax (before amortisation of goodwill and exceptional items) was £63.3 million (2000: £78.4 million) with the decrease reflecting the impact of the higher levels of investment and of clients reducing their investment and marketing spend during the year. After exceptional items of £18.6 million, pre-tax profits before amortisation of goodwill were £44.7 million.

Capital expenditure

The Group invested £29.0 million in 2001 (2000: £26.9 million). During the year, the Group incurred a capital cost of £6.2 million relating to property with the largest element being a new office extension in Germany with substantial expenditure also in the US where capacity was expanded to cope with their exceptional new business wins. In addition, we invested £16.7 million in new tools and information technology. These investments, which peaked in 2001, will keep the Group at the forefront of technology in the media and market research industries.

Foreign exchange

The majority of the Group's operating profit arises outside the UK. During 2001, only 19% of our underlying operating profit arose in Sterling with approximately 63% in Euros, and 4% in US$. However, the overall effect of foreign exchange fluctuations on profit was modest. If the year's profits were to be translated at the rates applicable last year, there would be an overall reduction of just 1%.

Cash flow, borrowings and interest

Working capital management continues to be a key element of the treasury management programme. Operating cash flow for 2001 was strong at £66.3 million (2000: £96.2 million) equivalent to

102% of underlying operating profit, the seventh successive year that operating cash flow has exceeded operating profit.

As a result of acquisitions and investments made during the year, net debt at 31 December 2001 was £126.0 million (2000: net debt £59.0 million). However, the Group benefited from the general reduction in interest rates during the year and net interest payable, excluding the amortisation of issue costs of debt, was £6.1 million (2000: £5.1 million).

Taxation

The Group's underlying effective tax rate rose to 31.9% (2000: 29.5%) as a result of unrelieved losses and exceptional items in Argentina and the US.

Goodwill

In accordance with FRS 10, the Group amortises goodwill arising on consolidation. As noted at the half-year, the Group has decided to amortise the goodwill associated with the acquisition of Market Facts in 1999. This has resulted in an additional goodwill charge of £10.5 million for the year.

In view of the situation in Argentina, the Board has concluded that the remaining goodwill of £11.9 million associated with Carat Fax, the Group's Argentine operation, should be written-off in the period.

Principally as a result of these two items, the goodwill charge for the year is £30.7 million (2000: £6.7 million). After deduction of the goodwill charge, the Group's pre-tax profits were £14.0 million (2000: £71.7 million).

The FRS10 charge in respect of goodwill has no effect on the underlying profits of the company or its cash flow and does not affect its distributable reserves.

Loss for the financial year and shareholders' funds

The loss for the financial year attributable to shareholders (before payment of the dividend on the ordinary shares) was £7.0 million (2000: profit of £47.5 million).

Underlying basic earnings per share (before exceptional items and amortisation of goodwill) was 3.8p (2000: 5.0p). Underlying diluted earnings per share was 3.8p (2000: 4.9p). FRS 14 basic loss per share was 0.6p (2000: earnings per share 4.4p) and diluted loss per share was 0.6p (2000 earnings per share: 4.3p).

Dividend

An interim dividend of 0.48 pence per ordinary share was declared and paid in 2001 (2000: 0.46 pence). The Board is recommending a final dividend of 0.72 pence per ordinary share, making 1.20 pence per ordinary share for the full year, an increase of 4.3% over the dividend paid in respect of 2000.

Acquisitions

Details of all of the Group's 2001 material acquisitions are set out in note 20 to the financial statements.

The total initial investment in these acquisitions was £28.2 million with estimated deferred consideration payable of £15.5 million, subject to challenging growth criteria. In addition, £2.1 million was accrued as deferred consideration and subsequently paid in the year. During the year the Company paid £30.5 million in deferred consideration relating to acquisitions in earlier periods.

The Directors estimate that the total deferred liabilities related to acquisitions amount to £58.4 million (2000: £104.4 million), of which £35.3 million may be paid as deferred consideration in 2002. The maximum amount of deferred consideration payable is £86.0 million.

Since the financial year end, the Group has announced four further acquisitions which are detailed in note 24 of the financial statements.

The Group will continue to pursue acquisition targets that fit in with its stated strategy to expand its geographical network or support its product and service development. The Group is currently assessing a number of further opportunities, with particular focus on expanding our research and media services operations in Europe and Asia-Pacific. We will continue to ensure that all future acquisitions are made on a financially prudent basis.

Treasury management

The Group's treasury function is charged with the objective of minimising financial risks whilst providing adequate liquidity for the Group's activities. There is a central treasury function that interacts closely with those in the individual operations. The conceptual framework for treasury within the Group is to identify risks and to provide guidelines on deposits, foreign exchange and other areas to minimise exposures. The Group does not engage in speculative transactions. The Board receives regular reports from the treasury department and the directors also review and approve all counterparty limits. Principal currency exposures arise from results denominated in foreign currencies.

Internal financial control

Consistent with previous years the Group has maintained its policy to examine the internal financial controls operating within the individual businesses. This work is undertaken on an ongoing basis and involves examining all businesses and all aspects of their operations with further work undertaken to reflect areas of particular risk or concern.

Going concern

The directors confirm that they have a reasonable expectation that the Group has 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 financial statements.

Conclusion

The Group's results in 2001 have been affected by the industry-wide recession. However, certain initiatives have been implemented to reduce costs. These measures will help drive margin growth with the objective of enhancing profits. Cost control remains a key priority as, together with strong positive cash flow, they are the Group's principal financial drivers.

Jeremy Hicks
Chief Financial Officer

Operating review >

Carat continued its new business success by winning $1.7 billion of net new billings and was named 'Global Media Agency of the Year'

Sarah Fay, Chief Executive Officer: Carat Interactive

Media Services

Despite very tough market conditions Carat's worldwide network continued to show its mettle by winning a market leading $1.7 billion of net new business. If adversity in the market is a test of resolve then Carat has shown that even in recession there is opportunity.

There is an inexorable trend for companies with global brands to award their business to agencies that can support them in the global marketplace. Remaining stationary in such an environment is not an option so Carat continued to build its international network which now encompasses 46 countries. Recognition of the network's ability to serve clients on a global basis came when AdAge Global named Carat 'Global Media Agency of the Year'.

Reflective of the trend towards international mandates there was a significant increase in revenues in Carat's International division as clients served in 5 or more countries rose from 19 to 32 during the year. Centrally coordinated international accounts won in 2001 include Philips (which has extended from European to Global), adidas, Bertelsmann and additional local assignments from BMW, Vodafone and Beiersdorf. Importantly, these successes were supplemented by significant developments in our international product with new services being added during the course of the year, all of which reflect Carat's ambition and vision for the future. International communication planning has been introduced and was key to Philips appointing Carat as their global agency of record.

Integrating the capabilities of our specialist teams led to a notable first at the end of 2001. Carat International in conjunction with Aegis Research subsidiary, Pegram Walters, won the market research and communication planning task for the launch of the MGM Mirage on-line gaming business in Europe. The success was important as the combined team beat off several full service agencies for the project.

Carat's Posterscope division, one of the world's major outdoor specialist media companies, grew further in 2001 with the acquisition of Lord Media in Poland and the establishment of Posterscope Italia. Carat's 'new media' division, Carat Interactive, also grew with the acquisition of Vizium, a US interactive media agency. The additional areas of expertise that these two companies bring will provide Carat Interactive's clients with access to a full service interactive media agency.

The Americas

Carat North America now has the scale and scope of services to compete against the largest American media services companies. The respect that Carat has built up in the US market is reflected by Ad Age naming it 'US Media Agency of the Year 2001' – a tribute to its smart approach to media and its ability to land some of the year's largest account wins. In total, net new business wins were $1,086 million with prestigious blue chip accounts such as Pfizer Warner-Lambert, Philips, adidas, New Line Cinema, Pernod Ricard and Siebel Systems. 2002 has also started well with the award of the combined Hyundai Motor America and Kia Motor America business.

But the advertising recession did not leave Carat's US operations unscathed in 2001 as existing clients reined back budgets during the year. In particular, Carat Freeman, saw revenues decline rapidly as its hi-tech clients suffered. This resulted in the operation being re-engineered in order to meet the new lower levels of client spend. Argentina's severe economic problems also prompted Carat to reduce its exposure to the market and it has rescaled its local office accordingly. But there were also areas of the business where we continued to invest. Our Latin American operations grew in 2001 with the launch of Carat Mexico and Carat Venezuela and we continue to look for further opportunities to expand in the region.

Europe

In an extremely difficult advertising environment, Carat's European operations continued to show good growth winning $503 million of net new business. All of the big 5 countries grew well: the UK's revenue growth largely fuelled by the significant account gains of 2000 and by Coca-Cola, its largest win of 2001; Germany won Vodaphone, RWE and ThyssenKrupp; France won new business from Groupe Barrière TotalFinaElf and Intersport; Italy had a particularly good year winning a number of large clients such as Italian Post, BMW and Heineken; and Spain won Accenture along with healthy new business extensions from its existing clients. It is testament to the quality of these businesses that France, Italy and Spain were all named Agency of the Year in their respective countries. In the smaller European operations it was a mixed picture. Portugal and Greece showed revenue growth but other markets were flat to down with Sweden in particular showing a significant decline. Of the non-core businesses, Carat Sport is now operating in France, Italy and Spain with a high profile appointment to handle the events surrounding Real Madrid's centennial year celebrations in Spain.

In February 2002 all the European operations were streamlined by the merging of Northern, Southern and Central European branches into one cohesive unit reporting to Bruno Kemoun and Eryck Rebbouh. The new structure will help support the company's evolution towards global business at the same time as continuing to ensure the high quality of service currently enjoyed by existing clients.

Asia Pacific

Last year saw solid growth from Carat's operations in Asia-Pacific with the region winning $112 million of net new business. Since establishing in Asia-Pacific five years ago the business has grown into a complete network with operations in 11 countries. During the year a regional hub was established in Singapore with a dedicated team appointed to drive the growth of international and regional new business. The success of this approach is demonstrated by its track record of 32 new clients added in 2001 including BMW, Philips, Gateway Computers, Nivea and adidas. Carat continues to take market share from its rivals and is developing an excellent reputation. At the end of 2001, Carat extended its media buying operations into Japan, the world's second largest advertising market, providing an opportunity to develop further the business in the Asia-Pacific region.

In 2001 Carat's European operations were streamlined into one cohesive operating unit reporting to Bruno Kemoun and Eryck Rebbouh. The new structure will support the company's evolution towards servicing clients on a global basis

Operating review >

Aegis Research

In 2001 the global market research industry, normally quite sheltered from the excesses of both recession and boom, saw only limited growth in most markets, particularly in the ad hoc sector in which it operates. However, despite the economic uncertainty, the year saw the continued expansion of the Aegis Research network. In just 2 years Aegis Research has built an international network of offices in 43 countries and has grown into the world's tenth largest market research company. The business now spans the US, Asia-Pacific and EMEA (Europe, the Middle East and Africa). MarketFacts in North America is the fourth largest of its kind in the US and Asia Market Intelligence (AMI) is the second largest in Asia.

> In just two years Aegis Research has built an international network in 43 countries and has grown into the world's 10th largest market research company

Strengthening the network in Europe was a key priority in 2001 and much was done to meet this objective. In January, Aegis Research acquired Pegram Walters, a UK-based market research company providing an array of proprietary research products. Three more businesses were also added during the year: Demoscopie, a French market research company, based in Paris; the Bureau for Internet and Telephone Interviewing (BIT), a German data collection company and MEMRB, a custom research network with offices in 22 countries throughout Central, Eastern and Southern Europe, the Middle East and North Africa. In February 2002, Market&More, a high quality market research company with offices in Germany, Netherlands, Belgium and France also joined the Group.

Further enhancing its Asia-Pacific operation Aegis acquired a 100% interest in Research Fact in Tokyo. This acquisition will provide Aegis Research direct access to the world's second largest economy. It will also allow Aegis Research to better serve its clients' needs in Japan and to offer Japan's leading marketers greater access to our global network.

To allow the Group to market its research capabilities on a global basis, a new position was created. Adrian Chedore was appointed CEO of Aegis Research in September 2001 and his appointment coincides with the Group gearing up for the rebranding and launching of the research product into the market.

All processes and best practices are being standardised geographically as well as operationally within the Group to meet the needs of international marketers. All aspects of the business are being streamlined including communication strategies, human resources and financial systems. When the new research brand is rolled out in 2002 it will follow Carat's successful model based around a consistent global service offering using standardised research methodologies, processes and tools.

Americas

Market Fact's breadth of coverage across major industries, including packaged goods, retailing, food service, automotive, financial services and healthcare, provided expanding opportunities in growing business segments and left it well positioned to overcome the challenges of the market in 2001. In particular, growth in the automotive, financial services, and pharmaceutical/healthcare segments cushioned the effect of spending delays and reductions experienced across other industry sectors.

Several long-term initiatives progressed well in 2001. First, Market Facts' Internet business more than doubled in 2001, through the continued development and growth of Market Facts' proprietary Internet household panel and infrastructure system. Secondly, Market Facts' decision to create a Global Research Group, to focus on marketing its expansive array of international capabilities to major clients, has had a positive effect during 2001 and has substantially increased the Company's share of multi-country research spending. A third initiative involves a programme to enhance efficiency. Improved utilisation of resources within facilities and the creation of systems that eliminate redundancy and maximise quality control are aimed at reducing the turnaround time on projects, improving client satisfaction, and reducing overhead.

Europe, the Middle East and Africa (EMEA)

Significant progress has been made in Aegis Research's newest region. Sales and revenue targets were exceeded despite the fact that MEMRB only joined the Aegis network halfway through the year. In the UK, Pegram Walters benefited enormously from its new role as a major co-ordination hub on

Adrian Chedore, Chief Executive Officer, Aegis Research

international projects. Furthermore the establishment of a European Motoresearch Division within the Pegram Walters structure has created a new revenue stream. This has all been in addition to the organic growth of Pegram Walters' International business from such clients as Hennessy, Abbey National and Colgate.

Growth in Eastern Europe and the Middle East has come from key markets such as Russia, Romania, UAE and Cyprus. The renewal of several major market tracking studies, which now incorporate Aegis Research Group analysis techniques, have increased revenues and improved margins. MEMRB has also been successful in developing client relationships across a broader spread of its markets in the Region. MEMRB offices in the Levant, however, experienced difficult operating conditions due to the continuing political tensions in the area.

France remains a highly competitive market, with intense price competition and lower than expected growth. In keeping with its main competitors, Demoscopie reported a depressed performance. This was despite an encouraging number of new account wins, especially amongst media companies. On a more positive note, towards the end of the year there were signs that referrals from other parts of the Aegis Research network were beginning to flow though.

Research sales in Asia-Pacific showed good growth in 2001; however, revenues only marginally increased. Sales increases have been recorded in virtually every market and specialist business unit. The most significant increases have been reported in Korea, Singapore, Malaysia and Indonesia. Amongst the Specialist Divisions, there was encouraging growth in Agri-Food, Healthcare, Automotive and Customer Satisfaction.

Board of directors >

Jeremy Hicks
Chief Financial Officer

Jeremy Hicks was appointed to the Board on 10 April 2000. Jeremy was the former Group Finance Director of Abbot Mead Vickers plc ("AMV"), having joined the Company in 1994. Prior to joining AMV he was a director of Hambros Bank, working with several major companies in their international development. At AMV Jeremy played a key role in the strategic development of the company into one of the largest marketing services groups in the UK. Age 48.

Adrian Chedore
Chief Executive Officer, Aegis Research

Adrian Chedore was appointed to the Board on 31 December 2001. Adrian is the Chief Executive Officer of Aegis Research, which was created in March 2001 to enable the Group to market its research capabilities on a global basis. He is also Chairman and founder of Asia Market Intelligence, a business acquired by Aegis in March 2000. Age 50.

Robert Lerwill
Non-executive

Robert Lerwill was appointed to the Board on 1 June 2000. Robert is both Executive Director, Finance of Cable & Wireless plc and Chief Executive Officer of Cable & Wireless Regional. Before joining Cable & Wireless he was Group Finance Director of WPP Group plc between 1986 and 1996. In both positions he has been instrumental in developing major international businesses. Age 50. (Audit and Nomination Committee member.)

Douglas Flynn
Chief Executive Officer

Douglas Flynn was appointed to the Board as a non-executive director on 15 May 1998 and became Chief Executive Officer on 1 September 1999. Previously he was Managing Director of News International plc. He has held a number of senior positions in the Australian newspaper industry and has also been a management consultant to a number of media companies. Age 52.

Lord Sharman of Redlynch
Non-executive Chairman

Lord Sharman was appointed to the Board on 2 September 1999 and became Chairman on 1 January 2000. He joined KPMG in 1966 where he was elected UK Senior Partner in 1994 and also joined both the International and Executive Committees of KPMG. Between 1997 and 1999 he was Chairman of KPMG Worldwide. In October 1999 he became a member of the House of Lords. He is a non-executive director of AEA Technology plc, Youngs Brewery plc, BG plc and Reed Elsevier plc and also Chairman of Le Gavroche Limited. Age 59. (Nomination Committee member.)

David Verklin
Chief Executive Officer, Carat North America

David Verklin was appointed to the Board on 2 September 1999. He has been Chief Executive Officer of Carat North America since April 1998. Prior to joining the Group he was Managing Director of Hal Riney & Partners having started his career in 1977 at Young & Rubicam. Age 45.

John Amerman
Non-executive

John Amerman was appointed to the Board on 12 December 1997. He is the former Chairman and Chief Executive of Mattel in the USA. Prior to joining Mattel he was President of a division of Warner Lambert. Age 70. (Audit, Remuneration and Nomination Committee member.)

Bernard Fournier
Non-executive

Bernard Fournier was appointed to the Board on 1 June 2000. He spent much of his career at Xerox and Rank Xerox holding senior management positions in France, the US and the UK. Between 1989 and 1998, Bernard was Chief Executive of Rank Xerox and Xerox Ltd, continuing as non-executive Chairman until December 2001. Since 1998 he has been Chairman of EDHEC, the largest business school in France. Age 63. (Audit, Remuneration and Nomination Committee member.)

Lord Hannay of Chiswick
Non-executive

Lord Hannay was appointed to the Board on 1 January 2000. Until his retirement in 1995, he was a member of the Diplomatic Service, serving in a number of countries before finally holding the posts of Britain's Ambassador to the European Union (1985 to 1990) and Britain's Ambassador to the United Nations (1990 to 1995). In June 2001 he became a member of the House of Lords. Lord Hannay is also a non-executive director of Chime Communications plc. Age 66. (Audit, Remuneration and Nomination Committee member.)

Eryck Rebbouh and Bruno Kemoun
Joint Chief Executive Officers, Carat Europe

Bruno Kemoun and Eryck Rebbouh were appointed to the Board on 16 September 1992. They founded 2010 Medias in 1985 in association with Carat France and sold it in 1991 to become shareholders in Aegis. Eryck and Bruno also founded the Carat Expert Centres and Carat TV in 1987. They were appointed Joint Chairmen of Carat France in 1995 and Joint Chief Executive Officers of Carat Southern Europe in September 1999. In February 2002 they were given overall responsibility for Carat Europe and were appointed Joint Chief Executive Officers of Carat Europe. Bruno is aged 44 and Eryck aged 45.

Directors and advisors >

Directors of Aegis Group plc
Lord Sharman, *non-executive Chairman*
Douglas Flynn, *Chief Executive Officer*
John Amerman, *non-executive*
Adrian Chedore
Bernard Fournier, *non-executive*
Lord Hannay, *non-executive*
Jeremy Hicks, *Chief Financial Officer*
Bruno Kemoun
Robert Lerwill, *non-executive*
Eryck Rebbouh
David Verklin

Company Secretary
John Ross

Registered Office
43–45 Portman Square
London W1H 6LY
Tel: 020 7070 7700
Fax: 020 7070 7800

Registered Number
1403668 *England and Wales*

Auditors
PricewaterhouseCoopers
1 Embankment Place
London WC2N 6RH

Registrars
Computershare Investor Services PLC
PO Box 435, Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

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 2001.

Results and dividends

The profit and loss account is set out on page 33 and shows a retained loss for the financial year of £20.2 million (2000: profit of £35.0 million) all of which is transferred to reserves.

An interim dividend of 0.48p per share was paid on 5 October 2001 to ordinary shareholders. The directors recommend a final dividend for the year of 0.72p per share which, if approved at the Annual General Meeting, will be payable on 28 June 2002 to ordinary shareholders registered at 7 June 2002. The total dividend for the year will then amount to 1.20p per share (2000: 1.15p).

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 2 to 5 and in the Financial and Operating Reviews on pages 6 to 17.

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 £23.2 million (2000: £22.4 million) on research and development.

Donations

The Company made charitable donations of £9,585 (2000: £17,890) during the year in the United Kingdom. There were no political donations during the year in the United Kingdom (2000: £nil).

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.

The directors are committed to maintain and develop communication and consultation procedures with employees, who in turn are encouraged to become aware of, and involve themselves in, the performance of their own company and of the Group as a whole. Consultation and involvement policies vary from country to country according to local customs, legal considerations and the size of the business. In addition, an intranet site and a quarterly, in-house magazine serve to keep employees around the world updated with news and information concerning the Group and its businesses.

Employment policies do not discriminate between employees or potential employees on the grounds of colour, race, ethnic or natural origin, sex, marital status, religious beliefs or disability. Should any employee become disabled, every practical effort is made to provide continued employment.

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 mandatory requirements.

Ethical, environmental & social issues

The Group takes its ethical, environmental and social responsibilities seriously.

Although the Group's business has a relatively low impact on the environment, every effort is made to ensure that in carrying out its day-to-day business the Group gives due consideration to ethical, environmental and social issues.

Supplier payment policy

Whilst the Company does not impose a formal code of payment practice on its subsidiaries, the Group nevertheless does have the following policy concerning the payment of its suppliers:

- To agree the terms of payment with suppliers in advance;

Report of the directors (continued) >

- To ensure that suppliers are made aware of the terms of payment; and
- To abide by the terms of payment.

At 31 December 2001, the Group had 64 days purchases outstanding (2000: 64 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 18 and 19.

Adrian Chedore was appointed, and Pat Doble resigned, on 31 December 2001. Ray Kelly resigned on 8 March 2002.

Re-election of directors
In accordance with the Articles of Association, Lord Sharman, Lord Hannay and Jeremy Hicks retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. Adrian Chedore, having been appointed since the previous Annual General Meeting, offers himself for election.

Jeremy Hicks has a service contract with the Company which is terminable upon 12 months' notice.

Adrian Chedore has a service contract with a subsidiary company for a fixed term of three years. During the initial two years of the fixed term there is no right to early termination. From the end of that initial two-year period until the expiry of the three-year fixed term, the contract may be terminated upon 12 months' notice. After the end of the three-year fixed term the contract is terminable upon six months' notice.

Lord Sharman and Lord Hannay, being non-executive directors, do not have service contracts.

Substantial shareholdings
At 2 April 2002 the Company had been notified of the following interests of 3% or more in its ordinary shares:

	Number of Shares	%
Deutsche Bank AG & subsidiaries	154,270,403	13.99
CGNU plc	99,062,452	8.98
Fidelity International Ltd	43,960,775	3.99
Government of Singapore Investment Corporation	33,151,382	3.01

Share capital
Details of share capital movements (authorised and issued) are given in note 18 to the financial statements.

Special business at the Annual General Meeting
At the forthcoming Annual General Meeting resolutions will be proposed for the following purposes:

- Resolution 8 is seeking approval of the remuneration policy in respect of the Board, details of which are set out on pages 26 and 27.
- Resolution 9 is to grant to the directors limited authority to allot securities in the Company up to an aggregate amount of £14,874,634. If passed, the resolution will enable the directors to allot a maximum of 297,492,680 ordinary shares which represent 27.0% of the issued ordinary share capital as at 2 April 2002. Save for shares to be issued to satisfy existing legal obligations, the directors have no present intention of exercising the authority which would be conferred by this resolution.
- Resolution 10 is to confer on the directors a restricted power to allot shares for cash without complying with statutory pre-emption rights. If passed, the disapplication will cover issues by way of rights and other issues up to an aggregate nominal value of £2,754,758 (which such amount represents 55,095,160 ordinary shares amounting to 5% of the issued ordinary share capital of the Company as at 2 April 2002). In relation to the exercise of this authority, the Company will have regard to the guidelines published by the investment committees of both the Association of British Insurers and the National Association of Pension Funds.

Report of the directors (continued) >

- Resolution 11 is to confer authority on the Company to purchase its own shares. No purchases have been made to the date of this report and there are no outstanding contracts to purchase shares as of this date. If granted the directors will exercise the authority only if in their judgement it is in the best interests of shareholders generally and where exercise should result in an improvement in earnings per share for the remaining shareholders. If passed, the resolution will enable the Company to purchase up to 55,138,662 ordinary shares (5% of the issued ordinary share capital as at 2 April 2002). The maximum price at which any share may be purchased is the price equal to 5% above the middle market quotations of such share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of such purchase, exclusive of expenses, and the minimum price at which any share may be purchased is the par value of such share. The number of options for ordinary shares which are outstanding at 2 April 2002, the latest practical date prior to publication of the Annual Report and Accounts, was 99,734,065 (9.0% of the present issued ordinary share capital). If the proposed authority for the Company to purchase its own shares is used in full, the total number of such options will represent 9.52% of the issued ordinary share capital.

The authorities sought by these resolutions are to replace the existing authorities which expire at the conclusion of the Annual General Meeting and these authorities will lapse at the conclusion of the next Annual General Meeting.

Auditors
A resolution to re-appoint PricewaterhouseCoopers as auditors and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

Directors' responsibilities
The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on page 32, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

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 that financial year and of the profit or loss of the Group for that financial year. The directors consider that in preparing the financial statements on pages 33 to 58, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed, subject to any explanations disclosed in the notes to the financial statements.

The directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Corporate governance >

The Board recognises the importance of, and fully endorses, the Principles of Good Governance and Code of Best Practice as appended to the Listing Rules of the UK Listing Authority (the "Combined Code").

The Company complied with the requirements of Section 1 of the Combined Code throughout the year, other than as follows:

- Lord Sharman, who was appointed to the Board in September 1999 and is currently non-executive Chairman, and John Amerman, who was appointed in 1997, have no specific term of appointment for historical reasons (Combined Code provision A.6.1).
- The executive directors have rolling service contracts with notice periods of between one and three years (Combined Code provision B.1.7). The Board believes that service contracts with notice periods in excess of one year are in line with comparable agreements within the industry and reflect the particular contribution and expertise of the executive directors in question.

The Board currently has 11 directors, comprising six executive directors and five non-executive directors. All of the current non-executive directors are independent of the management of the Group and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. John Amerman has been nominated as the senior independent director to whom shareholders may convey any concerns in the event that they do not wish to involve either the Chairman or the Chief Executive Officer.

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. 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 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. All directors have access to the advice and services of the Company Secretary and, if required, external professional advice at the Company's expense.

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.

The Board has appointed the following committees, all of which have written terms of reference setting out their authority and duties:

Audit Committee
The Audit Committee comprises Robert Lerwill (chairman), John Amerman, Bernard Fournier and Lord Hannay and meets at least twice each year. In addition to its responsibilities concerning the system of internal control described below and on page 25, the Committee reviews internal and external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the half year and annual financial statements before they are submitted to the Board for approval. These meetings are attended by the Chief Financial Officer and the external auditors. The Board considers that, through the Audit Committee, it has an objective and professional relationship with the external auditors.

Remuneration Committee
The Remuneration Committee comprises Lord Hannay (chairman), John Amerman and Bernard Fournier and meets as and when necessary to review salaries of executive directors and senior management together with incentive schemes for the Group as a whole.

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 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.

The Committee is also empowered to grant share options under the existing Share Option Schemes and to invite selected executive directors and senior management to participate in the share investment plan.

Nomination Committee
The Nomination Committee comprises all of the non-executive directors and is chaired by Lord Sharman. It meets as and when necessary and has responsibility for nominating to the Board candidates for appointment as directors.

Internal control and risk management
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 that business objectives will not be met. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate governance (continued) >

The Audit Committee reviews the effectiveness of the risk management process and significant risk issues are referred to the Board for consideration. Significant risk issues may also be referred to the Board from the Group's two Executive Committees which meet every six to eight weeks.

The chairman of the Audit Committee reports the outcome of the Audit Committee meetings to the Board and the Board receives the minutes of all Audit Committee meetings.

The Group's management operates a risk management process which identifies the key risks facing each business unit and major project and reports on how those risks are being managed.

The key procedures which the directors have established 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 discussion, thus ensuring that it maintains full and effective supervision over appropriate controls. The Group's strategic direction is reviewed annually by the Board and the Chief Executive Officer and 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 members of the Executive Committees 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 and the Executive Committees receive, on a monthly basis, financial results from each business and the Group reports bi-annually 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 Chief Executive Officer, Group Finance and the external auditors on a regular basis.

f The internal financial control system is reviewed by Group Finance which operates on a global basis and reports to management and the Audit Committee. Group Finance and the external auditors also 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, major capital projects and expenditure within the Group.

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. These processes accord with provision D.2.1 of the Combined Code (Turnbull guidance).

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 financial statements.

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.

Remuneration report >

The Board has an established Remuneration Committee, the members of which are disclosed on page 19.

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 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.

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 and local company as a whole. For guidance, the Committee makes use of available research and published remuneration information on companies of a similar size and within the same industry and markets. Benefits typically include a car, life assurance, and disability and health insurance.

- *Annual bonus*
  Executive directors are paid bonuses under the Group Bonus Scheme upon achievement of individual objectives and financial targets linked to Group and regional performances. This may result in the payment of cash bonuses of up to 25% of base salary, with the opportunity to increase beyond that level for exceptional performance.

- *Share-based incentives*

a Executive Share Option Schemes
Grants of options are made by the Committee under the Executive Share Option Schemes which were introduced in 1995 (the "1995" schemes) and the Aegis Group Management Incentive Scheme which was adopted in May 1998 (the "MIS" scheme). Options under the 1995 schemes are granted on an annual phased basis. Options under the MIS scheme are used by the Committee to further incentivise executive directors and other senior executives as and when the Committee considers necessary.

Exercise of options is subject to the achievement of specific, demanding performance conditions, achievement of which is checked by external consultants.

Conditions in respect of the 1995 schemes:

- That Earnings Per Share growth over the performance period exceeds a composite retail price index plus 5% per annum. The composite index is determined by weighting indices calculated for selected countries to approximate the source of the Group's turnover. The country indices are calculated from official retail inflation data, adjusted for exchange rate fluctuations against Sterling; and
- That total shareholder return in capital growth plus dividends of the Company must be greater than that of the company ranked at the bottom of the FTSE 100 over the performance period.

Remuneration report (continued) >

Annual awards of options under the 1995 schemes are now made by reference to assessment of the individual's performance in the prior year in order to target allocations more effectively.

Conditions in respect of the MIS scheme:

- That the Company's total shareholder return (share price growth plus re-invested dividends) over the performance period must be not less than 15% per annum compound; and

- That the total shareholder return over the performance period must at least match that of the FTSE Actuaries 350 Index.

b Leveraged Investment Plan
Following the approval of shareholders at last year's AGM, the Company has adopted the Aegis Group Leveraged Investment Plan (the "LIP"). Under the LIP executive directors and other senior executives may lodge shares and/or vested options with the trustees of the plan. These are then held by the trustees over a three year performance period. At the end of the performance period the executive's shares and/or options will be released and a matching award of additional shares may be made to the executive. The extent of any matching award of additional shares will be dependent on the achievement by the Company of a return on earnings ("EBITDA") performance condition against an industry comparator group. Awards of matching shares are made on a sliding scale. The maximum award of additional shares is 150%, which is earned if the Company's performance is more than 150% of the median performance of the comparator group. No award will be made unless the Company's EBITDA performance is above the median index.

The table below details the numbers of shares and/or vested share options lodged with the trustees by the executive directors in respect of the 2001 LIP invitation to participate:

	Shares	Vested share options
Douglas Flynn	25,000	–
Jeremy Hicks	35,000	–
Bruno Kemoun	–	128,697
Eryck Rebbouh	–	128,697
David Verklin	–	320,000

Minimum shareholding requirement
As a further move to align the interests of the executive directors and other senior executives with those of the shareholders, during the course of last year the Company introduced share ownership guidelines regarding the amount of shares which the Committee requires the executive directors and other senior executives to hold. Executive directors and other senior executives are required to hold shares or vested share options in the Company to the value of 50% and 30% respectively of base salary by April 2003 and 75% and 50% respectively by April 2005. Other than in exceptional circumstances, it will be a condition to the grant of future share options that every executive director and senior executive has complied with these requirements.

Pensions
All UK executive directors participate in Inland Revenue approved defined contribution pension schemes. Douglas Flynn also makes 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.

Notice periods
Executive directors have notice periods ranging from 12 to 24 months. There are no current plans to reduce these periods which are considered a necessary part of the remuneration package to attract the right calibre of executive director and which are felt to be in line with current market practice. Refer to page 22 for details of the service contracts for Jeremy Hicks and Adrian Chedore.

Remuneration report (continued) >

Non-executive directors

Except for Lord Sharman and John Amerman, non-executive directors are appointed for a term of three years. Renewal of appointments is not automatic. Fees for non-executive directors are determined by the Board and are disclosed below. Non-executive directors do not receive benefits or pension contributions and do not participate in any Group incentive scheme.

Directors' remuneration

		Basic salary £'000	Fees £'000	Benefits £'000	Annual bonus £'000	Other £'000	Total 2001 £'000	Total 2000 £'000	Pensions 2001 £'000	Pensions 2000 £'000
John Amerman		–	29	–	–	–	29	25	–	–
Adrian Chedore (appointed 31.12.01)	a	–	–	–	–	–	–	–	–	–
Colin Day (resigned 10.4.00)		–	–	–	–	–	–	508	–	18
Pat Doble (resigned 31.12.01)	b	240	–	21	–	77	338	329	36	34
Douglas Flynn	c	540	–	25	–	–	565	725	270	309
Bernard Fournier		–	29	–	–	–	29	15	–	–
Lord Hannay		–	29	–	–	–	29	25	–	–
Jeremy Hicks		270	–	27	–	–	297	269	40	28
Raymond Kelly (resigned 8.3.02)		320	–	24	–	–	344	433	37	33
Bruno Kemoun		296	–	3	–	–	299	390	–	–
Robert Lerwill		–	29	–	–	–	29	15	–	–
Eryck Rebbouh		296	–	3	–	–	299	390	–	–
Lord Sharman		–	115	–	–	–	115	100	–	–
David Verklin	d	409	–	15	–	347	771	384	4	3
Totals		2,371	231	118	–	424	3,144	3,608	387	425

Notes:

a Adrian Chedore's duties as a director of the Company did not start until 1 January 2002 and as a consequence no remuneration figures are shown for him.

b The amount shown in the column "Other" is compensation for loss of office.

c Pension contributions for Douglas Flynn, in excess of those payable into the Aegis Group approved pension scheme, are made by way of additional salary payments for him to make his own top-up unapproved pension arrangements.

d The amount shown in the column "Other" is payment of a long term bonus award covering the three-year period since David Verklin joined the group. The award was conditional on achievement of specific targets for Carat North America.

At 31 December 2001 there were five directors (2000: five) who had benefits accruing under money purchase schemes. Figures shown for pensions are the contributions paid by the Company to both approved and unapproved retirement benefits schemes.

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 2001.

Remuneration report (continued) >

Directors' interests

The directors of the Company in office at the end of the year, and their interests in the share capital of the Company as at 2 April 2002, all of which are beneficial to the directors and their immediate families, which have been notified to the Company pursuant to Sections 324 or 328 of the Companies Act 1985 (the "Act") or are required to be entered into the Register required to be kept under Section 325 of the Act, and of persons connected (within the meaning of Section 346 of the Act) with the directors, were as follows:

	Ordinary 5p shares		
	2 April 2002	31 December 2001	1 January 2001
John Amerman	10,429	10,429	10,429
Adrian Chedore (appointed 31.12.01)	–	–	–
Pat Doble (retired 31.12.01)	–	3,205	3,205
Douglas Flynn	25,000	25,000	–
Bernard Fournier	10,000	10,000	10,000
Lord Hannay	10,000	10,000	10,000
Jeremy Hicks	35,000	35,000	–
Raymond Kelly (resigned 8.3.02)	–	287,188	287,188
Bruno Kemoun	786,432	786,432	2,786,432
Robert Lerwill	20,000	20,000	20,000
Eryck Rebbouh	786,432	786,432	2,786,432
Lord Sharman	25,000	25,000	25,000
David Verklin	–	–	–

The middle market price of the ordinary 5p shares as derived from the Stock Exchange Daily Official List on 31 December 2001 was 93p and the range during the year was 68.5p to 144p. The share price on 2 April 2002, the latest practicable date prior to publication of the Annual Report and Accounts, was 122.5p.

Remuneration report (continued) >

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

Director		Options held at start of year or at date of appointment	Granted during year	Exercised during year	Options held at end of year	Exercise price	Date from which exercisable	Expiry date
Douglas Flynn	*	5,000,000	–	–	5,000,000	138.25p	09.09.02	08.09.09
		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
Adrian Chedore (appointed 31.12.01)		–	–	–	–	–	–	–
Pat Doble (retired 31.12.01)	a	1,132,075	–	1,132,075	–	26.5p	21.06.98	20.06.05
	b	323,077	–	323,077	–	52p	02.07.99	01.07.06
	c	274,510	–	274,510	–	63.75p	08.07.00	07.07.07
	d*	1,000,000	–	1,000,000	–	87p	15.05.01	14.05.04
	‡	93,164	–	–	–	98.75p	02.06.01	01.06.08
	‡	90,534	–	–	–	121.5p	17.03.02	16.03.09
	‡*	250,000	–	–	–	138.25p	09.09.02	08.09.09
	‡	53,613	–	–	–	214.5p	09.03.03	08.03.10
	‡	–	100,208	–	–	119.75p	23.03.04	22.03.11
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
Raymond Kelly (resigned 8.3.02)	e	394,231	–	394,231	–	52p	02.07.99	01.07.06
	f	349,804	–	349,804	–	63.75p	08.07.00	07.07.07
	g*	2,000,000	–	2,000,000	–	87p	15.05.01	14.05.04
		127,594	–	–	127,594	98.75p	02.06.01	01.06.08
		110,905	–	–	110,905	121.5p	17.03.02	16.03.09
	*	1,500,000	–	–	1,500,000	138.25p	09.09.02	08.09.09
		69,231	–	–	69,231	214.5p	09.03.03	08.03.10
		–	133,611	–	133,611	119.75p	23.03.04	22.03.11
Bruno Kemoun		510,997	–	–	510,997	52p	02.07.99	01.07.06
		364,050	–	–	364,050	63.75p	08.07.00	07.07.07
	*	2,000,000	–	–	2,000,000	87p	15.05.01	14.05.08
		128,697	–	–	128,697	98.75p	02.06.01	01.06.08
		112,071	–	–	112,071	121.5p	17.03.02	16.03.09
	*	1,500,000	–	–	1,500,000	138.25p	09.09.02	08.09.09
		62,361	–	–	62,361	214.5p	09.03.03	08.03.10
		–	124,565	–	124,565	119.75p	23.03.04	22.03.11

Remuneration report (continued) >

Director	Options held at start of year or at date of appointment	Granted during year	Exercised during year	Options held at end of year	Exercise price	Date from which exercisable	Expiry date
Eryck Rebbouh	510,997	–	–	510,997	52p	02.07.99	01.07.06
	364,050	–	–	364,050	63.75p	08.07.00	07.07.07
	* 2,000,000	–	–	2,000,000	87p	15.05.01	14.05.08
	128,697	–	–	128,697	98.75p	02.06.01	01.06.08
	112,071	–	–	112,071	121.5p	17.03.02	16.03.09
	* 1,500,000	–	–	1,500,000	138.25p	09.09.02	08.09.09
	62,361	–	–	62,361	214.5p	09.03.03	08.03.10
	–	124,565	–	124,565	119.7p	23.03.04	22.03.11
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
Totals	32,069,575	1,969,678	5,473,697	27,978,037			

Notes:

* Options granted under the Aegis Group Management Incentive Scheme.

‡ Options lapsed on 31 December 2001 on Pat Doble's retirement.

a Options exercised and sold at 129p per share, realising a gross gain of £1,160,377.
b Options exercised and sold at 123.5p per share, realising a gross gain of £231,000.
c Options exercised and sold at prices between 123.5p and 129p per share, realising a gross gain of £169,387.
d Options exercised and sold at 123.5p per share, realising a gross gain of £365,000.
e Options exercised and sold at 129p per share, realising a gross gain of £303,558.
f Options exercised and sold at 129p per share, realising a gross gain of £228,247.
g Options exercised and sold at prices between 123.5p and 129p per share, realising a gross gain of £757,500.

Other than as noted above, no directors or members of their immediate families have exercised or sold options during the period ended 2 April 2002. In addition, other than as noted above, no options have expired or lapsed during the year in respect of the directors.

Options are subject to performance conditions as described in the paragraph headed "Share-based incentives" on pages 26 and 27.

By order of the Board

John Ross
Company Secretary
43–45 Portman Square
London W1H 6LY
3 April 2002

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

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the letter to the shareholders, the financial review, the operating reviews, the report of the directors, the corporate governance statement and the remuneration report.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion
We conducted our audit in accordance with 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. 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 Company's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
3 April 2002

Consolidated profit and loss account >

For the year ended 31 December 2001

	Notes	2001 £m	2001 £m	2000 £m
Turnover:				
Continuing operations			**6,057.5**	5,712.5
Acquisitions			**38.2**	-
Turnover	1, 2		**6,095.7**	5,712.5
Cost of sales – payments to the media		**(5,566.7)**	**(5,566.7)**	(5,239.5)
Revenue	6		**529.0**	473.0
Cost of sales – other direct costs		**(103.2)**	**(103.2)**	(90.2)
Cost of sales – total		**(5,669.9)**		(5,329.7)
Gross profit	6		**425.8**	382.8
Operating expenses before amortisation of goodwill and exceptional items		**(354.7)**		(298.3)
Exceptional operating expenses	3	**(16.0)**		–
Amortisation of goodwill	1, 10	**(30.7)**		(6.7)
Operating expenses	6		**(401.4)**	(305.0)
Group operating profit:				
Continuing operations		**20.2**		71.8
Acquisitions		**4.2**		6.0
Group operating profit			**24.4**	77.8
Group share of operating loss in joint venture and associated undertakings before exceptional item		**(1.5)**		(0.8)
Exceptional item – provision against joint venture investment	3	**(2.6)**		–
Group share of operating loss in joint venture and associated undertakings			**(4.1)**	(0.8)
Interest and similar items:				
– interest receivable		**8.5**		7.5
– interest payable	5	**(14.6)**		(12.6)
– amortisation of refinancing costs	5	**(0.2)**		(0.2)
Net interest payable			**(6.3)**	(5.3)
Profit on ordinary activities before taxation	2		**14.0**	71.7
Tax on profit on ordinary activities	7		**(19.6)**	(23.1)
(Loss)/profit on ordinary activities after taxation			**(5.6)**	48.6
Equity minority interests			**(1.4)**	(1.1)
(Loss)/profit attributable to members of the parent company			**(7.0)**	47.5
Ordinary dividends	8		**(13.2)**	(12.5)
Retained (loss)/profit for the year			**(20.2)**	35.0
(Loss)/earnings per ordinary share:	9			
Basic (loss)/earnings per share			**(0.6)p**	4.4p
Underlying basic earnings per share*			**3.8p**	5.0p
Underlying diluted earnings per share*			**3.8p**	4.9p
Diluted (loss)/earnings per share			**(0.6)p**	4.3p

*As detailed in note 9, underlying earnings per share excludes amortisation of goodwill of £30.7 million (2000: £6.7 million) and £18.6 million of exceptional items in 2001, in order to eliminate the effect of these distorting items.

Consolidated statement of total recognised gains and losses >

For the year ended 31 December 2001

	2001 £m	2000 £m
(Loss)/profit for the year	**(7.0)**	47.5
Currency translation differences on foreign currency investments	**(8.8)**	(8.5)
Total recognised gains and losses for the year	**(15.8)**	39.0

Reconciliation of movements in equity shareholders' funds >

For the year ended 31 December 2001

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
(Loss)/profit for the year	**(7.0)**	47.5	**7.2**	13.8
Ordinary dividends	**(13.2)**	(12.5)	**(13.2)**	(12.5)
	(20.2)	35.0	**(6.0)**	1.1
Issue of shares by the Company	**14.7**	3.2	**14.7**	3.2
Currency translation differences on foreign currency investments	**(8.8)**	(8.5)	**-**	-
Net (decrease)/increase in equity shareholders' funds	**(14.3)**	29.7	**8.7**	4.3
Opening equity shareholders' funds	**126.8**	97.1	**418.7**	414.4
Closing equity shareholders' funds	**112.5**	126.8	**427.4**	418.7

Note of historical cost profits and losses >

For the year ended 31 December 2001

There is no material difference between the reported results for the years ended 31 December 2001 and 2000 and the results for those years restated on an unmodified historical cost basis.

Balance sheets >

At 31 December 2001

		Group		Company	
		2001	2000	2001	2000
		£m	£m	£m	£m
Fixed assets					
Intangible fixed assets	10	**338.8**	348.9	**–**	–
Tangible fixed assets	11	**59.4**	46.4	**4.8**	2.2
Investment in joint venture:	12				
Share of gross assets		**18.3**	12.5	**–**	–
Share of gross liabilities		**(2.7)**	(0.9)	**–**	–
		15.6	11.6	**–**	–
Investments in associated undertakings	12	**11.3**	5.6	**–**	–
Other fixed asset investments	12	**2.9**	2.9	**657.6**	667.9
		428.0	415.4	**662.4**	670.1
Current assets					
Debtors	13	**1,002.5**	1,001.7	**166.5**	131.1
Stock: work in progress	1	**4.8**	7.8	**–**	–
Investments	14	**2.0**	2.1	**–**	–
Cash at bank and in hand		**60.7**	86.7	**–**	39.3
		1,070.0	1,098.3	**166.5**	170.4
Creditors: amounts falling due within one year	15	**(1,231.4)**	(1,205.6)	**(288.7)**	(281.8)
Net current liabilities		**(161.4)**	(107.3)	**(122.2)**	(111.4)
Total assets less current liabilities		**266.6**	308.1	**540.2**	558.7
Creditors: amounts falling due after more than one year	16	**(151.5)**	(178.7)	**(112.8)**	(140.0)
Net assets		**115.1**	129.4	**427.4**	418.7
Capital and reserves					
Issued, allotted, called up and fully paid share capital	18	**55.1**	54.2	**55.1**	54.2
Share premium account	19	**198.0**	184.2	**198.0**	184.2
Capital redemption reserve	19	**0.2**	0.2	**0.2**	0.2
Merger reserve	19	**–**	–	**13.0**	13.0
Profit and loss account	19	**(140.8)**	(111.8)	**161.1**	167.1
Equity shareholders' funds		**112.5**	126.8	**427.4**	418.7
Equity minority interests		**2.6**	2.6	**–**	–
Total capital employed		**115.1**	129.4	**427.4**	418.7

The financial statements on pages 33 to 58 were approved by the board of directors on 3 April 2002 and signed on their behalf by:

Douglas Flynn (Chief Executive Officer)
Jeremy Hicks (Chief Financial Officer)

Consolidated cash flow statement >

For the year ended 31 December 2001

	Notes	2001 £m	2000 £m
Net cash flow from operating activities		**66.3**	96.2
Returns on investments and servicing of finance			
Interest received		**8.4**	7.4
Interest paid		**(14.6)**	(12.5)
Interest element of finance lease rental payments		**(0.1)**	-
Issue costs of unsecured loan notes		**-**	(0.6)
Dividends paid to minority interests		**(0.6)**	(1.5)
Net cash outflow for returns on investments and servicing of finance		**(6.9)**	(7.2)
Taxation		**(22.9)**	(20.1)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(29.0)**	(26.9)
Sale of tangible fixed assets		**0.6**	1.1
Net cash flow for capital expenditure and financial investment		**(28.4)**	(25.8)
Acquisitions and disposals			
Purchase of subsidiary undertakings	20	**(30.1)**	(45.3)
Net cash acquired on purchase of subsidiary undertakings	20	**1.2**	5.7
Investment in associated undertakings and joint venture		**(10.8)**	(16.1)
Deferred consideration on prior period acquisitions		**(30.5)**	(18.9)
Net cash flow for acquisitions and disposals		**(70.2)**	(74.6)
Equity dividends paid		**(12.8)**	(11.5)
Cash flow before management of liquid resources and financing		**(74.9)**	(43.0)
Management of liquid resources (a)			
Purchase of short-term investments		**-**	(2.1)
Cash flow for management of liquid resources		**-**	(2.1)
Financing			
Issue of ordinary share capital (net of expenses)		**13.2**	3.2
Increase in debt due after more than one year		**12.2**	-
Increase of unsecured loan notes		**-**	107.1
Repayment of secured loans		**-**	(83.4)
Capital element of finance lease rental payments		**(0.8)**	(0.3)
Net cash flow from financing		**24.6**	26.6
Decrease in cash in the year		**(50.3)**	(18.5)

a Readily disposable short-term investments are reported as liquid resources in the cash flow statement.

Notes to this consolidated cash flow statement are provided overleaf.

Notes to the consolidated cash flow statement >

For the year ended 31 December 2001

	2001 £m	2000 £m
Reconciliation of operating profit to operating cash flow		
Operating profit	**24.4**	77.8
Amortisation of goodwill	**30.7**	6.7
Depreciation charges	**17.4**	12.6
Loss/(profit) on disposal of tangible fixed assets	**0.1**	(0.1)
Increase in debtors	**(1.1)**	(140.5)
Decrease in stock: work in progress	**1.0**	3.3
(Decrease)/increase in creditors	**(6.2)**	136.4
Net cash flow from operating activities	**66.3**	96.2

Subsidiary undertakings acquired in the year contributed £(2.2)million (2000: £14.1 million) to the Group's net cash flow from operating activities.

	2001 £m	2000 £m
Reconciliation of net cash flow to movement in net debt		
Decrease in cash in the year	**(50.3)**	(18.5)
Cash inflow from increase in net debt and lease financing	**(12.2)**	(23.3)
Cash outflow from management of liquid resources	**-**	2.1
Cash outflow from finance lease payments	**0.9**	-
Cash outflow from issue costs of debt	**-**	0.6
Change in net debt resulting from cash flows	**(61.6)**	(39.1)
Amortisation of refinancing costs	**(0.2)**	(0.2)
Increase in lease financing	**(2.0)**	-
Effect of foreign exchange rate changes	**(3.2)**	(4.6)
Movement in net debt in the year	**(67.0)**	(43.9)
Net debt at 1 January	**(59.0)**	(15.1)
Net debt at 31 December	**(126.0)**	(59.0)

Analysis of net debt	1 January 2001 £m	Cash flow £m	Other non-cash changes £m	Exchange movement £m	31 December 2001 £m
Cash at bank and in hand	86.7	(24.4)	-	(1.6)	**60.7**
Overdrafts	(37.8)	(25.9)	-	(1.6)	**(65.3)**
	48.9	(50.3)	-	(3.2)	**(4.6)**
Debt due after more than one year	(110.9)	(12.2)	-	0.1	**(123.0)**
Current asset investments	2.1	-	-	(0.1)	**2.0**
Net debt before finance lease obligations and issue costs of new debt	(59.9)	(62.5)	-	(3.2)	**(125.6)**
Finance lease obligations	(0.5)	0.9	(2.0)	-	**(1.6)**
Issue costs of debt	1.4	-	(0.2)	-	**1.2**
Total	(59.0)	(61.6)	(2.2)	(3.2)	**(126.0)**

There were bank loans and overdrafts of £0.1 million (2000: £nil) within subsidiaries acquired in the year.

Notes to the financial statements >

For the year ended 31 December 2001

1. Principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards, adopting the following principal accounting policies.

Financial Reporting Standard 18, Accounting Policies, has been adopted in the current year. This did not require any change in Group accounting policies.

Basis of consolidation

The consolidated financial statements incorporate the results, cashflows and net assets of Aegis Group plc and its subsidiary undertakings. Where subsidiaries are acquired in the year, their results and cashflows are included from the date of acquisition up to 31 December 2001. 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 and cashflows up to 31 December 2001 and of their net assets/liabilities at 31 December 2001.

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.

In the case of goodwill arising on the acquisition of Market Facts, Inc. the useful economic life is not considered to be finite and hence in 2000 was not amortised. As a result of the continuing successful development of the market research operations in the US, the results of Market Facts, Inc. are likely to become increasingly integrated with the rest of the business to such an extent that it may become difficult to identify separately its results, which we would be required to do to continue to support non-amortisation. As a consequence, the directors have decided to commence amortisation of this goodwill in 2001 over the estimated remaining useful economic life of 18½ years. This has increased the amortisation charge for the year to 31 December 2001 by £10.5 million.

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.

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. 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.

Profit and loss accounts and cash flows in foreign currencies 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. Unrealised exchange differences, arising on the translation of the results and net assets of subsidiaries and associated undertakings, are taken directly to reserves in the consolidated financial statements.

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.

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 on an annual basis 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 six month LIBOR rate. Under the terms of the agreement, the Group remits or receives the

Notes to the financial statements (continued) >

For the year ended 31 December 2001

1. Principal accounting policies (continued)

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

Turnover represents the value of media handled by the Group on behalf of clients, together with fees relating to media and research services provided.

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.

Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

Fixed assets and depreciation

Tangible fixed assets are stated at historic 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

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

Lease payments are split between capital and interest using the actuarial method. The interest is charged to the profit and loss account. The capital element reduces the amounts payable to the lessor.

All other leases are treated as "operating leases". These annual rentals are charged to the profit and loss account over the lease term on a straight line basis.

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 provisions for impairment in value plus attributable post-acquisition retained profits or losses. 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 inpairment, 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 eVergers' underlying investments.

Other fixed asset investments

Other fixed asset investments are stated at cost less any provisions for impairment.

Work in progress

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

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Notes to the financial statements (continued) >

For the year ended 31 December 2001

1. Principal accounting policies (continued)

Pension costs

Retirement benefits for employees of certain companies in the Group are 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:

	2001 £m	2000 £m
Analysis by geographical area:		
Europe	**4,412.2**	4,275.4
North America	**1,445.6**	1,218.5
Rest of the World	**237.9**	218.6
Total turnover	**6,095.7**	5,712.5
Analysis by business sector:		
Media communications	**5,910.6**	5,560.0
Market research	**185.1**	152.5
Total turnover	**6,095.7**	5,712.5

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:

	2001 £m Underlying	2001 £m Exceptional items	2001 £m Total	2000 £m Total
Analysis by geographical area:				
Europe	**61.5**	**(1.8)**	**59.7**	59.1
North America	**7.0**	**(4.0)**	**3.0**	19.6
Rest of the World	**2.6**	**(10.2)**	**(7.6)**	5.8
Total operating profit (before goodwill amortisation)	**71.1**	**(16.0)**	**55.1**	84.5
Analysis by business sector:				
Media communications	**60.0**	**(14.4)**	**45.6**	69.0
Market research	**11.1**	**(1.6)**	**9.5**	15.5
Total operating profit (before goodwill amortisation)	**71.1**	**(16.0)**	**55.1**	84.5
Group share of operating loss in joint venture and associated undertakings	**(1.5)**	**(2.6)**	**(4.1)**	(0.8)
Net interest payable			**(6.3)**	(5.3)
Underlying profit on ordinary activities before taxation			**44.7**	78.4
Amortisation of goodwill			**(30.7)**	(6.7)
Profit on ordinary activities before taxation			**14.0**	71.7

Underlying profit excludes goodwill amortisation of £30.7 million (2000: £6.7 million) and exceptional items of £18.6 million in 2001 (note 3).

Notes to the financial statements (continued) >

For the year ended 31 December 2001

2. Segmental reporting (continued)

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

	2001 £m	2000 £m
Europe	**23.6**	8.5
North America	**112.7**	106.8
Rest of the World	**(21.2)**	14.1
Total net assets	**115.1**	129.4
Media communications	**(41.4)**	(16.5)
Market research	**140.9**	134.3
eVerger joint venture	**15.6**	11.6
Total net assets	**115.1**	129.4

The Group's share of the net assets of associated undertakings and joint ventures of £26.9 million (2000: £17.2 million) is principally located in Europe and Asia-Pacific.

3. Exceptional items

During the year, the Group incurred significant exceptional costs as follows:

a Following the economic downturn in Argentina during 2001, an exceptional cost has been charged to provide against potentially bad debts totalling £10.0 million.

b Cost cutting initiatives have been a priority in 2001 to maintain margins in a difficult trading environment. These initiatives have resulted in an exceptional reorganisation charge of £6.0 million relating to severance (£4.8 million) and property vacation costs (£1.2 million).

In addition, the Group and Company have established a provision of £2.6 million to reduce the carrying value of the investment in eVerger. This provision represents eVerger's write down to net realisable value of two of its underlying investments.

In total, these exceptional items gave rise to a tax credit of £0.6 million and a cash outflow of £6.0 million in the year.

4. Staff costs

	2001 £m	2000 £m
Staff costs consist of:		
Wages and salaries	**192.7**	150.3
Social security costs	**31.1**	24.4
Other pension costs	**9.0**	5.0
	232.8	179.7

Number of employees

	Media communications 2001	Market research 2001	Total 2001	Media communications 2000	Market research 2000	Total 2000
Average number of full-time employees	**4,317**	**2,474**	**6,791**	3,709	1,712	5,421
Employees as at 31 December	**4,300**	**2,549**	**6,849**	4,007	1,822	5,829
Average number of full-time UK employees	**672**	**43**	**715**	576	–	576

Directors' remuneration is disclosed in the Remuneration Report on page 28. The total amount of directors' remuneration in 2001 was £3.5 million (2000: £4.1 million).

Notes to the financial statements (continued) >

For the year ended 31 December 2001

5. Interest payable and similar charges

	2001 £m	2000 £m
Interest payable:		
On bank loans and overdrafts	**9.2**	8.6
On other loans and loan notes	**1.0**	1.7
Interest payable under finance lease and hire purchase contracts	**0.1**	-
Bank fees and guarantees	**1.2**	1.0
Other charges	**3.1**	1.3
	14.6	12.6
Amortisation of refinancing costs	**0.2**	0.2
	14.8	12.8

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 £0.6 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 1999.

Other charges include £1.0 million of imputed interest arising from discounting deferred consideration payable on acquisitions.

6. (Loss)/profit on ordinary activities before taxation

	2001 £m	2000 £m
This is stated after charging/(crediting):		
Auditors' remuneration and expenses — audit services — UK*	**0.3**	0.2
— audit services — overseas	**0.7**	0.6
	1.0	0.8
Auditors' remuneration and expenses — non-audit services — UK	**-**	0.1
— non-audit services — overseas	**0.1**	0.1
	0.1	0.2
Depreciation of fixed assets — owned	**16.7**	12.4
Depreciation of fixed assets held under finance leases	**0.7**	0.2
Operating lease rentals	**17.7**	14.3
Research and development costs	**23.2**	22.4
Loss/(profit) on disposal of tangible fixed assets	**0.1**	(0.1)
Foreign exchange loss/(gain)	**0.8**	(0.2)

*Auditors' remuneration and expenses payable by the Company were £0.2 million (2000: £0.1 million).

All operating expenses are administrative expenses.

Revenue for continuing operations was £502.8 million and for acquisitions was £26.2 million (2000: £473.0 million).
Gross profit for continuing operations was £408.3 million and for acquisitions was £17.5 million (2000: £382.8 million).
Operating expenses for continuing operations were £388.1 million and for acquisitions were £13.3 million (2000: £305.0 million).

Notes to the financial statements (continued) >

For the year ended 31 December 2001

7. Tax on profit on ordinary activities

	2001 £m	2000 £m
UK taxation – 30% (2000: 30%)	**1.8**	0.3
Overseas taxation	**17.7**	22.8
Group's share of associated undertakings' taxation	**0.1**	-
	19.6	23.1

The effective rate of tax on the Group's underlying profits is 31.9% (2000: 29.5%) based on profits before amortisation of goodwill of £30.7 million (2000: £6.7 million) and exceptional costs in 2001 as disclosed in note 3 above.

Exceptional items of £18.6 million in 2001 resulted in a tax credit of £0.6 million.

8. Dividends

	2001	2000
Ordinary shares of 5p each		
– interim dividend rate per share	**0.48p**	0.46p
– final dividend proposed rate per share	**0.72p**	0.69p
	1.20p	1.15p

	£m	£m
– interim dividend paid	**5.3**	5.0
– final dividend proposed	**7.9**	7.5
	13.2	12.5

The final dividend, if approved, will be paid on 28 June 2002 to all ordinary shareholders on the register on 7 June 2002.

Notes to the financial statements (continued) >

For the year ended 31 December 2001

9. (Loss)/earnings per ordinary share

The calculation of basic and diluted (loss)/earnings per share is based on the (loss)/profit after tax and minority interests divided by the weighted average number of ordinary shares and potential dilutive ordinary shares respectively in issue during the year.

	2001	2000
(Loss)/earnings per ordinary share is calculated as follows:		
Basic		
(Loss)/profit for the year	**£(7.0)m**	£47.5m
Underlying profit for the year	**£41.7m**	£54.2m
Weighted average number of ordinary shares in issue	**1,094.6m**	1,081.1m
Basic (loss)/ earnings per share	**(0.6)p**	4.4p
Underlying basic earnings per share	**3.8p**	5.0p
Diluted		
(Loss)/profit for the year	**£(7.0)m**	£47.5m
Underlying profit for the year	**£41.7m**	£54.2m
Weighted average number of ordinary shares and dilutive securities	**1,106.6m**	1,115.6m
Diluted (loss)/earnings per share	**(0.6)p**	4.3p
Underlying diluted earnings per share	**3.8p**	4.9p

At 31 December 2001, there were 1,101.9 million (2000: 1,083.9 million) ordinary shares in issue and 97.7 million (2000: 90.3 million) options outstanding. The total proceeds that would be received on exercise of the outstanding options at 31 December 2001 is £114.4 million. The weighted average number of dilutive share options included in the dilutive earnings per share calculation at 31 December 2001 is 7.0 million net of tax (2000: 34.5 million). There are no other dilutive securities outstanding at 31 December 2001 (2000: nil).

Underlying profits are calculated by adding back amortisation of goodwill of £30.7 million for the year ended 31 December 2001 (2000: £6.7 million) and the exceptional items of £18.0 million net of tax (note 3) for the year ended 31 December 2001, in order to eliminate the effect of these distorting items.

10. Intangible fixed assets

	Notes	Goodwill £m
Group:		
Cost at 1 January 2001		358.0
Additions	20	48.9
Adjustments to prior period estimates of deferred contingent consideration		(28.3)
At 31 December 2001		**378.6**
Amortisation at 1 January 2001		9.1
Provided for in the year		30.7
At 31 December 2001		**39.8**
Net book value		
At 31 December 2001		**338.8**
At 31 December 2000		348.9

Notes to the financial statements (continued) >

For the year ended 31 December 2001

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 2001	14.2	17.8	63.8	95.8
Additions	1.2	4.8	23.0	29.0
Acquisitions	–	–	4.7	4.7
Disposals	–	(0.5)	(3.0)	(3.5)
Exchange adjustments	–	(0.4)	(1.4)	(1.8)
At 31 December 2001	15.4	21.7	87.1	124.2
Depreciation at 1 January 2001	6.9	7.8	34.7	49.4
Acquisitions	–	–	1.7	1.7
Provided for in the year	1.0	2.3	14.1	17.4
Disposals	–	(0.5)	(2.3)	(2.8)
Exchange adjustments	–	(0.1)	(0.8)	(0.9)
At 31 December 2001	7.9	9.5	47.4	64.8
Net book value				
At 31 December 2001	7.5	12.2	39.7	59.4
At 31 December 2000	7.3	10.0	29.1	46.4

Company:	Long leasehold and leasehold improvements £m	Office furniture, fixtures, equipment and vehicles £m	Total £m
Cost at 1 January 2001	0.8	1.8	2.6
Additions	–	3.6	3.6
Disposals	–	(0.1)	(0.1)
At 31 December 2001	0.8	5.3	6.1
Depreciation at 1 January 2001	–	0.4	0.4
Provided for in the year	0.1	0.9	1.0
Disposals	–	(0.1)	(0.1)
At 31 December 2001	0.1	1.2	1.3
Net book value			
At 31 December 2001	0.7	4.1	4.8
At 31 December 2000	0.8	1.4	2.2

Notes to the financial statements (continued) >

For the year ended 31 December 2001

11. Tangible fixed assets (continued)

The cost of the Group's tangible fixed assets includes £2.3 million (2000: £1.3 million) and the net book value includes £1.8 million (2000: £0.5 million) in respect of assets held under finance leases. Depreciation on these assets in the year was £0.7 million (2000: £0.2 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 (2000: £nil).

Neither the Group nor the Company had any capital commitments contracted for but not provided as at 31 December 2001 (2000: £nil).

12. Fixed asset investments

	Associates				Other fixed
	Share of net assets	Goodwill	Total	Joint ventures	asset investments
Group:	£m	£m	£m	£m	£m
Cost:					
At 1 January 2001	0.6	5.1	5.7	11.6	2.9
Acquired/invested in the year	–	6.6	6.6	7.2	–
Share of losses	(0.4)	–	(0.4)	(3.7)	–
Exchange movement	(0.1)	–	(0.1)	0.5	–
At 31 December 2001	0.1	11.7	11.8	15.6	2.9
Amortisation:					
At 1 January 2001	–	0.1	0.1	–	–
Charge in the year	–	0.4	0.4	–	–
At 31 December 2001	–	0.5	0.5	–	–
Net book value:					
At 31 December 2001	0.1	11.2	11.3	15.6	2.9
At 31 December 2000	0.6	5.0	5.6	11.6	2.9
Company:					
Net book value at 1 Janaury 2001	–	–	–	–	667.9
Additions	–	–	–	–	10.2
Exceptional provision against investment in eVerger (note 3)	–	–	–	–	(2.6)
Deferred consideration released	–	–	–	–	(17.9)
Net book value at 31 December 2001	–	–	–	–	**657.6**

Associated undertakings and joint ventures
A list of the Group's associated undertakings and joint ventures is disclosed in note 25.

Other fixed asset investments
The Group's other fixed asset investments principally comprise an investment of approximately 4% in Harris Interactive, Inc.

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 25.

Notes to the financial statements (continued) >

For the year ended 31 December 2001

13. Debtors

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Trade debtors	**907.0**	894.1	**0.2**	0.3
Amounts due from Group undertakings	**–**	–	**157.5**	124.9
Amounts due from associated undertakings and joint ventures	**6.8**	8.9	**0.1**	1.1
Other debtors	**44.9**	60.2	**8.3**	4.7
Prepayments and accrued income	**43.8**	38.5	**0.4**	0.1
	1,002.5	1,001.7	**166.5**	131.1

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

14. Current asset investments

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Other investments	**2.0**	2.1	**–**	–

Current asset investments comprise an investment in a managed investment fund.

15. Creditors: amounts falling due within one year

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Bank loans and overdrafts	**65.6**	37.8	**105.6**	114.6
Less issue costs of debt to be amortised	**(0.3)**	(0.4)	**(0.3)**	(0.3)
	65.3	37.4	**105.3**	114.3
Trade creditors	**975.0**	956.9	**0.8**	1.0
Finance leases and hire purchase contracts	**0.6**	0.2	**–**	–
Amounts due to Group undertakings	**–**	–	**158.3**	150.6
Corporation tax	**12.1**	15.8	**–**	–
Taxation and social security	**22.6**	23.6	**0.2**	0.2
Payments received on account	**18.4**	19.1	**–**	–
Other creditors	**88.8**	50.4	**13.3**	4.8
Accruals and deferred income	**40.7**	94.7	**2.9**	3.4
Dividends payable	**7.9**	7.5	**7.9**	7.5
	1,231.4	1,205.6	**288.7**	281.8

Notes to the financial statements (continued) >

For the year ended 31 December 2001

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

	Group		Company	
	2001	2000	2001	2000
	£m	£m	£m	£m
Bank loans	**14.0**	3.8	**-**	-
Loan notes	**109.9**	107.1	**109.9**	107.1
Less issue costs of debt to be amortised	**(0.9)**	(1.0)	**(0.8)**	(1.0)
	123.0	109.9	**109.1**	106.1
Finance leases and hire purchase contracts	**1.0**	0.3	**-**	-
Other creditors	**27.5**	68.5	**3.7**	33.9
	151.5	178.7	**112.8**	140.0

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 to convert this fixed rate borrowing into floating rate based upon the US 6 month LIBOR rate.

Of the above, £52.2 million (2000: £72.1 million) is repayable between two and five years.

17. Provisions for liabilities and charges

Group and Company:

No provision for deferred taxation is recorded due to the availability of tax losses carried forward which offset the full potential effect of timing differences between the treatment of certain items for taxation and accounting purposes. There was no material unprovided liability for deferred taxation at 31 December 2001 or 31 December 2000.

18. Share capital

	2001 £m	2000 £m
Authorised:		
1,500,000,000 (2000: 1,500,000,000) ordinary shares of 5p each	**75.0**	75.0
	75.0	75.0
Issued, allotted, called up and fully paid:		
1,101,903,590 (2000: 1,083,922,407) ordinary shares of 5p each	**55.1**	54.2
	55.1	54.2

Notes to the financial statements (continued) >

For the year ended 31 December 2001

18. Share capital (continued)

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

During the year the Company issued 16,160,521 ordinary shares due to the exercise of share options. The shares had a nominal value of £808,026 and the Company received £2,330,797 as consideration on the exercise of share options. The Company also issued 1,820,662 shares in connection with the acquisition of Pegram Walters. The shares had a nominal value of £91,033. There are no preference shares or warrants outstanding at 31 December 2001.

Under the Group's share option schemes, there were outstanding options over 97,705,073 ordinary shares of 5p at 31 December 2001 (2000: 90,430,134), 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 2001 and 16 October 2011.

19. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
Group:			
At 1 January 2001	184.2	0.2	(111.8)
Retained loss for the year	–	–	(20.2)
Issue of shares by the Company	13.8	–	–
Currency translation differences on foreign currency investments	–	–	(8.8)
At 31st December 2001	**198.0**	**0.2**	**(140.8)**

Goodwill arising on acquisitions up to 31 December 1997 of £563.9 million (2000: £563.9 million), which has been written off immediately to reserves, is included within the profit and loss account reserve.

	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m
Company:				
At 1 January 2001	184.2	0.2	13.0	167.1
Retained loss for the year	–	–	–	(6.0)
Issue of shares by the Company	13.8	–	–	–
At 31st December 2001	**198.0**	**0.2**	**13.0**	**161.1**

The Company has not presented its own profit and loss account as permitted by Section 230 (1) of the Companies Act 1985. The profit dealt with in the accounts of the Company for the year to 31 December 2001 was £7.2 million (year to 31 December 2000: £13.6 million). Accumulated reserves for the Company include £118.8 million (2000: £118.8 million) which is not available for distribution under the terms of a court approved share premium reduction scheme.

Notes to the financial statements (continued) >

For the year ended 31 December 2001

20. Goodwill on acquisitions

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

Company	Country of incorporation	% Acquired	Date of acquisition
MarkTrend	Canada	100%	29 January 2001
Pegram Walters	England	100%	31 January 2001
Lord Media	Poland	100%	16 February 2001
Copernicus	US	100%	12 March 2001
MEMRB Custom Research Worldwide	Cyprus	100%	1 May 2001
Demoscopie	France	100%	1 June 2001
L'Agence	France	51%	2 July 2001
NetThink	Spain	54%	2 July 2001
Citizen Press	France	51%	2 July 2001
IMR	US	100%	2 July 2001
Loop Line	Austria	51%	6 November 2001
Research Fact	Japan	100%	29 November 2001
BIT	Germany	100%	30 November 2001
Vizium	US	100%	14 December 2001

The Group also acquired additional shareholdings in WebA (40%), Carat Interactive (10%), BBJ Media Services (9.4%) and Carat Prospective (5%).

Initial consideration totalled £28.2 million (including £1.5 million paid in shares), with estimated contingent deferred consideration of £15.5 million payable between 2002 and 2005, 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 £m	Other adjustments £m	Fair value of net assets £m
Net assets/(liabilities) acquired:				
Intangible assets	0.4	–	a) (0.4)	–
Tangible fixed assets	3.4	b) (0.4)	–	3.0
Debtors	9.9	–	c) (0.9)	9.0
Stock: work in progress	1.3	d) 1.1	–	2.4
Net cash at bank and in hand	1.2	–	–	1.2
Creditors	(14.0)	d), e) (3.1)	f) (0.3)	(17.4)
	2.2	(2.4)	(1.6)	(1.8)
Goodwill capitalised in the year				48.9
Consideration				47.1

	£m
Satisfied by:	
Initial consideration	28.2
Direct costs of acquisition	1.3
Deferred consideration on current years' acquisitions	2.1
Deferred consideration (note 21)	15.5
	47.1

Provisional adjustments have been made as follows:

a Adjustments have been made to write off local goodwill in acquired balance sheets.

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

c Provisions have been made for potentially doubtful debts in acquired balance sheets.

Notes to the financial statements (continued) >

For the year ended 31 December 2001

20. Goodwill on acquisitions (continued)

d The accounting policy for revenue recognition in acquired research companies has been amended to recognise revenue only on completion of a project or on the satisfactory completion of a specific phase of a project. The net effect is to reduce net assets by £1.2 million.

e Provision has been made to convert to accruals accounting.

f Provision has been made to accrue for pre-acquisition related liabilities.

Associates
The Group invested £3.6 million in associated companies during the year, of which £2.4 million was paid for a 25% interest in PDM, an event marketing company based in India. Deferred consideration up to a maximum of £4.2 million may be payable in respect of PDM based upon performance criteria. The remaining £1.2 million paid in the year relates to earn out payments previously accrued.

eVerger
The Group also invested £7.2 million in eVerger, its joint venture with Warburg, Pincus, set up to make early stage investments in eMarketing services and enabling technologies. The company is focused on identifying, funding and developing businesses that create technology and software tools to help marketers promote and strengthen their brands.

21. 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 2005. 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 2001 for payments that may be due is as follows:

	2001 £m	2000 £m
Within one year	**35.3**	37.3
Between one and two years	**19.9**	19.5
Between two and five years	**3.2**	47.6
	58.4	104.4

All of the contingent deferred payments noted above are dischargeable in cash. The minimum liability is £13.2 million and the maximum is £86.0 million.

Put options held by outstanding minority interests
There are put options held by certain minority interest shareholders in respect of Carat companies in France, Spain, Thailand, Germany and Austria. The directors estimate the value of these contingent liabilities, based upon the profitability of the individual companies, to be approximately £2.6 million.

Guarantees
Guarantees of £59.5 million (2000: £54.3 million) have been given by the Company on behalf of its subsidiaries together with other guarantees and contingencies arising in the normal course of business.

Lease commitments
At 31 December 2001, there were the following annual commitments in respect of non-cancellable operating leases:

	Group		Company
Operating leases that expire:	Land and buildings £m	Other £m	Land and buildings £m
Within one year	2.6	0.3	–
Between one and five years	10.9	3.2	–
After more than five years	10.2	–	0.8
31st December 2001	**23.7**	**3.5**	**0.8**
31st December 2000	15.3	2.7	0.8

Notes to the financial statements (continued) >

For the year ended 31 December 2001

22. Related party transactions with associated undertakings and joint ventures

The Group had the following transactions and balances with its associated undertakings and joint ventures:

Carat España SA purchased media space on behalf of Mediasal 2000 SA, an associated undertaking, totalling £17,146,045 in 2001. The balance due at the year end was £5,844,285 (2000: £7,804,778).

Group companies provided administrative services to eVerger Associates Limited totalling £755,565 in 2001. The balance due at the year end was £79,014 (2000: £1,129,303).

23. Financial instruments

The Board of Directors has established objectives concerning the holding and use of financial instruments. 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 these objectives 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 takes place overseas. The Group therefore faces currency exposures on the transactions undertaken by subsidiaries in foreign currencies and on the translation of profits earned by overseas subsidiaries. Several of the Group's European subsidiaries changed their functional currency during 2001 and now report in Euros. In total, the Group's subsidiaries reported results in 34 currencies in 2001 (2000: 37).

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

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 2001, the Group had net debt (before finance lease obligations and issue costs of new debt) of £125.6 million (2000: £59.9 million). The Group had cash balances of £60.7 million at 31 December 2001 (2000: £86.7 million) and gross borrowings of £189.5 million (2000: £148.7 million).

Included within net debt is £109.9 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 2001, the Group has undrawn committed facilities of £222.5 million (2000: £250.0 million). Further details are given below.

Notes to the financial statements (continued) >

For the year ended 31 December 2001

23. Financial Instruments (continued)

Interest rate risk

The Group's borrowings, 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.

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 creditors have been excluded from all disclosures. Group companies do not have material, unhedged monetary assets and liabilities in currencies other than their local currencies. Hence, no additional currency disclosures have been provided.

Analysis of 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, all of which were at floating interest rates, was:

	Floating rate financial liabilities 2001 £m	Floating rate financial liabilities 2000 £m
Sterling	**44.6**	12.4
Euro	**12.8**	14.2
US dollar	**125.8**	115.6
Other currencies	**5.1**	6.5
	188.3	148.7

Interest is payable on the above financial liabilities (excluding the US unsecured loan notes) based on the variable market rate in each country. The weighted average interest rate for the year ended 31 December 2001 was 5.3% (2000: 7.2%).

The variable interest rate payable on the US unsecured loan notes is based on the prevailing US LIBOR rate.

There were no fixed rate financial liabilities at 31 December 2001 (2000: £nil). In addition to the liabilities above, the Group had creditors due after more than one year of £23.1 million (2000: £67.1 million) on which generally no interest is paid (representing deferred consideration on acquisitions repayable between one and five years) and finance lease obligations of £1.6 million (2000: £0.5 million) which are mostly held in US dollars.

Notes to the financial statements (continued) >

For the year ended 31 December 2001

23. Financial Instruments (continued)

Analysis of the 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, all of which were at floating interest rates, was:

	Cash at bank and in hand 2001 £m	Current asset investments 2001 £m	Total 2001 £m	Cash at bank and in hand 2000 £m	Current asset investments 2000 £m	Total 2000 £m
Sterling	**5.8**	**-**	**5.8**	-	-	-
Euro	**25.6**	**2.0**	**27.6**	43.6	2.1	45.7
US dollar	**1.0**	**-**	**1.0**	19.9	-	19.9
Other currencies	**28.3**	**-**	**28.3**	23.2	-	23.2
	60.7	**2.0**	**62.7**	86.7	2.1	88.8

Current asset investments comprise an investment in a managed investment fund. 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 £2.9 million (2000: £2.9 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 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 swap at 31 December 2001 was £8.1 million (2000: nil). 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. £3.3 million of this unrealised profit is expected to be realised in 2002.

Maturity of financial assets and liabilities

The maturity profile of the Group's financial liabilities is set out in notes 15, 16 and 21. With the exception of the Group's other fixed asset investments of £2.9 million, all financial assets have a maturity of less than one year.

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:

	2001 £m	2000 £m
Expiring within one year	**139.2**	150.0
Expiring between one and two years	**-**	-
Expiring between two and five years	**83.3**	100.0
	222.5	250.0

Of the amounts disclosed above at 31 December 2001, £139.2 million expiring within one year may be extended annually by the Group until 2004. All covenants at 31 December 2001 were met.

Notes to the financial statements (continued) >

For the year ended 31 December 2001

23. Financial instruments (continued)

Market risk

At 31 December 2001, it is estimated that a general rise of 1% in interest would reduce 2001 profit before tax by £1.3 million. It is also estimated that a strengthening of Sterling by 1% would reduce 2001 profit before tax by approximately £0.3 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 2001 and 2000, there were no material foreign exchange contracts to hedge against future transaction flows.

24. Post balance sheet events

Chusen Media

On 15 January 2002, the Group announced its acquisition of a 49% interest in Chusen Media, a joint venture with the Japanese media agency Chuo Senko. Initial cash consideration was £3.5 million, with deferred cash consideration payable over the next three years based upon performance criteria.

Lot 21

On 15 January 2002, the Group announced its acquisition of Lot 21, a US interactive media agency, based in San Francisco. Initial cash consideration totalled £1.4 million, with additional deferred cash consideration payable over the next three years, subject to performance criteria.

Market&More

On 8 February 2002, the Group announced its acquisition of Market&More, a market research company with operations in Germany, the Netherlands, Belgium and France. Initial cash consideration was £3.8 million, with deferred cash consideration payable over the next three years, based upon performance criteria.

Filter Group

On 18 February 2002, the Group announced the acquisition of its 25% interest in the Filter Group, a market consulting company with offices in Singapore, Hong Kong and Bangkok. Initial cash consideration was £0.3 million, with additional deferred contingent consideration payable in the form of Aegis Group plc shares in January 2005. Put and call options exist over the remaining 75% share capital, which are exercisable in 2005, subject to performance criteria.

Notes to the financial statements (continued) >

For the year ended 31 December 2001

25. Principal subsidiary and associated undertakings

Principal subsidiary undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2001
Media communications:		
Carat Fax	Argentina	100%
Carat Australia	Australia	100%
HMS Carat Austria	Austria	100%
Loop Line	Austria	51%
Carat Crystal	Belgium	100%
Carat Canada	Canada	100%
Groupe Carat Strategem	Canada	100% (49% voting)
K2 Media	Canada	100% (49% voting)
Carat Cairns	Canada	100% (49% voting)
Carat Chile	Chile	100%
HMS Czech Republic	Czech Republic	100%
Carat Czech Republic	Czech Republic	100%
Carat Danmark	Denmark	100%
Carat Media Research	Denmark	100%
Carat Group UK	England and Wales	100%
Carat	England and Wales	100%
Carat Direct	England and Wales	100%
BBJ Media Services	England and Wales	100%
Carat Business	England and Wales	100%
Carat Insight	England and Wales	100%
Posterscope	England and Wales	100%
Posterscope in the North	England and Wales	100%
Carat Interactive	England and Wales	100%
Carat International	England and Wales	100%
Carat Media Services	England and Wales	100%
Carat Finland	Finland	100%
Mediekompetens	Finland	100%
Oy Inter Media	Finland	100%
Zemarid	Finland	100%
Carat France	France	100%
Carat Expansion	France	100%
Carat 2010	France	100%
Carat Expert	France	100%
Carat MCI	France	100%
Carat Prospective	France	100%
Carat SPFD	France	100%
Carat Sponsorship	France	100%
Saverne Developpement	France	100%
Granit	France	100%
Carat Direct	France	100%
Cyclades Carat	France	100%
Image Publicite Conseil	France	100%
Media Consultant	France	100%
Saverne Conseil	France	100%
Grap & Gides	France	100%
Carat Sante	France	100%
Christine Malleret Conseil	France	100%
Citizen Press	France	51%
L'Agence	France	51%
Nord Espace Media	France	100%
Demain Midi	France	100%
CTM	France	100%
Carat Media Service	Germany	100%
HMS Media Service	Germany	100%
HMS and Carat Central Services	Germany	100%
HCCS Plus	Germany	51%
Carat Direct	Germany	100%
Carat Expert	Germany	100%
Carat Interactive	Germany	100%
Carat Hamburg Media Service	Germany	100%
HMS Hamburg Media Service	Germany	100%

Notes to the financial statements (continued) >

For the year ended 31 December 2001

25. Principal subsidiary and associated undertakings (continued)

Principal subsidiary undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2001
HMS Frankfurt	Germany	100%
Media Standby	Germany	100%
Carat Munich	Germany	100%
Carat Sponsorship	Germany	100%
Carat Berlin	Germany	100%
MW Office	Germany	75%
PAP	Germany	51%
Carat Hellas	Greece	75.5%
Carat Creative	Greece	75.5%
HMS Carat	Hungary	100%
Carat Media Services Asia Pacific	Hong Kong	100%
Carat Italia	Italy	100%
Carat Expert	Italy	100%
Horizon	Italy	100%
Carat Visions	Italy	100%
Web A	Italy	100%
Carat Media Services India	India	76%
Carat Integra PVT Ltd	India	51%
Carat Malaysia	Malaysia	60%
Carat Mexico	Mexico	100%
Carat Nederland	Netherlands	100%
Carat New Zealand	New Zealand	100%
Carat Inter-Media	Norway	100%
Carat Media Research	Norway	100%
Carat Mediakanalen	Norway	100%
HMS Carat Polska	Poland	100%
Scope	Poland	100%
Carat Portugal	Portugal	100%
Carat Romania	Romania	100%
Carat Russ-Media	Russia	73%
Feather Brooksbank	Scotland	100%
HMS Carat Slovakia	Slovak Republic	100%
Carat España	Spain	100%
NetThink Carat	Spain	54%
Carat Scandinavia	Sweden	100%
Carat Sverige	Sweden	100%
Carat Media Research	Sweden	100%
Mediekompetens	Sweden	100%
Carat Interactive	Switzerland	100%
Micom Carat	Switzerland	100%
Carat Media Services (Thailand)	Thailand	49% (51% voting)
Carat Turkey	Turkey	100%
Carat Ukraine	Ukraine	100%
Carat Venezuela	Venezuela	100%
Carat Interactive	USA	100%
Vizium	USA	100%
Outdoor Vision	USA	100%
Applied Information for Marketing	USA	100%
Carat North America	USA	100%
Carat USA	USA	100%
MMA Carat	USA	100%
Carat Freeman	USA	100%
Market research:		
Pegram Walters	England and Wales	100%
Demoscopie	France	100%
MEMRB Custom Research Worldwide	Cyprus	100%
BIT	Germany	100%
Market Facts	USA	100%
Market Facts New York	USA	100%
Copernicus	USA	100%
BAI Global	USA	100%
Tandem Associates	USA	100%

Notes to the financial statements (continued) >

For the year ended 31 December 2001

25. Principal subsidiary and associated undertakings (continued)

Principal subsidiary undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2001
Strategy Research Corporation	USA	100%
Product Intelligence	USA	100%
Marketing Strategy and Planning	USA	100%
Strategy Research	Argentina	100%
Strategy Research de Brasil	Brazil	100%
Market Facts of Canada	Canada	100%
MarkTrend	Canada	100%
IMR	USA	100%
Asia Market Intelligence China	China	100%
Shenzen Fanzhong Market Intelligence Co.	China	100%
Asia Market Intelligence Hong Kong	China	100%
Asia Market Intelligence Indonesia	Indonesia	100%
Asia Market Intelligence Korea	Korea	100%
Asia Market Intelligence Malaysia	Malaysia	100%
SRC de Mexico SA	Mexico	100%
PMI Asia	Philippines	100%
Asia Market Intelligence Singapore	Singapore	100%
Asia Market Intelligence Taiwan	Taiwan	100%
Asia Market Intelligence Thailand	Thailand	100%
Research Fact	Japan	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.

With the exception of 100% shareholdings in Carat Group UK Limited, Carat International Limited and Carat Media Services Limited, 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.

HMS & CARAT GmbH & Co. KG Central Services, Wiesbaden
HMS GmbH & Co. KG Media-Service, Wiesbaden
HMS GmbH & Co. KG Media-Service, Eschborn
HCCS Plus Wiesbaden/München GmbH & Co. KG.
CARAT Wiesbaden GmbH & Co. KG Media-Service, Wiesbaden
CARAT Hamburg GmbH & Co. KG, Hamburg
HMS GmbH & Co. KG Media-Service, Hamburg

Principal associated undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2001
Aerlig Talt	Norway	34%
Carat Consulting	Norway	34%
Mediasal 2000	Spain	23.9%
Carat Philippines	Philippines	30%
CPM Media	Czech Republic	35%
CPM Media	Slovak Republic	50%
Media Matrix Kft	Hungary	40%
Media Base Advertising	Malaysia	49%
JV Bonds	Greece	40%
Carat China	China	50%
Carat Taiwan	Taiwan	50%
Norifumi Goddarh	France	40%
Percept D'Mark	India	25%

All shareholdings are of ordinary shares and all activities are in the field of media communications. All the results of the above associated undertakings have been equity accounted.

Joint ventures

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

Shareholder information >

Financial calendar

22 May 2002	Annual General Meeting
5 June 2002	Ex-dividend date
7 June 2002	Last date for transfers
28 June 2002	Final dividend payable
10 September 2002	Announcement of interim results
Early October 2002	Interim dividend payable
Early March 2003	Preliminary announcement of results for the year ending 31 December 2002

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 20. 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
Updated 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 2001

Size of holdings	Number of holders	%	Number of shares	%
1–1,000	1,608	40.44	739,495	0.07
1,001–10,000	1,321	33.22	4,526,664	0.41
10,001–25,000	221	5.56	3,789,353	0.34
25,001–50,000	148	3.72	5,518,847	0.50
50,001–100,000	123	3.09	8,998,300	0.82
100,001–250,000	181	4.55	29,867,286	2.71
250,001–500,000	124	3.12	45,900,254	4.17
500,001–1,000,000	95	2.39	66,955,003	6.08
1,000,001–10,000,000	132	3.32	405,974,716	36.84
10,000,001–25,000,000	17	0.43	306,142,271	27.78
25,000,001 +	6	0.16	223,491,401	20.28
	3,976	100.00	1,101,903,590	100.00

Five year summary >

Profit and loss:	2001	2000	1999	1998	1997
Turnover	**£6,095.7m**	£5,712.5m	£4,791.8m	£4,130.0m	£3,652.5m
Revenue	**£529.0m**	£473.0m	£323.5m	£221.0m	£191.8m
Gross profit	**£425.8m**	£382.8m	£281.7m	£221.0m	£191.8m
% Gross profit to turnover	**7.0%**	6.7%	5.9%	5.4%	5.3%
Operating profit (before amortisation of goodwill and exceptional items)	**£71.1m**	£84.5m	£66.4m	£50.6m	£44.4m
Profit before tax, amortisation of goodwill and exceptional items	**£63.3m**	£78.4m	£64.6m	£51.1m	£43.5m
Profit before tax	**£14.0m**	£71.7m	£67.3m	£50.6m	£45.6m
Effective underlying tax rate	**31.9%**	29.5%	28.9%	28.4%	28.0%
(Loss)/profit for the financial year	**£(7.0)m**	£47.5m	£47.0m	£35.5m	£32.8m
Cash flow:					
Operating cash flow	**£66.3m**	£96.2m	£76.3m	£57.0m	£54.5m
Net (indebtedness)/funds at the year end	**£(126.0)m**	£(59.0)m	£(15.1)m	£38.9m	£(2.2)m
Balance sheet:					
Goodwill on acquisitions	**£338.8m**	£348.9m	£242.2m	£17.0m	-
Other fixed assets	**£89.2m**	£66.5m	£33.5m	£17.8m	£15.6m
Net current liabilities	**£(161.4)m**	£(107.3)m	£(64.7)m	£(75.3)m	£(93.3)m
Creditors: amounts falling due after more than one year	**£(151.5)m**	£(178.7)m	£(110.0)m	£(21.1)m	£(27.8)m
Provisions for liabilities and charges	**-**	-	-	-	£(0.2)m
Net assets/(liabilities)	**£115.1m**	£129.4m	£101.0m	£(61.6)m	£(105.7)m
Shareholder returns:					
Earnings per share – underlying					
– basic	**3.8p**	5.0p	4.3p	4.0p	3.6p
– diluted	**3.8p**	4.9p	4.2p	3.7p	3.2p
(Loss)/earnings per share – FRS 14					
– basic	**(0.6)p**	4.4p	4.6p	4.0p	3.8p
– diluted	**(0.6)p**	4.3p	4.4p	3.7p	3.4p*
Ordinary dividend rate per share	**1.20p**	1.15p	1.0p	0.85p	0.7p

*As restated under Financial Reporting Standard 14

Glossary of terms >

The Group
Aegis Group plc and its subsidiaries.

Carat
The media services division of Aegis Group plc.

Aegis Research
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 the value of media handled by the Group on behalf of clients, together with fees relating to media and research services.

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
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/(decrease)
Underlying growth/(decrease) 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/(decrease)
Organic growth/(decrease) represents year on year growth after eliminating the effect of businesses acquired or disposed of since the beginning of the prior year.

Constant currency growth/(decrease)
Constant currency growth/(decrease) represents year on year growth excluding the effect of movements in 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 separate net tangible assets.

Minority interests
Partial ownership of subsidiary undertakings by external shareholders.

eVerger >

About eVerger
eVerger is a joint venture with Warburg, Pincus. The company is focused on identifying, funding and developing businesses that create technology and software tools to help marketers promote and strengthen their brands. At 31 December 2001 eVerger has made investments totalling $48.4 million in five companies, one of which has ceased trading. The current trading investments are:

Paramark
A California-based company in which eVerger invested $7 million in the second round of financing in January 2001. Paramark develops web-hosted services that automatically increase the effectiveness of online marketing campaigns through proprietary optimization technology known as PILOT.

Amacis
eVerger invested $7 million to lead Amacis' second funding round in July 2001. The Belfast-based company develops and markets software applications that enable large organisations to manage electronic customer correspondence such as Email, SMS and internet relay chat (IRC or "webchat"). In November 1999 Amacis launched Amacis Visibility,™ which can process over 1 million customer contacts per day in over 30 languages.

NewworldIQ
NWIQ is a new company formed by the merger of Newworld Commerce (Dublin) and IQ Commerce (Saratoga, California). eVerger had invested in each of the companies individually and following a further US$5 million invested at the time of the merger has $24.7 million invested in the combined operation. NewworldiQ provides a suite of products that allow marketers to create, manage and deliver complete marketing programmes online; ultimately enabling the marketer to build more profitable relationships with their online customers. They work with clients to implement programmes that generate customer action and promote brand loyalty.

Dynamic Logic
A New York-based company in which eVerger has invested $5 million. The company uses technology to measure advertising effectiveness on the internet. Its 'AdIndex' product measures branding metrics of online campaigns and is expected to become a standard rating metric for online advertising campaigns.

Notice of meeting >

Notice is hereby given that the Annual General Meeting of the Company will be held at 11am on 22 May 2002 at the offices of Aegis Group plc, 43–45 Portman Square, London W1H 6LY for the purpose of transacting the ordinary business of the Annual General Meeting set out in resolutions 1 to 7, and special business, when resolutions 8 and 9 will be proposed as ordinary resolutions and resolutions 10 and 11 will be proposed as special resolutions.

Ordinary business

1 To receive the financial statements for the year ended 31 December 2001 and the reports of the Directors and Auditors.

2 To declare a final dividend of 0.72p per ordinary share.

3 To re-elect as a director Lord Sharman who retires by rotation and, being eligible, offers himself for re-election.

4 To re-elect as a director Lord Hannay who retires by rotation and, being eligible, offers himself for re-election.

5 To re-elect as a director Jeremy Hicks who retires by rotation and, being eligible, offers himself for re-election.

6 To elect as a director Adrian Chedore who was appointed since the last Annual General Meeting and therefore retires.

7 To re-appoint PricewaterhouseCoopers as auditors and to authorise the directors to fix their remuneration.

Special business

8 To approve the remuneration policy as set out in the Remuneration report contained in the Annual Report and Accounts.

9 That the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £14,874,634 provided that this authority shall expire (unless previously revoked or varied by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

10 That, subject to the passing of resolution 9 above, the directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985, to allot equity securities (within the meaning of section 94 of the said Act) for cash pursuant to the authority conferred by the said resolution 9 above as if section 89 of the said Act did not apply to any such allotment, provided that this power shall be limited:

   a to the allotment of equity securities in connection with or pursuant to an offer by way of rights issue, open offer or any other pre-emptive offer in favour of holders of ordinary shares where the equity securities attributable to the interests of such persons are proportionate (as nearly as may be) to the numbers of ordinary shares held by them subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of, or the requirements of any regulatory body or stock exchange in, any territory or otherwise howsoever; and

   b to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £2,754,758 and shall expire (unless previously revoked or varied by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Notice of meeting (continued) >

11 That the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (as defined in section 163 of the Companies Act 1985) of its ordinary 5p shares provided that:

a the maximum number of shares which may be purchased is 55,138,662 ordinary shares;

b the maximum price at which any share may be purchased is the price equal to 5% above the average of the middle market quotations of such share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of such purchase, exclusive of expenses, and the minimum price at which any share may be purchased is the par value of such share; and

c the authority conferred by this resolution shall expire on 21 November 2003 or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make a contract to purchase shares which would or might be completed or executed wholly or partly after such expiry and may make a purchase of shares pursuant to such contract as if the authority conferred by this resolution had not expired.

By order of the Board

John Ross
Company Secretary
43–45 Portman Square
London W1H 6LY
3 April 2002

Notes
A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him.
A proxy need not be a member of the Company. A proxy form is enclosed for your use and, if used, should be deposited with the Company's Registrars (Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3FA) not less than 48 hours before the time appointed for the holding of the meeting. Return of the proxy form will not affect the right of a member to attend and vote at the meeting.
Only those members registered in the Register of Members as at 11am on Wednesday, 22 May 2002 shall be entitled to vote at the meeting.
Copies of all directors' service contracts with the Company or its subsidiaries of more than one year's duration, and the register of directors' interests, will be available for inspection at 43–45 Portman Square, London W1H 6LY during normal business hours on any business day from the date of this notice until the conclusion of the meeting.

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Aegis Group plc
43-45 Portman Square
London W1H 6LY
Tel +44 (0)20 7070 7700
Fax +44 (0)20 7070 7800
www.aegisplc.com