AEGIS GROUP PLC

ANNUAL REPORT

YEAR ENDED 31.12.05

Company Number: 1403668

A24 *AMAWQGBJ* 177
COMPANIES HOUSE 16/06/2006

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*Throughout this Annual Report 'underlying' results are stated before goodwill amortisation and exceptional items (see notes 2 and 4 to the financial statements). References to results on a 'comparable basis' describe the underlying results reported using the UK GAAP accounting policies applied by the Group prior to 1 January 2005, adjusted for presentational reclassifications (see note 35e to the financial statements). A reconciliation between underlying UK GAAP and underlying IFRS results is provided on page 22.

de-construct – Isobar acquires farfar in Sweden ::: 2005 AEGIS NEWS TICKER ::: Feb :::

Aegis Group plc
We are a leading marketing services company with more than 12,000 staff in over 60 countries. *Listed on the London Stock Exchange (AGS.L), we are structured around the two most* rapidly growing areas of marketing services: media communications and market research.
www.aegisplc.com

Aegis Media

Carat
Carat is the world's largest independent media communications specialist. Present in 62 countries throughout *the world, Carat's national operating* companies are leaders in most of their markets.
www.carat.com

Isobar
Isobar provides clients with a full range of digital marketing services through its global *network in 32 markets worldwide.* Isobar currently has online billings of over $600 million.
www.isobar.net

Posterscope
Posterscope is the leading international outdoor media specialist with a rapidly growing global presence.
The scale of its resource enables it to invest heavily in technology, giving a sector leading capability.
www.posterscope.co.uk

Vizeum
Vizeum is our challenger media brand, founded in 2003, with a pioneering approach to communications. It has a broad presence in Europe and Asia Pacific, with operations in 25 countries.
www.vizeum.com

Synovate

Synovate
Synovate is one of the world's top survey-based research firms.
It helps clients understand their customers and markets around the world through a comprehensive suite of services and specialist expertise.
Synovate is present in 51 countries worldwide.
www.synovate.com

Letter to shareholders

2005 was a year of good progress and record results for Aegis. We welcomed some 2,000 new staff into the group, a new chief executive and two further non-executive directors.

We sustained our strong performance of recent years. We grew total revenue by 16.5% to £870.4m. At 7.2%, our organic revenue growth was at the very top of our industry group, and our underlying pre-tax profit was ahead 17.1% on a comparable (UK GAAP) basis. We grew earnings per share by 10.9%, and raised the total dividends by 13.8% to 1.65p per share.

We traded against a respectable backdrop for advertising and marketing services. While some of the major economies of Western Europe remained challenging, we saw some early signs of recovery towards the end of the year. The US market was healthy throughout the year, and the emerging markets of Asia and Central Europe continued their rapid growth.

At the same time, the changes in our industry continued to accelerate. The adoption of new entertainment and information technologies reached critical mass in many parts of the world, with consumer choice about how, when and where to be entertained growing by the day. That choice helps underpin demand for our services, driving our clients' need for insight, strategic advice, planning and execution in an increasingly complex media environment.

Alongside these market changes, we continued to develop our offering to clients. Aegis today offers an ever greater breadth of marketing services in over 60 countries. We acquired 29 businesses in the year, extending the geographic coverage of both our media and research businesses, and strengthening our offer into new areas, such as digital creative in media and retail scan data in research.

Before committing, we put each of our acquisitions through a rigorous review process. It's important that we know its people and services will fit well with our existing businesses, as well as establishing the potential for further roll-out and ensuring it meets our criteria for financial returns. The investment we have made in digital media services, today's fastest growing communications channel, has stood us in particularly good stead. Already we have seen a significant contribution from digital media services to our top line growth and our margins, and this is set to continue.

Investment in new media services and research produced record revenue and profits

The larger part played in brand communications by digital, out-of-home, data, events, sponsorship and brand activation is making planning and execution ever more complex. The need for innovation in research is

media buying for Revlon - Acquisition of Aztec by Synovate - Synovate acquires Columbus equally strong, driven by technology, globalisation and new areas of specialism. Our people are leading these changes in the market with originality, intelligence and dedication, and for this every one of them deserves our thanks.

As the world's leading independent media business, we are unencumbered by the 'legacy' ways of thinking and working that come from a heritage in making TV commercials. With digital media representing some 15% of our media revenues – around three times higher than the overall industry – our media business is world-class. And in Synovate, we have the world's fastest growing global research business, outpacing the wider market research industry by almost two times.

All these attributes underpin our positive prospects. 2006 has got off to a good start, and we are confident in our outlook. We will continue to invest in the development of our business, to grow through winning new clients and serving existing ones, and to improve our profitability further in the year ahead.

Lord Sharman, Chairman

Robert Lerwill, Group CEO

The changing media landscape

New communications technologies used to come along every quarter of a century or so. The telephone, invented in 1876. Radio in 1905 and TV in 1926. Then, late last century, the cycle got shorter. A wealth of new technology arrived in five year bursts: games consoles, VCR, the PC, mobile telephony, the internet, DVD. You can see this at work in Fig. 1.

For marketers, the ways of communicating were limited, simple and mass-market. The TV spot, the printed page, the radio commercial, direct mail and billboards accounted for the vast majority of marketing time and money.

Then came the new century, bringing with it broadband, PVR and 3G. Though still young, these technologies are transforming the way we entertain ourselves, gather information and communicate with one other. Further new technologies and devices are set to follow.

Today personal video recorders are in 11m households in the US, as Fig. 2 shows. That is not yet a huge number in itself, although many of these households are high-value difficult-to-reach consumers. In the UK, where one in three homes is expected to have PVR by 2012, ad recall levels in PVR homes are now 17% lower than elsewhere.

The world today has around 200m broadband connections. And it is through broadband – with its capacity for interactivity, speed and complex audio-visual and graphics – that online media comes into its own. On average, households with internet access of any form watch four to five hours less TV a week than those without. A whole generation of children *is growing up as 'digital natives'; they have* never known a pre-digital era, and being online comes as naturally as reading a book or using a phone. This generation does not just use the internet as a repository for information or a *communications tool, they see its functions* – search, interactivity, customisation, social networks, editorial power – as a way of life and part of defining who they are.

In the mobile world, next generation services - 2.5 and 3G - are forecast to make up one-third of all mobile connections worldwide by 2007, and over a half within a further two years. *This brings even further opportunities to set* content free from the constraints of a fixed time and place, as well as a re-thinking of entertainment to suit the device and its user.

But it is not just that today's consumers have more technology. They also have less time and higher expectations. They know how to tune out, whether via technology, deliberate avoidance or indifference. They do not necessarily want to watch, listen to or play with the same media as everyone else. They want media on their own terms and in their own time: a customised playlist, interactive participation, real-time alerts or special interest programmes and titles where and when they choose. They are fast becoming an audience of one.

These technologies are transforming the way we entertain ourselves, gather information and communicate

Yet, as an industry, the marketing world has some catching up to do. Fig. 3 shows this clearly. Online and television are now level-pegging for share of consumers' leisure time, at around 14 hours a week each out of a total of some 55. Television still absorbs some 37% of advertising investment, whereas digital accounts for only 5%. An imbalance on this scale is unlikely to last indefinitely.

And in turn, 'conventional' media outlets are responding by evolving their own offers. Launching new channels for every interest and age-group. Moving away from one-size-fits-all programming, and towards interactive TV, digital radio, video-on-demand, as well as the migration of audio and visual entertainment online. Carat estimates that by 2007, some 50% of all media – whether 'old' or 'new' – will be digital, allowing for interactivity, return path data and customisation on a significant scale.

Something similar is happening in out-of-home. No longer purely synonymous with the six-sheet, out-of-home now can mean installations and events in shopping malls and stores, on the street, in clubs, at sports events and concerts. The traditional billboard is no longer quite so traditional: it is becoming plasma, sun reactive, interactive, Bluetooth enabled. These developments in turn are backed up by higher quality data on sites, footfall, demographics and ROI than ever before. And out-of-town is one medium that cannot be skipped, time-shifted or ignored.

All of this makes for an exceptionally interesting moment in our industry.

As consumers become more elusive, brands have to try harder to understand, find and touch them. And that connection has to be worth the consumer's while. It has to be deeper, smarter and more creative. The result of all this complexity is a world where expertise in guiding brands to the consumer at the centre of the media maze is becoming more specialist by the day, and ever more valuable.

Q&A with Robert Lerwill

What makes Aegis different from other marketing services companies?

Let me start with our approach. It's built on a very firm base of insight – knowing the consumer inside out – in both media and research. Because we don't have a legacy in traditional creative advertising, we're not wedded to any particular channel or medium. We see things rather differently from the competition. And we concentrate on the two fastest growing areas of marketing services: media communications and market research.

You say that Aegis 'sees things differently'. What does that mean?

Again, it's a question of approach. Call it what you will: independent, specialist, media neutral, agnostic. What it all adds up to is a different way of looking at brands and consumers and coming up with more innovative ideas to connect them. For example, in media, we start with the consumer, not the brand message or the channel. What is he or she doing, thinking about, enjoying? How is he or she spending time and money? Only then can we plan truly effective marketing communications that engage and entertain. As part of that, we've developed our own proprietary tools to measure the impact of communications across the total media space. Looking across the whole of press, broadcast, cinema, online and out-of-home... because the consumer doesn't think in neat media categories. And in research, we've created what is possibly the first truly global company. Synovate has no internal boundaries; it has a single brand, no headquarters and no nationality.

Why is Aegis outperforming and how sustainable is this?

Aegis has a good record in outperforming the market. And it's our aim to keep up that lead. In research, Synovate's 'one company' approach makes for a total focus on supporting clients and colleagues, wherever they are in the world. And our expertise in certain industry sectors and areas of specialism – what we call practices – also underpinned our outperformance.
In media, we outgrew our local markets in almost every part of the world, thanks to the approach I've described.

Does Aegis Media have the scale it needs to win in this market?

In Europe, our largest market, Carat is the largest single media agency. And, with Vizeum, Aegis Media is the second largest network. In our other regions we rank around fifth, so we

2006 – OUR STRATEGIC PRIORITIES

- Use our communications planning tools and new media capabilities across Aegis Media to stay ahead of the game in consumer-centric marketing communications
- Unlock further the benefits of Synovate's geographic presence, and develop existing and new practice areas
- Deliver superior growth and further margin improvement

have the scale and clout to buy as effectively as anyone. And clients are increasingly preoccupied with an agency's media insight, knowledge and innovation, particularly as media fragmentation gathers pace. Here we are second to none.

Why is Synovate's growth so rapid?

Synovate really came into its own in 2005. In part, that's a result of the investment we've put into building the network. It's now got geographic coverage in virtually every major market, and so the business momentum is strong. But Synovate is a truly unique business. Because there's no deference to any single country or region, that's very empowering. Synovate people think and act globally, sharing expertise, tools and platforms around the world. Building teams regardless of national or office boundaries lets us mirror our clients' own structures so we can service them more effectively. As the need grows for research results to be consistent and comparable across borders and time periods, this puts us at a real advantage.

In Europe, our largest market, Carat is the largest single media agency

What priority do you give revenue investment against further margin progression?

We moved margins forward in 2005 and we're looking for some further improvement in 2006. That said, if we're to keep on coming up with industry-leading top line growth, we'll need to keep on investing in new tools, products, services and people to stay on top of the game. It's a question of balance.

Why are you in both media and research? Is this a natural fit?

Research and media are the two sweetest spots in the marketing mix today. One reason we like research is that data and insight are growing ever more important as consumers become more sophisticated and elusive. And likewise in media, brands need to navigate around more channels, outlets, and opportunities than ever before to connect with those consumers. Although we run them separately, our two businesses are complementary, both in their skills and focus, and they collaborate on a number of tools and projects.

You bought 29 businesses in 2005. Would you expect the same in 2006?

Last year was fairly busy on the acquisition front. The majority of our investment went into building out the Synovate network and establishing our digital media services in the world's major digital economies. We've now got both networks into a very good shape, and you can see that coming through in the 2005 numbers. We'll continue to acquire new businesses where they add value: bringing people, skills and technology that we can feed into our existing business, and where there's a strong cultural and financial fit. We've got a strong balance sheet, so we've got plenty of flexibility.

TICKER ::: July – Carat wins $60m global Tourism Australia business – Synovate establishes

Homes with broadband watch on average 4 – 5 hours less TV a week than those without

Business and financial review

2005. Benefits of investment driving record results

In 2005 total group turnover was £8,079.1m (2004: £7,594.3m), a year-on-year increase of 6.4%. This growth includes client wins, among them Revlon, Motorola and the UK government's Central Office of Information, increased spend from existing clients and acquisitions.

Gross profit was £755.0m (2004: £647.5m), an increase of 16.6%. Gross margin improved to 9.3% as a result of the continued improvement in our business mix towards the higher value-added services we have developed in recent years. As a result of this changing mix, revenue growth outpaced the increase in turnover.

Group organic revenue growth was 7.2%. Aegis Media showed organic revenue growth of 5.1% and Synovate of 10.8%. Operating margin on a comparable basis increased by 80bps to 16.0%. Underlying profit before tax rose to £100.2m.

Our media business continued to set itself apart from competitors with a planning-led approach to media and marketing communications. We pride ourselves on a deep understanding of consumers, rigorous proprietary tools and an integrated approach across all media and touchpoints. We use this to help build engaging and effective relationships between consumers and our clients' brands. In particular, this approach underpins our expansion into digital marketing services, where worldwide adspend currently lags significantly behind consumer behaviour. By investing in digital ahead of the industry we have been able to capture a significant share of the rapidly growing marketing spend in this space. Today, Isobar is the most international digital marketing services network in the world.

At Synovate, our market research business, we saw further benefits from our 'one company' approach to clients and people. A strong research offering, an integrated, international network and specialist practices have helped us to grow organically almost twice as fast as the total market research industry. Synovate's key account management initiatives across major multi-national clients have helped drive growth; in 2005 we carried out work for 13 of our top 20 clients in more than 10 countries. We further broadened our specialisms with client and knowledge-sharing initiatives. In industry sectors these included Technology and Travel and Leisure, as well as product, pricing and packaging optimisation in FMCG.

The principal focus of our acquisition investment was on Isobar and Synovate. In Isobar we entered into five new geographic markets and extended our services in a further three. In Synovate, we invested significantly in continuing to broaden the reach and depth of our network around the world. We also continued to acquire in more established areas of media planning and buying, with new services for Carat and the geographic expansion of Vizeum. As a group, we apply strict criteria to all our acquisitions. As well as strategic fit and new services to exploit throughout our networks, we look for acquired businesses to be earnings enhancing in the first full year of ownership.

Outlook

We expect worldwide market demand to be healthy in 2006, underpinned by continuing growth in emerging markets and helped by key sporting events in the year.

2006 has started well for our group, with both businesses operating in line with our expectations. Many of our markets remain competitive, with clients focused on value for money, but nevertheless our ability to offer real value-added advice, services and execution in the newer and faster growing areas of marketing is enabling us to continue our good growth.

In 2006 we expect to generate growth from a market-leading service offering and to benefit from a full year contribution from the investments we have made in 2005. The Board is therefore confident of further good results in 2006.

Last year Renault, our largest client, signed up to work
with Carat for a further three years. We're proud of our
partnership with Renault – worldwide F1 and communications
champion. In 2005 we developed a new and innovative productivity
scheme to maximise Renault's return on media investment, and pioneered
Renault's move into future communications areas. Altogether, 140 Carat people
in 16 markets work on making sure Renault's va-va-voom gets noticed.

China is now the world's largest mobile market with over 370m users

Business and financial review

AEGIS MEDIA

Aegis Media consists of Carat, Vizeum, Isobar, Posterscope and our communications services businesses. In 2005 we saw further blurring of the traditional distinction between media and other communications services, as proliferation of media channels, the rapid spread of digital communications and advertising avoidance technologies continued to challenge the traditional model of mass-market advertising.

These developments play to our strengths. In Carat, and more recently in Vizeum, we have long applied an insight-driven approach to consumer marketing. And with no stake in the traditional creative-led advertising and marketing model, our approach to brand communications is entirely independent. As a leader in communications planning, we are able to integrate services such as insight and data, digital media, sponsorship and events into our clients' media and communications plans.

In 2005 Aegis Media grew turnover by 5.8% to £7,748.6m (2004: £7,321.9m). Revenues were £539.9m (2004: £474.6m), up 13.8%. Organic revenue growth was 5.1%, and 6.5% excluding France. Growth in digital, out-of-home and communications services helped offset a competitive environment for buying and planning in traditional media channels. Net new business won in the year amounted to annualised billings of $1,595m. Isobar's revenues increased by 110%, accounting for 15% of our media revenues in the year.

The out-of-home market continued to gain from developments in communications planning and inventory investment by media owners, growing its share of adspend around the world. As the largest and only global out-of-home specialist, Posterscope continued to outperform the market. Posterscope's interactive business, Hyperspace, delivered further innovation in out-of-home interactive. Its launch of Coldplay's new album, *X&Y*, with consumers using mobile technology to download music and video from digital screens via Bluetooth, has proved the most successful Bluetooth-enabled campaign globally to date.

The majority of our media acquisition investment was in the further extension of the Isobar platform internationally, across its three major areas of search, creative and transaction services. Today, Isobar is present in 32 of the world's top 40 markets by online connectivity. In 2005, our agencies wwwins Consulting and glue were the most awarded agencies at the first China Interactive Advertising Awards and the UK's first Campaign Digital Awards respectively.

In 2005 Synovate's organic growth was 10.8%, almost double the industry rate and faster than any other global research group. Synovate's global approach to business - where leading industry practices, client solutions and global client teams work across national and regional boundaries - played a large part in this. So too did the critical mass of the Synovate network: now over 5,000 curious people in 51 countries worldwide.

Isobar is the first truly global digital marketing services network specifically designed to deliver creativity, innovation and agility. Brands today need to create situations where people actively seek to spend time with them. Time to search, to explore, to learn, to share, to question, to play and even to buy. Isobar creates this time.

2005 was the year that our digital network doubled in size. We started the year with 600 people in 23 countries, and finished with 1,300 in 32. Because Isobar doesn't believe that one size fits all, we encourage our digital businesses to keep the distinctive identities and skills that made them successful in the first place. Which helped us grow our digital revenues by 110% in the year.

Under 18s spend as much time online as they do watching TV

Business and financial review

Aegis Media Europe, Middle East and Africa (EMEA)
Revenue growth in EMEA was 6.8%. Continued soft conditions in some of the larger markets were offset by robust growth in our businesses in the UK, Spain, Central Europe and Scandinavia.

Growth in digital services was extremely strong across the region. The development of Isobar as a leading digital communications network continued, strengthening Aegis Media's full-service digital proposition. Acquisitions in the year included de-construct and glue in the UK, farfar and Webanalys in Sweden, Planète Interactive and WebContents in France, Hypermedia in Poland and Kirowski in Hungary.

In France, after a difficult 2004, Carat had a stable year and retained clear market leadership. Despite the effect of client losses in the previous year and a generally slow market environment, the business made good progress from the new base with a reinvigorated offer that secured major existing clients and new business wins, including Galeries Lafayette and the consolidated Pernod-Ricard account.

Elsewhere in Europe, Germany's media markets remained weak, although there were modest signs of improvement towards the year end.

Although the UK market proved slightly less strong than expected, our business enjoyed a particularly successful year, with Carat winning more new business than any other agency. Spain also continued to show robust market growth, and the Nordic region grew well after several poor years following the recession of 2001. Central Europe continued to grow rapidly, and with market share gains our businesses there showed exceptional growth.

We continued to broaden our businesses with the acquisitions of Just Media in business-to-business in the UK, Brindley Advertising in Ireland, Western Star, Dr Pichutta and Blöcher in Germany and Medyaturk in Turkey.
We launched Vizeum in Russia, with the acquisition of Kommandarm, and in Sweden with RSM.

Net new business won was $652m, and $1,247m on a gross basis, with Carat's major wins including Abbey and the UK government's Central Office of Information, and Vizeum's including PSA in Italy, Eurostar and Thames Water.

Aegis Media Americas
Revenues at Aegis Media in the Americas increased 36.3%, reflecting good organic growth and the benefit of acquisitions. In the US, Carat underpinned its reputation as the country's most innovative media services agency with the formal launch of a national communications planning practice. With the addition in 2005 of new capabilities in branded entertainment, new TV technologies, real-time ROI analytics through MMA's Avista, experiential and sports/entertainment marketing, over half our total revenue now comes from diversified communications services.

Isobar is present in 32 of the world's top 40 markets by online connectivity

Isobar continued to grow rapidly in the world's largest and most sophisticated digital market. The US is Isobar's most developed territory and its principal brands are becoming a major force. In the course of the year we built on the leadership position we have established in search engine marketing, a significant market segment, with iProspect, including the launch of iSEBA, a proprietary search optimisation tool. We also entered into web development with Molecular, a leading specialist in consulting and creating transactional websites.

New business won in the period amounted to $563m in net annualised billings, and included Revlon, Motorola, Napster and Echostar.

award-winning UK agency glue ::: 2005 AEGIS NEWS TICKER ::: Sept - Launch of Carat international

Over the past decade, the number of TV channels in major European markets has quadrupled

Business and financial review

Aegis Media Asia-Pacific

Revenue growth of 29.8% in Asia-Pacific reflected healthy trading conditions in much of the region. We grew our existing businesses through acquisition and market share gains, particularly in digital and out-of-home.

China continued to be one of the most fascinating and fast-moving markets, with market growth of 21%. Although TV still accounts for over 70% of adspend, growth in mobile penetration and broadband is driving innovation in digital, and we see considerable potential for growth in other media.

Investments in the year included media planning and buying in Korea and the introduction of Posterscope to the Philippines, strengthening our existing presence in these countries. We are also introducing Vizeum into Malaysia, with our investment in NAGA.

New business won in the year included Tourism Australia worldwide, including the global interactive account, the interactive mandate for Coca-Cola in China, Danone China and communications planning for Procter & Gamble in the Philippines. Altogether we gained net annualised billings of $380m.

SYNOVATE

Synovate grew very strongly throughout 2005 with organic revenue growth of 10.8%. Reported revenue growth of 21.3% at £330.5m (2004: £272.4m) includes the benefit of the nine acquisitions made in the year.

The Synovate network now has good coverage in major markets, and we are seeing benefits from recent years' investment in the portfolio and brand. Clients have responded very positively to Synovate's unique organisational structure and approach, designed to foster collaboration and to give consistent service and methodologies across multiple markets and disciplines.

In 2005 we continued to expand Synovate into new markets, increasing from 45 to 50 countries in the year. Among these were Aztec in Australia and New Zealand, marking our entry to the $3.5bn retail scan data market.

Synovate's strategy of developing global practices in industry sectors and research specialisms continued to drive our outperformance. In Synovate Healthcare, we launched new therapy monitors in IBS and Hepatitis C, and expanded our well-established oncology monitor into longitudinal data.

Synovate already works in over 10 countries for 13 of its top 20 clients. And clients are increasingly looking to standardise research tools and output from country to country. This is where Synovate SmartBidding comes into its own. This proprietary tool can calculate the costs of global projects in a systematic way, directly linked to the cost of fieldwork in local markets. This makes all our costs transparent - to ourselves and to our clients. So we can price with greater speed, accuracy and consistency than the competition - no matter how many offices are involved, or how complex the assignment. Which is good for business all around the world.

2006 will likely see the number of personal blogs rise to over 60m worldwide

Business and financial review

Insight into consumer preferences and behaviour continues to grow in importance to our clients, reflecting their own strategic focus on innovation, loyalty and ROI. Since the year end we have launched Synovate Loyalty, building on our expertise in customer satisfaction, employee retention and corporate reputation, with Synovate Brand and Communications to follow later this year.

We invested in the further expansion of ViewsNet, Synovate's online data collection capability. Online now accounts for 31% of the data collection market in the US. In 2005 we added panels in six European countries, and acquired a further three with Scandinavian research specialist Univero in December. This year we plan to launch panels in a number of major Asia-Pacific markets.

Clients have responded very positively to Synovate's unique organisational structure and approach

Synovate Europe, Middle East and Africa (EMEA)

In EMEA, Synovate had revenues of £133.3m (2004: £112.1m), up 18.9%. Very strong markets in Central and Eastern Europe, reflecting demand from multi-national and domestic clients, more than offset difficult trading conditions in Western Europe.

We continued to expand Synovate's presence and capabilities throughout EMEA. Synovate moved into Scandinavia with the acquisition of Univero, a five agency network in Sweden, Scandinavia and Denmark, and became a full service agency in Italy through AMT. We also strengthened our presence in Belgium with Columbus Quanti and in France with ARTeam. The acquisition of Plus REMARK marked Synovate's entry into Turkey, a fast-growing market.

Synovate Americas

Synovate Americas grew revenues 12.0% to £127.4m (2004: £113.7m). We saw the benefit of our investment in restructuring our US business in 2004 with significant market outperformance. Our emphasis on working with our clients through key account management brought benefits, and we have extended this programme with a new global client relationship initiative to ensure our teams are aligned with our clients' research teams. As a result of this success, we have continued to attract very high-quality people to our US business.

2005 also saw investment in the start-up of NADA 24, a customer satisfaction measurement system for automobile dealers throughout North America. Developed as a joint venture with the National Auto Dealers Association, this web-based real-time reporting system gives dealerships a quantitative assessment of customer satisfaction and qualitative measures, such as verbatim commentaries. Synovate US developed the software and collects and analyses the data for the joint venture.

Synovate Asia-Pacific

Revenues in Asia-Pacific rose 49.8% to £69.8m (2004: £46.6m). This reflects acquisitions made in the year and powerful organic growth, with strong demand from local and multi-national clients alike.

We extended Synovate's presence in Thailand, acquiring the 75% balance of The Filter Group, a youth specialist, and Coral Pacific in FMCG in Japan. We entered the Australian market with two acquisitions: Aztec, a retail scan data specialist, and Market Equity. Both businesses have traded very well since acquisition.

Vizeum continues to turn consumer marketing on its head. Its communications planning is based on understanding the psychology of consumer motivation. In 2005, Vizeum launched a new global tool to map the emotional context of an advertising message onto its surrounding media. Backed by research from Synovate's Censydiam Institute, this approach lets brands connect with consumers in the right way and at the right time. In doing so, Vizeum is extending the insight that has won it work from worldwide brands including Coca-Cola, Panasonic and Heinz.

Asia-Pacific is home to some of the world's fastest growing markets for brand communications. In 2005, Aegis Media's revenues in the region grew by 30%. And Coca-Cola chose wwwins Consulting, our Greater China-based digital marketing agency, as the master agency to integrate Coke's digital efforts in China. As part of the iCoke initiative, wwwins Consulting is creating a community for Coca-Cola consumers. Launching in spring 2006, Coke drinkers will use pincodes from their bottles to access the iCoke platform. Once in the digital playroom they'll use their points both for branded entertainment and bespoke accessories: from games, music and instant messaging to digital gadgets and tickets.

Business and financial review

Homes with PVRs watch 30% fewer advertisements than those without

FINANCIAL RESULTS

During 2005 the group successfully completed the transition to accounting under the new International Financial Reporting Standards (IFRS), which replaced UK Generally Accepted Accounting Principles (UK GAAP) with effect from 1 January 2005. The results in this review have been prepared in line with the recognition and measurement bases of IFRS and the comparative figures for 2004 have been restated in accordance with the relevant transitional arrangements. The transitional guidelines do not require us to restate the 2004 figures for all the differences between IFRS and UK GAAP and therefore the results for 2005 and the previous year are not fully comparable.

To give a clear picture of the improvement in our performance from year to year, the table on the following page shows the underlying operating profit and underlying profit before tax as they would have been had they been prepared under UK GAAP (as applicable in 2004), together with a reconciliation to the IFRS results for both the current reporting period and the year ended 31 December 2004.

Turnover, revenue and gross margin

Turnover was £8,079.1m (2004: £7,594.3m), an increase of 6.4% on 2004. Revenue grew to a record £870.4m (2004: £747.0m) from organic growth of 7.2% and the contributions from acquisitions. Aegis Media contributed £539.9m (5.1% organic growth) and Synovate £330.5m (10.8% organic growth).

50% of global media is forecast to be delivered digitally by 2007

A substantial proportion of the increases came from growth and acquisitions in higher value-added areas of business such as Isobar, Synovate and Posterscope. As a result our gross margin increased from 8.5% to 9.3%, to give a total gross profit of £755.0m. There was no material impact from foreign exchange movements in 2005.

Operating expenses

Underlying operating expenses* rose 16.1% to £639.9m (2004: £551.0m), the result of expanding our businesses, acquisitions and continued investment in key areas of the Group. In the period we identified goodwill impairment amounting to £6.5m. We also made a number of investments in the year, including the creation of Avista, a real-time ROI analytics tool, NADA 24, a new customer satisfaction tool for auto dealers in the US, and the expansion of Synovate's internet data gathering capabilities into Europe. Nevertheless, with steadily improving markets and close attention to costs, the group operating margin (underlying operating profit excluding associates as a percentage of gross profit) rose 80bps to 16.0% (2004: 15.2%) on a comparable basis.

Profit before tax

Overall, underlying profit before tax rose to £100.2m. Items excluded from our underlying results in the period were a profit of £1.3m arising from the sale of an investment, costs of £1.7m relating to the offer period in the second half of the year following two unsolicited approaches, the goodwill impairment identified of £6.5m and amortisation of purchased intangible assets of £0.2m and an IAS 39 fair value gain of £0.9m.

Earnings per share

The group has provided for tax at an effective rate of 29.3% on underlying profit before tax, compared with 29.8% in 2004. The lower tax and minority interest resulted in increased fully diluted underlying earnings per share of 6.1p (2004: 5.5p).

Dividends

An interim dividend of 0.65p per ordinary share was declared and paid in 2005. The Board is recommending a final dividend of 1.00 pence per ordinary share, making 1.65p per ordinary share for the full year, an increase of 13.8% over the dividend paid last year. The final

* Underlying operating expenses exclude goodwill impairment, offer period costs and the amortisation of purchased intangibles.

Business and financial review

dividend will be paid on 2 June 2006 to shareholders on the register on 12 May 2006.

Capital expenditure

We continued our programme of capital expenditure, investing £31.4m in 2005, compared with £28.4m in 2004. Our commitment to investment in high level analytical tools continues to underpin our successful expansion. Investment in intangible assets included the expansion of our internet panel data-gathering capabilities in Europe and investment in Avista, MMA's new real-time ROI analytics tool.

Cash flow and treasury

During the year we made net cash payments of £129.6m on acquisitions: £88.3m on current year acquisitions and £41.3m of earn-out payments on past acquisitions. We estimate deferred consideration for acquisitions made in 2005 will amount to £88.9m.

	2005, £m		2004, £m		Change
Operating profit (IFRS)		107.9		97.9	
Share of profit on disposal of JV investment	(1.3)		–		
Offer period costs	1.7		–		
Impairment of goodwill	6.5		–		
Amortisation of purchased intangible assets	0.2		–		
		7.1		–	
Incremental charge for share-based payments[3]	1.5		1.8		
IAS 39 adjustment[2]	4.2		–		
Other	0.5		0.1		
		6.2		1.9	
Share of profit of Associates		0.1		(1.4)	
Underlying operating profit (UK GAAP)[1]		121.3		98.4	+23.3%
Profit before tax (IFRS)		94.0		91.9	
Share of profit on disposal of JV investment	(1.3)		–		
Offer period costs	1.7		–		
Impairment of goodwill	6.5		–		
Amortisation of purchased intangible assets	0.2		–		
		7.1		–	
IAS 39 fair value adjustments[2]		(0.9)		–	
Underlying profit before tax (IFRS)		100.2		91.9	
IFRS operating profit adjustments per above		6.2		1.9	
Imputed interest on Euro convertible[2]		3.4		–	
Underlying profit before tax (UK GAAP)[1]		109.8		93.8	+17.1%
Underlying diluted earnings per share (UK GAAP)[4]		6.9p		5.6p	+23.2%

1 UK GAAP in this document describes the accounting policies used by the Group prior to 1 January 2005, adjusted for presentational reclassifications (see Note 35e). UK GAAP is defined in Note 35. Underlying results are stated before goodwill amortisation and exceptional items.

2 The Company is not required to restate the prior period's results arising from the adoption of IAS 32 and IAS 39 and accordingly the figures in respect of the year ended 31 December 2004 have not been adjusted in that regard.

3 IFRS 2 requires that the value of shares and options issued to executives is amortised over the vesting period which for Aegis share option schemes is three years. The Company is required to restate the figures in respect of the year ended 31 December 2004 to take account of shares and options issued since 7 November 2002, with the result that options issued in 2002 have been excluded from the calculation of the adjustment. The 2004 charge is therefore not comparable with the charge for 2005.

4 Underlying diluted earnings per share on a comparable (UK GAAP) basis is calculated by applying a UK GAAP effective tax rate of 27.1% (2004: 29.3%) to underlying profit before tax (UK GAAP) as shown above and deducting minority interest of £2.7 million (2004: £3.5 million) to arrive at underlying profit attributable to equity holders of the parent (UK GAAP) of £77.3 million (2004: £62.8 million). The dilutive weighted average number of ordinary shares is 1,120.8 million (2004: 1,117.4 million).

Group in Thailand - Carat wins $90m consolidated Pernod-Ricard account - ::: 2005 AEGIS

Last March, Synovate got down to some shopping. With the acquisition of Aztec Information Systems we entered the $3.5bn retail scan data market. Aztec's software helps customers - some of the world's best known consumer goods and retail companies - to understand their consumers' preferences and behaviour patterns: what consumers are buying, when, and why.

Out-of-home is a fast-growing medium wherever you look. Today it makes up 6% of global ad spend, and accounts for a higher percentage of Aegis Media's revenue. It's becoming a more stimulating and creative field every day, transforming the streets and buildings around us with events, installations and interactivity. Our out-of-home specialist Posterscope is a leader worldwide. Among Posterscope's businesses is Magic Touch, creator of the 'showroom on the street' for Mango, shown here on the Avenida Diagonal in Barcelona.

Business and financial review

As announced at the half year, in July we took advantage of an improving financing market to raise $342m via a US Dollar Private Placement of loan notes between seven and 12 years at favourable fixed rates. Subsequently the group arranged a currency swap to switch $192m of this new debt into Euros, with a slight reduction in the effective interest rate.

This new capital has been used to repay the balance on the existing revolving credit facility. We now have the financial flexibility to repay the Euro Convertible Loan which falls due in May 2006, and to continue to develop our business through strategic acquisitions.

A significant proportion of our core debt is now at fixed interest rates which, although more expensive in the short-term, will provide protection against potential interest rate rises in the future.

The year end balance sheet showed an increase in working capital of £74.1m. This represents a short-term movement, principally as a result of media payments for pre-Christmas advertising in the US being received later than in previous years, shortly after the year end, and the payment by Carat France of media creditors carried forward from clients lost in 2004.

Our year-end net debt was £192.7m, compared with £52.2m as at 1 January 2005.

In 2006 we expect to generate growth from a market-leading service offering and to benefit from a full year contribution from the investments we have made in 2005. The Board is therefore confident of further good results in 2006.

Corporate social responsibility

As a group, we recognise that we have certain responsibilities to our employees, our clients, our shareholders and the wider world.

We aspire to high professional standards and integrity in all situations: managing our financial performance for the benefit of all our stakeholders, making a contribution to the communities we live in, and avoiding practices that, directly or otherwise, have a negative effect on others or the environment.

We try to carry out these responsibilities properly, and to improve our performance over time. As an organisation of over 12,000 people, we aim to create a supportive framework of consistent principles and policies for our individual countries, businesses and people, mirroring the global and local relationships we have with our clients.

Our people

It is the professional skills and creative talents of our people in both Aegis Media and Synovate that keep us in business. Looking after them properly is a major priority. Our objective is to provide them with satisfying professional opportunities, in a safe and stimulating environment, and to help them develop the skills to advance within our organisation.

We have continued to make significant investment in training across the group. In 2005 we ran a number of bespoke groupwide leadership programmes. One, developed with Ashridge Management College, concentrates on strategic and business issues, with a second on developing leadership skills and behaviours.

The Synovate Academy ran over 200 international global training programmes in the year, ranging from practice accreditation and solutions to sales and business development.

At Carat, we put in place foundations for a '3Cs' training programme, which 3,500 of Carat's employees will follow in 2006. Standing for Curiosity, Collaboration and Creativity, the 3C's programme is designed to support the development of the Carat proposition, with its increasing focus on communications planning, internationally.

In 2005, we started to pilot more structured career development in some of Aegis Media's larger markets. New initiatives include the extension of our graduate recruitment programmes and the introduction of 'buddying' and mentoring schemes. Carat UK was listed among *The Sunday Times's* '100 best companies to work for' for a fifth successive year.

In Synovate, we ran our annual employee commitment survey for the fourth year. This assesses employee commitment across all Synovate's full-time staff (over 5,000 in 2005), so we can understand what we do well and what we can improve to help staff commitment. Evaluation of certain senior managers' performance is directly linked to the survey's results and each of Synovate's operating units has developed an action plan to take advantage of the strengths and address areas for improvement identified by the survey.

We have a formal appraisal system in place, and commit to reviewing each employee's progress at least once a year. We also use a range of internal communications for skills development, to share best practice and to give our people the recognition they deserve. We have a quarterly groupwide online publication, covering developments in our businesses and markets, and a groupwide awards programme.

We are in the process of a review of our people policies, with a focus on talent development, diversity, reward and recognition, to ensure they develop in line with the changing needs and strategies of our businesses. Implementation of these policies will be tracked through a focus on key metrics.

In the year we carried out over 30 business continuity planning exercises, designed to protect our people and ensure the viability of our services to clients in the event of a major incident.

We are committed to fair employment practices, including the prohibition of all forms of illegal discrimination. We believe in giving equal access and fair treatment to all employees on the basis of merit; we think this is both good business sense and ethically sound. We are committed to following the applicable labour and employment laws wherever we operate.

We believe that disabled people have the same

2005 saw a major first for Carat in the Americas and its new client, Procter & Gamble. Having been appointed for communications planning in the previous year, it got to work on some of P&G's biggest selling brands, including Bounty, Charmin, Pampers and Folgers. Over 50 Carat people in the Americas are contributing insight, ideas and solutions to our new client - and together client and agency have made some real breakthroughs in communications *thinking.*

2005 was a record-breaking year for Carat in the UK. The business reported its best ever revenue and profit, thanks to work for clients such as Diageo, Disney and Asda. Carat topped the new business charts, with over £100m of net new billings. Among these was TV buying to spread the word for the UK government's Central Office of Information: the largest single UK contract awarded in the year.

Corporate social responsibility

rights as non-disabled to be our employees. Wherever possible we provide the same opportunities for disabled people as for others. If employees become disabled we make every effort to keep them in our employment, with appropriate training where necessary.

Our clients

We are proud of the trust our clients place in us. This is deeply ingrained in our business, and means we strive to carry out every single mandate with the highest possible degree of commitment and results. We think of our clients as our partners in business and our goals are mutual: to understand consumers and to connect with them. Transparency, integrity, accountability and creativity are the key values that we strive to deliver to our clients.

Our shareholders

We recognise our fiduciary duty to our shareholders and seek to establish constructive and two-way relationships. Our primary aim in this respect is to create value through continuous improvements in our operating and financial performance. We conduct an active investor relations programme throughout the year, designed to set out our strategy and prospects with clarity and in detail, and to solicit shareholders' views in return. We also routinely make a range of statutory and additional information available to all shareholders and interested parties via our website and publications. Further details of our shareholder relations programme can be found in the Corporate Governance Report on page 39. We are a constituent of FTSE4Good, the socially responsible investment index, having met globally recognised corporate responsibility standards.

Our business partners and suppliers

We try to create relationships with our suppliers and third parties such that they trust us and want to do business with us. In selecting external suppliers we use competitive processes that are fair and transparent, and designed to maximise value and quality of service for our clients and ourselves. With long-term and major suppliers, we aim to establish long-term relationships, often adopting a partnership approach with shared aims and incentives.

Our communities

We want our employees to participate in the civic life of their communities. Where appropriate, we allow our people to take time out of the office to carry out work for charities and in the community through programmes such as 'Carat Cares' and CARES (Charitable Actions Recognised by Employees of Synovate), both in the US.

We also support a range of charities and community projects across the group. The majority of this support comes from our operating companies in their local markets. As a group, Aegis supports a number of local and national charities, with an emphasis on children with particular needs. Our total charitable donations in 2005, excluding fund-raising by employees, amounted to £0.4m (2004: £0.2m). In line with our policy, we did not make political donations in the year (2004: £nil).

Our environment

As our business is predominantly in services, our impact on the environment is relatively low and indirect. However, we recognise that we have a responsibility to limit those effects we have. At a group level we set out to adhere to best practice in environmental matters, such as our premises, equipment and use and disposal of resources, and we charge our operating businesses to do the same. We adhere to guidelines from government and industry regulatory bodies, and actively encourage recycling and conservation of resources across the group. (This annual report, for example, is printed on chlorine free paper using pulp from sustainable forests.) We seek to minimise air and road travel, where possible, through technological alternatives such as video-conferencing and virtual meetings.

We recognise that standards of acceptable and best practice in corporate responsibility are developing rapidly at the moment. We are committed to staying abreast of best practice in this area, and believe it is the right thing to do for our businesses.

Board of directors

1. Lord Sharman
Non-executive Chairman NC
Colin Sharman joined the board in September 1999 and became chairman in January 2000. He is a former chairman of KPMG Worldwide, a post he held from 1997 to 1999. Having joined KPMG in 1966 he became UK senior partner in 1994 and served on KPMG's international and executive committees. He is chairman of Aviva, a non-executive director of BG and Reed Elsevier and a member of the supervisory board of ABN Amro. Aged 63.

2. Robert Lerwill
Chief Executive Officer NC
Robert Lerwill was appointed group CEO in February 2005, having been a non-executive director since June 2000. He was previously an executive director of Cable & Wireless, as CFO from 1997 to 2002 and as CEO of Cable & Wireless Regional from 2000 to 2003. From 1986 to 1996 he was group finance director of WPP Group. He is a non-executive director of British American Tobacco and of Synergy Healthcare, and a director of The Anthony Nolan Trust. Aged 54.

3. Adrian Chedore
Executive Director
Adrian Chedore joined the board in December 2001. He is CEO of Synovate, and has overseen its development into a rapidly growing global research group. His 30 year career in market research includes founding Asia Market Intelligence, acquired by Aegis in 2000, where he was CEO. Aged 54.

4. Daniel Farrar
Non-executive Director RC NC
Daniel Farrar joined the board in June 2003. He is currently general partner at Morgenthaler Partners, a US based buyout group. He previously spent 16 years at GE Capital in senior international roles, including president and CEO of GE Capital Fleet Services Europe, and has worked as a strategy consultant. He is a director of Comm-Works and Formed Fiber Technologies. Aged 45.

5. Bernard Fournier
Non-executive Director AC NC
Bernard Fournier joined the board in June 2000. He was chief executive of Xerox and Rank Xerox from 1989 to 1998, and chairman until December 2001, having held senior management positions in France, the US and the UK. He is chairman of EDHEC, the largest business school in France. Aged 67.

6. Jeremy Hicks
Chief Financial Officer
Jeremy Hicks joined the board as CFO in April 2000. Between 1994 and 1999 he was group finance director of Abbot Mead Vickers (AMV), playing a key role in its development into one of the UK's largest marketing services groups. Before joining AMV he was a director of Hambros Bank. He is a non-executive director of First Choice Holidays. Aged 52.

7. Brendan O'Neill
Non-executive Director AC NC
Brendan O'Neill joined the board in August 2005. He is a non-executive director of The Rank Group, Tyco International and Endurance Specialty Holdings. Until 2003 he held a number of senior management positions, including group chief executive of ICI from 1999 to 2003 and chief executive of Guinness Brewing Worldwide from 1993 to 1998. He is chairman of the RAC pension fund trust. Aged 57.

8. Charles Strauss
Non-executive Director RC NC
Charles Strauss joined the board in September 2003. His 35 years' experience in consumer products businesses includes 20 with Unilever in the US, Europe and Latin America. From 2000 to 2004 he was an executive director of Unilever as group president, Unilever Home & Personal Care, chairman of Unilever's North American Committee, and its US president and CEO. He is a senior advisor to Lehman Brothers and a director of The Hartford Financial Services Group. Aged 65.

9. Lorraine Trainer
Non-executive Director RC NC
Lorraine Trainer joined the board in August 2005. She has wide experience in human resources and has held senior HR positions at Coutts, then part of NatWest Group, the London Stock Exchange and Citibank. She is chairman of pension trustees for the Royal College of Music and acts as advisor to a number of arts organisations. Aged 54.

10. David Verklin
Executive Director
David Verklin joined the board in September 1999. As CEO of Carat Americas since April 1998, he has overseen the establishment of Carat in North and South America. In 2005 David also became chairman of Carat Asia-Pacific. Before joining Aegis he was managing director of Hal Riney and Partners in San Francisco, having started his career in 1977 at Young & Rubicam. Aged 50.

11. Leslie Van de Walle
Non-executive Director AC NC
Leslie Van de Walle joined the board in June 2003. He is executive vice president of Shell Global Retail and chairman of Shell in Europe. He joined Shell in 2000 from United Biscuits, where he held a number of senior executive positions from 1994, becoming group chief executive in the final year. Previously he held a number of international management positions at Cadbury Schweppes and Danone.
Aged 50.

Committees key
AC Audit Committee
NC Nomination Committee
RC Remuneration Committee

1 2 3

4 5 6

7 8 9

10 11

Directors and advisors

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

Company Secretary
John Ross

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Report of the directors

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2005.

Results and dividends

The consolidated income statement is set out on page 51 and shows a profit for the financial year of £64.6 million (2004: £64.5 million). An interim dividend of 0.65p per share was paid on 30 September 2005 to ordinary shareholders. The directors recommend a final dividend for the year of 1.00p per share which, if approved at the Annual General Meeting, will be payable on 2 June 2006 to ordinary shareholders registered at 12 May 2006. The total dividend for the year will then amount to 1.65p per share (2004: 1.45p).

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 4 and 5 and in the Business and financial reviews on pages 10 to 25.

Donations

The Group's policy with respect to charitable donations and the amounts donated are detailed on page 29.

Employment policies

The Group operates throughout the world and therefore has developed employment policies that meet local conditions and requirements. These policies are based on the best traditions and practices in any given country in which it operates and are discussed on pages 26 to 29.

Health and safety policies

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

Ethical, environmental and social issues

The Group takes its ethical, environmental and social responsibilities seriously and details of our policies in these respects are given on pages 26 to 29.

Supplier payment

Whilst the Company does not impose a formal code of payment practice on its subsidiaries, the Group nevertheless does have a policy toward the payment of its suppliers and details are given on page 29.

At 31 December 2005, the Group had 61 days purchases outstanding (2004: 59 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 page 30.

Lorraine Trainer and Brendan O'Neill were appointed to the Board on 2 August 2005 and 8 August 2005 respectively.

As reported in last year's accounts, Doug Flynn (formerly Chief Executive Officer), resigned from that position as at 7 February 2005 and as a director of the Company on 31 March 2005, and Robert Lerwill (formerly a non-executive director), was appointed as Chief Executive Officer on 7 February 2005.

The interests of the directors in the shares of the Company are shown in the Remuneration Report on pages 45 to 47.

Re-election of directors

In accordance with the Articles of Association Lorraine Trainer and Brendan O'Neill, having been appointed to the Board since the last Annual General Meeting, offer themselves for election at the forthcoming Annual General Meeting.

In accordance with the Articles of Association, David Verklin, Daniel Farrar and Bernard Fournier retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. Details of all the directors' service contracts, including notice periods, are given in the Remuneration Report on page 43.

Directors' indemnities

A qualifying third party indemnity ("QTPI"), as permitted by the Company's Articles of Association and sections 309A to 309C of the Companies Act 1985, has been granted by the Company to each of the directors of the Company. Under the provisions of the QTPIs

Report of the directors

the Company undertakes to indemnify each director against liability to third parties (excluding criminal and regulatory penalties) and to pay directors' costs as incurred, provided that they are reimbursed to the Company if the director is convicted or, in an action brought by the Company, judgement is given against the director.

Substantial shareholdings

At 6 April 2006 the Company had been notified of the following interests of 3% or more in its ordinary shares:

	Number of Shares	%
Bolloré Group	287,361,596	25.47
Fidelity Investments	104,822,401	9.29
Aegon Asset Management UK	55,241,660	4.89
UBS AG	45,535,773	3.85
Legal & General Investment Management	43,406,824	3.84

Share capital

Details of share capital movements (authorised and issued) are given in note 23 to the financial statements on page 83.

Special business at the Annual General Meeting

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

Auditors

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

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare accounts for the Group in accordance with International Financial Reporting Standards (IFRSs) and have chosen to prepare Company financial statements in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP).

In the case of the Group's IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

In the case of the Company's UK GAAP accounts, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

John Ross
Company Secretary
7 April 2006

Corporate governance

The Board supports the highest standards of corporate governance and the directors consider that throughout the period under review the Company has complied with the applicable principles and provisions set out in Section 1 of the Combined Code of Corporate Governance issued in July 2003 (the Code) as incorporated into the UK Listing Authority Rules, save that:

- The US based executive director, David Verklin, has a rolling service contract with a contractual termination payment provision in excess of one year and, prior to his resignation, Doug Flynn had a contractual notice period of 24 months. Details of David Verklin's contractual entitlement on termination are set out on page 43. The Board believes that his contract is appropriate given the need to retain a key senior operational executive in the context of highly competitive market conditions in the USA (B.1.6 of the Code).
- Between 7 February 2005 and 20 July 2005 the Board did not have a named senior independent director. This has now been remedied with the appointment of Bernard Fournier as senior independent director (A.3.3 of the Code).
- Between 7 February 2005 and 8 August 2005 the audit committee was chaired by Lord Sharman, being then the only non-executive director with significant financial expertise. This has now been remedied with the appointment of Brendan O'Neill as chairman of the Audit Committee (C.3.1 of the Code).

At the date of this report the Board comprises 11 directors, with four executive directors and seven non-executive directors. As announced on 21 October 2005, Mainardo de Nardis will join the Board as Global Chief Executive Officer of Aegis Media once he is contractually free to do so. The biographies of the current directors illustrate their range of experience, which ensures that the Company has an effective Board to lead and control the Group. Each of the non-executive directors has confirmed that they have been throughout the year, and continue to be, independent of the management of the Group and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Robert Lerwill was the nominated senior independent director up until his appointment as Chief Executive Officer on the 7 February 2005. Bernard Fournier was appointed senior independent director on 20 July 2005. The roles of Chairman and Chief Executive Officer are clearly established, being set out in writing and agreed by the Board. The Chairman was independent at the time of his appointment and has remained so since. The Board has a formal induction plan for non-executive directors to ensure that a comprehensive familiarisation programme is in place. Ongoing training needs for all directors are met as required. As part of the business of each meeting of the Board, the Chief Executive Officer provides the Board with an update on current business matters and the Chief Financial Officer reports on the financial position of the Group. At each Board meeting one or two presentations are arranged from different business units or head office functions in order that the non-executives in particular continue their process of familiarisation with the business of the Group and meet other senior non-board executives. When considered appropriate, external advisors will also be invited to attend that part of the meeting which is relevant. The Board meets at least seven times a year and more frequently when business needs require. One Board meeting per year is held at the offices of one of the main business units and is typically followed by a second day devoted entirely to the development of the Group's strategy.

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

		Committee meetings		
	Board meetings	**Audit**	**Remuneration**	**Nomination**
Number of meetings in year	**8**	**4**	**2**	**6**
Lord Sharman	8	2	–	5
Adrian Chedore	8	–	–	–
Daniel Farrar	7	–	1	5
Bernard Fournier	8	4	–	6
Jeremy Hicks	8	–	–	–
Robert Lerwill	8	–	–	4
Brendan O'Neill (appointed 8/08/05)	3	2	–	1
Charles Strauss	7	–	2	4
Lorraine Trainer (appointed 2/08/05)	4	–	1	2
David Verklin	8	–	–	–
Leslie Van de Walle	7	3	–	6

From time to time the non-executive directors, including the Chairman, meet in the absence of the executive directors to consider matters of relevance to the running of the Board and the operation of the Company. In 2005, the non-executives, led by the senior non-executive director, continued the process of meeting annually without the Chairman being present to appraise the Chairman's

Corporate governance

performance. As a result of this the senior independent director met with the Chairman to discuss particular issues where it was felt that improvements could be made.

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

During 2005 the Board continued the process of formal performance evaluation of the Board as a whole and of all of the individual directors. It also commenced the process of a formal evaluation of its main committees. This work was undertaken by one of the Group's specialist research companies with each director completing a detailed questionnaire which sought an assessment of the effectiveness of the Board and its committees and the contribution of individual directors. The responses were aggregated and feedback has been provided on individual assessment and overall Board and committees' performance and any actions necessary to assist improvements agreed.

Board committees

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

Audit Committee

Following his appointment to the Board, Brendan O'Neill was also appointed as chairman of the Audit Committee. Brendan O'Neill is a Chartered Management Accountant and has significant recent and relevant financial experience. Prior to this appointment Robert Lerwill had chaired the Committee up until 7 February 2005 and between that date and Brendan O'Neill's appointment Lord Sharman had chaired the Committee. The other two continuing members of the Committee are Bernard Fournier and Leslie Van de Walle. The Chief Financial Officer and the external auditors attend all meetings. Although not a member of the Committee, the Chief Executive Officer may attend meetings. The Committee chairman has, and also uses, together with the other members of the Committee, the opportunity to meet with the auditors without management being present. The Board considers that, through the Audit Committee, it has an objective and professional relationship with the external auditors.

The Committee has responsibility for making recommendations to the Board in relation to the appointment of the external auditors, the audit fee and any questions of resignation or dismissal. In addition the Committee is responsible for monitoring and reviewing the external auditors' independence, objectivity and effectiveness and also developing and implementing policy on the engagement of the supply of non-audit services.

The Committee normally meets three times a year:

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

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

- changes in accounting policies and practices;
- major judgemental areas;
- significant adjustments resulting from the audit;
- the going concern assumption;
- compliance with accounting standards and the Combined Code;
- compliance with stock exchange and legal requirements.

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

- consideration of the impact of IFRS reporting;
- the introduction of the internal audit function, further details of which are given on page 39.

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The Committee has considered information pertaining to the balance between fees for audit and non-audit work for the Group in the year and concluded that the nature and extent of the non-audit fees do not present a threat to the external auditors' independence. In addition the Committee has approved the external auditors' terms of engagement, the scope of work and process for the 2005 interim review and full audit and the applicable levels of materiality. Based on written reports submitted to the Audit Committee meetings, the Committee has reviewed with the external auditors, the findings of their work and confirmed that all significant matters have been satisfactorily resolved.

Details of amounts paid to the external auditors in respect of audit and non-audit services are given in note 6 to the financial statements. The Committee has confirmed that the policy applied by the external auditors concerning rotation of audit partner complies with current guidance issued by the Institute of Chartered Accountants in England and Wales.

The Committee's assessment of the external auditors' performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte & Touche LLP as auditors until the conclusion of the AGM in 2007.

Remuneration Committee

During the year the Remuneration Committee comprised Charles Strauss (chairman), Daniel Farrar and Robert Lerwill. On 7 February 2005, Robert Lerwill stepped down from the Committee. Following her appointment to the Board on 2 August 2005, Lorraine Trainer was also appointed to the Remuneration Committee. The Committee meets periodically as required but not less than twice a year. It is responsible for overseeing the policy regarding executive remuneration and for approving the remuneration packages for the Group's executive directors. It is also responsible for reviewing incentive schemes for the Group as a whole and is empowered to approve awards under the 2003 Executive Share Option Scheme and the 2003 Performance Share Plan. Although not a member of the Committee, the Chief Executive Officer may attend meetings and the Committee consults him on proposals relating to the remuneration of the other executive directors and other appropriate senior executives. He does not attend when the Committee discusses matters relating to him. Similarly, the Chairman of the Board is not a member of the Committee but may attend meetings and is consulted by the Committee on proposals relating to the remuneration of the Chief Executive Officer.

Nomination Committee

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

The Committee meets at least once a year, with one meeting being dedicated to reviewing the Group's ongoing succession planning. This is key to ensuring that the Group maintains an appropriate balance of skills and experience across the Group and on the Board.

The Committee has used the services of an external search consultancy to source the two non-executive appointments and also for the new position of Global Chief Executive Officer of Aegis Media – Mainardo de Nardis. Mainardo will be appointed to the Board as soon as he is contractually free to do so.

Internal control and risk management

The Group operates a system of internal control, which is maintained and reviewed in accordance with the 1998 Code and the guidance contained in the Turnbull Report.

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

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

Managing business risk is an on going and important part of senior management's responsibilities. As such, risk management is closely integrated into the long term and day to day operations across our businesses. In addition an executive committee (the "Group Risk Committee") has been in place since early 2003 to manage and monitor the Group's risks and control processes and procedures. The Group Risk Committee regularly reviews the most significant potential risks facing the Group's businesses. At the present time these include the following areas:

- finance, accounting and credit;
- retention of key staff;
- data security and privacy;
- economic, legal and political change in our markets;
- business continuity and disaster recovery planning.

Corporate governance

Membership of the committee comprises:

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

Senior representatives from the various operating Group businesses

The committee meets four times a year.

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

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

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

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

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

c. Each operation's chief executive officer is responsible for:

- the conduct and performance of their business;
- ensuring an effective system of internal controls is in place and reporting on this bi-annually;
- meeting defined reporting timetables and ensuring compliance with the Group's policies and controls;
- signing-off their accounts on a monthly basis subject to the limitations set by the annual business strategy and the reserved powers and sanctioning limits laid down by the Board.

d. The Board receives, on a monthly basis, financial results from each business and the Group reports 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 Group Risk Committee, the Group Risk Manager, the Internal Audit Manager, the Chief Financial Officer and the external auditors on a regular basis.

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

g. There is a clearly defined framework for approving all acquisitions, new and renewing leases, major capital projects and expenditure within the Group.

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

i. A formal risk self-assessment programme using an on line questionnaire is used twice each year. It requires every business unit CEO to report, for each of the Group's key risks, the status of internal control and risk management within their operation. The results, including management's planned actions, are analysed by the Group Risk Committee. Implementation of action plans is monitored by regional management and the Group Risk Manager and any best practices identified are shared.

j. A peer review programme takes place at selected locations within the Group and each review assesses the controls over the Group's key risks. The reviews are carried out by experienced finance directors from other Group operating companies. The reviews are structured to ensure that each of the Groups key risks is rigorously evaluated using a consistent approach and a common work-

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programme. The results are reported to country, regional and Group management and to the Risk and Audit Committees. Action plans to address any areas of concern are agreed with management and implementation is monitored. The results are reported to the Group Risk Committee.

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

During 2005 the Group Risk Manager and Group Risk Committee have continued to build on the above core procedures and processes. In particular the following matters were implemented to further strengthen the internal control infrastructure and environment:

The most important development during the year has been the introduction of an internal audit function and the appointment of an internal audit manager in September 2005. Her primary responsibility is to manage the internal audit program, including the peer review programme, and to carry out any ad hoc reviews and activities as directed by the Audit Committee or the Chief Executive Officer. A structured risk-based analysis of the business led to the development of the internal audit plan for 2006. The internal audit plan has several components and also provides time for a number of special projects that may be identified for review. Locations for routine internal audits have been initially focused on some of the larger businesses, recent acquisitions and any perceived higher risk businesses. The internal audit manager will manage the peer review programme which is to be continued as it provides a good level of assurance and will be focused on smaller and medium size businesses. Internal audit is supported by staff from an international firm of accountants from which locally-based, experienced accountants are used to carry out specific parts of the audit work.

Peer reviews were conducted at 34 businesses within both Aegis Media and Synovate across all geographic regions.

In order to ensure that attention was focused upon the most critical areas of the business, the Group's key risks were reviewed by executive management and the Risk Committee again during the year and revised accordingly. The revised risks will be used to adjust the focus of the internal control peer review programme, the risk self-assessment survey and the 2006 internal audit plan.

During 2005 the peer review programme was extended by the inclusion of detailed testing of key financial controls to confirm they were operating in compliance with Group policies. The results were broadly positive and no major control failures were identified. In every case, appropriate corrective action has been taken or is planned by management.

During the year focus remained on continuity planning especially in respect of maintenance and updating of the business continuity plans and testing the plans to both verify that they work and to help train the recovery teams in each business.

In addition, a programme of testing the disaster recovery plans for the Group's major data centres was formally implemented.

The fraud management workshop has continued to be delivered to businesses around the Group and is used to train finance, IT, HR and client service management. The workshop has been run on 23 occasions with 387 attendees from 43 countries. Further workshops are planned. The management team at each workshop have identified actions that need to be taken to further improve controls. Common issues have been discussed at the Risk Committee and with the finance directors of all businesses in 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.

Going concern

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

Relations with shareholders

Good relations with all shareholders are of prime importance to the Company. Formal presentations are made to investors and equity analysts after the release of the Group's interim and final results. Individual meetings are held during the year to ensure that the strategies and objectives of the Company are well understood and larger investors are offered the opportunity to meet with newly appointed non-executive directors. The Board receives regular briefings from the Company's advisors giving views on shareholder perceptions and is considering what further steps it might take to improve its understanding of shareholder issues. The Annual General Meeting provides an opportunity for shareholders to address questions to the Chairman or the Board directly (including the chairmen of the Board Committees). Shareholders may also discuss any issues on an informal basis following the conclusion of the Meeting. Published information, including Regulatory News Service releases, is available on the Aegis website (www.aegisplc.com).

John Ross
Company Secretary
7 April 2006

Remuneration report

The Remuneration Report is presented to shareholders by the Board and sets out the remuneration policies operated by the Company and details the remuneration of each director. The Remuneration Report will be put to the Annual General Meeting for approval by the shareholders. This vote is advisory only. The Board has an established Remuneration Committee, the members of which are disclosed on page 37.

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

Remuneration policy

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

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

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

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

In order to achieve these objectives, the Committee's approach is that a substantial proportion of the overall remuneration package should be linked to performance, through participation in short-term and long-term incentive schemes. The Committee determines remuneration packages with regard to the prevailing pay and benefits conditions across the Group's markets.

Remuneration package of executive directors

The main components are:

- Base salary and benefits

Base salary and benefits are determined on an annual basis by the Committee after a review taking into account the individual's performance, market trends and the performance of the Group as a whole and, where relevant, the performance of the business for which the executive is responsible. For guidance, the Committee has regard to available research and published remuneration information on companies within the same industry and markets in the countries in which the executives are based. Base salaries prevailing at the date of this report are: Robert Lerwill £630,000, Jeremy Hicks £339,900, Adrian Chedore £333,785 and David Verklin £464,416. A summary of the benefits payable to executive directors is given on page 44. Year on year increases for executive directors are between 3% and 5%, other than for David Verklin whose base salary has increased by 8%. The higher increase was considered appropriate as a result of David's increased responsibilities now also including the Aegis Media Asia Pacific region.

- Bonus schemes

All of the executive directors participate in the Group's Annual Cash Bonus Scheme based upon a mix of group financial targets (profit before tax and management charges) and achievement of personal objectives and, in the case of directors with operational responsibilities, regional performance. This may result in the payment of cash bonuses of up to 75% of base salary (100% for the Chief Executive Officer and, for 2006 only, 100% for David Verklin, recognising his increased responsibility for the Asia Pacific region). For on-target financial performance, one half of the maximum bonus opportunity is payable in the case of the Chief Executive Officer and Chief Financial Officer and one third is payable in the case of Adrian Chedore and David Verklin.

In addition, Adrian Chedore and David Verklin participate in a separate deferred annual cash bonus scheme based on achievement of a demanding year on year excess profit above target financial performance of the businesses for which they are responsible. This additional plan has been in operation in order to provide competitive total cash remuneration using, as a benchmark, other media businesses and to reflect their critical contribution to the business. This additional bonus is potentially worth up to 200% of base salary. It should be noted that the cap is set in relation to extremely stretching levels of performance as it is based on profit in excess of the existing plan for these individuals. Each year end any bonus earned under the plan is accrued to a personal bonus pool. Only half of the bonus pool is then paid out in any one year with the remaining 50% being carried forward to the following year end. This deferred bonus pool will normally be forfeited in the event that the director leaves the Group.

Remuneration report

- Share-based incentives

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

i) 2003 Executive Share Option Scheme

In any financial year, an executive can receive share options worth (at market value) no more than three times basic salary in normal circumstances. The exercise of options is based upon the Company's earnings per share ("EPS") growth relative to inflation ("RPI"), and the following performance conditions will apply to options granted in 2006: -

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

Following a review by the Remuneration Committee in 2005, the EPS growth targets were increased as detailed above for grants made in 2005 in recognition of the outlook for the business, to ensure that performance conditions remain appropriately stretching. The Committee has reviewed the EPS condition again in March 2006 and believes that the targets as detailed above continue to be appropriately challenging. EPS growth targets for awards made in 2003 and 2004 are detailed on page 47.

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

ii) 2003 Performance Share Plan

In any financial year, an executive can receive a conditional award of shares worth (at market value) no more than two times basic salary in normal circumstances. The extent to which awards vest is determined partly by reference to the Company's Total Shareholder Return ("TSR") performance relative to a group of similar businesses and partly by reference to the Company's EPS growth relative to RPI.

The following TSR targets apply: -

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

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

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

The Committee has reviewed the constituent members of the TSR comparator group and the vesting schedule in March 2006 and believes that the current mix of companies remains appropriate and that the stretching vesting schedule will reward strong relative performance.

Remuneration report

The following EPS performance conditions apply: -

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

The Committee has reviewed the EPS condition in March 2006 and believes that the targets as detailed above continue to be challenging.

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

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

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

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

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

Overall, the value of long-term incentives is considered to be in line with arrangements at peer companies and provide an appropriate balance to other elements of the directors' remuneration package.

No further awards will be made under the previous closed schemes, although awards granted in the past will continue to be exercisable in accordance with the rules of each respective scheme. The closed schemes are the 1995 Executive Share Option Scheme and the 1998 Management Incentive Scheme. Details of the performance conditions of these are given on pages 46 and 47.

Details of all share incentive awards outstanding for each executive director serving during 2005 are set out on pages 46 to 48.

Pensions

All UK executive directors participate in Inland Revenue approved defined contribution pension schemes. 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. Annual employer contributions in respect of Robert Lerwill prevailing at the date of the report are £256,000.

Remuneration report

Service contracts

Details of the service contracts of those who served as executive directors during the year are set out below. All directors have rolling service contracts which expire at normal retirement age unless terminated beforehand in accordance with the terms of the individual contract.

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

NOTES:

* David Verklin retains a contractual entitlement on termination of an amount equal to 12 months' salary and benefits in addition to any payments in respect of his normal six months notice period. The Remuneration Committee believes that this provision is appropriate in this instance given the need to retain a key senior operational executive in the context of highly competitive market conditions in the USA.

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

Former director (as disclosed previously in last year's accounts)

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

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

Non-executive directors

Non-executive directors are appointed for an initial term of three years with a one month notice period. Renewal of appointments for a further term of three years is not automatic. The fees of the non-executive directors are determined at a Board meeting at which the non-executive directors do not vote and are based on time commitment and responsibility. Fees are disclosed on page 44. Non-executive directors have letters of engagement rather than service contracts and do not receive benefits or pension contributions and do not participate in any Group incentive scheme.

Non-executive director	Date of first appointment to board	Unexpired term as at 31.3.06
Lord Sharman (a)	02.09.99	2 years 7 months
Daniel Farrar	02.06.03	2 months
Bernard Fournier (b)	01.06.00	2 months
Robert Lerwill (c)	01.06.00	-
Brendan O'Neill	08.08.05	2 years 5 months
Charles Strauss	05.09.03	5 months
Lorraine Trainer	02.08.05	2 years 5 months
Leslie Van de Walle	02.06.03	2 months

NOTES:

a. Lord Sharman was originally appointed without a specified term. This was remedied in October 2002 when he was appointed for a further term of three years commencing 1 November 2002. He has since been appointed for a further term of three years commencing 1 November 2005.

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

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

Remuneration report

Audited directors' remuneration

	Basic salary £'000	Fees £'000	Benefits (a)	Annual Cash Bonus £'000 (b)	Deferred Annual Bonus £'000 (b)	Total 2005 £'000	Total 2004 £'000	Pensions 2005 £'000	Pensions 2004 £'000
Adrian Chedore	314	–	89	164	58	625	614	11	11
Daniel Farrar	–	40	–	–	–	40	35	–	–
Douglas Flynn (resigned 31.03.05)	160	–	9	–	–	169	1,315	78	311
Bernard Fournier	–	40	–	–	–	40	35	–	–
Jeremy Hicks	330	–	24	197	–	551	508	84	70
Robert Lerwill	544	4	9	519	–	1,076	40	198	–
Brendan O'Neill (appointed 8.08.05)	–	18	–	–	–	18	–	–	–
Lord Sharman	–	150	–	–	–	150	135	–	–
Charles Strauss	–	45	–	–	–	45	38	–	–
Lorraine Trainer (appointed 2.08.05)	–	17	–	–	–	17	–	–	–
David Verklin	407	–	31	196	198	832	718	3	3
Leslie Van de Walle (c)	–	40	–	–	–	40	35	–	–
Totals	1,755	354	162	1,076	256	3,603	3,473	374	340

NOTES:

a. Benefits relate to the provision of a car, life assurance, disability and health insurance and, in the case of Adrian Chedore (resident in Hong Kong), a housing allowance of £66,757 and home leave allowance of £2,967.

b. The main terms of the bonus schemes are summarised on page 40. For executive directors, between 59% and 86% of the maximum potential under the annual cash bonus scheme was earned in respect of 2005. For the two executive directors whose deferred annual bonus is determined purely by the level of year on year growth in the financial performance of their respective businesses, bonus earned in respect of 2005 was on the basis of having grown year on year profits by between 11% and 42%.

c. Leslie Van de Walle has a standing instruction through the Company's brokers to use his fees (received monthly net of taxes) to purchase shares in the Company.

At 31 December 2005 there were four directors (2004: four) who had benefits accruing under money purchase pension schemes. Figures shown for pensions are the contributions paid by the Company to both approved and unapproved retirement benefits schemes.

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

Director	Company	Annual Fees
Robert Lerwill	British American Tobacco	£75,000
Robert Lerwill	Synergy Healthcare	£23,000
Jeremy Hicks	First Choice Holidays	£38,000

None of the directors was materially or beneficially interested in any contract of significance with the Company or any of its subsidiary undertakings during or at the end of the financial year ended 31 December 2005.

Remuneration report

Directors' share interests

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

	6 April 2006	31 December 2005	1 January 2005*
Adrian Chedore	50,000	50,000	50,000
Daniel Farrar	6,250	6,250	6,250
Douglas Flynn (resigned 31.03.05)	–	–	45,000
Bernard Fournier	10,000	10,000	10,000
Jeremy Hicks	90,000	90,000	90,000
Robert Lerwill	20,000	20,000	20,000
Brendan O'Neill (appointed 8.08.05)	5,000	–	–
Lord Sharman	35,000	35,000	35,000
Charles Strauss	20,000	20,000	20,000
Lorraine Trainer (appointed 2.08.05)	–	–	–
David Verklin	17,800	17,800	17,800
Leslie Van de Walle	45,806	40,444	14,793

*Or date of appointment if later

As at 6 April 2006 the executive directors were deemed to have an interest in 10,840,000 ordinary shares, held by the Trustee of the Aegis Group plc Employee Share Trust, as potential beneficiaries under that Trust.

Dilution

Investor guidelines recommend that the number of newly issued shares used to satisfy awards under all share plans over any ten year period should be limited to 10% of a company's issued share capital. The Group's current position is set out below:

Dilution Position as at 31.12.05
9.04% of issued share capital

Remuneration report

Audited directors' share option interests

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

Director		Options held at 1.1.05	Granted during 2005	Lapsed during 2005	Exercised during 2005	Options held at 31.12.05	Exercise price	Date from which exercisable	Expiry date
Robert Lerwill	**	–	1,500,000	–	–	1,500,000	105p	09.03.08	08.03.15
Douglas Flynn	*	5,000,000	–	5,000,000	–	–	138.25p	09.09.02	08.09.09
(resigned 31.03.05)		642,857	–	–	642,857	–	140p	22.10.02	21.10.09
		233,100	–	233,100	–	–	214.5p	09.03.03	08.03.10
	*	2,500,000	–	2,500,000	–	–	219.5p	10.03.03	09.03.10
		450,939	–	–	450,939	–	119.75p	23.03.04	22.03.11
		137,725	–	–	137,725	–	109p	14.03.05	13.03.12
	*	1,000,000	–	1,000,000	–	–	109p	14.03.05	13.03.12
	**	700,000	–	–	700,000	–	85.5p	05.06.06	04.06.13
	**	872,700	–	–	872,700	–	95.75p	17.03.07	16.03.14
Adrian Chedore	*	1,000,000	–	–	–	1,000,000	109p	14.03.05	13.03.12
	**	350,000	–	–	–	350,000	85.5p	05.06.06	04.06.13
	**	340,000	–	–	–	340,000	95.75p	17.03.07	16.03.14
	**	–	371,000	–	–	371,000	101.75p	31.03.08	30.03.15
Jeremy Hicks	*	2,000,000	–	–	–	2,000,000	170p	08.05.03	07.05.10
		73,529	–	–	–	73,529	170p	08.05.03	07.05.10
	*	750,000	–	–	–	750,000	125.7p	17.04.04	16.04.11
		112,734	–	–	–	112,734	119.75p	23.03.04	22.03.11
		60,255	–	–	–	60,255	109p	14.03.05	13.03.12
	*	500,000	–	–	–	500,000	109p	14.03.05	13.03.12
	**	350,000	–	–	–	350,000	85.5p	05.06.06	04.06.13
	**	270,000	–	–	–	270,000	95.75p	17.03.07	16.03.14
	**	–	300,000	–	–	300,000	101.75p	31.03.08	30.03.15
David Verklin		641,398	–	–	–	641,398	80.5p	09.04.01	08.04.08
	*	2,000,000	–	–	–	2,000,000	87p	15.05.01	14.05.08
		271,088	–	–	–	271,088	121.5p	17.03.02	16.03.09
	*	1,500,000	–	1,500,000	–	–	138.25p	09.09.02	08.09.09
		82,513	–	–	–	82,513	214.5p	09.03.03	08.03.10
		173,056	–	–	–	173,056	119.75p	23.03.04	22.03.11
		79,497	–	–	–	79,497	109p	14.03.05	13.03.12
	*	1,000,000	–	–	–	1,000,000	109p	14.03.05	13.03.12
	**	450,000	–	–	–	450,000	85.5p	05.06.06	04.06.13
	**	340,000	–	–	–	340,000	95.75p	17.03.07	16.03.14
	**	–	371,000	–	–	371,000	101.75p	31.03.08	30.03.15
Totals		23,881,391	2,542,000	10,233,100	2,804,221	13,386,070			

Notes:

All of the above options were granted for nil consideration.

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

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

Remuneration report

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

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

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

Treatment of outstanding options granted to Doug Flynn (as disclosed previously in last year's accounts)
Options granted under the Management Incentive Scheme lapsed with immediate effect on resignation. Options granted under the 1995 Executive Share Option Scheme, were able to be exercised, in accordance with the rules of the scheme, within the period of six months after resignation. These were exercised at prices between 119.35p and 144.05p realising a gross gain of £126,848.
For options granted under the 2003 Executive Share Option Scheme, the Remuneration Committee determined that options may be exercisable for a period of 12 months following resignation, after taking account of the achievement of performance conditions, measured up to the date of resignation. These were exercised at 139.09p realising a gross gain of £754,012.

Other than as noted above, no directors or members of their immediate families have exercised or sold options during the period ended 6 April 2006. In addition, other than as noted above, no options have been granted, expired or lapsed during the year in respect of the directors.

The middle market price of the ordinary 5p shares of the Company as derived from the Stock Exchange Daily Official List on 31 December 2005 was 122p and the range during the year was 93p to 145p. The share price on 6 April 2006, the latest practicable date prior to publication of the Annual Report and Accounts, was 136.5p.

Audited awards under the 2003 Performance Share Plan

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

Name	Maximum potential award of shares at 1.1.05	Awards granted during year	Awards lapsed during year	Maximum potential award of shares at 31.12.05	Performance period
Robert Lerwill	–	1,000,000	–	1,000,000	01.01.05 to 31.12.07
Douglas Flynn	1,023,000	–	1,023,000	–	01.01.03 to 31.12.05
(resigned 31.03.05)	1,163,000	–	1,163,000	–	01.01.04 to 31.12.06
Adrian Chedore	331,000	–	–	331,000	01.01.03 to 31.12.05
	300,000	–	–	300,000	01.01.04 to 31.12.06
	–	495,000	–	495,000	01.01.05 to 31.12.07
Jeremy Hicks	331,000	–	–	331,000	01.01.03 to 31.12.05
	430,000	–	–	430,000	01.01.04 to 31.12.06
	–	550,000	–	550,000	01.01.05 to 31.12.07
David Verklin	491,000	–	–	491,000	01.01.03 to 31.12.05
	300,000	–	–	300,000	01.01.04 to 31.12.06
	–	450,000	–	450,000	01.01.05 to 31.12.07

The market price of Aegis shares at the date of the 2003 award was 85.5p, for the 2004 award was 100.75p and for the 2005 award was 101.75p.
The number of shares shown represents the maximum number of shares which are capable of vesting at the end of the performance period, if the performance conditions are satisfied to the fullest extent.

Remuneration report

The performance conditions for all outstanding awards are set out in the policy section of this report on pages 41 and 42. (Grey Global Group Inc. was additionally included in the comparator group for awards granted in 2003 and 2004).

As disclosed in last year's accounts, outstanding awards to Doug Flynn as detailed above lapsed with immediate effect on resignation.

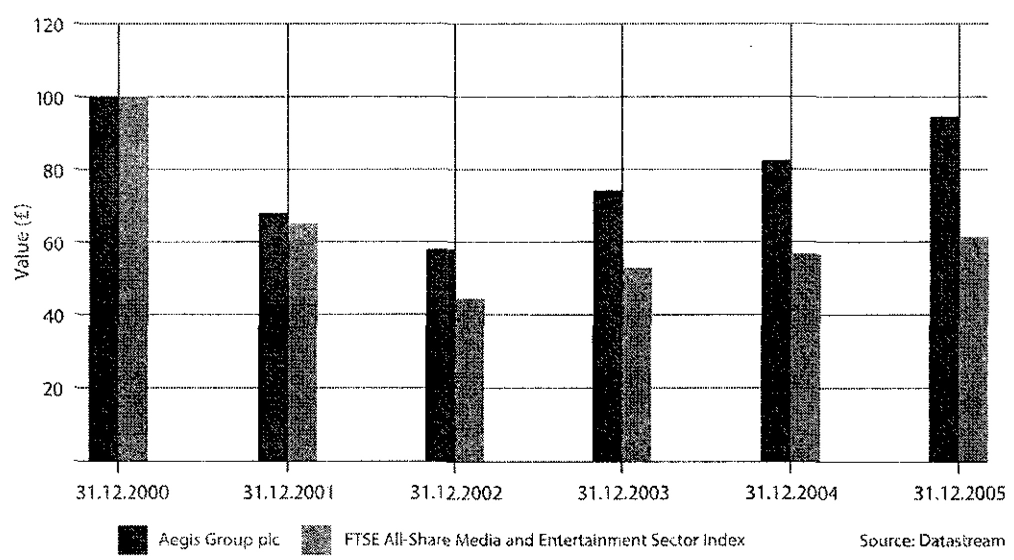
Shareholding guidelines

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

Unaudited performance graph

The following graph illustrates the Company's TSR between 31 December 2000 and 31 December 2005 relative to the FTSE Media & Entertainment Index, in accordance with paragraph 4 of the Directors' Remuneration Report Regulations 2002. Aegis Group plc is a member of the FTSE Media & Entertainment Index and the Remuneration Committee considers that a comparison of the Company's TSR relative to similar businesses is more appropriate than a comparison with a general FTSE Index, in order to reduce the impact of general stock market trends.

Total shareholder return



This graph looks at the value, by the end of 2005, of £100 invested in Aegis Group on 31 December 2000 compared with that of £100 invested in the FTSE All-Share Media and Entertainment Sector Index.

Charles Strauss
Chairman of the Remuneration Committee
7 April 2006

Independent auditors' report to the members of Aegis Group plc

We have audited the Group financial statements of Aegis Group plc ("the Group") for the year ended 31 December 2005 which comprise the consolidated Income Statement, the consolidated Balance Sheet, the consolidated Cash Flow Statement, the consolidated Statement of Recognised Income and Expense, and the related notes 1 to 35. These Group financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements and the part of the Directors' Remuneration Report described as having been audited, in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Group financial statements and the part of the Directors' Remuneration Report described as having been audited, have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' Report is not consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration requirements specified for review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

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

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group 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 Group 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 Group financial statements and the part of the Directors' Remuneration Report described as having been audited.

Independent auditors' report to the members of Aegis Group plc

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the Group financial statements and the part of the Directors' Remuneration Report described as having been audited, have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

7 April 2006

Consolidated income statement

For the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Turnover – amounts invoiced to clients		**8,079.1**	7,594.3
Revenue	4	**870.4**	747.0
Cost of sales		**(115.4)**	(99.5)
Gross profit		**755.0**	647.5
Operating expenses before exceptional items and amortisation of purchased intangibles		**(639.9)**	(551.0)
Offer period costs	5	**(1.7)**	-
Impairment of goodwill	5	**(6.5)**	-
Amortisation of purchased intangibles	5	**(0.2)**	-
Total operating expenses		**(648.3)**	(551.0)
Share of results of joint venture – profit on sale of investment		**1.3**	-
Share of results of associated undertakings		**(0.1)**	1.4
Operating profit	6	**107.9**	97.9
Investment income	8	**10.8**	6.8
Finance costs	9	**(24.7)**	(12.8)
Profit before tax		**94.0**	91.9
Tax	10	**(29.4)**	(27.4)
Profit for the financial year		**64.6**	64.5
Attributable to:			
Equity holders of the parent		**61.9**	61.0
Minority interests		**2.7**	3.5
		64.6	64.5
Earnings per ordinary share:			
Basic	12	**5.6p**	5.5p
Diluted	12	**5.5p**	5.5p

Consolidated balance sheet

at 31 December 2005

ASSETS	Notes	2005	2004
Non-current assets		**£m**	£m
Goodwill	13	**685.9**	478.5
Intangible assets	14	**18.8**	14.1
Property, plant and equipment	15	**54.6**	47.5
Interests in associates and joint venture	16	**12.3**	9.9
Deferred tax assets	21	**7.7**	4.4
Available-for-sale financial assets	17	**2.7**	-
Fixed asset investments	17	**-**	3.1
Other financial assets	20	**1.4**	-
Derivative financial assets	20	**3.5**	-
		786.9	557.5
Current assets			
Inventory: work in progress		**15.8**	7.7
Derivative financial assets	20	**0.3**	-
Trade and other receivables	18	**1,405.6**	1,268.2
Cash at bank and in hand and short-term deposits	29	**280.7**	276.0
		1,702.4	1,551.9
Total assets		**2,489.3**	2,109.4
LIABILITIES			
Current liabilities			
Trade and other payables	19	**(1,707.3)**	(1,559.7)
Short-term borrowings and overdrafts	20	**(61.9)**	(120.6)
Convertible bond	20	**(121.3)**	-
Derivative financial liabilities	20	**(0.1)**	-
Current tax liabilities		**(24.0)**	(15.7)
		(1,914.6)	(1,696.0)
Net current liabilities		**(212.2)**	(144.1)
Non-current liabilities			
Long-term borrowings	20	**(290.2)**	(82.3)
Convertible bond	20	**-**	(122.4)
Other long-term liabilities	28	**(109.7)**	(59.9)
Derivative financial liabilities	20	**(2.3)**	-
Deferred tax liabilities	21	**(1.3)**	(1.5)
Provisions	22	**(0.9)**	(0.7)
		(404.4)	(266.8)
Total liabilities		**(2,319.0)**	(1,962.8)
Net assets		**170.3**	146.6
EQUITY			
Share capital	23, 26	**56.4**	55.9
Own shares	24, 26	**(10.1)**	(4.3)
Share premium account	25, 26	**218.9**	210.9
Capital redemption reserve	26	**0.2**	0.2
Foreign currency translation reserve	26	**5.7**	(8.5)
Accumulated losses	26	**(93.3)**	(115.3)
Equity attributable to equity holders of the parent		**177.8**	138.9
Minority interests	26	**8.8**	7.7
Potential acquisition of minority interests	26	**(16.3)**	-
Total equity		**170.3**	146.6

These financial statements were approved by the board of directors on 7 April 2006 and were signed on its behalf by:

Robert Lerwill (Chief Executive Officer)
Jeremy Hicks (Chief Financial Officer)

Consolidated cash flow statement

For the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Cash flows from operating activities			
Cash inflows from operations	29	**68.1**	121.7
Income taxes paid		**(26.7)**	(30.1)
Net cash from operating activities		41.4	91.6
Investing activities			
Interest received		**10.8**	6.8
Dividends received from associates		**0.2**	0.1
Purchase of subsidiary undertakings and minority interests		**(105.5)**	(49.7)
Net cash acquired on purchase of subsidiary undertakings		**17.2**	7.1
Proceeds from disposal of subsidiaries		-	0.6
Acquisition of investment in associated undertakings		**(2.1)**	(1.0)
Deferred consideration on prior period acquisitions		**(41.3)**	(18.2)
Purchase of property, plant and equipment		**(21.0)**	(24.8)
Purchase of intangible assets		**(10.4)**	(3.6)
Proceeds from disposal of property, plant and equipment		**1.8**	4.1
Other investing activities		**(1.0)**	-
Net cash used in investing activities		(151.3)	(78.6)
Financing activities			
Dividends paid		**(17.1)**	(15.3)
Dividends paid to minority shareholders		**(2.4)**	(3.1)
Interest paid		**(9.6)**	(9.3)
Refinancing costs		**(0.9)**	(1.3)
Proceeds from borrowings		**230.5**	69.4
Repayments of loans		**(62.3)**	(5.4)
Proceeds on issue of ordinary share capital		**8.5**	4.9
Purchase of own shares		**(5.8)**	(2.7)
Other financing activities		**0.2**	0.9
Net cash from financing activities		**141.1**	38.1
Net increase in cash and cash equivalents	29	**31.2**	51.1
Translation differences		**8.5**	(4.3)
Cash and cash equivalents at beginning of period		**238.0**	191.2
Cash and cash equivalents at end of period	29	**277.7**	238.0
Cash at bank and in hand and short-term deposits		**280.7**	276.0
Bank overdrafts		**(3.0)**	(38.0)
Cash and cash equivalents at end of period	29	**277.7**	238.0

Consolidated statement of recognised income and expense

For the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Profit for the financial year		**64.6**	64.5
Currency translation differences on foreign operations:			
- Group		**14.2**	(8.5)
- Minority interests		**0.1**	0.1
Available for sale investments: losses taken to equity		**(2.2)**	-
Cash flow hedges: losses taken to equity		**(0.6)**	-
Actuarial loss recognised on defined benefit pension schemes	32	**(0.1)**	-
Other recognised gains/(losses)		**11.4**	(8.4)
Total recognised income and expense	26	**76.0**	56.1
Attributable to:			
Equity holders of the parent	26	**73.2**	52.5
Minority interests	26	**2.8**	3.6
		76.0	56.1
Adoption of IAS 32 and 39			
Attributable to:			
Equity holders of the parent	26, 35	**43.0**	
Minority interests		-	
		43.0	

Notes to the consolidated financial statements

For the year ended 31 December 2005

1. General Information

Aegis Group plc is a company incorporated in the United Kingdom. The address of the registered office is given on page 32. The nature of the Group's operations and its principal activities are set out in note 4 and in the Report of the Directors on pages 33 to 34.

These financial statements are presented in pounds sterling (GBP) because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted in the European Union and as applied in accordance with the provisions of the Companies Act 1985.

2. Basis of Preparation

This Annual Report has been prepared in accordance with the recognition and measurement bases of IFRS for the first time. The disclosures required by IFRS 1 in respect of the transition from accounting principles generally accepted in the United Kingdom ("UK GAAP") to IFRS are provided in note 35.

Aegis Group plc has elected to adopt the amendments to IAS 19 'Employee benefits', issued in December 2004, in advance of their effective date of 1 January 2006 and is presenting actuarial gains and losses arising on defined benefit pension schemes in the Consolidated Statement of Recognised Income and Expense.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but have not yet come into effect:

IFRS 7 Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures

IFRIC 4 Determining whether an Arrangement contains a Lease

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007. The additional disclosures under IFRS 7 include stating the carrying amount of financial assets and liabilities under each of the classifications in IAS 39 'Financial Instruments: Recognition and Measurement'; an analysis of the age for financial assets that are either past due or impaired; a reconciliation of changes in carrying amounts during a period where impairment is recorded through an allowance account as opposed to a direct reduction to the carrying amount of the financial asset; and additional requirements on providing sensitivity analysis on market risks and how changes in these risks would have impacted profit or loss and equity in the period.

The comparative figures for the financial year ended 31 December 2004 have been restated from UK GAAP to IFRS. The Group has taken advantage of the exemption available under IFRS 1 not to apply IAS 32 and IAS 39 until 1 January 2005, and as such no adjustments relating to these standards have been included in the comparatives for the year ended 31 December 2004. An adjustment to the opening balance sheet at 1 January 2005 has been made to align the Group's 2005 opening position under IAS 32 and IAS 39, resulting in a decrease in equity of £43.0 million. Reconciliations between UK GAAP and IFRS on equity as at 1 January 2004 and 31 December 2004 and a reconciliation of profit and loss for the year ended 31 December 2004 are included in note 35.

The Group believes that underlying results (note 5) and underlying earnings per share (note 12) provide additional useful information on underlying trends to shareholders. These measures are used for internal performance analysis and incentive compensation arrangements for employees. The term underlying is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies. It is not intended to be a substitute for, or superior to, IFRS measurements of profit. The principal adjustments made are in respect of items which are significant by nature or amount in the opinion of the directors. These may include impairment charges and other exceptional items, including profits and losses on disposals of investments, amortisation of purchased intangible assets (being amortisation charged on separately identifiable intangible assets in acquired businesses), unrealised gains and losses on non-hedge derivative financial instruments, fair value gains and losses on liabilities in respect of put option agreements, and any related tax thereon, as appropriate.

The Group's operations are split into two principal market sectors, namely media communications and market research. These divisions are further analysed into geographic segments which bring together products in comparable market areas under common business heads. This is how the Group's operational management is structured and its results are reviewed and thus form the primary reporting segments (note 4).

Notes to the consolidated financial statements

For the year ended 31 December 2005

3. Accounting policies

Principal accounting policies

The principal accounting policies set out below have been consistently applied to all the periods presented in this Annual Report except for those relating to the classification and measurement of financial instruments. The Group has taken advantage of the exemption available under IFRS 1 not to apply IAS 32 and IAS 39 until 1 January 2005.

Change in accounting policy

The Group has made a UK GAAP prior year adjustment, additional to the restatements required under IFRS, for a change in accounting policy in respect of the timing of revenue recognition in respect of certain media consultancy contracts in the US. Net assets at 1 January 2004 have been reduced by £0.8 million. Group profit in the current year has increased by £0.2 million as a result of this change in accounting policy (2004: reduction in profit of £0.1 million).

Basis of consolidation

(a) Subsidiaries

The consolidated financial statements incorporate the results, cash flows and net assets of Aegis Group plc and the entities controlled by it after eliminating internal transactions and recognising any minority interests in those entities. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain economic benefits from its activities. Where subsidiaries are acquired in the year, their results and cash flows are included from the date of acquisition up to the balance sheet date.

Where a consolidated company is less than 100% owned by the Group, the minority interest share of the results and net assets are recognised at each reporting date. Where a company has net liabilities, no asset is recorded within minority interests unless the minority shareholder has an obligation to make good its share of the net liabilities.

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in the notes to the Company's separate financial statements.

(b) Associates

Associated companies are entities in which the Group has a participating interest and over whose operating and financial policies it exercises a significant influence and which are neither a subsidiary nor a joint venture. The reporting dates and accounting policies used by its associates are the same as those used by the Group.

The Group's associates are accounted for using the equity method of accounting. The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and as a movement in the Group's share of associates' net assets in the balance sheet. Its share of any post-acquisition movements in reserves is recognised directly in equity. Losses of the associates in excess of the Group's interest in those associates are not recognised. Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(c) Joint ventures

Joint ventures are investments over which the Group exercises joint control with a third party. Such investments are equity accounted for.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. Goodwill on acquisitions is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable net assets.

Notes to the consolidated financial statements

For the year ended 31 December 2005

3. Accounting policies (continued)

Business combinations and goodwill (continued)

Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at net book value as at that date.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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 income statement. Changes to estimates of amounts payable are made to deferred consideration and goodwill.

Intangible assets

Separately acquired intangible assets are capitalised at cost. Intangible assets acquired as part of a business combination are capitalised at fair value at the date of acquisition.

For business combinations, cost is calculated based on the Group's valuation methodology, using discounted cash flows.

An internally-generated intangible asset arising from the Group's development activities is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Where these criteria are met, the development expenditure is capitalised at cost. Where they are not met development expenditure is recognised as an expense in the period in which it is incurred. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Intangible assets are amortised to residual values over the useful economic life of the asset as follows:

Software	20% to 50% per annum
Panel costs	33% per annum
Patents and trademarks	Nil to 20% per annum
Other	10% to 50% per annum

Where an asset's useful life is considered indefinite, an annual impairment test is performed (see below).

Property, plant and equipment

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is provided to write off the cost of all fixed assets to their residual value over their expected useful lives. It is calculated on the historical cost of the assets at the following rates:

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales' proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Notes to the consolidated financial statements

For the year ended 31 December 2005

3. Accounting policies (continued)

Fixed asset investments

For all periods up to 31 December 2004, the Group's other fixed asset investments are stated at cost less any provision for permanent diminution in value. As noted below, this policy has been amended following the Group's adoption of IAS 32 and IAS 39 on 1 January 2005.

Inventory: work in progress

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

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and deposits with an original maturity of three months or less, net of overdrafts.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

Share capital

Ordinary shares are classified as equity. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Investments in own shares, held through the Aegis Group Employee Share Trust, are shown as a deduction from shareholders' equity at cost. The costs of administration of the Trust are included in the income statement as they accrue.

Turnover (amounts invoiced to clients) and revenue

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

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

Media revenue 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. Performance related income is recognised when it can be reliably estimated whether, and the extent to which, the performance criteria have been met.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Notes to the consolidated financial statements

For the year ended 31 December 2005

3. Accounting policies (continued)

Share-based payment transactions

The Group has applied the requirements of IFRS 2 'Share-based payment'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that remained unvested as of 1 January 2005.

Certain employees receive remuneration in the form of share-based payments, including shares or rights over shares. The cost of equity-settled transactions with employees is measured by reference to the fair value of the instruments concerned at the date at which they are granted. The fair value is determined by an external valuer using a stochastic model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the vesting date on which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors at that date, will ultimately vest.

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

Employee benefits

The retirement benefits for employees are principally provided by defined contribution schemes which are funded by contributions from Group companies and employees. The amount charged to the income statement is the contribution payable in the year.

In addition, the Group has a small number of funded defined benefit obligations, principally where required by local statutory regulations.

The liability recognised in the balance sheet in respect of defined benefit obligations is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is calculated using the project unit credit method with actuarial valuations being carried out at each balance sheet date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds approximating to the terms of the related liability. Actuarial gains and losses are recognised immediately outside the income statement and are presented in the consolidated statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

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 denominated in foreign currencies are re-translated at the rate ruling on the settlement date. Monetary assets and liabilities denominated in foreign currencies 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 income statement.

Exchange differences arising on the re-translation of foreign currency borrowings used to provide a hedge against foreign currency investments, including goodwill, are taken directly to reserves.

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

Leased assets

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease rentals are charged to the income statement over the lease term on a straight-line basis.

Notes to the consolidated financial statements

For the year ended 31 December 2005

3. Accounting policies (continued)

Taxation

The tax expense represents the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax nor accounting profit.

Deferred tax is calculated for all business combinations from the transition date of 1 January 2004 in respect of intangible assets and properties. A deferred tax liability is recognised to the extent that the fair value of the assets for accounting purposes exceeds the value of those assets for tax purposes and will form part of the associated goodwill on acquisition.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, including interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Segment result is segment operating profit stated before share of results of associated undertakings and joint ventures.

Notes to the consolidated financial statements

For the year ended 31 December 2005

3. Accounting policies (continued)

Accounting policies applied from 1 January 2005

In addition to the principal accounting policies presented above, the following policies have been applied from 1 January 2005 following the adoption of IAS 32 and IAS 39 at that date.

Financial instruments

Financial assets are accounted for on the trade date. Financial assets and financial liabilities principally include the following:

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Available-for-sale financial assets

Available-for-sale financial assets are initially measured at cost, including transaction costs and at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the net profit or loss for the period.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Direct issue costs are amortised over the period of the loans and overdrafts to which they relate. Finance charges, including premiums payable on settlement or redemption are charged to the income statement as incurred using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Convertible bond

The convertible bond is regarded as a hybrid financial instrument, consisting of a liability component being the host contract, and an equity conversion component also recognised as a liability. The instrument is treated wholly as a liability as the convertible bond is denominated in a foreign currency and therefore the proceeds upon conversion are considered to be a variable amount of functional currency cash for a fixed number of shares.

At the date of issue, the embedded option to convert the host contract into equity of the Group, is separately fair valued. The amount assigned to host contract liability is the net proceeds after issue costs less the fair value of the embedded option. The difference between the fair value of the host contract liability at issue and its face value is being amortised over the life of the instrument as a notional interest charge through the income statement. The Group's convertible bond matures in May 2006, at which point the additional notional interest charge will be fully amortised.

The embedded option to convert the host contract liability into equity of the Group will be subsequently measured at fair value in the income statement.

Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

Derivative financial instruments

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

The Group's activities expose it to certain financial risks including changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are held at fair value at the balance sheet date. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of future cash flows are recognised directly in equity. Amounts deferred in this way are recognised in the income statement in the same period in which the hedged firm commitments or forecast transactions are recognised in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gains or losses on the hedging instrument recognised in equity are retained until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Liabilities in respect of option agreements

Option agreements that allow the Group's equity partners to require the Group to purchase the minority interest are treated as derivatives over equity instruments and are recorded in the balance sheet at fair value. The fair values of such options are re-measured at each period end. The movement in the fair value is recognised as income or expense within finance charges in the income statement.

The Group recognises its best estimate of the amount it is likely to pay, should these options be exercised by the minority interests, as a liability in the balance sheet.

Notes to the consolidated financial statements

For the year ended 31 December 2005

4. Segment reporting

Business segments

The Group operates in two business sectors: media communications and market research. These divisions are the basis on which the Group reports its primary segment information. The Group provides a broad range of services in the areas of media communications and market research.

An analysis of revenue and segment result by these business sectors is set out below:

	2005 £m	2004 £m
Revenue:		
Media communications	**539.9**	474.6
Market research	**330.5**	272.4
Revenue	**870.4**	747.0

Segment result:	2005 £m Underlying	2005 £m Adjustments	2005 £m Total	2004 £m Total
Media communications	**106.5**	**(6.7)**	**99.8**	94.9
Market research	**25.3**	-	**25.3**	20.0
	131.8	**(6.7)**	**125.1**	114.9
Share of results of joint venture – profit on sale of investment	-	1.3	1.3	-
Share of results of associates	**(0.1)**	-	**(0.1)**	1.4
Offer period costs	-	**(1.7)**	**(1.7)**	-
Corporate costs	**(16.7)**	-	**(16.7)**	(18.4)
Operating profit	**115.0**	**(7.1)**	**107.9**	97.9
Investment income	**10.8**	-	**10.8**	6.8
Finance costs	**(25.6)**	**0.9**	**(24.7)**	(12.8)
Profit before tax	**100.2**	**(6.2)**	**94.0**	91.9
Tax	**(29.4)**	-	**(29.4)**	(27.4)
Profit after tax	**70.8**	**(6.2)**	**64.6**	64.5

Underlying operating profit excludes adjustments of £7.1 million (2004: £nil). Underlying profit before tax excludes adjustments of £6.2 million (2004: £nil). Further details of these items are provided in note 5.

Notes to the consolidated financial statements

For the year ended 31 December 2005

4. Segment reporting (continued)

Further segment disclosures, including certain asset and liability information for the Group's business sectors, are set out below:

	2005 £m	2004 £m
Segment assets:		
Media communications	**2,088.9**	1,857.7
Market research	**372.1**	221.1
	2,461.0	2,078.8
Investment in eVerger joint venture	**2.8**	1.5
Corporate operations	**25.5**	29.1
Total assets	**2,489.3**	2,109.4
Segment liabilities:		
Media communications	**(1,603.0)**	(1,354.2)
Market research	**(185.5)**	(96.6)
	(1,788.5)	(1,450.8)
Corporate operations	**(530.5)**	(512.0)
Total liabilities	**(2,319.0)**	(1,962.8)
Net assets	**170.3**	146.6
Capital expenditure:		
Media communications	**19.7**	18.2
Market research	**9.0**	10.8
Corporate operations	**2.7**	2.3
Capital expenditure	**31.4**	31.3
Depreciation of property plant and equipment:		
Media communications	**13.0**	10.6
Market research	**5.0**	3.4
Corporate operations	**0.5**	0.5
Depreciation of property plant and equipment	**18.5**	14.5
Amortisation of intangible assets:		
Media communications	**4.0**	4.8
Market research	**1.2**	0.9
Corporate operations	**1.3**	1.6
Amortisation of intangible assets	**6.5**	7.3
Impairment losses:		
Media communications	**6.5**	-
Market research	**-**	-
Corporate operations	**-**	-
Impairment losses	**6.5**	-

Notes to the consolidated financial statements

For the year ended 31 December 2005

4. Segment reporting (continued)

Geographical segments

The Group's two business segments operate in three geographical areas. The geographical segment analysis is based on the location of assets. These geographical areas are the basis on which the Group reports its secondary segment information.

An analysis of revenue and segment result by these geographical areas is set out below:

	2005 £m	2004 £m
Revenue:		
Europe, Middle East & Africa	**514.0**	468.4
Americas	**246.1**	200.8
Asia Pacific	**110.3**	77.8
Revenue	**870.4**	747.0

Segment result:	2005 £m Underlying	2005 £m Adjustments	2005 £m Total	2004 £m Total
Europe, Middle East & Africa	94.5	-	**94.5**	90.7
Americas	**26.4**	**(0.2)**	**26.2**	17.9
Asia Pacific	10.9	**(6.5)**	**4.4**	6.3
	131.8	**(6.7)**	**125.1**	114.9
Share of results of joint venture – profit on sale of investment	-	**1.3**	**1.3**	-
Share of results of associates	(0.1)	-	**(0.1)**	1.4
Offer period costs	-	**(1.7)**	**(1.7)**	-
Corporate costs	(16.7)	-	**(16.7)**	(18.4)
Operating profit	**115.0**	**(7.1)**	**107.9**	97.9
Investment income	**10.8**	-	**10.8**	6.8
Finance costs	**(25.6)**	**0.9**	**(24.7)**	(12.8)
Profit before tax	**100.2**	**(6.2)**	**94.0**	91.9
Tax	**(29.4)**	-	**(29.4)**	(27.4)
Profit after tax	**70.8**	**(6.2)**	**64.6**	64.5

Underlying operating profit excludes adjustments of £7.1 million (2004: £nil). Underlying profit before tax excludes adjustments of £6.2 million (2004: £nil). Further details of these items are provided in note 5.

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

Notes to the consolidated financial statements

For the year ended 31 December 2005

4. Segment reporting (continued)

Further segment disclosures, including certain asset and liability information for the Group's geographical segments, are set out below:

	2005 £m	2004 £m
Segment assets:		
Europe, Middle East & Africa	**1,539.4**	1,368.1
Americas	**646.5**	542.2
Asia Pacific	**275.1**	168.5
	2,461.0	2,078.8
Investment in eVerger joint venture	**2.8**	1.5
Corporate operations	**25.5**	29.1
Total assets	**2,489.3**	2,109.4
Segment liabilities		
Europe, Middle East & Africa	**(1,161.0)**	(967.2)
Americas	**(408.2)**	(356.7)
Asia Pacific	**(219.3)**	(126.9)
	(1,788.5)	(1,450.8)
Corporate operations	**(530.5)**	(512.0)
Total liabilities	**(2,319.0)**	(1,962.8)
Net assets	**170.3**	146.6
Capital expenditure:		
Europe, Middle East & Africa	**13.3**	14.5
Americas	**11.9**	11.2
Asia Pacific	**3.5**	3.3
Corporate operations	**2.7**	2.3
Capital expenditure	**31.4**	31.3

Notes to the consolidated financial statements

For the year ended 31 December 2005

5. Underlying results

Underlying results are stated before the following items:

	2005 £m	2004 £m
Offer period costs	**(1.7)**	-
Impairment of goodwill	**(6.5)**	-
Amortisation of purchased intangible assets	**(0.2)**	-
	(8.4)	-
Share of profit on disposal of joint venture investment	**1.3**	-
Impact on operating profit	**(7.1)**	-
Unrealised gains on non-hedge derivatives	**0.6**	-
Fair value gains on liabilities in respect of put option agreements	**0.3**	-
Impact on profit before tax	**(6.2)**	-

Offer period costs relate to the fees to advisors and other external costs associated with the unsolicited merger approaches received by the Company during the year. Impairment of goodwill is the write-off of the goodwill of one of the Group's companies in Japan (see note 13).

6. Operating profit

Operating profit has been arrived at after charging/(crediting):

	2005 £m	2004 £m
Net foreign exchange gains	**(0.3)**	(0.4)
Depreciation of property, plant and equipment	**18.5**	14.5
Amortisation of intangible assets included in operating expenses	**6.5**	7.3
Staff costs (see note 7)	**424.1**	363.3

A detailed analysis of auditors' remuneration charged to operating profit is provided below:

	2005 £m	2005 %	2004 £m	2004 %
Audit services				
- statutory audit	**2.0**	**52.6**	1.4	70.0
- audit-related regulatory reporting	**0.7**	**18.4**	-	-
	2.7	**71.0**	1.4	70.0
Tax advisory services	**0.7**	**18.5**	0.2	10.0
Other services	**0.4**	**10.5**	0.4	20.0
Total	**3.8**	**100**	2.0	100

Fees for other services principally comprise due diligence work on the Group's acquisitions.

A description of the work of the Audit Committee is set out in the corporate governance statement on page 36 and includes an explanation of how auditor objectivity is safeguarded when non-audit services are provided by the auditors.

In addition to the above, audit fees of £0.3 million were charged in 2005 in respect of the 2004 statutory audit of Group companies which were agreed and paid after the approval of the 2004 Annual Report.

Notes to the consolidated financial statements

For the year ended 31 December 2005

7. Staff costs

The average monthly number of employees was:

	2005 Number	2004 Number
Media communications	**6,965**	6,039
Market research	**5,240**	4,110
	12,205	10,149

Staff costs consist of:

	2005 £m	2004 £m
Wages and salaries	**364.7**	306.0
Social security costs	**51.6**	48.1
Other pension costs	**7.8**	9.2
	424.1	363.3

8. Investment income

	2005 £m	2004 £m
Interest receivable	**10.8**	6.8
	10.8	6.8

Interest receivable includes £0.1 million (2004: £0.1 million) in respect of the expected return on pension scheme assets.

9. Finance costs

	2005 £m	2004 £m
Interest payable on bank loans and overdrafts	**(1.9)**	(1.9)
Interest payable on loan notes, convertible debt, other loans and pension scheme liabilities	**(20.8)**	(7.5)
Imputed interest on deferred consideration	**(1.6)**	(1.2)
Fair value adjustments	**0.9**	–
	(23.4)	(10.6)
Amortisation of refinancing costs	**(1.3)**	(2.2)
	(24.7)	(12.8)

The charge of £24.7 million for the year ended 31 December 2005 includes £2.5 million arising from the change in accounting due to the adoption of IAS 32 and IAS 39 on 1 January 2005. Prior period comparatives have not been restated as the effective date of transition to these standards was 1 January 2005. The convertible bond has been separated into debt and an embedded derivative from 1 January 2005. The embedded derivative option is fair valued through the income statement. The impact of IAS 32 and 39 principally relates to additional accretion of the convertible bond to value at maturity, changes in fair value of the embedded derivative and other fair value adjustments on forward foreign exchange contracts.

Notes to the consolidated financial statements

For the year ended 31 December 2005

10. Tax on profit on ordinary activities

The tax charge is made up of the following:

	2005 £m	2004 £m
Current tax – UK taxation at 30% (2004: 30%)	-	-
Current tax - overseas	**31.3**	28.9
Adjustments in respect of prior years	**(1.1)**	(0.7)
	30.2	28.2
Deferred tax (note 21)	**(0.8)**	(0.8)
	29.4	27.4

The effective rate of tax is 29.3% (2004: 29.8%) based on the Group's IFRS underlying profit before tax, as defined in note 2 and note 5.

UK corporation tax is calculated at 30% (2004: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The total charge for the year can be reconciled to profit per the income statement as follows:

	2005 £m	2004 £m
Profit before taxation	**94.0**	91.9
Tax at the UK corporation tax rate of 30% (2004: 30%)	**28.2**	27.6
Adjustments in respect of prior years	**(1.1)**	(0.7)
Tax effect of expenses (income) that are not deductible (taxable) for tax purposes	**(1.3)**	(0.9)
Rate differences on overseas earnings	**5.3**	4.3
Tax losses carried forward in the period: UK	**4.2**	3.5
Tax losses utilised in the period: overseas	**(2.0)**	(2.5)
Other reconciling items	**(3.9)**	(3.9)
Tax expense for the year	**29.4**	27.4
Effective rate	**31.3%**	29.8%

The Group's profit before taxation all arises from continuing operations. Therefore the Group's tax charge also relates solely to continuing operations.

The deferred tax movements resulting from the adoption of IAS 32 and 39 on 1 January 2005 have been included within the adjustments to the opening 1 January 2005 balance sheet and have been taken directly to equity. In addition to the income expense charged to the income statement, a tax credit of £3.1 million has been recognised in equity in the current year in respect of deferred tax (note 21).

IAS 1 requires income from associates to be presented net of tax on the face of the income statement. The associates' tax is no longer included within the Group's total tax charge. Associates' tax included within "Net income from associates" for the year ended 31 December 2005 is £0.1 million (2004: £ 0.3 million).

Notes to the consolidated financial statements

For the year ended 31 December 2005

11. Dividends

	2005	2004
Ordinary shares of 5p each		
Dividend rate per share for the period	**1.65p**	1.45p
Declared and paid during the period	£m	£m
Final dividend for 2003 of 0.80p per share	-	8.9
Interim dividend for 2004 of 0.575p per share	-	6.4
Final dividend for 2004 of 0.875p per share	**9.8**	-
Interim dividend for 2005 of 0.65p per share	**7.3**	-
	17.1	15.3

Proposed but not yet declared or paid at the balance sheet date	£m	£m
Final dividend for 2004 of 0.875p per share	-	9.8
Final dividend for 2005 of 1.00p per share	**11.3**	-

The final dividend for 2005, if approved, will be paid on 2 June 2006 to all ordinary shareholders on the register at 12 May 2006.

12. Earnings per share

Earnings per ordinary share is calculated as follows:

	2005	2004
Basic		
Profit for the year attributable to equity holders of the parent	**£61.9m**	£61.0m
Adjusting items (note 5)	**£6.2m**	-
Underlying profit for the year	**£68.1m**	£61.0m
Weighted average number of ordinary shares in issue	**1,113.4m**	1,111.3m
Basic earnings per share	**5.6p**	5.5p
Adjusting items (note 5)	**0.5p**	-
Underlying basic earnings per share	**6.1p**	5.5p
Diluted		
Profit for the year attributable to equity holders of the parent	**£61.9m**	£61.0m
Adjusting items (note 5)	**£6.2m**	-
Underlying profit for the year	**£68.1m**	£61.0m
Weighted average number of ordinary shares in issue	**1,120.8m**	1,116.0m
Diluted earnings per share	**5.5p**	5.5p
Adjusting items (note 5)	**0.6p**	-
Underlying diluted earnings per share	**6.1p**	5.5p
Weighted average number of ordinary shares		
Basic weighted average number of ordinary shares	**1,113.4m**	1,111.3m
Dilutive potential ordinary shares: employee share options	**7.4m**	4.7m
Diluted weighted average number of ordinary shares	**1,120.8m**	1,116.0m

The calculation of basic and diluted earnings per share is based on profit after tax and minority interests. The weighted average number of shares excludes the Group's interest in own shares held through an ESOP trust. The Group's €165 million convertible bond and certain share options were anti-dilutive and consequently were excluded from the calculation of diluted earnings per share.

Notes to the consolidated financial statements

For the year ended 31 December 2005

13. Goodwill

COST	£m
At 1 January 2004	**427.5**
Additions	94.7
Transferred from associates	1.3
Disposals	(0.2)
Adjustments to prior period estimates of deferred consideration	(10.3)
Exchange differences	(19.2)
At 1 January 2005	**493.8**
Additions	180.0
Transferred from associates	1.0
Other acquisition adjustments	0.6
Adjustments to prior period estimates of deferred consideration	(3.1)
Exchange differences	35.4
At 31 December 2005	**707.7**

ACCUMULATED IMPAIRMENT LOSSES	£m
At 1 January 2004	15.3
Impairment losses for the year	-
Exchange differences	-
At 1 January 2005	15.3
Impairment losses for the year	6.5
Exchange differences	-
At 31 December 2005	**21.8**

CARRYING AMOUNT	£m
At 31 December 2005	**685.9**
At 31 December 2004	478.5

Goodwill is allocated for impairment testing purposes to groups of cash generating units which reflect how it is monitored for internal management purposes. This allocation largely represents the Group's primary and secondary reporting segments as set out below. Any goodwill associated with the individual cash generating units subsumed within these reporting segments is not individually significant when compared to the goodwill of the Group.

	2005	2004
	£m	£m
Aegis Media:		
- Europe, Middle East & Africa	**176.6**	96.1
- Americas	**101.2**	75.1
- Asia Pacific	**58.5**	54.1
Synovate		
- Europe, Middle East & Africa	**111.1**	80.2
- Americas	**170.7**	150.7
- Asia Pacific	**67.8**	22.3
	685.9	478.5

Notes to the consolidated financial statements

For the year ended 31 December 2005

13. Goodwill (continued)

The impairment review has resulted in an impairment charge of £6.5 million in respect of one of the Group's companies in Japan (2004 – impairments of £nil) following the deterioration in the performance of this business. The allocation of goodwill presented above is net of this impairment charge.

The recoverable amount of a cash generating unit is determined based on value-in-use calculations. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for the following four years based on estimated growth rates of between 6% and 16%. After this time, cash flows are extrapolated based on the estimated long-term growth in gross domestic product of 2.5%. Cash flow projections are discounted using a pre-tax discount rate of 12.75%.

Expected future cash flows are inherently uncertain and could materially change over time. They are significantly affected by a number of factors such as market growth, discount rates, currency exchange rates and future capital expenditure. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amounts to exceed their recoverable amounts.

Notes to the consolidated financial statements

For the year ended 31 December 2005

14. Intangible assets

COST	Software £m	Other £m	Total £m
At 1 January 2004	**22.4**	**4.7**	**27.1**
Additions			
- internally generated	0.8	-	0.8
- separately acquired	4.7	1.5	6.2
Acquired on acquisition of a subsidiary	1.4	3.1	4.5
Disposals	(0.3)	(0.5)	(0.8)
Exchange differences	(0.1)	(0.2)	(0.3)
At 1 January 2005	**28.9**	**8.6**	**37.5**
Additions			
- internally generated	3.0	-	3.0
- separately acquired	5.2	1.6	6.8
Acquired on acquisition of a subsidiary	1.0	-	1.0
Disposals	(2.4)	-	(2.4)
Exchange differences	1.0	0.3	1.3
At 31 December 2005	**36.7**	**10.5**	**47.2**
AMORTISATION			
At 1 January 2004	**13.1**	**3.4**	**16.5**
Charge for the year	6.8	0.5	7.3
Acquired on acquisition of a subsidiary	0.3	-	0.3
Disposals	(0.2)	(0.4)	(0.6)
Exchange differences	-	(0.1)	(0.1)
At 1 January 2005	**20.0**	**3.4**	**23.4**
Charge for the year	5.5	1.0	6.5
Acquired on acquisition of a subsidiary	0.6	-	0.6
Disposals	(2.2)	-	(2.2)
Exchange differences	0.1	-	0.1
At 31 December 2005	**24.0**	**4.4**	**28.4**
CARRYING AMOUNT			
At 31 December 2005	**12.7**	**6.1**	**18.8**
At 31 December 2004	8.9	5.2	14.1

The net book value of other intangible assets includes market research panel costs of £1.3 million (2004: £0.5 million), patents and trademarks of £4.7 million (2004: £4.6 million) and other of £0.1 million (2004: £0.1 million).

The net book value of intangible assets with indefinite useful economic lives is £3.4 million (2004: £3.1 million), principally relating to trade names. These are considered to have indefinite lives because it is the Group's intention to continue to invest in these assets and by doing so, their value will be protected and indeed enhanced. This continued investment will involve significant expenditure on training, recruitment, technological development and legal protection. £3.1 million (2004: £2.8 million) of these assets are included within the Aegis Media business segment and the Americas geographical segment and £0.3 million (2004: £0.3 million) are included within corporate operations. Internally-generated intangible assets of £4.0 million (2004: £0.8 million) have not yet been subject to amortisation as development of these assets is not yet complete.

Notes to the consolidated financial statements

For the year ended 31 December 2005

15. Property, plant and equipment

	Freehold land and buildings £m	Long leasehold and leasehold improvements £m	Office furniture, fixtures, equipment and vehicles £m	Total £m
COST				
At 1 January 2004	**14.7**	**27.1**	**76.3**	**118.1**
Additions	0.1	6.0	15.7	21.8
Acquired on acquisition of a subsidiary	-	0.4	3.2	3.6
Disposals	(8.6)	(0.4)	(9.6)	(18.6)
Exchange differences	(0.2)	(0.6)	(1.7)	(2.5)
At 1 January 2005	**6.0**	**32.5**	**83.9**	**122.4**
Additions	0.3	7.0	14.2	21.5
Acquired on acquisition of a subsidiary	1.0	0.7	6.8	8.5
Disposals	(1.3)	(2.6)	(0.9)	(4.8)
Exchange differences	(0.2)	1.3	3.3	4.4
At 31 December 2005	**5.8**	**38.9**	**107.3**	**152.0**
ACCUMULATED DEPRECIATION				
At 1 January 2004	**7.2**	**14.0**	**53.6**	**74.8**
Charge for the year	0.4	3.5	10.6	14.5
Acquired on acquisition of a subsidiary	-	0.1	0.9	1.0
Disposals	(5.3)	(0.2)	(8.2)	(13.7)
Exchange differences	(0.1)	(0.2)	(1.4)	(1.7)
At 1 January 2005	**2.2**	**17.2**	**55.5**	**74.9**
Charge for the year	0.3	4.3	13.9	18.5
Acquired on acquisition of a subsidiary	-	0.4	3.9	4.3
Disposals	(0.7)	(4.3)	1.8	(3.2)
Exchange differences	(0.1)	0.5	2.5	2.9
At 31 December 2005	**1.7**	**18.1**	**77.6**	**97.4**
CARRYING AMOUNT				
At 31 December 2005	**4.1**	**20.8**	**29.7**	**54.6**
At 31 December 2004	3.8	15.3	28.4	47.5

At 31 December 2005, the Group had no capital commitments contracted, but not provided, for the acquisition of property, plant and equipment (2004: £nil).

Notes to the consolidated financial statements

For the year ended 31 December 2005

16. Interests in associates and joint ventures

a) Carrying amount

	Associates	Joint venture	Total
	£m	£m	£m
At 1 January 2005	**8.4**	**1.5**	**9.9**
Additions	2.1	-	2.1
Transfer to subsidiary on acquisition of additional stake	(1.2)	-	(1.2)
Share of profit	(0.1)	-	(0.1)
Share of profit on disposal of joint venture investment	-	1.3	1.3
Dividends received	(0.2)	-	(0.2)
Exchange differences	0.5	-	0.5
	9.5	**2.8**	**12.3**

Investments in associates and the eVerger joint venture at 31 December 2005 include goodwill of £3.3 million and £nil respectively (2004: £4.3 million and £nil respectively).

b) Investments in associates

The following represents the aggregate amount of the Group's interests in associated companies' assets, liabilities, revenues and profit:

	2005	2004
	£m	£m
Total assets	**10.6**	12.9
Total liabilities	**(4.4)**	(8.8)
	6.2	4.1
Goodwill	**3.3**	4.3
	9.5	8.4
Total revenues	**3.5**	2.8
Total profit	**(0.1)**	1.4

The following represents the summarised gross financial information of the Group's associated companies' assets, liabilities, revenues and profit:

	2005	2004
	£m	£m
Total assets	**63.8**	42.5
Total liabilities	**(8.9)**	(2.9)
Total revenues	**16.0**	17.4
Total profit	**1.1**	4.1

A list of the significant investments in associates, including the name, country of incorporation and proportion of ownership interest is given in the notes to the Company's separate financial statements. All associates have year-end reporting dates of 31 December. The Group has a 25% interest in Qin Jia Yuan Advertising for which the fair value, based on a published price quotation, is £14.7 million, compared to the book value of £5.3 million.

c) Interest in joint venture

The Group has a 44.65% shareholding in eVerger Limited, an investment company incorporated in Guernsey. The period-end reporting date for eVerger is 30 September (previously 31 March). The Group's share of assets at 31 December 2005 is £2.8 million (2004: £1.5 million). The Group's share of liabilities at 31 December 2005 is £nil (2004: £nil).

Notes to the consolidated financial statements

For the year ended 31 December 2005

17. Available for sale financial assets

	2005 £m	2004 £m
Listed securities	**2.7**	-

The investment above represents a stake of approximately 2.1% in Harris Interactive, Inc.

The Group adopted IAS 32 and IAS 39 from 1 January 2005. Therefore it should be noted that the comparative information provided in this note is not comparable with the 2005 information. The investment is recorded at market value at 31 December 2005. The investment was recorded at a cost of £3.1 million at 31 December 2004 within fixed asset investments.

18. Trade and other receivables

	2005 £m	2004 £m
Trade receivables	**1,236.3**	1,130.7
Prepayments and accrued income	**82.2**	67.2
Other receivables	**87.1**	70.3
	1,405.6	1,268.2

The average credit period taken for trade receivables is 56 days (2004: 54 days). The directors consider that the carrying amount of trade and other receivables approximates to their fair value. Trade receivables are stated net of a bad debt provision of £26.2 million (2004: £27.5 million).

19. Trade and other payables

	2005 £m	2004 £m
Trade payables	**1,220.3**	1,136.0
Accruals and deferred income	**188.4**	194.4
Other payables	**298.6**	229.3
	1,707.3	1,559.7

The average credit period taken for trade payables is 61 days (2004: 60 days). The directors consider that the carrying amount of trade payables approximates to their fair value. Other payables includes deferred consideration and liabilities in respect of put option agreements (see note 28).

Notes to the consolidated financial statements

For the year ended 31 December 2005

20. Financial instruments

The Group has established objectives concerning the holding and use of financial instruments which are discussed in further detail in the Treasury Management section of the Financial Review on page 22. The key objective is to manage the financial risks faced by the Group, which are discussed below.

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

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

The Group adopted IAS 32 and IAS 39 from 1 January 2005. Therefore it should be noted that the comparative information provided in this note is not comparable with the 2005 information.

Management of financial risk

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

Currency risk

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

The Group's foreign currency management policy requires subsidiaries to hedge all transactions and financial instruments with material currency exposures. The Group is a party to a number of foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets. These are held at fair value at the balance sheet date. The total notional amounts of outstanding forward foreign exchange contracts that the Group has committed are shown below.

	2005	2004
	£m	£m
Forward foreign exchange contracts	**21.2**	10.5

The fair values of currency derivatives included in the balance sheet are based on market values supplied by the banks through which the currency derivatives were acquired. Movements in the fair value of forward foreign exchange contracts are taken to the income statement.

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.

It is estimated that a strengthening of Sterling by 1% would reduce 2005 profit before tax by £1.2 million.

Liquidity risk

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

At 31 December 2005, the Group had net debt (before issue costs of new debt) of £194.9 million (2004: £52.1 million). The Group had cash and cash equivalents of £280.7 million at 31 December 2005 (2004: £276.0 million) and gross borrowings of £475.6 million (2004: £327.9 million). The Group's principal debt instruments are subject to certain financial covenants.

Included within gross borrowings is £121.5 million (2004: £122.6 million) of 2 per cent convertible bonds due in 2006. These bonds were issued on 15 May 2002.

Also included within gross borrowings is £92.9 million (US$160 million) (2004: £83.0 million (US$160 million)) of unsecured loan notes issued on 20 November 2000, which are repayable in full between 2006 and 2008, and £198.5 million (US$342 million) (2004: £nil) of unsecured loan notes issued on 28 July 2005, which are repayable in full between 2012 and 2017.

In addition to the net debt at 31 December 2005, the Group has undrawn committed facilities of £294.9 million (2004: £231.6 million).

Notes to the consolidated financial statements

For the year ended 31 December 2005

20. Financial instruments (continued)

Interest rate risk

The Group's convertible bond and the unsecured loan notes referred to above are at fixed rates. All other borrowings are at floating rates. The Group has entered into long-term hedging arrangements to swap the interest relating to US$160 million of unsecured loan notes (Private Placement Debt - November 2000) 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

The Group's credit risk is primarily attributable to its trade receivables and cash balances. The amounts presented in the balance sheet in respect of trade receivables are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. 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.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including financial instruments, in the balance sheet.

Short-term debtors and creditors and currency disclosures

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

Convertible bond

On 15 May 2002, the Group issued €165 million of convertible bonds, due in 2006. The bonds may be redeemed, at the option of the Company, at any time on or after 29 May 2005. Unless previously redeemed, the bonds are convertible into ordinary 5p shares, at the option of the holder, between 25 June 2002 and 8 May 2006. Unless previously redeemed or converted, the bonds will be redeemed on 15 May 2006 at 107.95% of their principal amount. The initial conversion price was 149.8 pence per ordinary share and is subject to adjustment in certain circumstances relating to changes in the capital structure of the Company or a change of control. If all the bonds were to be converted at the initial conversion price, 67.5 million ordinary shares would be issued.

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

The net proceeds received from the issue of the convertible bond have been split between the host contract liability element and an equity conversion component, representing the fair value of the embedded option to convert the liability into equity of the Group. The equity conversion component is separately included within liabilities. This component is then marked to market at each balance sheet date with changes in fair value being taken through the income statement. At the date of issue, the fair value of the host contract liability component was valued at £91.1 million, excluding unamortised issue costs, and the equity conversion component was £11.9 million. At 31 December 2005, the host contract liability component was £121.5 million (1 January 2005: £122.6 million), excluding unamortised issue costs, and the equity conversion component was £nil (1 January 2005: £0.3 million).

Exchange differences arising on the re-translation of the convertible bond are taken directly to reserves as the convertible bond is used to provide a hedge against Euro-denominated investments.

Issue costs are deducted from the amount of funds received and amortised over the term of the debt.

Private Placement Debt – November 2000

On 20 November 2000, the Group issued US$160 million of unsecured loan notes, repayable between 2006 and 2008. These loan notes are guaranteed by the Company and certain of its subsidiaries. Interest rate swaps have been entered into for the duration of the loan notes to convert this fixed rate borrowing into floating rate based upon the US six-month LIBOR rate. These interest rate swaps are designated as hedging instruments of interest rate risk in respect of this debt. When the hedge relationship is effective, the carrying value of this debt is adjusted by the changes in fair value attributable to interest rate risk at the balance sheet date. The Group is exposed to cash flow interest rate risk in respect of the above borrowings being at floating rates.

Notes to the consolidated financial statements

For the year ended 31 December 2005

20. Financial instruments (continued)

Interest rate swaps

The fair value of the interest rate swaps entered into at 31 December 2005 and included in the balance sheet is £3.1million (2004: £nil). The fair value is based on a discounted cash flow model and market interest yield curves applicable and 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. £1.9 million of this is expected to be realised in 2006. The interest rate swaps are designated and effective as fair value hedges against changes in the fair value of the debt caused by changes in interest rates. Movements in the fair value of the interest rate swaps are taken to the income statement where they offset against very similar but opposite movements in the fair value of the debt caused by movements in interest rates.

Private Placement Debt – July 2005

On 28 July 2005, the Group issued US$342 million of unsecured loan notes, repayable between 2012 and 2017. On 9 November 2005 cross currency swaps were entered into for US$142 million of the loan notes due in 2012 and US$50 million of the loan notes due in 2015 to convert this US$ fixed rate borrowing into EUR fixed rate borrowing. These loan notes are guaranteed by the Company and certain of its subsidiaries and are used to provide a hedge against US dollar-denominated investments. To the extent that this hedging relationship is effective, exchange differences arising on the re-translation of the US$150 million of debt not impacted by the cross currency swaps are taken directly to reserves.

Cross currency swaps

The fair value of the cross currency swaps entered into at 31 December 2005 is £(1.6) million. The fair value is based on a discounted cash flow model and market interest yield curves applicable and represents movements in the Euro/US$ foreign exchange spot rate and in Euro and US$ interest rate yields. The cross currency swaps are synthetically split for accounting purposes, to reflect the Group's functional currency of Sterling. The US$/Sterling leg of the swaps act as cash flow hedges against the Group's US$ loan notes and the Euro/Sterling leg of the swaps act as net investment hedges in respect of certain of the Group's Euro-denominated investments.

a) Maturity profile of Group financial assets and liabilities

Financial assets

	IFRS					Prior to the adoption of IAS 32 and 39				
	Less than 1 year £m	**1-2 years years £m**	**2-5 years years £m**	**More than 5 years £m**	**Total 2005 £m**	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total 2004 £m
Current										
Cash at bank and in hand and short term deposits	**280.7**	-	-	-	**280.7**	276.0	-	-	-	276.0
Derivative financial assets:										
- Interest rate swaps	**0.3**	-	-	-	**0.3**	-	-	-	-	-
	281.0	-	-	-	**281.0**	276.0	-	-	-	276.0
Trade and other receivables	**1,405.6**	-	-	-	**1,405.6**	1,268.2				1,268.2
Total current	**1,686.6**	-	-	-	**1,686.6**	1,544.2	-	-	-	1,544.2
Non-current										
Derivative financial assets:										
- Cross currency swaps	-	-	-	**0.7**	**0.7**	-	-	-	-	-
- Interest rate swaps	-	**2.4**	**0.4**	-	**2.8**	-	-	-	-	-
Total non-current	-	**2.4**	**0.4**	**0.7**	**3.5**	-	-	-	-	-
Total	**1,686.6**	**2.4**	**0.4**	**0.7**	**1,690.1**	1,544.2	-	-	-	1,544.2

In addition to the financial assets above, the Group had available-for-sale financial asset investments of £2.7million (2004: £3.1 million) principally in US dollars (see note 17) and other financial assets of £1.4 million (2004: £nil) which do not yield an interest-related income and which do not have a fixed maturity date.

There are no material differences between the book and fair values of the Group's financial assets at 31 December 2005. The fair values of financial assets reflect market values or are based upon readily available market data.

Notes to the consolidated financial statements

For the year ended 31 December 2005

20. Financial instruments (continued)

a) Maturity profile of Group financial assets and liabilities (continued)

Financial liabilities

	IFRS					Prior to the adoption of IAS 32 and 39				
	Less than 1 year £m	**1-2 years £m**	**2-5 years £m**	**More than 5 years £m**	**Total 2005 £m**	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total 2004 £m
Current										
Bank overdrafts	**3.0**	-	-	-	**3.0**	38.0	-	-	-	38.0
Loans	**59.5**	-	-	-	**59.5**	83.9	-	-	-	83.9
	62.5	-	-	-	**62.5**	121.9	-	-	-	121.9
Less: issue costs of debt to be amortised	**(0.6)**	-	-	-	**(0.6)**	(0.6)	-	-	-	(0.6)
	61.9	-	-	-	**61.9**	121.3	-	-	-	121.3
Convertible bond	**121.5**	-	-	-	**121.5**	-	-	-	-	-
Less: issue costs of debt to be amortised	**(0.2)**	-	-	-	**(0.2)**	(0.7)	-	-	-	(0.7)
	121.3	-	-	-	**121.3**	(0.7)	-	-	-	(0.7)
Derivative financial liabilities: - Forward foreign exchange contracts	**0.1**	-	-	-	**0.1**	-	-	-	-	-
	183.3	-	-	-	**183.3**	120.6	-	-	-	120.6
Trade and other payables	**1,707.3**	-	-	-	**1,707.3**	1,559.7	-	-	-	1,559.7
Total current	**1,890.6**	-	-	-	**1,890.6**	1,680.3	-	-	-	1,680.3
Non-current										
Bank loans	-	**0.2**	**12.8**	**1.0**	**14.0**	-	0.4	-	-	0.4
Loan notes	-	**71.2**	**7.9**	**198.5**	**277.6**	-	14.8	68.2	-	83.0
	-	**71.4**	**20.7**	**199.5**	**291.6**	-	15.2	68.2	-	83.4
Less: issue costs of debt to be amortised	-	**(0.4)**	**(0.8)**	**(0.2)**	**(1.4)**	-	(0.4)	(0.7)	-	(1.1)
	-	**71.0**	**19.9**	**199.3**	**290.2**	-	14.8	67.5	-	82.3
Convertible bond	-	-	-	-	-	-	122.6	-	-	122.6
Less: issue costs of debt to be amortised	-	-	-	-	-	-	(0.2)	-	-	(0.2)
	-	-	-	-	-	-	122.4	-	-	122.4
Derivative financial liabilities: - Cross currency swap	-	-	-	**2.3**	**2.3**	-	-	-	-	-
	-	**71.0**	**19.9**	**201.6**	**292.5**	-	137.2	67.5	-	204.7
Other long-term liabilities	-	**45.3**	**55.1**	**9.3**	**109.7**	-	46.9	6.2	6.8	59.9
Total non-current	-	**116.3**	**75.0**	**210.9**	**402.2**	-	184.1	73.7	6.8	264.6
Total	**1,890.6**	**116.3**	**75.0**	**210.9**	**2,292.8**	1,680.3	184.1	73.7	6.8	1,944.9

There are no material differences between the book and fair values of the Group's financial liabilities at 31 December 2005. The fair value of financial liabilities reflect market values or are based upon readily available market data.

Notes to the consolidated financial statements

For the year ended 31 December 2005

20. Financial instruments (continued)

a) Maturity profile of Group financial assets and liabilities (continued)

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:

	2005 £m	2004 £m
Expiring within one year	44.9	-
Expiring between one and two years	-	41.6
Expiring between two and five years	250.0	190.0
	294.9	231.6

b) Interest rate profile

The following interest rate and currency profile of the Group's financial assets and liabilities is after taking into account any interest rate and cross currency swaps entered into by the Group.

Financial assets

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	2005 Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	2004 Total £m
GBP	-	35.4	-	35.4	-	22.8	-	22.8
USD	-	34.3	-	34.3	-	117.7	-	117.7
EUR	-	128.3	-	128.3	-	71.2	-	71.2
Other worldwide currencies	-	82.7	-	82.7	-	64.3	-	64.3
	-	280.7	-	280.7	-	276.0	-	276.0
Trade and other receivables				1,405.6				1,268.2
Derivative financial assets				3.8				-
				1,690.1				1,544.2

Cash and cash equivalents of £280.7 million (2004: £276.0 million) represent the floating rate financial assets above.

In addition to the financial assets above, the Group had available-for-sale financial asset investments of £2.7million (2004: £3.1 million) principally in US dollars and other financial assets of £1.4 million (2004: £nil) which do not yield an interest-related income.

Notes to the consolidated financial statements

For the year ended 31 December 2005

20. Financial instruments (continued)

b) Interest rate profile (continued)

Financial liabilities

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	2005 Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	2004 Total £m
GBP	-	0.8	-	0.8	-	82.6	-	82.6
USD	87.1	96.0	5.4	188.5	-	83.3	-	83.3
EUR	231.5	2.3	1.4	235.2	122.6	13.8	-	136.4
Other worldwide currencies	-	51.1	-	51.1	-	25.6	-	25.6
Gross borrowings	318.6	150.2	6.8	475.6	122.6	205.3	-	327.9
Issue costs of debt	-	-	(2.2)	(2.2)	-	-	(2.6)	(2.6)
	318.6	150.2	4.6	473.4	122.6	205.3	(2.6)	325.3
Trade and other payables				1,707.3				1,559.7
Other long-term liabilities				109.7				59.9
Derivative financial liabilities				2.4				-
				2,292.8				1,944.9

Included within other long-term liabilities is £0.1 million (2004: £0.2 million) in respect of financial lease obligations.

The weighted average interest rates paid were as follows:

	2005 %	2004 %
Bank overdrafts	2.9	3.0
Bank loans	4.4	3.0
Loan notes	5.0	3.1
Convertible bond	7.2	7.2

The Group's borrowings, excluding the US$342 million of unsecured loan notes issued in 2005 and the convertible bond but including the US$160 million 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 US$160 million unsecured loan notes from fixed into floating rates.

At 31 December 2005, it is estimated that a general simultaneous parallel shift of 1% in interest rates would increase the Group's reported profit by approximately £2.3 million.

Notes to the consolidated financial statements

For the year ended 31 December 2005

21. Deferred tax

	Convertible Bonds £m	Recognition of Financial Liabilities £m	Other £m	Losses £m	Total £m
At 1 January 2005-asset	-	-	1.5	1.4	2.9
(Charge)/credit to equity on adoption of IAS32 and 39	(1.5)	4.3	(0.2)	0.5	3.1
Acquisitions - asset	-	-	0.3	-	0.3
Reclassifications - (charge)	-	-	(0.7)	-	(0.7)
Credit/(charge) to profit	1.0	(0.2)	-	-	0.8
At 31 December 2005 - asset/(liability)	**(0.5)**	**4.1**	**0.9**	**1.9**	**6.4**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset).

	2005 £m	2004 £m
Deferred tax liability	**(1.3)**	(1.5)
Deferred tax asset	**7.7**	4.4
	6.4	2.9

The Group has the following temporary differences in respect of which no deferred tax asset has been recognised.

	2005 £m
Losses - revenue	**45.8**
Losses - capital	**90.4**
Other temporary differences	**26.1**
	162.3

The tax losses and other temporary differences have no expiry date. The total amount of tax losses and other temporary differences for which no deferred tax was recognised at 31 December 2004 was £170 million.

At the balance sheet date, the aggregate amount of earnings in overseas subsidiaries for which deferred tax liabilities have not been recognised was £223.3 million. No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

22. Provisions

	Vacant properties 2005 £m	Vacant properties 2004 £m
At 1 January	**0.7**	0.4
Additional provision in the year	**0.3**	0.7
Utilisation of provision	**(0.2)**	(0.4)
Exchange differences	**0.1**	-
At 31 December	**0.9**	0.7

The Group's vacant leasehold properties are principally located in the US. Provision has been made for the residual lease commitments for the remaining period of the leases, which at 31 December 2005 is approximately four years.

Notes to the consolidated financial statements

For the year ended 31 December 2005

23. Share capital

	2005 Number of ordinary shares	2005 £m	2004 Number of ordinary shares	2004 £m
Authorised:				
Ordinary shares of 5p each	**1,500,000,000**	**75.0**	1,500,000,000	75.0
Issued, allotted, called up and fully paid:				
At 1 January	**1,119,043,525**	**55.9**	1,112,204,529	55.6
Issue of shares by the Company	**9,006,132**	**0.5**	6,838,996	0.3
At 31 December	**1,128,049,657**	**56.4**	1,119,043,525	55.9

The Company has one class of ordinary shares which carry no right to fixed income. The ordinary shares of 5p each have full voting rights.

The Company issued a total of 9,006,132 shares in the year with an aggregate nominal value of £450,307 (2004: £341,950), 8,896,954 of which were due to the exercise of share options. The total share premium arising on the issue of shares in the year was £7,958,000 (2004: £4,627,890).

Under the Group's share option schemes, there were outstanding options over 87,745,619 ordinary shares of 5p at 31 December 2005 (2004: 107,977,115), for which the participants have the right to exercise their options at prices ranging from 26.5p to 219.6p. These options are exercisable between 31 December 2005 and 30 June 2015.

24. Own shares

	2005 £m	2004 £m
At 1 January	**4.3**	1.6
Purchase of own shares	**5.8**	2.7
At 31 December	**10.1**	4.3

At 31 December 2005, the Group's ESOP (the 'Aegis Group Employee Share Trust') held 11,000,000 ordinary Shares in the Company with a nominal value of £550,000 and a market value of £13.4 million.

At 31 December 2004, the Group's ESOP held 5,000,000 ordinary Shares in the Company with a nominal value of £250,000 and a market value of £5.4 million.

The own shares reserve represents the cost of shares in Aegis Group plc acquired in the open market by the Trust using funds provided by Aegis Group plc. The Trust has waived any entitlement to the receipt of dividends in respect of all of its holding of the Company's ordinary Shares. The Trust has purchased the shares to satisfy future share options and share awards under the Group's share-based payment schemes.

25. Share premium account

	2005 £m	2004 £m
At 1 January	**210.9**	206.3
Issue of shares by the Company	**8.0**	4.6
At 31 December	**218.9**	210.9

Notes to the consolidated financial statements

For the year ended 31 December 2005

26. Consolidated reconciliation of total equity

	Share capital £m	Own shares £m	Share premium account £m	Capital redemption reserve £m	Foreign currency translation reserve £m	Accumulated losses £m	**Total £m**	Minority interest £m	Potential acquisition of minority interests £m	**Total equity £m**
At 1 January 2004 as restated	55.6	(1.6)	206.3	0.2	-	(164.8)	**95.7**	4.9	-	**100.6**
Total recognised income and expense	-	-	-	-	(8.5)	61.0	**52.5**	3.6	-	**56.1**
New share capital subscribed	0.3	-	4.6	-	-	-	**4.9**	-	-	**4.9**
Purchase of shares by ESOP	-	(2.7)	-	-	-	-	**(2.7)**	-	-	**(2.7)**
Credit for share-based incentive schemes	-	-	-	-	-	3.8	**3.8**	-	-	**3.8**
Other movements	-	-	-	-	-	-	-	2.3	-	**2.3**
Dividends	-	-	-	-	-	(15.3)	**(15.3)**	(3.1)	-	**(18.4)**
At 31 December 2004 as restated	55.9	(4.3)	210.9	0.2	(8.5)	(115.3)	**138.9**	7.7	-	**146.6**
Changes in accounting policy for first time adoption of IAS 32 and IAS 39	-	-	-	-	-	(24.4)	**(24.4)**	-	(18.6)	**(43.0)**
At 1 January 2005 as restated	55.9	(4.3)	210.9	0.2	(8.5)	(139.7)	**114.5**	7.7	(18.6)	**103.6**
Total recognised income and expense	-	-	-	-	14.2	59.0	**73.2**	2.8	-	**76.0**
New share capital subscribed	0.5	-	8.0	-	-	-	**8.5**	-	-	**8.5**
Purchase of shares by ESOP	-	(5.8)	-	-	-	-	**(5.8)**	-	-	**(5.8)**
Credit for share-based incentive schemes	-	-	-	-	-	4.5	**4.5**	-	-	**4.5**
Other movements	-	-	-	-	-	-	-	0.7	2.3	**3.0**
Dividends	-	-	-	-	-	(17.1)	**(17.1)**	(2.4)	-	**(19.5)**
At 31 December 2005	56.4	(10.1)	218.9	0.2	5.7	(93.3)	**177.8**	8.8	(16.3)	**170.3**

The capital redemption reserve represents the conversion, issue and redemption of shares by the company, less expenses.

The foreign currency translation reserve represents exchange differences arising upon consolidation. For consolidation purposes, the trading results and cash flows in foreign currencies, arising in foreign subsidiaries, are translated into sterling at average exchange rates for the period. Assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. The difference is taken to the foreign currency translation reserve.

The potential acquisition of minority interests reserve represents the Group's initial best estimate of the amount it is likely to pay on outstanding put option agreements, should the minority interests exercise put options which require the Group to purchase the outstanding minority interest in subsidiaries in which the Group has a shareholding of less than 100%.

Notes to the consolidated financial statements

For the year ended 31 December 2005

27. Acquisition of subsidiaries

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

Company	Country of incorporation	% Acquired (Total Group holding)	Date of acquisition
Deconstruct	UK	100	January
Dr Pichutta	Germany	25 (55)	January
Far Far	Sweden	100	January
Aztec	Australia	100	March
Columbus	Belgium	100	March
RSM	Sweden	100	April
Coral Pacific	Japan	100	May
Hypermedia	Poland	100	May
Molecular	USA	100	May
AMT	Italy	100	June
ARTeam	France	100	June
Posterscope Taiwan	Taiwan	26 (75)	June
Digithais	Thailand	100	July
MedyaTurk	Turkey	100	July
Posterscope Philippines	Philippines	100	July
Webanalysis	Sweden	100	July
glue	UK	100	August
Western Star	Germany	100	August
Brindley Advertising	Ireland	100	September
Filter Group	Thailand	75 (100)	September
Market Equity	Australia	100	September
Kirowski	Hungary	100	October
Just Media	UK	100	October
Planete Interactive	France	98	November
Plus Remark	Turkey	100	November
WebContents	France	98	November
Kommandarm	Russia	51	December
Univero	Sweden	100	December
Bloecher and Partner	Germany	100	December

If the acquisitions above had been completed on the first day of the financial year, Group revenues for 2005 would have been £914.1 million and Group profit attributable to equity holders of the parent would have been £60.4 million.

Notes to the consolidated financial statements

For the year ended 31 December 2005

27. Acquisition of subsidiaries (continued)

Initial consideration, including acquisition costs, totalled £105.5 million with estimated deferred consideration of £88.9 million payable between 2006 and 2010, subject to performance criteria. A summary of the net assets acquired and goodwill arising is given below.

Net assets/(liabilities) acquired:	Book value acquired	Accounting policy adjustments (a)	Fair value adjustments (b)	Fair value of net assets/ (liabilities)
	£m	£m	£m	£m
Intangible fixed assets	0.4	-	-	0.4
Property plant and equipment	4.6	(0.1)	(0.3)	4.2
Deferred tax asset	1.4	-	(1.1)	0.3
Trade and other receivables	44.9	(0.2)	0.9	45.6
Inventory: work in progress	3.8	(1.6)	-	2.2
Cash and cash equivalents	17.2	-	-	17.2
Creditors	(51.1)	(1.6)	(1.4)	(54.1)
Net assets	**21.2**	**(3.5)**	**(1.9)**	**15.8**
Minority interest				(1.4)
				14.4
Goodwill capitalised in the period				180.0
Consideration				194.4

Satisfied by:	
Initial cash consideration	100.2
Direct costs of acquisition	5.3
Deferred consideration	88.9
	194.4

Provisional adjustments have been made as follows:

(a) Accounting policy adjustments have been made in order to align the balance sheets of acquired entities with the Group's accounting policies.

(b) Provision has been made to properly reflect the fair value of existing assets and liabilities, principally onerous leases, in the Group's balance sheet.

Notes to the consolidated financial statements

For the year ended 31 December 2005

28. Other long-term liabilities

	2005	2004
	£m	£m
Deferred consideration	93.9	41.3
Liabilities in respect of put option agreements	5.1	-
Other	10.7	18.6
At 31 December	109.7	59.9

Other long-term liabilities of £10.7 million (2004: £18.6 million) include net pension liabilities (note 32).

a) Deferred consideration

Deferred consideration, which has been provided for in creditors, may be paid to the vendors of certain subsidiary undertakings in the years to 2010. 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 2005 for payments that may be due is as follows:

	2005	2004
	£m	£m
Within one year	45.7	48.6
Between one and two years	41.4	35.1
Between two and five years	52.5	6.2
At 31 December	139.6	89.9

The minimum liability is £55.9 million and the maximum liability is £175.2 million.

b) Liabilities in respect of put option agreements

There are put options held by certain minority interest shareholders in respect of a small number of Group companies. The Group adopted IAS 32 and IAS 39 from 1 January 2005. Since this date, the Group recognises its best estimate of the amount it is likely to pay, should these options be exercised by the minority interests, as a liability in the balance sheet. It should be noted that the prior year information provided in this note is not comparable with the 2005 information.

	2005	2004
	£m	£m
Options exercisable within one year	10.8	-
Options exercisable in more than one year	5.1	-
At 31 December	15.9	-

Notes to the consolidated financial statements

For the year ended 31 December 2005

29. Notes to the cash flow statement

	2005 £m	2004 £m
Operating profit	**107.9**	97.9
Adjustments for:		
Depreciation of property, plant and equipment	**18.5**	14.5
Amortisation of intangible assets	**6.5**	7.3
Impairment of goodwill	**6.5**	-
Share of results of joint venture – profit on sale of investment	**(1.3)**	-
Share of results of associated undertakings	**0.1**	(1.4)
(Profit)/loss on disposal of property, plant and equipment	**(0.6)**	0.1
Share-based payments	**4.5**	3.8
Other non-cash movements	**0.1**	(1.4)
	142.2	120.8
(Increase) in receivables	**(63.3)**	(14.3)
(Increase)/decrease in inventory: work in progress	**(4.4)**	0.8
(Decrease)/increase in payables	**(6.4)**	14.4
	(74.1)	0.9
Cash generated from operations	**68.1**	121.7

	1 January 2005 £m	Cash flow £m	Other non-cash changes £m	Exchange movement £m	**31 December 2005 £m**
Analysis of net debt					
Cash and cash equivalents	276.0	(3.9)	-	8.6	**280.7**
Overdrafts	(38.0)	35.1	-	(0.1)	**(3.0)**
	238.0	31.2	-	8.5	**277.7**
Debt due within one year	(84.0)	37.6	(131.9)	(2.2)	**(180.5)**
Debt due after more than one year	(208.8)	(205.8)	122.6	(0.1)	**(292.1)**
Net debt before issue costs of debt	(54.8)	(137.0)	(9.3)	6.2	**(194.9)**
Issue costs of debt	2.6	0.9	(1.3)	-	**2.2**
Total	(52.2)	(136.1)	(10.6)	6.2	**(192.7)**

Notes to the consolidated financial statements

For the year ended 31 December 2005

30. Operating lease arrangements

	Land and buildings 2005 £m	Other 2005 £m	Total 2005 £m	Land and buildings 2004 £m	Other 2004 £m	Total 2004 £m
Lease payments under operating leases recognised in income for the year	**24.2**	**3.8**	**28.0**	26.4	3.8	30.2

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings 2005 £m	Other 2005 £m	Total 2005 £m	Land and buildings 2004 £m	Other 2004 £m	Total 2004 £m
Within one year	**26.6**	**2.6**	**29.2**	38.0	2.5	40.5
In the second to fifth years inclusive	**62.2**	**3.7**	**65.9**	43.6	2.7	46.3
After five years	**29.6**	**0.2**	**29.8**	21.1	0.2	21.3
	118.4	**6.5**	**124.9**	102.7	5.4	108.1

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 5.9 years and rentals are fixed for an average of 1.5 years.

Notes to the consolidated financial statements

For the year ended 31 December 2005

31. Share-based payments

The Group recognised a total expense of £4.5 million (2004: £3.8 million) in respect of all share-based payments in the year. Share-based payments include share options and conditional share awards.

Share options

The Group issues share options to certain employees. The grant price for share options is equal to the average quoted market price of the Company shares on the date of grant. The vesting period is typically three years. If share options remain unexercised after a period of ten years from the date of grant, the options expire. Share options are forfeited if the employee leaves the Group before the options vest and are subject to EPS performance conditions. Further details are provided in the Remuneration Report.

	2005		2004	
	Options (millions)	**Weighted average exercise price (£)**	Options (millions)	Weighted average exercise price (£)
Outstanding at beginning of period	**108.0**	**1.10**	104.6	1.10
Granted during the period	**5.6**	**1.02**	18.7	0.96
Forfeited during the period	**(17.6)**	**1.38**	(8.5)	1.13
Exercised during the period	**(8.3)**	**0.94**	(6.8)	0.73
Outstanding at end of period	**87.7**	**1.04**	108.0	1.10
Exercisable at end of period	**10.5**	**0.85**	14.7	0.84

The weighted average share price at the date of exercise for share options exercised during the period was £0.94. The options outstanding at 31 December 2005 had a weighted average exercise price of £1.04, and a weighted average remaining contractual life of 5.9 years. The fair value per option granted (weighted average) in the year was £0.28 (2004: £0.27).

The fair value of share options was determined using a stochastic model using the assumptions given in the table below:

	2005	2004
Weighted average share price	**£1.02**	£0.97
Weighted average exercise price	**£1.03**	£0.96
Expected volatility	**25%**	25%
Risk free rate	**4.7%**	4.7%
Expected dividend yield	**1.4%**	1.4%

Expected volatility was determined by considering the historical volatility of the Group's share price over the previous three years with certain periods where the share price was particularly volatile for specific reasons, being disregarded as these were not considered to be indicative of expected future volatility. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised a total expense of £2.3 million (2004: £2.2 million) in respect of share options in the year.

Conditional share awards

The Group issues conditional share awards to certain employees. The vesting period is typically three years. The extent to which awards vest is determined partly by reference to the Company's Total Shareholder Return (TSR) performance relative to a group of similar businesses and partly by reference to the Company's EPS growth relative to RPI. Further details are provided in the Remuneration Report.

The fair value of conditional share awards was determined using a stochastic model using the assumptions given in the table above.

The Group recognised a total expense of £2.2 million (2004: £1.6 million) in respect of conditional share awards in the year.

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32. Retirement benefit schemes

Defined contribution schemes

Retirement benefits for employees are principally provided by defined contribution schemes which are funded by contributions from Group companies and employees. The amount charged to the profit and loss account of £6.7 million (2004: £8.2 million) represents contributions payable in the year to these schemes at rates specified in the rules of the plans. As at 31 December 2005, contributions of £nil million (2004: £nil) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit schemes

The Group operates a number of defined benefit schemes for qualifying employees of its subsidiaries. The principal schemes are located in Germany, Italy, France and Norway. The numbers below are in respect of all material Group defined benefit schemes, unless otherwise stated.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2005. The present value of the defined benefit obligation, the related service cost and the past service cost were measured using the projected unit credit method.

The principal assumptions used are set out below.

	2005				2004			
	Germany	**Italy**	**France**	**Norway**	Germany	Italy	France	Norway
Discount rate	**4.0%**	**4.0%**	**4.0%**	**4.0%**	4.6%	4.0%	4.0%	4.0%
Expected rate of increase in pensionable salaries	-	**2.0%**	**2.0%**	**3.0%**	-	2.0%	2.0%	3.0%
Expected rate of increase in pensions in payment	**1.8%**	**2.0%**	-	**2.5%**	1.8%	2.0%	-	2.5%
Expected long-term rate of return on plan assets	**4.0%**	-	-	**5.0%**	4.0%	-	-	5.0%
Inflation assumption	**2.0%**	**2.2%**	**2.0%**	**2.5%**	2.0%	2.3%	2.0%	2.5%

The principal defined benefit schemes in Germany and Norway are funded. The assets of these schemes are held separately from those of the Group in independently administered funds, in accordance with scheme rules and statutory requirements. The unfunded defined benefit schemes are principally in Italy and France.

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32. Retirement benefit schemes (continued)

The table below shows the amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement schemes and the expected rates of return (net of administrative expenses) on the assets in the schemes.

	2005	**2005**	2004	2004
	%	**£m**	%	£m
Equity instruments	**70**	**2.7**	72	2.3
Debt instruments	**3**	**0.1**	3	0.1
Other assets	**27**	**1.1**	25	0.8
Fair value of pension scheme assets	**100**	**3.9**	100	3.2
Present value of defined benefit obligations		**(12.1)**		(10.7)
Deficit in scheme		**(8.2)**		(7.5)
Related deferred tax asset		**1.1**		1.1
Net pension liability net of deferred tax asset		**(7.1)**		(6.4)

The actual return on scheme assets was £nil (2004: £0.1 million). The plan assets do not include any of the Group's own financial assets, nor any property occupied by, or other assets used by, the Group.

The amounts charged to operating profit are as follows:

	2005	2004
	£m	£m
Current service cost	**1.1**	1.0
Past service cost	**-**	-
	1.1	1.0

The amounts credited to investment income and charged to finance costs are as follows:

	2005	2004
	£m	£m
Expected return on pension scheme assets	**0.1**	0.1
Interest on pension scheme liabilities	**(0.3)**	(0.2)
	(0.2)	(0.1)

Actuarial gains and losses have been reported in the statement of recognised income and expense.

The amounts recognised in the statement of recognised gains and losses are as follows:

	2005	2004
	£m	£m
Actual return less expected return on pension scheme assets	**(0.1)**	-
Amount recognised in the statement of recognised income and expense	**(0.1)**	-

Notes to the consolidated financial statements

For the year ended 31 December 2005

32. Retirement benefit schemes (continued)

Movements in the present value of defined benefit obligations were as follows:

	2005 £m	2004 £m
At 1 January	**10.7**	9.3
Service cost	**1.1**	1.0
Interest cost	**0.3**	0.2
Contributions from scheme members	**0.3**	0.3
Actuarial gains and losses	**(0.1)**	-
Benefits paid	**(0.2)**	(0.2)
Exchange differences	**-**	0.1
At 31 December	**12.1**	10.7

Movements in the fair value of scheme assets were as follows:

	2005 £m	2004 £m
At 1 January	**3.2**	2.4
Expected return on scheme assets	**0.1**	0.1
Contributions from scheme members	**0.6**	0.7
At 31 December	**3.9**	3.2

History of experience gains and losses:

	2005	2004
Difference between the expected and actual return on scheme assets:		
Amount (£m)	**(0.1)**	-
Percentage of scheme assets	**(2.6%)**	-
Experience gains and losses on scheme liabilities:		
Amount (£m)	**-**	-
Percentage of present value of scheme liabilities	**-**	-
Total amount recognised in statement of recognised income and expenses:		
Amount (£m)	**(0.1)**	-
Percentage of present value of scheme liabilities	**(2.6%)**	-

The estimated amount of contributions to be paid to the scheme during 2006 is £0.7 million.

In accordance with the transitional provisions for the amendments to IAS 19 'Employee Benefits' in December 2004, the disclosures above are determined prospectively from the 2004 reporting period.

33. Events after the balance sheet date

Since the year-end, the Group has announced the acquisition of Ammo Marketing, the word-of-mouth marketing company, and Integrator, the South African out-of-home business. The acquisition of Alban Communications Limited has also been completed since the year-end.

Notes to the consolidated financial statements

For the year ended 31 December 2005

34. Related party transactions

Remuneration of key management personnel

The following is the compensation of directors and key management. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 40 to 48.

	2005	2004
	£m	£m
Short-term employee benefits	4.2	3.0
Post-employment benefits	0.4	0.2
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment	1.1	0.6
	5.7	3.8

Transactions with associated undertakings

In 2005, Group companies purchased media space from associated undertakings totalling £1.0 million (2004: nil). The balance due from Group companies to associated undertakings at the end of 2005 was £0.1 million (2004: £2.8 million). The balance due from associated undertakings to Group companies at the end of 2005 was £1.7million (2004: £1.2 million).

35. First-time adoption of International Financial Reporting Standards

This is the first year that the Group has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2004. The date of transition to IFRS was therefore 1 January 2004.

These financial statements have been prepared in accordance with the revised accounting policies set out in note 1 above. These policies have been revised from those published in the Group's 2004 Report and Accounts following the Group's transition to reporting under IFRS. The following notes and reconciliations provide an explanation of the impact of the transition to IFRS.

First-time adoption of IFRS

The rules for first-time adoption of IFRS are set out in IFRS 1 'First Time Adoption of International Financial Reporting Standards'. The Group is required to establish its IFRS accounting policies which it will use to prepare its results for the year to 31 December 2005 and, in general, apply these retrospectively to determine its opening balance sheet under IFRS at 1 January 2004, the date of transition. The standard permits certain optional exemptions from this general principle. The Group has elected to take the following principal exemptions and the information presented has been prepared on this basis.

Business combinations prior to the date of transition (IFRS 3, "Business Combinations")

The Group has elected not to apply IFRS 3 retrospectively to business combinations which occurred prior to the date of transition.

Share-based payments (IFRS 2, "Share-based Payment")

The Group has elected to apply IFRS 2 to all relevant share-based payment transactions granted after 7 November 2002 that had not vested at 1 January 2005.

Employee benefits (IAS19, "Employee Benefits")

The Group has elected to take the exemption available within IAS 19 and has eliminated unrecognised actuarial gains and losses by setting them off against equity in the opening IFRS balance sheet.

Financial instruments (IAS 32, "Financial Instruments: Disclosure and Presentation" and "IAS 39, Financial Instruments: Recognition and Measurement")

The Group has elected to apply IAS 32 and IAS 39 from 1 January 2005. Therefore the comparative financial information in respect of financial instruments is presented in accordance with UK GAAP (as applicable in 2004). The implementation of IAS 32 and IAS 39 from 1 January 2005 has resulted in an adjustment to the carrying value of the Group's convertible bond, mark to market adjustments in respect of financial instruments and the recognition of financial liabilities including put options.

Cumulative translation differences

The Group has elected that all cumulative translation differences arising from the retranslation of overseas subsidiaries are re-set to zero at the date of transition, 1 January 2004.

Notes to the consolidated financial statements

For the year ended 31 December 2005

35. First-time adoption of International Financial Reporting Standards (continued)

Reconciliations from UK GAAP to IFRS

The following reconciliations are presented below in order to explain the effect of the transition to IFRS and to show how the comparative results have been restated:

- Reconciliation of profit for the year ended 31 December 2004;
- Reconciliation of equity at 1 January 2004;
- Reconciliation of equity at 31 December 2004.

The IFRS adjustments included within these reconciliations are explained below.

Reconciliation of profit for the year ended 31 December 2004

	UK GAAP * (IFRS format) £m	Goodwill amortisation £m (note a)	Share-based payments £m (note b)	Other £m (note e)	IFRS £m
Turnover – amounts invoiced to clients	7,594.3	-	-	-	**7,594.3**
Revenue	747.0	-	-	-	**747.0**
Cost of sales	(99.5)	-	-	-	**(99.5)**
Gross profit	647.5	-	-	-	**647.5**
Operating expenses before amortisation of goodwill	(547.2)	-	(1.8)	(2.0)	**(551.0)**
Amortisation of goodwill	(30.0)	30.0	-	-	**-**
Operating expenses	(577.2)	30.0	(1.8)	(2.0)	**(551.0)**
Share of results of joint venture	-	-	-	-	-
Share of results of associated undertakings	1.5	-	-	(0.1)	**1.4**
Operating profit	71.8	30.0	(1.8)	(2.1)	**97.9**
Investment income	6.8	-	-	-	**6.8**
Finance costs	(14.7)	-	-	1.9	**(12.8)**
Profit before tax	63.9	30.0	(1.8)	(0.2)	**91.9**
Tax	(27.6)	-	-	0.2	**(27.4)**
Profit for the period	36.3	30.0	(1.8)	-	**64.5**

*United Kingdom Generally Accepted Accounting Practice applicable at 1 January 2005.

Differences between UK GAAP applicable at 1 January 2005 and UK GAAP at the date of this report reflect the implementation of the following standards:

- Financial Reporting Standard No. 20 'Share-based payments';
- Financial Reporting Standard No. 21 'Events after the balance sheet date';
- Financial Reporting Standard No. 25 'Financial Instruments: Disclosure and presentation'; and
- Financial Reporting Standard No. 26 'Financial Instruments: Measurement'.

Notes to the consolidated financial statements

For the year ended 31 December 2005

35. First-time adoption of International Financial Reporting Standards (continued)

Reconciliation of consolidated statement of equity as at 1 January 2004

	Share capital £m	Own shares £m	Share premium account £m	Capital redemption reserve £m	Foreign currency translation reserve £m	Accumulated losses £m	Total £m	Minority interest £m	Total equity £m
UK GAAP reported 1 January 2004	**55.6**	**(1.6)**	**206.3**	**0.2**	**-**	**(153.4)**	**107.1**	**3.8**	**110.9**
Prior year adjustment (note 1)						(0.8)#	(0.8)	-	(0.8)
UK GAAP as restated	55.6	(1.6)	206.3	0.2	-	(154.2)	106.3	3.8	110.1
IFRS 3 Business combinations (note a)	-	-	-	-	-	(15.3)	(15.3)	-	(15.3)
IAS 10 Events after the balance sheet date (note c)	-	-	-	-	-	8.9	8.9	-	8.9
IAS 19 Employee benefits (note d)	-	-	-	-	-	(3.8)*	(3.8)	-	(3.8)
Other IFRS (note e)	-	-	-	-	-	(0.4)	(0.4)	1.1	0.7
IFRS restated 1 January 2004	**55.6**	**(1.6)**	**206.3**	**0.2**	**-**	**(164.8)**	**95.7**	**4.9**	**100.6**

Reconciliation of consolidated statement of equity as at 31 December 2004

	Share capital £m	Own shares £m	Share premium account £m	Capital redemption reserve £m	Foreign currency translation reserve £m	Accumulated losses £m	Total £m	Minority interest £m	Total equity £m
UK GAAP reported 31 December 2004	**55.9**	**(4.3)**	**210.9**	**0.2**	**(8.1)**	**(134.9)**	**119.7**	**6.7**	**126.4**
Prior year adjustment (note 1)						(0.8)#	(0.8)	-	(0.8)
	55.9	(4.3)	210.9	0.2	(8.1)	(135.7)	118.9	6.7	125.6
IFRS 3 Business combinations (note a)	-	-	-	-	(0.3)	14.7	14.4	-	14.4
IAS 10 Events after the balance sheet date (note c)	-	-	-	-	-	9.8	9.8	-	9.8
IAS 19 Employee benefits (note d)	-	-	-	-	-	(4.0)*	(4.0)	-	(4.0)
Other (note e)	-	-	-	-	(0.1)	(0.1)	(0.2)	1.0	0.8
IFRS restated 31 December 2004	**55.9**	**(4.3)**	**210.9**	**0.2**	**(8.5)**	**(115.3)**	**138.9**	**7.7**	**146.6**

* Since publishing our assessment of the impact of the adoption of IFRS in our interim financial statements for the period ended 30 June 2005, we have identified an additional £1.2 million in liabilities as at 1 January 2004 and at 31 December 2004 which are reflected in the above reconciliation.

In addition, the Group has also made a prior year adjustment for a change in accounting policy in respect of revenue recognition. Further details are provided in note 3.

Notes to the consolidated financial statements

For the year ended 31 December 2005

35. First-time adoption of International Financial Reporting Standards (continued)

Notes to IFRS adjustments

a) IFRS 3 Business combinations - Goodwill

Under IFRS goodwill is not amortised. IFRS 3, "Business Combinations" requires that goodwill is subject to annual impairment reviews. As the Group has elected not to apply IFRS 3 retrospectively to business combinations which occurred prior to 1 January 2004, the UK GAAP goodwill balance at 31 December 2003 (after recognising an incremental IFRS impairment charge) has been included in the opening IFRS balance sheet at 1 January 2004. As a result, goodwill amortisation charged to the income statement in 2004 has been added back to profits.

The Group has also conducted an impairment review of goodwill at 1 January 2004 in accordance with the requirements of IAS 36 Impairment of Assets. This review has resulted in an opening IFRS impairment charge on goodwill of £15.8m. Under UK GAAP, where no indicator of impairment was apparent to management, no review was required to be performed. Under IFRS an impairment review is required of all goodwill balances regardless of whether or not an indication of impairment is apparent. The recoverable amounts used in this review were based on value-in-use calculations. Cash flow projections were discounted using a pre-tax discount rate of 12.75%.

Negative goodwill of £0.5 million, recognised under UK GAAP, has been reversed on transition to IFRS as an adjustment to the balance sheet at 1 January 2004.

b) IFRS 2 Share-based payment

IFRS 2, "Share-based payment", requires the fair value of share-based payments (principally share options and other share-based incentive schemes) to be recognised as an expense in the income statement, spread over the vesting period of the relevant scheme – typically three years. There was no charge in the income statement in respect of share options under UK GAAP as all options were issued at an exercise price equivalent to the market price at that date. The 2004 UK GAAP results did include a charge in respect of other share-based incentive schemes.

Neither cash nor distributable reserves are impacted by this change in accounting for share based incentive schemes.

c) IAS 10 Events after the balance sheet date - Dividends

IAS 10, "Events after the Balance Sheet Date" requires that dividends declared after the balance sheet date should not be recognised as a liability at that balance sheet date as the liability does not represent a present obligation as defined by IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". The impact on retained profit for 2004 is to exclude the final proposed dividend for 2004 of £9.8 million as this was declared in 2005. However, the final proposed dividend for 2003 of £8.9 million which was declared in 2004 is now included as a distribution of profit for 2004.

d) IAS 19 Employee benefits

Under IAS 19, all accumulating employee-compensated absences that are unused at the balance sheet date must be recognised as a liability. There is no similar requirement under UK GAAP. In addition, employee benefits which fall within the scope of IAS 19 have been recognised in the Group's balance sheet.

e) Other

Other adjustments have been made in respect of IAS 12 Income taxes, IAS 17 Leases and IAS 27 Consolidated and separate financial statements. In addition, certain reclassifications have been performed, including reclassifying bank charges from finance costs to operating expenses, and reclassifying certain items between the account captions within trade and other receivables.

Five-year summary

	IFRS			UK GAAP	
	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Income statement					
Revenue	**870.4**	747.0	648.8	591.9	529.0
Underlying operating profit	**115.0**	97.9	84.2	76.6	71.1
Underlying profit before tax	**100.2**	94.0	80.5	71.4	63.3
Profit before tax	**94.0**	91.9	48.0	34.7	10.8
Profit attributable to equity holders of the parent	**61.9**	61.0	21.1	13.1	(10.2)
Balance sheet					
Non-current assets	**786.9**	557.5	495.3	449.0	451.8
Net current liabilities	**(212.2)**	(144.1)	(133.4)	(92.2)	(160.3)
Non-current liabilities	**(404.4)**	(266.8)	(251.0)	(239.7)	(152.6)
Net assets	**170.3**	146.6	110.9	117.1	138.9
Financed by					
Equity	**177.8**	138.9	107.1	113.2	136.3
Minority interests	**(7.5)**	7.7	3.8	3.9	2.6
	170.3	146.6	110.9	117.1	138.9
	Pence	Pence	Pence	Pence	Pence
Earnings per share					
- Basic	**5.6p**	5.5p	1.9p	1.2p	(0.9)p
- Diluted	**5.5p**	5.5p	1.9p	1.2p	(0.9)p
Underlying earnings per share					
- Basic	**6.1p**	5.5p	4.9p	4.4p	3.8p
- Diluted	**6.1p**	5.5p	4.9p	4.3p	3.8p
Dividend rate per share	**1.65p**	1.45p	1.32p	1.25p	1.20p

The amounts disclosed for 2003 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS. The principal differences between UK GAAP and IFRS are explained in note 35 to the financial statements which provides an explanation of the transition to IFRS.

Independent auditors' report to the members of Aegis Group plc

We have audited the individual company financial statements of Aegis Group plc ("the Company") for the year ended 31 December 2005 which comprise the Balance Sheet, and the related notes 1 to 15. These individual company financial statements have been prepared under the accounting policies set out therein.

The Corporate Governance Statement and the Directors' Remuneration Report are included in the Group annual report of Aegis Group plc for the year ended 31 December 2005. We have reported separately on the Group financial statements of Aegis Group plc for the year ended 31 December 2005 and on the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the individual company financial statements in accordance with applicable United Kingdom law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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

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

We read the Directors' Report and the other information contained in the annual report for the above year and described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual company 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 individual company financial statements and 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 individual company financial statements.

Opinion

In our opinion:

- the individual company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005; and
- the individual company financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte + Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

7 April 2006

Company balance sheet

at 31 December 2005

	Notes	2005 £m	2004 £m
Fixed assets			
Tangible assets	4	**4.4**	4.1
Derivative financial assets	9	**0.7**	-
Investments	5	**1,058.5**	850.9
		1,063.6	855.0
Current assets			
Debtors due within one year	6	**104.3**	100.2
Cash at bank and in hand		**1.9**	4.9
		106.2	105.1
Creditors: amounts falling due within one year	7	**(149.9)**	(440.8)
Convertible bond	9	**(121.3)**	-
Net current liabilities		**(165.0)**	(335.7)
Total assets less current liabilities		**898.6**	519.3
Creditors: amounts falling due after more than one year	8	**(275.7)**	(81.9)
Convertible bond	9	-	(122.4)
Net assets		**622.9**	315.0
Capital and reserves			
Called up share capital	10	**56.4**	55.9
Share premium account	11	**218.9**	210.9
Capital redemption reserve	11	**0.2**	0.2
Merger reserve	11	**13.0**	13.0
ESOP trust shares	11	**(10.1)**	(4.3)
Capital reserve	11	**270.1**	-
Profit and loss account	12	**74.4**	39.3
Equity shareholders' funds		**622.9**	315.0

These financial statements were approved by the Board of Directors on 7 April 2006 and were signed on its behalf by:

Robert Lerwill (Chief Executive Officer)
Jeremy Hicks (Chief Financial Officer)

Notes to the Company's financial statements

For the year ended 31 December 2005

1. Accounting policies

Basis of preparation and change in accounting policy

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The Directors' Report, Corporate Governance and Directors' Remuneration Report disclosures have been made in the front section of this report, refer to pages 33 to 48.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year, with the exception of the implementation of FRS 20 "Share-based Payment", FRS 21 "Events after the Balance Sheet Date", FRS 25 "Financial Instruments: Disclosure and Presentation" and FRS 26 "Financial Instruments: Measurement", the impact of which is detailed in Notes 8, 9, 11 and 12. The comparative information has been disclosed in accordance with FRS 13 "Derivatives and Other Financial Instruments: Disclosure".

Cash flow statement

The company has utilised the exemptions provided under FRS1 (Revised) and has not presented a cash flow statement. The cash flow statement has been prepared in the Group financial statements.

Related party transaction

In accordance with Financial Reporting Standard Number 8: Related Party Disclosures, the company is exempt from disclosing transactions with entities that are part of the Aegis Group, or investees of the Group qualifying as related parties, as it is a parent publishing consolidated financial statements.

Employee benefits

The retirement benefits for employees are principally provided by defined contribution schemes which are funded by contributions from the Company and employees. The amount charged to the income statement is the contribution payable in the year.

Share-based payments

The Company has applied the requirements of FRS 20 "Share-based Payment". In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

Certain employees receive remuneration in the form of share-based payments, including shares or rights over shares. The cost of equity-settled transactions with employees is measured by reference to the fair value of the instruments concerned at the date at which they are granted. The fair value is determined by an external valuer using a stochastic model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

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

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Tangible fixed assets

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

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

Leasehold buildings	Over the period of the lease
Leasehold improvements	10% - 20% per annum or over the lease if shorter
Office furniture, fixtures, equipment and vehicles	10% - 50% per annum
Software	33% per annum
Other	5% - 10% per annum

Notes to the Company's financial statements

For the year ended 31 December 2005

1. Accounting policies (continued)

Investments

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Finance costs

Finance costs of debts are capitalised against the debt value on first drawdown of the debt and are recognised in the Profit and Loss account at a constant rate over the life of the debt.

Accounting policies applied from 1 January 2005

In addition to the principal accounting policies presented above, the following policies have been applied from 1 January 2005 following the adoption of FRS 25 and FRS 26 at that date.

Financial instruments

Financial assets are accounted for on the trade date. Financial assets and financial liabilities principally include the following:

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Available-for-sale financial assets

Available-for-sale financial assets are initially measured at cost, including transaction costs and at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the net profit or loss for the period.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Direct issue costs are amortised over the period of the loans and overdrafts to which they relate. Finance charges, including premiums payable on settlement or redemption are charged to the income statement as incurred using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Convertible bond

The convertible bond is regarded as a hybrid financial instrument, consisting of a liability component being the host contract, and an equity conversion component also recognised as a liability. The instrument is treated wholly as a liability as the convertible bond is denominated in a foreign currency and therefore the proceeds upon conversion are considered to be a variable amount of functional currency cash for a fixed number of shares.

At the date of issue, the embedded option to convert the host contract into equity of the Company is separately fair valued. The amount assigned to host contract liability is the net proceeds after issue costs less the fair value of the embedded option. The difference between the fair value of the host contract liability at issue and its face value is being amortised over the life of the instrument as a notional interest charge through the income statement. The Company's convertible bond matures in May 2006, at which point the additional notional interest charge will be fully amortised.

The embedded option to convert the host contract liability into equity of the Company will be subsequently measured at fair value in the income statement.

Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

Derivative financial instruments

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

The Company's activities expose it to certain financial risks including changes in foreign currency exchange rates and interest rates. The Company uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Company does not use derivative financial instruments for speculative purposes.

Notes to the Company's financial statements

For the year ended 31 December 2005

1. Accounting policies (continued)

Derivative financial instruments are held at fair value at the balance sheet date. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of future cash flows are recognised directly in equity. Amounts deferred in this way are recognised in the income statement in the same period in which the hedged firm commitments or forecast transactions are recognised in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gains or losses on the hedging instrument recognised in equity are retained until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Liabilities in respect of option agreements

Option agreements that allow the Company's equity partners to require the Company to purchase the minority interest are treated as derivatives over equity instruments and are recorded in the balance sheet at fair value. The fair values of such options are re-measured at each period end. The movement in the fair value is recognised as income or expense within finance charges in the income statement.

The Company recognises its best estimate of the amount it is likely to pay, should these options be exercised by the minority interests, as a liability in the balance sheet.

2. Profit for the year

As permitted by section 230 of the Companies Act 1985 the company has elected not to present its own profit and loss account for the year.

Aegis Group plc reported a profit, before the payment of dividends, for the financial year ended 31 December 2005 of £47.6 million (2004: a loss of £33.8 million).

The auditors' remuneration for audit services to the company amounted to £0.6 million (2004: £0.1 million) and for non audit services amounted to £0.8 million (2004: £0.5 million)

Details of executive and non-executive directors' emoluments and their interest in shares and options of the company are shown within the directors' remuneration report.

3. Staff costs

The monthly average number of persons employed by the Company (excluding directors) during the year was 42 (2004: 43).

Their aggregate remuneration comprised:

	2005	2004
	£m	£m
Wages and salaries	**3.3**	4.0
Bonus costs	**0.8**	1.4
Social security costs	**0.6**	0.7
Pension costs	**0.5**	0.6
Redundancy costs	**0.1**	0.7
	5.3	7.4

Notes to the Company's financial statements

For the year ended 31 December 2005

4. Fixed assets

	Leasehold land and buildings £m	Equipment fixtures and fittings £m	Computer Software £m	Other £m	Total intangible assets £m
Cost					
At 1 January 2005	0.8	2.4	7.6	0.8	11.6
Additions	0.1	0.3	1.6	0.2	2.2
Disposals	-	(0.3)	(1.8)	-	(2.1)
At 31 December 2005	**0.9**	**2.4**	**7.4**	**1.0**	**11.7**
Depreciation					
At 1 January 2005	0.3	1.6	5.5	0.1	7.5
Charge for year	0.1	0.4	1.2	0.1	1.8
Disposals	-	(0.2)	(1.8)	-	(2.0)
At 31 December 2005	**0.4**	**1.8**	**4.9**	**0.2**	**7.3**
Net book value					
At 31 December 2005	**0.5**	**0.6**	**2.5**	**0.8**	**4.4**
At 31 December 2004	0.5	0.8	2.1	0.7	4.1

The net book value of other tangible assets includes trademarks of £0.6 million (2004: £0.5 million).

5. Investments held as fixed assets

	Joint Venture £m	Interest in associates £m	Shares in subsidiary undertakings £m	Total £m
Cost				
At 1 January 2005	22.7	0.2	849.0	871.9
Additions	-	-	421.1	421.1
Disposals	-	-	(49.9)	(49.9)
At 31 December 2005	**22.7**	**0.2**	**1,220.2**	**1,243.1**
Accumulated impairment losses:				
At 1 January 2005	21.0	-	-	21.0
Charges for the year	-	-	163.6	163.6
At 31 December 2005	**21.0**	-	**163.6**	**184.6**
Net book value				
At 31 December 2005	**1.7**	**0.2**	**1,056.6**	**1,058.5**
At 31 December 2004	1.7	0.2	849.0	850.9

Joint Venture

The Company has a 44.65% shareholding in eVerger Limited, an investment company incorporated in Guernsey. The period-end reporting date for eVerger is 30 September (previously 31 March).

Notes to the Company's financial statements

For the year ended 31 December 2005

5. Investments held as fixed assets (continued)

The company's associated undertaking is:

	Country of incorporation	*Effective interest* in ordinary share capital
Carat Philippines Inc	Philippines	30%

6. Debtors due within one year

	2005 £m	2004 £m
Trade debtors	**0.3**	0.1
Amounts owed by subsidiary undertakings	**96.4**	97.1
Amounts owed by associated undertakings and joint ventures	-	0.3
Other debtors	**4.9**	2.4
Prepayments and accrued income	**2.7**	0.3
	104.3	100.2

7. Creditors: amounts falling due within one year

	2005 £m	2004 £m
Bank loans and overdrafts	**111.5**	211.3
Less issue costs of debt to be amortised	**(0.6)**	(1.3)
	110.9	210.0
Trade creditors	**4.2**	2.7
Amounts owed to subsidiary undertakings	**22.4**	208.6
Taxation and social security	**0.2**	0.4
Other creditors	**7.7**	0.8
Accruals and deferred income	**4.5**	18.3
	149.9	440.8

Notes to the Company's financial statements

For the year ended 31 December 2005

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

	2005	2004
	£m	£m
Loan notes	274.8	83.0
Derivative financial liabilities- see note 9	2.3	-
Less issue costs of debt to be amortised	(1.4)	(1.1)
	275.7	81.9

9. Financial instruments

The Company has established objectives concerning the holding and use of financial instruments which are discussed in further detail in the Treasury Management section of the Financial Review on page 22. The key objective is to manage the financial risks faced by the Company, which are discussed below.

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

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

The Company adopted FRS26 from 1 January 2005. Therefore it should be noted that the comparative information provided in this note is not comparable with the 2005 information.

Management of financial risk

The Company considers its major financial risks to be currency risk, liquidity risk, interest rate risk and credit risk. The Company'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

The Company monitors transactional currency exposures and sources hedging opportunities to reduce foreign exchange risk using approved markets and instruments.

Notes to the Company's financial statements

For the year ended 31 December 2005

9. Financial instruments (continued)

Liquidity risk

The Company's objective of ensuring that adequate funding is in place is achieved by having agreed sufficient committed bank facilities.

The Company's principal debt instruments are subject to certain financial covenants.

At 31 December 2005, the Company had net debt (before issue costs of new debt) of £505.9 million (2004: £412.0 million). The Company had cash and cash equivalents of £1.9 million at 31 December 2005 (2004: £4.9 million) and gross borrowings of £507.8 million (2004: £416.9 million).

Included within gross borrowings is £121.5 million (2004: £122.6million) of 2 per cent convertible bonds due in 2006. These bonds were issued on 15 May 2002.

Also included within gross borrowings is £92.9 million (US$160 million) (2004: £83.0 million (US$160 million)) of unsecured loan notes issued on 20 November 2000 which are repayable in full between 2006 and 2008, and £198.5 million (US$342 million) (2004: £nil) of unsecured loan notes issued on 28 July 2005 which are repayable in full between 2012 and 2017.

In addition to the net debt at 31 December 2005, the Company has undrawn committed facilities of £294.9 million (2004: £231.6 million).

Interest rate risk

The Company's convertible bond and the unsecured loan notes, referred to above, are at fixed rates. All other borrowings are at floating rates.

The Company has in place cash pooling arrangements in the United Kingdom. These enable the Company 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

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Convertible bond

On 15 May 2002, the Company issued €165 million of convertible bonds, due in 2006. The bonds may be redeemed, at the option of the Company, at any time on or after 29 May 2005. Unless previously redeemed, the bonds are convertible into ordinary 5p shares, at the option of the holder, between 25 June 2002 and 8 May 2006. Unless previously redeemed or converted, the bonds will be redeemed on 15 May 2006 at 107.95% of their principal amount. The initial conversion price was 149.8 pence per ordinary share and is subject to adjustment in certain circumstances relating to changes in the capital structure of the Company or a change of control. If all the bonds were to be converted at the initial conversion price, 67.5 million ordinary shares would be issued.

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

The net proceeds received from the issue of the convertible bond have been split between the host contract liability element and an equity conversion component, representing the fair value of the embedded option to convert the liability into equity of the Company. The equity conversion component is separately included within liabilities. This component is then marked to market at each balance sheet date with changes in fair value being taken through the income statement. At the date of issue, the fair value of the host contract liability component was valued at £91.1 million, excluding unamortised issue costs, and the equity conversion component was £11.9 million. At 31 December 2005, the host contract liability component was £121.5 million (1 January 2005: £122.6 million), excluding unamortised issue costs, and the equity conversion component was £nil (1 January 2005: £0.3 million).

Issue costs are deducted from the amount of funds received and amortised over the term of the debt.

Notes to the Company's financial statements

For the year ended 31 December 2005

9. Financial instruments (continued)

Private Placement Debt – November 2000

On 20 November 2000, the Company issued US$160 million of unsecured loan notes, repayable between 2006 and 2008. These loan notes are guaranteed by the Company and certain of its subsidiaries.

Private Placement Debt – July 2005

On 28 July 2005, the Company issued US$342 million of unsecured loan notes, repayable between 2012 and 2017. On 9 November 2005 cross currency swaps were entered into for US$142m of the loan notes due in 2012 and US$50m of the loan notes due in 2015 to convert this US$ fixed rate borrowing into EUR fixed rate borrowing. These loan notes are guaranteed by the Company and certain of its subsidiaries.

Cross currency swaps

The fair value of the cross currency swaps entered into at 31 December 2005 is £(1.6) million. The fair value is based on a discounted cash flow model and market interest yield curves applicable and represents movements in the Euro/US$ foreign exchange spot rate and in Euro and US$ interest rate yields. The cross currency swaps are synthetically split to reflect the Group's functional currency of Sterling. The US$/Sterling leg of the swaps act as cash flow hedges against the Group's US$ loan notes and the Euro/Sterling leg of the swaps act as net investment hedges in respect of certain of the Group's Euro-denominated investments.

a) Maturity profile of financial assets and liabilities

Financial assets

	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total 2005 £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total 2004 £m
Current										
Cash at bank and in hand and short term deposits	1.9	-	-	-	1.9	4.9	-	-	-	4.9
	1.9	-	-	-	-	-	-	-	-	-
Debtors due in less than 1 year	104.3	-	-	-	104.3	100.2	-	-	-	100.2
Total current	106.2	-	-	-	106.2	105.1	-	-	-	105.1
Non-current										
Derivative financial assets:										
- Cross currency swaps	-	-	-	0.7	0.7	-	-	-	-	-
Total non-current	-	-	-	0.7	0.7	-	-	-	-	-
Total	106.2	-	-	0.7	106.9	105.1	-	-	-	105.1

There are no material differences between the book and fair values of the Company's financial assets at 31 December 2005. The fair value of financial assets, reflect market value or is based on readily available market data.

Notes to the Company's financial statements

For the year ended 31 December 2005

9. Financial instruments (continued)

a) Maturity profile of financial assets and liabilities (continued)

Financial liabilities

	Less than 1 year £m	**1-2 years £m**	**2-5 years £m**	**More than 5 years £m**	**Total 2005 £m**	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total 2004 £m
Current										
Bank overdrafts	**89.5**	-	-	-	**89.5**	151.3	-	-	-	151.3
Loans	**22.0**	-	-	-	**22.0**	60.0	-	-	-	60.0
	111.5	-	-	-	**111.5**	211.3	-	-	-	211.3
Less: issue costs of debt to be amortised	**(0.6)**	-	-	-	**(0.6)**	(0.6)	-	-	-	(0.6)
	110.9	-	-	-	**110.9**	210.7	-	-	-	210.7
Convertible bond	**121.5**	-	-	-	**121.5**	-	-	-	-	-
Less: Issue costs of debt to be amortised	**(0.2)**	-	-	-	**(0.2)**	(0.7)	-	-	-	(0.7)
	121.3	-	-	-	**121.3**	(0.7)	-	-	-	(0.7)
	232.2	-	-	-	**232.2**	210.0	-	-	-	210.0
Other creditors due within one year	**39.0**	-	-	-	**39.0**	230.8	-	-	-	230.8
Total current	271.2	-	-	-	271.2	440.8	-	-	-	440.8
Non-current										
Loan notes	-	**68.8**	**7.5**	**198.5**	**274.8**	-	14.7	68.3	-	83.0
	-	**68.8**	**7.5**	**198.5**	**274.8**	-	14.7	68.3	-	83.0
Less: Issue costs of debt to be amortised	-	**(0.4)**	**(0.8)**	**(0.2)**	**(1.4)**	-	(0.4)	(0.7)	-	(1.1)
	-	**68.4**	**6.7**	**198.3**	**273.4**	-	14.3	67.6	-	81.9
Convertible bond	-	-	-	-	-	-	122.6	-	-	122.6
Less: Issue costs of debt to be amortised	-	-	-	-	-	-	(0.2)	-	-	(0.2)
	-	-	-	-	-	-	122.4	-	-	122.4
Derivative financial liabilities:										
- Cross currency swap	-	-	-	**2.3**	**2.3**	-	-	-	-	-
Total non-current	-	**68.4**	**6.7**	**200.6**	**275.7**	-	136.7	67.6	-	204.3
Total	**271.2**	**68.4**	**6.7**	**200.6**	**546.9**	440.8	136.7	67.6	-	645.1

There are no material differences between the book and fair values of the Company's financial liabilities at 31 December 2005. The fair value of financial liabilities, reflect market value or is based on readily available market data.

Notes to the Company's financial statements

For the year ended 31 December 2005

9. Financial instruments (continued)

a) Maturity profile of financial assets and liabilities (continued)

Borrowing facilities

The Company 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:

	2005 £m	2004 £m
Expiring within one year	44.9	-
Expiring between one and two years	-	41.6
Expiring between two and five years	250.0	190.0
	294.9	231.6

b) Interest rate profile

The following interest rate and currency profile of the Company's financial assets and liabilities is after taking into account any interest rate and cross currency swaps entered into by the Company.

Financial assets

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	2005 Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	2004 Total £m
GBP	-	1.9	-	1.9	-	4.9	-	4.9
USD	-	-	-	-	-	-	-	-
EUR	-	-	-	-	-	-	-	-
Other worldwide currencies	-	-	-	-	-	-	-	-
	-	1.9	-	1.9	-	4.9	-	4.9
Debtors due in less than one year				104.3				100.2
Derivative financial assets				0.7				-
				106.9				105.1

Cash at bank and in hand of £1.9 million (2004: £4.9 million) represent the floating rate financial assets above.

Notes to the Company's financial statements

For the year ended 31 December 2005

9. Financial instruments (continued)

b) Interest rate profile (continued)

Financial liabilities

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	2005 Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	2004 Total £m
GBP	-	89.5	-	89.5	-	211.3	-	211.3
USD	87.1	92.9	5.4	185.4	-	83.0	-	83.0
EUR	231.5	-	1.4	232.9	122.6	-	-	122.6
Other worldwide currencies	-	-	-	-	-	-	-	-
Gross borrowings	318.6	182.4	6.8	507.8	122.6	294.3	-	416.9
Issue costs of debt	-	-	(2.2)	(2.2)	-	-	(2.6)	(2.6)
	318.6	182.4	4.6	505.6	122.6	294.3	(2.6)	414.3
Creditors amounts falling due within one year				39.0				230.8
Derivative financial instruments				2.3				-
				546.9				645.1

The weighted average interest rates paid were as follows:

	2005 %	2004 %
Bank overdrafts	5.5	5.4
Bank loans	5.3	5.2
Loan notes	6.8	7.0
Convertible bond	7.2	7.2

The Company's borrowings, excluding the US$342 million of unsecured loan notes issued in 2005 and the convertible bond but including the US$160 million unsecured loan notes referred to above, are at floating rates.

10. Share capital

Authorised	2005 £m	2004 £m
1,500,000,000 (2004: 1,500,000,000) ordinary shares of 5p each	75.0	75.0

Issued, allotted, called up and fully paid	2005 Number of ordinary shares	2005 £m	2004 Number of ordinary shares	2004 £m
At 1 January	1,119,043,525	55.9	1,112,204,529	55.6
Issue of shares by the company	9,006,132	0.5	6,838,996	0.3
At 31 December	1,128,049,657	56.4	1,119,043,525	55.9

Movements in called up share capital

The company has one class of ordinary shares which carry no right to fixed income. The ordinary shares of 5p each have full voting rights.

The company issued a total of 9,006,132 shares (2004: 6,838,996) in the year with an aggregate nominal value of £450,307 (2004: £341,950), 8,896,954 (2004: 6,838,996) of which were due to the exercise of share options. The total share premium arising on the issue of shares in the year was £7,958,000 (2004: £4,627,890).

Under the Group's share option schemes, there were outstanding options over 87,745,619 ordinary shares of 5p at 31 December 2005 (2004: 107,977,115), for which the participants have the right to exercise their options at prices ranging from 26.5p to 219.6p. These options are exercisable between 31 December 2005 and 30 June 2015.

Notes to the Company's financial statements

For the year ended 31 December 2005

11. Share premium account and reserves

	Share premium £m	Capital redemption reserve £m	Merger reserve £m	ESOP reserve £m	Capital reserve £m	Profit and loss account £m	Total £m
At 31 December 2004 as reported	210.9	0.2	13.0	(4.3)	-	29.5	249.3
Change in accounting policy (FRS21) – see note 12	-	-	-	-	-	9.8	9.8
At 31 December 2004 as restated	210.9	0.2	13.0	(4.3)	-	39.3	259.1
Change in accounting policy (FRS26) – see note 12	-	-	-	-	-	4.5	4.5
At 1 January 2005 as restated	210.9	0.2	13.0	(4.3)	-	43.8	263.6
Premium on shares issued	8.0	-	-	-	-	-	8.0
Purchase of shares by ESOP	-	-	-	(5.8)	-	-	(5.8)
Surplus on disposal of subsidiary	-	-	-	-	270.1	-	270.1
Retained profit for the year	-	-	-	-	-	47.6	47.6
Dividends to shareholders	-	-	-	-	-	(17.1)	(17.1)
Credit for share-based incentive schemes	-	-	-	-	-	0.8	0.8
Cash flow hedge reserve	-	-	-	-	-	(0.7)	(0.7)
At 31 December 2005	**218.9**	**0.2**	**13.0**	**(10.1)**	**270.1**	**74.4**	**566.5**

At 31 December 2005, the Company's ESOP (the 'Aegis Group Employee Share Trust') held 11,000,000 Ordinary Shares in the Company with a nominal value of £450,000 and a market value of £13.4 million.

At 31 December 2004, the Company's ESOP held 5,000,000 Ordinary Shares in the Company with a nominal value of £250,000 and a market value of £5.4 million.

The capital redemption reserve represents the conversion, issue and redemption of shares by the company, less expenses.

The ESOP reserve represents the cost of shares in Aegis Group plc acquired in the open market by the Trust using funds provided by Aegis Group plc. The Trust has waived any entitlement to the receipt of dividends in respect of all of its holding of the company's Ordinary Shares. The Trust has purchased the shares to satisfy future share options and share awards under the company's share based payment schemes.

The Company sold one of its investments to another group company during the year, resulting in a non-distributable profit on disposal of £270.1 million.

Notes to the Company's financial statements

For the year ended 31 December 2005

12. Profit and loss account

	2005 £m	Restated 2004 £m
At 1 January as reported	**39.3**	79.5
Change in accounting policy (FRS 21)	**-**	8.9
Change in accounting policy (FRS 26)	**4.5**	-
At 1 January as restated	**43.8**	88.4
Retained profit / (loss) for the year	**47.6**	(33.8)
Change in accounting policy (FRS 20)	**-**	(0.3)
Dividends to shareholders	**(17.1)**	(15.3)
Credit for share-based incentive schemes	**0.8**	0.3
Cash flow hedge reserve	**(0.7)**	-
At 31 December	**74.4**	39.3

Under FRS 20 "Share-based Payments", equity settled share based payments to employees is part of employee benefit expense in operating profit. A corresponding increase to the ESOP reserve has been made.

Under FRS 21 "Events after the Balance Sheet Date", dividends to shareholders declared after the balance date but before the financial statements are authorised for issue are not recognised as a liability at the balance sheet date. A corresponding decrease has been made in accruals. The 2004 comparitive numbers have been restated to reflect the change in accounting policy due to the adoption of FRS21. The impact of this on the 2004 profit and loss account is an increase to shareholders' funds of £9.8 million. For the year ended 31 December 2005, dividends paid to shareholders comprise the final 2004 dividend of £9.8 million (0.875p per share) and the interim 2005 dividend of £7.3 million (0.65p per share). For the year ended 31 December 2004, dividends paid to shareholders comprise the final 2003 dividend of £8.9 million (0.80p per share) and the interim 2004 dividend of £6.4 million (0.575p per share). The proposed final dividend for the year ended 31 December 2005 is £11.3 million (1.00p per share).

Under FRS 26 "Financial Instrument: Measurement", all hedging activity is taken to the balance sheet. There is no profit and loss impact during 2004; however an amount of £4.5 million was taken to the hedging and translation reserve with a corresponding increase in accruals.

Notes to the Company's financial statements

For the year ended 31 December 2005

13. Share-based payments

The Company recognised a total expense of £0.8million (2004: £0.3 million) in respect of all share-based payments in the year. Share-based payments include share options and aditional share awards.

Share options

The Company issues share options to certain employees. The grant price for share options is equal to the average quoted market price of the Company shares on the date of grant. The vesting period is typically three years. If share options remain unexercised after a period of 10 years from the date of grant, the options expire. Share options are forfeited if the employee leaves the Company before the options vest and are subject to EPS performance conditions. Further details are provided in the Remuneration Report.

Details of outstanding share options are provided in note 31 to the Group's financial statements.

The weighted average share price at the date of exercise for share options exercised during the period was £0.94. The options outstanding at 31 December 2005 had a weighted average exercise price of £1.04, and a weighted average remaining contractual life of 5.9 years. The fair value per option granted (weighted average) in the year was £0.28 (2004: £0.27).

The fair value of share options was determined using a stochastic model using the assumptions given in the table below.

	2005	2004
Weighted average share price	**£1.02**	£0.97
Weighted average exercise price	**£1.03**	£0.96
Expected volatility	**25%**	25%
Risk free rate	**4.7%**	4.7%
Expected dividend yield	**1.4%**	1.4%

Expected volatility was determined by considering the historical volatility of the Company's share price over the previous three years, with certain periods where the share price was particularly volatile for specific reasons, being disregarded as these were not considered to be indicative of expected future volatility. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Company recognised a total expense of £0.5 million (2004: £0.3 million) in respect of share options in the year.

Conditional share awards

The Company issues conditional share awards to certain employees. The vesting period is typically three years. The extent to which awards vest is determined partly by reference to the Company's Total Shareholder Return (TSR) performance relative to a group of similar businesses and partly by reference to the Company's EPS growth relative to RPI. Further details are provided in the Remuneration Report.

The fair value of conditional share awards was determined using a stochastic model using the assumptions given in the table above.

The Company recognised a total expense of £0.3 million (2004: £nil) in respect of conditional share awards in the year.

Notes to the Company's financial statements

For the year ended 31 December 2005

14. Operating lease arrangements

	2005	2004
	£m	£m
Operating lease payments recognised in income for the year	**0.8**	0.8

At 31 December 2005, there were the following annual commitments in respect of non-cancellable operating leases:

	2005	2004
	£m	£m
Operating leases that expire		
Within 1 year	-	-
In the second to fifth years inclusive	-	-
After five years	**0.8**	0.8
	0.8	0.8

Notes to the Company's financial statements

For the year ended 31 December 2005

15. Principal subsidiary and associated undertakings

Principal subsidiary undertakings	Country of incorporation and operation	Effective interest in issued share capital at 31 Dec 2005
Media communications		
Aegis Media UK & Ireland Ltd	England and Wales	100%
Aegis Media France S.A.S.	France	100%
Aegis Media Belgium s.a.	Netherlands	100%
Aegis Media Italia Srl	Italy	100%
Aegis Media Iberia S.L.	Spain	100%
Aegis Media (Deutschland) GmbH	Germany	100%
Carat Nordic AB	Sweden	100%
Carat North America Inc	USA	100%
Market Research		
Synovate Ltd	England and Wales	100%
Synovate (Cyprus) Ltd	*Cyprus*	100%
Synovate Inc	USA	100%
Synovate (Asia Pacific) BV	Netherlands	100%

All shareholdings are of ordinary shares.

Principal associated undertakings	Country of incorporation and operation	Effective interest in issued share capital at 31 Dec 2005
Media communications		
Percept D'Mark	India	26%
Dr Pichutta KG	Germany	30%
Qin Jia Yuan	*China*	25%

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

All of the principal subsidiary and associated undertakings disclosed above 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.