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Aegis Group plc

Annual Report and Accounts 2003

AEGIS

Talent hits
else can
a target

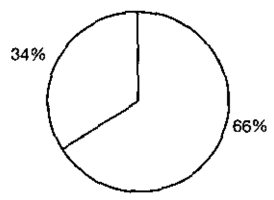
Group at a glance

Financial Highlights

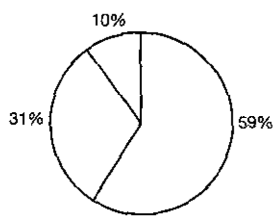
		2003	Restated 2002	Restated 2001	Restated 2000	Restated 1999
Turnover		**£7,156.2m**	£6,233.8m	£6,095.7m	£5,712.5m	£4,791.8m
Revenue		**£648.8m**	£591.9m	£529.0m	£473.0m	£323.5m
Gross profit		**£572.5m**	£515.1m	£463.2m	£382.8m	£281.7m
Underlying operating profit*		**£84.2m**	£76.6m	£71.1m	£84.5m	£66.4m
Underlying profit before tax*		**£80.5m**	£71.4m	£63.3m	£78.4m	£64.6m
Earnings per share — underlying*	— basic	**4.9p**	4.4p	3.8p	5.0p	4.3p
	— diluted	**4.9p**	4.3p	3.8p	4.9p	4.2p
Earnings/(loss) per share — FRS 14	— basic	**1.9p**	1.2p	(0.9p)	4.4p	4.6p
	— diluted	**1.9p**	1.2p	(0.9p)	4.2p	4.4p
Full year dividend per share		**1.32p**	1.25p	1.20p	1.15p	1.0p
Operating cash flow		**£110.1m**	£109.3m	£66.3m	£96.2m	£76.3m
Net (debt)/funds		**£(149.2)m**	£(120.3)m	£(126.0)m	£(59.0)m	£(15.1)m

*Underlying operating profit, PBT and EPS are before charging goodwill amortisation of £35.7m (2002: £23.2m) and exceptional credits of £3.2m (2002: charges of £13.5m). UK GAAP profit before tax is £48.0m (2002: £34.7m) and UK GAAP operating profit is £62.9 million (2002: £44.7 million). A reconciliation of the underlying profit to UK GAAP profit is set out on page 6.

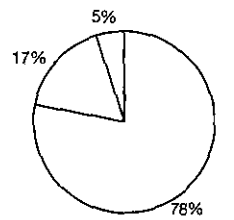
Group Financial Analysis



Revenue by business
Media 66%
Research 34%



Revenue by region
Europe 59%
Americas 31%
Asia-Pacific 10%



Underlying operating profit by region
Europe 78%
Americas 17%
Asia-Pacific 5%

Key Events

January 2003	>	Synovate launched as new Global Research Network
March 2003	>	Outstanding interest acquired in Viewscast, IVR data specialist
April 2003	>	IMS US media specialist acquired
May 2003	>	Freestyle media specialist acquired in US
June 2003	>	Aegis Media launched as platform for media operations
	>	Vizeum launched as new media network
	>	Aegis appoints global head of interactive network
September 2003	>	Censydiam acquired as specialist in consumer motivational research
	>	Blackstone Market Facts research company acquired in India
October 2003	>	Isis Research – healthcare research agency acquired
	>	UK airport advertising specialist, PSI Advertising, acquired
	>	Aegis acquires interest in Chinese TV drama company – QJY
November 2003	>	Appointment of Jerry Buhlmann as new head of Aegis Media Europe

Aegis Business Profiles

Aegis Group plc
Aegis Group plc is a leading marketing services company employing 8,500 staff in over 60 countries. Headquartered in London and listed on the London Stock Exchange (AGS.L), the Group is structured around two key business areas: Aegis Media, which includes Carat, Vizeum, Posterscope and a range of communication services businesses; and Synovate, which is a leading international market research business.
www.aegisplc.com

Carat
Carat is the world's largest independent media communication specialist. Present in 52 countries across Europe, North America, Asia-Pacific and Latin America. Carat's national operating companies are leaders in most of their markets.
www.carat.com

Synovate
Synovate is one of the world's top research firms and provides clients with cohesive global support with a comprehensive suite of leading research products. Synovate is present in 46 countries across America, Europe, the Middle East and Africa, Latin America and Asia-Pacific.
www.synovate.com

Posterscope
Posterscope is an 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

Interactive
Aegis Media's interactive network provides a full interactive service offering in 23 countries. The Group has strong market positions in the US and Europe in internet planning and buying and is rapidly becoming a substantial international network.
www.caratinteractive.com

Vizeum
Vizeum is a new independent media communication specialist founded in June 2003. Since its foundation it has grown a solid European presence with 21 offices in 17 countries. It is intended that Vizeum builds its International presence in 2004 to encompass the US and Asia-Pacific.
www.vizeum.com

Media

52 countries — 5,092 employees

Argentina	Czech Republic	Germany	Israel	Malaysia	Poland	Singapore	Turkey
Australia	Denmark	Greece	Italy	Mexico	Portugal	Spain	UAE
Austria	Egypt	Hong Kong	Japan	Morocco	Romania	Sweden	Ukraine
Belgium	Estonia	Hungary	Jordan	Netherlands	Russia	Switzerland	UK
Canada	Finland	India	Kuwait	New Zealand	Saudi Arabia	Syria	USA
China	France	Indonesia	Latvia	Norway	South Korea	Taiwan	
		Ireland	Lithuania	Philippines	Slovakia	Thailand	

Research

46 countries — 3,446 employees

Argentina	Chile	Denmark	Hungary	Latvia	Norway	Singapore	Taiwan
Australia	China (inc HK)	Estonia	India	Lithuania	Philippines	Slovakia	Thailand
Austria	Cyprus	Finland	Indonesia	Malaysia	Poland	South Korea	Turkey
Belgium	Czech Republic	France	Ireland	Mexico	Portugal	Spain	UK
Brazil		Germany	Italy	Morocco	Romania	Sweden	USA
Canada		Greece	Japan	Netherlands	Russia	Switzerland	Venezuela

a target no one hit; genius hits no one else can see

Arthur Schopenhauer

Contents

"Aegis has continued to grow ahead of the market and shown progress against key financial measures. This attests to the quality of our businesses and to management's ability to deliver growth in difficult market conditions."

Letter to Shareholders

Dear Shareholder

2003 was a good year for Aegis. We grew revenues significantly ahead of the market and produced record profits.

During the year we continued to invest in our key business areas, allowing us to build strong organisations to service an increasingly global customer base. There is no doubt that the investment made in recent years in developing these business has allowed us to maintain growth in a difficult trading environment.

Despite war in Iraq and a new epidemic with SARS in Asia, 2003 will be regarded as the year that the advertising recovery began. There was a clear positive trend in North America for most of the year and this was followed by a strong recovery in much of Asia-Pacific, with the notable exception of Japan. In Europe, although growth was marginal, there was evidence of some local market recovery in the latter part of the year. Our forecasts indicate somewhat stronger growth in 2004 particularly driven by the 'quadrennial effect' of the Olympics, the US presidential election and the football championship in Europe.
Our media business, of which Carat is the largest part, grew turnover by 15.0%, significantly ahead of the estimated global market growth of 3.4%. Vizeum, our new media brand, is now a reality in the European market with a network of 17 offices and with billings in excess of $1.5 billion. Looking to our future, Vizeum offers the Group real opportunity to expand the core media planning & buying business.

We have continued to expand the breadth and diversity of services we offer clients. Our outdoor media business, Posterscope, and our interactive operations, once both collections of small, local businesses have each been consolidated into substantial international networks in their own right. In addition, the Group operates in a range of communication services, mostly under the Carat brand name, including brand and marketing consultancy, contract publishing, data planning, direct marketing, sponsorship and public relations. Together with interactive and outdoor media, these businesses now account for around a quarter of our media revenues.

	2003	Change %	2002
Revenue	£648.8m	9.6%	£591.9m
Gross Margin	8.0%	n/a	8.3%
Underlying Profit before Tax*	£80.5m	12.7%	£71.4m
Underlying Basic EPS*	4.9p	11.4%	4.4p
Dividend	1.32p	5.6%	1.25p

*Underlying PBT and EPS are before charging goodwill amortisation of £35.7m (2002: £23.2m) and exceptional credits of £3.2m (2002: charges of £13.5m). UK GAAP basic EPS is 1.9p (2002: 1.2p) and UK GAAP profit before tax is £48.0m (2002: £34.7m). A reconciliation of the underlying profit to UK GAAP profit is set out on page 6.

Letter to Shareholders

Our research business, Synovate, grew strongly with revenues up 8.0% and with all regions performing well. 2003 was an important year in the development of Synovate as its operations were forged into a single integrated worldwide network. Margins were affected as considerable investment was made in management and systems infrastructure, data collection capability and solutions. Synovate is now one of only a handful of research networks capable of providing marketers with a full service global research capability. The acquisition of Isis allowed Synovate to establish an international healthcare research agency with the first global cancer care audit. Another acquisition, Censydiam, has given us the opportunity to use Synovate's global network to extend the outstanding position this company has in applied motivational psychology.

Our continued investment means that our businesses are well placed to benefit from any upturn in the market allowing us to service an increasingly global client base. This is a sound strategy. There is clear evidence that those companies that innovate and invest in their operations are the ones that will ultimately perform ahead of their peer group. We confidently anticipate that the strategy we have followed will increase our revenue prospects and will lead to higher shareholder value.

Our financial results for the year reflect the solid progress that we have made. Revenue was up 9.6% to £648.8 million (2002: £591.9 million). Taking out the effect of acquisitions, organic revenue growth was 4.7%. Underlying* profit before tax was up 12.7% to £80.5 million (2002: £71.4 million). Underlying* diluted EPS increased to 4.9p (2002: 4.3p). In line with this, the Board is recommending a final dividend of 0.80 pence per ordinary share, making 1.32 pence per ordinary share for the full year.

The share price, the real measure of investor confidence, rose 26.2% in the 12 months to 31 December 2003 ahead of the FTSE All Share Media and Entertainment Sector Index.

We now employ over 8,500 highly skilled people in over 60 countries around the world and the achievements are theirs. On behalf of the Board and shareholders we would like to thank them all for the hard work, determination and commitment they have shown during a very challenging period.

We also wish to thank John Amerman, Lord Hannay, Bruno Kemoun and Eryck Rebbouh, who stepped down from the Board, for their valued contribution.

The Board welcomes three new non-executive directors, Daniel Farrar, Charles Strauss and Leslie Van De Walle.

Corporate governance has been a widely discussed topic in 2003 and the Board has reviewed its compliance with The Combined Code. During the year we also introduced a comprehensive set of management guidelines in the form of a Policies and Procedures manual. We also made progress in terms of our assessment and management of risk.

Many of the initiatives undertaken in 2003 will be important for the Group's growth prospects. In particular, the new structures in place within Aegis' media and market research operations have been designed to open up opportunities that were previously unavailable. The Board is confident that the Group will see further improvements to its market position and financial performance over the coming year.

Lord Sharman
Chairman

Doug Flynn
Chief Executive Officer

*Underlying operating profit, PBT and EPS are before charging goodwill amortisation and exceptional items. A reconciliation of the underlying profit to UK GAAP profit is set out on page 6.

"Our steady investment in the business throughout this industry's deepest marketing services recession has resulted in a clear improvement in the strategic position of our key media and research businesses and this will be important for the Group's growth prospects.

With the adspend market back into the cycle of positive growth the benefits of these initiatives are expected to materialise in 2004 and beyond. Given the improving market conditions we are optimistic that Aegis will see further improvements to its financial performance over the coming year."

"The Group delivered record underlying pre-tax profits of £80.5 million, an increase of 12.7% over last year. This improvement was driven by continued rapid growth in revenues and a better than budgeted financial result."

Financial Review

Financial Results

The Group delivered record underlying* pre-tax profit during the year at £80.5 million, an increase of 12.7% over the result for last year. The improvement was driven by continued rapid growth in revenues. Net interest was unchanged from 2002 despite increased spending on capital investment and expenditure of £76.7 million on acquisitions during the year.

Turnover

Group turnover was £7,156.2 million (2002: £6,233.8 million) a 14.8% increase. Both Asia-Pacific and the Americas continued to see rapid expansion, with turnover ahead by 62.8% and 11.3% respectively. In Europe, where advertising spend remained depressed for most of the year, a combination of a strong business performance, a strong Euro and a late recovery in clients' spend enabled the Group to increase turnover by 14.1% compared with 2002.

Revenue

The Group's revenue was £648.8 million (2002: £591.9 million), an increase of 9.6%. The sustained investment in the business, which continued throughout the global marketing recession, has meant that the Group has seen good growth both in its traditional heartland of Europe and in its newer business regions. The Group's organic revenue growth was 4.7% (4.4% in constant currency) with the balance of growth coming from acquisitions.

Both the media and market research businesses did well with organic constant currency revenue growth rates of 3.6% and 5.9% respectively.

Gross Profit

Gross profit was up 11.1% to £572.5 million (2002: £515.1 million). Gross margin was 8.0% (2002: 8.3%). In media, the gross margin fell slightly from 6.4% to 6.2% as a result of increased spending by those clients on fixed fee-based contracts, partially offset by an increased contribution from higher margin specialist services. Market research margins increased from 64.0% to 65.1% as the proportion of bought-in goods and services representing direct cost of sales fell compared with 2002.

Operating Expenses

Underlying* operating expenses rose by 11.4% to £488.3 million (2002: £438.5 million). The slight easing in market conditions together with the actions taken to contain costs allowed the Group to show a slight improvement to its underlying* operating margin (operating profit as a percentage of revenue) despite the significant investments made during the year. These included the launch of Vizeum which incurred incremental costs of some £2.3 million in the year; the losses on newly launched businesses, including Carat Brazil, which incurred a loss of £0.3 million in total for the year; and £4.3 million investment in tool and solution development. The Group also incurred one-off abortive acquisition and non-exceptional severance costs of £5.1 million, of which £2.4 million was reported in the first half of the year.

In addition to the underlying* operating costs, the Group incurred exceptional costs of £2.0 million relating to the reduction in value of investments held by eVerger. However, this was more than offset by the release of a £5.2 million provision relating to the IMS court case in the US which was no longer required following the acquisition of IMS in April 2003.

The total staff complement at 31 December 2003 was 8,538 (2002: 7,478). Full time

Reconciliation of underlying* to UK GAAP operating profit

	Year ended 31 December 2003 £m	Restated Year ended 31 December 2002 £m
Underlying operating profit	**84.2**	76.6
Exceptional Items**	**5.2**	(9.5)
	89.4	67.1
Amortisation of Goodwill	**(26.5)**	(22.4)
UK GAAP operating profit	**62.9**	44.7

Reconciliation of underlying* to UK GAAP profit before tax

	Year ended 31 December 2003 £m	Restated Year ended 31 December 2002 £m
Underlying profit before tax	**80.5**	71.4
Exceptional Items**	**3.2**	(13.5)
	83.7	57.9
Amortisation of Goodwill	**(35.7)**	(23.2)
UK GAAP profit before tax	**48.0**	34.7

**See note 3 on page 51.

"Working capital management continues to be a key element of the treasury management programme. Operating cash flow was strong at £110.1 million, equivalent to 131% of underlying operating profit."

Financial Review

employees within research accounted for 3,446 of this total with media representing 5,092. Expenditure on research during 2003 was approximately £25.8million (2002: £24.5 million). The Group maintains its commitment to achieve operating efficiencies wherever possible. Management remains focused on enhancing operating efficiency and productivity and, although we compare favourably with similar companies, we will strive to make further progress in this area.

Pre-tax profits
Overall, underlying* profit before tax was £80.5 million (2002: £71.4 million). The increase was mainly the result of continued volume growth. Effective cash management and favourable interest rates also helped the Group attain a lower than budgeted interest charge. After net exceptional credits of £3.2 million (2002: debits of £13.5 million), the pre-tax profit before goodwill amortisation was £83.7 million (2002: £57.9 million).

Foreign exchange
The majority of the Group's operating profit arises outside the UK, in particular from Europe. During 2003 approximately 36% of the Group's revenues from trading companies arose in Euros, and 38% in US$. The average US$ exchange rate fell by 9% compared to 2002, whilst the average Euro rate strengthened by 10% in the same period. Overall, exchange rate movements acted to increase Group revenues in 2003 by 0.3% compared with 2002.

Cash flow, borrowings and interest
Working capital management continues to be a key element of the treasury management programme. Operating cash flow for 2003 was strong at £110.1 million (2002: £109.3 million) equivalent to 131% of underlying* operating profit. This strong performance enabled the Group to fund £76.7 million of acquisition payments and a higher level of capital expenditure during the year. Net debt at 31 December 2003 was £149.2million (2002: £120.3 million). The strong cash flow together with low interest rates, resulted in a net interest expense of £0.6 million (2002: £2.9 million). During the year, the Group cancelled the 1999 syndicated loan facility and launched a new £200 million syndicated loan. As a result, other financing costs rose from £0.7 million in 2002 to £1.2 million in 2003.

Capital expenditure
The Group's capital expenditure was higher in 2003 at £19.9 million (2002: £15.8 million) as the Group returned to a more normal pattern of expenditure. Spending comprised £3.9 million on property and leasehold improvements, £11.3 million on information technology and £4.7 million on other equipment, fixtures & fittings.

Taxation
The Group's underlying* effective tax rate decreased to 29.8% (2002: 30.6%).

Goodwill
In accordance with FRS 10 the Group amortises goodwill arising on consolidation. In 2003, the Group changed its policy on accounting for goodwill. This change, which is explained in note 1 on page 47, had a small effect on the carrying value of goodwill in the balance sheet and on the amortisation charge in the profit and loss account. The figures for 2002 have been restated to reflect the change. The goodwill charge for the year is £35.7 million (2002: £23.2 million). After deduction of the goodwill charge, the Group's pre-tax profits were £48.0 million (2002: £34.7 million). This included a charge of £8.9 million relating to the impairment of the goodwill associated with the Group's investment in NewWorld IQ. The charge in respect of goodwill amortisation has no effect on the underlying profits of the Group or its cash flow.

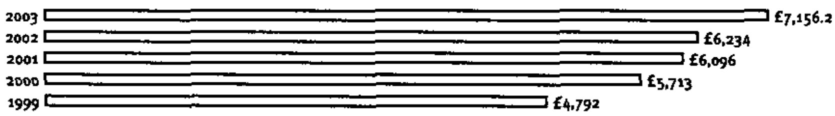
*Underlying operating profit, PBT and EPS are before charging goodwill amortisation and exceptional items. A reconciliation of the underlying profit to UK GAAP profit is set out on page 6.

Financial Highlights

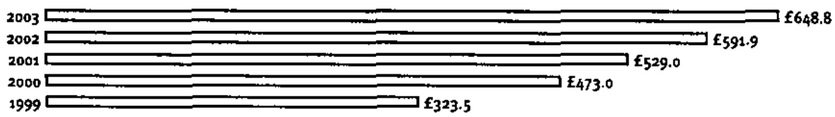
Trading results:

	2003	Restated 2002
Turnover	**£7,156.2m**	£6,233.8m
Revenue	**£648.8m**	£591.9m
Gross profit	**£572.5m**	£515.1m
% Gross profit to turnover	**8.0%**	8.3%
Underlying operating profit*	**£84.2m**	£76.6m
Underlying profit before tax*	**£80.5m**	£71.4m
Exceptional items	**£3.2m**	£(13.5)m
Profit before tax and goodwill	**£83.7m**	£57.9m
Effective underlying tax rate*	**29.8%**	30.6%
Amortisation of goodwill	**£35.7m**	£23.2m
Profit before tax	**£48.0m**	£34.7m
Cash flow:		
Operating cash flow	**£110.1m**	£109.3m
Net debt	**£(149.2)m**	£(120.3)m
Shareholder returns:		
Basic (loss)/earnings per share		
– underlying*	**4.9p**	4.4p
– after exceptional items	**5.1p**	3.3p
– FRS 14	**1.9p**	1.2p
Diluted (loss)/earnings per share		
– underlying*	**4.9p**	4.3p
– after exceptional items	**5.1p**	3.3p
– FRS 14	**1.9p**	1.2p
Total dividend per share for the year	**1.32p**	1.25p

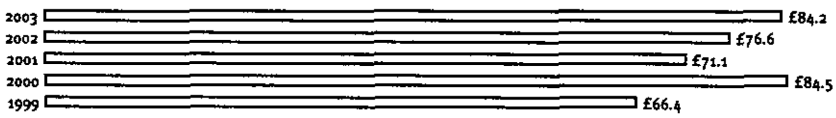
Turnover £Millions



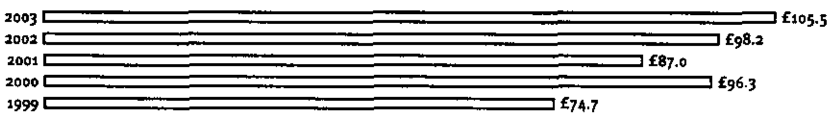
Revenue £Millions



Underlying* Operating Profit £Millions



Underlying* Operating Profit before Depreciation £Millions



*Underlying operating profit, PBT and EPS are before charging goodwill amortisation and exceptional items. A reconciliation of the underlying profit to UK GAAP profit is set out on page 6.

Financial Review

Profit for the financial year and shareholders' funds
The profit for the financial year attributable to shareholders (before payment of the dividend on the ordinary shares) was £21.1 million (2002: £13.1 million). Underlying* basic earnings per share was 4.9p (2002: 4.4p). Underlying* diluted earnings per share was 4.9p (2002: 4.3p). FRS 14 basic earnings per share was 1.9p (2002: 1.2p) and diluted earnings per share was 1.9p (2002: 1.2p).

Dividend
An interim dividend of 0.52 pence per ordinary share was declared and paid in 2003. The Board is recommending a final dividend of 0.8 pence per ordinary share, making 1.32 pence per ordinary share for the full year, an increase of 5.6% over the dividend paid in respect of 2002.

Acquisitions

Details of all of the Group's 2003 material acquisitions are set out in note 19 to the financial statements. The total initial consideration paid for these acquisitions was £48.9 million (of which £43.1 million was paid in cash) with estimated deferred consideration payable in cash of £17.7 million, subject to challenging growth objectives. During the year the Company paid £32.0 million in deferred consideration relating to acquisitions in earlier periods. The directors estimate that the total deferred liabilities related to acquisitions amount to £52.6 million (2002: £55.8 million). Approximately £19.3 million may be paid as deferred consideration in 2004. The maximum amount of deferred consideration payable is £112.5 million. The Group will continue to pursue acquisition targets that fit in with its stated strategy to expand its geographical network or to support product and service development. We will continue to ensure that all future acquisitions are made on a financially prudent basis.

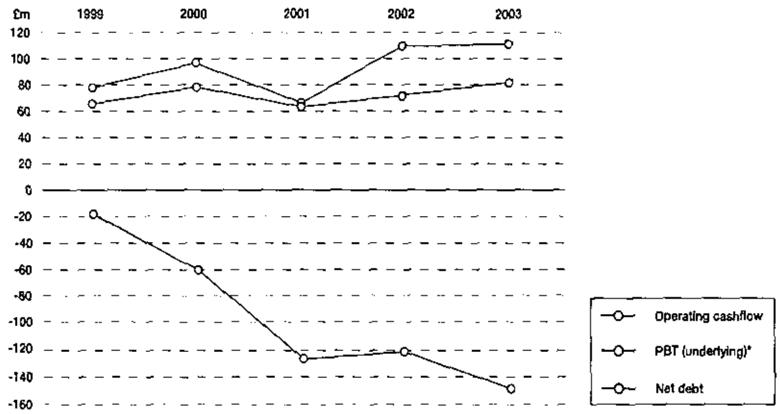
Treasury management
The Group's treasury function is charged with the objective of minimising financial risks whilst providing adequate liquidity for the Group's activities. There is a central treasury function that interacts closely with those in the individual operations. The conceptual framework for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

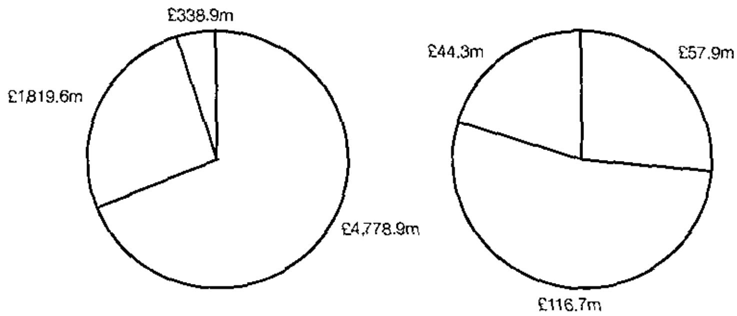
Internal financial control
Consistent with previous years the Group has maintained its policy to examine the internal financial controls operating within the individual businesses. This work is undertaken on an ongoing basis and involves examining all key financial controls with further work undertaken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

Conclusion
The Group's results in 2003 continued to be affected by the industry-wide recession in the early part of the year, although recovery was clearly in evidence in the latter part. The Group will continue to pursue a course of cost control, together with business development to drive above average top-line growth, with the objective of maximising shareholder returns over the medium and long terms.

5 year dividend growth > pence

Operating cash flow, underlying* profit before tax and net debt > 1999-2003





Media turnover by region 2003
Europe £4,778.9m
Americas £1,819.6m
Asia-Pacific £338.9m

Research revenue by region 2003
Americas £116.7m
Europe £57.9m
Asia-Pacific £44.3m

*Underlying PBT is before charging goodwill amortisation and exceptional items. A reconciliation of the underlying profit to UK GAAP profit is set out on page 6.

"The Carat brand was established in 1988 and was the first independent media specialist in Europe. The launch of its new identity in early 2004 reflects the many changes that the company has undergone in that time and the wide range of services we can now offer clients."
Nigel Morris, Carat International

Operating Review

Media
In 2003, Aegis Media's business base was broadened through converting new business opportunities and expanding clients into additional markets. Total net new business billings of $728 million was down from the previous year but effectively demonstrates the 'lumpy' nature of new business progress where a single large international client win can have an inordinate impact on the year-end new business total.

Carat
For Carat, the most significant business wins, won for the most part through strong international and local co-ordination, were Arla, Bel, JTI, Diesel, EMI, Epson and Thomas Cook.

International clients now account for 50% of Carat's billings and it now has 40 clients in three or more markets. Existing clients were extended into more than 50 additional countries with Europe leading the way. Included in these were EMI, Diesel and Cadbury Schweppes in Europe while international clients Disney, Henkel and Kelloggs expanded into Russia and the Baltics. In Asia, clients that have extended their business with Carat included BMW, Pernod Ricard, Cadbury and Beiersdorf.

Carat continued to invest in its range of consultancy and management support services with particular focus on consumer insight and advertising effectiveness capabilities. It also established Deep Blue, a multi-discipline team to deliver innovation in communication, culture, trends insight and strategic services.

Carat Europe
Although the market in Europe was static throughout 2003, representing in real terms the third year of advertising recession, Carat Europe made progress in all key strategic areas.

It was a quiet year for new business with few major reviews, but Carat Europe won $271 million of net new business mainly through local success and medium sized European consolidation. It is expected that new business reviews will increase in 2004 and the strong reputation of Carat in Europe will ensure that it is well positioned to take up any opportunities that may arise. Added-value services and account extensions now represent 30% of all revenue across Europe and development of this area is ensuring that Carat is well placed to address the needs of clients in an increasingly complex media environment.

Carat Europe maintained its leading market position and RECMA, the independent agency evaluation service, rated Carat with its highest 'Vitality' score, representing 'overall business and product health' – ahead of any other media agency. RECMA's tools and service evaluation also gave Carat the highest score in Germany, France and the UK, the only markets they have evaluated to date.

Looking at the individual markets, 2003 was particularly successful for a rejuvenated Nordic region, where a new strong management was particularly successful in new business, with $100m additional business including Svenske Spei and Regions Skane.

Despite a soft market, Germany made good progress in all areas and in particular in product development, where new data planning and specialist retail communication services were successfully launched. Notable new business wins included Warsteiner, Freiol, Bertelsmann, Kia and Dualles System.

In Italy, Carat was nominated Media Agency of the Year for the second year in a row and won a number of new clients including Peroni, BMW, Cadbury Schweppes and Total Fina Elf.

Carat Spain also won the equivalent Agency of the Year award in its country with Gloablia, Direct Line and INSS as major client wins.

Carat France had a mixed year with a number of client losses as a result of consolidations. It worked hard to replace

"Over the next 10 years China is expected to become one of the world's largest consumer markets. Carat is pioneering media in China, finding new and creative ways to help clients connect with 1.3 billion consumers."
David Liu, Carat Asia-Pacific

this lost business with SIG, Physcience, Persee Medica, Pathe and Lindt amongst the largest wins of the year. Strong new local management and our dominant market share position in this market will help drive growth through 2004.

Carat UK also faced a challenging market with a higher than average churn as a result of account consolidations and client management change. New clients included Legal and General, Teletext and Channel 5.

In November, Aegis appointed a new head of its European media operations. Jerry Buhlmann's excellent track record in working with major European clients, combined with improving market conditions, are likely to help Aegis Media's operations progress further in Europe in 2004.

Carat Americas
2003 was a year of continued growth, innovation and expansion for Carat Americas with net new business billings of $276 million.

In North America, Carat saw solid growth from new blue chip client relationships such as Schick, MTV, XM Radio, VH1 and Marriot. In addition, existing clients such as Pfizer, Bank One and Viacom extended the scope of their business. Carat is now ranked fifth largest among buyers of national television time and magazine media in the USA and sixth overall in media services.

Carat USA experienced expansion in many of its specialist areas with growth at Carat Direct (direct marketing), Carat Trade (corporate trade and barter) and Carat Multicultural media services. A number of new services introduced during the year. This includes Carat Sponsorship Solutions, which provides a range of consulting services in the fields of sports, entertainment and social cause marketing. Carat Affiliates also began trading in 2003, providing customised media services, media buying and analytics to the emerging independent creative agency sector. This responds to the trend among large multinational clients to mandate small, hot creative agencies to provide them with non-traditional and fresh creative media approaches.

In Latin America, Carat has refocused its business priorities on the most attractive regional opportunities. Consequently Carat Brazil opened in Sao Paulo in 2003 offering media consultancy services and winning new business with Volvo and Bristol Myers. Carat made good progress in Mexico and Argentina despite recent turmoil in the latter. Argentine Telecom and Aerolineas Argentinas and the Mexican operation of Turner Networks have become clients. Further progress has been made in the Caribbean and Central American arenas via affiliate relationships. Carat Chile found it tough to break even in a market where individual client budgets are small by international standards and Carat Venezuela suffered from continued economic upheaval. During 2003, therefore, it was decided that the future prospects did not justify the continued losses and so both operations were closed.

Carat Asia-Pacific
Despite the SARS epidemic and the unsettled global socio-political climate 2003 was a year of outstanding performance for Carat in Asia Pacific. After just seven years of operation it now has 28 operations in 12 countries where 850 staff service a wide range of local, regional and global clients. During the year the management team was strengthened in order to manage the rapidly expanding growth in business.

A total of $181 million of net new business has been won with significant clients added in most countries. These include Pernod Ricard, KSF and Yi Li in China, Taiwan Lottery and President Foods in Taiwan, AAG in India, IAG, P&O Cruises and NSW Lottery in Australia, Courts in Singapore, Carlsberg in Malaysia, ShoeMart in The Philippines, Sangi and KFC in Japan and Honda in Thailand.

Carat's interests in China took another step forward when, in October, it acquired a 25% holding in Qin Jia Yuan (QJY). QJY produces popular TV dramas and is one of the top independent programme syndication companies in China. This will benefit clients by providing access to the prime time advertising slots associated with this type of programme and the ability to reach consumers across the vast number of TV stations throughout China.

The performance of Carat in Asia Pacific is receiving wide-ranging recognition. RECMA, the media rating agency ranked Carat second out of 10 multinational media specialists in the region based on its "Vitality" measure, an index of new business wins and losses, staff growth and the dynamism of the organisation. Virtually all business won by Carat is achieved independently of creative agencies unlike most of its competition. In Australia, Carat was awarded "Agency of the Year" for the third successive year. It is particularly noteworthy that in Carat China is now ranked fourth in that country and has shown a significant increase in business in 2003 as the local economy continues to burgeon.

Vizeum
Aegis Media launched its Vizeum network on 16th June 2003. It purpose was to drive Aegis' overall market share and profit growth by providing additional choice to advertisers seeking an independent media agency partner against a background of a consolidating market. At the same time the new network is able to leverage the scale benefits of Aegis Media. These include a number shared services and internal resources including media negotiation, information technology and finance.

"Airport advertising is a highly effective medium especially for multi-national advertisers that want to reach the exclusive business traveller audience. As well as being the world's biggest outdoor specialist Posterscope grew to become the UK's leading airport advertising specialist in 2003."

Annie Rickard, CEO Posterscope Worldwide

Operating Review

Implementing a buy and build strategy, Vizeum now comprises 21 offices in 17 countries and has won $150 million in new business in its first six months of operation. New additions to the client portfolio included Asics, Five, Kia, Piper Heidsieck and Timberland. More significantly the network won its first international account at the start of 2004 with the award of Japan Tobacco International's media business.

Vizeum's brand positioning is encapsulated in its philosophy of "Pioneering the Art of Connection" which indicates both its desire to challenge the conventions of the market and to seek more effective ways to bond clients' brands with consumers. With Vizeum's European network now in place, plans to extend into the United States and Asia Pacific are now in process.

Posterscope

The Group's outdoor media specialist, Posterscope, continued to benefit from the growth of out-of-home advertising. The medium has been resurgent as it has the ability to stand out against the proliferation of broadcast and print media. New forms of outdoor sites, including giant video screens, make a huge impact for advertisers, especially in busy city sites.

Posterscope continued to expand its reach in 2003 in order to be able to provide clients with the opportunity to market their international brands more widely and with uniformity. In addition to a major presence in Europe, Posterscope has expanded its presence in Asia Pacific in 2003 to include China, Hong Kong, India, south-east Asia and Taiwan. In the United States the company has a solid base from which to grow. The network will expand further its global reach in 2004 with planned office openings in virtually every region.

The acquisition of PSI, a leading airport advertising agency, has broadened Posterscope's specialist out-of-home offering. Airport advertising is a robust and growing market, especially for multi-national advertisers who want to reach the exclusive business traveler audience.

Posterscope continues to invest in further expansion and in its technical tools to tailor its planning and buying capability for clients to an increasing number of international markets.

Carat Interactive

The Group's interactive business made good progress in 2003 with growing revenues, robust margins and stable management in all the key markets. A new global management structure was put in place with a President of Interactive Worldwide appointed to provide a focus for the further development of the division.

Consumer usage of interactive and digital channels continues to grow. Indeed research commissioned by Yahoo and Carat Interactive demonstrated that "...time spent on the Internet now exceeds that with any other media for US teens and young adults." Digital media's ability to reach consumers in a highly targeted way means that brands can market to consumers on a one-to-one basis, creating a dialogue and building strong customer loyalty.

As a full service interactive agency, Carat Interactive has the ability to provide clients with a full range of highly specialised tools and techniques in the areas of digital marketing strategy, creative design and production, search engine optimization, affiliate marketing, direct e-mail, and electronic relationship management.

Carat Interactive has 22 offices in 17 countries, is the largest in its field in Europe and was ranked 3rd largest global interactive media group by Mediapost in February 2003 and "2003 Interactive Agency of the Year" by BtoB magazine. Effectively Carat Interactive became a network in its own right in 2003, although still focussed on servicing Aegis' existing client base. In 2004 the Group intends to launch a second interactive brand which will share Carat Interactive's resources but will be externally facing to provide additional opportunities for growth.

Market Research

The Synovate brand was launched on 6th January 2003. Its goal was to reinvent research by creating a global market research organisation with an approach unlike that of its competitors. The strategy deliberately avoided forming a large, central organisation. Instead it has centres of excellence across the world. This enables it to form teams that can deliver against the requirements of global, regional and national clients and to recruit and retain key talent wherever they are.

Synovate now has fully-owned operations in 81 cities in 46 countries. In the field of survey-based custom research it is in the world's top five, an important position as most major clients retain a roster of three or four preferred suppliers.

Synovate made good progress in 2003. Despite the effects of SARS in Asia Pacific, the War in Iraq and a soft European market, Synovate increased reported revenues by 8.0% to £218.9 million. Organic revenue growth, excluding the impact of currencies, was 5.9% – over twice the market rate of growth.

Throughout the year, Synovate continued to strengthen and adjust the shape and reach of its global network. In January the Group moved Copernicus, its US research-based marketing consultancy from Synovate to Carat in order to maximise synergies. In March 2004 it acquired Symmetrics a US based global leader in customer relationship measurement and management. Synovate Motoresearch's international capability was also improved by the establishment of three regional centres in Detroit, London and Singapore which have been tasked to develop specialist Motoresearch centres in all key automotive markets.

“Cancer in all its forms is serious and Synovate has a key role in winning the battle to treat it. We help medical professionals, around the world understand the benefits of different drug therapies in the industry’s first ever global cancer care audit.”

Michael Spedding, Synovate Healthcare

Operating Review

In April Synovate acquired Viewscast, a specialist in providing monitoring services to the call centre industry. Synovate has now adopted Viewscast's Interactive Voice Response system as its standard platform for this type of data collection giving it the widest network in the industry.

In September, the acquisition of Blackstone Market Facts in India, gave Synovate a major footprint in one of the world's most populous regions. In the same month Synovate also acquired Belgium-based Censydiam and added exceptional research capabilities based on consumer motivational psychology and these will be rolled out throughout Synovate's global network.

In October, Synovate's Healthcare business benefited from the acquisition of Isis Research, which complements its existing US cancer care audit business – making it the world's first global cancer care audit – and broadens the range of syndicated audits to include HIV, Multiple Sclerosis, Hepatitis B and Diabetes.

While Synovate's organisation and approach to market research is first and foremost a global one it may be useful to highlight significant developments in the three principal regional theatres of our operations.

Synovate Americas

Synovate's operations in the US and Latin America increased market share in the period while the US continued to show good growth in profits. This was achieved against the backdrop of a static market and both sales and revenues showed good growth. This is despite one-off restructuring costs and provides a strong endorsement of the management changes and streamlining of the business undertaken over the past two years.

Latin America is showing signs of recovery and its recently acquired business in Brazil achieved significant growth and made a positive contribution to profits in 2003. The specialist industry divisions, especially Healthcare and Public Sector, have secured significant new or renewal business in the period.

Synovate Asia Pacific

The SARS health scare presented significant problems for data gathering and cross border research projects in the early part of 2003. Nevertheless, by the summer the problem had subsided and net revenues for Asia-Pacific continued to increase satisfactorily. Hong Kong, China, Japan, the Philippines and South Korea all performed strongly with China providing Asia-Pacific's best performing operation. Taiwan was the only market in Asia-Pacific that disappointed as a result of poor market conditions. By the end of December, Asia-Pacific's sales pipeline was significantly up compared with last year.

Synovate EMEA

(Europe, the Middle-East and Africa)

Economic recession and the impact of the Iraq war on business confidence meant that the research markets barely grew in many of the key EMEA countries. Nevertheless, Synovate EMEA performed well, helped by the new business opportunities provided by Synovate's international network.

A continued focus on multi-country studies, key account management, aggressive marketing of proprietary solutions and increased investment in regional business development capability enabled Synovate EMEA to gain market share. During the year the European operation continued to grow with the addition of ISIS Research and Censydiam. Although much has been done to build Geographic coverage in 2003, the Group continues to actively explore other acquisition opportunities in the region. Investment in technology and the streamlining of operational processes are expected to further strengthen margins during the balance of the year.

Board of Directors

Lord Sharman of Redlynch
Non-executive Chairman
Lord Sharman was appointed to the Board on 2 September 1999 and became Chairman on 1 January 2000. He joined KPMG in 1966 where he was elected UK Senior Partner in 1994 and also joined both the International and Executive Committees of KPMG. Between 1997 and 1999 he was Chairman of KPMG Worldwide. In October 1999 he became a member of the House of Lords. He is chairman of Securicor plc, a non-executive director of BG plc and Reed Elsevier plc and also a member of the Supervisory board of ABNAmro NV. Age 61. (Nomination Committee member).

Douglas Flynn
Chief Executive Officer
Douglas Flynn was appointed to the Board as a non-executive director on 15 May 1998 and became Chief Executive on 1 September 1999. Previously he was Managing Director of News International plc. He has held a number of senior positions in the Australian newspaper industry and has also been a management consultant to a number of media companies. Age 54.

Adrian Chedore
Executive Director
Adrian Chedore was appointed to the Board on 31 December 2001. Adrian is the CEO of Synovate, which was created in March 2001 to allow the Group to market its research capabilities on a global basis. He is also chairman and founder of Asia Market Intelligence ("AMI") a business acquired by Aegis in March 2000. Age 52.

David Verklin
Executive Director
David Verklin was appointed to the Board on 2 September 1999. He has been Chief Executive Officer of Carat North America since April 1998. Prior to joining the Group he was Managing Director of Hal Riney & Partners having started his career in 1977 at Young & Rubicam. Age 47.

Jeremy Hicks
Chief Financial Officer
Jeremy Hicks was appointed to the Board on 10 April 2000. Jeremy was the former Group Finance Director of Abbot Mead Vickers plc ("AMV "), having joined the Company in 1994. Prior to joining AMV he was a director of Hambros Bank, working with several major companies in their international development. At AMV Jeremy played a key role in the strategic development of the Company into one of the largest marketing services groups in the UK. Age 50.

Robert Lerwill
Non-executive Director
Robert Lerwill was appointed to the Board on 1 June 2000. Until June 2003 Robert was an executive director of Cable and Wireless plc where he served as Finance Director between 1997 and 2002 and Chief Executive of Cable and Wireless Regional between 2000 and 2003. From 1986 to 1996 he was Group Finance Director of WPP Group plc. In both companies he has been instrumental in developing and managing major international businesses. Robert is also a director of The Anthony Nolan Trust, a cancer relief charity. Age 52. (Audit, Remuneration and Nomination Committee member). (Senior Independent Director).

Leslie Van de Walle
Non-executive Director
Leslie Van de Walle was appointed to the Board on 2 June 2003. He is currently President of Shell Europe Oil Products having joined Shell Latin America and Africa in 2000. Between 1994 and 2000 he held a number of senior executive positions with United Biscuits plc where he rose to Chief Executive during his final year. Prior to that Leslie spent 5 years as Managing Director of a number of European operations within the drinks division of Cadbury Schweppes. Age 48. (Audit and Nomination Committee member)

Bernard Fournier
Non-executive Director
Bernard Fournier was appointed to the Board on 1 June 2000. He spent much of his career at Xerox and Rank Xerox holding senior management positions in France, the US and the UK. Between 1989 and 1998, Bernard was Chief Executive of Rank Xerox and Xerox Ltd, continuing as non-executive Chairman until December 2001. He is Chairman of EDHEC, the largest business school in France and is also a member of the advisory board of Auchan. Age 65. (Audit and Nomination Committee member).

Daniel Farrar
Non-executive Director
Daniel Farrar was appointed to the Board on 2 June 2003. He has 16 years of international experience with the GE Capital Company, having served in a number of senior executive positions, including latterly that of President and Chief Executive Officer of GE Capital Fleet Services Europe. Daniel also has experience in management consultancy having been with Corporate Decisions, Inc. between 1989 and 1992. Age 43. (Remuneration and Nomination Committee member)

Charles Strauss
Non-executive Director
Charles Strauss was appointed to the Board on 5 September 2003. He is currently Chairman of the North America committee and President/CEO of Unilever United States and has held a number of senior executive positions within Unilever since 1989 in the US, Germany and Latin America. Charles was elected to the Unilever Group board of directors in 2000.
He also holds a non-executive appointment with The Hartford Financial Services Group, Inc. as well as a number of US industry association appointments. Age 61. (Remuneration and Nomination Committee member)

Directors and advisors >

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

Company Secretary
John Ross

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250 Bishopsgate
London EC2M 4AA

Report of the directors >

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2003.

Results and dividends
The profit and loss account is set out on page 42 and shows a retained profit for the financial year of £6.4 million (2002: restated – loss of £0.9 million) all of which was transferred to reserves. An interim dividend of 0.52p per share was paid on 3 October 2003 to ordinary shareholders. The directors recommend a final dividend for the year of 0.80p per share which, if approved at the Annual General Meeting, will be payable on 25 June 2004 to ordinary shareholders registered at 4 June 2004. The total dividend for the year will then amount to 1.32p per share (2002: 1.25p).

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

Review of business and future developments
A review of the business and likely future developments of the Group is given in the Letter to Shareholders on pages 3 and 4 and in the Financial and Operating Reviews on pages 8 to 19.

Research and development
The Group is involved in media research and development in order to offer clients the most advanced media communications services. During the year, the Group spent £25.8 million (2002: £24.5 million) on research and development.

Donations
The Group made charitable donations of £0.2 million (2002: £0.2 million) during the year to support a number of local and national charities. There were no political donations or expenditures during the year (2002: £nil).

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

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

Employment policies do not discriminate between employees or potential employees on the grounds of colour, race, ethnic or natural origin, sex, marital status, religious beliefs or disability. Should any employee become disabled, every practical effort is made to ensure that they are given the same consideration as others and enjoy the same training, development and prospects as other employees.

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

Ethical, environmental & social issues
The Group takes its ethical, environmental and social responsibilities seriously. The Company is part of the Dow Jones Sustainability World Index and the FTSE4Good Index.

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

Environmental efficiencies have focused on key issues relevant to the Group, including making use of electronic communication, recycling, energy management and vehicles with low emissions. The Group's offices are encouraged to collect and recycle waste paper and toner cartridges, use energy efficient heating and lighting wherever possible and use unleaded fuel.

Socially, a Vision & Values programme is in place globally, with the emphasis on job and wealth creation. This is backed by clear commitments on human rights based on the belief that the Group can make its greatest contribution to sustainable social development by sharing values and ideas with others. The Group also has a policy to ensure that local charities benefit from either direct help or donations.

Report of the directors (continued) >

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

- to agree the terms of payment with suppliers in advance;
- to ensure that suppliers are made aware of the terms of payment; and
- to abide by the terms of payment.

At 31 December 2003, the Group had 67 days purchases outstanding (2002: 61 days). The creditor day analysis is not applicable to the holding company.

Directors
The names of the directors at the date of this report and biographical details are given on pages 20 and 21.

The following changes to the Board took place during 2003: –

Lord Hannay retired 28 May 2003
Daniel Farrar appointed 2 June 2003
Leslie Van de Walle appointed 2 June 2003
Charles Strauss appointed 5 September 2003
John Amerman retired 18 September 2003
Bruno Kemoun resigned 5 November 2003
Eryck Rebbouh resigned 5 November 2003

The interests of the directors in the shares of the Company are shown in the Remuneration Report on pages 35 to 38.

Re-election of directors
In accordance with the Articles of Association, Robert Lerwill and Bernard Fournier retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. Daniel Farrar, Charles Strauss and Leslie Van de Walle, having been appointed since the previous Annual General Meeting, offer themselves for election.

Details of all the directors' service agreements, including notice periods, are given in the Remuneration Report on pages 32 and 33.

Substantial shareholdings
At 30 March 2004 the Company had been notified of the following interests of 3% or more in its ordinary shares:

	Number of Shares	%
Deutsche Bank AG & subsidiaries	156,278,467	14.05
Harris Associates LP	87,812,261	7.90
Aviva plc	56,468,700	5.08
M&G Investment Management Ltd	46,234,199	4.15
Legal & General Investment Management Ltd	36,378,291	3.27

Share capital
Details of share capital movements (authorised and issued) are given in note 17 to the financial statements on page 59.

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

- Resolution 10 is seeking approval of the Remuneration Report which is set out on pages 31 to 39.
- Resolution 11 is to grant to the directors limited authority to allot securities in the Company up to an aggregate amount of £18,539,204. If passed, the resolution will enable the directors to allot a maximum of 370,784,080 ordinary shares which represent one third of the issued ordinary share capital (excluding treasury shares) as at 30 March 2004. Save for shares to be issued to satisfy existing legal obligations, the directors have no present intention of exercising the authority which would be conferred by this resolution.
- Resolution 12 is to confer on the directors a restricted power to allot or, now that the Company may hold shares as treasury shares (as further described below), sell shares for cash without complying with statutory pre-emption rights.

If passed, the disapplication will cover issues and, in the case of treasury shares, sales by way of rights and other issues and/or sales up to an aggregate nominal value of £2,780,511 (which such amount represents 55,610,220 ordinary shares amounting to approximately 5% of the issued ordinary share capital of the Company as at 31 December 2003 and also as at 30 March 2004). In relation to the exercise of this authority, the Company will have regard to the guidelines published by the investment committees of both the Association of British Insurers and the National Association of Pension Funds.

- Resolution 13 is to confer authority on the Company to purchase its own shares. No purchases have been made to the date of this report and there are no outstanding contracts to purchase shares as of this date. If granted the directors will exercise the authority only if in their judgement it is in the best interests of shareholders generally and where exercise should result in an improvement in earnings per share for the remaining shareholders. If passed, the resolution will enable the Company to purchase up to 55,617,614 ordinary shares (5% of the issued ordinary share capital as at 30 March 2004). The maximum price at which any share may be purchased is the price equal to 5% above the middle market quotations of such share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of such purchase, exclusive of expenses, and the minimum price at which any share may be purchased is the par value of such share. Following the amendments introduced with effect from 1 December 2003 by the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003, the Companies Act 1985 now permits the Company to hold any such bought back shares in treasury, with a view to possible re-issue at a future date, as an alternative to immediately cancelling them (as had previously been required by the legislation). As at 30 March 2004, the Company held no shares in treasury. If the Company purchases any of its ordinary shares pursuant to resolution 13, the Company may cancel these shares or hold them in treasury. Such decision will be made by the directors at the time of purchase on the same basis as outlined above. The number of options for ordinary shares which are outstanding at 30 March 2004, the latest practical date prior to publication of the Annual Report and Accounts, was 108,530,941 (9.8% of the present issued ordinary share capital, excluding treasury shares). If the proposed authority for the Company to purchase its own shares is used in full, the total number of such options will represent 10.3% of the issued ordinary share capital, excluding treasury shares. That percentage would be 10.8% if the existing authority for the Company to purchase its own shares were to be used in full prior to the Annual General Meeting. However, the directors have no current intention to make any purchases of own shares under that authority before the Annual General Meeting (when that authority lapses).

The authorities sought by resolutions 11, 12 and 13 are to replace the existing authorities which expire at the conclusion of the Annual General Meeting and these authorities will lapse at the conclusion of the next Annual General Meeting.

Auditors

Following a review process, the directors propose that Deloitte & Touche LLP be appointed as auditors to the Company with effect from the conclusion of the forthcoming Annual General Meeting (PricewaterhouseCoopers LLP having resigned as the Company's auditors with effect from that time). Deloitte & Touche LLP have expressed their willingness to act as auditors to the Company and accordingly resolutions to appoint them as auditors and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting. Special notice of the resolution proposing the appointment of Deloitte & Touche LLP has been given to the Company as required by the Companies Act 1985.

Directors' responsibilities

The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on pages 40 and 41, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of that financial year and of the profit or loss of the Group for that financial year. The directors consider that in preparing the financial statements on pages 42 to 66, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed, subject to any explanations disclosed in the notes to the financial statements.

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

John Ross
Company Secretary
31 March 2004

Corporate governance >

The Board supports the highest standards of corporate governance and has complied throughout the period under review with the applicable principles and provisions set out in the Combined Code issued in June 1998 (the 1998 Code) as incorporated into the UK Listing Authority Listing Requirements, save that the executive directors have rolling service contracts with notice periods of between six months and two years. The Board believes that service contracts with notice periods in excess of one year are in line with comparable agreements within the industry and reflect the particular contribution and expertise of the executive directors in question.

The new Combined Code of Corporate Governance issued in July 2003 is only effective for reporting years beginning on or after 1 November 2003. The Company will therefore report fully against the new Combined Code next year. However, the Company believes that its corporate governance procedures already comply with many of the new requirements, as indicated below.

The Board currently has 10 directors, comprising four executive directors and six non-executive directors. Their biographies illustrate the directors' range of experience, which ensures that the Company has an effective Board to lead and control the Group. All of the current non-executive directors are 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. John Amerman and Lord Hannay who resigned during the year were also independent. Following the retirement of John Amerman, Robert Lerwill has been nominated as the senior independent director to whom shareholders may convey any concerns in the event that they do not wish to involve either the Chairman or the Chief Executive Officer. The 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. The Board meets at least seven times a year and more frequently when business needs require. One meeting is devoted entirely to the development of the Company's strategy.

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

		Committee meetings		
	Board meetings	Audit	Remuneration	Nomination
No. of meetings in year	7	4	3	2
Lord Sharman	7	–	–	2
John Amerman (retired 18.09.03)	4	2	3	1
Douglas Flynn	7	–	–	1
Adrian Chedore	6	–	–	–
Daniel Farrar (appointed 02.06.03)	4	–	–	–
Bernard Fournier	7	4	3	2
Lord Hannay (retired 28.05.03)	2	2	3	1
Jeremy Hicks	7	–	–	–
Bruno Kemoun (resigned 05.11.03)	4	–	–	–
Robert Lerwill	7	4	–	2
Eryck Rebbouh (resigned 05.11.03)	4	–	–	–
Charles Strauss (appointed 05.09.03)	3	–	–	–
David Verklin	6	–	–	–
Leslie Van de Walle (appointed 02.06.03)	4	1	–	–

The Chairman holds meetings with the other non-executive directors without the executive directors being present. In 2004, the non-executives, led by the senior non-executive director, have started the process of meeting at least annually without the Chairman being present to appraise the Chairman's performance.

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

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

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 the retirements of Lord Hannay and John Amerman, the Audit Committee now comprises Robert Lerwill (chairman), Bernard Fournier and Leslie Van de Walle. Robert Lerwill is a chartered accountant and has significant recent and relevant financial experience. The Chief Financial Officer and the external auditors attend all meetings. Although not a member of the Committee, the Chief Executive Officer may attend meetings. The Committee chairman has, and also uses, together with the other members of the Committee, the opportunity to meet with the auditors without management present. The Board considers that, through the Audit Committee, it has an objective and professional relationship with the external auditors.

The Committee meets three times a year:

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

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

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

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

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

- Conduct of the external auditor review process which culminated in the appointment of new auditors as detailed on page 25
- Review and consideration of issues arising from the Smith Committee Report
- Consideration of, and final agreement with management over, a whistleblowing policy and process for the Group
- Review of matters undertaken by the Group Risk Committee, including new internal financial control and other risk control processes and procedures

Corporate governance (continued) >

Remuneration Committee

Following the retirements of Lord Hannay and John Amerman and the resignation of Bernard Fournier from the Committee during the year, the Remuneration Committee now comprises Charles Strauss (chairman), Robert Lerwill and Daniel Farrar and meets periodically as required but not less than twice a year. It is responsible for overseeing the policy regarding executive remuneration and for determining the remuneration packages for the Group's executive directors. It is also responsible for reviewing incentive schemes for the Group as a whole.

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.

The Committee is also empowered to approve awards under the 2003 Executive Share Option Scheme and the 2003 Performance Share Plan.

Nomination Committee

The Nomination Committee comprises all of the non-executive directors together with the Chief Executive Officer and is chaired by Lord Sharman. The Committee meets as and when necessary and has responsibility for reviewing the board structure, size and composition, and for identifying and nominating to the Board candidates for appointment as directors. During the year the Committee employed the services of an external recruitment firm to source candidates for the non-executive director positions that were filled during the year.

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 provide 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.

In 2003 an executive committee (the "Group Risk Committee") was instituted to manage and monitor the Group's risk and control processes and procedures. The members of the committee include the Chief Financial Officer and the Group Risk Manager.

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, as noted above, has adopted a schedule of matters which is required to be brought to it for consideration, thus ensuring that it maintains full and effective supervision over appropriate controls. The Group's strategic direction is reviewed annually by the Board. The Chief Executive Officer, together with the executive directors, consider the strategy for the individual businesses.

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

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

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

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

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

During 2003 the following matters were implemented to further strengthen the control infrastructure:

- Publication of a detailed set of high level Group Principles and Policies

  A manual has been produced and distributed to 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 has also been issued around the Group via the Company's intranet site.

- Creation of the Group Risk Committee

  The Committee comprises the Chief Financial Officer, the Group Risk Manager, senior representatives of key Group functions and a senior representative from each of Aegis Media and Synovate. The Committee meets regularly and reports to the Audit Committee. The principle roles of the committee are to define the Group's risk appetite, to oversee the management of risk and to receive and analyse reports on the status of the internal controls.

- Appointment of a risk manager

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

- Introduction of a formal Risk Self-Assessment system

  A formal risk self-assessment system has been introduced that uses an on-line questionnaire and will be 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 are analysed by the Group Risk Committee.

- Extension of the existing Internal Control Peer Review process

  The existing peer review process has been revised so that the reviews take place at higher risk locations within the Group and each review assesses the controls over the Group's key risks. The plan and the results are reported to the Group Risk Committee. A separate project determined the Group's initial key risks.

- Implementation of a "whistleblowing" process

  Following careful consideration arrangements have been introduced which allow employees, in confidence, to raise any concerns about possible improprieties in matters of financial reporting or other matters.

The Group does not have a formal Internal Audit team and there are no current plans to introduce one. Management is satisfied that the existing processes and procedures as outlined above support this conclusion. The Board remains committed to reviewing this position, with the Audit Committee, annually.

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.

Corporate governance (continued) >

Relations with shareholders

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

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

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

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

John Ross
Company Secretary
31 March 2004

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.

The Board has an established Remuneration Committee, the members of which are disclosed on page 28. John Amerman, Bernard Fournier and Lord Hannay also served on the committee during the year under review.

New Bridge Street Consultants have been appointed by the Remuneration Committee to provide advice on directors' remuneration and the Company's share incentive schemes. New Bridge Street Consultants provide no other services to, nor have any other connection with, the Company.

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

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

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

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

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

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

Remuneration package of executive directors
The main components are:

- *Base salary and benefits*
  Base salary and benefits are determined on an annual basis by the Committee after a review taking into account the individual's performance, market trends and the performance of the Group as a whole and, where relevant, the performance of the business for which the executive is responsible. For guidance, the Committee has regard to available research and published remuneration information on companies within the same industry and markets in the countries in which the executives are based. A summary of the benefits payable to executive directors is given on page 34.
- *Bonus schemes*
  All of the executive directors participate in the Group's Annual Cash Bonus Scheme based upon achievement of individual objectives and financial targets (profit before tax and management charges) linked to Group and, in the case of directors with operational responsibilities, regional performance. This may result in the payment of cash bonuses of up to 25% of base salary for on-target financial performance, with the opportunity to earn higher bonuses for exceptional performance up to 75% of base salary (100% for the Chief Executive Officer).

  Additionally, the executive directors with operational responsibilities (Adrian Chedore and David Verklin) participate in a separate deferred annual cash bonus scheme based on achievement of a demanding year on year excess profit above target financial performance of the businesses for which they are responsible. The payment of half of any such bonus is deferred for one year. This deferred bonus will normally be forfeited in the event that the director leaves the Group.

Remuneration report (continued) >

- *Share-based incentives*
  At the 2003 Annual General Meeting shareholders' approval was obtained for 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. No further awards will be made under the previous closed schemes, although awards granted in the past will continue to be exercisable in accordance with the rules of each respective scheme. The closed schemes are the 1995 Executive Share Option Scheme, the 1998 Management Incentive Scheme and the Leveraged Investment Plan.

  Details of the 2003 schemes and the performance conditions of these and the closed schemes are given on pages 37 and 38.

  Details of all share incentive awards outstanding for each executive director serving during 2003 are set out on pages 35 to 38. All executive directors' future entitlements are subject to the performance conditions applicable to the relevant scheme or plan as disclosed in this report.

Pensions
All UK executive directors participate in Inland Revenue approved defined contribution pension schemes. Douglas Flynn also makes his own unapproved pension arrangements funded by additional salary payments. Pensionable salary is limited to base salary excluding all bonuses and other benefits. Non-UK executive directors have arrangements in line with market conditions and statutory obligations operating in their own countries.

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
Doug Flynn	22.10.99	24 months	6 months
Adrian Chedore	21.2.03	12 months (or 24 months in the event of a change of control of the Company)	6 months
Jeremy Hicks	9.2.01	12 months (or 24 months in the event of a change of control of the Company)	6 months
David Verklin	1.7.98	6 months (or 12 months in the event of a change of control of the Company)	6 months

Name	Contractual termination payments in addition to any payments in respect of notice periods
Doug Flynn	An amount equal to two times any bonus received in the previous 12 months. In the event of a change of control Doug Flynn may, within 6 months, 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.
David Verklin	An amount equal to 12 months' salary and benefits.

Note:
Bruno Kemoun and Eryck Rebbouh left the Company and resigned as directors on 5 November 2003 having been on service contracts with 6 months notice periods from both themselves and the Company and 18 months contractual termination payment clauses (in addition to any payments in respect of notice periods). The termination payments made to them are shown in the Directors' remuneration table on page 34.

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

Non-executive directors

Non-executive directors are appointed for an initial term of three years. Renewal of appointments for a further term of three years is not automatic. The fees of the non-executive directors are determined at a Board meeting at which the non-executive directors do not vote. Fees are disclosed on page 34. 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
Lord Sharman (a)	02.09.99	1 year 6 months
Daniel Farrar	02.06.03	2 years 2 months
Bernard Fournier (b)	01.06.00	2 years 2 months
Robert Lerwill (c)	01.06.00	2 years 2 months
Charles Strauss	05.09.03	2 years 5 months
Leslie Van de Walle	02.06.03	2 years 2 months

Notes:

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

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

c Robert Lerwill has been appointed for a further period of three years with effect from 1 June 2003.

Remuneration report (continued) >

Audited directors' remuneration

	Basic salary £'000	Fees £'000	Benefits £'000 (a)	Annual Cash Bonus £'000 (b)	Deferred Annual Bonus £'000 (b)	Compensation for loss of office £'000 (d)	Total 2003 £'000	Total 2002 £'000	Pensions 2003 £'000	Pensions 2002 £'000
John Amerman (retired 18.9.03)	–	23	–	–	–	–	23	30	–	–
Adrian Chedore	264	–	93	171	159	–	687	610	12	13
Daniel Farrar (appointed 2.6.03)	–	18	–	–	–	–	18	–	–	–
Douglas Flynn	588	–	32	588	–	–	1,208	867	283	282
Bernard Fournier	–	30	–	–	–	–	30	30	–	–
Lord Hannay (resigned 28.5.03)	–	13	–	–	–	–	13	30	–	–
Jeremy Hicks	290	–	24	157	–	–	471	434	43	42
Bruno Kemoun (resigned 5.11.03)	439	–	3	207	–	735	1,384	524	–	–
Robert Lerwill	–	30	–	–	–	–	30	30	–	–
Eryck Rebbouh (resigned 5.11.03)	439	–	3	207	–	735	1,384	524	–	–
Lord Sharman	–	120	–	–	–	–	120	120	–	–
Charles Strauss (c) (appointed 5.9.03)	–	10	–	–	–	–	10	–	–	–
David Verklin	405	–	20	164	113	–	702	588	2	2
Leslie Van de Walle (c) (appointed 2.6.03)	–	18	–	–	–	–	18	–	–	–
Totals	2,425	262	175	1,494	272	1,470	6,098	3,787	340	339

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 £70,000 and home leave allowance of £3,000.

b The main terms of the bonus schemes are summarised on page 31.

c Fees in respect of Charles Strauss and Leslie Van de Walle were paid to Unilever and Shell respectively.

d These payments will be made in 2004.

At 31 December 2003 there were four directors (2002: 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. 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 2003.

Consultancy agreement with former director

As reported in the 2002 Report and Accounts, the Company entered into a one year consultancy agreement with Pat Doble (who retired as a director on 31 December 2001) with effect from 8 April 2002. Accordingly that agreement terminated on 7 April 2003. Consultancy fees of £30,000 were paid to Mrs Doble under that agreement during the year.

Remuneration report (continued) >

Directors' share interests

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

	30 March 2004	31 December 2003	1 January 2003 (or date of appointment if later)
Adrian Chedore	50,000	25,000	–
Daniel Farrar (appointed 2.6.03)	6,250	–	–
Douglas Flynn (a)	45,000	25,000	25,000
Bernard Fournier	10,000	10,000	10,000
Jeremy Hicks (b)	90,000	70,000	70,000
Robert Lerwill	20,000	20,000	20,000
Lord Sharman	25,000	25,000	25,000
Charles Strauss (appointed 5.9.03)	10,000	–	–
David Verklin	17,800	–	–
Leslie Van de Walle (appointed 2.6.03)	–	–	–

Notes:

a 25,000 shares lodged with the Leveraged Investment Plan (LIP) at all times during the year.

b 35,000 shares lodged with the LIP at all times during the year.

As at 30 March 2004 the executive directors were deemed to have an interest in 2,000,000 ordinary shares, held by the Trustee of the Aegis Group plc Employee Share Trust, as potential beneficiaries under that Trust.

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 1.1.03	Granted during 2003	Lapsed during 2003	Exercised during 2003	Options held at 31.12.03 (or date of resignation if earlier)	Exercise price	Date from which exercisable	Expiry date
Douglas Flynn	*	5,000,000	–	–	–	5,000,000	138.25p	09.09.02	08.09.09
		642,857	–	–	–	642,857	140p	22.10.02	21.10.09
		233,100	–	–	–	233,100	214.5p	09.03.03	08.03.10
	*	2,500,000	–	–	–	2,500,000	219.5p	10.03.03	09.03.10
		450,939	–	–	–	450,939	119.75p	23.03.04	22.03.11
		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
Adrian Chedore	*	1,000,000	–	–	–	1,000,000	109p	14.03.05	13.03.12
	**	–	350,000	–	–	350,000	85.5p	05.06.05	04.06.13
Jeremy Hicks	*	2,000,000	–	–	–	2,000,000	170p	08.05.03	07.05.10
		73,529	–	–	–	73,529	170p	08.05.03	07.05.10
	*	750,000	–	–	–	750,000	125.7p	17.04.04	16.04.11
		112,734	–	–	–	112,734	119.75p	23.03.04	22.03.11
		60,255	–	–	–	60,255	109p	14.03.05	13.03.12
	*	500,000	–	–	–	500,000	109p	14.03.05	13.03.12
	**	–	350,000	–	–	350,000	85.5p	05.06.05	04.06.13

Remuneration report (continued) >

Director		Options held at 1.1.03	Granted during 2003	Lapsed during 2003	Exercised during 2003	Options held at 31.12.03 (or date of resignation if earlier)	Exercise price	Date from which exercisable	Expiry date
Bruno Kemoun		510,997	–	–	–	510,997	52p	02.07.99	01.07.04
(resigned 5.11.03)		364,050	–	–	–	364,050	63.75p	08.07.00	01.07.04
	*	2,000,000	–	–	–	2,000,000	87p	15.05.01	01.07.04
		128,697	–	–	–	128,697	98.75p	02.06.01	01.07.04
		112,071	–	112,071	–	–	121.5p	17.03.02	16.03.09
	*	1,500,000	–	1,500,000	–	–	138.25p	09.09.02	08.09.09
		62,361	–	62,361	–	–	214.5p	09.03.03	08.03.10
		124,565	–	124,565	–	–	119.75p	23.03.04	22.03.11
		75,539	–	75,539	–	–	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
Eryck Rebbouh		510,997	–	–	–	510,997	52p	02.07.99	01.07.04
(resigned 5.11.03)		364,050	–	–	–	364,050	63.75p	08.07.00	01.07.04
	*	2,000,000	–	–	–	2,000,000	87p	15.05.01	01.07.04
		128,697	–	–	–	128,697	98.75p	02.06.01	01.07.04
		112,071	–	112,071	–	–	121.5p	17.03.02	16.03.09
	*	1,500,000	–	1,500,000	–	–	138.25p	09.09.02	08.09.09
		62,361	–	62,361	–	–	214.5p	09.03.03	08.03.10
		124,565	–	124,565	–	–	119.75p	23.03.04	22.03.11
		75,539	–	75,539	–	–	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
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
Totals		31,965,251	2,750,000	6,649,072	–	28,066,179			

Notes:
All of the above options were granted for nil consideration.
* Options granted under the closed 1998 Management Incentive Scheme.
** Options granted under the 2003 Executive Share Option Scheme.
All other options are granted under the closed 1995 Executive Share Option Scheme.

Bruno Kemoun and Eryck Rebbouh have both been allowed, subject to the rules of the relevant schemes, to exercise the following options at any time until 1 July 2004, all other options lapsing at the date of their resignations:

- 2,000,000 under the 1998 Management Incentive Scheme with an exercise price of 87p
- 510,997 under the 1995 Executive Share Option Scheme with an exercise price of 52p
- 364,050 under the 1995 Executive Share Option Scheme with an exercise price of 63.75p
- 128,697 under the 1995 Executive Share Option Scheme with an exercise price of 98.75p. These options are lodged in the Leveraged Investment Plan.

Other than as noted above, no directors or members of their immediate families have exercised or sold options during the period ended 30 March 2004. 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 as derived from the Stock Exchange Daily Official List on 31 December 2003 was 98.75p and the range during the year was 108.75p to 52p. The share price on 30 March 2004, the latest practicable date prior to publication of the Annual Report and Accounts, was 95.5p.

Audited performance conditions for the 2003 Executive Share Option Scheme

- The option price will be the market value of the Company's shares shortly before options are granted.
- The value of the shares under options granted to an executive in any financial year may not normally exceed three times basic salary.
- The exercise of options is based upon the Company's earnings per share ("EPS") growth relative to inflation ("RPI"), and the following performance conditions apply:

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

- The performance conditions are tested after three years beginning with the year in which awards are made. If they are not satisfied at the end of the third year, the performance conditions may be retested after a further one year (from the same fixed base point) but to the extent that they are not then met, the options lapse.

Audited performance conditions for the closed option schemes
1995 Executive Share Option Scheme

- That Earnings Per Share growth over the performance period exceeds a composite retail price index plus 5% per annum; and
- That the Company's total shareholder return ("TSR") performance must be greater than that of the FTSE 100 company ranked 33rd over the performance period.

1998 Management Incentive Scheme

- That the Company's TSR over the performance period must be not less than 15% per annum compound; and
- That the Company's TSR over the performance period must at least match that of the FTSE Actuaries 350 Index.

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 1.1.03	Awards granted during year	Awards lapsed during year	Maximum potential award of shares at 31.12.03	Performance period
Douglas Flynn	–	1,023,000	–	1,023,000	01.01.03 to 31.12.05
Adrian Chedore	–	331,000	–	331,000	01.01.03 to 31.12.05
Jeremy Hicks	–	331,000	–	331,000	01.01.03 to 31.12.05
Bruno Kemoun (resigned 5.11.03)	–	491,000	491,000	–	01.01.03 to 31.12.05
Eryck Rebbouh (resigned 5.11.03)	–	491,000	491,000	–	01.01.03 to 31.12.05
David Verklin	–	491,000	–	491,000	01.01.03 to 31.12.05

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

- The value of shares which may be conditionally awarded to an executive in any financial year may not normally exceed two times salary.
- The extent to which awards vest is determined partly by reference to the Company's TSR performance relative to a group of similar businesses and partly by reference to the Company's EPS growth relative to RPI.

Remuneration report (continued) >

The following TSR targets apply:

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

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

Dentsu Inc.	Pearson plc
Grey Global Group 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

The next table sets out the EPS performance conditions:

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

- These 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 Committee believes that TSR and EPS growth are the most appropriate methods of assessing the Company's relative returns to shareholders and its underlying financial performance. The assessment of these performance conditions will be carried out by New Bridge Street Consultants, in their capacity as advisers to the Committee.

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

Name	Maximum potential award of Matching Shares at 1.1.03	Awards granted during year	Awards lapsed during year	Maximum potential award of Matching Shares at 31.12.03	Performance period
Douglas Flynn	37,500	–	–	37,500	01.01.01 to 31.12.03
Jeremy Hicks	52,500	–	–	52,500	01.01.01 to 31.12.03
Bruno Kemoun (resigned 5.11.03)	193,045	–	–	193,045	01.01.01 to 31.12.03
Eryck Rebbouh (resigned 5.11.03)	193,045	–	–	193,045	01.01.01 to 31.12.03
David Verklin	480,000	–	–	480,000	01.01.01 to 31.12.03

The number of shares shown represents the maximum number of Matching Shares which is capable of vesting at the end of the performance period, if the performance condition is satisfied to the fullest extent. The scheme will end after the results for the peer group companies for the performance period ended 31 December 2003 are known. Awards granted under the Leveraged Investment Plan are subject to performance conditions measuring the Company's earnings before tax, depreciation and amortisation relative to a peer group consisting of Dentsu Inc., Havas SA, Omnicom Group Inc., Publicis Groupe S.A., Taylor Nelson Sofres plc, The Interpublic Group of Companies Inc. and WPP Group plc. The following performance conditions apply to any award of Matching Shares:

EBTDA performance compared to the median performance of the comparator group	Number of Matching Shares as a percentage of shares and/or vested options lodged
At or below median	nil
Between 101% and 110% of median	20%
Between 111% and 120% of median	50%
Between 121% and 150% of median	100%
More than 150% of median	150%

Shareholding guidelines

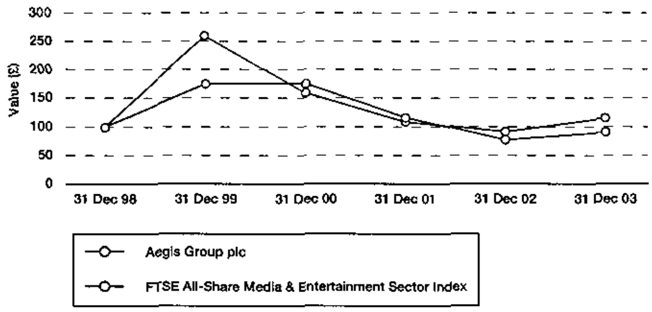
The Company has share ownership guidelines which operate in tandem with the executive share incentive schemes introduced in 2003. Executive directors and other senior executives are required to retain at least 35% (50% in the case of the Chief Executive Officer) of any profit made (after paying the exercise 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.

Performance graph

The following graph illustrates the Company's total shareholder return since 31 December 1998 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 total shareholder return relative to similar businesses is more appropriate than a comparison with a general FTSE Index, in order to reduce the impact of general stock market trends.

Total shareholder return

Source: Datastream



This graph looks at the value, by the end of 2003, of £100 invested in Aegis Group on 31 December 1998 compared with that of £100 invested in the FTSE All-Share Media & Entertainment Sector Index. The other points plotted are the values at intervening financial year-ends.

Charles Strauss
Chairman of the Remuneration Committee
31 March 2004

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

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the sections identified as Audited in the Remuneration report ("the auditable part", namely sections identified by the prefix "audited").

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

Our responsibility is to audit the financial statements and the auditable part of the Remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Letter to Shareholders, the Financial Review, the Operating Review, the Report of the directors, the Corporate Governance statement and the unaudited part of the Remuneration report.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Service Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

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

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
31 March 2004

Consolidated profit and loss account >

For the year ended 31 December 2003

	Notes	2003 £m	2003 £m	As Restated (note 1) 2002 £m
Turnover:				
– continuing operations			6,989.7	6,233.8
– acquisitions			166.5	–
Turnover	1, 2		7,156.2	6,233.8
Cost of sales – payments to the media		(6,507.4)	(6,507.4)	(5,641.9)
Revenue	6		648.8	591.9
Cost of sales – other direct costs		(76.3)	(76.3)	(76.8)
Cost of sales – total	6	(6,583.7)		(5,718.7)
Gross profit	6		572.5	515.1
Operating expenses before amortisation of goodwill and exceptional items		(488.3)		(438.5)
Exceptional operating expenses	3	5.2		(9.5)
Goodwill amortisation	10	(26.5)		(22.4)
Operating expenses			(509.6)	(470.4)
Group operating profit:				
– continuing operations		58.0		44.7
– acquisitions		4.9		–
Group operating profit			62.9	44.7
Group share of operating profit/(loss) in joint venture and associated undertakings before goodwill amortisation and exceptional items			1.2	(0.8)
Goodwill amortisation	3, 12		(9.2)	(0.8)
Group share of operating loss in joint venture and associated undertakings before exceptional items			(8.0)	(1.6)
Exceptional items	3		-	(4.0)
Group share of operating loss in joint venture and associated undertakings			(8.0)	(5.6)
Exceptional amounts written off investments	3		(2.0)	-
Interest and similar items:				
– interest receivable	5	7.2		7.1
– interest payable	5	(10.9)		(10.8)
– amortisation of refinancing costs	5	(1.2)		(0.7)
Net interest payable			(4.9)	(4.4)
Profit on ordinary activities before taxation	2, 6		48.0	34.7
Tax on profit on ordinary activities	7		(24.3)	(20.2)
Profit on ordinary activities after taxation			23.7	14.5
Equity minority interests			(2.6)	(1.4)
Profit attributable to members of the parent company			21.1	13.1
Ordinary dividends	8		(14.7)	(14.0)
Retained profit/(loss) for the year			6.4	(0.9)
Earnings per ordinary share:	9			
Basic			1.9p	1.2p
Underlying basic earnings per share*			4.9p	4.4p
Underlying diluted earnings per share*			4.9p	4.3p
Diluted			1.9p	1.2p

*As detailed in note 9, underlying earnings per share excludes amortisation of goodwill of £35.7 million (2002: £23.2 million) and a £2.9 million exceptional credit (net of tax) in 2003 (2002: £11.8 million debit), in order to eliminate the effect of these distorting items.

Consolidated statement of total recognised gains and losses >

For the year ended 31 December 2003

	Note	2003 £m	As Restated (note 1) 2002 £m
Profit for the year		**21.1**	13.1
Currency translation differences on foreign currency net investments	18	**(17.8)**	(24.1)
Total recognised profit/(loss) for the year		**3.3**	(11.0)
Prior year adjustment	1	**(4.9)**	–
Total losses recognised since the last annual report		**(1.6)**	(11.0)

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

Reconciliation of movements in equity shareholders' funds >

For the year ended 31 December 2003

	Group 2003 £m	Group As Restated (note 1) 2002 £m	Company 2003 £m	Company 2002 £m
Profit/(loss) for the year	**21.1**	13.1	**(24.4)**	(15.3)
Ordinary dividends	**(14.7)**	(14.0)	**(14.7)**	(14.0)
	6.4	(0.9)	**(39.1)**	(29.3)
Issue of shares by the Company	**6.9**	1.9	**6.9**	1.9
Currency translation differences on foreign currency net investments	**(17.8)**	(24.1)	**–**	–
Net decrease in equity shareholders' funds	**(4.5)**	(23.1)	**(32.2)**	(27.4)
Opening equity shareholders' funds (originally £118.1 million before deducting prior year adjustment of £4.9 million)	**113.2**	136.3	**400.0**	427.4
Closing equity shareholders' funds	**108.7**	113.2	**367.8**	400.0

Note of historical cost profits and losses >

For the year ended 31 December 2003

There is no material difference between the reported results for the Group or the Company for the years ended 31 December 2003 and 2002 and the results for those years restated on an unmodified historical cost basis.

Balance sheets >

At 31 December 2003

	Notes	Group 2003 £m	Group As Restated (note 1) 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible fixed assets	10	**425.9**	374.9	**-**	-
Tangible fixed assets	11	**53.9**	52.1	**4.0**	4.0
Investment in joint venture:	12				
Share of gross assets		**1.6**	17.7	**-**	-
Share of gross liabilities		**(0.1)**	(6.7)	**-**	-
		1.5	11.0	**-**	-
Investments in associated undertakings	12	**11.5**	8.2	**-**	-
Other fixed asset investments	12	**4.1**	2.8	**798.5**	780.1
		496.9	449.0	**802.5**	784.1
Current assets					
Stock: work in progress		**8.0**	5.2	**-**	-
Debtors	13	**1,206.5**	1,010.7	**103.8**	116.3
Cash at bank and in hand		**147.4**	122.2	**2.3**	-
		1,361.9	1,138.1	**106.1**	116.3
Creditors: amounts falling due within one year	14	**(1,495.3)**	(1,230.3)	**(333.6)**	(294.3)
Net current liabilities		**(133.4)**	(92.2)	**(227.5)**	(178.0)
Total assets less current liabilities		**363.5**	356.8	**575.0**	606.1
Creditors: amounts falling due after more than one year	15	**(130.6)**	(130.8)	**(88.3)**	(98.2)
Convertible bond	15	**(118.9)**	(107.3)	**(118.9)**	(107.3)
Provisions for liabilities and charges	16	**(1.5)**	(1.6)	**-**	-
Net assets		**112.5**	117.1	**367.8**	400.0
Capital and reserves					
Issued, allotted, called up and fully paid share capital	17	**55.6**	55.2	**55.6**	55.2
Share premium account	18	**206.3**	199.8	**206.3**	199.8
Capital redemption reserve	18	**0.2**	0.2	**0.2**	0.2
Merger reserve	18	**-**	-	**13.0**	13.0
Profit and loss account	18	**(153.4)**	(142.0)	**92.7**	131.8
Equity shareholders' funds		**108.7**	113.2	**367.8**	400.0
Equity minority interests		**3.8**	3.9	**-**	-
Total capital employed		**112.5**	117.1	**367.8**	400.0

The financial statements on pages 42 to 66 were approved by the board of directors on 31 March 2004 and signed on their behalf by:
Douglas Flynn (Chief Executive Officer)
Jeremy Hicks (Chief Financial Officer)

Consolidated cash flow statement >

For the year ended 31 December 2003

	Notes	2003 £m	As Restated (note 1) 2002 £m
Net cash flow from operating activities		**110.1**	109.3
Dividends received from associates		**0.3**	–
Returns on investments and servicing of finance			
Interest received		**7.2**	7.0
Interest paid		**(7.8)**	(9.9)
Dividends paid to minority interests		**(1.3)**	(1.0)
Refinancing costs		**(1.6)**	–
Net cash outflow for returns on investments and servicing of finance		**(3.5)**	(3.9)
Taxation		**(22.7)**	(24.2)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(19.9)**	(15.8)
Proceeds from sale of tangible fixed assets		**2.6**	0.7
Loans made to NewworldIQ		**(2.0)**	–
Purchase of own shares		**(1.6)**	–
Net cash flow for capital expenditure and financial investment		**(20.9)**	(15.1)
Acquisitions and disposals			
Purchase of subsidiary undertakings and minority interests	19	**(44.6)**	(33.4)
Net cash acquired on purchase of subsidiary undertakings	19	**5.0**	0.2
Investment in associated undertakings	19	**(5.1)**	(4.9)
Deferred consideration on prior period acquisitions		**(32.0)**	(19.9)
Net cash flow for acquisitions and disposals		**(76.7)**	(58.0)
Equity dividends paid		**(14.1)**	(13.6)
Cash flow before management of liquid resources and financing		**(27.5)**	(5.5)
Management of liquid resources (a)			
Sale of short-term investments		**–**	2.1
Cash flow from management of liquid resources		**–**	2.1
Financing			
Issue of ordinary share capital	17, 18	**0.2**	1.2
Net increase in debt due within one year		**13.1**	–
Net decrease in debt due after more than one year		**(3.8)**	(7.8)
Increase of unsecured loan notes		**–**	100.4
Capital element of finance lease rental payments		**(1.0)**	(0.4)
Net cash flow from financing		**8.5**	93.4
(Decrease)/increase in cash in the year		**(19.0)**	90.0

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

Notes to this consolidated cash flow statement are provided overleaf.

Notes to consolidated cash flow statement >

For the year ended 31 December 2003

	2003 £m	As Restated (note 1) 2002 £m
Reconciliation of operating profit to operating cash flow		
Operating profit	**62.9**	44.7
Amortisation of goodwill	**26.5**	22.4
Depreciation charges	**21.3**	21.6
Loss on disposal of tangible fixed assets	**0.2**	0.7
(Increase)/decrease in debtors	**(173.6)**	17.9
(Increase)/decrease in stock: work in progress	**(0.8)**	0.4
Increase/(decrease) in creditors	**178.8**	(3.6)
Provision for Independent Media Services judgement (note 3)	**(5.2)**	5.2
Net cash flow from operating activities	**110.1**	109.3

Subsidiary undertakings acquired in the year contributed £(3.3) million (2002: £(1.8) million) to the Group's net cash flow from operating activities.

Reconciliation of net cash flow to movement in net debt	2003 £m	As Restated (note 1) 2002 £m
(Decrease)/increase in cash in the year	**(19.0)**	90.0
Cash inflow from increase in net debt	**(9.3)**	(95.2)
Cash inflow from management of liquid resources	**-**	(2.1)
Cash outflow from finance lease payments	**1.0**	0.4
Cash outflow from issue costs of debt	**1.6**	2.6
Change in net debt resulting from cash flows	**(25.7)**	(4.3)
Amortisation of issue costs of debt	**(1.2)**	(0.7)
Other non cash changes	**(2.1)**	(1.2)
Effect of foreign exchange rate changes	**0.1**	11.9
Movement in net debt in the year	**(28.9)**	5.7
Net debt at 1 January	**(120.3)**	(126.0)
Net debt at 31 December	**(149.2)**	(120.3)

Analysis of net (debt)/funds	1 January 2003 £m	Cash flow £m	Other non-cash changes £m	Exchange movement £m	31 December 2003 £m
Cash at bank and in hand	122.2	26.3	-	(1.1)	147.4
Overdrafts	(28.2)	(45.3)	-	0.1	(73.4)
	94.0	(19.0)	-	(1.0)	74.0
Debt due within one year	(3.8)	(13.1)	-	-	(16.9)
Debt due after one year	(212.5)	3.8	(2.1)	1.1	(209.7)
Net debt before finance lease obligations and issue costs of new debt	(122.3)	(28.3)	(2.1)	0.1	(152.6)
Finance lease obligations	(1.1)	1.0	-	-	(0.1)
Issue costs of debt	3.1	1.6	(1.2)	-	3.5
Total	(120.3)	(25.7)	(3.3)	0.1	(149.2)

There was cash of £5.0 million (2002: £0.2 million) within subsidiaries acquired in the year.

1. Principal accounting policies

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 1985 and applicable accounting standards, adopting the following principal accounting policies.

From 1 January 2003 the Group has changed its accounting policy in respect of goodwill. Goodwill is now treated as a local currency asset and is therefore retranslated on consolidation at the exchange rate prevailing at each balance sheet date. This accounting policy is considered to be more appropriate for the circumstances of the Group. The effect of this change in accounting policy is to decrease goodwill amortisation by £0.4 million in the year ended 31 December 2003 and increase goodwill amortisation by £1.0 million in the year ended 31 December 2002. In addition, this change in accounting policy has reduced goodwill by £4.9 million at 31 December 2002. Comparative period results have been restated to reflect this change in accounting policy.

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

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

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

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

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

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

Notes to the financial statements (continued) >

For the year ended 31 December 2003

1. Principal accounting policies (continued)

Financial instruments

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

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

Turnover

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

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

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

Research and development

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

Fixed assets and depreciation

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

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

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

Leased assets

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

Subsidiary undertakings

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

Associated undertakings and joint ventures

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

1. Principal accounting policies (continued)

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

Other fixed asset investments
The Company's shares held by the Aegis Group Employee Share Trust are included as fixed asset investments until such time as the interest in the shares is transferred unconditionally to employees. Provision is made for any permanent diminution in value of shares held by the Trust. Costs of administration are included in the profit and loss account as they accrue. Other fixed asset investments are stated at cost less any provisions for impairment.

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

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

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

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

2. Segmental reporting

The Group operates in two business sectors: media communications and market research. An analysis of turnover by geographical area and business sector is set out below. The geographical analysis reflects the regions by which the Group is managed. 2002 results have been restated to reflect the move of Copernicus from Synovate to Aegis Media.

	2003 £m	Restated 2002 £m
Analysis by geographical area:		
Europe	**4,836.8**	4,230.9
Americas	**1,936.4**	1,752.7
Asia-Pacific	**383.0**	250.2
Total turnover	**7,156.2**	6,233.8
Analysis by business sector:		
Media communications	**6,937.3**	6,031.2
Market research	**218.9**	202.6
Total turnover	**7,156.2**	6,233.8

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

Notes to the financial statements (continued) >

For the year ended 31 December 2003

2. Segmental reporting (continued)

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

	2003 £m Underlying	2003 £m Exceptional items	2003 £m Total	Restated 2002 £m Total
Analysis by geographical area:				
Europe	65.3	-	65.3	54.5
Americas	14.8	5.2	20.0	8.5
Asia-Pacific	4.1	-	4.1	4.1
Total operating profit (before goodwill amortisation)	84.2	5.2	89.4	67.1
Analysis by business sector:				
Media communications	69.8	5.2	75.0	55.8
Market research	14.4	-	14.4	11.3
Total operating profit (before goodwill amortisation)	84.2	5.2	89.4	67.1
Group share of operating profit/(loss) in joint venture and associated undertakings	1.2	-	1.2	(4.8)
Exceptional amounts written off investments	-	(2.0)	(2.0)	-
Net interest payable	(4.9)	-	(4.9)	(4.4)
Profit on ordinary activities before taxation and amortisation of goodwill	80.5	3.2	83.7	57.9
Amortisation of goodwill			(35.7)	(23.2)
Profit on ordinary activities before taxation			48.0	34.7

Underlying profit excludes goodwill amortisation of £35.7 million (2002: £23.2 million) and a £3.2 million exceptional credit in 2003 (2002: £13.5 million debit) (note 3).

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

	2003 £m	Restated 2002 £m
Europe	40.2	32.0
Americas	66.9	90.4
Asia-Pacific	5.4	(5.3)
Total net assets	112.5	117.1
Media communications	(2.7)	(28.5)
Market research	117.7	136.7
eVerger joint venture	(2.5)	8.9
Total net assets	112.5	117.1

The Group's share of the net assets of associated undertakings and joint ventures of £13.0 million (2002: £19.2 million) is principally located in Europe and Asia-Pacific.

3. Exceptional items

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

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

b During the year, the Group has written down the value of its investment in NewworldIQ. This has resulted in an additional goodwill charge of £8.9 million. In addition, loans made to NewworldIQ have been written off, resulting in an exceptional charge of £2.0 million.

Exceptional items in 2002 comprised a £6.5 million provision for the adverse judgement in legal action brought by Independent Media Services Inc., £7.2 million of reorganisation costs, a further provision of £4.0 million against the Group's investment in eVerger and a write back of a £4.2 million provision created in 2001 to cover potential bad debts in Argentina.

In total, the 2003 exceptional items gave rise to a corporation tax debit of £0.3 million (2002: credit of £1.7 million) and a cash outflow of £2.0 million (2002: £6.4 million) in the year.

4. Staff costs

	2003 £m	2002 £m
Staff costs consist of:		
Wages and salaries	**268.3**	232.4
Social security costs	**41.7**	36.4
Other pension costs	**8.0**	6.9
	318.0	275.7

Number of employees

	Media communications 2003	Market research 2003	Total 2003	Media communications 2002	Market research 2002	Total 2002
Average number of full-time employees	**4,978**	**3,458**	**8,436**	4,589	2,808	7,397
Employees as at 31 December	**5,092**	**3,446**	**8,538**	4,606	2,872	7,478
Average number of full-time UK employees	**745**	**160**	**905**	685	134	819

Directors' remuneration is disclosed in the Remuneration Report on page 34. The total amount of directors' remuneration in 2003 was £6.4 million (2002: £4.6 million – including £0.5 million paid to a director who resigned in 2002).

Notes to the financial statements (continued) >

For the year ended 31 December 2003

5. Interest and similar items

	2003	2002
Interest payable:	£m	£m
On bank loans and overdrafts	0.9	0.7
On other loans, loan notes and convertible debt	7.6	7.9
Interest payable under finance lease and hire purchase contracts	-	0.1
Other charges	2.4	2.1
	10.9	10.8
Amortisation of refinancing costs	1.2	0.7
	12.1	11.5
Interest receivable	7.2	7.1
Net interest payable	(4.9)	(4.4)

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

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

Amortisation of refinancing costs also includes amortisation of the cost of securing new banking facilities in 2003 and includes a write off of refinacing costs of previous banking facilities of the group.

Other charges include £1.0 million (2002: £1.1 million) of imputed interest arising from discounting deferred consideration payable on acquisitions.

Interest receivable principally comprises bank interest.

6. Profit on ordinary activities before taxation

	2003	Restated 2002
	£m	£m
This is stated after charging/(crediting):		
Auditors' remuneration and expenses — audit services — UK*	0.3	0.3
— audit services — overseas	0.9	0.9
	1.2	1.2
Auditors' remuneration and expenses — non-audit services (due diligence) - UK**	1.0	0.1
— non-audit services (due diligence) - overseas**	0.1	-
— non-audit services (tax) - overseas**	0.2	0.1
	1.3	0.2
Depreciation of fixed assets — owned	21.1	21.1
Depreciation of fixed assets held under finance leases	0.2	0.5
Operating lease rentals - plant and machinery	1.1	1.2
Operating lease rentals - other	24.7	19.6
Amortisation and impairment of intangible fixed assets (note 10)	26.5	22.4
Amortisation and impairment of joint venture and associates' goodwill (note 12)	9.2	0.8
Research and development costs	25.8	24.5
Loss on disposal of tangible fixed assets	0.2	0.7
Foreign exchange gain	(1.6)	(0.8)

*Auditors' remuneration and expenses payable by the Company were £0.2 million (2002: £0.2 million).

**Further amounts were paid to the auditors and capitalised in 2003 in relation to non-audit services. These amounts totalled £0.1 million in the UK (2002: £0.3 million) and £0.1 million overseas (2002: £0.1 million). Non-audit services principally comprise due diligence work on the Group's acquisitions.

6. Profit on ordinary activities before taxation (continued)
All operating expenses are administrative expenses.

Cost of sales – payments to the media – for continuing operations was £6,368.5 million (2002: £5,537.2 million) and for acquisitions was £138.9 million (2002: £104.7 million).

Revenue for continuing operations was £621.2 million (2002: £561.8 million) and for acquisitions was £27.6 million (2002: £30.1 million).

Cost of sales – other direct costs – for continuing operations was £73.4 million (2002: £69.5 million) and for acquisitions was £2.9 million (2002: £7.3 million).

Gross profit for continuing operations was £547.8 million (2002: £492.3 million) and for acquisitions was £24.7 million (2002: £22.8 million).

Operating expenses for continuing operations were £489.8 million (2002: £454.3 million) and for acquisitions were £19.8 million (2002: £16.1 million).

7. Tax on profit on ordinary activities	2003 £m	Restated 2002 £m
UK taxation – 30% (2002: 30%)	(1.4)	(0.3)
Overseas taxation	26.5	20.8
Group's share of associated undertakings' taxation	0.5	–
Total current tax	25.6	20.5
Deferred taxation	(1.3)	(0.3)
Tax on profit on ordinary activities	24.3	20.2

Reconciliation of the Group's current tax to the United Kingdom's statutory tax rate:	£m	£m
Profit on ordinary activities before taxation	48.0	34.7
Tax on profit at statutory rate of 30%	14.4	10.4
Effects of:		
Expenditure not deductible for tax purposes	6.3	7.1
Rate differences on overseas earnings	4.0	4.4
Adjustment to tax in respect of prior years – UK taxation	(2.1)	(0.8)
Adjustment to tax in respect of prior years – overseas taxation	0.3	0.7
Tax losses not recognised in the period	3.4	–
Tax losses utilised in the period	(2.0)	(1.6)
Short term timing differences	1.3	–
Total current tax	25.6	20.5

The effective rate of tax on the Group's underlying profits is 29.8% (2002: 30.6%) based on profits before amortisation of goodwill of £35.7 million (2002: £23.2 million) and exceptional costs in 2003 as disclosed in note 3 above. The effective rate of tax on the Group's reported profits is 50% (2002: 56.6%). Exceptional items of £3.2 million in 2003 (2002: £13.5 million exceptional charge) resulted in a tax debit of £0.3 million (2002: £1.7 million credit).

8. Dividends	2003	2002
Ordinary shares of 5p each		
– interim dividend rate per share	0.52p	0.50p
– final dividend proposed rate per share	0.80p	0.75p
	1.32p	1.25p
	£m	£m
– interim dividend paid	5.8	5.7
– final dividend proposed	8.9	8.3
	14.7	14.0

The final dividend, if approved, will be paid on 25 June 2004 to all ordinary shareholders on the register on 4 June 2004.

The Aegis Group Employee Share Trust has waived the dividends payable on the shares held by it. At 31 December 2003 the Trust held 2,000,000 shares (31 December 2002: nil).

Notes to the financial statements (continued) >

For the year ended 31 December 2003

9. Earnings per ordinary share

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

Earnings per ordinary share is calculated as follows:	2003	Restated 2002
Basic		
Profit for the year	**£21.1m**	£13.1m
Underlying profit for the year	**£53.9m**	£48.1m
Weighted average number of ordinary shares in issue	**1,105.9m**	1,103.6m
Basic earnings per share	**1.9p**	1.2p
Goodwill amortisation	**3.2p**	2.1p
Exceptional items	**(0.2)p**	1.1p
Underlying basic earnings per share	**4.9p**	4.4p
Diluted		
Profit for the year	**£21.1m**	£13.1m
Underlying profit for the year	**£53.9m**	£48.1m
Weighted average number of ordinary shares in issue	**1,108.5m**	1,107.1m
Diluted earnings per share	**1.9p**	1.2p
Goodwill amortisation	**3.2p**	2.1p
Exceptional items	**(0.2)p**	1.0p
Underlying diluted earnings per share	**4.9p**	4.3p

At 31 December 2003, there were 1,112.2 million (2002: 1,104.5 million) ordinary shares in issue and 104.6 million (2002: 98.3 million) options outstanding. The total proceeds that would be received on exercise of the outstanding options at 31 December 2003 is £115.9 million (2002: £114.2 million). The weighted average number of dilutive share options included in the dilutive earnings per share calculation at 31 December 2003 is 2.5 million (2002: 3.5 million). There are no other dilutive securities outstanding at 31 December 2003 (2002: nil). The weighted average number of ordinary shares in issue excludes the shares held by the Aegis Group Employee Share Trust.

Underlying profits are calculated by adding back amortisation of goodwill of £35.7 million (2002: £23.2 million) and a £2.9 million exceptional credit (net of tax) (2002: £11.8 million debit) for the year ended 31 December 2003, in order to eliminate the effect of these distorting items.

10. Intangible fixed assets

	Notes	Goodwill £m
Group:		
Cost at 1 January 2003 (As restated – note 1)		426.0
Additions	19	73.3
Transferred from associates		6.6
Adjustments to prior period estimates of deferred contingent consideration		22.0
Exchange adjustments		(27.5)
At 31 December 2003		500.4
Amortisation at 1 January 2003 (As restated – note 1)		51.1
Amortisation charge for the year		24.3
Impairment charge for the year		2.2
Transferred from associates		1.0
Exchange adjustments		(4.1)
At 31 December 2003		74.5
Net book value		
At 31 December 2003		**425.9**
At 31 December 2002		374.9

11. Tangible fixed assets

Group:	Freehold land and buildings £m	Long leasehold and leasehold improvements £m	Office furniture, fixtures, equipment and vehicles £m	Total £m
Cost at 1 January 2003	15.1	24.4	92.2	131.7
Additions	0.8	3.5	16.3	20.6
Acquisitions	0.9	–	4.1	5.0
Disposals	(1.6)	(0.7)	(8.5)	(10.8)
Exchange adjustments	(0.5)	(0.1)	(0.7)	(1.3)
At 31 December 2003	14.7	27.1	103.4	145.2
Depreciation at 1 January 2003	8.2	11.6	59.8	79.6
Provided in the year	0.6	2.9	17.8	21.3
Disposals	(1.2)	(0.4)	(6.4)	(8.0)
Exchange adjustments	(0.4)	(0.1)	(1.1)	(1.6)
At 31 December 2003	7.2	14.0	70.1	91.3
Net book value				
At 31 December 2003	7.5	13.1	33.3	53.9
At 31 December 2002	6.9	12.8	32.4	52.1

Included in tangible fixed assets above are amounts relating to assets held for resale which have a net book value of £3.5 million (cost of £9.5 million, accumulated depreciation of £6.0 million), of which £3.2 million (cost of £7.5 million, accumulated depreciation of £4.3 million) is included in freehold land and buildings and £0.3 million (cost of £2.0 million, accumulated depreciation of £1.7 million) is included in office furniture, fixtures, equipment and vehicles.

Company:	Long leasehold and leasehold improvements £m	Office furniture, fixtures, equipment and vehicles £m	Total £m
Cost at 1 January 2003	0.8	6.9	7.7
Additions	–	2.2	2.2
Disposals	–	(0.1)	(0.1)
At 31 December 2003	0.8	9.0	9.8
Depreciation at 1 January 2003	0.1	3.6	3.7
Provided in the year	0.1	2.1	2.2
Disposal	–	(0.1)	(0.1)
At 31 December 2003	0.2	5.6	5.8
Net book value			
At 31 December 2003	0.6	3.4	4.0
At 31 December 2002	0.7	3.3	4.0

Notes to the financial statements (continued) >

For the year ended 31 December 2003

11. Tangible fixed assets (continued)

The cost of the Group's tangible fixed assets includes £0.2 million (2002: £2.3 million) and the net book value includes £0.2 million (2002: £1.3 million) in respect of assets held under finance leases. Depreciation on these assets in the year was £0.1 million (2002: £0.5 million).

The net book value of the Company's tangible fixed assets does not include any amount in respect of assets held under finance leases (2002: £nil).

Neither the Group nor the Company had any capital commitments contracted for but not provided as at 31 December 2003 (2002: £nil).

12. Fixed asset investments

	Associates Share of net assets	Associates Goodwill Restated	Total	Joint ventures	Interest in own shares	Other fixed asset investments
Group:	£m	£m	£m	£m	£m	£m
Cost:						
At 1 January 2003	0.3	9.1	9.4	11.0	–	2.8
Acquired/invested in the year	2.7	2.4	5.1	–	1.6	–
Adjustments to prior period estimates of deferred consideration	–	1.8	1.8	–	–	–
Transferred to subsidiaries	1.2	(6.6)	(5.4)	–	–	–
Share of profits/(losses)	1.0	–	1.0	(0.6)	–	–
Exchange adjustments	0.4	(0.3)	0.1	–	–	(0.3)
At 31 December 2003	5.6	6.4	12.0	10.4	1.6	2.5
Amortisation:						
At 1 January 2003	–	1.2	1.2	–	–	–
Transferred to subsidiaries	–	(1.0)	(1.0)	–	–	–
Amortisation charge for the year	–	0.3	0.3	–	–	–
Impairment charge for the year	–	–	–	8.9	–	–
At 31 December 2003	–	0.5	0.5	8.9	–	–
Net book value:						
At 31 December 2003	5.6	5.9	11.5	1.5	1.6	2.5
At 31 December 2002	0.3	7.9	8.2	11.0	–	2.8
Company:						
Net book value at 1 Janaury 2003	–	–	–	–	–	780.1
Additions	–	–	–	–	1.6	16.8
Net book value at 31 December 2003	–	–	–	–	1.6	796.9

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

Interest in own shares
Interest in own shares represents the cost of 2,000,000 of the Company's ordinary shares (nominal value of £100,000) purchased in July 2003. These shares were acquired by a trust in the open market using funds provided by Aegis Group plc. The market value of the shares at 31 December 2003 was £2.0 million.

Other fixed asset investments
The Group's other fixed asset investments principally comprise an investment of approximately 2.1% in Harris Interactive, Inc. The market value of these shares at 31 December 2003 was £5.1 million (2002: £2.2 million).

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

13. Debtors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Trade debtors	**1,069.4**	914.0	**0.5**	–
Amounts due from Group undertakings	**–**	–	**99.2**	113.6
Amounts due from associated undertakings and joint ventures	**7.2**	6.3	**0.3**	0.2
Other debtors	**92.0**	50.7	**3.3**	2.0
Deferred tax asset	**2.7**	1.4	**–**	–
Prepayments and accrued income	**35.2**	38.3	**0.5**	0.5
	1,206.5	1,010.7	**103.8**	116.3

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

14. Creditors: amounts falling due within one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Bank loans and overdrafts	**90.3**	32.0	**117.1**	76.1
Less issue costs of debt to be amortised	**(1.4)**	(1.0)	**(1.4)**	(1.0)
	88.9	31.0	**115.7**	75.1
Trade creditors	**1,202.7**	944.8	**1.2**	0.7
Finance leases and hire purchase contracts	**0.1**	0.6	**–**	–
Amounts due to Group undertakings	**–**	–	**201.3**	190.8
Corporation tax	**16.6**	8.9	**–**	–
Taxation and social security	**45.0**	30.2	**–**	0.1
Other creditors	**107.9**	86.3	**1.0**	11.9
Accruals and deferred income	**25.2**	120.2	**5.5**	7.4
Dividends payable	**8.9**	8.3	**8.9**	8.3
	1,495.3	1,230.3	**333.6**	294.3

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

Notes to the financial statements (continued) >

For the year ended 31 December 2003

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

	Group		Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Bank loans	**0.4**	4.3	**-**	-
Loan notes	**89.5**	99.4	**89.5**	99.4
Less issue costs of debt to be amortised	**(1.2)**	(0.6)	**(1.2)**	(1.2)
	88.7	103.1	**88.3**	98.2
Finance leases and hire purchase contracts	**0.1**	0.5	**-**	-
Other creditors	**41.8**	27.2	**-**	-
	130.6	130.8	**88.3**	98.2

Of the above, £41.4 million (2002: £27.2 million) is repayable between one and two years, £89.2 million (2002: £79.8 million) is repayable between two and five years and £nil (2002: £23.8 million) is repayable in more than five years.

	Group		Company	
	2003	2002	**2003**	2002
Convertible bond	**£m**	£m	**£m**	£m
Convertible bond	**119.8**	108.8	**119.8**	108.8
Less issue costs of debt to be amortised	**(0.9)**	(1.5)	**(0.9)**	(1.5)
	118.9	107.3	**118.9**	107.3

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

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

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

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

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

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

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

16. Provisions for liabilities and charges

	Vacant properties	Deferred tax	Total
	£m	£m	£m
Group:			
Balance at 1 January	0.5	1.1	1.6
Charged to the profit and loss account	–	–	–
Utilised in the year	(0.1)	–	(0.1)
At 31 December 2003	0.4	1.1	1.5

The Group's vacant leasehold properties are principally comprised of two telephone call centres in New York. Provision has been made for the residual lease commitments for the remaining period of the leases, which at 31 December 2003 is approximately 4 years.

The Company had no provisions for liabilities and charges at either 31 December 2002 or 31 December 2003.

16. Provisions for liabilities and charges (continued)

Deferred Tax	**2003 £m**	2002 £m
Group:		
Provision for deferred tax comprises:		
Other deferred tax liabilities	**1.1**	1.1
Other deferred tax assets	**(2.7)**	(1.4)
Net deferred tax asset	**(1.6)**	(0.3)
At 1 January	**(0.3)**	–
Amount credited to profit and loss account (note 7)	**(1.3)**	(0.3)
Net provision at 31 December 2003	**(1.6)**	(0.3)

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

At 31 December 2003 the Group had tax losses carried forward of approximately £49.0 million (2002: £24.8 million). A deferred tax asset of £16.1 million (2002: £7.9 million) has not been recognised in respect of these tax losses as there is currently insufficient evidence that any asset would be recoverable.

17. Share capital

	2003 £m	2002 £m
Authorised:		
1,500,000,000 (2002: 1,500,000,000) ordinary shares of 5p each	**75.0**	75.0
	75.0	75.0
Issued, allotted, called up and fully paid:		
At 1 January – 1,104,507,686 (1,101,903,590) ordinary shares of 5p each	**55.2**	55.1
Issue of 7,696,843 (2002: 2,604,096) shares by the Company	**0.4**	0.1
At 31 December – 1,112,204,529 (1,104,507,686) ordinary shares of 5p each	**55.6**	55.2

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

The Company issued a total of 7,696,843 shares in the year with an aggregate nominal value of £384,841. The total share premium arising on the issue of shares in the year was £6,455,339. The Company issued 392,308 ordinary shares due to the exercise of share options. The shares had a nominal value of £19,615 and the Company received £198,979 as consideration on the exercise of share options. The Company issued 1,131,730 shares in connection with the acquisition of Pegram Walters in 2001. The shares had a nominal value of £56,586 with a share premium of £766,748. The Company also issued 6,172,805 shares in connection with the acquisition of Isis Research. The shares had a nominal value of £308,640 with a share premium of £5,509,228.

Under the Group's share option schemes, there were outstanding options over 104,563,499 ordinary shares of 5p at 31 December 2003 (2002: 98,275,495), for which the participants have the right to exercise their options at prices ranging from 26.5p to 214.5p. These options are exercisable between 31 December 2003 and 10 September 2013.

Notes to the financial statements (continued) >

For the year ended 31 December 2003

18. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
Group:			
At 1 January 2003 as previously reported	199.8	0.2	(137.1)
Prior year adjustment (note 1)	–	–	(4.9)
At 1 January 2003 as restated	199.8	0.2	(142.0)
Retained profit for the year	–	–	6.4
Issue of shares by the Company	6.5	–	–
Currency translation differences on foreign currency net investments	–	–	(17.8)
At 31st December 2003	**206.3**	**0.2**	**(153.4)**

Goodwill arising on acquisitions up to 31 December 1997 of £563.9 million (2002: £563.9 million), which was written off immediately to reserves, is included within the profit and loss account reserve.

	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m
Company:				
At 1 January 2003	199.8	0.2	13.0	131.8
Retained loss for the year	–	–	–	(39.1)
Issue of shares by the Company	6.5	–	–	–
At 31st December 2003	206.3	0.2	13.0	92.7

The Company has not presented its own profit and loss account as permitted by Section 230 (1) of the Companies Act 1985. The loss dealt with in the accounts of the Company for the year to 31 December 2003 was £39.1 million (year to 31 December 2002: profit of £15.3 million). Accumulated reserves for the Company include £118.8 million (2002: £118.8 million) which is not available for distribution under the terms of a court approved share premium reduction scheme.

19. Goodwill on acquisitions

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
Archi d'Alembert	France	100%	April 2003
Blackstone Market Facts	India	100%	September 2003
Carat China	China	25% (75%)	March 2003
Carat Indonesia	Indonesia	75%	January 2003
Censydiam Group	Belgium	100%	September 2003
Dist Kommunikation AB	Sweden	100%	August 2003
Freestyle	US	100%	May 2003
IMS	US	100%	April 2003
Institutionelle Voyages	France	100%	January 2003
Isis Research	UK	100%	October 2003
L'Agence Synelog	France	100%	October 2003
L'Agence Parution	France	100%	October 2003
Mediabureauet	Denmark	100%	August 2003
MediaHaus.Seefeld	Switzerland	100%	July 2003
PSI Advertising	UK	100%	October 2003
QAM	Spain	51%	October 2003
Regenere	France	100%	October 2003
Viewscast	UK	59.67% (100%)	March 2003

19. Goodwill on acquisitions (continued)

The group also acquired additional stakes in Carat Russ Media (17%), Morgagni 33 (19%), Carat SPI (25%), Carat Taiwan (40%) and PAP (49%).

Initial consideration totalled £48.9 million, with estimated contingent deferred consideration of £17.7 million payable between 2004 and 2007, subject to performance criteria. A summary of the net assets/liabilities acquired and goodwill arising is given below.

Net assets/(liabilities) acquired:	Book value acquired £m	Accounting policy adjustments £m	Other adjustments £m	Fair value of net assets £m
Tangible fixed assets	5.1	(0.1)[a]	–	5.0
Debtors	22.4	–	(0.2)[b]	22.2
Stock: work in progress	2.0	–	–	2.0
Cash at bank and in hand	5.0	–	–	5.0
Creditors	(35.6)	–	(3.8)[c]	(39.4)
	(1.1)	(0.1)	(4.0)	(5.2)
Goodwill capitalised in the year				73.3
Consideration				68.1
Satisfied by:				
Initial cash consideration				43.1
Fair value of shares issued				5.8
Direct costs of acquisition				1.5
Deferred consideration (note 20)				17.7
				68.1

Provisional adjustments have been made as follows:

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

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

c Provision has been made to accrue for pre-acquisition corporation tax liabilities together with adjustments to properly reflect the fair value of existing liabilities.

All provisional amounts are based on management's best estimates. Fair value adjustments are expected to be finalised in 2004.

Associates

The Group invested £5.1 million in associated companies during the year, of which £2.4 million was paid for a 41% interest in Medialand, a company based in the Netherlands, £1.9 million was paid for a 25% interest in Qin Jia Yuan, a company based in China, £0.4 million was paid for a 49% interest in Posterscope Taiwan, a company based in Taiwan, and £0.2 million was paid for a 30% interest in Carat Media Services Philippines. A further £0.2 million has been invested in the Group's existing associated companies.

Notes to the financial statements (continued) >

For the year ended 31 December 2003

20. Deferred consideration and other commitments

Deferred consideration, which has been provided for in creditors, may be paid to the vendors of certain subsidiary undertakings in the years to 2005. Such payments are either fixed under the terms of the acquisition or are contingent on future financial performance. The directors estimate that, at the rates of exchange ruling at the balance sheet date, the liability at 31 December 2003 for payments that may be due is as follows:

	2003 £m	2002 £m
Within one year	**19.3**	33.0
Between one and two years	**22.6**	12.6
Between two and five years	**10.7**	10.2
	52.6	55.8

The minimum liability is £7.0 million and the maximum is £112.5 million.

Put options held by outstanding minority interests

There are put options held by certain minority interest shareholders in respect of Group companies in Spain, France, Thailand, Israel, Japan and Singapore. The directors estimate the value of these contingent liabilities, based upon the profitability of the individual companies, to be approximately £9.4 million (2002: £6.5 million).

Guarantees

At 31 December 2003, bank debt includes £31.0 million (2002: £37.9 million) that is guaranteed by the Company. Other bank guarantees issued by Group companies totalled £17.1 million (2002: £9.7 million).

At 31 December 2003, Group companies had issued other external guarantees, principally in relation to media and rent guarantees, of £26.4 million (2002: £29.4 million).

Lease commitments

At 31 December 2003, there were the following annual commitments in respect of non-cancellable operating leases:

	Group Land and buildings 2003 £m	Group Other 2003 £m	Total Group 2003 £m	Company Land and buildings 2003 £m	Group Land and buildings 2002 £m	Group Other 2002 £m	Total Group 2002 £m	Company Land and buildings 2002 £m
Operating leases that expire:								
Within one year	**4.4**	**1.5**	**5.9**	**–**	0.7	0.1	0.8	–
Between one and five years	**9.1**	**2.2**	**11.3**	**–**	4.1	2.6	6.7	–
After more than five years	**6.1**	**0.2**	**6.3**	**0.8**	8.0	–	8.0	0.8
31st December	**19.6**	**3.9**	**23.5**	**0.8**	12.8	2.7	15.5	0.8

21. Related party transactions

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

Carat Espãna SA purchased media space on behalf of Mediasat 2000 SA, an associated undertaking, totalling £21.8 million in 2003. The balance due at the year end was £5.2 million (2002: £5.7 million).

Carat Hellas SA purchased media space on behalf of Joint Venture Bonds (Greece), an associated undertaking, totalling £1.1 million in 2003. No balance was due at the end of 2003 or 2002.

Group companies provided administrative services to Percept D'Mark, an associated undertaking, totalling £0.1 million. The balance due at the year end was £0.3 million (2002: £0.2 million).

Carat Media Services (Malaysia) Sdn Bhd purchased media space on behalf of Perindiny Pakar Media, an associated undertaking, totalling £1.8 million. The balance due at year end was £0.4 million (2002: £0.1 million).

22. Financial instruments

The Board of Directors 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 10. The key objective is to manage the financial risks faced by the Group, which are discussed below.

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

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

Management of financial risk

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

Currency risk

A significant portion of the Group's activities takes place overseas. The Group therefore faces currency exposures on transactions undertaken by subsidiaries in foreign currencies and on consolidation upon the translation of profits and net assets of overseas subsidiaries.

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

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

Liquidity

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 2003, the Group had net debt (before finance lease obligations and issue costs of new debt) of £152.6 million (2002: £122.3 million). The Group had cash balances of £147.4 million at 31 December 2003 (2002: £122.2 million) and gross borrowings of £300.0 million (2002: £244.5 million).

Included within gross borrowings is £119.8 million (£108.8 million) of 2 per cent convertible bonds due in 2006. These bonds were issued on 15 May 2002.

Also included within gross borrowings is £89.5 million (US$160 million) (2002: £99.4 million (US$160 million)) of unsecured loan notes issued on 20 November 2000. These notes are repayable in full between 2006 and 2008.

In addition to the net debt at 31 December 2003, the Group has undrawn committed facilities of £200.0 million (2002: £168.7 million). Further details are given on page 65.

Interest rate risk

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

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

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

Notes to the financial statements (continued) >

For the year ended 31 December 2003

22. Financial instruments (continued)

Credit risk

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

Short-term debtors and creditors and currency disclosures

Short-term trade 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.

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

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

	Fixed rate financial liabilities 2003 £m	Floating rate financial liabilities 2003 £m	Total financial liabilities 2003 £m	Fixed rate financial liabilities 2002 £m	Floating rate financial liabilities 2002 £m	Total financial liabilities 2002 £m
Sterling	-	64.5	64.5	-	7.0	7.0
Euro	118.2	0.9	119.1	106.6	0.8	107.4
US dollar	-	89.2	89.2	-	113.6	113.6
Other currencies	-	23.7	23.7	-	13.4	13.4
	118.2	178.3	296.5	106.6	134.8	241.4

Interest is payable on the above floating rate financial liabilities (excluding the US unsecured loan notes) based on the inter bank offer rate in each country. The weighted average interest rate for the year ended 31 December 2003 was 3.28% (2002: 2.8%). The variable interest rate payable on the US unsecured loan notes is based on the prevailing US LIBOR rate.

Interest on the convertible bond, which after hedging comprises all of the fixed rate financial liabilities, is fixed at 2% with a 1.875% premium payable fixed until May 2006. Issue costs to be amortised in respect of the convertible bond at 31 December 2003 are £1.6 million (2002: £2.2 million) of which £0.7 million (2002: £0.7 million) is included in creditors: amounts falling due within one year.

In addition to the liabilities above, the Group had creditors due after more than one year of £33.3 million (2002: £22.8 million) on which generally no interest is paid (representing deferred consideration on acquisitions, the weighted average maturity period of which is 2.5 years) and finance lease obligations of £0.1 million (2002: £1.1 million).

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

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

	Cash at bank and in hand 2003 £m	Cash at bank and in hand 2002 £m
Sterling	1.0	0.1
Euro	76.1	86.3
US dollar	34.4	12.0
Other currencies	35.9	23.8
	147.4	122.2

Floating rate cash earns interest based on the relevant national LIBID equivalent. In addition to the financial assets above, the Group had other fixed asset investments of £4.1 million (2002: £2.8 million) principally in US dollars, which do not yield an interest-related income and which do not have a fixed maturity date.

Notes to the financial statements (continued) >

For the year ended 31 December 2003

22. Financial instruments (continued)

Fair values of the Group's financial assets and liabilities

With the exception of the Group's £2.5 million fixed asset investment in Harris Interactive Inc and the interest rate swap on the Group's US$ loan notes (which is not included in the balance sheet), there are no material differences between the book and fair values of the Group's financial assets or liabilities. The fair value of the Group's investment in Harris Interactive Inc at 31 December 2003 was £5.1 million based on market values. The fair value of the swap at 31 December 2003 was £12.1 million based on a discounted cash flow model and yield curves applicable (2002: £16.8 million). This fair value represents unrecognised profits which the Group expects to realise as a result of lower variable interest payments under the swap compared with the fixed interest rate applicable on the underlying loan notes. £4.9 million of this unrealised profit is expected to be realised in 2004. The cumulative aggregate gains that are unrecognised at the balance sheet date are £11.6 million.

Maturity of financial assets and liabilities

The maturity profile of the Group's financial liabilities is set out in notes 15, 16 and 20. With the exception of the Group's other fixed asset investments of £2.8 million, all financial assets have a maturity of less than one year.

Borrowing facilities

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

	2003	2002
	£m	£m
Expiring within one year	100.0	140.1
Expiring between one and two years	–	28.6
Expiring between two and five years	100.0	–
	200.0	168.7

Of the amounts disclosed above at 31 December 2003, £100.0 million expiring within one year may be extended annually by the Group until 2006.

Market risk

At 31 December 2003, it is estimated that a general simultaneous parallel shift of 1% in interest would not alter 2003 profit before tax significantly. It is also estimated that a strengthening of Sterling by 1% would reduce 2003 profit before tax by approximately £1.0 million.

Currency exposures

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

Hedges of future transactions

At 31 December 2003 and 2002, there were no material foreign exchange contracts to hedge against future transaction flows.

Notes to the financial statements (continued) >

For the year ended 31 December 2003

23. Principal subsidiary and associated undertakings

Principal subsidiary undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2003
Media communications:		
Aegis Media UK & Ireland Ltd	England and Wales	100%
Aegis Media France S.A.S.	France	100%
Aegis Media Belgium s.a.	Netherlands	100%
Aegis Media Italia Srl	Italy	100%
Aegis Media Iberia S.L.	Spain	100%
Aegis Media (Deutschland) GmbH	Germany	100%
Carat Nordic AB	Sweden	100%
Carat North America Inc	USA	100%
Market research:		
Synovate Ltd	England and Wales	100%
Synovate (Cyprus) Ltd	Cyprus	100%
Synovate Inc	USA	100%
Synovate (Asia Pacific) BV	Netherlands	100%

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

With the exception of 100% shareholdings in Carat Group UK Limited, Carat International Limited and Carat Media Services Limited, all of the principal subsidiary and associated undertakings disclosed above and below are indirectly held. The effective interest in the issued share capital is equivalent to the percentage of voting rights held by the Group, unless otherwise stated. A full list of all subsidiary undertakings, and the information shown above with respect to them, is filed with the Company's annual return.

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

HMS & CARAT GmbH & Co. KG Central Services, Wiesbaden
HMS GmbH & Co. KG Media-Service, Wiesbaden
Carat 21 GmbH & Co. KG Kommunikationsberatung
HCCS Plus Wiesbaden/München GmbH & Co. KG
CARAT Wiesbaden GmbH & Co. KG Media-Service, Wiesbaden
CARAT Hamburg GmbH & Co. KG, Hamburg
HMS GmbH & Co. KG Media-Service, Hamburg

Principal associated undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2003
Media Communications:		
Medialand	Netherlands	41%
Percept D'Mark	India	26%
Posterscope Advertising Beijing	China	49%
Posterscope Advertising Hong Kong	Hong Kong	49%
Qin Jia Yuan	China	25%

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

Joint ventures

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

Shareholder information >

Financial calendar

26 May 2004	Annual General Meeting
2 June 2004	Ex-dividend date
4 June 2004	Last date for transfers
25 June 2004	Final dividend payable
7 September 2004	Announcement of interim results
Early October 2004	Interim dividend payable
Early March 2005	Preliminary announcement of results for the year ending 31 December 2004

Registrars
The Company's share register is administered by Computershare Investor Services PLC and all correspondence regarding ordinary shares should be sent to them at the address shown on page 22. Alternatively they can be contacted on:

Tel 0870 702 0010
Fax 0870 703 6143

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

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

Analysis of ordinary shareholdings at 31 December 2003

Size of holdings	Number of holders	%	Number of shares	%
1–1,000	1,525	41.22	693,829	0.06
1,001–10,000	1,275	34.46	4,429,391	0.40
10,001–25,000	203	5.49	3,356,737	0.30
25,001–50,000	128	3.46	4,692,874	0.42
50,001–100,000	113	3.05	8,148,092	0.73
100,001–250,000	149	4.03	23,935,625	2.15
250,001–500,000	96	2.59	34,733,155	3.12
500,001–1,000,000	70	1.89	50,435,325	4.53
1,000,001–10,000,000	116	3.14	354,440,721	31.87
10,000,001–25,000,000	17	0.46	261,572,260	23.52
25,000,001 +	8	0.22	365,766,520	32.89
	3,700	100.00	1,112,204,529	100.00

Five year summary >

Profit and loss:	2003	Restated 2002	Restated 2001	Restated 2000	Restated 1999
Turnover	**£7,156.2m**	£6,233.8m	£6,095.7m	£5,712.5m	£4,791.8m
Revenue	**£648.8m**	£591.9m	£529.0m	£473.0m	£323.5m
Gross profit	**£572.5m**	£515.1m	£463.2m	£382.8m	£281.7m
% Gross profit to turnover	**8.0%**	8.3%	7.6%	6.7%	5.9%
Operating profit (before amortisation of goodwill and exceptional items)	**£84.2m**	£76.6m	£71.1m	£84.5m	£66.4m
Profit before tax, amortisation of goodwill and exceptional items	**£80.5m**	£71.4m	£63.3m	£78.4m	£64.6m
Profit before tax	**£48.0m**	£34.7m	£10.8m	£71.6m	£67.2m
Effective underlying tax rate	**29.8%**	30.6%	31.9%	29.5%	28.9%
Profit/(loss) for the financial year	**£21.1m**	£13.1m	£(10.2)m	£47.4m	£46.9m
Cash flow:					
Operating cash flow	**£110.1m**	£109.3m	£66.3m	£96.2m	£76.3m
Net debt at the year end	**£(149.2)m**	£(120.3)m	£(126.0)m	£(59.0)m	£(15.1)m
Balance sheet:					
Goodwill on acquisitions	**£425.9m**	£374.9m	£362.8m	£369.7m	£244.0m
Other fixed assets	**£71.0m**	£74.1m	£89.0m	£66.5m	£33.5m
Net current liabilities	**£(133.4)m**	£(92.2)m	£(160.3)m	£(107.3)m	£(64.7)m
Creditors: amounts falling due after more than one year	**£(130.6)m**	£(130.8)m	£(151.5)m	£(178.7)m	£(110.0)m
Convertible bond	**£(118.9)m**	£(107.3)m	-	-	-
Provisions for liabilities and charges	**£(1.5)m**	£(1.6)m	£(1.1)m	-	-
Net assets	**£112.5m**	£117.1m	£138.9m	£150.2m	£102.8m
Shareholder returns:					
Earnings per share — underlying					
— basic	**4.9p**	4.4p	3.8p	5.0p	4.3p
— diluted	**4.9p**	4.3p	3.8p	4.9p	4.2p
Earnings/(loss) per share — FRS 14					
— basic	**1.9p**	1.2p	(0.9)p	4.4p	4.6p
— diluted	**1.9p**	1.2p	(0.9)p	4.2p	4.4p
Ordinary dividend rate per share	**1.32p**	1.25p	1.20p	1.15p	1.0p

Comparative period results have been related to reflect the change in accounting policy in respect of goodwill, as explained in note 1.

Glossary of terms >

The Group
Aegis Group plc and its subsidiaries.

Aegis Media
The media services division of Aegis Group plc.

Synovate
The market research division of Aegis Group plc.

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

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

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

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

Gross margin
Gross profit stated as a percentage of turnover.

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

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

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

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

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

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

Constant currency growth/(decrease)
Constant currency growth/(decrease) represents year on year growth excluding the effect of movements in exchange rates.

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

Minority interests
Partial ownership of subsidiary undertakings by external shareholders.

Notice of Meeting >

Notice is hereby given that the Annual General Meeting of the Company will be held at 11am on 26 May 2004 in the Sixth Floor Conference Room at the Royal Institute of British Architects, 66 Portland Place, London W1B 1AD for the purpose of transacting the ordinary business of the Annual General Meeting set out in resolutions 1 to 9 and special business, when resolutions 10 and 11 will be proposed as ordinary resolutions and resolutions 12 and 13 will be proposed as special resolutions.

Ordinary business

1 To receive the financial statements for the year ended 31 December 2003 and the reports of the Directors and Auditors.

2 To declare a final dividend of 0.80p per ordinary share.

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

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

5 To re-elect as a director Daniel Farrar who was appointed since the last Annual General Meeting and therefore retires.

6 To re-elect as a director Charles Strauss who was appointed since the last Annual General Meeting and therefore retires.

7 To re-elect as a director Leslie Van de Walle who was appointed since the last Annual General Meeting and therefore retires.

8 To appoint Deloitte & Touche LLP as auditors to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

9 To authorise the directors to fix the remuneration of the auditors.

Special business

10 That the Remuneration Report contained in the financial statements for the year ended 31 December 2003 is hereby approved.

11 That the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £18,539,204 provided that this authority shall expire (unless previously revoked or varied by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

12 That, subject to the passing of resolution 11 above, the directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985, to allot equity securities (within the meaning of section 94 of the said Act) for cash pursuant to the authority conferred by the said resolution 10 above and/or where such allotment constitutes an allotment of equity securities by virtue of Section 94(3A) of the said Act as if section 89 of the said Act did not apply to any such allotment, provided that this power shall be limited:

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

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £2,780,511,

and shall expire (unless previously revoked or varied by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

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

Notice of Meeting (continued)

(a) the maximum number of shares which may be purchased is 55,617,614 ordinary shares;

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

(c) the authority conferred by this resolution shall expire on 25 November 2005 or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make a contract to purchase shares which would or might be completed or executed wholly or partly after such expiry and may make a purchase of shares pursuant to such contract as if the authority conferred by this resolution had not expired.

By order of the Board

John Ross
Company Secretary
43–45 Portman Square
London W1H 6LY
31 March 2004

Notes
A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A proxy form is enclosed for your use and, to be effective, must be deposited with the Company's Registrars (Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3FA) not less than 48 hours before the time appointed for the holding of the meeting. Return of the proxy form will not affect the right of a member to attend and vote at the meeting. Only those members registered in the Register of Members as at 11am on Wednesday, 26 May 2004 or their duly appointed proxies shall be entitled to attend and vote at the meeting. Copies of all directors' service contracts with the Company or its subsidiaries of more than one year's duration, the terms and conditions of appointment of non-executive directors and the register of directors' interests will be available for inspection at 43-45 Portman Square, London W1H 6LY during normal business hours on any business day from the date of this notice until the conclusion of the meeting, and at the place of the meeting from 10.45am on the date of the meeting until the conclusion of the meeting.

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