Aegis Group plc >

Annual Report & Accounts 2000

A E G I S

Our core proposition >

"Aegis amplifies brands, relentlessly pursuing enhanced return on marketing investment for our clients."

Contents

Group at a glance >

Financial highlights >	2000	1999	1998	1997	1996
Turnover	**£5,712.5m**	£4,791.8m	£4,130.0m	£3,652.5m	£3,452.5m
Gross Profit	**£382.8m**	£281.7m	£221.0m	£191.8m	£179.5m
Underlying operating profit*	**£84.5m**	£66.4m	£50.6m	£44.4m	£41.9m
Underlying profit before tax*	**£78.4m**	£64.6m	£50.6m	£45.6m	£39.6m
Earnings per share — underlying* — basic	**5.0p**	4.3p	4.0p	3.6p	3.4p
— diluted	**4.9p**	4.2p	3.7p	3.2p	3.2p
Earnings per share — FRS 14 — basic	**4.4p**	4.6p	4.0p	3.8p	3.3p
— diluted	**4.3p**	4.4p	3.7p	3.4p**	3.0p**
Full year dividend	**1.15p**	1.0p	0.85p	0.7p	0.6p
Operating cash flow	**£96.2m**	£76.3m	£57.0m	£54.5m	£42.7m
Net (debt)/funds	**(£59.0m)**	(£15.1m)	£36.9m	(£2.2m)	(£7.6m)
New business performance — media	**US$2,054m**	US$1,206m	US$770m	US$702m	US$437m
Revenue — market research	**US$238.1m**	US$197.0m†	—	—	—

*Before amortisation of goodwill and profit on disposal of an associated undertaking in 1999
**As restated under Financial Reporting Standard 14
†1999 annualised

Group financial analysis

32% 68%

18% 82%

7% 23% 70%

Revenue by discipline		Operating profit contribution		Operating profit by region	
Media	68%	Media	82%	Europe	70%
Research	32%	Research	18%	US	23%
				ROW	7%

Aegis turnover vs market growth % >

2000	Aegis Total	**19.2%**
	Aegis Organic	**15.6%**
	Market	7.9%
1999	Aegis Total	**16.0%**
	Aegis Organic	**12.4%**
	Market	6.4%
1998	Aegis Total	**13.1%**
	Aegis Organic	**10.5%**
	Market	4.4%

Key events

January 2000 > Acquisition of Motoresearch.
Carat Taiwan: 50:50 joint venture with United Advertising.
Appointment of Lord Sharman as Chairman of Aegis Group plc.

February 2000 > Acquisition of remaining 49% interest in Carat Fax SA.

March 2000 > Acquisition of Asia Market Intelligence.
Establishment of Carat Interactive Europe.
Establishment of eVerger, 50:50 joint venture with Warburg Pincus.

April 2000 > Appointment of Jeremy Hicks as new Chief Financial Officer.

June 2000 > Appointment of Bernard Fournier and Robert Lerwill as non-executive directors.
Carat opens 9 offices in China.

July 2000 > Carat launches joint venture, Carat Integra, in India with Percept.

August 2000 > Carat creates COMMA, a major Canadian media alliance.
Carat enters Japanese market through purchase of majority stake in Strategic Planners International.
Aegis acquires Strategic Media, New Zealand's largest media independent.

December 2000 > Acquisition of Outdoor Vision.

January 2001 > Acquisition of MarkTrend.
Aegis acquires Pegram Walters, a UK research company.

February 2001 > Aegis acquires Lord Media, a Polish outdoor specialist.

March 2001 > Aegis integrates all of its research operations under one global network: Aegis Research.
Aegis acquires Copernicus, a US marketing consultancy group.

Further information on any of these announcements is available at www.aegisplc.com

Aegis company profiles

Carat
Carat is accountable for delivering business advantage through media knowledge and innovation. As the number one global independent media services network, Carat is renowned for it's investment in analytical tools, media research and global coverage.

Aegis Research
Aegis Research generates consumer insights that drive competitive marketing solutions. The network provides its clients with cohesive global support and a comprehensive suite of leading research products. Aegis Research incorporates Market Facts in the Americas, Asia Market Intelligence in Asia and Pegram Walters in Europe.

MMA
MMA interprets and analyses marketing data to transform the effectiveness of the marketing mix. Marketing Mix Analysis is pivotal in assessing the impact of advertising and other marketing components to improve return on marketing investment.

eVerger
eVerger is our 50:50 joint venture with Warburg Pincus and is focused on identifying, funding and developing e-marketing businesses and enabling technologies to help marketers promote and strengthen their brands.

Media

Employs 4,007 employees
Offices in Argentina, Austria, Australia, Belgium, Canada, Chile, China, Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, Italy, Japan, Mexico, Netherlands, Norway, Poland, Portugal, Spain, India, Malaysia, New Zealand, Philippines, Russia, Slovakia, Singapore, Sweden, Switzerland, Taiwan, Thailand, Turkey, UK, USA.

Market ranking Carat — major markets	2000 market share %	Market ranking
Germany	13.9	1
France	22.9	1
UK	13.1	1
Italy	14.0	1
Spain	12.9	2
USA	Estimated top 6 in 2001	

Source: Recma May 2000

Top media agency groups worldwide

Rank	Media agency group	Billings US$b
1	Interpublic — Universal/ Initiative/TN Media	29.6
2	WPP — Mindshare/Media Edge	21.3
3	Omnicom — OMD/PHD	14.4
4	Aegis — Carat	13.2
5	Publicis — Optimedia/Zenith	12.4
6	Bcom3 — Starcom/MediaVest	11.1
7	Grey — Mediacom	8.0
8	Havas — MPG/Snyder M.	7.0*
9	Tempus — CIA	5.4

Source: Recma May 2000 Carat est. *(Est)

2000 international* account wins ranking

	US$m
Carat	1,785
OMD Worldwide	583
Mindshare	536
Starcom	429
Media Edge	315

*Billings in 5 or more countries
Source: Advertising Age.

Research

Employs 1,822 employees
Offices in Argentina, Brazil, Canada, China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, UK, USA.

Aegis Research — custom research regional ranking

Market Facts	5 (US)
Asia Market Intelligence	2 (Asia)

Chairman's statement >

"2000 was another excellent year. We won a record amount of new business demonstrating the efficiency of our business model and our continuing ability to generate strong organic growth from our core operations."

	2000	Increase %	1999
urnover	**£5,712.5m**	19.2	£4,791.8m
evenue	**£473.0m**	46.2	£323.5m
ross margin	**6.7%**	—	5.9%
nderlying profit before tax	**£78.4m**	21.4	£64.6m
nderlying diluted EPS	**4.9p**	16.0	4.2p

Our financial results for 2000 highlight another excellent year. We won a record amount of new business, demonstrating our continuing ability to generate strong organic growth from our core operations. But we cannot rest. Every successful business must continue to grow and evolve, reacting constantly to changes in the market and the ever-shifting needs of its clients.

All through the year we continued to invest in the infrastructure of our business. Carat, our media operation, increased its geographic reach and opened new offices in China, Chile, Japan, Melbourne, Mexico, New Zealand, Singapore and Taiwan, building its international presence to over 40 countries. Aegis Research, through its acquisition of the Asia Market Intelligence network and other acquisitions extended its international reach by a further 12 countries.

We added to the services that we can offer clients by developing in-house knowledge and skill-sets. Carat launched exciting new businesses such as Carat Interactive (which was subsequently nominated Advertising Age's Interactive Agency of the Year) and Carat Sport, a sports sponsorship and marketing agency, which is already attracting high profile events like The Race and Real Madrid's centenary celebrations. Market Facts took the hi-tech high ground with its launch of ePanel, an internet-based research capability.

We also enhanced our ability to deliver cutting-edge media and research solutions to clients through a substantial investment in IT and tools. These investments will reinforce our ability to provide clients with the highly sophisticated tools and products that are now required to understand today's complex world.

This smart approach to business contributed significantly to our financial performance in 2000. Turnover for the year was up 19.2% to £5,712.5 million (1999: £4,791.8 million) outperforming the global market's 8% rise.

Revenue grew by 46.2% to £473.0 million (1999: £323.5 million). Gross margin grew to 6.7% (1999: 5.9%) reflecting the increased range of services we can offer clients. Underlying profit before tax rose 21.4% to £78.4 million (1999: £64.6 million). Underlying diluted EPS increased by 16.0% to 4.9p (1999: 4.2p).

In line with this performance, the Board is recommending a final dividend of 0.69p per ordinary share, making 1.15p per ordinary share for the full year. This represents a 15% increase on the 1.0p per share paid in respect of 1999.

During the year there were a number of changes to the Board. Colin Day relinquished his position as Group Finance Director in April. My fellow Board members and I warmly thank Colin for his contribution to the development of the Company and wish him every success in his future career.

Jeremy Hicks succeeded Colin as Chief Financial Officer and brings solid financial and media sector experience to the Board having previously been Finance Director of Abbot Mead Vickers plc.

I am also pleased to welcome Bernard Fournier and Robert Lerwill as non-executive directors, both of whom were appointed to the Board in June. Bernard and Robert add a strong strategic perspective that will prove invaluable to the Group as it moves forward into the new millennium.

Your Board, I believe, is now a carefully balanced mix of financial, commercial, and media industry experience and is well prepared for what will undoubtedly be an exciting future.

Our vision is to deliver competitive edge to clients through our insights into consumer attitudes and through communication and media strategy.

This isn't rhetoric, it's fact.

Around half of our business now comes from selling insight: insight into consumers, insight into brands and insight into markets. We continue to grow our business, our highly profitable business, from this competence.

Client conflict, an issue in the advertising industry, is somewhat less of a problem for Aegis. That's because the insights we can offer clients can sometimes override commercial rivalries. That remains a major reason why our business delivers such strong organic growth. But it is not the only reason. The media market is experiencing significant structural change. There are two undeniable trends that are impacting favourably on our business. Increasingly, clients are aligning their businesses internationally and are demanding media solutions that are no longer linked to the creative product. This change is good, as the increasing number of mandates in review offers exceptional opportunity for companies with the right product in the right place at the right time. Aegis fulfils all three of these criteria.

Your Company is populated by people who are passionate about the quality of what they do and are competitive about winning. These people are, without doubt, the Company's major asset. Along with my colleagues on the Board, I would like to thank them for all their hard work in making 2000 another excellent year.

Lord Sharman >

Chairman, Aegis Group plc

CEO's statement >

"Our singular aim is to deliver the competitive edge to clients through our unrivalled understanding of consumers, markets and brands."

I am pleased to report that 2000 was a great year for Aegis and that we made significant progress on a number of fronts.

Progress in building our international media and research networks; progress in building new business; progress in building more profitable business and progress in expanding the breadth and quality of services that we can offer to clients.

But such progress was not accidental. It was achieved because we have a singular aim that is at the heart of all we do and which drives us forward. That is to deliver competitive edge to clients through our unrivalled understanding of consumers, media and brands.

Media planning is now only part of the wider process of communications planning. This process requires us to provide clients with highly sophisticated research products and data driven tools to plan media, target consumers and calculate the effectiveness of campaigns. Consequently Aegis has undergone a shift in its business model.

Looking back six years, the Company was entirely reliant on media buying with an attendant media planning function. Today, the Company is at the centre of clients' marketing strategy development as communication planning becomes key to efficiently and effectively reaching target consumers.

In addition, we believe that we are uniquely placed to provide a truly integrated 360° communication service through the addition of services, such as data planning, broadcast sponsorship and sports and event marketing, to our media communications business.

These services, both high-end communications strategy development and non-traditional media advisory and executional services, are adding to our client involvement and represent a rising share of revenue.

With our entrance into the market research arena in 1999 and its subsequent growth, the Group's strategy continues to evolve. We aim to grow our business profitably by building leading global positions in the complementary areas of media and market research and we intend to achieve this by extending our geographic capability and by adding new services and products.

Media communications
In 2000, Carat gained a record $2,054 million of net new business, $1.5 billion of which came from Europe. This is an outstanding performance and clearly demonstrates the efficacy of Carat's business model.

Europe's excellent new business performance was driven by marketers awarding pan-regional mandates – the scale of which became bigger and bigger during the year. Of the ten largest multinational accounts that came up for review in 2000, Carat was invited to pitch seven and won seven – a truly excellent run-rate.

Our operations in North America also continued to demonstrate good new business growth. Carat USA had a fine start to the year and, significantly, began to be included on a number of very large pitches. Some pitches that were started in 2000 paid off in early 2001 when Carat USA won Warner Lambert and New Line Cinema.

Size matters in the US market and our continued investment in products, people and systems means that the agency has now achieved the scale and presence necessary to be recognised as a player in this important market.

Despite the recent slowdown, America continues to offer Carat good growth prospects. Unbundling of media, by which I mean the separation of the creative function of advertising from the planning and buying function, continues apace in the US. And,

Doug Flynn >

Chief Executive Officer, Aegis Group plc

as unbundled media business comes up for review, Carat is well placed to take advantage of a unique window of opportunity.

Latin America continued to grow during the year with the acquisition of the remaining minority interest in Carat Fax in Argentina and the opening of new offices in Chile and Mexico. In 2001, Latin America will remain an important area in which we shall continue to build our network.

In 2000, Carat extended its network of offices in Asia-Pacific, which now reaches across 11 countries and 24 cities, with offices established in China, Japan, New Zealand, Taiwan and Singapore. Carat's Asia-Pacific network expansion is driven by our multi-national clients who are focused on building a leading presence in these strongly growing markets. Asia-Pacific, like the US, is at a stage where media unbundling still has far to go. This combined with a strong and growing market means that the region offers exceptional potential and should develop into an important part of Aegis' business going forward.

Market research

Due to the growing importance of our market research operations, which now represent 32% of the Group's revenues, in March 2001 we integrated all of our research activities into one global business, Aegis Research. This will allow us to market our research capabilities globally through a unified network with common products and sector focus.

Aegis first moved into the market research business in 1999 through the acquisition of Market Facts, a company specialising in both qualitative and quantitative market research via a network of offices in the Americas.

Our move into market research continued in 2000 with the acquisition of Asia Market Intelligence (AMI). AMI is the second biggest supplier of customised market research and consultancy in the Asia region.

In January 2001, we made our first European market research acquisition with Pegram Walters. We fully anticipate increasing further our research presence in Europe and, by so doing, work towards developing a true global research network.

Market research not only offers Aegis excellent opportunities for growth, but also complements our strategy of developing the breadth and quality of services that we can offer clients.

Marketing consultancy

We continue to build on our decision systems and marketing consultancy business areas with MMA acquiring Applied Information for Marketing and Copernicus being acquired by Market Facts. The Group also invested in new tools such as sales volume forecasting and market structure analysis.

Outlook

Aegis' performance is strongly influenced by industry and market trends. Although we cannot discount the effects of slowing market growth, I believe that there are particular circumstances that work distinctly to Aegis' advantage when considering prospects for 2001.

I have already described the opportunities offered from the increasing number of pan-regional mandates coming up for review in Europe and from media unbundling in the US and Asia-Pacific. I also described how our business model has changed. Furthermore, our increasing exposure to market research and other added-value services spreads our growth opportunities across several strongly performing sectors. I'm also hopeful about the economic prospects for Europe, the region which accounts for around two thirds of Group revenues.

These factors, together with the impact of 2000's record new business wins feeding-through into 2001 revenues, lead me to remain optimistic about the prospects for your Company in the year ahead.

Financial report >

"The 2000 results demonstrate an excellent performance from both media services and market research. Carat's strength in Europe and its growing global presence helped achieve record net new business wins. Aegis Research's US and Asia-Pacific networks both grew revenues well ahead of market growth."

Trading overview — media services
During 2000, Carat's media billings (defined as the annualised value of media purchased on behalf of clients, before agency discounts) increased by 28.2% to $13.2 billion and revenues increased by 46.2% to £473.0 million. Net new business won was a record $2,054 million, up from $1,206 million in 1999.

Europe contributed $1,568 million of net gains. New business was considerably boosted by clients consolidating their pan-regional media business into one agency of record. As Carat has a pre-eminent position in all of the European markets, this trend has been particularly favourable to our business.

Our larger operations in France, Germany, Italy, Spain and the UK all performed strongly and our Central and Eastern European networks continued to make particularly good progress. Scandinavia's performance improved as the pan-European wins, combined with actions taken early in the year to strengthen the region's operations, made a positive impact on the business.

North America contributed $383 million of net new business billings. The Company continued to invest in expanding the range of client services including Carat Interactive and Carat Outdoor.

Expansion into Latin America continued during the year with the acquisition of the remaining minority interest in Carat Fax in Argentina and new offices in Chile and Mexico.

Asia-Pacific grew strongly in 2000 and contributed $92 million of net gains. We continued to develop our Asia-Pacific network and during the year started trading in China, Japan, New Zealand, Singapore and Taiwan. With these new offices Carat now has almost complete coverage of the Asia-Pacific region.

Trading overview — market research
In 2000, the revenue for Aegis Research was £152.8 million representing approximately 32% of the Group's total. During the year, the Group continued to invest in building its international market research network in order to form a broader platform for future growth.

In March 2000 we acquired Asia Market Intelligence (AMI), one of the leading market research groups in the Asia-Pacific region. In early 2001, Aegis continued its investment in the network by acquiring MarkTrend Research, Inc. in Canada and PW Market Research Group Ltd (Pegram Walters), a UK-based market research company.

In March 2001, the Group made a major step towards fulfilling its ambition to create a truly global research network through the creation of Aegis Research. This provides a management structure capable of combining the operations of Market Facts in North America with those of Asia Market Intelligence in Asia and Pegram Walters in the UK. This provides us with the framework to continue our expansion.

Market Facts performed strongly in 2000 with record new business coming from both existing and new clients. Though the market research industry in the US experienced a challenging year in 2000, Market Facts achieved double-digit revenue growth as a result of strong repeat business and a good new business performance.

AMI also saw good growth as the region continued to recover from the recession of 1997/8. China, Hong Kong and Taiwan contributed significantly to revenue growth during the year. There was a sharp increase in the volume of pan-regional business during the year and this now accounts for almost half of AMI's revenues. As the year progressed, AMI began to benefit from cross referral opportunities which began to flow from its relationship with Market Facts.

Jeremy Hicks >

Chief Financial Officer, Aegis Group plc

Financial highlights		
Trading results	2000	1999
Turnover	**£5,712.5m**	£4,791.8m
Gross profit	**£382.8m**	£281.7m
% Gross profit to turnover	**6.7%**	5.9%
Underlying operating profit*	**£84.5m**	£66.6m
Underlying profit before tax*	**£78.4m**	£64.6m
Profit before tax (FRS 14)	**£71.7m**	£67.3m
Effective underlying tax rate	**29.5%**	28.9%
Profit for the financial year	**£47.5m**	£47.0m
Cash flow:		
Operating cash flow	**£96.2m**	£76.3m
Net indebtedness at the year end	**£(59.0)m**	£(15.1)m
Shareholder returns:		
Earnings per share — Underlying*		
— basic	**5.0p**	4.3p
— diluted	**4.9p**	4.2p
Earnings per share — FRS 14		
— basic	**4.4p**	4.6p
— diluted	**4.3p**	4.4p
Total ordinary dividend per share for year	**1.15p**	1.0p

*Underlying results exclude amortisation of goodwill and profit on disposal of an associated undertaking in 1999.

Turnover

Turnover was £5,712.5 million (1999: £4,791.8 million), a 19.2% increase. Carat North America grew 38.9% and now represents some 19.7% of the Group's media turnover (1999: 17%). Carat's European turnover grew by 12.8% (1999: 6%) with all the Big Five countries — France, Germany, Italy, Spain and the UK performing well. Central Europe showed particularly strong growth. Carat's Asia-Pacific region is also developing well with turnover up by 60.8% (1999: 36.5%). Carat's Latin American turnover continues to expand, albeit from a low base, as the Company builds its presence in the region.

Excluding 2000 acquisitions, the Group's turnover growth was 15.6%. Annual compound growth between 1996 and 2000 was 13.4%. The record new business wins in 2000 should positively impact Group turnover in 2001.

Gross profit

The growth in turnover brought a 35.9% increase in gross profit to £382.8 million (1999: £281.7 million). The gross profit margin rose from 5.9% in 1999 to 6.7% in 2000. This was due to the popularity of Carat's higher value-added services and to the increased contribution from market research. In 2000, the Group continued to meet its objective of sustaining and strengthening margins by identifying new products and service offerings to complement our core media planning and buying activity. Aegis is committed to fundamental long-term development in this area.

Operating expenses

During the year, the Group increased the pace of investment in new offices, proprietary tools, information technology and infrastructure. Although some of this investment was capitalised, a significant proportion was written-off during the year. In addition, Carat Interactive was launched in the US and new operations were started in Chile, Mexico, Munich, China and Singapore. These operations incurred significant start up costs. As a result, operating expenses (excluding amortisation of goodwill) rose by 38.5% to £298.3 million (1999: £215.3 million). The Group's operating margin (excluding amortisation of goodwill) was 22.1% (1999: 23.5%).

The total staff complement at 31 December 2000 was 5,829 (1999: 4,175). Full time employees within Aegis Research accounted for 31.2% of this total with 1,822 employees. Expenditure on research during 2000 was approximately £22.4 million (1999: £19.2 million).

The Group maintains its commitment to achieving operating efficiencies wherever possible. Management remains focused on improving operating efficiency and productivity and, although we compare favourably with similar companies, we will strive to make further progress in this area.

Operating profit

Underlying operating profit increased by 27.4% to £84.5 million (1999: £66.4 million). The operating margin fell slightly from 23.5% to 22.1% as a result of the investments made during the year and the effect of the inclusion of lower margin businesses acquired since 1999. Underlying organic growth in operating profit, excluding the effects of acquisitions and foreign exchange fluctuations, was 16.1%.

Pre-tax profits

Overall, profit before tax (excluding amortisation of goodwill and exceptional items) was £78.4 million (1999: £64.6 million), a 21.4% increase (26.5% on a constant currency basis). Between 1996 and 2000, the Group has achieved an annual compound underlying growth in profit before tax of 16.4%. After amortisation of goodwill of £6.7 million in 2000 (1999: £1.9 million) profit before tax rose to £71.7 million (1999: £67.3 million).

Capital expenditure

The Group invested £26.9 million in capital expenditure in 2000 (1999: £13.1 million). During the year, the Group incurred a capital

Financial report >

5 year dividend growth>pence

2000	1.15p
1999	1.0p
1998	0.85p
1997	0.7p
1996	0.6p

cost of £5.4 million relating to property as the need for new or additional office space arose in a number of locations including London, New York, Singapore, Mexico and Chile. In addition, we invested £13.4 million in new tools and information technology. Major projects included the new internet-based ePanel in the US and a new international communication and data management infrastructure. These investments will ensure the Group's ability to offer clients an expanded range of services across all aspects of our business.

Foreign exchange
The majority of the Group's operating profit arises outside the UK. During 2000, only 14.1% of our underlying operating profit arose in sterling with 55.8% in Europe (excluding UK) and 22.9% in the US. Currency markets fluctuated substantially during the year. The euro weakened against sterling in the first three months of the year, and although it recovered slightly towards the year-end it did not regain the levels seen in 1999. The dollar tended to strengthen throughout the year before suffering a slight reversal in December. The impact of foreign exchange rate changes in 2000 was to reduce operating profit by £2.3 million and pre-tax profit by £2.6 million.

Cash flow, borrowings and interest
Working capital management continues to be a key element of the treasury management programme. Operating cash flow for 2000 was strong at £96.2 million (1999: £76.3 million) equivalent to 113.8% of underlying operating profit, the sixth successive year that operating cash flow has exceeded operating profit. Free cash flow (after interest, tax, capital expenditure and deferred payments on prior period acquisitions) was £22.7 million (1999: £36.0 million).

As a result of our acquisitions and investments made during the year, net debt at 31 December 2000 rose to £59.0 million (1999: net debt £15.1 million).

On 20 November 2000, the Company raised $160 million (£107.1 million) through a private placement of unsecured loan notes to support its investment programme going forward. Net interest payable, excluding the amortisation of issue costs of debt, was £5.1 million (1999: £1.6 million).

Taxation
The Group's tax charge in the profit and loss account is at an underlying effective rate of 29.5% (1999: 28.9%).

Profit for the financial year and shareholders' funds
Profit for the financial year attributable to shareholders (before payment of the dividend on the ordinary shares) increased to £47.5 million (1999: £47.0 million).

Underlying basic earnings per share increased by 15.3% (19.5% on a constant currency basis) to 5.0p (1999: 4.3p). Underlying diluted earnings per share increased 16.0% (20.1% on a constant currency basis) to 4.9p (1999: 4.2p). FRS 14 basic earnings per share were 4.4p (1999: 4.6p) and diluted earnings per share were 4.3p (1999: 4.4 p).

An interim dividend of 0.46 pence per ordinary share was declared and paid in 2000 (1999: 0.4p). The Board is recommending a final dividend of 0.69p per ordinary share, making 1.15p per ordinary share for the full year. This represents a 15% increase on the 1.0p per share paid in respect of 1999.

Acquisitions
The Group made a number of acquisitions during the year. Details on all of the Group's 2000 acquisitions are set out in note 20 to the Accounts. The total investment in these acquisitions was £52.6 million of which £9.0 million was paid in January 2001. Maximum deferred consideration payable in cash is £67.6 million, subject to challenging growth objectives. As a result of the transactions undertaken during

Group results — 5 year comparison
Turnover>£m

2000	£5,713
1999	£4,792
1998	£4,130
1997	£3,653
1996	£3,453

Annual compound growth of > 13.4%

Group results — 5 year comparison
Underlying operating profit>£m

2000	£84.5
1999	£66.6
1998	£50.6
1997	£44.4
1996	£41.9

Annual compound growth of > 19.1%

2000, total earn-out liabilities related to acquisitions have increased to £95.4 million (1999: £42.4 million), after having paid £18.9 million in deferred consideration on the Group's pre-2000 acquisitions. Approximately £37.3 million may be paid as deferred consideration in 2001.

Since the financial year end, the Group has announced four further acquisitions which are detailed in note 24 of the Accounts. The Group will continue to pursue acquisition targets that fit in with its stated strategy to expand its geographical network or support its product and service development. The Group is currently assessing a number of further opportunities, with particular focus on expanding our research and media operations in Europe and Latin America. 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 businesses and all aspects of their operations with further work undertaken to reflect areas of particular risk or concern.

Going concern
The directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Accounts.

Conclusion
The Group's results continue to improve. The strong performance in adding new business in both media and market research, together with the growth in added-value services are the Group's principal financial drivers. The strong financial performance in 2000 ensures that the Group is well placed to take advantage of future opportunities as they arise.

Operating review >

"Carat's new business performance in Europe was our most successful ever... Total European new business wins were over $1.5 billion."

Eric Drancourt >

Chief Executive Officer, Carat International (left)

Jerry Buhlmann >

Chief Operating Officer, Carat International (right)

Media overview

Carat began the year as Europe's largest media services company. In the course of 12 months, we confirmed and strengthened that position. In fact, in new business terms, Carat's performance in Europe was our most successful ever. Of the ten major pan-European media mandates that came up during the financial year, we were invited to pitch for seven: Bertelsmann Group, BMW, LVMH, Carrefour, Renault, Vodafone and Sonera. Carat won them all, bringing our total of European net new business wins to over $1.5 billion.

Such success reflects the quality of the Carat proposition across the full range of media, including television, print, outdoor, radio, cinema, direct mail and electronic. Combine that reach with the depth of our expertise — in strategic planning, negotiating, buying, evaluation, research and consultancy — and the result is Carat's unique 360° service.

Existing and potential clients alike are obviously recognising the value of what Carat can offer. This recognition on the part of important international clients is a gratifying endorsement of our European investment strategy, which is to concentrate on developing the international management of clients' accounts. By the end of 2000, most of our international clients in Europe had signed-up for our international services. We anticipate that this will provide an enhanced service for clients who are increasingly consolidating and unbundling their activities across Europe.

To accomplish this, Carat's recent international management investments have included the development of client management and extranet tools and an increase in international communication planning capability. We are also significantly increasing our commitment to consumer insight and advertising effectiveness services at a multi-market level.

Operating review >

>2,054$m

A record year for
global new business.

Eryck Rebbouh >

int Chairman and Chief Executive Officer, Carat France,
int Chief Executive Officer, Carat Southern Europe (left)

Bruno Kemoun >

int Chairman and Chief Executive Officer, Carat France,
int Chief Executive Officer, Carat Southern Europe (right)

Alexander Ruzicka >

Chief Executive Officer, Carat Central Europe (left)

Ray Kelly >

Chairman and Chief Executive, Carat Group UK,
Chief Executive, Carat Northern Europe (right)

over

>50%

of Carat's billings are now from international clients.

"Clearly, as Europe's market leader in media services, we are well positioned to make the most of consolidation opportunities as they arise."

As we move into 2001, international clients represent – for the first time – more than half of Carat's billings. To put this in perspective: Carat is increasing market share in the fastest growing segment of the European advertising market. Clearly, as Europe's market leader in media services, we are well positioned to make the most of international consolidation opportunities as they arise.

Europe
Developments in the UK, France, Spain, Italy, Germany and Scandinavia are particularly worth noting. In each case, we are in the top rank of media services companies in these key European markets.

In Britain, our combined operations propelled us to the number one position in Europe's second largest advertising market where we also won the title of Campaign's "Media Agency of the Year". We further consolidated our position by successfully assimilating our acquisition of Feather Brooksbank, the UK's largest regional media agency. New services – particularly data planning – grew strongly. Among key client wins were PSA, Tiny Computers, Abbey National's online Cahoot subsidiary, easyJet, Bank of Scotland and Grampian Foods. Sponsorship successes included linking NTL with Who Wants to Be a Millionaire and Cadbury with Coronation Street.

In a market where Carat is already far and away the leader, Carat France has again grown in market share. Billings increased by more than 15%, helped by such major client wins as Kellogg's and Covea (in addition to the Renault, LVMH and Carrefour new business already noted).

New services represent more than a quarter of revenues, with particularly strong initiatives in events, sport, local media, internet and data management. Overall our market share is at a record 23.2% on all media and 35% on television.

Carat's performance in Spain is also encouraging. Turnover increased almost 17%, versus an estimated growth in total adspend of 10-11%. The resulting increase in market share has put Carat near the top of Spain's media agency ranking. New clients in 2000 included Quiero TV, Puig and Traffic Authority. Consolidation of Telefonica's mobile and fixed line telephone accounts was another positive development.

2000 was a landmark for Carat's Italian business. Billings were up 36%, a success attributable at least in part to the demand for 360° service in one of Europe's most dynamic advertising markets. New business included Italian Post and Heineken. The Company is now Italy's acknowledged top media services company, with a 14% market share. Not surprisingly, industry professionals voted Carat as Italy's "Media Agency of the Year".

Germany occupies a special place in Carat's European operations. Operating in Europe's largest adspend market, our German company had a very strong year and has seen new client wins increase 500% over the past three years. Most recent successes include: Lycos, Postbank, BOL, BMG Medianet and Hagebau. The Carat Central European headquarters is based in Wiesbaden and 2000 saw all these developing markets in profit and showing solid growth. Plans are in place for further Central European growth.

Carat's business in Scandinavia has performed strongly after a challenging period in 1998 and 1999. Finland moved from number two to number one position in terms of size and we continued to invest in people and infrastructure. In Finland, we acquired Pyramid, a local media agency, and merged it with our Carat operations. In Sweden, we strengthened our management team and this has already begun to make an impact on their business performance.

Operating review >

David Liu >
Managing Director, Asia (left)

David Verklin >
Chief Executive Officer, Carat North America (right)

"To be top in Europe is one thing. To make a significant impression in North America, which is still the biggest advertising market in the world, is another."

The Americas

To be top in Europe is one thing. To make a significant impression in North America — which is still the biggest advertising market in the world, accounting for almost half of global spend — is quite another. In the year 2000, Carat managed to do both. Success in North America is based on channelling our energies into three strategic activities: building scale and presence across the continent; expanding the scope of product service offerings to capitalise on the rapidly evolving media landscape and delivering quality work for our clients. Carat has enjoyed notable successes in all three areas. This is attributable, at least in part, to our experience of the European market, where we developed a formidable reputation for the sophisticated media tools that are now so much in demand in the US.

European links enabled us to expand to the US our existing relationships with Bertelsmann and SCA. Our work for these clients, as well as our reputation in providing strategic research and consumer insight for Fortune 500 companies such as CBS and Alberto Culver, led to a further expansion of our American client base. New clients in 2000 included leaders in their fields: Intel, Cisco, Hewlett-Packard, Nokia, Texas Instruments, Radio Shack, Echostar and Compaq.

Outside the United States, we established a Canadian media buying consortium, COMMA, that has made us that country's third-largest media buying entity. Moving south of the border, in 2000 we opened offices in both Mexico and Chile. In 2001, Latin America will remain an important area in which to continue to build our network.

Expansion in Carat product services encompasses a number of initiatives to better serve our American customers. These include interactive marketing strategies through Carat Interactive — named "Interactive Agency of the Year" by Advertising Age — and communications focusing on America's increasingly diverse consumer base through Carat Multicultural. Carat's involvement in the growing outdoor/out-of-home media sector was enlarged through the acquisition of Outdoor Vision by Carat Outdoor. Carat Face-to-Face has become the largest trade show consultancy in the US for high technology clients and is poised to expand its services to the European market. Carat Direct, a leader in direct response marketing, has launched an innovative new service to maximise client return on investment.

In the final analysis, however, it is on the quality — not the scope — of our work that we will be judged. That judgement is based on brand performance. Increasingly, the proprietary knowledge, insight and tools that we put at our clients' disposal have delivered superior results for them. For us, because such success attracts new clients, this provides the critical mass needed to attract the very largest accounts. Carat's growing status in the US was recognised in February 2001 by the award of the consolidated Pfizer and Warner Lambert account.

Asia-Pacific

Despite Tiger troubles at the end of the last millennium, Carat enjoyed a highly successful 2000 in terms of both new business and growing business from existing clients. We achieved this purely on Carat's recognised ability to delivery clear media communications value. For many new clients, the Carat advantage was so pronounced that they have been willing to unbundle full service advertising relationships to move their media business to us.

2000 was a record year with billings growth exceeding 480%. Major new clients included addidas, Alberto Culver, Asiana Airlines, Bank of Singapore, Carlsberg, Cable & Wireless, Castrol, Diageo, FJ Benjamin, Ferrero, Fujitsu, Fosters, Gucci, Guess, Henkel, iAsiaworks, Manchester United Retail, Nokia Networks, Philips B2B, Pizzahut and Cadbury.

Winning new business locally is, of course, important. But in Asia-Pacific, Carat has managed to develop many of its new relationships into full regional assignments or appointments in other markets. This is testament to Carat's delivery on current business and to the cohesiveness and consistency of our high standards throughout an expanding Asia-Pacific network. New operations in China, Japan, Taiwan, Singapore and New Zealand significantly increased Carat's regional role, which now encompasses 11 countries and 24 cities.

Whether serving a client locally or regionally, Carat's commitment to added value remains the same, with emphasis on the strategic worth of media planning to improve the accountability of funds and to deliver a better return on investment for every advertising dollar spent.

Carat's commitment to service on this scale in Asia-Pacific should go a long way in building this region into a significant part of Carat's worldwide business. By meeting — and exceeding — rising client expectations, Carat is moulding the media services market to reflect our strengths and benefit our clients.

Operating review >

Tom Payne >

CEO, Aegis Research, Americas (left)

Adrian Chedore >

CEO, Aegis Research, Rest of the World (right)

"In March 2001 we integrated all of our market research activities into one global business — Aegis Research."

>21%

increase in annualised market research revenue to $238.1 million.

Market Research overview

Communication strategy is about reaching consumers and affecting their behaviour. This requires an understanding of consumers' attitudes. We do this through the companies within Aegis Research.

Aegis Research combines the operations of Market Facts in the US with those of Asia Market Intelligence in Asia and the recently acquired Pegram Walters in the UK.

While the market research businesses will continue to operate under their local brand names, the creation of Aegis Research, in March 2001, allows the Group to market its research capabilities on a global basis through a unified network. It also provides our international clients with cohesive global support, industry expertise and a comprehensive suite of leading research products.

Americas

Though the market research industry in the US experienced a challenging year in 2000, Market Facts performed strongly, showing double-digit revenue growth. Difficult times for our competitors provided an ideal growth climate for us. Several initiatives that began in 2000 will have positive effects in 2001 and the years ahead.

Recruitment of our ePanel — composed of over 275,000 internet-connected households — allows Market Facts to offer clients a full array of web-based research services. It both supplements and complements our existing links with Harris Interactive and its six million households. These resources give Market Facts unrivalled scope and flexibility in offering clients the speed and effectiveness of the internet as a research tool.

Market Facts' acquisition of Detroit-based Motoresearch at the beginning of 2000 gave us the additional resources and added expertise necessary to become one of America's largest automotive research consultants. The new Market Facts Motoresearch, with the critical mass to attract and execute the largest automotive assignments, is now perfectly positioned to serve the industry on a global basis.

Offering a global capability is also behind the recent reorganisation of Market Facts' healthcare and pharmaceutical business. By centralising expertise and resources, we created a unified structure, leveraging our ability to serve a growing market in a more focused and systematic manner.

In Canada we extended our coverage through the acquisition of MarkTrend, a company based in Vancouver, in January 2001. This complements our existing full service offices in Toronto and Montreal. In Latin America we furthered our service capabilities with the establishment of data collection facilities in Argentina and Brazil.

In March 2001, we added to our capability through the acquisition of the US based Copernicus. Copernicus provides consultancy in the areas of marketing strategy development, simulation and marketing performance measurement using proprietary methodologies. Clients include, Air Products Corporation, AT&T, ExxonMobil, IBM, Pepsico and Worldspan.

Asia-Pacific

By far our biggest acquisition in 2000 was Asia Market Intelligence (AMI). A regional leader in custom research, AMI is reaping the benefits of recovery from the 1997/98 Asian recession. Last year was its best ever, with sales, revenue and profit all at new highs.

Revenue grew very strongly fuelled by making the most of our ability to handle larger-scale research programmes, including BrandVision tracking and market segmentation studies, across national boundaries. Such pan-regional work now accounts for almost half of AMI's revenue.

Joining the Aegis group of companies in March 2000 prompted AMI to undertake a management restructuring programme to streamline communications. Whereas before the acquisition, 12 countries, eight functional areas, five industry areas and nine divisions reported directly to the CEO, they are now the responsibility of a Group Executive Committee of seven. One year on, the benefits are already apparent: better co-ordination of regional work; improved synergies across specialist units; greater empowerment at both local and regional levels and a greater ability to contribute regional expertise to the global efforts of Aegis Research. Geographically, the areas of greatest excitement for AMI were China (along with Hong Kong and Taiwan accounting for 70% of AMI's revenue and profit), Singapore and Malaysia. Despite political instability and weak currencies, our operations in the Philippines, Thailand and Indonesia remained in profit.

Europe

Having established major market research presence in the US and Asia, Aegis also took the opportunity early in 2001 to lay the foundations for European expansion. This culminated in the acquisition of the UK-based market research group, Pegram Walters. With an array of proprietary research products, including multi-country tracking, market segmentation surveys, exploratory studies and creative workshops, Pegram Walters has valuable links with a number of international blue chip clients. Pegram Walters' products, expertise and client base provide an excellent strategic fit to existing Aegis Research companies. This European acquisition marks another important step towards the Aegis goal of building a global market research network.

Board of directors>

1 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 also a non-executive director of AEA Technology plc, Youngs Brewery plc and BG plc and Chairman of Le Gavroche Limited. Age 58. (Nomination Committee member).

2 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 51.

3 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 47.

4 Pat Doble
Group Marketing Director
Pat Doble was appointed to the Board on 21 May 1999. She has been Group Marketing Director since 1995. Pat has previously held senior marketing positions at Guinness, Lex and Mars. She is also a non-executive director at Nationwide Building Society. Age 57.

5/6 Eryck Rebbouh and Bruno Kemoun
Joint Chairmen and Chief Executive Officers, Carat France, Joint Chief Executive Officers, Carat Southern Europe
Bruno Kemoun and Eryck Rebbouh were appointed to the Board on 16 September 1992. They founded 2010 Medias in 1985 in association with Carat France and they sold it in 1991 to become shareholders in Aegis. They were appointed Joint Chairmen of Carat France in 1995 and Joint Chief Executive Officers of Carat Southern Europe in September 1999. Bruno is aged 43 and Eryck aged 44.

7 Ray Kelly
Chairman and Chief Executive, Carat Group UK, Chief Executive, Carat Northern Europe
Ray Kelly was appointed to the Board on 16 September 1992. After 13 years working in full service advertising agencies he joined TMD (now Carat UK Ltd) in 1979, becoming Managing Director in 1989. In 1990 he was appointed Chief Executive of Carat UK Ltd. Ray was appointed Chief Executive of Carat Northern Europe in September 1999. Age 50.

8 David Verklin
Chief Executive Officer, Carat North America
David Verklin was appointed to the Board on 2 September 1999. He has been Chief Executive Officer of Carat North America since April 1998. Prior to joining the Group he was Managing Director of Hal Riney & Partners having started his career in 1977 at Young & Rubicam. Age 44.

9 John Amerman, Non-executive
John Amerman was appointed to the Board on 12 December 1997. He is the former Chairman and Chief Executive of Mattel in the USA. Prior to joining Mattel he was President of a division of Warner Lambert. Age 69. (Audit, Remuneration and Nomination Committee member).

10 Sir David Hannay, Non-executive
Sir David Hannay was appointed to the Board on 1 January 2000. Until his retirement in 1995, he was a member of the Diplomatic Service, serving in a number of countries before finally holding the posts of Britain's Ambassador to the European Union (1985 to 1990) and Britain's Ambassador to the United Nations (1990 to 1995). Sir David is also a non-executive director of Chime Communications plc. Age 65. (Audit, Remuneration and Nomination Committee member).

11 Bernard Fournier, Non-executive
Bernard Fournier was appointed to the Board on 1 June 2000. He spent much of his career at Xerox and Rank Xerox holding senior management positions in France, the US and the UK. Between 1989 and 1998, Bernard was Chief Executive of Rank Xerox and he continues to hold the position of non-executive Chairman of Xerox Ltd. He currently holds a non-executive directorship with ADI, the French incubator company for technology start-up ventures. Age 62. (Audit, Remuneration and Nomination Committee member).

12 Robert Lerwill, Non-executive
Robert Lerwill was appointed to the Board on 1 June 2000. Robert is both Executive Director, Finance of Cable & Wireless plc and Chief Executive Officer of Regional Businesses at Cable & Wireless plc. Before joining Cable & Wireless he was Group Finance Director of WPP Group plc between 1986 and 1996. In both positions he has been instrumental in developing major international business. Age 49. (Audit and Nomination Committee member).

1 Lord Sharman
Non-executive Chairman
Aegis Group plc

2 Doug Flynn
Chief Executive Officer
Aegis Group plc

3 Jeremy Hicks
Chief Financial Officer
Aegis Group plc

4 Pat Doble
Group Marketing Director
Aegis Group plc

5/6 Eryck Rebbouh and Bruno Kemoun
Joint Chairmen and Chief Executive Officers, Carat France,
Joint Chief Executive Officers, Carat Southern Europe

7 Ray Kelly Chairman and Chief Executive,
Carat Group UK, Chief Executive,
Carat Northern Europe

8 David Verklin
Chief Executive Officer
Carat North America

9 John Amerman
Non-executive
Aegis Group plc

10 Sir David Hannay
Non-executive
Aegis Group plc

11 Bernard Fournier
Non-executive
Aegis Group plc

12 Robert Lerwill
Non-executive
Aegis Group plc

Directors and advisors >

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

Members of Carat Executive Committee
Douglas Flynn
Pat Doble
Jeremy Hicks
Ray Kelly
Bruno Kemoun
Eryck Rebbouh
David Verklin
Eric Drancourt
David Liu
Alexander Ruzicka
Eléonore Sauerwein
William Skerrett

Members of Aegis Research Executive Committee
Tom Payne
Adrian Chedore
Peter Chopra
Pat Doble
Mike Freehill
Larry Labash
John Siena
Steve Weber

Company Secretary
John Ross

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Solicitors
Slaughter and May
35 Basinghall Street
London EC2V 5DB

Stockbrokers
Hoare Govett Corporate Finance Limited
250 Bishopsgate
London EC2M 4AA

Report of the directors >

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2000.

Results and dividends

The profit and loss account is set out on page 33 and shows a retained profit for the financial year of £35.0 million (1999: £36.2 million) all of which is transferred to reserves.

An interim dividend of 0.46p per share was paid on 6 October 2000 to ordinary shareholders. The directors recommend a final dividend for the year of 0.69p per share which, if approved at the Annual General Meeting, will be payable on 29 June 2001 to ordinary shareholders registered at 8 June 2001. The total dividend for the year will then amount to 1.15p per share (1999: 1.0p).

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 Chairman's and Chief Executive's statements on pages 2 to 5 and in the Operating Review on pages 10 to 17.

Research and development

The Group is involved in media research and development in order to offer clients the most advanced media communications services. During the year, the Group spent £22.4 million (1999: £19.2 million) on research and development.

Donations

The Company made charitable donations of £17,890 (1999: £9,620) during the year in the United Kingdom. There were no political donations during the year in the United Kingdom (1999: £nil).

Employment policies

The Board is committed to maintaining a working environment in which staff are individually valued and recognised.

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

It is the policy of the Group that there should be no unfair discrimination in considering applications for employment, including those from disabled persons. Should any employee become disabled, every practical effort is made to provide continued employment.

Health & safety and environmental policies

Although our operations are not in sectors most commonly associated with pollution, the Group is committed to conducting its business in a manner which shows responsibility towards the environment and to ensuring high standards of health and safety for its employees, visitors and the general public. It complies with all statutory and mandatory requirements.

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 2000, the Group had 64 days purchases outstanding (1999: 66 days). The creditor day analysis is not applicable to the holding company.

Report of the directors (continued) >

Directors
The names of the directors at the date of this report and biographical details are given on page 18.

Jeremy Hicks was appointed, and Colin Day resigned, on 10 April 2000. Bernard Fournier and Robert Lerwill were each appointed on 1 June 2000.

Re-election of directors
In accordance with the Articles of Association, Douglas Flynn, Bruno Kemoun and Eryck Rebbouh retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. Bernard Fournier and Robert Lerwill, having been appointed since the previous Annual General Meeting, offer themselves for re-election.

Douglas Flynn has a service contract with the Company whereby, in the event that the Company terminates the agreement other than by reason of misconduct, a payment equivalent to 24 months' remuneration must be made.

Bruno Kemoun and Eryck Rebbouh have service contracts with a subsidiary company terminable upon six months' notice. However, in the event that the subsidiary company terminates the service contract other than by reason of misconduct, a payment equivalent to 18 months' remuneration must be made.

Substantial shareholdings
At 29 March 2001 the Company had been notified of the following interests of 3% or more in its ordinary shares:

	Number of shares	%
Deutsche Bank AG & subsidiaries	141,861,195	13.1
CGNU plc	110,082,745	10.1
FMR Corp (Fidelity Investments)	43,564,433	4.0
Royal & Sun Alliance Investments	32,469,712	3.0

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

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

- Resolution 9 is to grant to the directors limited authority to allot securities in the Company up to an aggregate amount of £16,198,137. If passed, the resolution will enable the directors to allot a maximum of 323,962,740 ordinary shares which represent 29.8% of the issued ordinary share capital as at 29 March 2001. Save for shares to be issued to satisfy existing legal obligations, the directors have no present intention of exercising the authority which would be conferred by this resolution.

- Resolution 10 is to confer on the directors a restricted power to allot shares for cash without complying with statutory pre-emption rights. If passed, the disapplication will cover issues by way of rights and other issues up to an aggregate nominal value of £2,709,806 (which such amount represents 54,196,120 ordinary shares amounting to 5% of the issued ordinary share capital of the Company as at 29 March 2001). 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 11 is to confer authority on the Company to purchase its own shares. No purchases have been made to the date of this report and there are no outstanding contracts to purchase shares as of this date. If granted the directors will exercise the authority only if in their judgement it is in the best interests of shareholders generally and where exercise should result in an improvement in earnings per share for the remaining shareholders. If passed, the resolution will enable the Company to purchase up to 54,261,251 ordinary shares (5% of the issued ordinary share capital as at 29 March 2001). The maximum price at which any share may be purchased is the price equal to 5% above the middle market quotations of such share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of such purchase, exclusive of expenses, and the minimum price at which any share may be purchased is the par value of such share. The number of options for ordinary shares which are outstanding at 29 March 2001, the latest practical date prior to publication of the Annual Report and Accounts, was 90,224,899 (8.3% of the present issued ordinary share capital). If the proposed authority for the Company to purchase its own shares is used in full, the total number of such options will represent 8.75% of the issued ordinary share capital.

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

- Resolution 12 is to create a new Leveraged Investment Plan, details of which are given in the accompanying Chairman's letter dated 30 March 2001.

- Resolution 13 is to make amendments to the Company's Management Incentive Scheme and again details are given in the accompanying Chairman's letter dated 30 March 2001.

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

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

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of that financial year and of the profit or loss of the Group for that financial year. The directors consider that in preparing the financial statements on pages 33 to 60, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed, subject to any explanations disclosed in the notes to the financial statements.

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

Corporate governance >

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

The Board considers that the Company complied with all the recommendations of the Code during the year, other than in not appointing two non-executive directors for a specified term (Code provision A.6.1) and the notice periods for certain executive directors as explained on page 27 (Code provision B.1.7).

Lord Sharman, who was appointed to the Board in September 1999 and is currently non-executive Chairman, and John Amerman, who was appointed in 1997, have no specific term of appointment.

The Board currently has 12 directors, comprising seven executive directors and five non-executive directors. All of the current non-executive directors are independent of the management of the Group and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. John Amerman has been nominated as the senior independent director to whom shareholders may convey any concerns in the event that they do not wish to involve either the Chairman or the Chief Executive Officer.

The Board has formalised the Company's induction programme 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 regularly throughout the year and retains full and effective control over the Company and monitors the executive management. The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. Board meetings follow a formal agenda and the Board has a schedule of matters specifically reserved to it for decision. All directors have access to the advice and services of the Company Secretary and, if required, external professional advice at the Company's expense.

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

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

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

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

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

The Committee is also empowered to grant share options under the existing Share Option Schemes.

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

Internal control and risk management
The Board has overall responsibility for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness whilst the role of management is to implement Board policies on risk and control. The system of internal controls is designed to manage rather than eliminate the risk 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 significant risk issues are referred to the Board for consideration. Significant risk issues may also be referred to the Board from the Executive Committees which meet every six to eight weeks.

Corporate governance (continued) >

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

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

The key procedures which the directors have established are as follows:

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

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

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

d The Board and the Executive Committees receive, on a monthly basis, financial results from each business and the Group reports bi-annually to shareholders based on a standardised reporting process.

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

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

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

Following publication of the Turnbull Guidance and its incorporation into the Listing Rules of the UK Listing Authority, the Board confirms that it has reviewed the effectiveness of the system of internal controls and that there are ongoing processes for identifying, evaluating and managing the significant risks faced by the Group. These processes have been in place since May 2000 and accord with provision D.2.1 of the Combined Code.

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

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

Remuneration report >

The Board has an established Remuneration Committee, the members of which are disclosed on page 24.

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

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

The Committee has applied these principles to develop remuneration packages which:

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

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

Remuneration package of executive directors
The main components are:

- *Base salary and benefits*
  Base salary and benefits are determined on an annual basis by the Committee after a review taking into account the individual's performance, market trends and the performance of the Group and local company as a whole. For guidance, the Committee has regard to available research and published remuneration information on companies of a similar size and within the same industry and markets. Benefits typically include a car and life, disability and health insurance.
- *Annual bonus*
  Executive directors are paid bonuses under the Group Bonus Scheme upon achievement of individual objectives and financial targets linked to Group and local company performance. This may result in the payment of cash bonuses of up to 50% of base salary.
- *Share-based incentives*
  Grants of options are made by the Committee under the Executive Share Option Schemes which were introduced in 1995 and the Aegis Group Management Incentive Scheme which was adopted in May 1998. Options are granted on an annual phased basis.

Remuneration report (continued) >

Exercise of options is subject to the achievement of specific, demanding performance conditions. The conditions in respect of the 1995 Executive Share Option Schemes are:

- That Earnings Per Share growth exceeds a composite retail price index plus 5% per annum. The composite index is determined by weighting indices calculated for selective countries to approximate the source of the Group's turnover. The country indices are calculated from official retail inflation data, adjusted for exchange rate fluctuations against sterling; and

- That total shareholder return in capital growth plus dividends must be at least equivalent to that of companies in the top third of the "FTSE 100".

The Committee intends to move towards determining the size of options awards by reference to assessments of individual prior year performance in order to target allocations more effectively.

The conditions in respect of the Aegis Group Management Incentive Scheme are:

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

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

Proposals are to be put to the Annual General Meeting to introduce a new Leveraged Investment Plan and to make amendments to the existing Management Incentive Scheme. Details can be found in the accompanying Chairman's letter dated 30 March 2001.

Share ownership guidelines
The Committee is keen to encourage increased alignment of the interests of executives with other shareholders and is introducing guidelines on share ownership and other initiatives to encourage long-term investment in the Company.

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

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

Non-executive directors
Save for Lord Sharman and John Amerman, non-executive directors are appointed for a term of three years. Renewal of appointments is not automatic. Fees for non-executive directors are determined by the Board and are disclosed on page 28. Non-executive directors do not receive benefits or pension contributions and do not participate in any Group incentive scheme.

Remuneration report (continued) >

The tables which follow provide details of all directors' remuneration, shareholdings and share options.

Directors' remuneration

		Basic salary £'000	Fees £'000	Benefits £'000	Annual bonus £'000	Other £'000	Total 2000 £'000	Total 1999 £'000	Pensions 2000 £'000	Pensions 1999 £'000
John Amerman		—	25	—	—	—	25	25	—	—
Colin Day (resigned 10.4.00)	a	82	—	4	—	422	508	410	18	56
Pat Doble		230	—	16	83	—	329	201	43	20
Douglas Flynn	b	505	—	20	200	—	725	563	309	40
Bernard Fournier (appointed 1.6.00)		—	15	—	—	—	15	—	—	—
Sir David Hannay		—	25	—	—	—	25	—	—	—
Jeremy Hicks (appointed 10.4.00)		183	—	13	73	—	269	—	36	—
Raymond Kelly		297	—	23	113	—	433	395	33	32
Bruno Kemoun		269	—	3	113	5	390	403	—	—
Robert Lerwill (appointed 1.6.00)		—	15	—	—	—	15	—	—	—
Eryck Rebbouh		269	—	3	113	5	390	403	—	—
Lord Sharman		—	100	—	—	—	100	33	—	—
David Verklin		375	—	9	—	—	384	169	3	2
Totals		2,210	180	91	695	432	3,608	2,602	442	150

Notes:

a The amount shown in the column "Other" is compensation for loss of office, paid during the year, which included pension contributions of £32,858.

b Douglas Flynn's total pension contributions of £309,000 are made up of £250,000 for the year plus £59,206 in respect of additional contributions for the previous year. Contributions, in excess of those payable into the Aegis Group approved pension scheme, are made by way of additional salary payments for him to make his own top-up unapproved pension arrangements.

At 31 December 2000 there were five directors (1999: five) who had benefits accruing under money purchase schemes. Figures shown for pensions are the contributions paid by the Company to both approved and unapproved retirement benefits schemes.

None of the directors was materially or beneficially interested in any contract of significance with the Company or any of its subsidiary undertakings during or at the end of the financial year ended 31 December 2000.

Remuneration report (continued) >

Directors' interests

The directors of the Company in office at the end of the year, and their interests in the share capital of the Company as at 29 March 2001, all of which are beneficial to the directors and their immediate families, which have been notified to the Company pursuant to Sections 324 or 328 of the Companies Act 1985 (the "Act") or are required to be entered into the Register required to be kept under Section 325 of the Act, and of persons connected (within the meaning of Section 346 of the Act) with the directors, were as follows:

	Ordinary 5p shares		
	29 March 2001	31 December 2000	1 January 2000 or date of appointment if later
John Amerman	10,429	10,429	10,429
Pat Doble	3,205	3,205	3,205
Douglas Flynn	25,000	—	—
Bernard Fournier (appointed 1.6.00)	10,000	10,000	—
Sir David Hannay	10,000	10,000	—
Jeremy Hicks	—	—	—
Raymond Kelly	287,188	287,188	287,188
Bruno Kemoun	2,786,432	2,786,432	3,249,756
Robert Lerwill (appointed 1.6.00)	20,000	20,000	—
Eryck Rebbouh	2,786,432	2,786,432	3,249,756
Lord Sharman	25,000	25,000	10,000
David Verklin	—	—	—

The middle market price of the ordinary 5p shares as derived from the Stock Exchange Daily Official List on 31 December 2000 was 138p and the range during the year was 126p to 255.75p. The share price on 29 March 2001, the latest practicable date prior to publication of the Annual Report and Accounts, was 135p.

Remuneration report (continued) >

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

Director		Options held at start of year or at date of appointment	Granted during year	Exercised during year	Options held at end of year	Exercise price	Date from which exercisable	Expiry date
Douglas Flynn	*	—	2,500,000	—	2,500,000	219.5p	2003	2006
	*	5,000,000	—	—	5,000,000	138.25p	2002	2005
		21,428	—	—	21,428	140p	22.10.02	21.10.09
		621,429	—	—	621,429	140p	22.10.02	21.10.09
		—	233,100	—	233,100	214.5p	9.3.03	8.3.10
Colin Day	a	300,075	—	300,075	—	26.5p	21.6.98	20.6.05
(resigned 10.4.00)	b	365,385	—	365,385	—	52p	2.7.99	1.7.06
	c	321,569	—	321,569	—	63.75p	8.7.00	7.7.07
	**	2,500,000	—	—	2,500,000	87p	15.5.01	15.6.01
	d	113,924	—	113,924	—	98.75p	2.6.01	1.6.08
	e	100,000	—	—	—	121.5p	17.3.02	16.3.09
	**	2,000,000	—	—	—	138.25p	2002	2005
	f	—	64,569	—	—	214.5p	9.3.03	8.3.10
Pat Doble		1,132,075	—	—	1,132,075	26.5p	21.6.98	20.6.05
		323,077	—	—	323,077	52p	2.7.99	1.7.06
		274,510	—	—	274,510	63.75p	8.7.00	7.7.07
	*	1,000,000	—	—	1,000,000	87p	2001	2004
		93,164	—	—	93,164	98.75p	2.6.01	1.6.08
		90,534	—	—	90,534	121.5p	17.3.02	16.3.09
	*	250,000	—	—	250,000	138.25p	2002	2005
		—	53,613	—	53,613	214.5p	9.3.03	8.3.10
Jeremy Hicks	*	—	2,000,000	—	2,000,000	170p	2003	2006
		—	73,529	—	73,529	170p	8.5.03	7.5.10
Raymond Kelly		394,231	—	—	394,231	52p	2.7.99	1.7.06
		349,804	—	—	349,804	63.75p	8.7.00	7.7.07
	*	2,000,000	—	—	2,000,000	87p	2001	2004
		127,594	—	—	127,594	98.75p	2.6.01	1.6.08
		110,905	—	—	110,905	121.5p	17.3.02	16.3.09
	*	1,500,000	—	—	1,500,000	138.25p	2002	2005
		—	69,231	—	69,231	214.5p	9.3.03	8.3.10
Bruno Kemoun		510,997	—	—	510,997	52p	2.7.99	1.7.06
		364,050	—	—	364,050	63.75p	8.7.00	7.7.07
	*	2,000,000	—	—	2,000,000	87p	2001	2004
		128,697	—	—	128,697	98.75p	2.6.01	1.6.08
		112,071	—	—	112,071	121.5p	17.3.02	16.3.09
	*	1,500,000	—	—	1,500,000	138.25p	2002	2005
		—	62,361	—	62,361	214.5p	9.3.03	8.3.10

Remuneration report (continued) >

Director		Options held at start of year or at date of appointment	Granted during year	Exercised during year	Options held at end of year	Exercise price	Date from which exercisable	Expiry date
Eryck Rebbouh		510,997	—	—	510,997	52p	2.7.99	1.7.06
		364,050	—	—	364,050	63.75p	8.7.00	7.7.07
	*	2,000,000	—	—	2,000,000	87p	2001	2004
		128,697	—	—	128,697	98.75p	2.6.01	1.6.08
		112,071	—	—	112,071	121.5p	17.3.02	16.3.09
	*	1,500,000	—	—	1,500,000	138.25p	2002	2005
		—	62,361	—	62,361	214.5p	9.3.03	8.3.10
David Verklin		641,398	—	—	641,398	80.5p	9.4.01	8.4.08
	*	2,000,000	—	—	2,000,000	87p	2001	2004
		271,088	—	—	271,088	121.5p	17.3.02	16.3.09
	*	1,500,000	—	—	1,500,000	138.25p	2002	2005
		—	82,513	—	82,513	214.5p	9.3.03	8.3.10
Totals		32,633,820	5,201,277	1,100,953	34,569,575			

Notes:

* Options granted under the Aegis Group Management Incentive Scheme. Options under the scheme are normally exercisable within a two month period following the announcement of results after the end of the performance period. Proposals are to be put to the Annual General Meeting to extend this exercise period. Details are given in the accompanying Chairman's letter dated 30 March 2001.

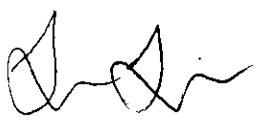
** Colin Day has been allowed, subject to the rules of the Aegis Group Management Incentive Scheme, to exercise the 2,500,000 options granted to him with an exercise price of 87p within the period 15.5.01 to 15.6.01. The 2,000,000 options granted to him with an exercise price of 138.25p lapsed on his leaving the Company.

a Options exercised and sold realising a gross gain of £476,159.
b Options exercised and sold realising a gross gain of £481,988.
c Options exercised and sold realising a gross gain of £367,393.
d Options exercised and sold realising a gross gain of £90,285.
e Options lapsed.
f Options lapsed.

Other than as noted above, no directors or members of their immediate families have exercised or sold options during the period ended 29 March 2001. In addition, other than as noted above, no options have expired or lapsed during the year in respect of the directors.

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

By order of the Board



John Ross
Company Secretary
43-45 Portman Square
London W1H 6LY
30 March 2001

Auditor's report to the members of Aegis Group plc >

We have audited the financial statements on pages 33 to 60.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report. As described on page 23 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 24 and 25 reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

Chartered Accountants and Registered Auditor
London
30 March 2001

Consolidated profit and loss account >

For the year ended 31 December 2000

	Notes	2000 £m	2000 £m	1999 £m
Turnover:				
— continuing operations			5,540.2	4,791.8
— acquisitions			172.3	—
Turnover	2		5,712.5	4,791.8
Cost of sales — payments to the media		(5,239.5)	(5,239.5)	(4,468.3)
Revenue			473.0	323.5
Cost of sales — other direct costs		(90.2)	(90.2)	(41.8)
Cost of sales — total		(5,329.7)		(4,510.1)
Gross profit			382.8	281.7
Operating expenses before amortisation of goodwill		(298.3)		(215.3)
Amortisation of goodwill	1,8	(6.7)		(1.9)
Operating expenses			(305.0)	(217.2)
Group operating profit:				
— continuing operations		71.8		64.5
— acquisitions		6.0		—
			77.8	64.5
Group share of operating (loss)/profit in associated undertakings and joint ventures	12		(0.8)	0.2
Profit on disposal of an associated undertaking	3		—	4.6
Interest and similar items:				
— interest receivable		7.5		5.1
— interest payable	4	(12.6)		(6.7)
— amortisation of refinancing costs	4	(0.2)		(0.4)
Net interest payable			(5.3)	(2.0)
Profit on ordinary activities before taxation	2,5,6		71.7	67.3
Tax on profit on ordinary activities	7		(23.1)	(18.7)
Profit on ordinary activities after taxation			48.6	48.6
Equity minority interests			(1.1)	(1.6)
Profit attributable to members of the parent company			47.5	47.0
Ordinary dividends	8		(12.5)	(10.8)
Retained profit for the year			35.0	36.2
Earnings per ordinary share — underlying				
— basic*			5.0p	4.3p
— diluted*			4.9p	4.2p
Earnings per ordinary share — FRS 14				
— basic			4.4p	4.6p
— diluted			4.3p	4.4p

*As detailed in note 9, underlying earnings exclude amortisation of goodwill and exceptional profit realised on the disposal of an associated undertaking in 1999 (see note 3) in order to eliminate the effect of these items.

Consolidated statement of total recognised gains and losses >

For the year ended 31 December 2000

	2000 £m	1999 £m
Profit for the year	**47.5**	47.0
Currency translation differences on foreign currency net investments	**(8.5)**	(5.7)
Total recognised profit for the year	**39.0**	41.3

Reconciliation of movements in equity shareholders' funds >

For the year ended 31 December 2000

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Profit for the year	**47.5**	47.0	**13.6**	24.0
Ordinary dividends	**(12.5)**	(10.8)	**(12.5)**	(10.8)
Retained profit for the year	**35.0**	36.2	**1.1**	13.2
Issue of shares by the Company (net of expenses)	**3.2**	128.4	**3.2**	128.4
Goodwill realised in the year	**—**	1.3	**—**	—
Currency translation differences on foreign currency net investments	**(8.5)**	(5.7)	**—**	—
Net increase in equity shareholders' funds	**29.7**	160.2	**4.3**	141.6
Equity shareholders' funds at 1 January	**97.1**	(63.1)	**414.4**	272.8
Equity shareholders' funds at 31 December	**126.8**	97.1	**418.7**	414.4

Note of historical cost profits and losses >

For the year ended 31 December 2000

There is no material difference between the reported results for 2000 and 1999 and the results for those years restated on an unmodified historical cost basis.

Balance sheets >

At 31 December 2000

Fixed assets	Notes	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Intangible fixed assets	1,10	**348.9**	242.2	**—**	—
Tangible fixed assets	11	**46.4**	30.4	**2.2**	0.3
Investment in joint ventures:					
Share of gross assets		**12.5**	—	**—**	—
Share of gross liabilities		**(0.9)**	—	**—**	—
	12	**11.6**	—	**—**	—
Investment in associates	12	**5.6**	0.4	**—**	—
Other fixed asset investments	12	**2.9**	2.7	**667.9**	554.1
		415.4	275.7	**670.1**	554.4
Current assets					
Debtors	13	**1,001.7**	831.9	**131.1**	19.9
Stock: work in progress		**7.8**	9.0	**—**	—
Investments	14	**2.1**	—	**—**	—
Cash at bank and in hand		**86.7**	91.5	**39.3**	1.0
		1,098.3	932.4	**170.4**	20.9
Creditors: amounts falling due within one year	15	**(1,205.6)**	(997.1)	**(281.8)**	(160.9)
Net current liabilities		**(107.3)**	(64.7)	**(111.4)**	(140.0)
Total assets less current liabilities		**308.1**	211.0	**558.7**	414.4
Creditors: amounts falling due after more than one year	16	**(178.7)**	(110.0)	**(140.0)**	—
Net assets		**129.4**	101.0	**418.7**	414.4
Capital and reserves					
Issued, allotted, called up and fully paid share capital	18	**54.2**	53.9	**54.2**	53.9
Share premium account	19	**184.2**	181.3	**184.2**	181.3
Capital redemption reserve	19	**0.2**	0.2	**0.2**	0.2
Merger reserve	19	**—**	—	**13.0**	13.0
Profit and loss account	19	**(111.8)**	(138.3)	**167.1**	166.0
Equity shareholders' funds		**126.8**	97.1	**418.7**	414.4
Equity minority interests		**2.6**	3.9	**—**	—
Total capital employed		**129.4**	101.0	**418.7**	414.4

Douglas Flynn (Director)
Jeremy Hicks (Director)
30 March 2001

Consolidated cash flow statement >

For the year ended 31 December 2000

	2000 £m	1999 £m
Net cash flow from operating activities	**96.2**	76.3
Returns on investments and servicing of finance		
Interest received	**7.4**	5.1
Interest paid	**(12.5)**	(6.7)
Interest element of finance lease rental payments	**—**	(0.1)
Issue costs of unsecured loan notes	**(0.6)**	—
Issue costs for new unsecured loan	**—**	(1.2)
Dividends paid to minority interests	**(1.5)**	(0.7)
Net cash flow for returns on investments and servicing of finance	**(7.2)**	(3.6)
Taxation	**(20.1)**	(12.6)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(26.9)**	(13.1)
Sale of tangible fixed assets	**1.1**	0.7
Sale of investments	**—**	0.8
Net cash flow for capital expenditure and financial investment	**(25.8)**	(11.6)
Acquisitions and disposals		
Purchase of subsidiary undertakings and minority interests (note 20)	**(45.3)**	(205.2)
Cash acquired on purchase of subsidiary undertakings (note 20)	**5.7**	1.6
Investment in associated undertakings and joint ventures	**(16.1)**	—
Sale of associated undertaking (a)	**—**	6.2
Deferred consideration on prior period acquisitions	**(18.9)**	(12.5)
Net cash flow for acquisitions and disposals	**(74.6)**	(209.9)
Equity dividends paid	**(11.5)**	(9.1)
Cash flow before management of liquid resources and financing	**(43.0)**	(170.5)
Management of liquid resources (b)		
Purchase of short-term investments	**(2.1)**	—
Sale of short-term investments	**—**	0.1
Cash flow for management of liquid resources	**(2.1)**	0.1
Financing		
Issue of ordinary share capital (net of expenses)	**3.2**	128.4
Issue of unsecured loan notes	**107.1**	—
New unsecured loan	**—**	79.7
Repayment of secured loan	**(83.4)**	(18.4)
Capital element of finance lease rental payments	**(0.3)**	(0.3)
Net cash flow from financing	**26.6**	189.4
(Decrease)/increase in cash in the year	**(18.5)**	19.0

Notes

a Sale of associated undertakings in the year ended 31 December 1999 represents proceeds realised on the disposal of the Group's shareholding in Consodata SA (note 3).

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

Notes to this consolidated cash flow statement are provided overleaf.

Notes to the consolidated cash flow statement >

For the year ended 31 December 2000

Reconciliation of operating profit to operating cash flow	2000 £m	1999 £m
Group operating profit	**77.8**	64.5
Amortisation of goodwill	**6.7**	1.9
Depreciation charges	**12.6**	8.1
(Profit)/loss on disposal of tangible fixed assets	**(0.1)**	0.1
Loss on disposal of other fixed asset investments	**—**	0.2
Increase in debtors	**(140.5)**	(117.3)
Decrease in stock: work in progress	**3.3**	7.3
Increase in creditors	**136.4**	111.5
Net cash flow from operating activities	**96.2**	76.3

Subsidiary undertakings acquired in the year contributed £14.1 million (1999: £10.3 million) to the Group's net cash flow from operating activities.

Reconciliation of net cash flow to movement in net debt	2000 £m	1999 £m
(Decrease)/increase in cash in the year	**(18.5)**	19.0
Cash inflow from increase in debt and lease financing	**(23.3)**	(60.9)
Cash outflow/(inflow) from management of liquid resources	**2.1**	(0.1)
Cash outflow from issue costs of debt	**0.6**	1.2
Change in net debt resulting from cash flows	**(39.1)**	(40.8)
Amortisation of refinancing costs	**(0.2)**	(0.2)
Debt and finance lease obligations in subsidiaries acquired in the year	**—**	(4.0)
Effect of foreign exchange rate changes	**(4.6)**	(7.0)
Movement in net debt in the year	**(43.9)**	(52.0)
Net debt at 1 January	**(15.1)**	36.9
Net debt at 31 December	**(59.0)**	(15.1)

Analysis of net debt	1 Jan 2000 £m	Cash flow £m	Other non-cash changes £m	Exchange movement £m	31 Dec 2000 £m
Cash in hand and at bank	91.5	(6.0)	—	1.2	**86.7**
Overdrafts	(24.7)	(12.5)	—	(0.6)	**(37.8)**
	66.8	(18.5)	—	0.6	**48.9**
Debt due after more than one year	(82.2)	(23.6)	—	(5.1)	**(110.9)**
Current asset investments	—	2.1	—	—	**2.1**
Net debt before finance lease obligations and issue costs of new debt	(15.4)	(40.0)	—	(4.5)	**(59.9)**
Finance lease obligations	(0.7)	0.3	—	(0.1)	**(0.5)**
Issue costs of new debt	1.0	0.6	(0.2)	—	**1.4**
Total	(15.1)	(39.1)	(0.2)	(4.6)	**(59.0)**

There were bank loans and overdrafts of £nil (1999: £3.4 million) within subsidiaries acquired in the year.

Notes to the financial statements >

For the year ended 31 December 2000

1 **Principal accounting policies**

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

Basis of consolidation
The consolidated financial statements incorporate the financial statements of Aegis Group plc and its subsidiary undertakings from the date of acquisition up to 31 December 2000. 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 up to 31 December 2000.

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

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

In the case of goodwill arising on the acquisition of Market Facts, Inc., the directors are of the opinion that the goodwill has an indefinite useful economic life due to the strength of the brand, its market position, its long-term profitability outlook and the Group's commitment and proven ability to enhance brand value. The financial statements depart from the specific requirements of companies' legislation to amortise goodwill over a finite period in order to give a true and fair view. If the goodwill on this acquisition had been amortised over 20 years, a further charge of £10.0 million (1999: £5.9 million from date of acquisition) would have been incurred in the year ended 31 December 2000 results.

Deferred consideration on acquisitions is provided based on the director's best estimate of the liability at the balance sheet date.

Foreign currencies
Profit and loss accounts and cash flows in foreign currencies are translated into sterling at average exchange rates. Assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Unrealised exchange adjustments, arising on the translation of the net assets of subsidiaries, associated undertakings or on borrowings hedging against these net assets, are taken directly to reserves in the consolidated financial statements. All other gains and losses on translation are dealt with in the profit and loss account.

Turnover
Turnover represents the value of media handled by the Group on behalf of clients (excluding VAT). 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, profit is recognised either on completion of a project or on the satisfactory completion of a specific phase of a project. Provision is made for losses on a project when identified.

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

1 **Principal accounting policies (continued)**

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

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

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

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

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

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

Subsidiary undertakings
Investments in subsidiaries are held 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 any goodwill arising before 1 January 1998, less provisions for permanent diminution in value plus attributable post-acquisition retained profits or losses.

Investments in joint ventures are accounted for using the gross equity method. Amounts are included in the consolidated balance sheet at cost plus attributable post-acquisition profits or losses.

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

Stock: work in progress
Work in progress is stated at the lower of cost or net realisable value.

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

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 contributions payable in the year. In addition, there are some defined benefit schemes for a few employees where these schemes were in place when a company was acquired. With minor exceptions, these funds are placed with separate trustee administered schemes or insurance companies.

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.

Notes to the financial statements (continued) >

For the year ended 31 December 2000

2 **Segmental reporting**

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

	2000 £m	1999 £m
Europe	**4,275.4**	3,788.9
North America	**1,218.5**	855.4
Rest of the World	**218.6**	147.5
Total turnover	**5,712.5**	4,791.8
An analysis by business sector is set out below:		
Media communications	**5,560.0**	4,724.1
Market research	**152.5**	67.7
Total turnover	**5,712.5**	4,791.8

There is no material difference between turnover determined by origin and that determined by destination. A further analysis of operating profit by geographical area and business sector is set out below:

	2000 £m	1999 £m
Europe	**59.1**	51.5
North America	**19.6**	13.6
Rest of the World	**5.8**	1.3
Total operating profit (before goodwill amortisation)	**84.5**	66.4
An analysis by business sector is set out below:		
Media communications	**69.0**	58.2
Market research	**15.5**	8.2
Total operating profit (before goodwill amortisation)	**84.5**	66.4
Group share of operating (loss)/profit in associated undertakings and joint ventures	**(0.8)**	0.2
Net interest payable	**(5.3)**	(2.0)
Underlying profit on ordinary activities before taxation	**78.4**	64.6
Amortisation of goodwill	**(6.7)**	(1.9)
Profit on disposal of an associated undertaking	**—**	4.6
Profit on ordinary activities before taxation	**71.7**	67.3

Notes to the financial statements (continued) >

For the year ended 31 December 2000

2 **Segmental reporting (continued)**

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

	2000 £m	1999 £m
Europe	**8.5**	(3.2)
North America	**106.8**	99.7
Rest of the World	**14.1**	4.5
Total net assets	**129.4**	101.0
Media communications	**(4.9)**	(23.3)
Market research	**134.3**	124.3
Total net assets	**129.4**	101.0

The Group's share of the net assets of associated undertakings and joint ventures of £17.2 million (1999: £0.4 million) is principally located in Europe and Asia-Pacific.

3 **Profit on disposal of associated undertakings**

On 18 January 1999, the Group disposed of its 46.82% holding in the Consodata Group based in France for £6.2 million to the existing management and to Alpha, an investment company. The Group realised a profit on disposal of £4.6 million in 1999. Due to the availability of brought forward losses, there was no tax payable on this gain.

4 **Interest payable and similar charges**

	2000 £m	1999 £m
Interest payable:		
On bank loans and overdrafts	**8.6**	4.7
On other loans and loan notes	**1.7**	0.8
Interest payable under finance lease and hire purchase contracts	**—**	0.1
Bank fees and guarantees	**1.0**	0.7
Other charges	**1.3**	0.4
	12.6	6.7
Amortisation of refinancing costs	**0.2**	0.4
	12.8	7.1

On 20 November 2000, the Group issued US$160 million (£107.1 million) of unsecured loan notes, repayable between 2006 and 2008 (note 16). The cost of issuing these loan notes of £0.6 million was capitalised in 2000 and is being written off over 6 years, the minimum outstanding period of the notes.

Amortisation of refinancing costs also includes amortisation of the cost of securing new banking facilities in 1999.

Notes to the financial statements (continued) >

For the year ended 31 December 2000

5 **Staff costs**

	2000 £m	1999 £m
Staff costs consist of:		
Wages and salaries	**150.3**	108.6
Social security costs	**24.4**	18.6
Other pension costs	**5.0**	2.9
	179.7	130.1

Number of employees

	Media communications 2000	Market research 2000	Total 2000	Media communications 1999	Market research 1999	Total 1999
Average number of full-time employees	**3,709**	**1,712**	**5,421**	3,107	1,004	4,111
Employees as at 31 December 2000	**4,007**	**1,822**	**5,829**	3,178	997	4,175
Average number of full-time UK employees	**576**	**—**	**576**	537	—	537

Directors' remuneration is disclosed in the Remuneration Report on page 28. The total amount of directors' remuneration in 2000 was £4.1 million (1999: £4.3 million).

6 **Profit on ordinary activities before taxation**

	2000 £m	1999 £m
This is stated after charging/(crediting):		
Auditors' remuneration and expenses — audit services — UK*	**0.2**	0.2
— audit services — overseas	**0.6**	0.3
	0.8	0.5
Auditors' remuneration and expenses — non-audit services — UK	**0.1**	—
— non-audit services — overseas	**0.1**	0.2
	0.2	0.2
Depreciation of fixed assets — owned	**12.4**	7.8
Depreciation of fixed assets held under finance leases	**0.2**	0.3
Operating lease rentals	**14.3**	10.9
Research and development costs	**22.4**	19.2
(Profit)/loss on disposal of tangible fixed assets	**(0.1)**	0.1
Profit on disposal of associated undertaking	**—**	(4.6)
Loss on disposal of other fixed asset investments	**—**	0.2
Foreign exchange (gain)/loss	**(0.2)**	0.2

*Auditors' remuneration and expenses payable by the Company were £0.1 million (1999: £0.1 million).

All operating expenses are administrative expenses.

Cost of sales for continuing operations was £5,191.7 million (1999: £4,510.1 million) and for acquisitions was £138.0 million. Gross profit for continuing operations was £348.5 million (1999: £281.7 million) and for acquisitions was £34.3 million. Operating expenses for continuing operations was £276.7 million (1999: £217.2 million) and for acquisitions was £28.3 million.

Notes to the financial statements (continued) >

For the year ended 31 December 2000

7 Tax on profit on ordinary activities

	2000 £m	1999 £m
UK corporation tax — 30% (1999: 30.25%)	**0.3**	—
Overseas taxation	**22.8**	18.7
	23.1	18.7

The effective underlying rate of tax on the Group's underlying profits is 29.5% based on profits before amortisation of goodwill (1999: 28.9%). The effective underlying rate of tax is below the UK corporation tax rate due to the utilisation of brought forward losses. As disclosed in note 3, there was no tax arising in 1999 on the profit on disposal of the Group's 46.82% shareholding in Consodata SA.

8 Dividends

	2000	1999
Ordinary shares of 5p each		
— interim dividend rate per share	**0.46p**	0.4p
— final dividend proposed rate per share	**0.69p**	0.6p
	1.15p	1.0p
	£m	**£m**
— interim dividend paid	**5.0**	4.3
— final dividend proposed	**7.5**	6.5
	12.5	10.8

The final dividend, if approved, will be paid on 29 June 2001 to all ordinary shareholders on the register on 8 June 2001.

Notes to the financial statements (continued) >

For the year ended 31 December 2000

9 **Earnings per ordinary share**

	2000	1999
Earnings per ordinary share is calculated as follows:		
Basic		
Profit for the year	**£47.5m**	£47.0m
Underlying profit for the year	**£54.2m**	£44.3m
Weighted average number of ordinary shares in issue	**1,081.1m**	1,019.2m
Basic earnings per share	**4.4p**	4.6p
Underlying basic earnings per share	**5.0p**	4.3p
Diluted		
Profit for the year	**£47.5m**	£47.0m
Underlying profit for the year	**£54.2m**	£44.3m
Weighted average number of ordinary shares in issue and the weighted average number of dilutive securities	**1,115.6m**	1,057.2m
Diluted earnings per share	**4.3p**	4.4p
Underlying diluted earnings per share	**4.9p**	4.2p

The calculation of basic and diluted earnings per share is based on profit after tax and minority interests.

At 31 December 2000, there were 1,083.9 million (1999: 1,078.8 million) ordinary shares in issue and 90.3 million (1999: 77.3 million) options outstanding. The total proceeds that would be received on exercise of the outstanding options at 31 December 2000 is £103.0 million. The weighted average number of dilutive share options included in the diluted earnings per share calculation at 31 December 2000 is 34.5 million (1999: 38.0 million). There are no other dilutive securities outstanding at 31 December 2000 (1999: nil).

Underlying profits are calculated by adding back amortisation of goodwill of £6.7 million for the year ended 31 December 2000 and £1.9 million for the year ended 31 December 1999 and the profit on disposal of an associated undertaking of £4.6 million (note 3) for the year ended 31 December 1999 in order to eliminate the effect of these items.

10 **Intangible fixed assets**

Group:	Goodwill £m
Cost at 1 January 2000	244.6
Additions (note 20)	113.4
At 31 December 2000	**358.0**
Amortisation at 1 January 2000	2.4
Provided for in the year	6.7
At 31 December 2000	**9.1**
Net book value	
At 31 December 2000	**348.9**
At 31 December 1999	242.2

Notes to the financial statements (continued) >

For the year ended 31 December 2000

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 2000	13.1	12.9	42.5	68.5
Additions	0.5	4.9	21.5	26.9
Acquisitions	—	0.5	1.5	2.0
Disposals	(0.2)	(0.8)	(3.5)	(4.5)
Exchange adjustments	0.8	0.3	1.8	2.9
At 31 December 2000	**14.2**	**17.8**	**63.8**	**95.8**
Depreciation at 1 January 2000	5.7	6.6	25.8	38.1
Provided for in the year	0.8	1.7	10.1	12.6
Disposals	—	(0.6)	(2.9)	(3.5)
Exchange adjustments	0.4	0.1	1.7	2.2
At 31 December 2000	**6.9**	**7.8**	**34.7**	**49.4**
Net book value				
At 31 December 2000	**7.3**	**10.0**	**29.1**	**46.4**
At 31 December 1999	7.4	6.3	16.7	30.4

Company:	Long leasehold and leasehold improvements £m	Office furniture, fixtures, equipment and vehicles £m	Total £m
Cost at 1 January 2000	0.1	0.9	1.0
Additions	0.8	1.4	2.2
Disposals	(0.1)	(0.5)	(0.6)
At 31 December 2000	**0.8**	**1.8**	**2.6**
Depreciation at 1 January 2000	0.1	0.6	0.7
Provided for in the year	—	0.3	0.3
Disposals	(0.1)	(0.5)	(0.6)
At 31 December 2000	**—**	**0.4**	**0.4**
Net book value			
At 31 December 2000	**0.8**	**1.4**	**2.2**
At 31 December 1999	—	0.3	0.3

Notes to the financial statements (continued) >

For the year ended 31 December 2000

11 **Tangible fixed assets (continued)**

The cost of the Group's tangible fixed assets includes £1.3 million (1999: £1.3 million) and the net book value includes £0.5 million (1999: £0.7 million) in respect of assets held under finance leases. Depreciation on these assets in the year was £0.2 million (1999: £0.3 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 (1999: £nil).

Neither the Group nor the Company had any capital commitments contracted for but not provided as at 31 December 2000 (1999: £nil).

12 **Fixed asset investments**

	Associates				
	Share of net assets	Goodwill	Total	Joint ventures	Other fixed asset investments
Group:	£m	£m	£m	£m	£m
Cost:					
At 1 January 2000	0.4	—	0.4	—	2.7
Acquired/invested in the year	0.4	5.1	5.5	12.1	—
Share of losses	(0.1)	—	(0.1)	(0.6)	—
Exchange movement	(0.1)	—	(0.1)	0.1	0.2
At 31 December 2000	**0.6**	**5.1**	**5.7**	**11.6**	**2.9**
Amortisation:					
At 1 January 2000	—	—	—	—	—
Charge in the year	—	0.1	0.1	—	—
At 31 December 2000	**—**	**0.1**	**0.1**	**—**	**—**
Net book value:					
At 31 December 2000	**0.6**	**5.0**	**5.6**	**11.6**	**2.9**
At 1 January 2000	0.4	—	0.4	—	2.7
Company:					
Net book value at 1 January 2000	—	—	—	—	554.1
Additions	—	—	—	—	113.8
Net book value at 31 December 2000	**—**	**—**	**—**	**—**	**667.9**

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

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

The Group and Company have UK listed fixed asset investments with a market value at 31 December 2000 of £2,042 (1999: £2,188).

The Company's fixed asset investments principally relate to shares in subsidiary undertakings. A list of the Group's principal subsidiary undertakings is disclosed in note 25.

Notes to the financial statements (continued) >

For the year ended 31 December 2000

13 **Debtors**

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Trade debtors	**894.1**	773.0	**0.3**	0.3
Amounts due from Group undertakings	**—**	—	**124.9**	15.4
Amounts due from associated undertakings and joint ventures	**8.9**	5.9	**1.1**	—
Other debtors	**60.2**	32.1	**4.7**	3.9
Prepayments and accrued income	**38.5**	20.9	**0.1**	0.3
	1,001.7	831.9	**131.1**	19.9

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

14 **Current asset investments**

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Other investments	**2.1**	—	**—**	—

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

15 **Creditors: amounts falling due within one year**

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Bank loans and overdrafts	**37.8**	24.7	**114.6**	55.4
Less issue costs of debt to be amortised	**(0.4)**	(0.3)	**(0.3)**	—
	37.4	24.4	**114.3**	55.4
Trade creditors	**956.9**	816.5	**1.0**	0.6
Finance leases and hire purchase contracts	**0.2**	0.3	**—**	—
Amounts due to Group undertakings	**—**	—	**150.6**	94.9
Taxation and social security	**23.6**	18.8	**0.2**	0.2
Corporation tax	**15.8**	12.8	—	—
Payments received on account	**19.1**	16.9	—	—
Dividends payable	**7.5**	6.5	**7.5**	6.5
Other creditors	**50.4**	63.8	**4.8**	1.0
Accruals and deferred income	**94.7**	37.1	**3.4**	2.3
	1,205.6	997.1	**281.8**	160.9

Notes to the financial statements (continued) >

For the year ended 31 December 2000

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

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Bank loans	**3.8**	82.2	**—**	—
Loan notes	**107.1**	—	**107.1**	—
Less issue costs of debt to be amortised	**(1.0)**	(0.7)	**(1.0)**	—
	109.9	81.5	**106.1**	—
Finance leases and hire purchase contracts	**0.3**	0.4	**—**	—
Other creditors	**68.5**	28.1	**33.9**	—
	178.7	110.0	**140.0**	—

On 20 November 2000, the Group issued US$160 million (£107.1 million) of unsecured loan notes, repayable between 2006 and 2008. Interest is payable at fixed rates between 8.13% and 8.23%. Interest rate swaps have been entered into to convert this fixed rate borrowing into floating rates.

Of the above, £72.1 million (1999: £110.0 million) is repayable between two and five years. £106.6 million is repayable in instalments between 2006 and 2008.

17 **Provisions for liabilities and charges**

Group and Company:
No provision for deferred taxation is recorded due to the availability of tax losses carried forward which offset the full potential effect of timing differences between the treatment of certain items for taxation and accounting purposes. There was no material unprovided liability for deferred taxation at 31 December 2000 or 31 December 1999.

18 **Share capital**

	2000 £m	1999 £m
Authorised:		
1,500,000,000 (1999: 1,500,000,000) ordinary shares of 5p each	**75.0**	75.0
	75.0	75.0
Issued, allotted, called up and fully paid:		
1,083,922,407 (1999: 1,078,848,875) ordinary shares of 5p each	**54.2**	53.9
	54.2	53.9

18 **Share capital (continued)**

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

During the year the Company issued 5,073,532 ordinary shares due to the exercise of share options. The shares had a nominal value of £253,677 and the Company received £3,155,178 as consideration on the exercise of share options. No other shares were issued during the year. There are no preference shares or warrants outstanding at 31 December 2000.

Under the Group's share option schemes, there were outstanding options over 90,430,134 ordinary shares of 5p at 31 December 2000 (1999: 77,311,916), for which the participants have the right to exercise their options at prices ranging from 26.5p to 219.5p. These options are exercisable between 21 July 1998 and 10 November 2010.

19 **Reserves**

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
Group:			
At 1 January 2000	181.3	0.2	(138.3)
Retained profit for the year	—	—	35.0
Issue of shares by the Company	2.9	—	—
Currency translation differences on foreign currency net investments	—	—	(8.5)
At 31 December 2000	**184.2**	**0.2**	**(111.8)**

Goodwill arising on acquisitions up to 31 December 1997 of £563.9 million (1999: £563.9 million), which has been written off immediately to reserves, is included within the profit and loss account reserve.

	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m
Company				
At 1 January 2000	181.3	0.2	13.0	166.0
Retained profit for the year	—	—	—	1.1
Issue of shares by the Company	2.9	—	—	—
At 31 December 2000	**184.2**	**0.2**	**13.0**	**167.1**

The Company has not presented its own profit and loss account as permitted by Section 230 (1) of the Companies Act 1985. The profit dealt with in the accounts of the Company for the year 31 December 2000 was £13.6 million (year to 31 December 1999: £24.0 million). Accumulated reserves for the Company include £118.8 million (1999: £118.8 million) which is not available for distribution under the terms of a court approved share premium reduction scheme.

Notes to the financial statements (continued) >

For the year ended 31 December 2000

20 Acquisitions

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

	Book value acquired £m	Accounting policy adjustments £m	Other adjustments £m	Fair value of net assets £m
Net assets/(liabilities) acquired:				
Tangible fixed assets	2.0	—	—	2.0
Debtors	35.5	(0.3) (a)	(0.9) (b)	34.3
Stock: work in progress	0.7	1.4 (a)	—	2.1
Cash at bank and in hand	5.7	—	—	5.7
Creditors	(34.7)	(1.4) (a)	—	(36.1)
Minority interest acquired	2.2	—	—	2.2
	11.4	(0.3)	(0.9)	10.2
Goodwill capitalised in the year				113.4
				123.6

	£m
Satisfied by:	
Initial consideration (£43.6 million paid at 31 December 2000)	52.6
Direct costs of acquisition	1.7
Deferred consideration on prior years' acquisitions	1.7
Deferred consideration	67.6
	123.6

Provisional adjustments have been made as follows:

a The accounting policy for revenue recognition for Motoresearch, Inc. has been amended to recognise revenue only on completion of a project or on the satisfactory completion of a specific phase of a project. The net effect is to reduce the net assets acquired by £0.3 million.

b Provisions for potentially doubtful debts have been made for Motoresearch, Inc. (£0.1 million), Asia Market Intelligence (Holdings) Limited (£0.7 million) and Outdoor Vision (£0.1 million).

Further details on the acquisitions in the year are set out below:

Media Consultant SA

On 7 January 2000, the Group acquired a 25% interest in Media Consultant SA, a media services company based in Paris, France for which the Group paid initial cash consideration of £0.1 million. On 1 July 2000, the Group acquired the remaining 75% interest in Media Consultant for cash consideration of £0.4 million with contingent deferred consideration payable in cash on or before 31 March 2005 of up to a further £0.3 million.

Motoresearch, Inc.

On 12 January 2000, the Group acquired a 100% interest in Motoresearch, Inc., a specialist automotive market research company based in Detroit, USA. The initial consideration of £5.5 million was paid in cash on closing; there is also deferred cash consideration of £3.0 million, subject to performance criteria, payable over the next three years.

20 **Acquisitions (continued)**

Ufa Medianet GmbH
On 20 January 2000, the Group acquired a 100% interest in Ufa Medianet GmbH (now renamed Carat Munich), a media services company previously owned by the Bertelsmann Group and based in Munich. The initial consideration was £0.5 million paid in cash with further deferred cash consideration payable in 2001, based on performance criteria for the first operating year, of a maximum of £0.3 million.

Carat Fax SA
On 25 February 2000, the Group reached agreement to acquire the remaining 49% interest in Carat Fax SA, a media services company based in Buenos Aires, Argentina, for cash consideration of £8.3 million (US$13.5 million).

Carat Interactive AG
On 1 March 2000, the Group acquired 100% interests in two interactive media companies, SetStep AG and Ambi Dexter AG, both based in Zurich, Switzerland, which were subsequently merged and renamed Carat Interactive AG. The initial cash consideration of £1.1 million was paid in cash on closing with deferred cash consideration of a maximum of £1.1 million payable in March 2001, subject to performance criteria.

Asia Market Intelligence (Holdings) Limited
On 6 March 2000, the Group acquired a 100% interest in Asia Market Intelligence (Holdings) Limited, a market research group based in Hong Kong and with operations in Indonesia, Malaysia, the People's Republic of China, Philippines, Singapore, South Korea, Taiwan and Thailand. The initial consideration of £15.8 million was paid in cash on closing and contingent deferred consideration up to a maximum of £36.9 million is payable in cash between 2001 and 2003, subject to performance criteria.

Applied Information for Marketing, Inc.
On 23 March 2000, the Group acquired a 100% interest in Applied Information for Marketing, Inc., an advertising strategy company based in Connecticut, USA. The initial consideration of £5.8 million and contingent deferred consideration payable in cash between 2000 and 2001 of a maximum of £3.3 million.

Demain Midi SA
On 24 May 2000, the Group acquired a 100% interest in Demain Midi SA, a media services company located in Marseille, France. The initial consideration was £0.5 million with contingent deferred consideration, due on or before 31 March 2005, of a maximum consideration of £1.4 million, subject to performance criteria.

CTM SA
On 30 June 2000, the Group acquired a 100% interest in CTM SA, a media services company located in Courbevoie, France. An initial consideration of £1.0 million was paid in September 2000 with contingent deferred consideration due on or before 31 March 2003 of a maximum of £1.7 million, subject to performance criteria.

Percept Communications Private Limited
On 10 July 2000, the Group acquired a 51% interest in Percept Communications Private Limited (now renamed Carat Integra PVT Ltd.), a media services company based in Mumbai, India. Initial consideration was £0.6 million, with deferred consideration payable between 2001 and 2005 up to a maximum of £3.6 million, subject to performance criteria.

Pyramid Zenith Media Oy
On 15 August 2000, the Group acquired a 100% interest in Pyramid Zenith Media Oy (now renamed Zemarid Oy), a media services company based in Helsinki, Finland. The initial consideration was £0.6 million, with a further £0.3 million of contingent consideration payable in each of the three years ending 31 December 2003 (up to a maximum of £0.9 million), subject to performance criteria.

Notes to the financial statements (continued) >

For the year ended 31 December 2000

20 **Acquisitions (continued)**

Strategic Media New Zealand Limited
On 25 August, 2000, the Group acquired the business and assets of Strategic Media, a media services company based in New Zealand. The Group paid initial consideration of £0.9 million, with contingent deferred consideration payable in 2001 and 2002, up to a maximum of £2.1 million, subject to performance criteria.

Carat SPI Kabushiki Kaisha
On 31 August 2000, the Group acquired a 75% interest in Strategic Planners International KK, a media strategy and planning company based in Tokyo, Japan. The initial cash consideration was £2.5 million, with deferred consideration payable in 2003 up to a maximum of £0.9 million, subject to performance criteria. The remaining 25% interest will be acquired by the Group in 2003 for consideration up to a maximum of £0.9 million, subject to performance criteria.

Outdoor Vision
On 31 December 2000, the Group acquired a 100% interest in Outdoor Vision, an outdoor media company based in Santa Monica, California. Initial consideration totalling £9.0 million was paid in January 2001, with contingent deferred consideration payable between 2001 and 2002 up to a maximum of £12.1 million, subject to performance criteria.

Media Standby
On 1 December 2000, the Group acquired a 100% interest in Media Standby, a media services company based in Germany, for a nominal amount.

In addition, the Group acquired the following interests in associated undertakings in the year:

Carat Taiwan
On 27 January 2000, the Group secured a 50% interest in a new venture with United Advertising, a media services company based in Taipei, Taiwan, for initial consideration of £0.5 million and contingent deferred consideration payable in cash between 2000 and 2002 of a maximum of £0.9 million, subject to performance criteria. In addition, both parties contributed £1.0 million each to the joint venture as share capital.

Carat China
On 12 June 2000, the Group acquired a 50% interest in Gain Concept Advertising Agency Limited, a media services company based in China. The initial consideration was £1.5 million paid in cash on closing with further consideration payable up to a maximum of £1.6 million. £1.0 million of this deferred consideration had been paid by 31 December 2000. The Group also has a call option to acquire a further 25% share in the company during 2001 for fixed cash consideration of £0.8 million.

Norifumi Goddarh SA
On 30 June 2000, the Group acquired a 40% interest in Norifumi Goddarh SA, a media services company based in Gimont, France, for a nominal amount.

Goodwill arising on these interests in associated undertakings totalled £5.1 million.

eVerger
The Group also invested £12.1 million in eVerger, its 50:50 joint venture with Warburg, Pincus, set up to make early stage investments in eMarketing services and enabling technologies. The company is focused on identifying, funding and developing businesses that create technology and software tools to help marketers promote and strengthen their brands.

Notes to the financial statements (continued) >

For the year ended 31 December 2000

21 **Deferred consideration and other contingent liabilities**

Deferred consideration, which has been fully 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 the future financial performance. The directors estimate that, at the rates of exchange ruling at the balance sheet date, the maximum liability at 31 December 2000 for payments that may be due is as follows:

	2000 £m	1999 £m
Within one year	**37.3**	16.7
Between one and two years	**19.5**	8.3
Between two and five years	**47.6**	17.4
	104.4	42.4

All of the contingent deferred payments noted above are payable in cash. The minimum liability is £25.7 million.

Put options held by outstanding minority interests
There are put options exercisable up to 2002 in respect of Carat companies in France, China, Italy, Greece, Thailand, Germany and the United Kingdom. The value of the put options is based upon the profitability of the individual companies. The directors estimate the value of these contingent liabilities to be approximately £5.1 million.

Guarantees
Guarantees of £54.3 million (1999: £28.2 million) have been given by the Company on behalf of its subsidiaries together with other guarantees and contingencies arising in the normal course of business.

Lease commitments
At 31 December 2000, there were the following annual commitments in respect of non-cancellable operating leases for the following years:

	Group		Company
	Land and buildings £m	Other £m	Land and buildings £m
Operating leases that expire:			
Within one year	0.9	0.5	—
Between one and five years	6.7	2.2	—
After more than five years	7.7	—	0.8
31 December 2000	**15.3**	**2.7**	**0.8**
31 December 1999	10.7	1.4	1.0

Notes to the financial statements (continued) >

For the year ended 31 December 2000

22 Related party transactions with associated undertakings and joint ventures

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

Carat España SA purchased media space on behalf of Mediasal 2000 SA, an associated undertaking, totalling £18,564,631 in 2000. The balance due at the year end was £7,804,778 (1999: £5,901,284).

The Company provided administrative services to eVerger Associates Limited, a joint venture, totalling £1,727,595 in 2000. The balance due at the year end was £1,129,303 (1999: £nil).

23 Financial instruments

The Board of Directors has established objectives concerning the holding and use of financial instruments. The key objective is to manage the financial risks faced by the Group, which include interest rate risk, currency risk and liquidity risk.

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

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

Management of financial risk

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

Currency risk

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

The Group's foreign currency management policy requires subsidiaries to hedge all transactions with material currency exposures. This is achieved using short-term forward exchange contracts. At the year end, the aggregate value of transactions, all of which had been hedged, 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 accounting policy is to translate the profits of overseas investments at the average exchange rate for the year and to translate the net assets at year end rates.

The Group's policy is to borrow locally wherever possible to act as a hedge against the translation risk arising from its net investments overseas. Gains and losses arising on net investments overseas are recognised in the statement of total recognised gains and losses. 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 put in place committed bank facilities.

23 **Financial instruments (continued)**

At 31 December 2000, the Group had net debt (before finance lease obligations and issue costs of new debt) of £59.9 million (1999: £15.4 million). The Group had cash balances of £86.7 million at 31 December 2000 (1999: £91.5 million) which were held mainly in the Group's trading companies and gross borrowings of £148.7 million (1999: £106.9 million).

Included within net debt is £107.1 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 2000, the Group has undrawn committed facilities of £250 million (1999: £168.1 million). Further details are given below.

Interest rate risk
The Group's borrowings, with the exception of 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.

Credit risk
The Group's policy is to minimise exposure with banks and other financial institutions by establishing dealing limits set by reference to the major credit rating agencies.

Short-term debtors and creditors
Short-term debtors and creditors have been excluded from all disclosures other than the currency disclosures.

Analysis of interest rate risk profile of financial liabilities of the Group
The currency and interest rate risk profile of the financial liabilities of the Group at 31 December, all of which were at floating interest rates, was:

	Floating rate financial liabilities 2000 £m	Floating rate financial liabilities 1999 £m
Sterling	**12.4**	18.7
Euro	**14.2**	3.4
US dollar	**115.6**	81.9
Other currencies	**6.5**	2.9
	148.7	106.9

Interest is payable on the above financial liabilities (excluding the US unsecured loan notes) based on the variable market rate in each country. The weighted average interest rate for the year ended 31 December 2000 was 7.2% (1999: 6.1%).

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

There were no fixed rate financial liabilities at 31 December 2000 (1999: £nil). In addition to the liabilities above, the Group had creditors due after more than one year of £68.5 million (1999: £28.1 million) on which generally no interest is paid (principally representing deferred consideration on acquisitions repayable between one and five years) and finance lease obligations of £0.5 million (1999: £0.7 million) which are mostly held in US dollars.

Notes to the financial statements (continued) >

For the year ended 31 December 2000

23 **Financial instruments (continued)**

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

The currency and interest rate risk profile of the financial assets of the Group at 31 December, all of which were at floating interest rates, was:

	Cash at bank and in hand 2000 £m	Current asset investments 2000 £m	Total 2000 £m	Cash at bank and in hand 1999 £m	Current asset investments 1999 £m	Total 1999 £m
Sterling	—	—	—	2.1	—	2.1
Euro	43.6	2.1	45.7	71.8	—	71.8
US dollar	19.9	—	19.9	7.2	—	7.2
Other currencies	23.2	—	23.2	10.4	—	10.4
	86.7	2.1	88.8	91.5	—	91.5

Current asset investments comprise an investment in a managed investment fund. Floating rate cash earns interest based on the relevant national LIBID equivalent. In addition to the financial assets above, the Group had other fixed asset investments of £2.9 million (1999: £2.7 million) principally in US dollars, which do not yield an interest-related income and which do not have a fixed maturity date.

Fair values of the Group's financial assets and liabilities

There are no material differences between the book and fair values of the Group's financial assets or liabilities.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities is set out in notes 15, 16 and 21.

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:

	2000 £m	1999 £m
Expiring within one year	150.0	150.0
Expiring between one and two years	—	—
Expiring between two and five years	100.0	18.1
	250.0	168.1

Of the amounts disclosed above at 31 December 2000, £150 million expiring within one year may be extended annually by the Group until 2004. All covenants at 31 December 2000 were met.

23 **Financial instruments (continued)**

Market risk
At 31 December 2000, it is estimated that a general rise of 1% in interest would impact 2000 profit before tax by £0.8 million. It is also estimated that a strengthening of sterling by 1% would reduce 2000 profit before tax by approximately £0.6 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 2000 and 1999, there were no material foreign exchange contracts to hedge against future transaction flows.

Financial instruments held for trading purposes
The Group does not trade in financial instruments.

24 **Post balance sheet events**

MarkTrend
On 29 January 2001, the Group acquired a 100% interest in MarkTrend Research, Inc., a research company based in Vancouver, Canada. Initial cash consideration of £2.2 million was payable on closing with deferred contingent consideration payable in 2002 and 2003 up to a maximum of £2.2 million, subject to performance criteria.

Pegram Walters
On 31 January 2001, the Group acquired a 100% interest in Pegram Walters Market Research Group Limited, a research group based in the UK. Initial consideration was £2.0 million (£1.5 million in the form of shares and £0.5 million in cash) payable on completion and contingent deferred consideration payable between 2001 and 2003 up to a maximum of £3.0 million (payable by the issue of shares or loan notes at the Group's discretion), subject to performance criteria.

Lord Media
On 16 February 2001, the Group acquired (subject to certain conditions precedent) a 100% interest in Lord Media, an outdoor media company based in Warsaw, Poland. Initial consideration of £0.9 million was paid on completion with deferred contingent consideration payable between 2002 and 2004 up to a maximum of £1.5 million, subject to performance criteria.

Copernicus
On 12 March 2001, the Group acquired a 100% interest in Copernicus: The Marketing Investment Strategy Group, Inc., a US marketing consulting and research company headquartered in Connecticut. Initial consideration was £4.2 million with deferred consideration of up to a maximum of £7.3 million over a period of three years, subject to performance criteria.

Notes to the financial statements (continued) >

For the year ended 31 December 2000

25 **Principal subsidiary and associated undertakings**

Principal subsidiary undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2000
Media communications:			
Carat Fax	Buenos Aires	Argentina	100%
Carat Australia	Sydney/Melbourne	Australia	100%
HMS Carat Austria	Vienna	Austria	100%
Carat Crystal	Brussels	Belgium	100%
Carat Canada	Montreal	Canada	100%
Groupe Carat Strategem	Montreal	Canada	100% (49% voting)
K2 Media	Montreal	Canada	100% (49% voting)
Carat Cairns	Toronto	Canada	100% (49% voting)
Carat Chile	Santiago	Chile	100%
HMS Czech Republic	Prague	Czech Republic	100%
Carat Czech Republic	Prague	Czech Republic	100%
Carat Danmark	Copenhagen	Denmark	100%
Carat Media Research	Copenhagen	Denmark	100%
Carat Group UK	London	England and Wales	100%
Carat	London	England and Wales	100%
Carat Direct	London	England and Wales	100%
Carat Manchester	Manchester	England and Wales	100%
Carat Direct Manchester	Manchester	England and Wales	100%
BBJ Media Services	London	England and Wales	90.6%
Carat Business	London	England and Wales	100%
Carat Insight	London	England and Wales	100%
Posterscope	London	England and Wales	100%
Posterscope in the North	Manchester	England and Wales	100%
Carat Interactive	London	England and Wales	100%
Carat International	London	England and Wales	100%
Carat Media Services	London	England and Wales	100%
Carat Finland	Helsinki	Finland	100%
Mediekompetens	Helsinki	Finland	100%
Oy Inter Media	Helsinki	Finland	100%
Zemarid	Helsinki	Finland	100%
Carat France	Paris	France	100%
Carat Expansion	Paris	France	100%
Carat 2010	Paris	France	100%
Carat Expert	Paris	France	100%
Carat MCI	Paris	France	100%
Carat Prospective	Paris	France	95.1%
Carat SPFD	Paris	France	100%
Carat Sponsorship	Paris	France	100%
Saverne Developpement	Paris	France	100%
Granit	Paris	France	100%
Carat Direct	Paris	France	100%
Cyclades Carat	Paris	France	100%
Image Publicite Conseil	Paris	France	100%
Media Consultant	Paris	France	100%
Saverne Conseil	Paris	France	100%
Grap & Gides	Lille	France	100%
Carat Sante	Paris	France	100%
Christine Malleret Conseil	Paris	France	100%
Nord Espace Media	Lille	France	100%
Demain Midi	Marseille	France	100%
CTM	Courbevoie	France	100%
Carat Media Service	Wiesbaden	Germany	100%
HMS Media Service	Wiesbaden	Germany	100%
HMS and Carat Central Services	Wiesbaden	Germany	100%

Notes to the financial statements (continued) >

For the year ended 31 December 2000

25 Principal subsidiary and associated undertakings (continued)

Principal subsidiary undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2000
HCCS Plus	Wiesbaden	Germany	51%
Carat Direct	Wiesbaden	Germany	100%
Carat Expert	Wiesbaden	Germany	100%
Carat Interactive	Wiesbaden	Germany	100%
Carat Hamburg Media Service	Hamburg	Germany	100%
HMS Hamburg Media Service	Hamburg	Germany	100%
HMS Frankfurt	Eschborn	Germany	100%
Media Standby	Munich	Germany	100%
Carat Munich	Munich	Germany	100%
MW Office	Munich	Germany	75%
PAP	Hamburg	Germany	51%
Carat Hellas	Athens	Greece	75.5%
Carat Creative	Athens	Greece	75.5%
HMS Carat	Budapest	Hungary	100%
Carat Media Services Asia Pacific	Hong Kong	Hong Kong	100%
Carat Italia	Milan, Turin, Florence, Rome	Italy	100%
Carat Expert	Milan	Italy	100%
Horizon	Milan, Rome	Italy	100%
Carat Visions	Milan	Italy	100%
Web A	Milan	Italy	60%
Carat Media Services India	Mumbai, Delhi	India	75%
Carat Integra PVT Ltd	Mumbai	India	51%
Carat Malaysia	Kuala Lumpur	Malaysia	90%
Carat Mexico	Mexico City	Mexico	100%
Carat Nederland	Amsterdam	Netherlands	100%
Carat New Zealand	Auckland	New Zealand	100%
Carat Inter-Media	Oslo	Norway	100%
Carat Media and Research	Oslo	Norway	100%
Carat Mediakanalen	Oslo	Norway	100%
HMS Carat Polska	Warsaw	Poland	100%
Carat Portugal	Lisbon	Portugal	100%
Carat Russ-Media	Moscow	Russia	73%
Feather Brooksbank	Edinburgh, Glasgow	Scotland	100%
HMS Carat Slovakia	Bratislava	Slovak Republic	100%
Carat España	Madrid, Barcelona	Spain	100%
Carat Scandinavia	Stockholm	Sweden	100%
Carat Sverige	Stockholm, Gothenburg, Malmo	Sweden	100%
Carat Media Research	Stockholm	Sweden	100%
Mediekompetens	Gothenburg, Stockholm	Sweden	100%
Carat Interactive	Zurich	Switzerland	100%
Micom Carat	Zurich, Lausanne	Switzerland	100%
Carat Media Services (Thailand)	Bangkok	Thailand	49% (51% voting)
Carat Turkey	Istanbul	Turkey	100%
Carat Ukraine	Kiev	Ukraine	100%
Carat Interactive	Pasadena	USA	100%
Outdoor Vision	Santa Monica	USA	100%
Applied Information for Marketing	Connecticut	USA	100%
Carat North America	New York	USA	100%
Carat USA	New York, Chicago, Los Angeles, Memphis and Atlanta		
MMA Carat	Wilton	USA	100%
Carat Freeman	Boston, San Francisco	USA	100%
Market research:			
Market Facts	New York, Illinois, Atlanta, Dallas, Mercer Island, Morris Town, Encino, Irvine, McLean, Nattick,	USA	100%

Notes to the financial statements (continued) >

For the year ended 31 December 2000

25 **Principal subsidiary and associated undertakings (continued)**

Principal subsidiary undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2000
Market research (continued):			
Market Facts New York	New York	USA	100%
BAI Global	Tarrytown, New York, New York State	USA	100%
Tandem Associates	Suffern, New York, Mahwah New Jersey	USA	100%
Strategy Research Corporation	Miami	USA	100%
Product Intelligence	Long Island, New York	USA	100%
Marketing Strategy and Planning	New York	USA	100%
Strategy Research	Buenos Aires	Argentina	100%
Strategy Research de Brasil	Rio de Janeiro	Brazil	100%
Market Facts of Canada	Toronto, Montreal, Vancouver	Canada	100%
Asia Market Intelligence China	Hong Kong, Beijing, Guangzhoh, Shanghai, Wuhan	China	100%
Shenzen Fanzhong Market Intelligence Co.	Shenzhen	China	100%
Asia Market Intelligence Hong Kong	Hong Kong	China	100%
Asia Market Intelligence Indonesia	Jakarta	Indonesia	100%
Asia Market Intelligence Korea	Seoul	Korea	100%
Asia Market Intelligence Malaysia	Kuala Lumpur	Malaysia	100%
SRC de Mexico SA	Mexico City	Mexico	100%
PMI Asia	Manila	Philippines	100%
Asia Market Intelligence Singapore	Singapore	Singapore	100%
Asia Market Intelligence Taiwan	Taipei	Taiwan	100%
Asia Market Intelligence Thailand	Bangkok	Thailand	100%

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

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

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

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

Principal associated undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2000
Aerlig Talt	Oslo	Norway	34%
Carat Consulting	Oslo	Norway	34%
Mediasal 2000	Bilbao	Spain	23.9%
Carat Philippines	Manilla	Philippines	30%
CPM Media	Prague	Czech Republic	35%
CPM Media	Bratislava	Slovak Republic	50%
JV Bonds	Athens	Greece	40%
Carat China	Beijing, Shanghai, Hong Kong, Guangzhoh, Nanjing, Hangzhon, Wuhan, Chengdu, Dalian, Fuzhou	China	50%
Carat Taiwan	Taipei	Taiwan	50%
Norifumi Goddarh	Gimont	France	40%

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

Joint ventures
The Group has a 50% shareholding in eVerger Limited, an investment company incorporated in Guernsey.

Shareholder information and financial history >

Financial calendar

23 May 2001	Annual General Meeting
6 June 2001	Ex-dividend date
8 June 2001	Last date for transfers
29 June 2001	Final dividend payable
12 September 2001	Announcement of interim results
Early October 2001	Interim dividend payable
Early March 2002	Preliminary announcement of results for the year ending 31 December 2001

Registrars

The Company's share register is administered by Computershare Services PLC and all correspondence regarding ordinary shares should be sent to them at the address shown on page 20. Alternatively they can be contacted on:

Tel 0870 702 0010
Fax 0870 703 6143

Shareholder Information on the Internet

Computershare 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 29 December 2000

Size of holdings	Number of holders	%	Number of shares	%
1-1,000	1,309	38.38	540,992	0.05
1,001-10,000	1,180	34.59	4,176,352	0.39
10,001-25,000	201	5.89	3,390,350	0.31
25,001-50,000	112	3.28	4,074,825	0.38
50,001-100,000	123	3.61	8,674,768	0.8
100,001-250,000	155	4.54	24,804,522	2.29
250,001-500,000	88	2.58	31,951,377	2.95
500,001-1,000,000	98	2.87	70,125,212	6.47
1,000,001-10,000,000	121	3.55	341,637,865	31.51
10,000,001-25,000,000	16	0.47	252,647,733	23.31
25,000,001 +	8	0.24	341,898,411	31.54
	3,411	100.00	1,083,922,407	100.00

Five year summary >

Profit and loss:	2000	1999	1998	1997	1996
Turnover	**£5,712.5m**	£4,791.8m	£4,130.0m	£3,652.5m	£3,452.5m
Gross profit	**£382.8m**	£281.7m	£221.0m	£191.8m	£179.5m
% Gross profit to turnover	**6.7%**	5.9%	5.4%	5.3%	5.2%
Operating profit (before amortisation of goodwill and exceptional items)	**£84.5m**	£66.4m	£50.6m	£44.4m	£41.9m
Profit before tax, amortisation of goodwill and exceptional items	**£78.4m**	£64.6m	£51.1m	£43.5m	£41.0m
Profit before tax	**£71.7m**	£67.3m	£50.6m	£45.6m	£39.6m
Effective underlying tax rate	**29.5%**	28.9%	28.4%	28.0%	27.0%
Profit for the financial year	**£47.5m**	£47.0m	£35.5m	£32.8m	£28.0m
Cash flow:					
Operating cash flow	**£96.2m**	£76.3m	£57.0m	£54.5m	£42.7m
Net (indebtedness)/funds at the year end	**£(59.0)m**	£(15.1)m	£36.9m	£(2.2)m	£(7.6)m
Balance sheet:					
Goodwill on acquisitions	**£348.9m**	£242.2m	£17.0m	—	—
Other fixed assets	**£66.5m**	£33.5m	£17.8m	£15.6m	£15.4m
Net current liabilities	**£(107.3)m**	£(64.7)m	£(75.3)m	£(93.3)m	£(79.6)m
Creditors: amounts falling due after more than one year	**£(178.7)m**	£(110.0)m	£(21.1)m	£(27.8)m	£(28.5)m
Provisions for liabilities and charges	—	—	—	£(0.2)m	£(2.3)m
Net assets/(liabilities)	**£129.4m**	£101.0m	£(61.6)m	£(105.7)m	£(95.0)m
Shareholder returns:					
Earnings per share — underlying					
— basic	**5.0p**	4.3p	4.0p	3.6p	3.4p
— diluted	**4.9p**	4.2p	3.7p	3.2p	3.2p
Earnings per share — FRS 14					
— basic	**4.4p**	4.6p	4.0p	3.8p	3.3p
— diluted	**4.3p**	4.4p	3.7p	3.4p*	3.0p*
Ordinary dividend rate per share	**1.15p**	1.0p	0.85p	0.7p	0.6p

*As restated under Financial Reporting Standard 14

eVerger >

eVerger, our 50:50 joint venture with Warburg Pincus, provides the Group with unique access to cutting edge technology which is highly relevant to our market. The company is focused on identifying, funding and developing businesses that create technology and software tools to help marketers promote and strengthen their brands. To date eVerger has made investments totalling $33.6 million in five companies:

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

IQ.com
A California-based company in which eVerger has invested $12 million in the US and $2 million in Europe develops technology and software tools that enable companies to create more profitable relationships with their online customers. They work with clients to implement programmes that generate customer action and brand loyalty.

NetUsability
A London-based company in which eVerger has invested $2 million. NetUsability's core product allows clients to use a virtual focus group to record accurately and statistically the experience a customer has while on their website. Its software allows market researchers to test whether target customers receive the correct online experience – one that supports and enhances brand meaning and relationship.

NewWorld Commerce
A Dublin-based company in which eVerger has invested $5.6 million. NewWorld offers an easy-to-use eMarketing solution that allows marketers to create, manage and deliver complete marketing campaigns online. It provides sophisticated targeting and detailed measurement to maximise the return on investment.

Paramark
A California-based company in which eVerger has invested $7 million. Develops web-hosted services that automatically increase the effectiveness of online campaigns through a proprietary optimisation technology known as PILOT (Paramark Interactive and Learning Optimisation Technology). Its first product, AdPilot, has already been tested by agencies and advertisers.

www.everger.com

Notice of meeting >

Notice is hereby given that the Annual General Meeting of the Company will be held at 11am on 23 May 2001 at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB for the purpose of transacting the ordinary business of the Annual General Meeting set out in resolutions 1 to 8, and special business, when resolutions 9, 12 and 13 will be proposed as ordinary resolutions and resolutions 10 and 11 will be proposed as special resolutions.

Ordinary business

1 To receive the financial statements for the year ended 31 December 2000 and the reports of the Directors and Auditors.

2 To declare a final dividend of 0.69p per ordinary share.

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

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

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

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

7 To re- elect as a director Robert Lerwill who was appointed since the last Annual General Meeting and therefore retires.

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

Special business

9 That the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £16,198,137 provided that this authority shall expire (unless previously revoked or varied by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

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

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

b to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £2,709,806

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

Notice of meeting (continued)>

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

a the maximum number of shares which may be purchased is 54,261,251 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 22 November 2002 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.

12 That the Aegis Group Leveraged Investment Plan (the "Plan"), a summary of the principal features of which is set out in the Appendix to the accompanying letter from the Chairman dated 30 March 2001, be and is hereby approved, and that the directors be and they are hereby authorised to do all acts and things necessary to establish and carry the Plan into effect.

13 That the amendments to the Aegis Group Management Incentive Scheme described in the accompanying letter from the Chairman dated 30 March 2001 be and are hereby approved, and that the directors be and they are hereby authorised to do all acts and things necessary to carry these amendments into effect.

By order of the Board

John Ross
Company Secretary
43-45 Portman Square
London W1H 6LY
30 March 2001

Notes

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A proxy form is enclosed for your use and, if used, should be deposited with the Company's Registrars (Computershare Services PLC, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG) 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.

Copies of all directors' service contracts with the Company or its subsidiaries of more than one year's duration, and the register of directors' interests, will be available for inspection at 43-45 Portman Square, London W1H 6LY during normal business hours on any business day from the date of this notice until the conclusion of the meeting, and at the place of the meeting from 10.45am on the date of the meeting until the conclusion of the meeting.

Details of the documents available for inspection in relation to resolutions 12 and 13 above, and the places and times at which they are available, are given in the accompanying Chairman's letter dated 30 March 2001.

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